

March 2004

WORLD TRADE  
ORGANIZATION

U.S. Companies' Views  
on China's  
Implementation of Its  
Commitments



G A O

Accountability \* Integrity \* Reliability

Highlights of [GAO-04-508](#), a report to the Chairman and Ranking Minority Member, Senate Committee on Finance, and to the Chairman and Ranking Minority Member, House Committee on Ways and Means

**Why GAO Did This Study**

As the second largest source of foreign direct investment in China, U.S. companies continue their keen interest in China's implementation of its World Trade Organization (WTO) commitments. China's 2001 WTO commitments include specific pledges to increase market access, liberalize foreign investment, continue fundamental market reforms, and improve the rule of law. In 2002, GAO reported on selected U.S. companies' views, finding that many commitment areas, particularly those related to rule of law, were important to U.S. companies. GAO also found that company representatives expected China's reforms would have a positive impact on their business operations but expected some difficulties during implementation.

In 2003, GAO continued to analyze companies' views about (1) the extent to which China has implemented its WTO commitments and (2) the impact of China's implementation of its WTO commitments on U.S. companies' business operations. GAO collected the views of representatives from 82 U.S. companies with a presence in China. GAO focused on companies in the agriculture, banking, machinery, and pharmaceutical industries. Results reflect a response rate of 60 percent of the study population. These responses may not reflect the views of all U.S. companies with activities in China.

[www.gao.gov/cgi-bin/gettrpt?GAO-04-508](http://www.gao.gov/cgi-bin/gettrpt?GAO-04-508).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4128 or [yagerl@gao.gov](mailto:yagerl@gao.gov).

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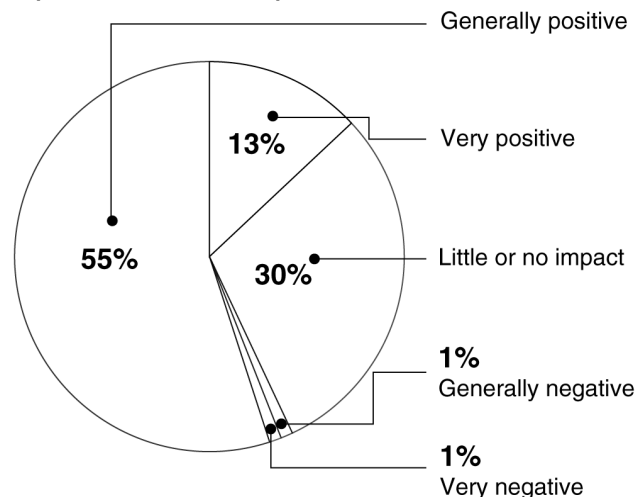
**U.S. Companies' Views on China's Implementation of Its Commitments**

**What GAO Found**

U.S. company representatives who completed GAO's 2003 questionnaire thought that China had implemented most of the 26 listed WTO commitment areas on average only to some or little extent. When respondents assessed five areas found to be of greatest importance to their companies overall – (1) standards, certifications, registration, and testing requirements; (2) customs procedures and inspection practices; (3) intellectual property rights; (4) tariffs, fees, and charges; and (5) consistent application of laws, regulations, and practices – responses were mixed, but they reported that China had taken at least some steps to implement these commitment areas. Our analysis showed that the importance placed on specific areas differed among the agriculture, banking, machinery, and pharmaceutical industries. For example, agricultural respondents identified tariffs as important while banking respondents identified scope of business restrictions for services as important. Few respondents were able to assess all of China's commitment areas for reasons that varied depending on each company's experience and operations in China.

More than two thirds of respondents reported that China's implementation of its WTO commitments had a positive impact on their companies' ability to do business in China. However, some respondents indicated that China's reform efforts had created difficulties for their company operations in China. Overall, company representatives reported that company activities, such as volume of production in China and company revenue stream, have increased since China joined the WTO. However, respondents noted that changes in business activities cannot be directly attributed to China's WTO accession.

**Impact of China's WTO Implementation on GAO Questionnaire Respondents' Companies**



Source: GAO 2003 Questionnaire of U.S. Companies in China on China-WTO Issues, question 8.  
 Note: Number of respondents = 80. Two respondents had no basis to judge.

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# Contents

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<b>Letter</b>		1
	Results in Brief	2
	Background	3
	Companies Report Progress Made in China's WTO Implementation	6
	Most Respondents Reported a Positive Impact from China's WTO Implementation	17
	Concluding Observations	22

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## Appendixes

<b>Appendix I: Objectives, Scope, and Methodology</b>	24
Data Collection	24
Industry Selection	24
Sample Development	26
Questionnaire Administration	26
U.S. Companies Responding to the Questionnaire	27
Limitations	31
<b>Appendix II: Questionnaire of U.S. Companies in China (and U.S. Nonprofit Agricultural Organizations) on China-WTO Issues</b>	33
<b>Appendix III: Profile of U.S. Investment and Trade with China</b>	41
U.S. Investment in China	41
U.S. Trade with China	44
Sources and Methods	50
<b>Appendix IV: GAO Contacts and Staff Acknowledgments</b>	53
GAO Contacts	53
Staff Acknowledgments	53

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<b>Related GAO Products</b>	54
-----------------------------	----

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<b>Tables</b>		
	Table 1: 2002 Survey Respondents' Views on Difficulty of Implementation for China's WTO Commitment Areas Most Important to Them	6
	Table 2: Ranking of Commitment Areas by Importance to GAO Questionnaire Respondents	10
	Table 3: GAO Questionnaire Respondents' Views on the Most Important Commitment Areas, by Industry	13

Table 4: Results of Requests for Interviews from U.S. Companies	26
Table 5: List of GAO Industry Groupings from Census Goods Trade Data	52

## Figures

Figure 1: Reported Extent of China's Implementation in 26 Commitment Areas	8
Figure 2: Comparison of Number of Respondents Who Assessed China's Implementation of Commitment Areas and Those with No Basis to Judge	16
Figure 3: Impact of China's WTO Implementation on GAO Questionnaire Respondents' Companies	18
Figure 4: U.S. Company Business Activities Since China Joined the WTO	21
Figure 5: Number of Companies Responding to GAO's Questionnaire, by Industry	28
Figure 6: Location of Facilities or Other Presence of GAO Questionnaire Respondents	29
Figure 7: Number and Types of Respondents' Business Relationships in China	30
Figure 8: Stock of U.S. Direct Investment in China, 2002 (\$10 billion)	42
Figure 9: Stock of U.S. Direct Investment Worldwide, 2002 (\$1.5 trillion)	44
Figure 10: U.S. Exports and Imports of Goods with China, by Industry, 2003	46
Figure 11: U.S. Exports of Goods to China, Share by Industry, 2003	47
Figure 12: U.S. Imports of Goods from China, Share by Industry, 2003	48
Figure 13: U.S. Exports and Imports of Services with China, by Category, 2002	50

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**Abbreviations**

BEA	Bureau of Economic Analysis
FAS	Free-Alongside-Ship
IPR	Intellectual property rights
N	Number of questionnaire respondents
NAICS	North American Industry Classification System
WTO	World Trade Organization

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

March 24, 2004

The Honorable Charles Grassley  
Chairman  
The Honorable Max Baucus  
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

The 2001 conclusion of 15 years of China's intense negotiations to join the World Trade Organization (WTO) raised expectations for U.S. companies' opportunities to trade with and invest in China. In 2002, we reported on selected U.S. companies' views about their expectations for China's implementation of its WTO commitments related to their companies doing business in China. The report revealed that a wide range of commitments were important to U.S. companies, their belief that WTO commitments would positively impact their businesses, and their expectation that implementation would include difficulties as well as successes. China's first two years of WTO membership repeatedly confirmed the accuracy of these expectations.

In continuation of your request that we undertake a long-term body of work regarding China's membership in the WTO, we again analyzed selected U.S. companies' views about (1) the extent to which China has implemented its WTO commitments in key industries and (2) the impact of China's implementation of its WTO commitments on these U.S. companies' business operations.

To perform our work in 2003, we developed a questionnaire and used it to conduct structured interviews with representatives of U.S. companies with a presence in China. We selected participants from a commercial database listing U.S. companies in China, focusing our company selection on those within four industries: agriculture, banking, machinery, and pharmaceuticals. Out of a study population of 149 companies, we received 79 questionnaires, for an overall adjusted response rate of 60 percent. In

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addition, we received three questionnaires from companies we interviewed in 2002 and 11 questionnaires from representatives of nonprofit agricultural organizations. Unless otherwise indicated, results include the 79 respondents from the study population plus the three respondents interviewed in 2003 and 2002. We do not generalize results to the larger population of U.S. companies doing business in China. Appendix I contains a more detailed description of our scope and methodology; responses to the questionnaire are included in appendix II. We performed our work from October 2002 to January 2004 in accordance with generally accepted government auditing standards.

