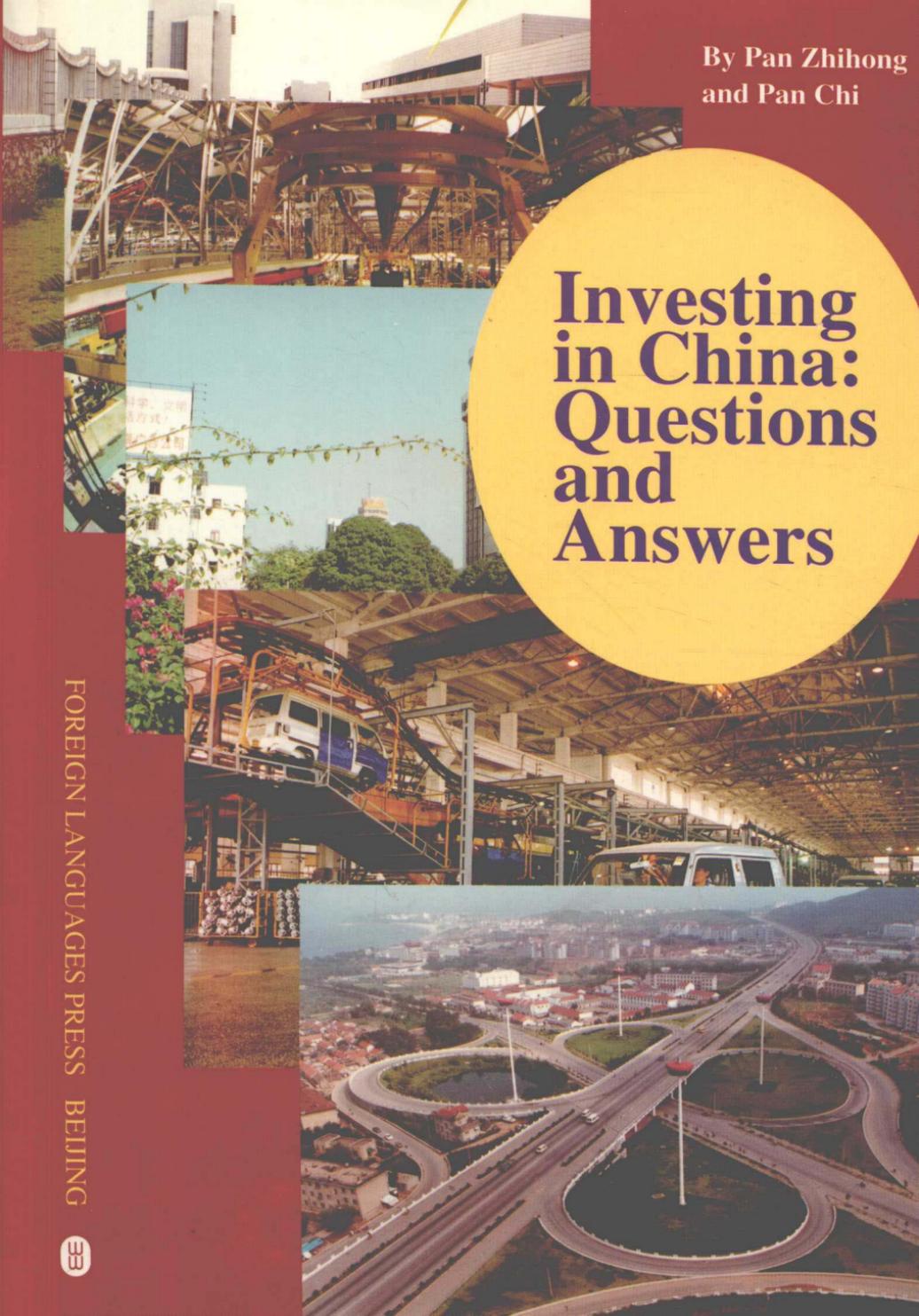


By Pan Zhihong
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Investing in China: Questions and Answers

FOREIGN LANGUAGES PRESS BEIJING

33



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Foreign Languages Press Beijing

图书在版编目(CIP)数据

中国投资问答:英文/潘志洪,潘驰编著. —北京:

