

**International Logistics
Assignment #3**

China Questionnaire

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1. What are the rough dimensions of the country in miles?

China has a total of 9,598,960 sq km, 270,550 sq km of which is water.

There are approximately 22,000 km of boundary with 16 other countries and 14,500 km of coastline. It is the fourth largest country after Russia, Canada and U.S.

2. What is the population? What percentage live in the 3 largest cities?

The population in China is estimated to be of 1.27 billion people (2001).

The 3 largest cities in China are:

- Shanghai (14.1 million)
- Beijing (12.8 million)
- Tianjin (9.8 million)

Therefore, the percentage of the population that live in the 3 largest cities is 2.9%.

3. What is the predominant language? How widely used is English in business?

Languages include the dominant language of standard Chinese or Mandarin (Putonghua, based on the Beijing dialect), Yue (Cantonese), Wu (Shanghaiese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, Hakka dialects, minority languages (see Ethnic groups entry). In business, Putonghua(Mandarin) and Yue(Cantonese) are most commonly used languages. English is used primarily in foreign-invested companies on the managerial level.

4. In the last three years have there been any instances of political instability?

There have been a couple of instances of political instability in the last three years.

- Falun Gong Movement

Falun Gong, according to its self-description, involves meditation and breathing exercises and espouses mysticism. Founded in 1992, the movement has attracted more than 2 million followers including an estimated one third of the total from within the mainland China. The founder of Falun Gong, 48-year-old Li Hongzhi, is now living in New York City, USA.

Falun Gong acclaims that it is rooted from Qigong, a popular deep breathing exercises that draws on traditional Chinese religion and philosophy. Qigong has been proved effective in adjusting the functions of the nervous, respiratory, digestive, blood and endocrine systems. Qigong has always been recognized as a traditional Chinese folk sport which has had never been banned in China's history. Compared with Qigong, Falun Gong has several different characters which makes Falun Gong more than a simple sport group.

Falun Gong was declared illegal on July 1999 by Chinese government. Chinese Communist Party accuses Falun Gong of three reasons: illegal gatherings, theft achieved by personality cults, and actions causing the death of followers. First of all, the society had never registered as

required by law and didn't follow the procedures of public gathering. Secondly, the parishioners are educated to worship the living "Super Buddha", Li Hongzhi, and donate their personal belongings to him. Various Qigong practices don't have this living "Super Buddha". Thirdly, Falun Gong advocates that medicine has little or no effect in curing diseases, and that only by practicing Falun Gong can people rid themselves of the spiritual decay at the root of all illnesses. It was reported that many practitioners lost life because of refusal of medical treatment.

There are deep social and economic factors of Falun Gong Movement. Although official estimates put Falun Gong membership at two million people domestically, the real number is many times more than that and is estimated by Falun sect at 100 million members. Many of the practitioners are middle age women and laid-off workers. This layer of citizens with lower education and older age suffer from China's economic reformation and are eager to look for new form of spiritual movement.

- China-Taiwan Relationship

The tensions between China and Taiwan find their roots in the 1949 Chinese revolution, when communists led by Chairman Mao claimed control of the mainland. Nationalist leader Chiang Kai-shek withdrew to Taiwan, with two million refugees, vowing to reclaim the mainland.

With the outbreak of the Korean War in 1950, U.S. President Harry S. Truman ordered the 7th Fleet into the Taiwan Strait to prevent possible Chinese attack on the island. It was the first time the United States had intervened in the conflict between the island and mainland. The U.S. considered Taiwan a buffer against communist expansion in Asia and provided the island money and military supplies.

During the 1960s some native Taiwanese, upset by the rule of the mainland minority, began to call for independence from China. It was during this time that focus shifted from reclaiming the mainland to developing the island itself. But it was also during this period that the U.S. and other countries began improving relations with China as a way to prevent Soviet expansionism. In 1971, the United Nations expelled Taipei's nationalist government in favor of Beijing's. Eight years later, the United States formally recognized the People's Republic of China, severing official diplomatic relations with Taiwan. The U.S. move meant that America accepted Beijing's "one China" mandate and abandoned its defense pact with the island.