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## Results in Brief

U.S. company representatives we interviewed who did business in China reported that China had made some progress in implementing its WTO commitments. We found that for most of the 26 listed areas in which China had made commitments, respondents reported that China had made reforms on average only to some or little extent when asked to characterize China's WTO implementation. Respondents noted higher scores in some areas, however, such as reductions in tariffs, fees, and charges. Our analysis found that the five specific commitment areas of greatest importance to respondents were: (1) standards, certifications, registration, and testing requirements; (2) customs procedures and inspection practices; (3) intellectual property rights; (4) tariffs, fees, and charges; and (5) consistent application of laws, regulations, and practices. Respondents had mixed views of China's implementation of these important commitment areas. Industry-specific views differed in terms of the specific areas identified as most important to respondents based on the nature of their businesses. Overall, many respondents reported that they had no basis to judge certain commitment areas due to respondents' lack of experience in areas not applicable to their businesses, lack of understanding about specific WTO commitment areas, and/or inability to differentiate between China's general economic reforms and Chinese government actions taken to implement WTO commitments.

More than two thirds of respondents reported that China's implementation of its WTO commitments had a positive impact on their companies, for example, by reducing tariffs and increasing transparency (openness) of laws, regulations, and practices, which ultimately furthered business opportunities. A number of respondents also expected that China's progress in the next 2 years would result in a positive impact on their businesses. However, some company representatives stated that China's WTO reforms had actually had negative consequences for their business

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operations to date. Specifically, some respondents stated that China had increased registration and testing requirements, and that provinces and levels of government had varied approaches to WTO implementation. Overall, the majority of respondents reported that specific business activities such as revenue and total investments in China had increased, but they could not directly tie these results to China's having joined the WTO.

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## Background

After 15 years of negotiations to join the WTO, on December 11, 2001, China bound itself to open and liberalize its economy and offer a more predictable environment for trade and foreign investment in accordance with WTO rules. U.S. investment and trade with China is of substantial interest to U.S. companies and has increased during the past 10 years. Our 2002 survey of U.S. company views revealed companies' expectation of a positive impact from China's implementation of WTO commitments as well as anticipation of difficulties during implementation.

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## 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.<sup>1</sup> Some 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.

The accession agreement includes market access commitments regarding goods and services. These include commitments that will reduce tariffs on products, 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. In the banking sector, for example,

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<sup>1</sup>For more information, see U.S. General Accounting Office, *World Trade Organization: Analysis of China's Commitments to Other Members*, [GAO-03-4](#) (Washington, D.C.: Oct. 3, 2002).



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China has agreed to reduce licensing requirements and has removed restrictions on foreign currency services.

To improve its trade regime, China has generally agreed to make numerous rule of law-related reforms such as publishing and translating trade-related laws and regulations and applying them uniformly at all levels of government and throughout China. China committed to adhere to internationally accepted norms to protect intellectual property rights and enforce relevant laws and regulations related to patents, trademarks, and copyrights. Moreover, China made a substantial number of other rule of law-related commitments regarding transparency of law, judicial review, and nondiscriminatory treatment of businesses.

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## U.S.-China Investment and Trade

In the past 10 years, U.S. investment and trade with China have increased significantly. At the end of 2002, U.S. companies had total direct investments of \$10.3 billion in China, largely in the manufacturing sector. This amount represents more than 10 times the approximately \$900 million invested a decade earlier in 1993. In addition, U.S. goods exports and services to China grew at an average annual rate of 12 percent since 1993, totaling \$27 billion in 2002, according to the Department of Commerce. While the United States holds a large bilateral trade deficit with China, it has a bilateral goods surplus in areas such as transportation equipment and agricultural products. Appendix III provides additional details regarding U.S. investment and trade with China.

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## GAO's Previous Survey of U.S. Companies

In 2002, we conducted a study of U.S. companies' views about the importance of, the anticipated effects of, and the prospects for, China's implementing its WTO commitments.<sup>2</sup> Our analysis of responses from 191 of 551 surveyed companies<sup>3</sup> revealed that most of China's WTO commitments were important to the companies, with rule of law-related reforms the most important. Specifically, at least three quarters of the respondents selected intellectual property rights; consistent application of

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<sup>2</sup>For additional information on U.S. business views in 2002, see U.S. General Accounting Office, *World Trade Organization: Selected U.S. Company Views about China's Membership*, GAO-02-1056 (Washington, D.C.: Sept. 23, 2002).

<sup>3</sup>The results of our analysis were based on our survey of a random sample of 551 U.S. companies doing business in China and interviews with 48 judgmentally selected companies in four cities in China.

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laws, regulations, and practices; and transparency of laws, regulations, and practices as the most important commitment areas for their companies. Other than those related to rule of law, respondents most frequently selected trading rights; tariffs, fees, and charges; and scope of business restrictions as important commitments.

We also found that most companies expected that China's implementation of its WTO commitments would have a positive impact on their business operations, although many anticipated impediments to implementation of China's WTO reforms. More than three quarters of the companies reported that they expected China's implementation of its WTO commitments would lead to an increase in their companies' activities in China, including their export volume to China, market share in China, and distribution of products there. However, many respondents also expected that many WTO commitments, particularly in rule of law-related commitment areas regarding consistent application of laws, regulations, and practices, and intellectual property rights, would be difficult for Chinese officials to implement. (See table 1 for 2002 survey respondents' views on the expected level of difficulty of China's implementation of commitment areas that were most important to them.)

**Table 1: 2002 Survey Respondents' Views on Difficulty of Implementation for China's WTO Commitment Areas Most Important to Them**

Commitment areas of highest importance	Expected difficulty of implementation		
	High	Medium	Low
Consistent application of laws, regulations, and practices	X		
Intellectual property rights	X		
Enforcement of contracts and judgments/settlement of disputes in Chinese court system	X		
Independence of judicial bodies	X		
Equal treatment between Chinese and foreign entities	X		
Transparency of laws, regulations, and practices	X		
Trading rights			X
Tariffs, fees, and charges			X

Source: GAO-02-1056, p. 24.

Note: These represent 8 of the 30 commitment areas listed in the 2002 survey.

## Companies Report Progress Made in China's WTO Implementation

Overall, in 2003, respondents thought that China had implemented most of the 26 specific WTO commitment areas to at least some extent when asked to characterize China's reform efforts along a four-point scale ranging from no extent to great extent.<sup>4</sup> Responses were mixed when company representatives assessed the commitment areas that we found to be of greatest importance to their businesses. In addition, the importance placed on specific commitment areas differed among respondents of the four industry groups—agriculture, banking, machinery, and pharmaceuticals. It is also important to note that many respondents reported they had no basis to judge the extent to which China had made reforms related to some WTO commitment areas, for reasons that varied depending on each company's experience and operations in China.

<sup>4</sup>The 2003 questionnaire listed 26 broad WTO commitment areas, whereas the 2002 survey listed 30 commitment areas. Some commitment areas were combined in 2003 in response to comments received during administration of the 2002 survey.

