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WORLD TRADE
ORGANIZATION

Selected U.S.
Company Views about
China's Membership





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Highlights of [GAO-02-1056](#), a report to the Chairman and the Ranking Minority Member, Committee on Finance, U.S. Senate, and to the Chairman and the Ranking Minority Member, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

China's entry into the World Trade Organization (WTO) on December 11, 2001, brought the world's seventh largest economy under global trade liberalizing rules. If implemented, China's commitments will open China's economy and reform its trading activities, thereby expanding U.S. companies' opportunities for investing in China and for exporting goods, agricultural products, and services to China. Understanding U.S. companies' expectations is fundamental for policymakers to judge the degree to which the benefits of China's WTO membership are being realized.

GAO analyzed U.S. companies' views about (1) the importance of, (2) the anticipated effects of, and (3) prospects for China implementing its WTO commitments. GAO surveyed a random sample of 551 U.S. companies and interviewed 48 judgmentally selected companies in four cities in China. Survey results reflect responses from 191 companies—a response rate of 38 percent—and may not reflect the views of all U.S. companies with activities in China.

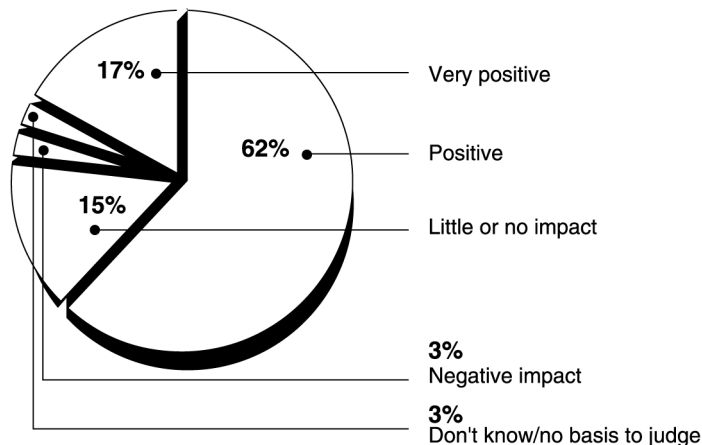
What GAO Found

U.S. companies that responded to the GAO survey reported that most of China's WTO commitments are important to them. These companies, which already have a presence in China, identified rule of law-related reforms as more important than other reforms to increase market access, to liberalize foreign investment measures, and to make fundamental changes to continue China's transition to a market economy. Specifically, WTO commitments in the areas of intellectual property rights; consistent application of laws, regulations, and practices; and transparency of laws, regulations, and practices emerged as the most important areas in which China made commitments.

Most companies responding to GAO's survey expected that China's WTO commitments would have a positive impact on their business operations, that the impact has already begun or would begin within 2 years and that it would lead to an increase in their volume of exports to China, market share in China, and distribution of products there. However, some company representatives whom GAO interviewed in China believed that China's implementation would be incremental.

Survey respondents expected that most of the WTO-related commitment areas listed in GAO's survey would be difficult for Chinese officials to implement. Companies expected the important rule of law-related commitment areas to be the most difficult commitments to carry out and had mixed expectations about implementation for different government levels and geographic areas across China. Besides rule of law-related reforms, company representatives described how they expect that China's need to protect its domestic interests and China's culture with regards to business relationships might create impediments to implementation.

Almost 80 Percent of U.S. Companies Responding to GAO's Survey Expected China's WTO Commitments to Have a Very Positive or Positive Impact on their Business



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Abbreviations

CEO	chief executive officer
FCS	U.S. and Foreign Commercial Service
IPR	intellectual property rights
SOE	state-owned enterprise
WTO	World Trade Organization



United States General Accounting Office
Washington, D.C. 20548

September 23, 2002

The Honorable Max Baucus
Chairman
The Honorable Charles E. Grassley
Ranking Minority Member
Committee on Finance
United States Senate

The Honorable William M. Thomas
Chairman
The Honorable Charles B. Rangel
Ranking Minority Member
Committee on Ways and Means
House of Representatives

China's December 2001 entry into (accession to) the World Trade Organization (WTO) represents a major step in China's recent reform efforts, formalizing China's commitment to abide by global trade rules. China's accession agreement included commitments to remove trade barriers and open its markets to foreign companies and their exports in numerous product sectors and for a wide range of services. The United States is China's second largest source of foreign direct investment, while China is the ninth largest destination for U.S. exports.¹ Successful implementation of China's WTO commitments may eventually provide U.S. companies with greater access to China's market of about 1.3 billion consumers and result in fundamental changes that can foster China's continued transition to a market economy. Therefore, U.S. companies are interested in how China's implementation of its WTO commitments will affect their ability to do business in China.

Related to your request that we undertake a long-term body of work regarding China's membership in the WTO we analyzed U.S. companies' views about (1) the importance of WTO-related commitments to their business operations in China, (2) the anticipated effects of China's WTO-related reforms on their businesses, and (3) China's prospects for implementing these reforms.

¹ Foreign direct investment data are 2000 statistics, from the Ministry of Foreign Trade and Economic Cooperation, People's Republic of China. Export data are 2001 statistics, from the U.S. Department of Commerce, Bureau of the Census.

To perform our work, we surveyed 551 randomly selected U.S. companies with a presence in China, and interviewed 48 judgmentally selected companies in 4 cities in China, as well as 2 U.S. trade associations with a presence in China. Our survey results reflect responses from 191 companies. Because of the low response rate to our mail survey (38 percent), our results may not be generalizable to the larger population of all U.S. companies doing business with China.² Hence, our analysis is restricted to companies that responded to our survey. However, respondents included companies with business activities in all of the agriculture, manufacturing, and services categories listed in our survey as well as facilities or other types of presence in all of the locations in China listed in our survey. For some questions, we grouped China's numerous WTO commitments into 30 areas, which encompassed fundamental market, market access, investment measure, and rule of law-related reforms. A detailed description of our scope and methodology is included in appendix I of this report; responses to the survey and structured interviews are included in appendixes II and III, respectively, and a profile of respondents is included in appendix IV.

Results in Brief

U.S. companies with business operations in China that responded to our survey believe most World Trade Organization commitment areas are important to their companies. Respondents identified many rule of law-related reforms as more important than other reforms.³ Specifically, three quarters of the respondents selected intellectual property rights; consistent application of laws, regulations, and practices; and transparency of laws, regulations, and practices as the most important commitment areas for their companies. Company representatives that we interviewed also explained the importance of other reforms, including reductions to market access barriers (such as tariffs and product quotas) and investment-related measures for their future operations in China.

² Appendix VI describes several surveys of U.S. companies in China that were conducted by other organizations in recent years. These surveys obtained response rates that ranged from about 4 percent to 28 percent.

³ Definitions of the rule of law are numerous and varied. For the purposes of this report, we generally use the term to describe a society in which law is generally stable and transparent, is consistently and independently applied, and imposes meaningful restraints on government officials and entities and other members of a ruling elite.

Many companies anticipated that China's WTO commitments would soon have a positive impact on their business operations in China. More than three quarters of the companies responding to our survey and structured interviews expected this kind of impact. Taking WTO membership into account, companies' top goals for doing business in China included establishing a presence for the future, increasing exports to China, and benefiting from lower labor costs in China. More than three quarters of respondents reported that they expected implementation of China's WTO commitments would, overall, lead to an increase in their companies' activities in China, including their volume of exports to China, market share in China, and distribution of products there.

Respondents expected many of China's WTO-related commitment areas to be relatively difficult for Chinese officials to implement, however. Overall, Chinese officials were expected to have a high or moderate level of difficulty implementing two thirds of the commitment areas listed in the survey. U.S. companies expected rule of law-related commitment areas regarding consistent application of laws, regulations, and practices, and intellectual property rights to be the most difficult areas to carry out. Respondents expected implementation to vary for government levels and geographic areas across China. For example, respondents expected officials in China's major cities⁴ to have the fewest difficulties and China's autonomous regions⁵ and local and provincial governments to have the most difficulties (with a few exceptions) implementing WTO-related reforms. In interviews, company representatives also described the implementation challenges that they believe China faces in furthering rule of law, protecting its domestic interests, and stemming from China's culture and its emphasis on relationships.

Background

China became the 143rd member of the WTO on December 11, 2001, after almost 15 years of negotiations. These negotiations resulted in commitments to open and liberalize its economy and offer a more predictable environment for trade and foreign investment in accordance

⁴ The four cities identified in our survey included Beijing, Chongqing, Shanghai, and Tianjin.

⁵ China is divided into provinces, autonomous regions, and municipalities directly under the central government. According to the Chinese Constitution, regional autonomy is practiced in the autonomous regions where a number of people of minority nationalities live and organs of self-government have been established.

with WTO rules. The United States and other WTO members have stated that China's membership in the WTO provides increased opportunities for foreign companies seeking access to China's vast market. China is already a major destination of U.S. investment overseas, and China and the United States are already major trading partners.

China's WTO Commitments

The results of China's negotiations to join the WTO are described and documented in China's final accession agreement, the *Protocol on the Accession of the People's Republic of China*, which includes the accompanying *Report of the Working Party on the Accession of China*, the consolidated market access schedules for goods and services, and other annexes. China's WTO commitments are complex and broad in scope.⁶ They range from the rules for how China's trade regime will be reformed in accordance with WTO principles to specific market access commitments for goods and services. A number of commitments are to be phased in over 10 years.

Commitments related to reforming China's trade regime require a specific action from China, such as reporting particular information to the WTO, while others are more general in nature, such as those that affirm China's adherence to WTO principles. Many commitments seek to improve the rule of law. Generally, China agreed to ensure that its legal measures would be consistent with its WTO obligations. These rule of law-related commitments include broad reforms to publish and translate trade-related laws and regulations and apply them uniformly at all levels of government and throughout China. China will have to adhere to internationally accepted norms to protect intellectual property rights and enforce relevant laws and regulations relating to patents, trademarks, copyrights, trade secrets, and integrated circuits.⁷ China also made a substantial number of other rule of law-related commitments regarding transparency, judicial review, and nondiscriminatory treatment of businesses.

⁶ For more information, see (forthcoming) *World Trade Organization: Analysis of China's Commitments to Other Members*, GAO-03-4 (Washington, D.C.: Oct. 2, 2002).

⁷ A patent is the right given to inventors to have exclusive rights for a specified time period for making, using, or selling a new, useful, nonobvious invention. Trademarks are words, names, symbols, or devices that manufacturers use to identify their goods and to distinguish them from the products of their competitors. Copyrights provide the exclusive right to reproduce, publish, and/or perform an original work in public and to make adaptations. Trade secrets involve the protection of undisclosed information. Integrated circuits are semiconductor chips.

The accession agreement also includes market access commitments for goods, including commitments that will reduce tariffs on agricultural and industrial products from about 14 percent in 2001 to less than 10 percent in 2010, as well as commitments to reduce or eliminate many other trade barriers such as quotas or licensing requirements on some of these products. Further, China made commitments to allow greater market access in 9 of 12 general service sectors, including sectors that are important to U.S. companies such as banking, insurance, and telecommunications. However, some limitations, including those that require joint ventures with Chinese partners in some sectors or restrict the amount of foreign investment, will continue.

It is important to note that, in addition to the commitments set forth in the accession agreement, WTO membership confers obligations and rights on China. For example, membership obligates China to adhere to more than 20 existing multilateral WTO agreements that cover various areas of international trade. China, like all other WTO members, must adhere to the WTO's three main agreements governing key areas of international trade: (1) the General Agreement on Tariffs and Trade, (2) the General Agreement on Trade in Services, and (3) the Agreement on Trade-Related Aspects of Intellectual Property Rights. Other specialized multilateral WTO agreements that apply to China include the Agreement on Trade-Related Investment Measures, the Agreement on Agriculture, the Agreement on Technical Barriers to Trade, and the Agreement on Subsidies and Countervailing Measures. Numerous sections of China's protocol and working party report refer to or reiterate specific provisions of a number of these underlying WTO agreements. Membership also gives China various rights under WTO rules. For example, the Understanding on the Rules and Procedures Governing the Settlement of Disputes gives access to a formal mechanism for resolving disputes over WTO trade-related issues.⁸

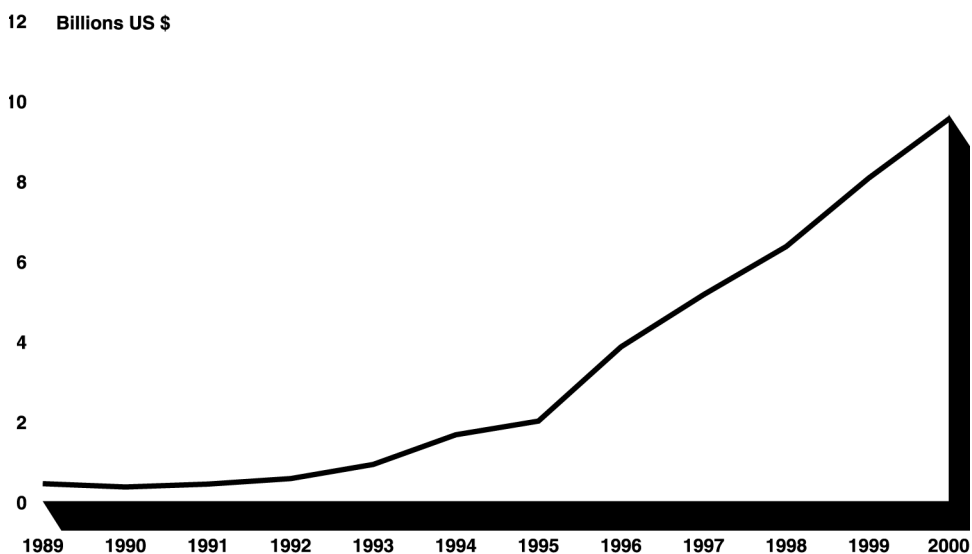
U.S.-China Investment and Trade

Eventual implementation of China's WTO commitments should result in greater freedom for American firms to invest and trade in China, according to the U.S. Department of Commerce. The United States was the second

⁸ For additional information on the WTO's dispute settlement mechanism, see U.S. General Accounting Office, *World Trade Organization: Issues in Dispute Settlement*, [GAO/NSIAD-00-210](#) (Washington D.C.: Aug. 9, 2000).

largest foreign investor in China in 2000.⁹ China was the ninth largest destination for U.S. exports in 2001. In 2001, U.S. companies exported about \$18 billion of merchandise to China. The major exports included transport equipment, electrical machinery, office machines, general industrial machinery, oilseeds, and fruits. Figure 1 shows the increasing level of U.S. foreign direct investment in China. Figure 2 shows the increasing levels of U.S. trade with China. See appendix V for additional information regarding U.S.-China investment and trade.

Figure 1: U.S. Direct Investment in China, 1989–2000

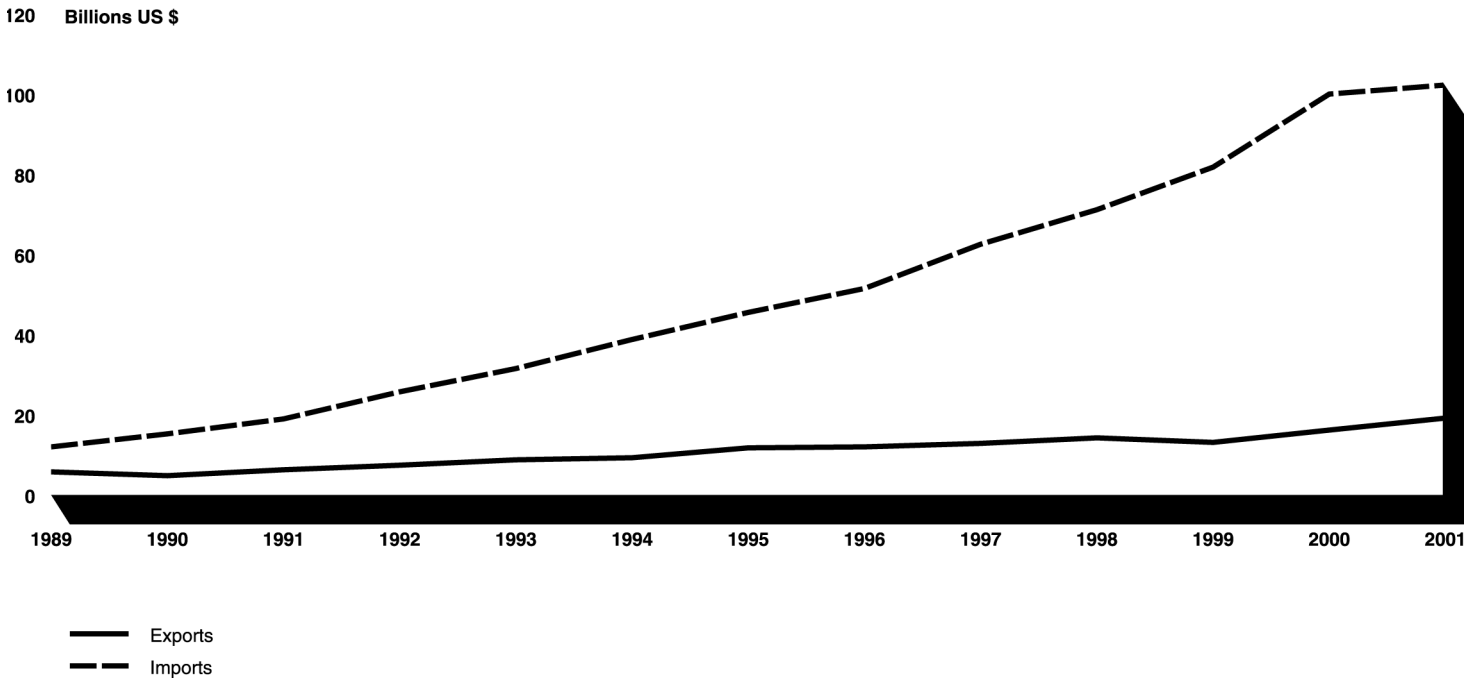


Note: Numbers are reported in constant dollars.