In 1997, as Britain prepared to return control of Hong Kong to China, Taiwan conducted live military exercises in the Straits. Experts said it was to demonstrate that Taiwan would not quietly follow the Hong Kong example. The United States began shipping fighter jets to Taiwan that year, and on the island itself the pro-independence Democratic Progressive Party won municipal elections.

In 1999, President Lee announced that Taiwan enjoyed a "special state-to-state relationship" with China. This statement of implied state sovereignty angered Beijing. Taipei backed away from the position, but talks between the two leaderships were cut off.

- Boundaries Disputes

China has also been involved in a number of disputes regarding boundaries. Some of boundaries with India are in dispute. Dispute over at least two small sections of the boundary with Russia remains to be settled, despite 1997 boundary agreement. Portions of the boundary with Tajikistan are indefinite. 33-km section of boundary with North Korea in the Paektu-san (mountain) area is indefinite. Involved in a complex dispute are the Spratly Islands with Malaysia, Philippines, Taiwan, Vietnam, and possibly Brunei. Maritime boundary agreement with Vietnam in the Gulf of Tonkin awaits ratification. Paracel Islands is occupied by China, but is claimed by Vietnam and Taiwan.

5. What is the currency? What is the exchange rate to U.S. dollars? How has it changed in the past two years?

The currency is the yuan. A yearly history of the exchange rate for the yuan per US dollar - 8.2776 (January 2001), 8.2785 (2000), 8.2783 (1999), 8.2790 (1998), 8.2898 (1997), 8.3142 (1996).

As of February 28 2002, the exchange rate is 8.2765.

6. What time zones exist in this country? What time is it in the capital when it is noon in Cambridge, MA?

The only time zone used in China is Beijing Time. When Cambridge is at noon(not daylight saving time), Beijing is at 1am the next day.

7. What unique requirements exist for products sold in this country? (e.g. testing, packaging, language, safety, etc.)

- 7.1 Unique Testing Requirements For Products Sold In China

Generally speaking across all industries there are different levels of provincial and municipal laws ruling the plant's working condition, facilitates, machinery, raw material, quality control procedures, and environmental control system. The uniqueness of China's testing requirement is that the laws and regulations vary in different industry and different provinces and there is an urgent need to consolidate these regulations.

- Unique Packaging Requirements For Products Sold In China

There are a few unique requirements for products sold in China. First, on the packaging there must clear product name, which cannot be replaced by the brand name. With the recent economic reformation, there are many new products coming into market every year. A few manufacturers choose brand names that can be misleading. For example, in Chinese, soybean drinking is called either soy juice or soymilk. Therefore if only brand name shows up, it is hard for consumers to distinguish what are in the products. The second unique rule is regarding the

font sizes of Chinese characters and foreigner letters, i.e. Chinese product name must not be smaller than that the product name in foreign languages.

- Unique Language Requirements For Products Sold In China

All products must have brand name, product name, ingredients, and manufacturer's address information in Chinese.

- Unique Safety Requirements For Products Sold In China

The safety laws and regulations also vary in product categories and geographic areas. For example, for the same food category there are different required expiration periods in different provinces.

One uniquely strict safety requirement is regarding the generic modified food. In January 2002, Chinese government announced the long-awaited details of its rules on genetically modified food, which appear to be stricter than those adopted by the United States. The regulations require that all generic modified imports be labeled. Exporters must also apply for **safety certificates** - which could take up to 270 days to obtain - stating that the goods are harmless to humans, animals and the environment. This policy has big affluence on imports of biotech foods from U.S. For example, they would threatened US\$1 billion in annual sales of U.S. soybeans, about 70 percent of which are genetically modified.

8. What regulations or limitations exist regarding freight transport?

China has numerous regulations covering all aspects of commerce. Here are a sample of regulations and limitations involving international transport:

- Freight within China is almost always done with a domestic carrier. Foreign, international companies can apply for a Grade A license to carry freight within China but the licensing process is long, difficult and expensive (Sealand/Mersk is one example).
- Import and export commodities must be inspected by the commodity inspection authorities including: quality, specifications, quantity, weight, packing and requirements for safety and sanitation/hygiene. The inspection shall be carried out by the Harbor Superintendent Department of China (HSD), China's Customs General Administration (CGA), Border Checking Departments (BCD) of Health Quarantine Departments (HQD) of China and China's Quarantine Departments of Animal and Plant (QDAP). Without inspection, no import commodities shall be permitted for sale or use and no export commodities can be permitted for export. [Exemption from inspection for some goods may be approved if the applicant can prove a "perfect quality assurance system."]
- Vessel holds or containers used for carrying perishable food must be inspected before shipment. Those without undergoing inspection or found not in conformity with the technical conditions for shipping shall not be permitted to carry food.