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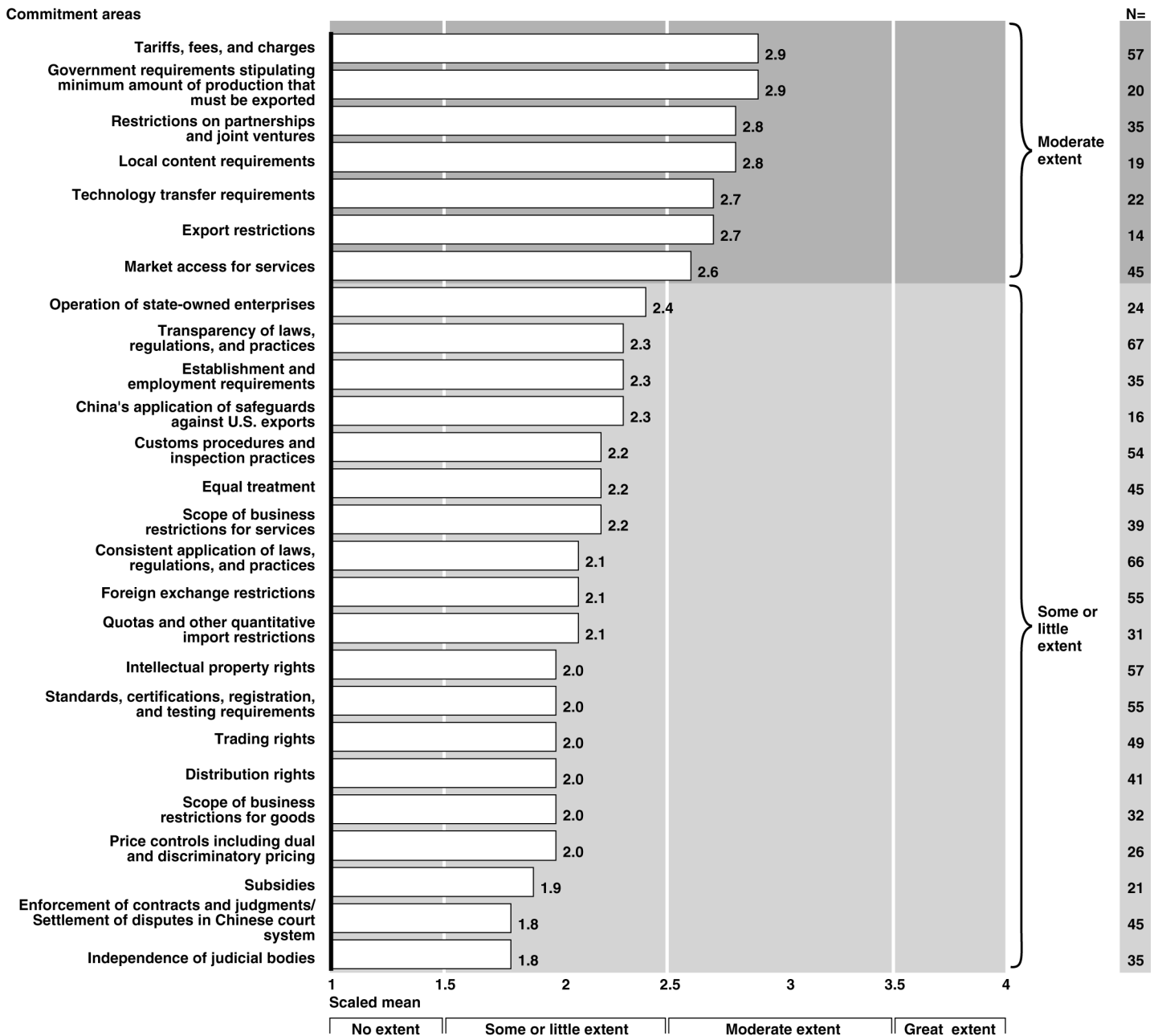
**Overall, Companies Report  
Low and Moderate Marks  
for the 26 WTO  
Commitment Areas**

Respondents' assessments of each area varied widely, but they generally reported low and moderate ratings of China's implementation.<sup>5</sup> See figure 1 for respondents' views on the extent of China's implementation of the 26 commitment areas, excluding those with no basis to judge. Many respondents had no basis to judge the extent of China's WTO reforms in certain commitment areas. This indicates that few companies have an in-depth knowledge of Chinese reforms across all 26 areas, as discussed in further detail later. Consequently, the number of company representatives evaluating each individual commitment area varied from 14 to 67.

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<sup>5</sup>In order to determine the extent to which respondents perceived that reforms were made in each of the 26 areas, we assigned values of 1 to 4 to responses ranging from "no extent" to "great extent" on a four-point scale. We then calculated average extent values for each of the commitment areas, where averages included the coded values from all respondents who expressed an opinion.

**Figure 1: Reported Extent of China's Implementation in 26 Commitment Areas**



N = number of respondents with basis to judge

Source: GAO analysis of responses to GAO 2003 Questionnaire of U.S. Companies in China on China-WTO Issues, question 7.

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Note: The weighted means shown for each commitment area are based on the number of company representatives that had a basis to judge each individual commitment area. To calculate the means, “Great extent” responses were given a weight of 4, “Moderate extent” responses were given a weight of 3, “Some or little extent” responses were given a weight of 2, and “No extent” responses were given a weight of 1. The number of respondents used to calculate each weighted mean is shown in the column labeled “N”.

On average, respondents assigned lower marks when assessing the implementation of 19 of the 26 listed commitment areas.<sup>6</sup> For example, company representatives thought that China had made reforms to only some or little extent when assessing China’s trading rights reforms<sup>7</sup> (right to import or export products) and price controls.<sup>8</sup> Company representatives said they eagerly awaited the implementation of China’s trading rights commitments in late 2004. Several company representatives noted that implementation of these commitments would provide more control over their business relationships in China and reduce or eliminate the need to rely on third parties such as distributors and trading companies. Although China had agreed to stop using price controls to restrict the level of imports, one company representative derided China’s price control reforms and others noted their concern regarding the Chinese government’s continuing control of prices on specific products.

Respondents on average assigned higher marks to the remaining 7 commitment areas.<sup>9</sup> For example, respondents thought that China had made reforms to a moderate extent when assessing China’s reforms to tariffs, fees, and charges; requirements stipulating a minimum amount of production that must be exported; and restrictions on partnerships and joint ventures. Several respondents described China’s efforts in lowering tariffs, fees, and charges including one respondent who noted that China had reduced tariffs for an agricultural product from 35 to 15 percent since joining the WTO. Company representatives also discussed China’s

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<sup>6</sup>These 19 commitment areas had average scores from 1.8 to 2.4, where values ranging from 1.5 to 2.5 represent a response of “some or little extent.”

<sup>7</sup>The WTO accession agreement committed China to phasing out the general limitations on companies’ rights to trade—that is, to import or export—within 3 years of accession.

<sup>8</sup>Price controls in China primarily take two forms—direct state or government pricing and the more flexible government guidance pricing. Although China has liberalized price controls, imported goods that remain subject to state trading control also remain subject to price controls or government guidance on prices.

<sup>9</sup>These 7 commitment areas had average scores from 2.6 to 2.9, where values ranging from 2.5 to 3.5 represent a response of “moderate extent.”

allowance for greater market access for services, stated that WTO has allowed companies to provide after-sales service, and one said that “China is doing a good job” in addressing this area.

### Respondents Had Mixed Views on Important Commitment Areas

Respondents’ assessments of the most important commitment areas provide further detail regarding companies’ views on China’s progress. See table 2 for the ranking of the commitment areas by importance to respondents, which we calculated using weighted responses. More than half of respondents reported that China had made reforms to a moderate or great extent when asked to assess China’s *overall* progress in implementing reforms that were important to their companies. However, when asked to assess China’s implementation of specific commitment areas, responses for four of the five most important areas fell in the “some or little extent” category. Company representatives from the four industries assigned varied levels of importance to specific commitment areas.

**Table 2: Ranking of Commitment Areas by Importance to GAO Questionnaire Respondents**

Rank	Commitment area	Weighted score
1	<b>Standards, certifications, registration, &amp; testing requirements (product safety, animal, plant, &amp; health standards, etc.)</b>	<b>51</b>
2	<b>Customs procedures &amp; inspection practices</b>	<b>42</b>
3	<b>Intellectual property rights</b>	<b>40</b>
4	<b>Tariffs, fees, &amp; charges</b>	<b>39</b>
5	<b>Consistent application of laws, regulations, &amp; practices (within &amp; among national, provincial, &amp; local levels)</b>	<b>36</b>
6	Trading rights (ability to import & export)	31
7	Market access for services	27
8	Scope of business restrictions for services (types you can provide, customers you can do business with, number of transactions you can conduct, & where you can conduct business geographically)	24
9	Foreign exchange restrictions (including balancing & repatriation of profits)	23
9	Transparency of laws, regulations, & practices (publishing and making publicly available)	23
9	Enforcement of contracts & judgments/Settlement of disputes in Chinese court system	23
12	Distribution rights	18
13	Quotas and other quantitative import restrictions	15
14	Scope of business restrictions for goods (types you can provide, customers you can do business with, number of transactions you can conduct, & where you can conduct business geographically)	13
15	Government requirements stipulating minimum amount of production that must be exported	11

(Continued From Previous Page)

Rank	Commitment area	Weighted score
16	Restrictions on partnerships & joint ventures (choice of partner & equity limits)	7
17	Price controls including dual and discriminatory pricing	5
18	Establishment & employment requirements (capital, deposit, years in practice, threshold sales, forced investment, & nationality/residency requirements)	4
18	Equal treatment (in taxation, access to funding, and under Chinese law)	4
18	Operation of state-owned enterprises	4
18	Export restrictions	4
22	Independence of judicial bodies	3
22	Subsidies	3
24	Local content requirements	2
25	Technology transfer requirements	1
26	China's application of safeguards against U.S. exports (antidumping and other legal actions against import surges)	0

Source: GAO analysis of responses to GAO 2003 Questionnaire of U.S. Companies in China on China-WTO Issues, question 5b.