外文出版社,1999

ISBN 7-119-02100-1

I.中… II.①潘… ②潘… III.投资环境-中国-问答-英文

IV.F832.48-44

中国版本图书馆 CIP 数据核字 (98) 第 26843 号

责任编辑 吴灿飞

封面设计 唐宇

外文出版社网页:

<http://www.flp.com.cn>

外文出版社电子邮件地址:

info@flp.com.cn

sales@flp.com.cn

中国投资问答

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©外文出版社

外文出版社出版

(中国北京百万庄大街 24 号)

邮政编码 100037

北京外文印刷厂印刷

中国国际图书贸易总公司发行

(中国北京车公庄西路 35 号)

北京邮政信箱第 399 号 邮政编码 100044

1999 年(大 32 开)第 1 版

1999 年第 1 版第 1 次印刷

(英)

ISBN 7-119-02100-1/F·49(外)

05800

4-E-3235P

Foreword

China has scored achievements that have caught worldwide attention in its economic development over the past 20 years since it began making reform and opening up to the outside world. Its GDP has grown at an annual rate of 9.3 percent. The growth rate was particularly fast during the Eighth Five-Year Plan period (1991-1995), with an average annual growth rate of 12 percent. 1996, the first year of the Ninth Five-Year Plan, witnessed a good beginning and the GDP grew once more by 9.7 percent over the previous year to 6,779.5 billion yuan (equivalent to about US\$817.8 billion). Some Chinese economists believe that the Chinese average annual economic growth rate of 8-10 percent may last for 20 years or even longer. It is noted in a report of the Chinese Academy of Social Sciences that if the Chinese People's Currency remains relatively stable, the economic development in China will reach its golden period by 2010 and the GDP then is expected to rise to 8,600 billion yuan. China will then become the third economic entity in the world after the United States and Japan. At the same time, China will rise from among the countries with a low per-capita income to join the countries with a medium per-capita income.

With its vigorous economic growth, China is potentially the largest market in the world today, and a "paradise for investment" for international capital. Overseas capital that flowed into China in all forms between 1979 and 1996 totaled US\$229.1 billion. China is only second to the United States in absorbing foreign capital and takes the lead among the developing countries. According to the American *Fortune* magazine, of the 500 top transnational companies selected, more than 400 have made investments in China. In total, there are now 280,000 foreign-invested enterprises in China. Divorced from the Chinese market

for 30 years, Coca Cola returned to China in 1979, and its business turnover has risen year by year. Its sales volume has doubled every three years. It now has 18 bottling plants in China. Like many other foreign companies, it has never published its Chinese profit report. One thing is certain that if foreign business people have had risks everywhere and made no profit in China, why have so many investors swarmed into this country? With economic growth, the Chinese residents have also raised their consumption level year by year. The prospect of the Chinese market is most attractive. Moreover, with the overall improvement in the investment environment, China remains a great attraction to international capital.

China is a big country with a large and complicated economic system. There are more than 500 different kinds of industries and trades throughout the world, and almost all of these industries and trades can be found in China. It is no easy job for small and medium-sized enterprises outside China to learn about China's economic conditions and the general situation of the economic growth in dozens of provinces, autonomous regions and centrally administered municipalities. So they have often been unaware of good business opportunities in China. For example, there are more than 100,000 small and medium-sized manufacturers in the United States that produce good quality and fair-priced export products, but as the owners have little knowledge about China's economic situation, they have lost their chance to develop in this huge market with a population of 1.2 billion and a fast growing economy, merely because of fear of taking financial risks and because of their limited financial resources. Just as the chairman of an association of small business exporters in Virginia once said: "If they had not tried to save a little only to lose a lot, they could have created more job opportunities and paid more taxes to make the American economy more prosperous. We have businesses that can carry out their great plans, but they are very conservative and bring great losses to the economy." As to the financial companies with all sorts of common funds and huge

resources, they have just waited to see, and have hesitated to move forward. We, the authors, have lived in North America for nearly 10 years, but it's not easy to find a fair, objective, systematic and comprehensive book on investment in China. This is why we, father and son, have cooperated in writing this book *Investing in China: Questions and Answers*.