Source: U.S. Department of Commerce.

⁹ Hong Kong, a Chinese Special Administrative Region, is the largest source of foreign direct investment in China.

Figure 2: U.S. Trade with China, 1989–2001



Note: Numbers are reported in constant dollars.

Source: U.S. Department of Commerce.

WTO-related Reforms Are Important to U.S. Companies

U.S. companies reported that many WTO-related commitment areas were important to them, according to our survey of U.S. companies with business activities in China. The 30 commitment areas included market access, investment measures, fundamental market, and rule of law-related reforms. Thirteen of the 30 commitment areas were important to a majority of the responding companies. Commitment areas related to enhancing the rule of law emerged as most important both for those who responded to our survey and for those who took part in our structured interviews. The relative importance of some other commitments varied among manufacturing and services firms but was consistent with the nature of their operations. In interviews, company representatives emphasized and explained the importance of key commitments.

Rule of Law-related Commitment Areas Are Most Important

We found that survey respondents were particularly focused on reforms related to enhancing the rule of law. At least three quarters of respondents selected intellectual property rights; consistent application of laws, regulations, and practices; and transparency most frequently when asked to rate the importance of individual commitment areas to their companies (based on a list of 30 WTO-related commitment areas that we specified in the survey). These results did not materially change when we compared the survey results for small- and medium-sized companies and large companies.¹⁰ Other than those related to rule of law, respondents most frequently selected trading rights (the right to import or export); tariffs, fees, and charges; and scope of business restrictions as the commitment areas important to their companies. All 30 commitment areas were important to at least one quarter of our respondents. Table 1 shows the number of survey respondents that said each WTO-related commitment area was important to their company.

¹⁰ As defined by the U.S. Department of Commerce, small- and medium-sized enterprises have fewer than 500 employees, while large companies have 500 or more employees.

Table 1: Importance of 30 WTO-related Commitment Areas to Company Survey Respondents

Commitment areas	Reform	Number of cases	Number responding "Important"	Percent
Intellectual property rights	Rule of law	168	129	76.8
Consistent application of laws, regulations, and practices	Rule of law	174	132	75.9
Transparency of laws, regulations, and practices	Rule of law	172	129	75.0
Enforcement of contracts and judgments/settlement of disputes	Rule of law	171	125	73.1
Equal treatment between Chinese and foreign entities	Rule of law	168	118	70.2
Trading rights (ability to import and export)	Fundamental market	152	99	65.1
Independence of judicial bodies	Rule of law	161	103	64.0
Tariffs, fees, and charges	Market access	158	101	63.9
Scope of business restrictions	Investment measures	157	89	56.7
Equal treatment in taxation	Fundamental market	151	83	55.0
Foreign exchange restrictions	Investment measures	158	85	53.8
Distribution rights	Fundamental market	136	73	53.7
Customs procedures and inspection practices	Market access	150	78	52.0
Price controls including dual and discriminatory pricing	Fundamental market	131	60	45.8
Restrictions on partnerships and joint ventures	Investment measures	153	70	45.8
Equal treatment for access to funding, supplies, and human resources	Fundamental market	147	67	45.6
Technology transfer requirements	Investment measures	135	60	44.4
Market access for services	Market access	138	61	44.2
Quantitative import restrictions (licensing and tendering requirements)	Market access	133	58	43.6
Standards, certification, registration, and testing requirements	Market access	138	59	42.8
Establishment and employment requirements	Investment measures	158	67	42.4
Export restrictions	Market access	125	47	37.6
Operation of state-owned enterprises	Fundamental market	133	48	36.1
China's application of safeguards against U.S. exports	Rule of law	133	48	36.1
Local content requirements	Investment measures	124	42	33.9
Subsidies for Chinese firms	Fundamental market	126	41	32.5
Number of products subject to state/designated trading	Fundamental market	114	36	31.6
Quotas	Market access	118	35	29.7
Requirements for minimum amount of production that must be exported	Investment measures	119	33	27.7
Export subsidies	Fundamental market	118	31	26.3

Note: Percentages for the individual commitment areas are based on the number of respondents who made a judgment about the importance of each commitment area. Therefore, the percentages do not include respondents who checked "Don't know," "Not applicable," or did not provide an answer. See the survey results in appendix II for a breakdown of these responses.

Source: GAO survey of U.S. companies on China-WTO issues, question 16.

The relative importance that companies assigned to rule of law-related commitment areas (compared to those related to other reforms) generally remained consistent for agricultural, manufacturing, and services firms. These three types of firms most frequently identified rule of law-related commitments as important. However, given the nature of their businesses, these firms differed in the areas that they identified next most frequently. Manufacturers assigned greater importance to tariffs, fees, and charges. Manufacturers as well as agricultural firms also assigned greater importance to trading rights (the ability to import and export) and customs procedures and inspection practices. This is consistent with the needs of manufacturers to move goods into and out of China. Services firms assigned greater importance to commitment areas related to the scope of business restrictions and market access for services, consistent with the historical limitations on their ability to operate in China and their need for approval from the Chinese government in order to do business there. Structured interviews with representatives of U.S. companies in China generally corroborated the survey results regarding important WTO-related commitment areas.

Company Views on Important Commitments

Many survey respondents and company representatives we interviewed emphasized the importance of China's rule of law-related reforms to the functioning of their operations in China and pointed to specific problems with current laws, regulations, and practices. For example, in order to explain the importance assigned to certain commitment areas, one company representative noted that because licensing procedures in China are notoriously opaque, transparency is a priority for his company. One survey respondent's written comments emphasized the importance of equal treatment under the law, saying that "getting a level playing field for U.S. business versus Chinese competitors is critical." Another representative of a large multinational company told us that rule of law-related reforms are important, because China's application of product standards and other measures varies greatly between localities. Furthermore, this company representative said that Chinese officials often promulgate regulations and procedures without sufficient comment periods, the regulations themselves are often deliberately vague, and intellectual property rights (IPR) violations are still rampant. Another individual told us about the biggest problem his company had encountered in China, which involved the rule of law. Several years ago, his company won a court judgment against a client who had failed to pay on a contract. Despite winning the judgment, this U.S. company had been unable to collect the debt, and the court had failed to take steps to enforce the judgment.

In addition to rule of law-related reforms, several company representatives also explained the importance to their companies of a number of other reforms, including (1) reductions in tariffs and nontariff barriers (market access) and (2) the liberalization of investment-related measures. First, several manufacturers discussed the importance of obtaining increased market access through tariff reductions. One representative of a food manufacturer explained that China's implementation of its WTO commitments would make it easier and cheaper to import the ingredients used in his company's products. Another representative of a manufacturing firm reported that high tariffs were one of the most important issues for his company. He noted that although tariffs have already come down on several imported products, his company still pays high tariffs on certain other products. Concerning nontariff barriers and reforms to China's quota system, one company representative explained that his company sometimes encounters problems in selling products in China because quotas reserve a portion of the market for domestic manufacturers. This has caused problems because it lead to inventory overruns for his company. Second, several representatives of various U.S. companies in China also highlighted the importance of other reforms, such as commitments liberalizing investment-related measures. For example, one company explained that repatriating profits made in China still involves a lengthy process. Representatives of another U.S. multinational company that we interviewed complained about the difficulties that China's restrictive foreign exchange regime creates. This company maintains a separate holding company in order to move renminbi (China's currency) from one joint venture to another within China. Finally, several companies that provide services in China pointed out that numerous commitment areas are important to them (indirectly) because they are important to their clients' ability to do business in China (directly).

Companies Expect Positive Results from China's WTO Accession

Respondents to our survey expected China's WTO accession and implementation of its commitments to improve their ability to do business in China and to increase their business with China. More than three quarters of the companies generally expected a positive impact on their business from China's WTO commitments, and most expected to begin to see this impact relatively soon—though some company representatives indicated that the full impact would take time. Companies identified their current business goals for China, and most companies we interviewed said that their company's goals had already changed to reflect China's WTO membership. Furthermore, companies generally expected that their business activities in China would increase as a result of China's

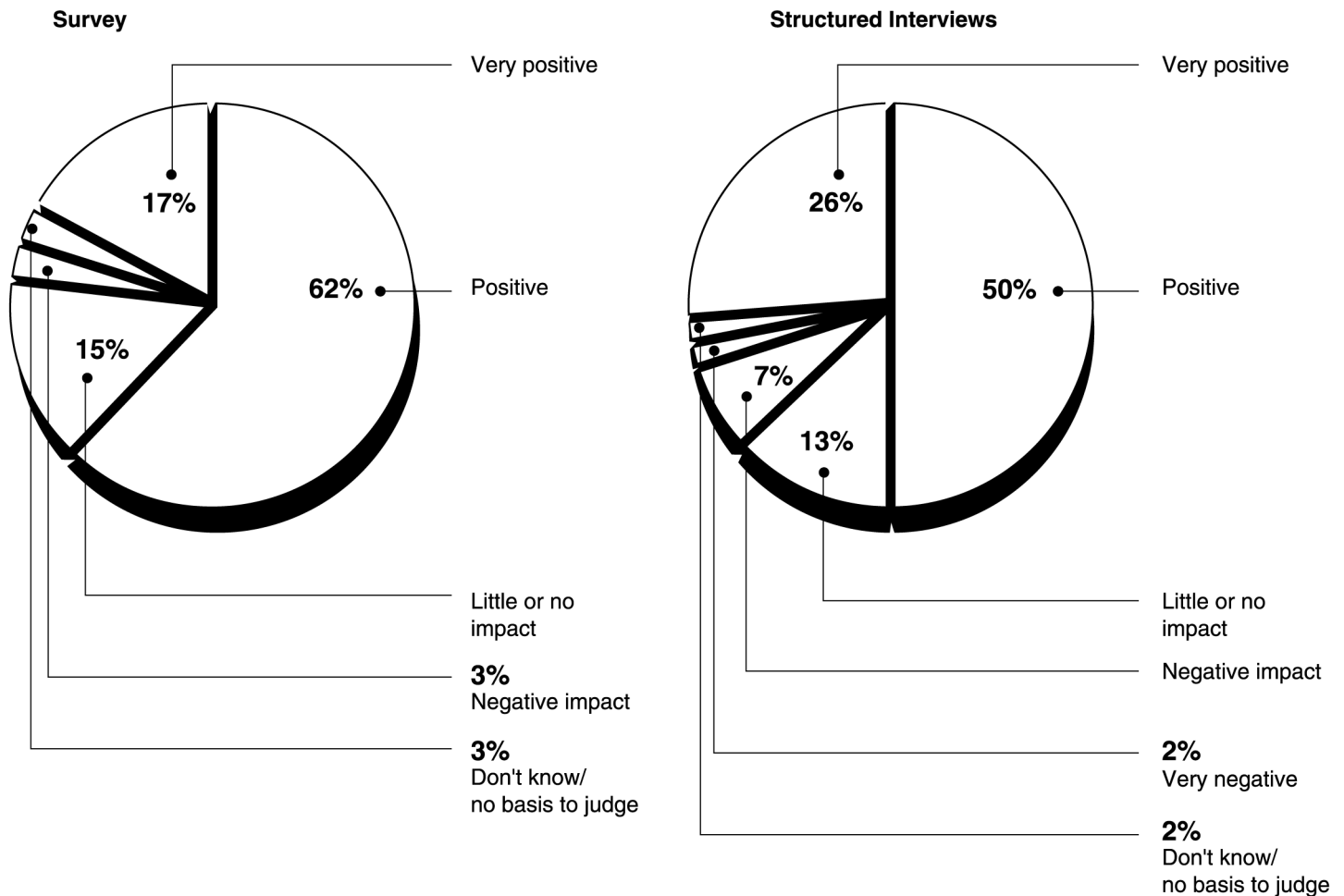
implementation of its WTO commitments, including their volume of exports to China, market share in China, and distribution of products there.

Positive Impact Generally Expected Soon

A majority of the companies participating in our survey and interviews expected a positive impact to eventually result from implementation of China's WTO commitments. Some companies had already experienced an impact, and most companies expected to begin to experience an impact within the next few years. Companies provided a variety of explanations for their expectations regarding the eventual impact.

When asked what impact they expected China's WTO commitments would have on their companies, most survey respondents reported that they expected a positive or very positive impact. These positive expectations were generally consistent for firms in all sectors, but services firms had a somewhat higher percentage (93 percent) of positive and very positive expectations compared to manufacturing firms and agricultural firms (79 percent and 62 percent, respectively). Some respondents expected little or no impact on their business in China. A smaller group of respondents reported that they thought China's WTO membership would have a negative impact on their business. Figure 3 shows the expected impact of implementation of China's WTO commitments for respondents to both our mail survey and to the structured interviews in China.

Figure 3: Expected Impact of China's WTO Commitments on Survey and Structured Interview Respondents' Business in China



Note: The number of survey respondents was 190. None of the survey respondents expected a "Very negative" impact. The number of structured interview respondents was 46.

Source: GAO survey of U.S. companies on China-WTO issues, question 11; GAO structured interviews of U.S. companies on China-WTO issues, question 5.

Most companies expected to begin to experience an overall business impact from China's WTO commitments in the next few years, but this view was not unanimous. About one-fifth of survey respondents reported that they expected an immediate impact or had already experienced an impact. More than half of the survey respondents expected to begin to experience an overall business impact from China's WTO commitments sometime from less than 1 year to 4 years. In contrast, a small fraction of respondents

expected to begin to experience an impact in 5 to 10 years or never expected to experience an impact from China’s WTO commitments. About one-tenth of respondents did not know or had no basis to judge how soon their companies might begin to experience an impact. Table 2 summarizes these company responses.

Table 2: U.S. Company Expectations for When Impact of China’s WTO Commitments Will Begin

Time period	Number of respondents	Percentage of respondents
Immediately/has already occurred	40	21
Less than 1 year	20	11
From 1 to 2 years	56	30
From 3 to 4 years	39	21
From 5 to 10 years or more	6	3
Never, no effects expected	7	4
Don’t know/no basis to judge	20	11

Note: Percentages are based on the 188 respondents who answered this question.

Source: GAO survey of U.S. companies on China-WTO issues, question 12.

Company Views on Impact

Company representatives that we interviewed in China made comments that lend support to the general expectation that change will be positive, but many believed that China’s implementation would be incremental and would be tempered by China’s desire to protect its workers. One representative said that his company planned to boost investments and build a national business in China. He explained that his company expected to obtain trading rights and national treatment in taxes as a result of WTO. Others explained that demand for services had already increased, that the trajectory of the reforms resulted in immediate benefits, and that the lowering of trade barriers had helped a great deal. One representative noted that some impact began before accession, but that the full impact from WTO implementation will be incomplete for some time to come. Similarly, another individual stated that all the commitments would eventually be implemented but that the time needed for implementing different commitments would vary considerably. A representative who agreed that it will take time for WTO concepts to take hold also said that the impact is dependent on how forceful the central government continues to be about WTO reform.

Broad Range of Goals for U.S. Companies in China Reflects China's WTO Membership

Our survey of U.S. companies with a presence in China, which was conducted soon after China's accession to the WTO, asked respondents to identify their current goals for doing business in China. The company goals that survey respondents most frequently identified were "establish a presence for the future," "increase exports to China," and "benefit from lower labor costs," as shown in table 3. Identification of these three company goals follows logically from survey respondents' identification of the commitment areas that their companies considered important. First, because many companies may want to establish a presence for the future, this may explain why rule of law reform is important. Second, many companies may want to increase exports to China. This may drive their interest in lower market access restrictions resulting from China's WTO commitments. Third, some companies may want to take further advantage of China's low wages once China implements some fundamental market reforms and liberalizes some investment measures. Even firms with a history of more than 10 years in China identified these goals as priorities for their companies.

Table 3: U.S. Company Goals in China That Survey Respondents Identified

Company goal	Number of respondents	Percentage of respondents
Establish a presence for the future	103	55
Increase exports to China	79	42
Benefit from lower labor costs	76	40
Expand a regional base in China	56	30
Expand a distribution network in China	44	23
Establish a distribution network in China	43	23
Benefit from foreign investment incentives in China	37	20
Benefit from the cost or quality of raw materials in China	36	19
Establish a regional base in China	35	19
Other	21	11

Note: Of the 191 survey respondents, 188 identified at least one of these goals for their companies. Numbers do not add up to 191 because respondents could identify more than one goal. About one third of survey respondents selected only one item to characterize their company's goals in doing business with China, while about two thirds of respondents identified more than one goal for their companies.

Source: GAO survey of U.S. companies on China-WTO issues, question 14.

Some Goals Vary for
Manufacturing, Agricultural,
and Services Firms

Manufacturing, agricultural, and services firms reported slightly different priorities in their companies' most frequently identified goals. A larger percentage of manufacturers identified benefiting from lower labor costs (49 percent) and the cost or quality of raw materials (27 percent) in China as company goals compared to agricultural or services firms (38 and 18 percent, and 0 and 12 percent, respectively). Similarly, a larger percentage of manufacturers identified increasing exports to China (50 percent) as a company goal than either agricultural or services firms (38 percent and 27 percent, respectively).