Note: The weighted score is the sum of weighted votes by respondents identifying each commitment area as one of the three most important areas for their companies (3, 2, 1 values assigned to top, second, and third choices, respectively). The five most important commitment areas are shown in bold type.

### Respondents Rated Progress in Five Most Important Commitment Areas

The five specific commitment areas ranked as most important to respondents overall were (1) standards, certifications, registration, and testing requirements; (2) customs procedures and inspection practices; (3) intellectual property rights; (4) tariffs, fees, and charges; and (5) consistent application of laws, regulations, and practices. Among these five areas, tariffs, fees and charges received higher marks, with respondents reporting on average that China had made reforms to a moderate extent. Respondents noted that it was relatively easy to assess China's implementation of tariffs, fees, and charges because China had set time schedules for tariff reductions on various products. Many respondents told us that China's efforts to achieve tariff reductions were on schedule, allowing companies to pay lower tariffs on imported products.

Respondents provided lower ratings on average for the four other important commitment areas and indicated that China had only implemented these reforms to some or little extent. In the area of standards, certifications, registration, and testing requirements, for example, some respondents discussed continuing requirements such as product registrations that require approval from multiple Chinese government agencies, delays and bureaucratic bottlenecks in processing product registration, and the use of product standards to protect Chinese



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agricultural producers. When evaluating China's reforms made in customs procedures and inspection practices, company representatives discussed the "hassles" and inefficiencies created by an unpredictable and slow customs system characterized by inconsistent application of standards and duties. In addition, numerous company representatives discussed the limitations of China's efforts to address intellectual property rights. Respondents cited specific experiences with generic copies of pharmaceutical products, products illegally copied to look like those of U.S. companies, and false labeling of Chinese products. Some respondents even commented on the Chinese government's inadequate enforcement of intellectual property rights. Furthermore, some respondents noted inconsistency in China's application of laws, regulations, and practices within and among national, provincial, and local levels of government. For example, one banking representative said that different local governments each have different explanations of China's laws and regulations. This issue illustrates a larger rule of law-related problem discussed by company representatives: the Chinese national government's commitment to WTO implementation did not always coincide with local governments' interpretation and implementation of China's commitments.

#### Industries Placed Importance on Different Commitment Areas

Respondents among the four selected industries (agriculture, banking, machinery, and pharmaceuticals) had different views on the commitment areas most important to their companies. For example, representatives of agricultural companies and organizations noted the significance of quota reductions while representatives of banking firms emphasized commitments related to market access for services and foreign exchange restrictions. Moreover, machinery company representatives identified customs procedures and inspection practices as an important area for their transport of goods. For pharmaceutical companies, intellectual property and trading rights stood out as among the most important commitments. Table 3 shows respondents' views on the most important commitment areas by industry.

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**Table 3: GAO Questionnaire Respondents' Views on the Most Important Commitment Areas, by Industry**

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**Agriculture (Company representatives = 5; Agricultural organization representatives = 10)**

- (1) Standards, certifications, registration, and testing requirements
- (2) Tariffs, fees, and charges
- (3) Quotas and other quantitative import restrictions

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**Banking (Company representatives = 10)**

- (1) Consistent application of laws, regulations, and practices
- (2) Scope of business restrictions for services
- (2) Market access for services
- (3) Foreign exchange restrictions

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**Machinery (Company representatives = 48)**

- (1) Customs procedures and inspection practices
- (2) Tariffs, fees, and charges
- (2) Standards, certifications, registration, and testing requirements
- (3) Intellectual property rights

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**Pharmaceuticals (Company representatives = 12)**

- (1) Intellectual property rights
- (2) Standards, certifications, registration, and testing requirements
- (3) Trading rights

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Source: GAO analysis of responses to GAO 2003 Questionnaire of U.S. Companies in China on China-WTO Issues and GAO 2003 Questionnaire of U.S. Nonprofit Agricultural Organizations, question 5b.

Note: Representatives from each industry and agricultural organizations selected the commitment areas included above as the three most important commitment areas for their companies. The same ranking number is shown when the responses were the same for multiple commitment areas. These results include those responding from the study population of 79 company representatives, the 11 representatives of agricultural organizations, and one agricultural company interviewed in 2003 and 2002.

The relative importance that respondents from the four industries assigned to each of the 26 commitment areas reflected the nature of their businesses. Company representatives also described the importance of these commitment areas in terms of their experiences with China's reform efforts. First, for example, agricultural companies identified the tariff-rate quota system<sup>10</sup> as well as China's application of sanitary and phytosanitary measures and inspection requirements as important. Similarly, other

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<sup>10</sup>China has committed to allow controlled access for imports of some bulk agricultural commodities using the tariff-rate quota system.

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agriculture respondents emphasized the importance of tariffs and one company representative noted that some agricultural tariffs applicable to his company had declined as much as 40 percent. A representative of an agricultural organization also noted that although China had increased trading rights, continued quota restrictions undermined this effort. Second, key issues for banking firms (a service industry) included China's market access commitments to fully open the industry to foreign banks 5 years after China's accession to the WTO. Banking industry representatives also identified scope of business restrictions, which can limit the types of services offered to clients, as important. However, company representatives also told us that market access obstacles, such as branch licensing that limits the ability of foreign banks to offer additional products and to expand geographically, continue to exist. Next, machinery companies identified the importance of China's tariff rates and product certification system that sometimes involves on-site inspection of manufacturing facilities outside of China. Some machinery company representatives discussed the importance of timely product certification at the ports, the importance of an efficient product registration process for new products imported into China, and the need for testing procedures at customs that allow products to enter the country without damage caused by product testing. Finally, representatives from pharmaceutical companies identified protection of intellectual property rights as important and said that they continue to face challenges in this area. Specifically, several pharmaceutical company representatives discussed the continued need for patent protection to prevent counterfeiting of drugs sold at a fraction of the price charged for the genuine product. A few representatives of pharmaceutical firms noted that the Chinese government had allowed counterfeit generic drugs to be sold and believed that China displayed discrimination favoring Chinese products rather than complying with the principle of national treatment, under which imported foreign products and services are treated no less favorably than domestic products or services. As described by one company representative, although protection of intellectual property rights is getting better, the situation is still bad. Another respondent said simply that "piracy is everywhere" in China.

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### Many Respondents Could Not Assess Progress of China's WTO Implementation

Another notable finding of our questionnaire is that many respondents were unable to assess certain commitment areas listed in our questionnaire. Company representatives provided a number of explanations for their limited ability to evaluate China's progress in implementing specific WTO commitment areas. Specifically, for 13 of the 26 specific commitment areas we asked about, more than half of the