- Goods infringing upon intellectual property rights, including trademark franchises, copyrights and patents, will be banned from import and export.
- China regulates import and export quotas, depending on the class of goods, while some other goods are subject to licensing control. On July 31st each year, import quotas for the following year are set, and export limits are announced on October 31st. The regulations stipulate that businesses or individuals who trade State-controlled goods without proper authorization will be regarded as smugglers and punished accordingly.
- Effective Jan 1st this year, China passed an international maritime transport regulation which covers stipulations on maritime transport and auxiliary activities, foreign-operated maritime transport, legal liabilities, and supplementary provisions. It lists requirements for ships engaged in international shipping and Sino-foreign joint ventures serving as agents of international shipping vessels. Those who fail to obtain an international shipping license and operate without authorization will be ordered to stop operating.

The ascension of China to the WTO has led to a loosening of trade regulations. Chinese airports continue to be liberalized, with bilateral agreements signed with the US and other countries, permitting service into China. The nation's water transport is opening wider with the drafting of the Maritime Code, the Law of Port and the Law of Water Transport. The nation will gradually open its shipping market and improve legal protection for foreign businesses. China has signed waterways transport accords or agreements with 51 countries. Foreign investors are being encouraged, as partners, to build or operate terminal berths. Many large shipping firms, lured by China's huge market potential, are establishing line services in the country.

Sources:

Ministry of Foreign Trade and Economic Cooperation – People's Republic of China

China Radio International

CIEC

9. Are there saltwater ports which can handle large ships? How far are the major population centers from those ports?

The main ports, in terms of volume, are Qingdao, Shanghai, Tianjin, Shenzhen, and Hong Kong. Hong Kong has the biggest volume by far (2nd in the world).

The major saltwater ports that can handle large ships are located in Shanghai, Hong Kong, Guangzhou, and Qingdao.

The 3 largest cities are located close to the coast. However, there are some major population centers such as Chongqing, Xi'an, Chengdu, and Lanzhou that are located in central China.

10. What business terms and financial instruments are typically used for import commercial transactions?

- FOB prices -- Most of the import businesses in China are transacted in FOB prices.

- CIF terms -- Only a very small minority of the import commodities are transacted on CIF terms.
- Letter of Credit -- The majority of means of payment are in letter of credit (L/C). The content of the L/C must conform with the articles in the contract. The time decided in the L/C must also fit for the regulations in the contract. After the L/C is written, buyers can apply for correction in the Bank of China.
- Booking space and pushing for shipment -- The buyers are responsible for booking space if the import contract is signed under the FOB price terms. At present, the space booking of China's import trade is generally entrusted to China National Foreign Trade Transportation Corporation. After the shipment matters are settled, buyers should inform sellers the time and name of the ship so that the seller can make preparations and be ready for loading. In the meantime, buyers should push for the shipment so that the transportation company can load on time.
- National Foreign Trade Transportation Corporation --- Customs declaration and goods receiving are usually done by China National Foreign Trade Transportation Corporation instead of import enterprises.

Financial:

- Indemnity -- Imported goods must be inspected by commodity inspection organizations. If the import goods are found missing, damaged or in short, import enterprises can claim an indemnity with proof from commodity inspection organizations. Claiming for an indemnity often happens in cases in which foreign sales parties cannot deliver products, or cannot deliver them on time or the quality, packaging, amount cannot fit those prescribed in the contract. The target of claiming for an indemnity is concentrated on the commodity supply parties, shipping corporations or insurance companies in line with different degrees in economic losses.
- Insurance -- The insurance of import contract under FOB and CFR terms is on the purchasing side. At present, the insurance of import goods carried through ocean shipping is entrusted to China National Foreign Trade Transportation Corporation, which is responsible for signing preliminary insurance contract with the People's Insurance Company of China (PICC).
- Working capital Guarantees -- covers a certain percentage of the principal and interest on commercial loans to creditworthy small and medium-sized companies
- Credit Insurance --- protects against both the political (e.g., nonpayment as a result of war, expropriation, cancellation of an export or import license) and commercial (nonpayment due to unanticipated competition or deterioration of markets) risks of a foreign buyer defaulting on payment