Company Views on Goals
for China

More than half of the companies that we interviewed in China reported that China's official membership in the WTO had changed their company's goals and expectations for future business opportunities in China to a moderate or great extent. Specifically, 16 company representatives said their goals had changed to a great extent while 12 reported their goals had changed to a moderate extent. When asked to describe the extent to which their company's goals had changed, responses varied widely and focused on their companies' operations. On one end of the spectrum were several companies whose operations had already changed as a result of China's recent WTO membership. For example, one corporate representative in China noted that China's WTO membership had resulted in big increases in demand for his company's services and that his firm will also be allowed to provide a wider range of services to its clients in the future. In another example, a service provider looking forward to broader distribution rights speculated that if China had not gained WTO membership, his company would likely have withdrawn completely from China.

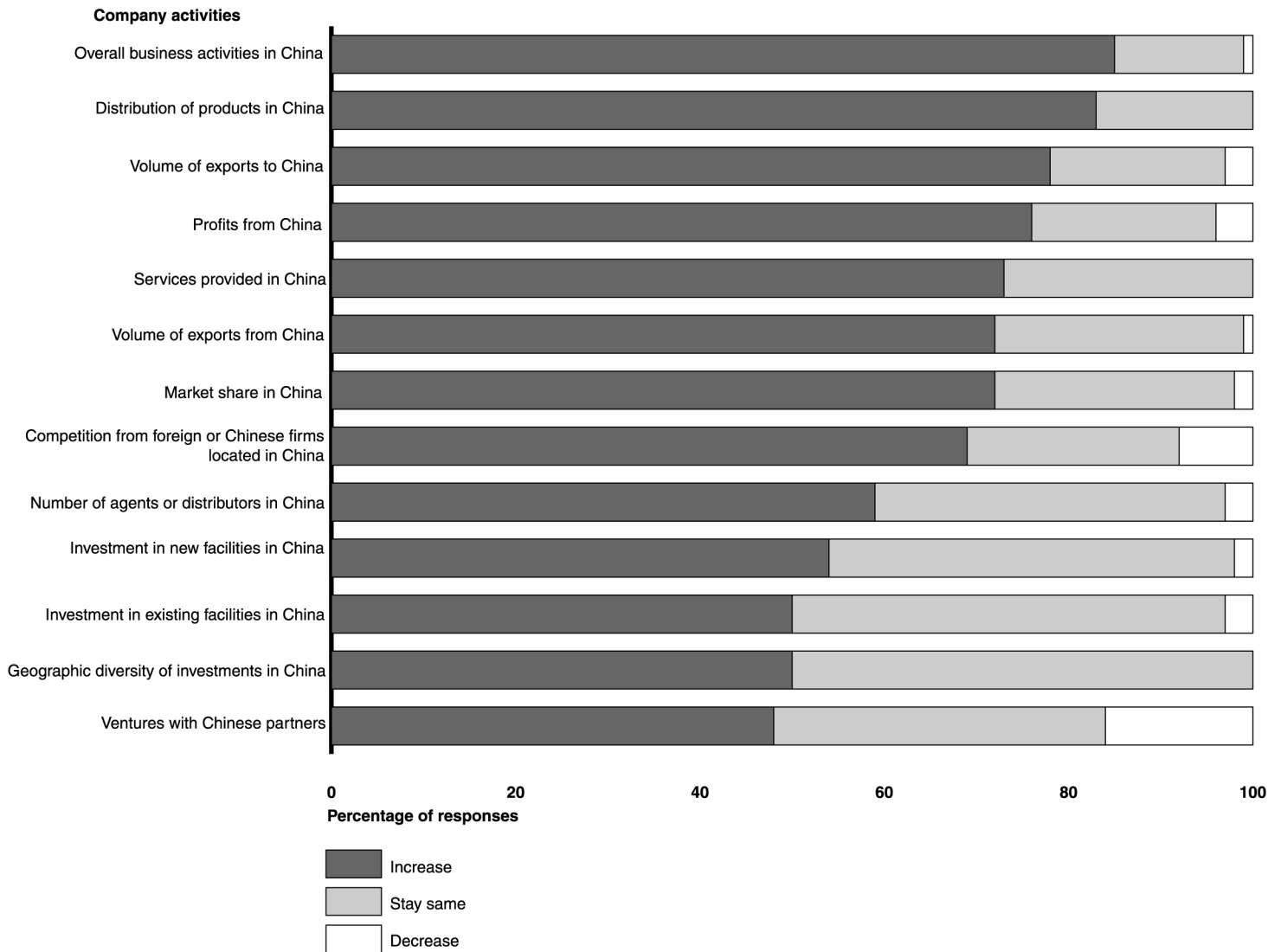
At the other end of the spectrum were companies whose goals remained relatively unchanged. These companies focused on their ability to operate in China regardless of China's WTO commitments. One company representative said, "We're here, and we know how to operate." This respondent emphasized that he hoped that China's WTO membership would open new opportunities, but his company was not relying on that possibility. Other representatives said that, "WTO does not change our operations at all," and that "we've been here a long time without WTO." Another company representative explained that the future will be more open but that his company had already been planning for expansion for 5 to 10 years because China is a major focus of its Asia operations. Similarly, another company representative noted that "WTO will improve the market down the road, but the market exists with or without WTO."

Finally, representatives of several companies that we interviewed expressed uncertainty regarding how China's WTO membership would affect their companies' goals and operations in China. Several firms with agricultural interests or dependent on agricultural inputs for their manufacturing operations discussed their early concerns about China's implementing rules and regulations, which indicated problems that could affect their goals. One firm cited China's promulgation of agricultural regulations as well as recent prohibitions on investment in specific agricultural sectors. A representative of another agricultural firm noted that as a result of agricultural compliance issues that Chinese officials had raised since China's WTO accession, his business had experienced greater difficulties doing business in China. A representative of a U.S. company operating a joint venture in China summarized his company's uncertain expectations as follows: "Future goals depend on the whole dynamic of forcing the Chinese government to be more liberal and systematic as well as more fair in terms of legal protection."

Company Activities Expected to Increase in China

In addition to expressing views on their companies' goals in doing business with China, survey respondents also indicated how the implementation of China's WTO commitments would affect their companies' activities. About 85 percent of the respondents that completed this survey question expected their companies' overall activities in China to greatly or somewhat increase. Almost 15 percent of the respondents expected their overall activities to stay the same, while only one respondent expected overall business activities to greatly decrease. Expectations for how the implementation of China's WTO commitments would affect specific company activities are shown in figure 4.

Figure 4: U.S. Company Expectations for Activities Affected by Implementation of China's WTO Commitments



Note: Percentages for the individual activities are based on the number of respondents who made a judgment about the importance of each commitment area. Therefore, the percentages do not include respondents who checked "Uncertain" or "Not relevant," or did not provide an answer. See the survey results in appendix II for a breakdown of these responses.

Source: GAO survey of U.S. companies on China-WTO issues, question 15.

Corporate representatives whom we interviewed reiterated these expectations for an overall increase in company activities. Some

companies told us that they hoped to increase their manufacturing base, their number of offices in China, and/or their investment in China in the next few years. Other companies predicted that implementation of China's WTO commitments could create many additional business opportunities. One company representative noted that there is currently a "boom mentality" in China.

For a few business activities, survey respondents reported mixed expectations regarding how they would be affected by the implementation of China's WTO commitments, as shown in figure 4. Specifically, an almost equal percentage (about 50 percent each) of the respondents reported that the geographic diversity of their companies' investments in China would either increase or stay about the same. With regard to investment in existing facilities in China, 50 percent of the respondents expected their companies' activities to increase, while 47 percent expected their companies' activities to stay about the same. Fifty-four percent of the respondents indicated that their investment in new facilities in China would increase, while 44 percent indicated that their investments would stay about the same.

At least 5 percent of the companies responding expected two activities to decrease. First, ventures with Chinese partners will reportedly decrease for 16 percent of the respondents. Implementation of China's WTO commitments will allow foreign-invested enterprises in some sectors to operate wholly owned foreign enterprises rather than being restricted to joint ventures. For example, a services firm that we interviewed reported that it has been restricted by requirements that it have Chinese partners but hopes to transition to a wholly owned foreign enterprise in 3 to 5 years. Second, competition from foreign or Chinese firms located in China will reportedly decrease for 9 percent of the respondents. One respondent addressed his company's hopes that WTO will "level the playing field" for U.S. companies in China. For example, leveling the playing field for U.S. companies could include encountering decreased competition from China's state-owned enterprises as market forces lead to the further closure of inefficient and unprofitable companies and as foreign-invested (joint venture) enterprises lose the benefit of discriminatory practices once China's WTO-related reforms are implemented.

Companies Expect Impediments to Implementation of China's WTO Reforms

U.S. companies with business activities in China expected a number of impediments to implementation of China's WTO reforms. Views varied concerning the expected ease or difficulty of implementing specific commitment areas, but we were able to identify some common themes from our survey and structured interviews. Companies generally expected many of China's WTO commitment areas to be relatively difficult for Chinese officials to implement, especially many of those they considered important. Large numbers of respondents expected reforms to be generally difficult or did not know what to expect in terms of WTO implementation throughout specific locations in China and/or in terms of China's various levels of government. Companies also described numerous challenges that China faces as it continues to reform its economy and implement its WTO commitments.

Many Commitments Expected to Be Difficult to Implement

Companies with a presence in China had different expectations regarding Chinese officials' implementation of particular WTO commitments. Our analysis of survey responses showed that 7 of the 30 commitment areas listed in the survey ranked "High" in difficulty, 13 commitment areas ranked "Medium" in difficulty, and 10 of the commitment areas ranked "Low" in expected difficulty for the Chinese government to implement.¹¹ Furthermore, when asked whether each WTO commitment area would be easy or difficult for the Chinese government to implement, respondents expected that two-thirds of the commitment areas listed in the survey would be relatively difficult to implement.¹² However, large numbers of respondents (sometimes as many as 50 respondents) did not know what to expect concerning the ease or difficulty of specific commitment areas or said some were not applicable to their business.

Companies most frequently identified five commitment areas related to rule of law reform as the WTO commitments that they expected to be relatively difficult to implement. Respondents also expected some non

¹¹ Commitment areas ranked "High" in difficulty if more than 60 percent of respondents selected "Difficult." Commitment areas ranked "Medium" if 41 to 60 percent of respondents selected "Difficult." Commitment areas ranked "Low" if 40 percent or less of respondents selected "Difficult." The percentages for the individual commitments were based on the number of respondents who made a judgment about the ease or difficulty of implementation for each commitment area.

¹² Specifically, 20 of the 30 commitment areas listed in our survey received a higher number of "Difficult" responses than "Easy," "Neither easy nor difficult," or "Don't know" responses.

rule-of-law-related commitment areas to be relatively difficult for Chinese officials to implement. These included reforms to the operation of state-owned enterprises, which are related to fundamental market reforms; and standards, certification, registration, and testing requirements, which are related to market access reforms. On the other hand, most of the commitment areas that are related to reforming China's foreign investment measures were considered relatively less difficult for China to implement. Table 4 shows the company responses indicating the commitment areas deemed difficult for the Chinese to implement (in terms of the number of "difficult" responses each commitment area received). Our interviews with representatives of U.S. companies in China generally supported these findings.

Table 4: U.S. Company Expectations for Difficulty in Implementing China’s WTO Commitment Areas

Commitment areas	Reform	Number of cases	Number responding “difficult”	Percent
Consistent application of laws, regulations, and practices	Rule of law	141	116	82.3
Intellectual property rights	Rule of law	137	111	81.0
Enforcement of contracts and judgments/settlement of disputes	Rule of law	138	106	76.8
Independence of judicial bodies	Rule of law	129	99	76.7
Equal treatment between Chinese and foreign entities	Rule of law	135	100	74.1
Operation of state-owned enterprises	Fundamental market	107	79	73.8
Transparency of laws, regulations, and practices	Rule of law	144	105	72.9
Standards, certification, registration, and testing requirements	Market access	110	60	54.5
Subsidies for Chinese firms	Fundamental market	103	54	52.4
Price controls including dual and discriminatory pricing	Fundamental market	96	49	51.0
Market access for services	Market access	111	56	50.5
Scope of business restrictions	Investment measures	121	59	48.8
China's application of safeguards against U.S. exports	Rule of law	95	45	47.4
Equal treatment in taxation	Fundamental market	118	54	45.8
Equal treatment for access to funding, supplies, and human resources	Fundamental market	111	50	45.0
Quantitative import restrictions (licensing and tendering requirements)	Market access	98	44	44.9
Technology transfer requirements	Investment measures	103	46	44.7
Customs procedures and inspection practices	Market access	126	56	44.4
Foreign exchange restrictions	Investment measures	131	58	44.3
Distribution rights	Fundamental market	108	45	41.7
Quotas	Market access	91	36	39.6
Trading rights (ability to import and export)	Fundamental market	123	48	39.0
Export subsidies	Fundamental market	84	32	38.1
Tariffs, fees, and charges	Market access	122	44	36.1
Local content requirements	Investment measures	101	33	32.7
Number of products subject to state/designated trading	Fundamental market	91	29	31.9
Establishment and employment requirements	Investment measures	115	32	27.8
Restrictions on partnerships and joint ventures	Investment measures	111	30	27.0
Requirements for minimum amount of production that must be exported	Investment measures	97	25	25.8
Export restrictions	Market access	99	20	20.2

Note: Percentages for the individual commitments are based on the number of respondents who made a judgment about the ease or difficulty of implementation. Therefore, these percentages do not include respondents who checked “Don’t know,” “Not applicable,” or did not provide an answer. Appendix II provides a breakdown of these responses.

Source: GAO survey of U.S. companies on China-WTO issues, question 17.

Difficult Commitments Also Most Important

In general, the commitment areas expected to be the most difficult to implement were those that survey respondents also identified as most important. Specifically, our analysis identified rule of law-related commitment areas as the commitment areas of greatest importance to respondents' companies and also showed that respondents expected these reforms to be the most difficult for China to implement, as shown in table 5. Reforms to China's state-owned enterprises (SOE) were also expected to be difficult for China's government officials to implement but were relatively less important to survey respondents. Companies we interviewed explained that reforming SOEs creates a huge challenge for the Chinese and will take a number of years, but that other reforms will have a more immediate impact on their companies' ability to do business in China and are consequently more important to them.

Our analysis identified another group of commitments respondents expected to be both moderately important and moderately difficult for the Chinese to implement. This group is comprised of 37 percent of the commitment areas and includes a range of fundamental market, market access, and investment measure-related reforms. Some commitment areas related to these three types of reforms may appear easier for Chinese officials to implement, because, in some cases, the reforms require specific regulatory or legal changes rather than more systemic legal changes associated with rule of law.

Finally, our analysis showed that various other commitment areas were expected to be relatively less difficult for the Chinese to implement. However, while tariffs, fees, and charges and trading rights were expected to be less difficult for Chinese officials to implement, these commitment areas were still rated "High" in importance. It is important to note that all the commitment areas that emerged as low in both importance and difficulty were still important to at least 20 percent of survey respondents.

Table 5: Survey Respondents' Views on Importance of Commitment Areas by Difficulty of Implementation

Importance of commitment area	Expected difficulty of implementation		
	High	Medium	Low
High	<ol style="list-style-type: none"> 1. Consistent application of laws, regulations, & practices 2. Intellectual Property Rights 3. Enforcement of contracts & judgments/Settlement of disputes in Chinese court system 4. Independence of judicial bodies 5. Equal treatment between Chinese & foreign entities 6. Transparency of laws, regulations, & practices 		<ol style="list-style-type: none"> 1. Trading rights 2. Tariffs, fees, & charges
Medium		<ol style="list-style-type: none"> 1. Standards, certification, registration, & testing requirements 2. Price controls including dual and discriminatory pricing 3. Market access for services 4. Scope of business restrictions 5. Equal treatment in taxation 6. Equal treatment for access to funding, supplies, & human resources 7. Other quantitative import restrictions 8. Technology transfer requirements 9. Customs procedures & inspection practices 10. Foreign exchange restrictions 11. Distribution rights 	<ol style="list-style-type: none"> 1. Establishment & employment requirements 2. Restrictions on partnerships & joint ventures
Low	<ol style="list-style-type: none"> 1. Operation of state-owned enterprises 	<ol style="list-style-type: none"> 1. Subsidies for Chinese firms 2. China's application of safeguards against U.S. exports 	<ol style="list-style-type: none"> 1. Export subsidies 2. Local content requirements 3. Number of products subject to state/designated trading 4. Requirements for minimum amount of production that must be exported 5. Export restrictions 6. Quotas

Note: Commitment areas ranked "High" in importance or difficulty if more than 60 percent of respondents selected "Important" or "Difficult." Commitment areas ranked "Medium" if 41 to 60 percent of respondents selected "Important" or "Difficult." Commitment areas ranked "Low" if 40 percent or less of respondents selected "Important" or "Difficult." The percentages for the individual commitments were based on the number of respondents who made a judgment about importance and the ease or difficulty of implementation for each commitment area.

Source: GAO survey of U.S. companies on China-WTO issues, questions 16 and 17.

Mixed Views for Implementation by Level of Government and Region

Companies we surveyed also expressed mixed views regarding the ease or difficulty expected for implementation in various locations and for different levels of government in China. For example, almost as many respondents expected reforms to be very or somewhat easy for the national/central level of government as those who expected reforms to be very or somewhat difficult. Similarly, an almost equal number of respondents expected officials in China’s major cities¹³ to have an easy or difficult time making reforms. Nevertheless, survey respondents expected China’s local and provincial governments and autonomous regions to have the most difficulties implementing reforms. Table 6 provides a summary of these responses.