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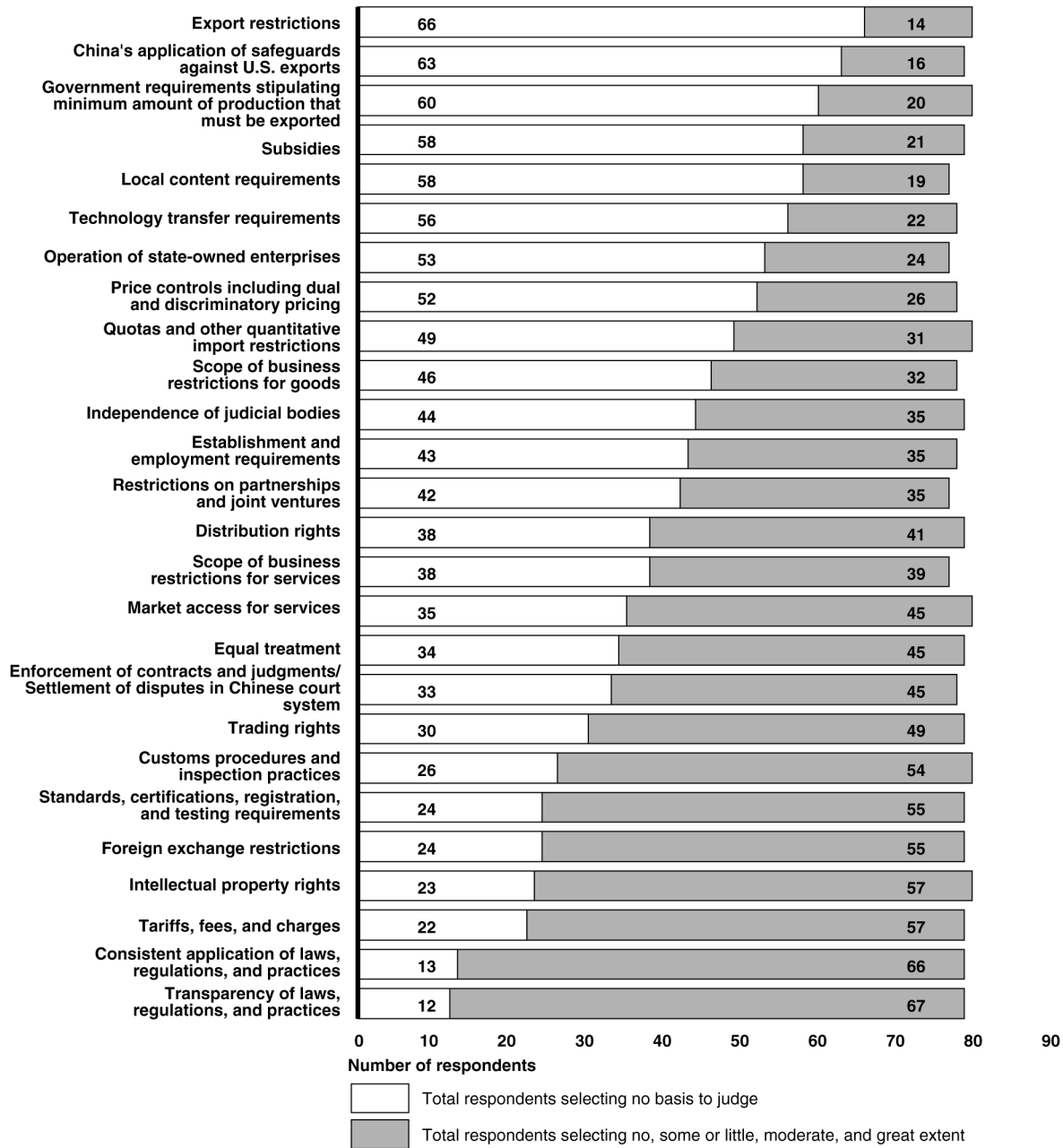
respondents said they had no basis to judge the extent to which China had made reforms in these commitment areas. Most notably, for four commitment areas, at least three quarters of the respondents selected “no basis to judge” when asked to assess the extent to which China had actually made reforms in these commitment areas. These areas included export restrictions, such as eliminating taxes and charges on exports; China’s application of safeguards against U.S. exports, which includes antidumping<sup>11</sup> measures and other legal actions against import surges; local content requirements; and government requirements stipulating a minimum amount of production that must be exported. See figure 2 for the number of respondents who indicated they had no basis to judge China’s reforms and those who assessed China’s implementation of its WTO commitment areas.

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<sup>11</sup>Antidumping measures include a duty or fee imposed to neutralize the injurious effect of unfair pricing practices known as “dumping.” Dumping refers to the sale of a commodity in a foreign market at a price lower than its fair market value.

**Figure 2: Comparison of Number of Respondents Who Assessed China's Implementation of Commitment Areas and Those with No Basis to Judge**

Commitment areas



Source: GAO 2003 Questionnaire of U.S. Companies in China on China-WTO Issues, question 7.

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The reasons for a “no basis to judge” response could result from any number of factors, including the irrelevance of specific commitment areas to particular companies, lack of experience with commitment areas, and lack of knowledge about China’s WTO commitments. Some company representatives told us that they could not assess commitment areas that simply did not apply to their companies. For example, representatives of machinery companies had no basis to judge “scope of business restrictions for services” because they did not provide services. Other respondents stated that their companies did not have experience with particular commitment areas, such as one respondent’s inability to comment on “independence of judicial bodies” because the respondent’s company had not accessed the Chinese judicial system. Moreover, some respondents noted that they did not have sufficient awareness and understanding of the exact terms of China’s WTO commitments and/or did not actively track specific Chinese implementation efforts. Several respondents told us that they often could not distinguish between China’s broad economic reforms and its actions taken to implement specific WTO commitments. Other respondents said that the WTO did not apply to their company’s business model, did not really matter to their business, or did not have relevance to current market conditions that affected their business.

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## Most Respondents Reported a Positive Impact from China’s WTO Implementation

Most respondents reported that China’s implementation of its WTO commitments had had a positive impact on their companies, even though some company representatives indicated that China’s reform efforts would continue to present challenges for their company operations in China. For example, one respondent noted the success of his company’s overall operations in China but stated that implementation of China’s WTO commitments remained slow and problematic. Another company representative noted that although actual changes are happening very slowly, the overall pressure to reform is having a positive effect. Companies also provided information on whether various business activities had increased, stayed about the same, or decreased since China joined the WTO in December 2001. The majority of respondents reported that most of the 13 business activities such as revenue stream and volume of production in China had increased. Company representatives described a broad range of increased company activities including new lines of business and new products, expansion of existing business to meet growing demand, and the opening of new branch offices and factories. Some respondents discussed the broad range of factors that influence company business activities. Respondents cited other factors, such as the business environment in

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China and general market and economic conditions, as more direct influences on company activities than China's WTO membership.

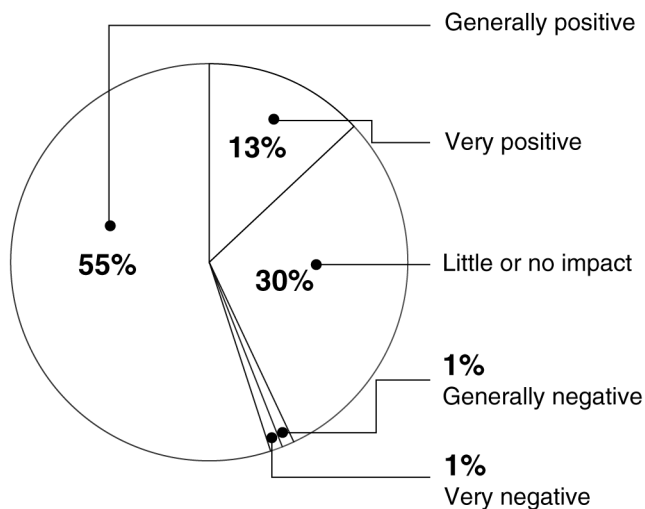
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### Company Representatives Reported Positive Impact on Business in China

Overall, company representatives reported a generally positive impact from implementation. More than two thirds of the 80 company representatives responding to this question reported that China's implementation of its WTO commitments had had a positive impact on their companies, as shown in figure 3. Some respondents noted that China's accession to the WTO had increased business opportunities for their companies through changes such as decreased tariffs and increased transparency of laws and regulations. Respondents also noted that the lower tariffs helped to improve business in China and had had an immediate impact on their bottom line because of reduced costs, ultimately helping their companies increase profits. One company representative told us that the prevalence of government officials with a pro-business attitude and the ability to speak English proficiently had contributed to the positive impact on company operations in China.

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**Figure 3: Impact of China's WTO Implementation on GAO Questionnaire Respondents' Companies**



Source: GAO 2003 Questionnaire of U.S. Companies in China on China-WTO Issues, question 8.

Note: N = 80. Two respondents had no basis to judge.

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Responses regarding the impact of China's WTO implementation on their companies varied when analyzed by company size and industry. First, when analyzed by company size, a majority of representatives of small- and medium-sized enterprises reported little, no, or a negative impact from WTO implementation. Large company representatives responded more positively, with nearly three quarters selecting either "very positive" or "generally positive" when asked what impact China's WTO implementation had on their company's ability to do business in China. Second, a majority of respondents in three of the four industries reported a positive impact on company operations. Specifically, most of the representatives of agricultural companies reported little, no, or a negative impact from China's implementation efforts. Agriculture respondents discussed negative consequences resulting from WTO-inspired testing requirements that ultimately resulted in the rejection of U.S. shipments to China. In contrast to agriculture, almost all of the banking industry respondents reported either a very positive or generally positive impact on their companies' ability to do business in China. One representative from a banking company stated that his company has a positive view of market development in China—the rules seem much clearer for banks and there is an increased sense of assurance that the company can be successful as a result of China's WTO implementation. A majority of the manufacturing and pharmaceutical company respondents also reported more positive than negative responses regarding the impact of China's WTO implementation on their companies.