This book is intended for foreign business people and Chinese compatriots living abroad who know little about China. It is a collection of data and information which they will need when making decisions on investment, holding business talks and setting up enterprises in China. It is compiled and arranged for the convenience of readers in the form of questions and answers on all kinds of information about investment in China, with the main stress on the fields for investment, environments for investment and guides to investment so that overseas investors can make their best choices on the basis of their own conditions and according to their best wishes, after they have a good knowledge of the industrial policies of the Chinese authorities, the directions for their investment and the general situation in the different parts of the country. The appendix is an indexed collection of most of the economic laws, regulations rules, decisions and detailed procedures for implementation, all related to foreign investment, that the Chinese government has promulgated so far.

This is a reference book for foreign investors. It contains true, reliable and valid facts. In order to prevent misleading information, we have collected figures, data and information from Chinese authoritative books and official news releases, such as the *Guide to Investment in China*, edited by the Economic Research Center under the Chinese State Planning Commission, *The Economic Development in China—at Present and in the Future*, and information released by the Xinhua News Agency and the China Economic Information Agency. To make the writing easier and to save space, we have not indicated the sources one by one, and it is hoped that readers will excuse us for this. As the book covers a wide range of subjects, requires a high understanding of poli-

cies, and was finished in a relatively short period of time, there may be some oversights and omissions. Suggestions or corrections are welcome, if there is anything inappropriate.

We would like to thank Professor Jiang Chunze, Director of the Scientific Research Department of the Macro Economics Research Institute under the Chinese State Planning Commission, for his valuable suggestions for modifications.

Pan Zhihong & Pan Chi
Columbia University, New York
May 1997

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**I. General Information
About China**

Q. 1: What is the socialist market economy?

A: Both a planned economy and a market economy are economic means, and both capitalist countries and socialist countries may use them. There is no question of a planned economy being “socialist” and a market economy being “capitalist.” This is because the market economy is always linked with the particular historical conditions and social systems in their respective countries, and each economy has its own characteristics. There are three patterns of the successful market economy in the world today. For example, the market economy in the United States is the consumer-oriented type, Germany and Nordic countries have adopted a social market economy, and France and Japan practice a market economy of the administrative management type. Therefore, China’s market economy, under its socialist conditions, is operated in combination with the fundamental system of socialism. Apart from the general character of a market economy, it is bound to form its own characteristics. The socialist market economy is meant a “market economy under socialist conditions.”

First, a socialist market economy operates with public ownership as its main body and the common development of multiple economic sectors, including the private economy.

Second, the socialist market economy follows the socialist principle of common prosperity for all.

Third, the socialist economy attaches importance to macro control. The government, through its social and economic policies, economic laws and regulations, guidance by plan, and necessary administrative means, creates a stable, safe and fair social environment to ensure the orderly operation of the market economy.

Q. 2: What is reform and opening to the outside world?

A: The reform and opening to the outside world is the means by which China’s planned economic system is being changed into a market economic system. Its goal is to establish a socialist market economy. In short, the reform is intended to make changes in the different aspects of the economic system so as to

meet the needs of the development of the socialist market economy internally, while the opening is intended to accept capital funds from the outside world so as to set up factories and enterprises in China. It is opposed to the closed planned economy in the past, promotes the development of the socialist economy and strengthens exchanges with other countries in politics, economy, culture and other fields.

Since the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party, held in December 1978, the Chinese government, respecting practice and pioneering spirit of the people, has kept on enlarging the scope of regulation through the market, strengthening the function of the market mechanism and persisting in the reform and opening up when engaging in socialist economic activities, and has therefore scored eye-catching achievements. The reform and opening to the outside world was made in six aspects during this period:

One, China abolished the people's communes and the system of state monopoly on the purchase and marketing of major farm products, introduced the contracted household responsibility system with remuneration linked to output and the double-level management system of decentralization and centralization in the rural areas, greatly developed township enterprises and reformed the rural system of circulation to speed up the marketization of the rural economy.

Two, in order to allow state-owned enterprises to enter the market, the Chinese government has adopted a number of policies and measures to give them the right to make their own decisions on production and business operations, from the implementation of all regulations and rules to the formulation of the Law of the Industrial Enterprises Owned by the Whole People and the Regulations for the Change-Over of the Operation Mechanism of the Industrial Enterprises Owned by the Whole People. As a whole, most of the enterprises have expanded their powers to make their own decisions to different extents, and have the right to regulate their own business activities according to changes in the supply