- Guarantees of Commercial Loans

11. How large is a typical supermarket or retail food store (square feet or meters)?

A typical small-scale supermarket is about 3000-6000 sq. ft.; a large-scale discount store is about 0.5-1 acre (one or two stories); a typical small food store is about 1000 sq. ft.

12. Do any of the large US discount retailers (Wal-Mart, K-Mart, Toys 'R Us) have stores in this country?

Wal-mart entered China market in 1996 with its first store in Shenzhen. Since then it has setup 8 chain stores in cities as Dongguan, Dalian and Kunming. It has a plan to add 8 more stores to its network in China.

Carrefour has opened 26 chain stores in 14 Chinese cities in 5 years, making it the third largest retailer in China. As of 2000, it has set up 6 Carrefour chain stores in Shanghai.

Metro entered China in 1997 with its first store in Shanghai. It established partnership with Shanghai Jinjiang Group and has opened 4 chains stores in Shanghai. Metro primarily focused on the Yangtze River area, with 3 stores in Wuxi, Ningbo and nanjing. It has also opened a store in Fuzhou and is considering open stores in Beijing.

K-Mart does not have stores in China. Toys 'R us may enter China market now that China is a WTO member.

13. Describe the highway and rail infrastructure. Are they: extensive, moderate, or primitive nationwide?

- Highway: China's highway infrastructure is primitive. There are a total of about 1.4 million km of highways in China, with only 271,300 km of these paved. 16,000 km of these highways are classified as expressways. This represents only 0.15 km per km² of land area. This is well below the Asia-Pacific average of 0.20 km/km² (of which China is in the weighting) or 1.00 km/km² for India. Further, of the highways, only 19% are paved vs. 46% for the Asia-Pac region. Not surprisingly, China also had the highest road infrastructure growth in the region between 1994 and 1995.
- Railway: China has approximately 6800 km of railways with about 3600 km of non-standard railway for industrial and other use. From 1994 to 1999, China experienced the fast growth in rail network among all Asia-Pacific countries. They added track at a rate of 8.6% per year, locomotives at 8% per year, and rolling stock at 17% /year.

14. How bad is the traffic congestion in the major cities?

China (not including Hong Kong) averages 4.7 cars per thousand people, which is very low in comparison to other countries. Even taking into consideration the limited highway infrastructure, China still averages only 8.7 vehicles/km of roadway, which is still below the

Asia-Pac average. In contrast, Hong Kong has 283 vehicles per km of road, which is one of the highest concentrations in the world (at 3 metres per car, there would be very little road left!).

The rapid increase in vehicle population has resulted in severe traffic congestion in large cities such as Shanghai and Beijing. For example in Beijing, for an 8km distance it usually takes a taxi an hour and half in rush hour and 25 minutes in off peak period. By bicycle it takes 20 to 30 minutes at any time. That is why bicycle is still a popular traffic tool for many Chinese people. In Shanghai is not too much better. The newly built metro has helped a lot people whose office is near metro station. However for people who take bus to go to work, spending two to three hours on commuting is not rear.

Source: Economic and Social Commission for Asia and the Pacific

15. Which countries are the primary trading partners? For each partner, in which direction is the balance of trade (import or export)?

In 2000, merchandise exports were US\$249.2 billion, and imports US\$ 225.1 billion, leaving a surplus of US\$ 24.1 billion.