#### Impact from China's Reforms Expected to Continue

A number of company representatives reported a positive outlook for their future in China when asked about the likely impact that China's WTO implementation would have in 2 years' time, but they also noted the challenges they expect to continue. Some respondents said they expected the overall business environment in China would improve significantly. Others specifically discussed WTO commitments that would have an impact on their ability to do business in China. For example, some respondents stated that additional tariff cuts would reduce product costs and result in increased profits. However, other respondents discussed obstacles hindering reform efforts. One company representative noted that China's regulatory reforms may be fine on paper, but speculated that actual implementation could invalidate the intent of the reforms. Some company representatives noted that different interpretations of laws and regulations as well as varied approaches to implementation between provinces and levels of government create challenges for foreign companies in China. Several company representatives discussed ongoing delays to business operations resulting from Chinese requirements for product registration



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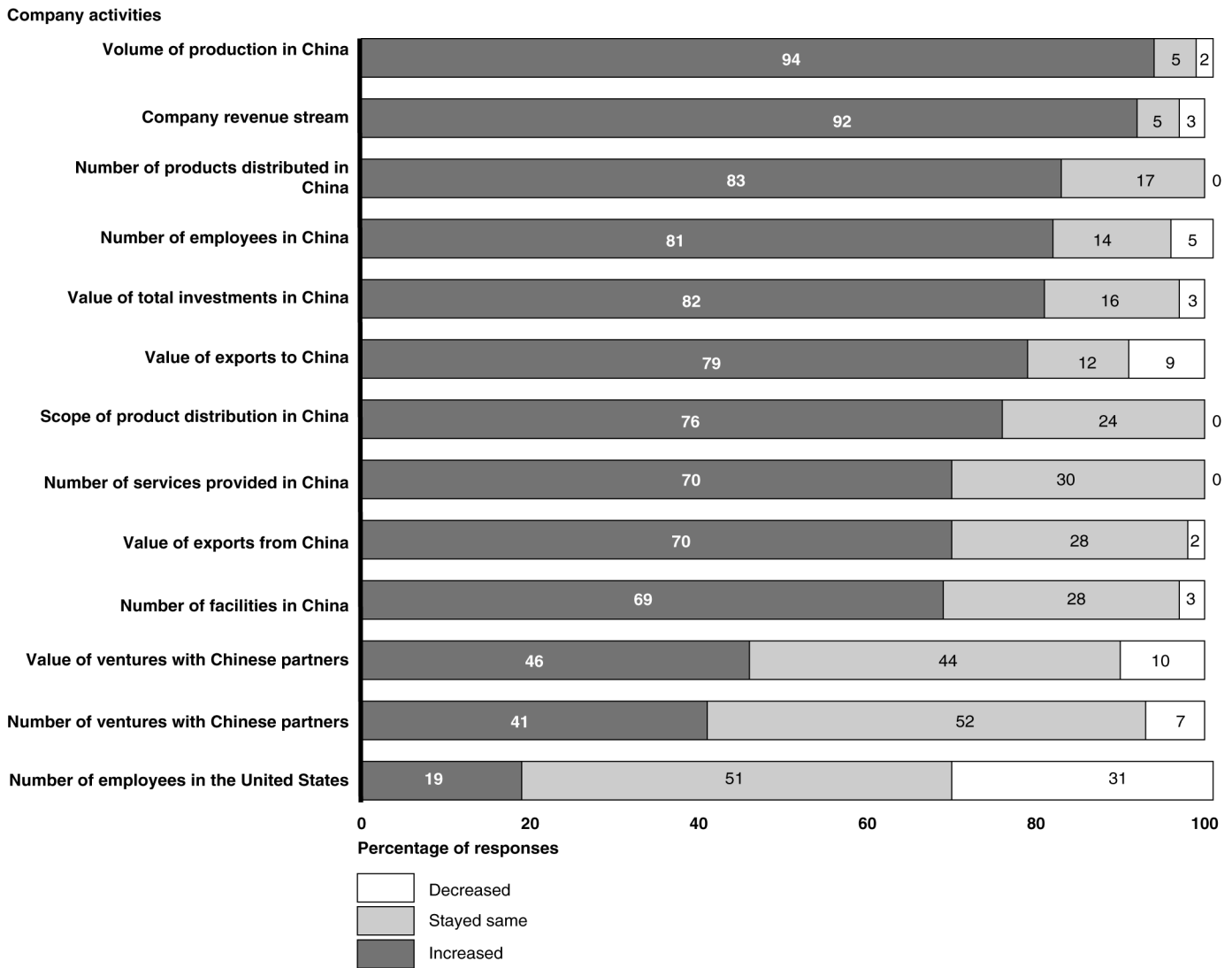
and testing. Generally, company representatives said that progress is continuing, that their parent companies would continue investing in business operations in China, and that they expected the overall business climate to improve, but reforms could take time.

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### Company Business Activities in China Increasing

Overall, our questionnaire respondents reported that their company activities have increased since China joined the WTO. Respondents indicated whether their companies' business activities in 13 areas had increased, stayed about the same, or decreased since China joined the WTO in December 2001. Specifically, at least 70 percent of respondents reported that their companies' business activities had increased for 9 of the 13 listed activities, as shown in figure 4. Some company representatives told us that China's WTO membership helps to attract foreign investment, which in turn helps their businesses. In contrast, most respondents reported that the other four activities had stayed the same or decreased. Activities that had stayed the same or decreased included the number and value of their ventures with Chinese partners. None of the respondents to our questionnaire reported a decrease in the number of products distributed in China, the scope of product distribution in China, or the number of services provided in China. But almost one third of respondents indicated that the number of company employees in the United States had decreased while about one sixth reported an increase. Respondents told us that the number of employees in the United States depends on factors other than China's WTO accession, such as current economic conditions, corporate restructuring, changes in the company's industry, and/or a change in company strategy. Some respondents also discussed the difficulty of identifying a link between other company activities and China's WTO membership. Company representatives cited a number of possible influences on changes in company activity levels, such as China's ongoing economic reforms, an improving business environment in China, and market development opportunities in China.

**Figure 4: U.S. Company Business Activities Since China Joined the WTO**



Source: GAO 2003 Questionnaire of U.S. Companies in China on China-WTO Issues, question 12.

Note: Percentages for the individual activities are based on the number of respondents who made a judgment about each business activity. Therefore, the percentages do not include respondents who checked "No basis to judge" or "No answer," or did not provide an answer. Percentages may exceed 100 percent due to rounding. Appendix II provides a breakdown of these responses.

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## Concluding Observations

Our analysis of U.S. companies' responses to our questionnaire provides findings and lessons that have important implications for policymakers who rely on private sector input in order to judge China's progress in opening its market. As noted in our March 2003 report, the private sector plays an important role in monitoring and enforcement activities. Our results indicate areas where China has made progress in carrying out WTO-related reforms and areas that might need more attention. Our results also show that despite the problems U.S. companies are facing in China's implementation of specific commitment areas, more than two thirds of respondents indicated that China's WTO implementation had a positive impact on their companies' ability to do business in China.

Our work also provides a number of lessons regarding the use of private sector input that could help shape best practices for U.S. government efforts to monitor and enforce China's compliance with its commitments. First, because company experiences and assessments varied, both overall and among companies in the same industry, policymakers are well advised to seek input from a number of companies with interests in an area of concern and not just a few companies. Doing so increases the representativeness of the information gathered for monitoring purposes, because views are often company-specific and one company in an industry cannot be assumed to speak for all.

Second, we found that the number of company representatives who report they have a basis to judge China's implementation of specific WTO commitment areas varies greatly. Broad input from a wide range of companies assures policymakers that monitoring is authoritative and complete because relatively few individual companies believed they had a basis to judge all 26 commitment areas. Furthermore, in some cases, like Chinese export restrictions, application of safeguards, and/or subsidies, very few U.S. companies reported they had a basis to judge implementation. This observation raises the question of whether U.S. government officials can rely on private sector input to identify the full range of China's compliance problems. Instead, for some commitment areas, alternative strategies that reach out to specific companies or that rely on economic or legal information to identify problems, for example, may be needed to monitor China's implementation.

Finally, we report that respondents cited a number of factors that influence company activities in addition to China's efforts to implement specific WTO commitments. These results reaffirm the importance of ongoing private

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sector education about China's WTO obligations and the market access opportunities that the private sector should expect. Furthermore, it indicates that any monitoring strategy benefits from collecting and reviewing information about what companies may consider solely "commercial problems" but that may actually involve WTO-related issues, where the U.S. government can clearly take action.

Nevertheless, knowledge of U.S. company views remains fundamental for policymakers to judge the degree to which the benefits of China's WTO membership are being realized. We will consider the implications of this work as we conduct our current review of U.S. government monitoring and enforcement activities.

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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 IV.