Table 6: U.S. Company Expectations for China’s Reforms, by Level of Chinese Government

Level of government		Number of respondents expecting reforms to be easy	Percentage of respondents expecting reforms to be easy	Number of respondents expecting reforms to be difficult	Percentage of respondents expecting reforms to be difficult
National/central level	(N=159)	66	42	65	41
Major cities (Beijing, Chongqing, Shanghai, Tianjin)	(N=158)	57	36	60	38
Other cities, towns, or local level	(N=136)	17	12	99	73
Provincial level	(N=153)	25	16	96	63
Autonomous regions	(N=97)	8	8	79	81

Note: Percentages for the individual levels of government are based on the number of respondents who made a judgment about the ease or difficulty of reform. Therefore, these percentages do not include respondents who checked “Don’t know,” or did not provide an answer. See appendix II for a breakdown of these responses.

Source: GAO Survey of U.S. Companies on China-WTO Issues, question 21.

Company representatives whom we interviewed provided a number of explanations for these expectations by level of government. For example, one company representative compared China to Europe, in that each Chinese region is like a different country and they each have different rules and regulations. Another company official explained how differences within China play out at the local level. He believed that the local officials have a different mind-set, because existing approval processes are their

¹³ Identified in our survey as Beijing, Chongqing, Shanghai, and Tianjin.

livelihood (he cited import inspections as an example). In his view, local officials want to protect the domestic market and local suppliers from losing jobs. A specific example provides further context for understanding how these differences relate to specific business operations. As one company representative explained, he believed that there is no unified customs system and therefore, customs procedures will be slow to change. In his view, state directives often do not get to local customs authorities and authorities may interpret the directives differently.

Another reason that might help explain the varied expectations by level of government is that many respondents' knowledge about different parts of China is limited. Specifically, more respondents selected "Don't know" than "Yes" or "No" for 24 of the 26 locations listed in the survey when asked whether they expected that reforms would be relatively difficult for the Chinese to implement. Beijing and Shanghai were the only locations where more respondents expected reforms to be relatively easy to implement (compared to the number of respondents who did not know whether reforms would be difficult and the number of respondents who expected reforms to be difficult to implement). With regard to Beijing, 43 percent of the respondents expected reforms would be relatively easy to implement, while 22 percent of the respondents expected reforms to be difficult to implement. In Shanghai, 54 percent of the respondents expected that reforms would be relatively easy to implement, while 15 percent of the respondents expected reforms to be difficult to implement. Respondents also expected reforms to be more difficult to implement in locations where fewer U.S. companies have a presence in China. These locations included the western provinces (Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, and Tibet), Guizhou and Yunnan, Sichuan, Heilongjiang, and Inner Mongolia.¹⁴

Company Views on the Challenges Ahead for WTO Implementation

Companies' overall positive expectations for their future in China were tempered by their views regarding the domestic challenges China faces as it implements WTO-related reforms. Company representatives described the numerous challenges China faces during implementation of its WTO

¹⁴ For more information on the location of respondents' facilities or other presence as well as their expectations for implementation difficulty in specific locations, see appendix II, questions 19 and 20.

commitments.¹⁵ Their comments covered a spectrum of opinions ranging from the broad view that, overall, China's accession would be great for China and the United States, to less enthusiastic expectations based on their companies' experiences in China. One representative said that WTO has huge potential for his company and implementation of China's commitments could radically improve his company's ability to operate. Another representative explained how expectations were somewhat mixed within his own company: "It should be positive, but our immediate expectations are not very high. The intentions are good, and the Chinese have made radical reforms. The desire is there on the part of the Chinese." Other U.S. companies noted a somewhat neutral reaction to China's early months of WTO membership. A representative of one U.S. multinational that has invested in China since the 1980s said that WTO has not improved matters much for his company. A service provider said his company has held off on optimistic expectations, because the results of implementation could be positive or negative depending on available opportunities to provide services in China and regulations forthcoming from the Chinese government. Another respondent expressed his company's skepticism as follows: "[Our company is] very concerned that China will do as they see fit, without regard to the WTO agreement." Other respondents referred to the uncertainty of doing business in China through observations that

- implementation would only extend as far as necessary in order to satisfy the international community,
- policies on paper often differ from actual practice,
- particular government agencies will make implementation difficult in China despite seeming to comply [with China's WTO commitments], and
- the pace of change and degree of compliance will likely be irregular.

Company representatives' open-ended comments regarding the challenges ahead generally focused on three common explanations for these anticipated challenges: China's ability to implement rule of law-related reforms, China's need to protect its domestic interests, and China's culture and its emphasis on relationships.

¹⁵ This section is based on open-ended comments that we received from U.S. company representatives in structured interviews in China as well as comments written in and attached to survey responses.

Rule of Law Challenges

Several company representatives explained why they believe that China will experience the greatest challenges in implementing its rule of law-related WTO commitments. One respondent to our survey characterized China's current "standard" approach to legislation as follows, "Pass a gray law, see how it goes, modify interpretation accordingly." Another respondent noted that "for rule of law issues, there isn't a structure in place and a structure won't be in place for a long time."

Several other company representatives whom we interviewed provided numerous examples to illustrate the difficulties anticipated with other rule of law-related reforms. Other explanations focused on the inherent barriers to transparency such as China's history and culture; the evolutionary nature of the issue (for example, several respondents said that transparency is not a common concept in China); and a tendency to draft regulations and procedures that are deliberately vague. One company representative reported that Chinese agencies are likely to provide conflicting answers to business inquiries. In addition, several companies also cited consistent application of laws as a potential difficulty. At the central government level, China is committed to implementing WTO, but all cities and provinces understand WTO differently, in the view of one U.S. corporate representative. According to another interview respondent, China is so big that even if there is a central government policy, the policy may still vary throughout the country at different levels of government.

Other company representatives cited reforms to enforcement of laws and regulations relating to intellectual property rights (IPR) as another area fraught with difficulty. Respondents noted that Chinese officials have enacted reforms resulting in overall improvements to IPR protection, but that challenges continue. One company provided a specific example of a current problem that is expected to continue: "Local companies copy our product and packaging, even though these companies are operated by the local governments. Trademark registration takes at least 6 to 8 months. Even if a company wins a copyright case, you can't get the government to enforce the copyright violation, so it's not worth the time and money expended on filing a case." IPR violations were also described by one company representative as a game embedded in China's culture. Several respondents predicted that IPR would remain a problem in the years to come, because the government will not risk destabilizing the labor force by enforcing IPR laws and regulations.

China's Need to Protect Its Domestic Interests

Company representatives also described the domestic challenges China faces in protecting its domestic interests while implementing WTO

commitments. Company representatives told us that they expected WTO reforms to be part of a long-term process, but they believed that the Chinese leadership is dedicated to living up to their WTO commitments. One individual noted that any change must be considered within the broader context of China's political and economic environment. In his words, "The final test will be how such change affects or impacts on domestic interests including the domestic economy and political interests and pressures." Several respondents referred to the balancing act that China faces as it implements reform and dismantles state-owned enterprises while still needing to protect the labor force and maintain economic stability. One company assessed the likely result by saying that while China may comply with the letter of its commitments, the process of reforming sectors populated by state-owned enterprises will be slow in order to protect those industries and to avoid displacing large numbers of workers. One individual said that China will not forgo domestic stability to meet WTO requirements and therefore, domestic firms will continue to be favored.

China's Culture and Its Effect on Business Relationships

A number of companies noted the need to remain attentive to cultural differences in doing business with China and their expectations that implementation will be a lengthy and gradual undertaking. Several corporate representatives mentioned the continued importance of personal relationships, known as "guanxi" in China. For example, one respondent noted that in China relationships are more important than policy and policy is more important than the rule of law. Another respondent echoed this theme and encouraged patience with the Chinese and their culture. Specifically, with reference to China's WTO commitments, he said, "Patience and understanding will reap rewards. China bashing will not."

Another company representative advised that although it might be necessary to apply pressure to ensure that Chinese officials adhere to WTO rules, it is important to do so in a manner that does not cause officials to lose face.

Concluding Observations

If implemented, China's commitments will open China's economy and reform its trading activities, thereby expanding U.S. companies' opportunities for investing in China and for exporting goods, agricultural products, and services to China. Understanding U.S. companies' expectations is fundamental for policymakers to judge the degree to which the benefits of China's WTO membership are being realized. As you have

requested, over the next several years we will continue to gather the views of the business community regarding China's implementation of its WTO commitments and report the results to you.

We are sending copies of this report to interested congressional committees. We will make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4128. Other GAO contacts and staff acknowledgments are listed in appendix VII.



Susan S. Westin
Managing Director
International Affairs and Trade

Objectives, Scope, and Methodology

The Chairman and the Ranking Minority Member of the Senate Finance Committee and the Chairman and the Ranking Minority Member of the House Committee on Ways and Means asked us to undertake a long-term body of work relating to China's membership in the World Trade Organization (WTO) and the monitoring and enforcement of China's commitments. This work includes examining through annual surveys, the experience of U.S. firms doing business in China. The 2002 GAO Survey of U.S. Companies on China-WTO Issues and related interviews discussed in this report provided an opportunity for us to assess business views and expectations for their work in China while also exploring methods for soliciting business views on an annual basis in the future. Our objectives for this initial preparatory survey were to assess U.S. businesses' (1) views about the importance of WTO-related commitments to their business operations in China, (2) views about the anticipated effects of China's WTO-related reforms on their businesses, and (3) opinions regarding China's prospects for implementing these reforms. To respond to our objectives, we mailed surveys to 551 selected chief executive officers (CEO) or presidents of U.S. companies with a presence in China; conducted structured interviews in China with representatives of 48 U.S. companies, two foreign-owned companies with operations in the United States and China, and representatives of two U.S. trade associations with representative offices in China; met with representatives of other U.S. business associations in China and the United States; and considered other surveys of U.S. businesses in China.¹⁶

Survey Development

We reviewed relevant documents related to China's WTO accession and implementation to understand the context for questions included in our survey. These documents included China's accession agreement, referred to as the *Protocol on the Accession of the People's Republic of China*. This is a set of legal documents totaling more than 800 pages that describes China's WTO commitments. It includes the protocol itself and the accompanying *Report of the Working Party on the Accession of China*. These documents describe how China will adhere to WTO principles and technical guidelines. Additionally, the agreement includes schedules for how and when China will grant market access to foreign goods and services, and several other annexes. We also consulted with high-level officials from several public and private sector agencies, organizations, and

¹⁶ Our summary of other surveys is included in appendix VI.

firms to obtain input on question development, survey administration, and prior surveys on related issues. Specifically, we refined our survey based on consultations with U.S. government agencies and offices including the Office of the U.S. Trade Representative, the Department of State, the Department of Commerce (International Trade Administration and Bureau of Economic Analysis), the Department of Agriculture, and the Congressional Research Service to discuss draft survey questions and methods of survey administration. In addition, we circulated the draft survey instrument among and sought comments from the following organizations: the American Chambers of Commerce in the People's Republic of China, the American Farm Bureau, the Coalition of Service Industries, the Emergency Committee for American Trade, the National Association of Manufacturers, the U.S. Chamber of Commerce, and the U.S.-China Business Council. Finally, we participated in a feedback session with representatives of three private sector firms with a presence in China prior to pretesting our draft survey instrument.¹⁷ We conducted telephone pretests with representatives of five U.S. firms with a presence in China, which resulted in additional refinements to the survey instrument.

In the survey, we asked U.S. businesses to identify their business activities in China based on 25 agriculture/manufacturing categories and 18 services categories. For both agriculture/manufacturing and services, businesses could also choose an "other" category that allowed them to write in a description of their business activities in China. The agriculture/manufacturing categories were based on the Department of Commerce's North American Industry Classification System. The services categories were based on the WTO's services classifications and the U.S. Bureau of Economic Analysis's services classifications used in its reports on services trade. The categories are shown in table 9 in appendix IV.

Sample Development

Preparation of the sample for the survey on China-WTO issues required multiple steps. Our target population was the population of U.S. companies with a presence in China. However, consultation with the agencies, organizations, and firms previously mentioned confirmed that a comprehensive list of U.S. companies with investments in China did not exist. Consequently, we collected membership directories from the American Chambers of Commerce in the People's Republic of China

¹⁷ For the purpose of this report, we defined "presence in China" to include all of the response items in survey question 2, as shown in appendix II.

(Beijing; Chengdu, Sichuan; Guangdong; and Shanghai) and contact lists of American companies in China from the Department of Commerce's U.S. & Foreign Commercial Service's (FCS) offices in Beijing, Chengdu, Guangzhou, Shanghai, and Shenyang. We selected the names of all U.S.-incorporated companies from these lists and entered them into a database. In cases where the nationality of incorporation was not identified, we obtained this information to the extent possible through searches of publicly available information and contacts with individual companies in the United States and China. We combined company names from these directories into a single list. A total of 3,139 company names was included in the database after we combined the names of U.S.-incorporated companies from these sources. We excluded companies located in the United States, but whose ultimate parents were incorporated outside the United States (for example, we excluded companies incorporated in the British Virgin Islands). A total of 1,945 company names remained in the database after completion of various automated steps to identify duplicate listings such as listings of multiple subsidiaries of the same parent company. Additional manual searching of the company names in the database and various business directories identified subsequent duplicate entries and further reduced the list to 1,695 company names. This list of 1,695 company names represented known U.S. companies registered with one of the five FCS offices and/or a member of one of the four American Chambers of Commerce in China with publicly available membership lists.¹⁸ We then selected a random sample of 1,000 company names from the combined list of 1,695 companies. We chose to select a sample of 1,000 companies based on the expectation that an unknown number of the 1,000 companies would be identified as subsidiaries of other parent companies in the sample, or subsidiaries of companies not incorporated in the United States, and/or would not have contact information that could be located using publicly available information and individual contacts with the companies.

We searched a variety of sources, including the Leadership Directories' Yellow Book, Nexis, and Internet search engines, in order to locate each company's parent company name in the United States and/or to confirm the nationality of incorporation, locate corporate headquarters' mailing addresses in the United States, identify the CEO or other most senior

¹⁸ Although this survey population may not be representative of all U.S. businesses established in China, we selected our sample from this population because it provided the best information available.

company officer's name, and locate telephone numbers for reminder telephone calls. We also searched corporate Web sites, called companies, and looked at other business directories to locate mailing addresses, contact names, and telephone numbers. This process resulted in a final mailing list of 551 active U.S. companies with a presence in China and parent companies incorporated in the United States. The disposition of the random sample of 1,000 U.S. company names (after completion of our search for corporate contact information) is outlined in table 7.

Table 7: Disposition of Random Sample of 1,000 U.S. Company Names

Disposition	Number
Random sample selected from population of 1,695 company names	1,000
Contact information could not be located	191
Parent company incorporated outside the United States	157
Company name identified as duplicate listing	71
Other (out of business, no longer invested in China, etc.)	21
Not a business (nonprofit organization, government organization, etc.)	9
Included in final mailing list	551

Source: GAO analysis of sample of 1,000 U.S. company names.

Survey Administration

We mailed the first copy of our survey in early March 2002. In early April 2002, we mailed a second copy of the survey to all companies from which we had not received a survey response. Telephone reminder calls to nonrespondents began on April 17, 2002, and continued through May 24, 2002. We mailed questionnaires to company CEOs and presidents at their headquarters offices in the United States, but a range of company officials in the United States and China, including managing directors, directors of international trade, and vice presidents, among others, completed the questionnaires.

U.S. Companies Responding and Not Responding to the Questionnaire

Of the sample of 551 U.S. companies with a presence in China that we surveyed, responses indicated that 505 were eligible for inclusion in the sample. We received 191 usable questionnaires from eligible companies, for an overall response rate of 38 percent (191 usable responses/505 eligible sampled elements=38 percent). Because of this low response rate, we restricted our analysis to the subset of firms that participated in our survey,

and we did not make estimates about the larger population of all U.S. businesses with a presence in China. The low response rate to the survey would threaten the validity of estimates made using these data, particularly if those not providing data were materially different from those who did provide data. As a result, the representativeness of weighted estimates for the population might be subject to significant bias. Because the survey results represent only responses received and are not projected to the population of U.S. companies with a presence in China, sampling errors have not been calculated. Therefore, we present survey results in this report in unweighted form, representing only those firms that participated in our study and that provided answers to the individual questions analyzed.

Other potential sources of errors associated with the questionnaires, such as question misinterpretation and question nonresponse, may be present. We included steps in the development of the questionnaire, the data collection, and data analysis to reduce possible nonsampling errors. Specifically, as previously discussed, we solicited feedback on a draft of the survey from numerous internal and external parties. We pretested the questionnaire with eligible representatives of U.S. companies with a presence in China to help ensure that our questions were interpreted correctly and that the respondents were willing to provide the information required. All nonrespondents received a follow-up copy of the survey and a follow-up telephone call. All data were double-keyed during entry. We performed computer analyses to identify inconsistencies or other indications of errors and had all computer analyses reviewed by a second independent analyst. The final disposition of the 551 surveys is presented in table 8.

Table 8: Final Disposition of GAO’s Company Survey Respondents

Disposition	Number	Percent of total
Usable response received	191	35
Nonrespondent	174	32
Refusal	140	25
Ineligible (parent company incorporated outside the United States, company no longer invested in China, company out of business, etc.)	26	5
Undeliverable (questionnaires returned due to inadequate address or no forwarding address)	20	4
Total number of surveys mailed	551	100

Note 1: We calculated the response rate as follows: (Usable responses received) / Number of surveys mailed – [(Ineligible) + (Undeliverable)] = Response rate. Therefore, 191/551- (26+20)=38 percent.

Note 2: Totals do not add up to 100 percent due to rounding error.

Source: GAO survey results.