According to data from 2000:

Trade Partner	Export (US\$)	%	Import (US\$)	%	Balance (US\$)
Japan	41.6	16.7	41.4	18.4	.2
US	52.1	20.9	22.3	9.9	29.8
EU	38.1	15.3	30.8	13.7	7.3
Hong Kong	44.6	17.9	8	3.5	36.6
Taiwan	5	2	25.4	11.3	(20.4)

Major Exports	%
Machinery & transport equipment	42.3
Apparel & clothing	14.5
Computers & telecom equipment	10.8
Textile yarns & fabrics	6.5

Major Imports	%
Machinery & transport equipment	45.7
Computers & telecom equipment	9.2
Crude oil	6.6
Integrated circuits & micro assemblies	5.9

**Total amount of China's
Import & Export Commodities Country(region) in 2001(1-11)**

Value Unit:US\$10,000

Country/Region	import & export value	export value	import value	±% than the same period last year		
				import & export	export	import
Total Value	46,276,967	24,156,956	22,120,011	7.4	6.3	8.6
Asia	26,105,586	12,713,114	13,392,472	5.1	5.9	4.4
Africa	999,397	551,650	447,746	4.0	19.3	-10.2
Europe	8,841,306	4,467,264	4,374,042	13.3	7.8	19.5
Latin America	1,369,657	755,630	614,027	18.2	13.9	23.8
North America	8,016,240	5,295,683	2,720,558	7.7	4.2	15.3
Oceania	944,771	373,615	571,156	6.1	3.5	7.8

The source of data:PRC Customs Statistics

16. Is security an issue in logistics? Why?

Security is not a big issue in logistics in China at the moment although such problems exist: Theft is a problem in logistics, particularly in transportation and warehouse. Sometimes a whole truckload of goods can disappear along with the driver. Software security is another potential risk.

17. How reliable is the phone system? How long for a consumer to get a phone line installed? How extensive is the mobile phone network?

135 million land lines, 65 million mobile phones, domestic and international services are increasingly available for private use; uneven domestic distribution of phones serve principally cities and industrial centers.

18. How many people have internet access?

There are 3 ISPs serving 22 million as of January 2001. We have heard estimates of up to 40-60 million. This is roughly equal to the entire population of the UK.

19. What is the price of regular gasoline, \$ per gallon?

As of February 6, 2001..."The local government dropped the price for 93-octane gasoline, the most commonly used vehicle fuel in China, to 2.82 yuan (US\$0.34) per liter from January's 2.96 yuan (US\$0.36) per liter. The price for 90-octane gasoline slid from 2.76 yuan (US\$0.33) to 2.63 yuan (US\$0.32) per liter, and diesel also fell 0.17 yuan (US\$0.02) to 2.64 yuan (US\$0.32)."

Source: http://english.peopledaily.com.cn/200102/06/eng20010206_61616.html

These prices convert to approximately \$1.36 per gallon.

20. What trade restrictions exist? What are the highest import duties which products and countries of origin? What embargoes exist, if any?

China officially became a member of the World Trade Organization (WTO) on Dec 11, 2001. New multilateral trade negotiations are being conducted, and economic and legislative reforms are in discussion in order to meet the WTO commitments. China's WTO accession is expected to boost international trade, as China's tariffs and non-tariff barriers will be significantly reduced. It is also expected to lead to increase foreign direct investment, due to the opening of new sectors of the economy and a general improvement in the regulatory framework.

China is now the world's 7th largest trading nation, increasing its share of world trade to 3.9% in 2000. Total foreign trade grew by 31.5% to reach US\$ 474 billion. Overall, China's economy, on a purchasing power parity basis, is on a par with that of Japan, just behind that of the US. It is attracting foreign direct investment (FDI) at a remarkable rate and is now the second largest recipient of FDI after the U.S., having overtaken the UK in 2000.

China's import duty rate has been gradually reduced. The average tariff rates in 2002 are as follows:

Item	Average Tariff Rate (%)
Textile and garments	17.6
Transport vehicles	17.4
Agricultural products	15.8
Aquatic products	14.3
Electronic products	10.7
Machinery	9.6
Paper and paper products	8.9
Chemical products	7.9
Crude and refined oil	6.1

China has recently imposed additional 100% tariffs on imports of 60 categories of Japanese-made goods, including mobile phones, air conditioners, cars, buses, trucks and other vehicles in retaliation of "the Japanese government's unjustified treatment of Chinese commodities" according to the Chinese government.

China is subject to a EU embargo on arms exports since 1989 (Declaration by the Madrid European Council, June 27, 1989).