Loren Yager  
Director, International Affairs and Trade

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# Objectives, Scope, and Methodology

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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). This work began in 2001 and includes examining, through annual surveys, the experience of U.S. firms doing business in China. Our objectives for this report were to assess the views and experiences of selected U.S. companies with a presence in China regarding (1) the extent to which China has implemented its WTO commitments in key industries and (2) the impact of China's implementation of its WTO commitments on these U.S. companies' business operations. To respond to our objectives, we collected the views of 82 U.S. companies and 11 representatives of U.S. agricultural associations with offices in China.

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## Data Collection

To answer our two objectives, we gathered company views primarily via in-person interviews in China; we also conducted some interviews by telephone in instances when it was logistically impossible to schedule in-person meetings. We used this approach because the work we conducted for our 2002 report on U.S. company views indicated that this method would yield better response rates than mail or Web surveys and would allow us to contact the corporate representatives who were most knowledgeable about WTO implementation issues. We selected the participants from a commercial database listing U.S. companies that were identified as being in China as of 2003. We purchased the database, *Foreign Companies in China 2003*, from Commercial Intelligence Service, a division of Business Monitor International. Our research indicated that this database best met our need for identifying U.S.-nationality companies and their respective contact information in China by industry. However, the database likely does not include all U.S. companies in China, because foreign investors present a constantly changing population, some companies in China may not wish to publicize their presence, and/or because it is not always clear who is the ultimate parent of corporate subsidiaries.

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## Industry Selection

We selected industries that encountered implementation issues, had key commitments implemented during China's first year of WTO membership, and industries with concentrations of U.S. foreign investment in China. The four industries included: agriculture, banking, machinery, and pharmaceuticals. Although fewer U.S. agriculture-related companies have a

physical presence in China than the other three selected industries, agriculture emerged as a key implementation issue in 2002, and its importance continued in 2003. In addition to interviewing the agricultural firms listed in the purchased database, we also conducted structured interviews with a judgmental selection of 11 representatives of nonprofit agricultural associations in China. The representatives of these associations promote U.S. agricultural exports to China for various commodities. We interviewed them to gain a more complete understanding of U.S. agricultural interests in China and do not generalize their responses to the full universe of nonprofit agricultural associations. Funding for representative offices of these associations in China is in part provided by the U.S. government through the Department of Agriculture's Foreign Market Development Cooperator Program.<sup>1</sup> We administered the same questionnaire we used for the private sector firms, with slight modifications to acknowledge the nature of these cooperators as nonprofit associations rather than companies. Data for these associations are presented separate from company representative responses in the report. Next, the banking industry provided an opportunity to explore the experiences of firms that provide services in China. Banking issues also emerged as a concern for U.S. government officials during the first year of China's WTO membership. Third, machinery is an industry with representation from a broad range of U.S. companies. Finally, for the pharmaceutical industry, numerous commitments were scheduled for implementation during China's first 2 years of WTO membership. In addition, this industry provided an opportunity for us to explore the experience of companies with an interest in intellectual property rights, a key issue during the first year of China's WTO membership.

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<sup>1</sup>The Foreign Market Development Cooperator Program provides financial assistance to nonprofit U.S. agricultural trade organizations that have the broadest possible producer representation of U.S. agricultural commodities being promoted in foreign markets. The funds provided under the Commodity Credit Corporation Charter Act for this program (15 U.S.C. 714c(f)) are made available on a competitive basis for the promotion of generic activities that do not involve promotions targeted directly to consumers. The U.S. Department of Agriculture's Foreign Agricultural Service administers the Cooperator Program.

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## Sample Development

Companies from the four selected industries were identified in the aforementioned electronic database, *Foreign Companies in China 2003*, purchased from the Commercial Intelligence Service. The database contained a total of 243 contacts for companies in the four selected industries. We reviewed the list of contacts in order to judgmentally identify primary, secondary and tertiary contacts for each company. In addition, we confirmed U.S. incorporation for each company, leaving a total of 149 companies in our study population.

During the scheduling process, it became apparent that positive responses from companies on the invited list of 149 companies might not fill our itinerary for the planned 2-week data-gathering trip to China in October 2003. Consequently, we supplemented the list of 149 companies with the list of 48 companies that had completed interviews with us in China in 2002. Three of these 48 companies accepted the interview invitation and completed structured interview questionnaires. These companies are included in our data analysis of 82 questionnaire responses. See table 4 for an explanation of the results of requests for interviews with the 149 companies from the four selected industries.

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**Table 4: Results of Requests for Interviews from U.S. Companies**

Result	Number of companies
Usable response received	79
Refusal	38
Contact information could not be located	18
Parent company incorporated outside the U.S.	7
Company name identified as duplicate listing	5
Other (out of business or no longer invested in China)	2

Source: GAO analysis of U.S. companies in agriculture, banking, machinery, and pharmaceutical industry listings from Commercial Intelligence Service database.

Note: The study population included 149 companies. GAO received responses from 82 of these companies. However, we interviewed 3 of these companies in 2002, but their names did not appear in the purchased database. Consequently, these three responses are not included in the study population results shown in table 4.

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## Questionnaire Administration

We conducted structured interviews with representatives of U.S. firms and agricultural organizations in the United States and Beijing, Shanghai, and

Hong Kong, China, in October 2003.<sup>2</sup> Structured interviews provided an opportunity to discuss questionnaire responses in greater detail as well as gain an understanding for the context of these responses. We discussed topics during the interviews that included the importance of China's WTO commitment areas, the extent to which China had implemented reforms in WTO commitment areas, and the impact of China's reforms on respondents' companies.

We restricted our analysis to the subset of firms that responded to our questionnaire, and we did not make estimates about the larger population of all U.S. companies with a presence in China. From the study population of 149 U.S. companies with a presence in China, we received 79 questionnaires, for an overall response rate of 60 percent.<sup>3</sup>

As the response rate was 60 percent, and some key questions had a high frequency of "no basis to judge" responses, we did not calculate sampling errors, and we present questionnaire results in this report in unweighted form. The unweighted responses represent the responses received and are not projected to the population of U.S. companies with a presence in China nor the four selected industries.

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## U.S. Companies Responding to the Questionnaire

Respondents to our questionnaire from the study population represented four industries: agriculture, banking, machinery, and pharmaceuticals. The largest number of respondents represented machinery companies, followed by pharmaceuticals, banking, and agriculture. Figure 5 displays the number of respondents from each of the four industries.

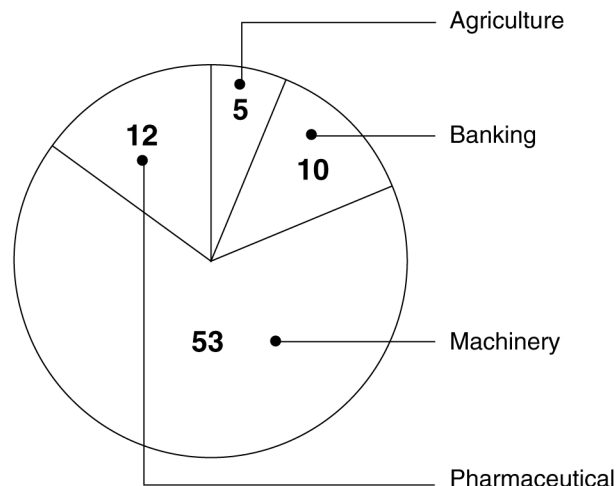
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<sup>2</sup>Our work included a several-month suspension due to travel restrictions resulting from the outbreak of Severe Acute Respiratory Syndrome (SARS) in China in 2003.

<sup>3</sup>We calculated the response rate as  $(\text{Responses received}) / (\text{Responses received} + \text{Refusals} + \text{estimated eligible nonrespondents}) = (79 / (79 + 38 + 15.29)) = 59.72$  percent. Estimated eligible nonrespondents were calculated as the proportion of contacted companies that were eligible  $(79 / (79 + 7 + 5 + 2)) = 94.95$  percent), multiplied by the number of companies that could not be located, or  $0.9495 \times 18 = 15.29$ .