Structured Interviews

We conducted structured interviews with representatives of 48 U.S. firms in Beijing, Guangzhou, Shanghai, and Shenzhen, China. These structured interviews gave us an opportunity to discuss survey responses in greater detail as well as to gain an understanding for the context of these responses, to determine whether responses to these questions varied between interview respondents in China and survey respondents based in the United States, to discuss the questions and survey administration issues with survey nonrespondents, and to obtain information from firms not included in the survey sample (including firms that did not appear in our random sample). Consequently, the firms that we interviewed included survey respondents and nonrespondents as well as companies not included in the mail survey sample. In addition to these criteria, our invitation list for the interview sessions also represented a broad cross section of the business sectors invested in China. We also interviewed representatives from two U.S. trade associations with offices in China in order to gain further insight into the possible range of business views. We discussed topics during the interviews that included the anticipated effects of China’s WTO membership, WTO compliance issues, and background issues to help us with our future work. Tabulations of the interview responses were independently verified.

Additional Limitations

All firms that we interviewed or surveyed were assured that their responses would remain confidential. In spite of this, due to the sensitive and/or proprietary nature of the topics discussed, it is possible that the data presented in this report reflect the views of respondents only to the extent to which they felt comfortable sharing them with an independent agency of the U.S. Congress. In addition, respondents had varied knowledge of China's WTO commitments and their application to their line of business.

We did our work in Washington, D.C., and in Beijing, Guangzhou, Shenzhen, and Shanghai, China. We performed our work from July 2001 to September 2002 in accordance with generally accepted government auditing standards.

GAO Survey of U.S. Companies on China-WTO Issues



U.S. General Accounting Office Survey of U.S. Companies on China-WTO Issues

INTRODUCTION

The United States General Accounting Office (GAO), an independent agency of Congress, has been asked by Congress to study China's World Trade Organization (WTO) commitments. As part of this work, we are surveying U.S. companies with business interests in China. In particular, this survey seeks to obtain U.S. business views on (1) reforms in China associated with implementing WTO commitments, (2) expectations for China's implementation of WTO commitments, and (3) anticipated changes to business opportunities resulting from China's WTO membership. Your responses will allow us to present meaningful information to Congress. This survey will serve as a foundation for future GAO efforts to advise Congress about the status of China's compliance in implementing its WTO commitments.

CONFIDENTIALITY

GAO will take steps to prevent the disclosure of individually identifiable data from this survey, unless compelled by law or required to do so by Congress. This includes precluding public disclosure of your responses consistent with GAO procedures on public availability of GAO records, 4 C.F.R. pt. 81. Survey results will be reported in summary form only. Any discussion of individual answers or comments will omit any information that could identify individual respondents.

DIRECTIONS

Most of the questions in the survey can be answered easily by checking the appropriate boxes, but we also welcome any written comments you would like to add to your

responses. Please answer the questions based on your company's experience in conducting business with China. The questionnaire should take about 20 minutes to complete. Please designate one person to have overall responsibility for completing and returning this questionnaire for your company and provide the following information so we can call or e-mail that person if additional information is necessary.

Name: _____

Title: _____

Company: _____

Phone: _____

E-mail: _____

Please return the completed survey within 2 weeks in the enclosed addressed, prepaid envelope. In the event the envelope is misplaced, our return address is:

U.S. General Accounting Office
Michelle Sager
301 Howard Street, Suite 1200
San Francisco, CA 94105-2252

Attn: China WTO Business Survey

If you would like to return the questionnaire by fax, please fax to: (202)-512-2550. If you have any questions about the survey or would like to receive this survey as an e-mail attachment, please contact Michelle Sager toll-free at 1-(866)-770-7318 or chinasurvey@gao.gov.

Thank you very much for your cooperation and assistance.

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1. Is your company a U.S. parent company, a subsidiary of a U.S. parent company, or a parent company incorporated outside the U.S.? *(Check one.)* N=196
 1. [155] U.S. parent company
 2. [31] Subsidiary of a U.S. parent company
Name of parent: _____
 3. [10] Parent company incorporated outside the U.S. →(END OF QUESTIONNAIRE, PLEASE RETURN QUESTIONNAIRE TO GAO)
2. What types of business relationships does your company currently have with China? *(Check all that apply.)* N=183
 1. [43] Agent/Distributor in China
 2. [93] Representative Office
 3. [27] Minority Equity Joint Venture
 4. [39] Majority Equity Joint Venture
 5. [16] Cooperative Joint Venture
 6. [26] Branch
 7. [69] Wholly-Owned Foreign Enterprise (WFOE)
 8. [8] Limited Liability Company
 9. [1] Company Limited by Shares
 10. [8] Other *(Please describe.)*
11. [5] None of the above →Go to Question 4
3. How long has your company engaged in a business relationship with China? *(Check one.)* N=183
 1. [7] Less than 2 years
 2. [37] From 2 to 5 years
 3. [57] From 6 to 9 years
 4. [58] From 10 to 20 years
 5. [24] More than 20 years
4. Does your company import from China, export to China, both import from and export to China, or neither import from nor export to China? *(Check one.)* N=189
 1. [13] Only import from China
 2. [48] Only export to China
 3. [82] Both import from and export to China
 4. [46] Neither import from nor export to China →Go to Question 6

5. How long has your company imported from or exported to China? *(Check one.)* N=189
 1. [3] Less than 2 years
 2. [31] From 2 to 5 years
 3. [36] From 6 to 9 years
 4. [56] From 10 to 20 years
 5. [17] More than 20 years
6. Approximately how many employees does your company have in the United States? *(Check one.)* N=190
 1. [34] Less than 100
 2. [13] From 100 to 249
 3. [14] From 250 to 499
 4. [17] From 500 to 999
 5. [56] From 1,000 to 9,999
 6. [22] From 10,000 to 25,000
 7. [34] More than 25,000
7. How many employees does your company have in China (including joint venture employees)? *(Check one.)* N=188
 1. [13] None
 2. [70] Less than 50
 3. [21] From 50 to 99
 4. [30] From 100 to 249
 5. [15] From 250 to 499
 6. [17] From 500 to 1,000
 7. [22] More than 1,000
8. How soon does your company expect to make a profit in China? *(Check one.)* N=186
 1. [114] Already profitable
 2. [51] Within 3 years
 3. [9] Within 4 to 5 years
 4. [0] Within 6 to 10 years
 5. [0] Within 10 years
 6. [0] 10 years or more
 7. [4] Never
 8. [8] Other *(Please describe.)*

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9. Which of the following categories describe your business activities with China? (*Check all that apply.*)
 N=188

Agriculture/Manufacturing

- 1. [6] Agriculture, forestry, fish, & hunting
- 2. [5] Food manufacturing
- 3. [4] Beverages & tobacco
- 4. [1] Mining products
- 5. [4] Primary metals
- 6. [6] Petroleum & coal
- 7. [17] Chemicals including pesticides, fertilizer, & pharmaceuticals
- 8. [9] Plastic, rubber, clay, & related products
- 9. [7] Wood & paper products
- 10. [5] Furniture & related products
- 11. [8] Textiles, apparel, accessories, & leather
- 12. [20] Machinery (except electronic)
- 13. [14] Computer & peripheral
- 14. [13] Communication equipment
- 15. [2] Audio & video equipment
- 16. [17] Semiconductor & other electronic components
- 17. [8] Navigational, measuring, medical, & other control instruments
- 18. [1] Manufacturing & reproducing magnetic & optical media
- 19. [15] Electronic equipment, household appliances & components
- 20. [8] Motor vehicles, including body & parts
- 21. [5] Aerospace products & parts
- 22. [4] Other transportation equipment
- 23. [8] Miscellaneous manufactured products (e.g., toys, jewelry, sporting goods)
- 24. [1] Products imported into the U.S. under special tariff provisions
- 25. [40] Other manufacturing/industrial (*Please specify.*)

Services

- 26. [5] Insurance
- 27. [5] Banking & all other financial services
- 28. [13] Business services
- 29. [18] Professional services (legal, accounting, medical, etc.)
- 30. [13] Computer, database, & related services
- 31. [2] Audiovisual services
- 32. [6] Telecommunication services
- 33. [3] Courier services
- 34. [4] Retail / Franchises
- 35. [7] Wholesale / Distribution
- 36. [7] Transport services
- 37. [5] Construction & related services
- 38. [3] Educational services
- 39. [2] Environmental services
- 40. [1] Health-related & social services
- 41. [2] Recreational, cultural, & sporting services
- 42. [5] Tourism and travel-related services
- 43. [23] Other (*Please specify.*)

10. Using the list of business activities shown above, please identify the one category, by number, that most closely describes your company's primary business with China. (*Enter number of primary business category from the list above.*) N=136

[Top five categories in order of frequency: 25, 7, 12, 29, 16]

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11. What impact do you expect that China's WTO commitments will have on your business, if any? *(Check one.)* N=190

- 1. [33] Very positive impact
- 2. [119] Positive impact
- 3. [28] Little or no impact
- 4. [5] Negative impact
- 5. [0] Very negative impact
-
- 6. [5] Don't know/No basis to judge

12. How soon do you expect you will begin to experience an overall business impact on your company, if any, from China's WTO commitments? *(Check one.)* N=168

- 1. [40] Immediately/ Has already occurred
- 2. [20] Less than one year
- 3. [56] From 1 to 2 years
- 4. [39] From 3 to 4 years
- 5. [4] From 5 to 6 years
- 6. [2] From 7 to 10 years
- 7. [0] More than 10 years
- 8. [7] Never, no effects expected
-
- 9. [20] Don't know/No basis to judge

13. To what extent, if any, do you believe that China's economic reforms during the past 5 years have improved the climate for U.S. businesses in China? *(Check one.)* N=191

- 1. [36] To a very great extent
- 2. [62] To a great extent
- 3. [56] To a moderate extent
- 4. [25] To some extent
- 5. [7] To little or no extent
-
- 6. [5] Don't know/No basis to judge

14. Currently, what are your company's goals in doing business with China? *(Check all that apply.)* N=191

- 1. [103] Establish a presence for the future in China
- 2. [76] Benefit from lower labor costs in China
- 3. [37] Benefit from foreign investment incentives in China
- 4. [36] Benefit from the cost or quality of raw materials in China
- 5. [35] Establish a regional base in China
- 6. [56] Expand a regional base in China
- 7. [43] Establish a distribution network in China
- 8. [44] Expand a distribution network in China
- 9. [79] Increase exports to China
- 10. [21] Other *(Please specify.)*

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15. For each of the items listed below, how will your company's activities be affected by the implementation of China's WTO commitments (increase or decrease in investments, exports, etc.)? (Check one box for each item.)

	Greatly increase (1)	Somewhat increase (2)	Stay about the same (3)	Somewhat decrease (4)	Greatly decrease (5)	Uncertain (6)	Not relevant (7)
1. Investment in new facilities in China N=180	19	55	61	1	2	14	28
2. Investment in existing facilities in China N=178	9	60	66	2	2	7	32
3. Geographic diversity of investments in China N=178	12	50	63	0	0	11	42
4. Ventures with Chinese partners N=181	14	45	45	10	10	22	35
5. Services provided in China N=178	31	76	40	0	0	7	24
6. Distribution of products in China N=174	29	82	23	0	0	6	34
7. Volume of exports to China N=177	18	81	24	4	0	10	40
8. Volume of exports from China N=171	18	60	29	1	0	10	53
9. Profits from China N=178	22	99	32	5	1	10	9
10. Number of agents or distributors in China N=178	13	65	50	4	1	9	36
11. Market share in China N=174	22	85	39	2	1	10	15
12. Competition from foreign or Chinese firms located in China N=177	40	63	34	12	1	15	12
13. Other (Please describe and rate activity.) N=11	3	1	1	0	0	1	5
SUMMARY:	24	119	25	0	1	9	
14. Overall business activities in China N=178							

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China's WTO commitments include a number of reforms to increase market access, liberalize foreign investment, enhance the rule of law, and make fundamental changes to continue the transition to a market economy. Please answer the following two questions for each of the WTO-related reforms China has committed to make that are listed in the grid below. *(Check one box for each item.)*

16. How important to your company is each WTO-related reform commitment listed below?

17. Based on your company's experience, how easy or difficult do you think each WTO-related reform commitment will be for the Chinese government to implement?

	Question 16 How important to your company?					Question 17 How easy or difficult for China to implement?				
	Important	Somewhat important	Not important	Don't know	Not applicable	Easy	Neither easy nor difficult	Difficult	Don't know	Not applicable
	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)
Tariff & nontariff trade restrictions (increased market access)										
1. Tariffs, fees, & charges Q16, N=183; Q17, N=170	101	46	11	5	20	43	35	44	40	8
2. Quotas Q16, N=178; Q17, N=169	35	32	51	12	48	28	27	36	47	31
3. Other quantitative import restrictions (licensing & tendering requirements) Q16, N=181; Q17, N=170	58	52	23	11	37	26	28	44	50	22
4. Standards, certification, registration, & testing requirements (product safety animal, plant, & health standards, etc.) Q16, N=180; Q17, N=166	59	52	27	8	34	19	31	60	41	15
5. Customs procedures & inspection practices Q16, N=180; Q17, N=170	78	53	19	5	25	26	44	56	34	10
6. Export restrictions Q16, N=180; Q17, N=171	47	35	43	6	49	32	47	20	45	27
7. Market access for services Q16, N=178; Q17, N=168	61	50	27	9	31	22	33	56	33	24
Investment-related measures (liberalized foreign investment)										
8. Government requirements stipulating minimum amount of production that must be exported Q16, N=180; Q17, N=172	33	40	46	10	51	38	34	25	44	31
9. Foreign exchange restrictions (including balancing & repatriation of profits) Q16, N=173; Q17, N=173	85	63	10	8	17	25	48	58	32	10
10. Technology transfer requirements Q16, N=181; Q17, N=171	60	49	26	9	37	20	37	46	45	23
11. Local content requirements Q16, N=177; Q17, N=169	42	53	29	10	43	28	40	33	41	27
12. Scope of business restrictions (types you can provide, customers you can do business with, number of transactions you can conduct, & where you can conduct business geographically) Q16, N=183; Q17, N=170	89	51	17	12	14	30	32	59	41	8
13. Restrictions on partnerships & joint ventures (choice of partner & equity limits) Q16, N=185; Q17, N=171	70	54	29	8	24	36	45	30	46	14
14. Establishment & employment requirements (capital, deposit, years in practice, threshold sales, forced investment, & nationality/residency requirements) Q16, N=184; Q17, N=171	67	65	26	9	17	32	51	32	45	11

(Continued on next page.)

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Fundamental market reforms										
15. Trading rights (ability to import & export) Q16, N=181; Q17, N=169	99	40	13	6	23	29	46	48	35	11
16. Number of products subject to state/designated trading Q16, N=177; Q17, N=168	36	40	38	22	41	22	40	29	50	27
17. Distribution rights Q16, N=179; Q17, N=164	73	40	23	12	31	20	43	45	40	16
18. Subsidies for Chinese firms Q16, N=179; Q17, N=166	41	48	37	17	36	20	29	54	41	22
19. Export subsidies Q16, N=178; Q17, N=163	31	38	49	14	46	22	30	32	50	29
20. Operation of state-owned enterprises Q16, N=177; Q17, N=167	48	50	35	16	28	11	17	79	40	20
21. Price controls including dual and discriminatory pricing Q16, N=177; Q17, N=162	60	43	28	13	33	13	34	49	44	22
22. Equal treatment in taxation Q16, N=181; Q17, N=170	83	51	17	11	19	20	44	54	41	11
23. Equal treatment for access to funding (loans & equity issues), supplies, & human resources Q16, N=181; Q17, N=169	67	51	29	9	25	16	45	50	41	17
Rule of law/Other										
24. Consistent application of laws, regulations, & practices (within & among national, provincial & local levels) Q16, N=186; Q17, N=174	132	38	4	8	4	11	14	116	28	5
25. Transparency of laws, regulations, & practices (publishing and making publicly available) Q16, N=185; Q17, N=175	129	40	3	8	5	16	23	105	27	4
26. Enforcement of contracts & judgments/Settlement of disputes in Chinese court system Q16, N=183; Q17, N=175	125	43	3	8	4	10	22	106	32	5
27. Independence of judicial bodies Q16, N=183; Q17, N=172	103	48	10	13	9	8	22	99	37	6
28. Equal treatment between Chinese & foreign entities under Chinese laws, regulations, & practices Q16, N=180; Q17, N=173	118	42	8	8	4	8	27	100	34	4
29. Intellectual Property Rights Q16, N=182; Q17, N=175	129	30	9	6	8	9	17	111	34	4
30. China's application of safeguards against U.S. exports (antidumping duties and other legal actions against surges in imports) Q16, N=178; Q17, N=165	48	50	35	13	32	12	38	45	51	19
31. Other (Please specify.) Q16, N=11; Q17, N=21	7	0	0	3	1	2	0	10	8	1

18. Using the list of China's WTO reform commitments shown above, please identify the three items that are most important to your company. (Write the numbers identifying the items in the boxes below in order of importance: 1st, 2nd, and 3rd.) N=164

[Note: Response shown includes items receiving the greatest number of responses for this question.]

1 st	2 nd	3 rd
24	29	1

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Please answer the following two questions for each of the Chinese locations listed in the grid below.