21. What customs documents are required for an import shipment? For export?

With the numerous regulations on International trade (#8), is a long list of customs documents. Generally, the following 3 documents are required for import or export:

- Original ocean bill of lading.

- Commercial invoice. This is signed by the shipper and presented to Customs. The duty and taxes are assessed on the value shown on this document.
- Certificate of origin. Certificate issued by the Shipper verifying the country of manufacture.

The consignee for import goods and the consignor for export goods shall make an accurate declaration and submit the import or export license and relevant papers to Customs for examination.

Specific documents vary depending on the nature of the commodity. Examples:

- Plant seeds, seedlings and other propagating materials entering into China require an application to be completed and approval of quarantine inspection procedures before the signing of the trade contracts or agreements.
- Agricultural goods shipped between the US and China requires fumigation of containers and certification they are insect-free.
- To transport animals, the shipper or his or her agent must first receive approval from the State Bureau of Animal and Plant Quarantine, who will issue an "Animal Transit Permit". The application requires certification from both the exporting country and the importing country's quarantine authorities, and the proposed transit route.
- Food goods, depending on type, may require a certificate of analysis and a health certificate.
- To import used machinery, manufacturers must obtain an import permit from the Chinese government to pre-authorize the entry.

Additional Customs documentation includes:

- The consignee of import goods and the consignor of export goods, as well as their agents, must submit relevant documents which declare the current status of intellectual property rights related to import and export goods.
- Documentation is required for the entry in or exit from China's ports. The owner or agent of the ship must fill in an "Application Form for International Navigation Ships Entering and Exiting Chinese Ports" 7 days before the arrival of the ship to the port, and provide related certificates and inspection data. The owner or the agent of a ship should report the time of arrival, the site of anchorage, and the plan for anchoring and moving as well as related information about the crew and passengers to the authorities 24 hours before its arrival at the port. Similarly, the ship owner or agent must complete a "Ship Exiting Formalities Certificate" within 4 hours before the ship exits the port.

22. How common is bribery (US definition) in trade transactions? (normal, infrequent, very rare). What are the legal ramifications?

Bribery has been a common problem in trade transactions since China's economic reforms and opening-up, which started in China in the late of 1978. Although Chinese people's living standard has improved, but corruption tendency was growing as well. Many criminals now offer officials not only money or jewelry, but also stock shares, autos, overseas travel and even sex. Chinese government takes offering bribery, accepting bribery and finally dereliction of duty as bribery crimes. Realizing that this vicious tumor is rooted from the hotbed of corruption, China has tightened the punishment for offering or accepting bribes.

Yuanhua Case is a recent huge corruption case, which involved offering bribery, taking bribery and illegal smuggling. The chief criminal, Chingchang Lai, is currently hidden in Vancouver Canada. From 1996 to 1999, Lai and other suspects smuggled goods worth 53 billion yuan (6.38 billion U.S. dollars). The evaded tax totaled 30 billion yuan (3.6 billion U.S. dollars). Involved in the illegal activities there were more than 600 people, among which 91 were Communist party members and government officials, including Chen Yanxin, former general manager of the Fujian Petroleum Company; Che Dian, a former senior Party official from the Xiamen customs; Lin Jindong, a senior Party official from Xiamen City; and Lin Zhenmu, former president of the Fujian Branch of the Bank of China. The highest Communist Party Member involved was former Vice-Minister of Public Security, Jizhou Li.

23. How strong are the unions? In what industries are they an important factor? Are they predominantly national or local? What impact do they have on logistics?

Currently, China has high level of union memberships without independent unions. The state recognizes only one union body, the All China Federation of Trade Unions (ACFTU). The trade union law of 1992 ensures that the ACFTU enjoys a strict legal monopoly on organizing in the workplace; it stipulates that the formation of any new union branch or organization requires the prior approval of the higher-level trade union organization. The capacity of unions in China to provide adequate representation and protections for members is seriously undermined. Discontent is growing because of these factors, hidden unemployment and layoffs in state-owned enterprises, exploitative working conditions in private enterprises (especially in those factories subcontracted to transnational corporations where trade union participation is extremely low and discouraged), and the WTO's free trade initiative. This last factor has precipitated a race to the bottom in labor standards in both developing and developed countries.