19. Does your company have a facility or other presence in this location? *(Check one box for each item.)*

20. Do you expect that reforms will be relatively difficult for the Chinese to implement in this location? *(Check one box for each item.)*

	Question 19 Does your company have a facility or other presence in this location?		Question 20 Do you anticipate that reforms will be relatively difficult for the Chinese to implement in this location?		
	Yes (1)	No (2)	Yes (1)	No (2)	Don't know (3)
North					
1. Beijing Q19, N=169; Q20, N=162	134	35	35	69	58
2. Tianjin Q19, N=136; Q20, N=120	42	94	16	35	69
3. Hebei Q19, N=115; Q20, N=102	13	102	15	12	75
4. Shanxi Q19, N=115; Q20, N=103	11	104	16	5	82
5. Inner Mongolia Q19, N=114; Q20, N=104	8	106	22	1	81
Northeast					
6. Liaoning (except Shenyang) Q19, N=114; Q20, N=102	11	103	16	10	76
7. Jilin Q19, N=114; Q20, N=102	12	102	18	4	80
8. Heilongjiang Q19, N=112; Q20, N=100	8	104	20	5	75
9. Shenyang Q19, N=119; Q20, N=105	24	95	18	11	76
East					
10. Shanghai Q19, N=169; Q20, N=157	134	35	24	84	49
11. Jiangsu Q19, N=118; Q20, N=108	25	93	12	23	73
12. Fujian Q19, N=120; Q20, N=107	25	95	14	22	71
13. Zhejiang Q19, N=113; Q20, N=103	16	97	13	18	72
14. Shandong Q19, N=120; Q20, N=107	23	97	17	16	74
15. Jiangxi Q19, N=113; Q20, N=101	8	105	16	7	78
16. Anhui Q19, N=113; Q20, N=101	10	103	18	5	78
South					
17. Guangdong Q19, N=147; Q20, N=131	80	67	19	50	62
18. Guangxi Q19, N=116; Q20, N=101	13	103	16	6	79
19. Hainan Q19, N=112; Q20, N=100	9	103	15	6	79
Central					
20. Henan Q19, N=109; Q20, N=97	8	101	18	5	74
21. Hubei Q19, N=116; Q20, N=102	17	99	16	8	78
22. Hunan Q19, N=112; Q20, N=97	10	102	16	5	76
Southwest					
23. Sichuan Q19, N=119; Q20, N=104	27	92	23	11	70
24. Chongqing Q19, N=117; Q20, N=104	16	101	16	14	74
25. Guizhou & Yunnan Q19, N=115; Q20, N=102	14	101	23	4	75
West					
26. Any Western province (Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, & Tibet) Q19, N=116; Q20, N=98	17	99	23	5	70

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21. Some reforms will have to be made by different levels of government. Based on your company's experience, how difficult or easy do you believe it will be to make the reforms at each of the levels of government listed below? (Check one box for each item.)

	Very easy (1)	Somewhat easy (2)	Neither easy nor difficult (3)	Somewhat difficult (4)	Very difficult (5)	Don't know (6)
1. National/Central level N=187	19	47	28	39	26	28
2. Provincial level N=186	2	23	32	69	27	33
3. Major cities (Beijing, Chongqing, Shanghai, Tianjin) N=186	11	46	41	54	6	28
4. Other cities, towns, or local level N=184	2	15	20	51	48	48
5. Autonomous regions (Guangxi, Inner Mongolia, Ningxia, Xinjiang, Tibet) N=186	1	7	10	34	45	89

22. How likely is your company to contact the following groups or individuals if your company encounters difficulties related to China's implementation of its WTO commitments? (Check one box for each item.)

	Very likely (1)	Some-what likely (2)	As likely as unlikely (3)	Some-what unlikely (4)	Very unlikely (5)	Don't know (6)
1. China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) N=183	33	45	26	20	35	24
2. MOFTEC WTO Center in Shanghai N=177	23	44	30	16	34	30
3. Other Chinese government agencies or officials (Please specify): N=165	39	27	19	13	21	46
4. Chinese consultants N=178	27	42	28	24	36	21
5. U.S. trade associations representing your company's interests N=183	48	52	24	18	22	19
6. U.S. Embassy or Consulate in China N=181	54	53	19	16	22	17
7. U.S. Trade Representative N=178	30	44	38	15	30	21
8. U.S. Department of Agriculture N=172	7	6	23	16	94	26
9. U.S. Department of Commerce N=179	24	41	38	17	36	23
10. U.S. Department of State N=178	16	25	37	19	53	28
11. U.S. Congress N=175	11	25	36	26	54	23
12. Other (Please specify): N=23	4	1	0	1	5	12

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23. Is your company providing or planning to provide assistance or training in the following areas to Chinese officials or businesses? (Check one box for each item.)

	Yes (1)	No (2)	Don't know (3)
1. General training in WTO rules and procedures N=180	16	137	27
2. General training in China's WTO commitments N=178	14	138	26
3. Protection of Intellectual Property Rights (IPR) N=179	44	107	28
4. Customs facilitation N=177	26	122	29
5. Revising laws & regulations to comply with WTO commitments N=179	16	134	29
6. Enforcement of contracts & judgments N=180	34	119	27
7. Ways to increase transparency N=182	27	128	27
8. Quota administration N=179	3	144	32
9. Testing certification N=180	27	124	29
10. Distribution rights N=180	18	129	33
11. Other (Please specify.) N=26	5	15	6

24. If your company has provided or is planning to provide assistance or training to Chinese officials or businesses, please describe the training in the space below and/or attach additional sheets describing the training.

Appendix II
GAO Survey of U.S. Companies on China-
WTO Issues

25. Is there anything else you would like to tell us regarding China's accession to the WTO, including any problems or concerns that China's WTO commitments do not address? *(Please attach additional sheets if necessary.)*

Thank you for your participation!

GAO Structured Interviews of U.S. Companies about China-WTO Issues



U.S. General Accounting Office Structured Interview
of U.S. Companies in China about China-WTO Issues

Questions

Q1) Currently, what are your company's operations in China? *(Skip if company responded to survey.)*

1. [3] Agent/Distributor in China
2. [20] Representative Office
3. [10] Minority Equity Joint Venture
4. [19] Majority Equity Joint Venture
5. [4] Cooperative Joint Venture
6. [10] Branch
7. [19] Wholly-Owned Foreign Enterprise (WOFE)
8. [1] Limited Liability Company
9. [0] Company Limited by Shares
10. [5] Other *(Please describe.)*

The effects of China's WTO membership

Q2) To what extent, if any, has China's official membership in the WTO changed your company's goals and expectations for future business opportunities in China?

1. [16] Great extent
2. [12] Moderate extent
3. [13] Little extent
4. [4] No extent
-
5. [1] No basis to judge
 →Please describe:

Q3) From your company's perspective, what are China's most important WTO commitments?
(Prompt from list.) Why?

Q4) From your company's perspective, are there particular WTO commitments that you expect to be relatively difficult to implement? *(Prompt from list.) Why?*

Q5) What impact do you expect that China's WTO commitments will have on your business, if any?

1. [12] Very positive impact
2. [23] Positive impact
3. [6] Little or no impact
4. [3] Negative impact
5. [1] Very negative impact
-
6. [1] Don't know/No basis to judge

Appendix III
GAO Structured Interviews of U.S.
Companies about China-WTO Issues

Q6) How soon do you expect you will begin to experience an overall business impact on your company, if any, from China's WTO commitments?

1. [20] Immediately/ Has already occurred
2. [4] Less than one year
3. [3] From 1 to 2 years
4. [9] From 3 to 4 years
5. [7] From 5 to 6 years
6. [2] From 7 to 10 years
7. [2] More than 10 years
8. [0] Never, no effects expected
-
9. [1] Don't know/No basis to judge

Q7) To what extent, if any, is your company's business strategy in China dependent on China's compliance with its WTO commitments?

1. [11] Great extent
2. [17] Moderate extent
3. [11] Little extent
4. [8] No extent
-
5. [1] No basis to judge

WTO implementation and compliance issues

Q8) From your company's perspective, in what areas have the Chinese successfully complied with their WTO commitments?

Q9) From your company's perspective, in what areas have the Chinese not complied with their WTO commitments?

Q10) Is your company involved in efforts to assist the Chinese in implementation of their WTO commitments (Prompt: formal and informal training by your company, U.S. or other governments, associations, non-profit organizations, etc.)?

1. [30] No
 2. [16] Yes
- If yes, please describe:

Q11) How, if at all, does your business track China's implementation of its WTO commitments (legislative and regulatory changes, practices, etc.)?

1. [21] Day-to-day experience of doing business in China
2. [16] Press reports
3. [22] Association reports
4. [18] Contacts with Chinese government officials
5. [7] Contacts with U.S. government officials
6. [14] Other (please describe):

**Appendix III
GAO Structured Interviews of U.S.
Companies about China-WTO Issues**

GAO's future compliance surveys

Q12) Do you feel that most U.S. businesses in China have a sufficient understanding of China's WTO commitments, as they relate to their own industries, to identify all potential compliance problems?

Q13) Who is the most knowledgeable respondent in your company for questions related to China's compliance with its WTO commitments?

1. [30] Self or other corporate representative in China
2. [4] Company's government affairs representative
3. [1] Company's CEO/President
4. [0] Respondent varies depending on question
5. [3] No single individual
6. [13] Other (please describe)

Q14) From your company's perspective, how concerned are you that reporting compliance problems with WTO commitments to the U.S. government might result in retaliatory action by Chinese government entities against your company?

Q15) Are there any tactics you would recommend to GAO to ensure that we receive candid responses from businesses in future surveys and interviews?

Q16) Do you have any suggestions to GAO for monitoring China's compliance with its WTO commitments?

Q17) For future compliance surveys, what is the most convenient format for you and others in your company?

Q18) Is there anything else you would like to tell us regarding China's accession to the WTO, including any problems or concerns that China's WTO commitments do not address?

Thank you very much for your cooperation and assistance.

**Appendix III
GAO Structured Interviews of U.S.
Companies about China-WTO Issues**

Categorization of commitment areas for questions 3 & 4:

Tariff & nontariff trade restrictions (increased market access)
1. Tariffs, fees, & charges
2. Quotas
3. Other quantitative import restrictions (licensing & tendering requirements)
4. Standards, certification, registration, & testing requirements (product safety, animal, plant, & health standards, etc.)
5. Customs procedures & inspection practices
6. Export restrictions
7. Market access for services
Investment-related measures (liberalized foreign investment)
8. Government requirements stipulating minimum amount of production that must be exported
9. Foreign exchange restrictions (including balancing & repatriation of profits)
10. Technology transfer requirements
11. Local content requirements
12. Scope of business restrictions (types you can provide, customers you can do business with, number of transactions you can conduct, & where you can conduct business geographically)
13. Restrictions on partnerships & joint ventures (choice of partner & equity limits)
14. Establishment & employment requirements (capital, deposit, years in practice, threshold sales, forced investment, & nationality/residency requirements)
Fundamental market reforms
15. Trading rights (ability to import & export)
16. Number of products subject to state/designated trading
17. Distribution rights
18. Subsidies for Chinese firms
19. Export subsidies
20. Operation of state-owned enterprises
21. Price controls including dual and discriminatory pricing
22. Equal treatment in taxation
23. Equal treatment for access to funding (loans & equity issues), supplies, & human resources
Rule of law
24. Consistent application of laws, regulations, & practices (within & among national, provincial & local levels)
25. Transparency of laws, regulations, & practices (publishing and making publicly available)
26. Enforcement of contracts & judgments/Settlement of disputes in Chinese court system
27. Independence of judicial bodies
28. Equal treatment between Chinese & foreign entities under Chinese laws, regulations, & practices
29. Intellectual Property Rights
30. China's application of safeguards against U.S. exports (antidumping duties and other legal actions against surges in imports)

Profile of Survey and Structured Interview Respondents

This appendix summarizes key items of interest from the survey and structured interview results in order to present a profile of the companies providing the data discussed in this report. We asked survey and structured interview respondents a series of questions to describe their business operations in China. Detailed results are also included in the reprinted survey and structured interview guide found in appendixes II and III.

Respondents Came from a Wide Range of Industries, Locations, and Types of Operations

The 191 respondents to our mail survey included companies from a wide range of industries, locations, and types of operations in China. For example, respondents included companies with business activities in all of the agriculture, manufacturing, and services categories listed in our survey. About 69 percent of respondents identified manufacturing as their primary business activity with China, while 25 percent of respondents identified services as their primary business activity with China. Only eight respondents (about six percent) identified agriculture as their primary business activity with China. Almost 60 percent of respondents were relatively specialized and identified only one category to describe their business activities with China. Conversely, about 20 percent of respondents selected two categories to describe their business activities in China, and another 18 percent of respondents selected three or more categories to describe their company's activities there. Table 9 displays the number of respondents included in individual categories to describe their business activities with China.

Appendix IV
Profile of Survey and Structured Interview
Respondents

Table 9: Survey Respondents' Business Activities with China

Business category	Number selecting to describe any business activity with China	Number selecting as primary business activity with China
Other manufacturing/industrial	40	31
Other services	23	6
Machinery (except electronic)	20	8
Professional services (legal, accounting, medical, etc.)	18	8
Chemicals including pesticides, fertilizer, & pharmaceuticals	17	8
Semiconductor & other electronic components	17	7
Electronic equipment, household appliances & components	15	2
Computer & peripheral	14	5
Communication equipment	13	3
Business services	13	5
Computer, database, & related services	13	4
Plastic, rubber, clay, & related products	9	2
Textiles, apparel, accessories, & leather	8	3
Navigational, measuring, medical, & other control instruments	8	3
Motor vehicles, including body & parts	8	5
Miscellaneous manufactured products	8	4
Wood & paper products	7	2
Wholesale / Distribution	7	1
Transport services	7	1
Agriculture, forestry, fish, & hunting	6	4
Petroleum & coal	6	4
Telecommunication services	6	0
Food manufacturing	5	1
Furniture & related products	5	1
Aerospace products & parts	5	1
Insurance	5	2
Banking & all other financial services	5	4
Construction & related services	5	0
Tourism and travel-related services	5	1
Beverages & tobacco	4	3
Primary metals	4	1
Other transportation equipment	4	1
Retail / Franchises	4	1
Courier services	3	0

**Appendix IV
Profile of Survey and Structured Interview
Respondents**

(Continued From Previous Page)

Business category	Number selecting to describe any business activity with China	Number selecting as primary business activity with China
Educational services	3	0
Audio & video equipment	2	1
Audiovisual services	2	0
Environmental services	2	0
Recreational, cultural, & sporting services	2	0
Mining products	1	1
Manufacturing & reproducing magnetic & optical media	1	0
Products imported into the U.S. under special tariff provisions	1	1
Health-related & social services	1	1

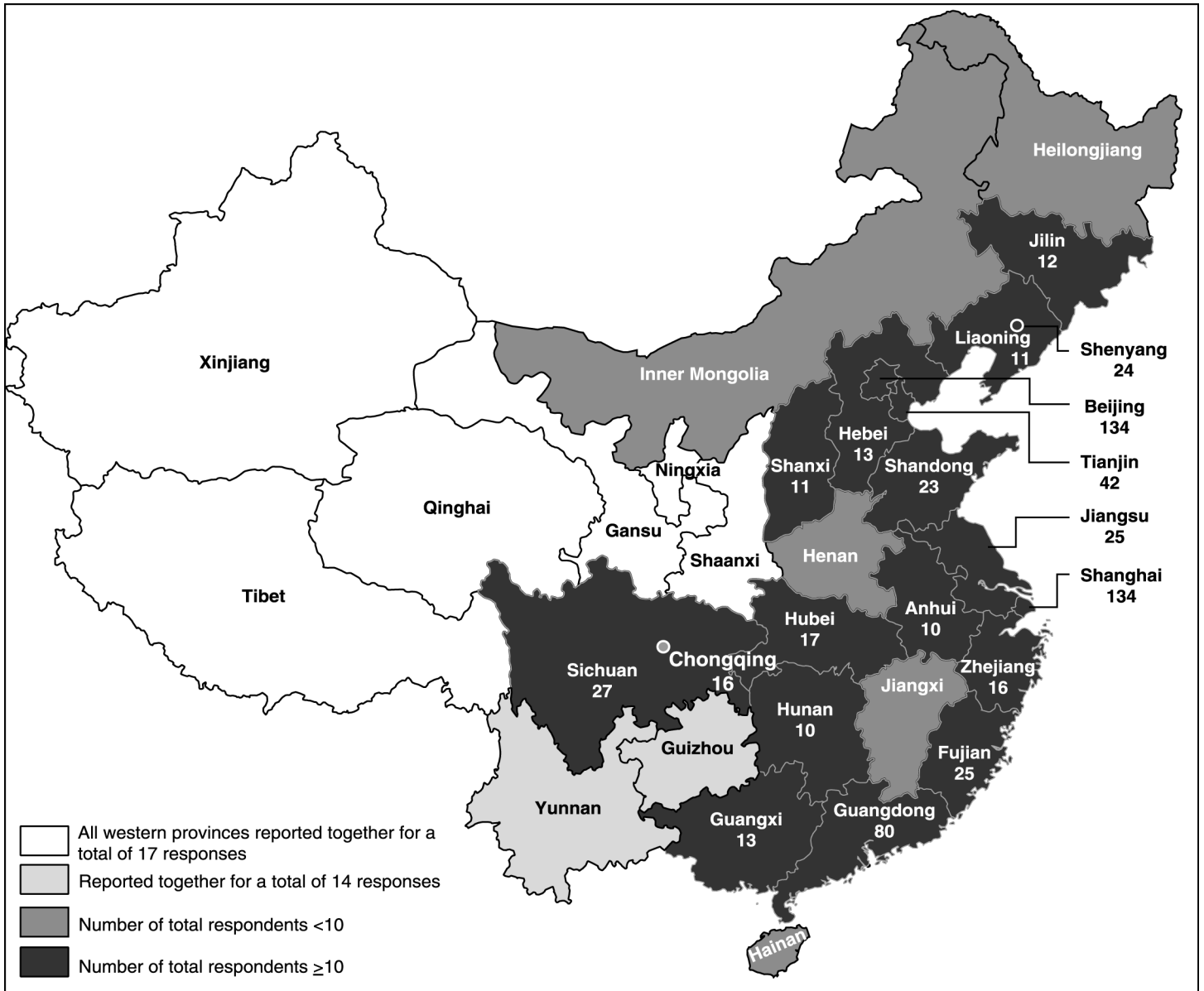
Note: Of the 191 survey respondents, 188 selected at least one business category to describe any of their company's business activities with China. Numbers do not add to 191 because respondents could select more than one business category for question 9. For question 10, 136 survey respondents selected a business category to describe their primary business activities with China.

Source: GAO Survey of U.S. companies on China-WTO issues, questions 9 and 10.

Respondents reported that they carry out these business activities in facilities and offices across all of China. Beijing, Shanghai, and Guangdong were the most frequent responses to the question of where companies had a facility or other presence among all of the Chinese locations listed in our survey (listed in order of frequency of responses). In fact, only a few respondents (less than five) did not have a facility or other presence in Beijing, Guangdong, or Shanghai. About 46 percent of respondents had a facility or other presence in one or more of these three locations, while another 45 percent were located in Beijing, Shanghai, and/or Guangdong plus one or more other locations. Figure 5 shows the number of companies that reported having a facility or other presence in each location in China listed in our survey.

Appendix IV
 Profile of Survey and Structured Interview
 Respondents

Figure 5: Location of Facilities or Other Presence of Survey Respondents



Note: Respondents could select multiple locations.

Source: GAO survey of U.S. companies on China-WTO issues, question 19.

Respondents Conduct Business through Variety of Business Relationships

Survey and structured interview respondents reported that they engage in a range of business relationships in their many locations throughout China. More than 50 percent of the respondents had one type of business relationship, about 25 percent had two types of business relationships, and more than 10 percent of the respondents reported three or more types of business relationships there. Representative offices, joint ventures, wholly owned foreign enterprises, and agents/distributors were the most frequently reported types of business relationships, respectively. Table 10 provides a description of each type of business relationship. Figure 6 displays the number of survey and structured interview respondents that reported each type of business relationship.

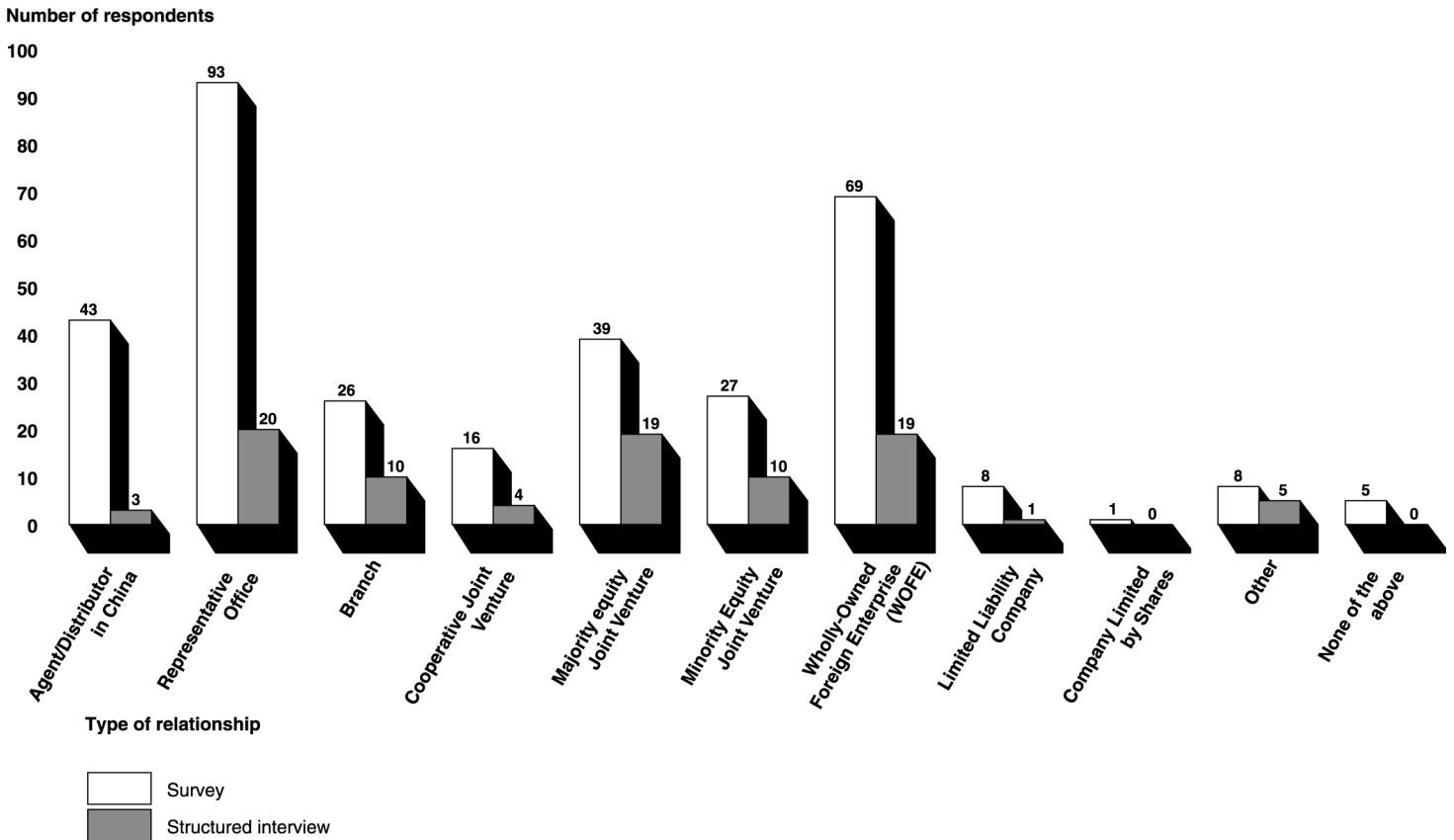
Table 10: Survey and Structured Interview Respondents' Types of Business Relationships in China

Type of business relationship	Definition
Agent/distributor in China	Handles internal distribution and marketing/representation of products in China.
Representative office	Easiest type of offices for foreign firms to set up in China to perform "liaison" activities. Most cannot sign sales contracts, directly bill customers, or supply parts and after-sales services for a fee.
Branch office	Can engage in production and business activities. Used to develop networks and explore investment opportunities in China.
Joint venture	Partnership between Chinese and foreign entities. In an equity joint venture, all parties contribute capital, operate the venture, and share in the risks, profits, and losses in proportion to their equity investment. Contractual, or cooperative, joint ventures do not require equity participation by all parties. However, a contract between the partners sets forth the terms of the partnership, including the proportions in which products, revenue, and profits are distributed.
Wholly owned foreign enterprise	Maintains maximum operating independence from Chinese participation. Can fully access all corporate resources and technology from the parent company and more effectively protect their technologies. Venture is wholly owned by foreign investors.
Limited liability company	Generally refers to a business structure where investors share the risks, profits, and losses jointly and in proportion to the amount of investment. The registered capital of the venture is not divided into shares, but is instead accounted for by capital contribution certificates, which cannot be traded on exchanges.
Company limited by shares	Also known as a foreign-invested stock/share company. Refers to an enterprise that divides all capital into equal shares, which are distributed to shareholders in proportion to the amount of their investment. The shares may be traded on exchanges.

Note: Types of business relationships as shown in the GAO survey and structured interview guide of U.S. companies on China-WTO issues in appendixes II and III.

Source: U.S. Department of Commerce; Ministry of Foreign Trade and Economic Cooperation, People's Republic of China; International Monetary Fund; and Organization for Economic Co-operation and Development.

Figure 6: Number and Types of Survey and Structured Interview Respondents' Business Relationships in China



Note: Respondents could select all business relationships that applied.

Sources: GAO survey of U.S. companies on China-WTO issues, question 2; and GAO structured interviews of U.S. companies about China-WTO issues, question 1.

More than 40 percent of the survey respondents reported that their companies both imported from and exported to China as part of these business relationships. More than one quarter of the respondents reported that they only exported to China. Almost one quarter of the respondents reported that they neither import from nor export to China. Companies that neither import from nor export to China include businesses operating representative offices and service providers, among others.

Size and Experience of Respondents Vary

Survey respondents also varied with respect to the number of employees in the United States, the number of employees in China, and the length of time that their companies had engaged in business relationships with China. Large companies, those with 500 or more employees in the United States, accounted for about 60 percent of the respondents. In contrast, only 20 percent of the respondents reported having more than 500 employees (including joint venture employees) in China.

Table 11: Survey Respondents' Years in China, by Company Size

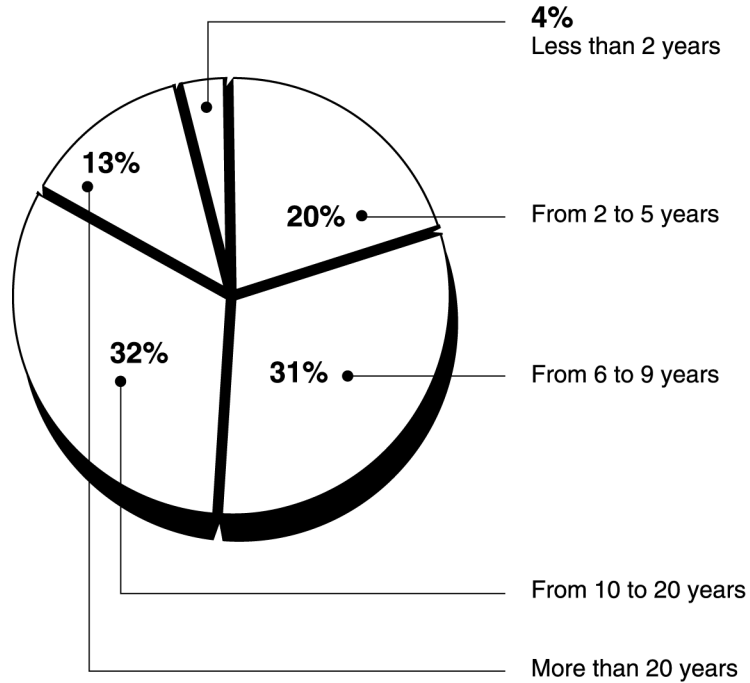
Years in China	Small- & medium-sized enterprises		Large companies	
	Number	Percent	Number	Percent
0 to 5 years	22	39	22	17
6 to 9 years	18	32	39	31
10 years or more	17	30	66	52

Note: Percentages are based on the 184 respondents who identified their company's number of years in China and number of employees in the United States (survey questions 3 and 6). Therefore, these percentages do not include respondents who did not provide an answer to either question 3 or 6. Appendix II provides a breakdown of these responses. Totals may not equal 100 percent due to rounding errors.

Source: GAO survey of U.S. companies on China-WTO issues, questions 3 and 6.

Respondents to our survey had a strong base of experience to draw on as they answered our questionnaire. Respondents reported business relationships with China ranging from less than 2 years to more than 20 years, with 6 to 9 years and 10 to 20 years as the most frequent responses. Most of the respondents had engaged in a business relationship with China for more than 5 years. In fact, more than half of large company respondents had been in China more than 10 years. Smaller companies that responded to our survey had generally maintained a presence in China for fewer years than large companies. Figure 7 shows the length of time that survey respondents had engaged in a business relationship with China.

Figure 7: Length of Time That Survey Respondents Had Been in Business Relationship with China



Note: The number of survey respondents was 188.

Source: GAO survey of U.S. companies on China-WTO issues, question 3.

Companies with a longer history in China and agriculture/manufacturing firms reported that they were already profitable more frequently than companies with a shorter history in China or firms whose primary business activity in China focused on services. Specifically, for companies engaged in a business relationship with China for 6 to more than 20 years, about 72 percent of them reported that they were already profitable. Among companies engaged in a business relationship with China for 5 years or less, only about 43 percent of them reported that they were already profitable. Overall, about 66 percent of respondents engaged in agriculture/manufacturing reported that they were already profitable compared to less than 50 percent of the respondents only engaged in services activities.

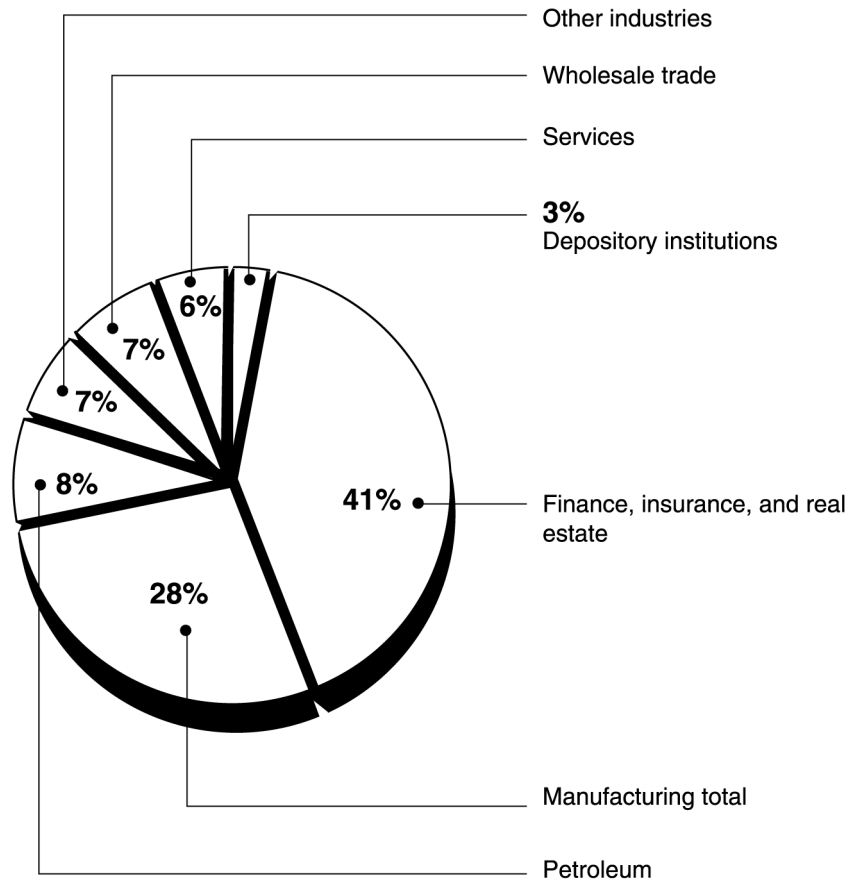
Profile of U.S. Investment and Trade with China

U.S. investment and trade with China have grown significantly over the past decade. U.S. companies have increased their presence in China through manufacturing and service operations, and both exports and imports of goods and services have risen dramatically, including those of small- and medium-sized companies. In addition, many U.S. companies have integrated operations in which trade occurs with their affiliates in China.

U.S. Investment in China

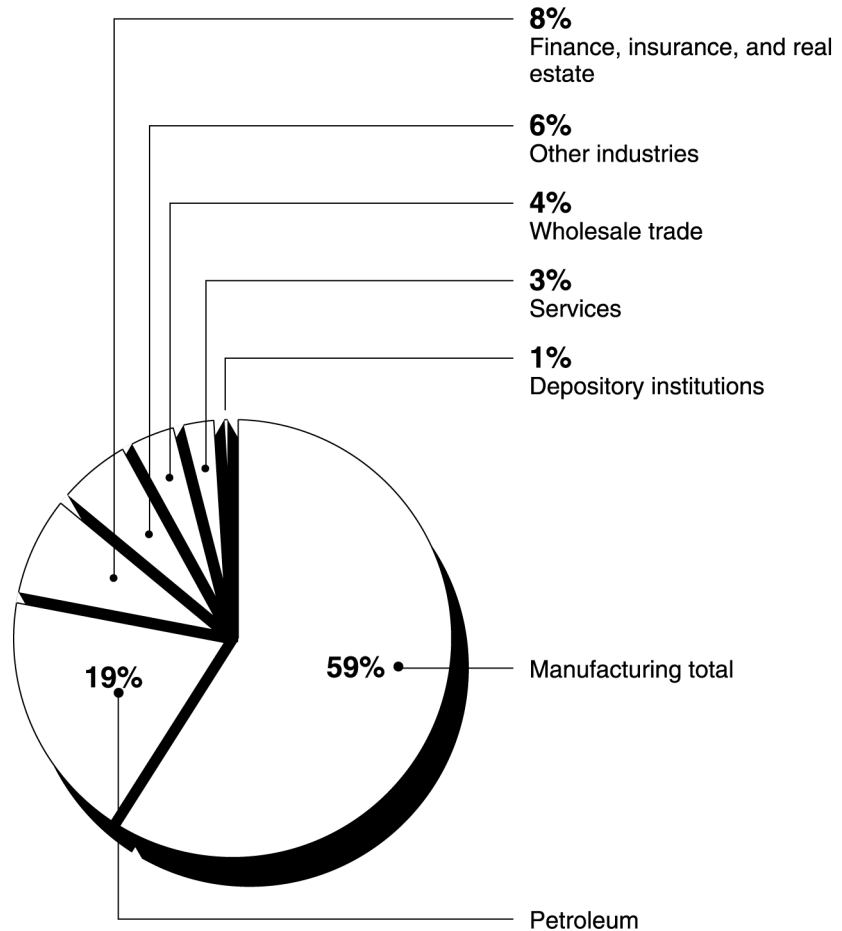
Total U.S. direct investment in China reached nearly \$10 billion in 2000, according to the U.S. Department of Commerce (on a historical-cost basis), making the United States the second largest source of foreign direct investment in China. This amount represents nearly 27 times the amount of U.S. foreign direct investment in China in 1990. U.S. investment in China followed a different pattern from overall U.S. investment worldwide. Figures 8 and 9 show the percentages of foreign investment worldwide and U.S. foreign direct investment by industry sector in China in 2000. The largest portion of worldwide U.S. direct investment abroad went to finance, insurance, and real estate, which accounted for 40 percent of total U.S. investment abroad. However, in China, finance, insurance, and real estate accounted for less than 10 percent of U.S. investment in 2000. In China, the largest portion of U.S. foreign direct investment went to manufacturing, which accounted for almost 60 percent of investment. Globally, manufacturing accounted for less than 30 percent of U.S. investment in 2000. This difference reflects China's foreign direct investment policy, which aimed at guiding direct investment into targeted industries in accordance with China's economic and industrial development strategy. The targeted economic sectors include infrastructure (such as roads) and high-technology industries.

Figure 8: U.S. Foreign Direct Investment Worldwide, 2000



Source: GAO analysis of Bureau of Economic Analysis *Survey of Current Business*, 2000.

Figure 9: U.S. Foreign Direct Investment in China, 2000



Source: GAO analysis of Bureau of Economic Analysis *Survey of Current Business*, 2000.

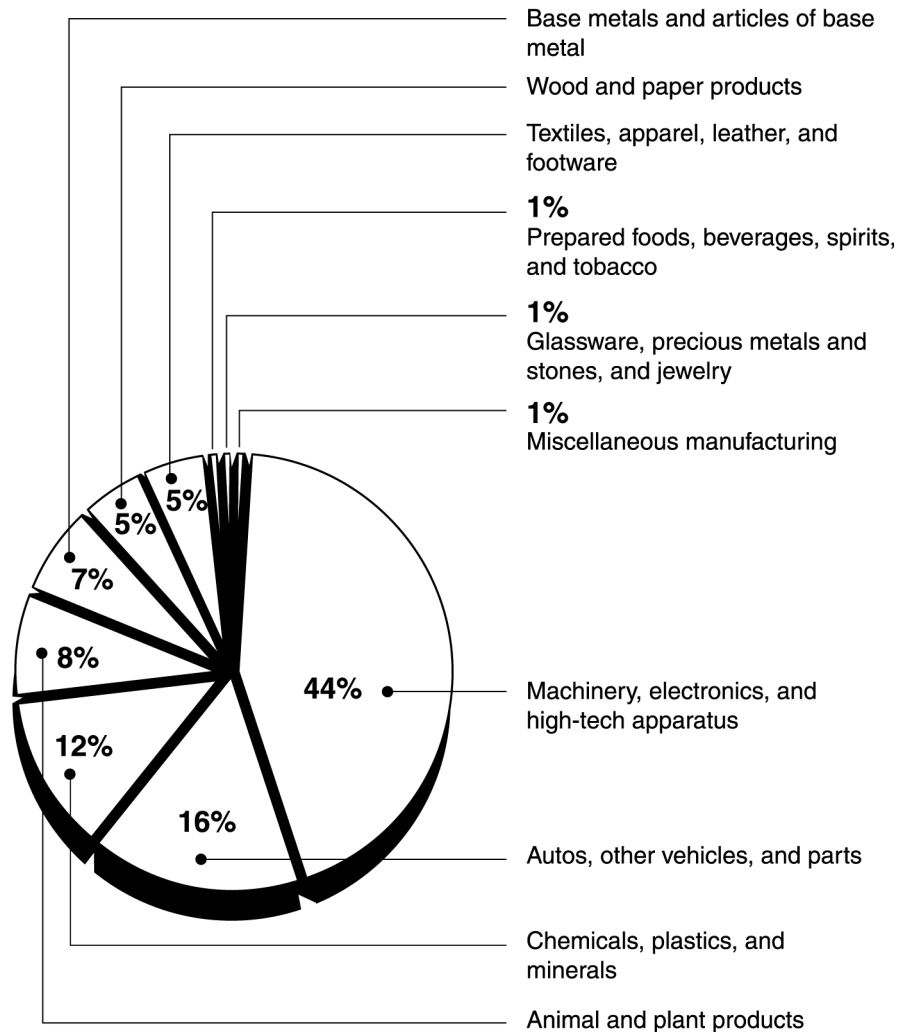
U.S. Trade with China

U.S. exports of goods and services have also grown significantly over the past decade. In terms of trade in goods, U.S. exports totaled almost \$18 billion in 2001, making China the ninth largest market for U.S. goods. The United States was also the top export destination for China in 2001, as \$102 billion in goods from China were imported here. As a result of this difference between exports and imports, the United States has had a trade deficit in goods with China since 1983. In terms of exports, U.S. small- and medium-sized companies accounted for a growing share of companies that export to China. In 1999, about 83 percent of companies that exported to

China were small- and medium-sized firms compared to about 77 percent in 1992, according to the U.S. Department of Commerce. In addition, the value of these exports to China rose 85 percent from 1992 to 1999. Nonetheless, large firms still accounted for more than 70 percent of total U.S. exports to China in 1999.

U.S. exports to China include products such as transport equipment, electrical machinery, office machines, oilseeds, and fruits. Figure 10 shows the distribution of U.S. exports to China in 2001 by broad industrial groupings. This distribution of U.S. exports to China is very similar to the distribution of U.S. exports to the world overall. For example, machinery, electronics, and high-tech apparatus; auto vehicles, other vehicles, and parts; and chemicals, plastics, and minerals were the three major exporting sectors, both worldwide and to China in 2001.

Figure 10: U.S. Exports to China, 2001



Note: Industrial categories are based on aggregate groupings of the international harmonized system used to classify imports and exports (see appendix I for more information on these categories).

Source: GAO analysis of U.S. Department of Commerce official trade statistics.

U.S. private services exports to China have also grown over the past decade, rising from \$1.6 billion in 1992 to \$4.6 billion in 2000, according to the U.S. Department of Commerce. The United States maintains a services trade surplus with China, importing about \$2.8 billion in services from China in 2000. China is currently a relatively small market for U.S. services

exports, making up less than 2 percent of total U.S. services exports in 2000.

For some multinational companies, investment and trade with China are integrated. Companies may establish a presence in China through foreign direct investment in order to supply goods and services to the Chinese market or to produce products in China for export. In 1999, the most recent year available for such data, U.S. businesses exported about \$3 billion in goods to their affiliates in China, according to the U.S. Department of Commerce. This accounted for nearly one quarter of total U.S. exports to China in that year. In addition, U.S. parent companies sold nearly \$500 million in services to their affiliated companies in China, accounting for about 10 percent of total U.S. cross-border sales of services to China in 2000. In order to supply services abroad, companies can either provide the service from the United States (cross-border trade) or establish affiliates in foreign countries to supply the foreign markets directly. In the case of China, U.S. businesses provided about \$1.7 billion in services through local affiliates in 1999. This is more than double the amount provided in 1998 (\$800 million) and has grown annually since 1993, the first year for which these figures were available.¹⁹

¹⁹ Worldwide, U.S. companies' provision of services through a local affiliate has surpassed provision of services through cross-border trade since 1996.

Summary of Other Business Surveys of U.S. Companies in China

We identified and reviewed similar surveys that other organizations had conducted of U.S. companies in China to help us develop our own questionnaire and to increase our understanding of issues of interest to companies doing business in China. These surveys, administered between 1998 and 2001, were sponsored by U.S. government agencies, professional associations, and consulting firms and had response rates ranging from just under 5 percent to just under 30 percent. Table 12 summarizes the surveys we reviewed in terms of their sponsors, populations, response rates, key survey topics, WTO-related findings, and other relevant factors.

Table 12: Recent Surveys of Companies with a Presence in China on WTO-Related Issues

Survey	Sponsor	Administration date	Survey population	Response rate information	Main survey topics	Questions relevant to GAO survey
(1) Survey of U.S. Business in China	U.S. Embassy-Beijing, with assistance from Gallup China	December 1998	Members of the Beijing American Chamber of Commerce and U.S. companies in China identified by FCS	The methodology section stated that 286 responses were received and that the sample consisted of 1,025 firms in China. This implies that the response rate was about 28%	<ul style="list-style-type: none"> • Company profiles • Imports and exports to China • Reasons for entering the China market • Contractual obligations • Dispute resolution • Profitability • Growth and development • Business outlook/expectations • Relations with government agencies 	The majority of respondents rated the lack of transparency of laws and regulations, the cost of doing business, customs procedures, and foreign exchange rate risks as worse than expected. About three quarters of the respondents said they planned to expand their Chinese operations during the next 5 years. Around 40% reported they were not profitable.

**Appendix VI
Summary of Other Business Surveys of U.S.
Companies in China**

(Continued From Previous Page)

Survey	Sponsor	Administration date	Survey population	Response rate information	Main survey topics	Questions relevant to GAO survey
(2) WTO Compliance Assessment Mission to China: May 2000 Trip Report	Department of Commerce with some American Chamber of Commerce assistance	May 2000	U.S. companies in China on the American Chamber of Commerce's and U.S.-China Business Council's lists	The report stated that the survey was sent to about 400 companies. The FCS official responsible for the survey told us that about 60 companies responded. This implies that the response rate was about 15%.	<ul style="list-style-type: none"> • Expected difficulty with China's WTO obligations • USG compliance assistance priorities/ monitoring problems • Concerns with retaliation for reporting WTO problems • Understanding of WTO obligations • WTO training 	<p>Respondents were concerned about China's ability to enforce obligations consistently throughout the country. Corruption, local/provincial implementation, IPR, and transparency were also viewed as major problems. The majority of respondents recommended that the USG establish a compliance team in China and educate the Chinese government. The majority of respondents reported that they did not understand the WTO obligations for their sector. About two thirds of respondents reported that they needed WTO training. About half of the respondents reported that they feared retaliation if they reported WTO problems.</p>

**Appendix VI
Summary of Other Business Surveys of U.S.
Companies in China**

(Continued From Previous Page)

Survey	Sponsor	Administration date	Survey population	Response rate information	Main survey topics	Questions relevant to GAO survey
(3) American Chamber of Commerce Annual Membership Survey (key findings reported in the 2002 <i>White Paper: American Business in China</i>)	Beijing American Chamber of Commerce	2001	Member companies of the Beijing American Chamber of Commerce	The report stated that 172 member companies responded to the American Chamber of Commerce annual survey. Earlier, the report noted that the Beijing American Chamber of Commerce has more than 750 member companies. If those 750 members constituted the survey sample, the response rate would have been around 23%.	<ul style="list-style-type: none"> • Impact of the global economic slowdown • American Chamber of Commerce members' China operations • Challenges in China's business and legal environment • China's 5-year business outlook 	About two-thirds or more of the respondents were negatively affected by China's weak transparency requirements, bureaucracy, weak enforcement of laws, restrictions on businesses, and protectionism. Increased transparency was viewed as the major anticipated effect of China's WTO entry. More than three quarters of the respondents expect WTO membership to have a positive impact on their company's growth. More than three quarters of the respondents said their 5-year business plans were sensitive to WTO implementation. More than three quarters of the respondents were concerned that the WTO agreement will be ignored, that new regulations will counter WTO, and that there will be increased protectionism.

**Appendix VI
Summary of Other Business Surveys of U.S.
Companies in China**

(Continued From Previous Page)

Survey	Sponsor	Administration date	Survey population	Response rate information	Main survey topics	Questions relevant to GAO survey
(4) China 21 st Century WTO Foreign Investment Into China: Fitness Survey	Deloitte-Touche Tomatsu	October 2001	Subscribers to CFO Asia Magazine, CFO US Magazine, and a China-specific newsletter. European executives were also surveyed in Europe. (Some respondents had a presence in China at the time of the survey, while others did not.)	There were 680 respondents to this survey. A Deloitte-Touche Tomatsu representative informed us that the response rate was 4%.	<ul style="list-style-type: none"> • Investment and return in China • Operating in post-WTO China • Financing challenges • Restructuring to benefit from WTO • Human capital challenges • Fitness and preparation for WTO challenges 	Almost 90% of respondents in China reported that the importance of the Chinese market will increase as a result of WTO entry. About two-thirds of these respondents expected to expand existing product/enterprise lines in China. China's implementation of WTO commitments, regulatory environment, and distribution infrastructure were concerns for most respondents. More than two-thirds of respondents also cited increased competition from foreign competitors as a concern. Fraud / piracy, loss due to problems with receivables, political upheaval, and foreign exchange volatility were viewed as potential problems by about one-third of respondents. Only 10% of respondents in China reported that they had a great deal of familiarity with China's WTO commitments. However, almost two-thirds of respondents in China have a certain amount of familiarity.

Note: USG = U.S. government.

CFO = Chief financial officer.

Source: GAO analysis of various surveys.

These surveys cannot be directly compared to our survey, because they were administered at different points in time to different populations and asked different questions. All of the surveys discussed here addressed issues that overlapped with the items considered in our survey. However,

some of them had very different purposes than our survey. In addition, all of the other surveys had low response rates, which raises major questions about generalizing their results to the full populations from which the samples were drawn.

Nevertheless, we found that, at a very broad level – such as basic expectations about WTO – there were some similarities between the responses to the other surveys and the responses to our survey. Furthermore, the results of these surveys can sometimes provide further insights into the results that we obtained. For example, we asked a question about profitability, as did several of the other surveys. Our question asked how soon firms expected to be profitable. Other surveys asked about the profitability of investments and improvements in operating margins. While all of these questions probed the same issue, the way in which the questions were asked and the response options all differed; therefore, reporting on the other surveys' results allows for some additional insights and perspectives. The sections that follow describe some of the main findings from these surveys in order to provide some context for our survey.

Effects of China's WTO Membership

Respondents to the other surveys were generally positive about the effects of China's WTO entry. For example, more than three quarters of the respondents to the 2001 American Chamber of Commerce annual membership survey expected China's WTO entry to have a positive impact on their companies. Respondents viewed the major positive impacts as increased transparency (85 percent), increased business scope (81 percent), and increased investment options (66 percent). Almost 90 percent of the China-based respondents to the 2001 Deloitte-Touche Tomatsu survey reported that the importance of the Chinese market will likely increase in the 3 years after China's WTO entry. Almost two-thirds of these respondents expected their companies to expand existing product or enterprise lines in China.

Challenges of Doing Business in China

There are many difficulties with doing business in China, according to respondents to the other surveys. For example, almost two-thirds of the respondents to the 1998 U.S. Embassy Survey reported that problems with transparency were worse or much worse than they had expected. More than half of the respondents to this survey also reported that the cost of doing business, the problems with customs procedures, and the risks

encountered in dealing with foreign exchange rates were worse than they had expected. Almost half of the respondents reported that protectionism, the enforcement of regulations, and intellectual property rights (IPR) protection were worse than expected. Similarly, at least two-thirds of the respondents to the 2001 American Chamber of Commerce annual membership survey indicated that transparency, bureaucracy, weak enforcement of laws, business scope restrictions, and protectionism negatively affected their companies.

Potential Compliance Problems

The other surveys also listed a number of potential compliance problems. More than two-thirds of the respondents to the May 2000 Department of Commerce survey foresaw difficulties with China's ability to develop a WTO-compliant legal framework and enforce the obligations consistently throughout the country. About half of these respondents expected difficulties with or due to corruption, local/provincial implementation, IPR, transparency in practices, and/or transparency in regulations. More than three quarters of the respondents to the 2001 American Chamber of Commerce annual membership survey were concerned or very concerned that China's WTO agreement will be ignored, that new regulations will be enacted to counter WTO commitments, and that there will be increased protectionism by the Chinese government. China's implementation of its WTO commitments was a concern for most respondents (about 90 percent) to the 2001 Deloitte-Touche Tomatsu survey.

The 2000 Department of Commerce survey asked a question on concerns about potential retaliation for reporting compliance problems to the U.S. government. About half of the survey respondents reported that they feared retaliation if they reported WTO compliance problems to U.S. government officials.

Profitability

Questions about profitability generally yielded results similar to those obtained in response to our survey. Almost 60 percent of the respondents to the 1998 U.S. Embassy Survey reported that they were already profitable. Slightly more than 50 percent indicated that they had attained a return on their investment. About 50 percent of the respondents to the 2001 American Chamber of Commerce annual membership survey reported that their operating margins had improved either "substantially" or "somewhat" from 2000 to 2001, while about 25 percent of respondents reported that their operating margins had deteriorated either "substantially" or

“somewhat” over the same time period. About 50 percent of the respondents to the 2001 Deloitte-Touche Tomatsu survey expected their investments to be profitable in less than 3 years, while slightly less than 33 percent expected investments to be profitable in about 3 to 4 years.

Familiarity with China’s WTO Commitments

Two of the other surveys asked questions about respondents’ familiarity with China’s WTO commitments. Almost 66 percent of respondents to the 2000 Department of Commerce survey reported that at the time they did not understand the WTO obligations for their sector. Only about 10 percent of respondents to the 2001 Deloitte-Touche Tomatsu survey that were located in China reported that they were familiar with China’s commitments to a “great extent.” Sixty-four percent reported that they were familiar to a certain extent, while 25 percent reported that they had very little familiarity. The area in which respondents already in China most wanted to increase their familiarity was in taxation and customs commitments (74 percent), followed by marketing and distribution (59 percent), IPR and financial services (38 percent), technology transfer (33 percent), labor and benefits (31 percent), and venture capital investment (28 percent).

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