Figure 5: Number of Companies Responding to GAO's Questionnaire, by Industry



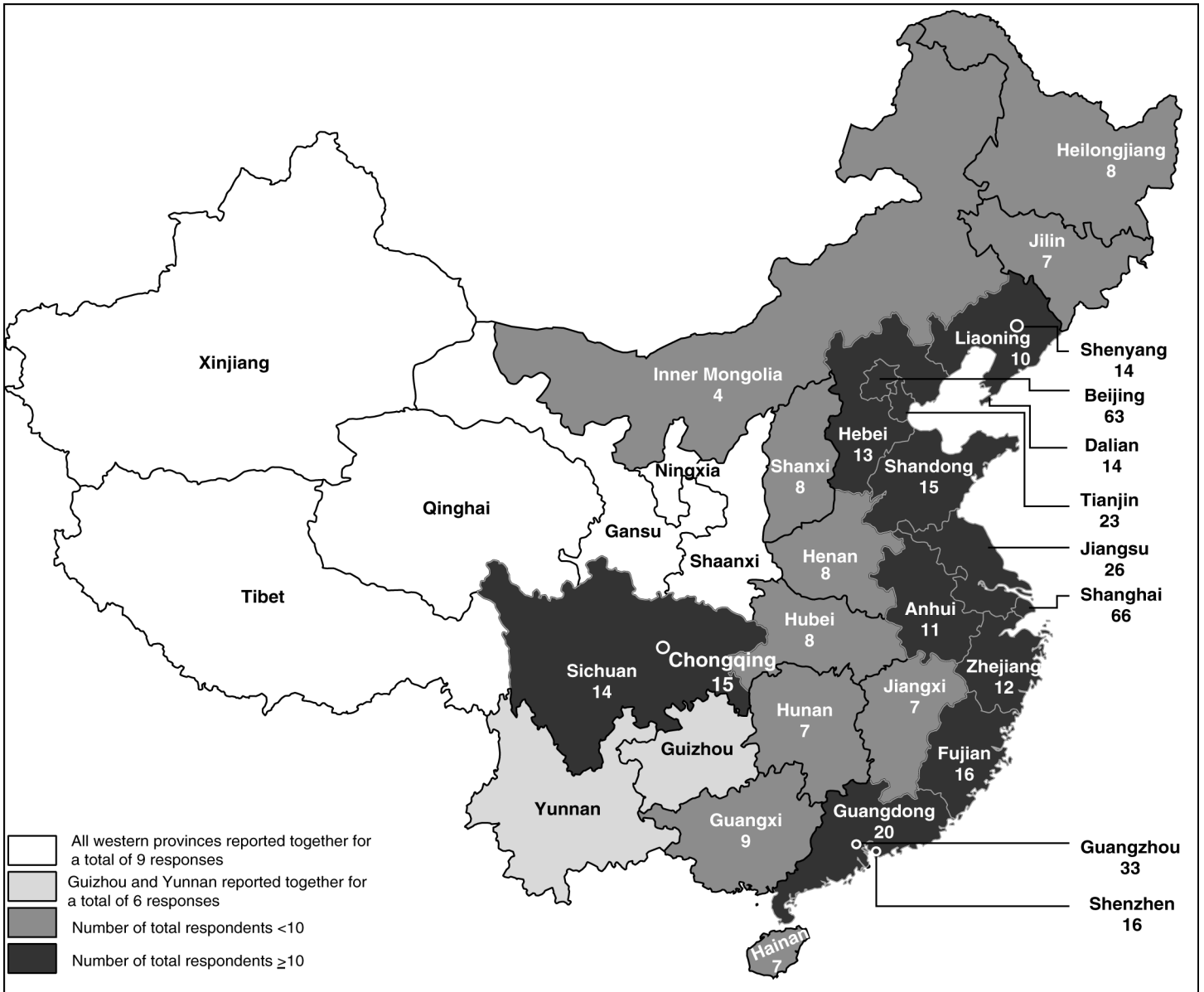
Source: GAO 2003 Questionnaire of U.S. Companies in China on China-WTO Issues, question 1.

Note: N=80. The number of company respondents reflected in the figure includes the 79 respondents from the four industries selected in 2003 plus one agricultural company not listed in the purchased database that we interviewed in 2003 and 2002. The other two companies interviewed in 2003 and 2002 were not in any of the four selected industries.

## Location of Respondents in China

Questionnaire respondents reported that they carry out their business activities in facilities and offices across all of China. Shanghai, Beijing, and Guangzhou 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 questionnaire (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 Shanghai, Beijing, or Guangzhou. About one third of respondents reported having facilities or some other presence in all three of these locations, while about two thirds of respondents reported having a presence in locations beyond Shanghai, Beijing, and Guangzhou. Figure 6 shows the number of companies that reported having a facility or other presence in each location in China listed in our questionnaire.

Figure 6: Location of Facilities or Other Presence of GAO Questionnaire Respondents



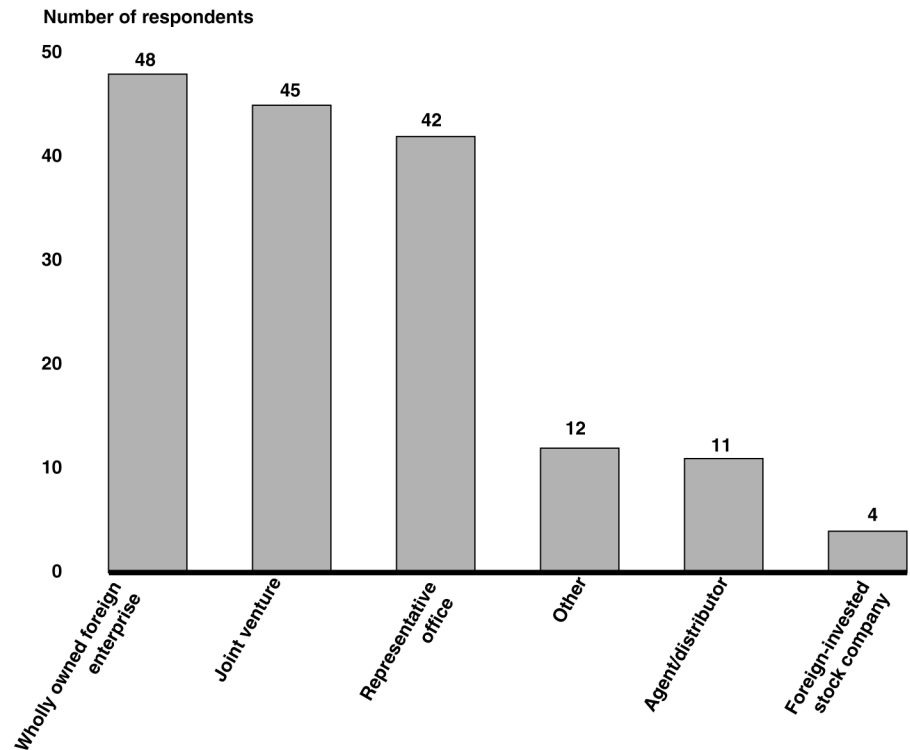
Source: GAO 2003 Questionnaire of U.S. Companies in China on China-WTO Issues, question 3.

Note: N=82. Respondents could select multiple locations.

## Respondents' Business Relationships in China

Respondents reported that they engage in a range of business relationships in their many locations throughout China. More than two fifths of respondents reported having one type of business relationship; about one third of the respondents had two types of relationships; and about one quarter of the respondents reported three or more types of business relationships there. Wholly owned foreign enterprises, joint ventures, and representative offices were the most frequently reported types of business relationships, respectively. Figure 7 displays the number of respondents that reported each type of business relationship.

**Figure 7: Number and Types of Respondents' Business Relationships in China**



Source: GAO 2003 Questionnaire of U.S. Companies in China on China-WTO Issues, question 2.

Note: N=82. Respondents could select all business relationships that applied.

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**Respondents' Company Size** Respondents also varied in terms of the number of employees in the United States and the number of employees in China. The number of employees in the United States varied from none (such as a company incorporated in the United States but with all employees in China) to 90,000. Most of the companies that completed our questionnaire, however, were large companies. Less than 15 percent of respondents reported that they had 500 or fewer employees in the United States. The number of employees that companies reported having in China ranged from zero to 8,000. Almost two thirds of respondents reported that they had 500 or fewer employees in China.

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**Limitations** All firms that responded to our questionnaire 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 agency of the U.S. Congress. In addition, respondents reported varied knowledge of China's WTO commitments and their application to their companies.

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**Measures Taken to Address Limitations** Other potential sources of errors associated with the questionnaire, 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. We developed this questionnaire based on the experience we gained administering the instrument for our 2002 survey of U.S. companies with a presence in China. In addition, we solicited feedback from internal and external parties on a draft of this year's questionnaire. We pre-tested 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.

We addressed possible interviewer bias, including the fact that we conducted some interviews by telephone, by ensuring that all respondents had copies of the instrument in front of them when we conducted our interviews. We compared the results of our questionnaire to those of recent surveys of U.S. companies in China that were conducted by the U.S.-China Business Council and the American Chambers of Commerce in China and in Shanghai. While these surveys targeted different populations of U.S. companies in China and had low response rates, we noted that both had a

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**Appendix I**  
**Objectives, Scope, and Methodology**

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few questions that were similar to ones we used and that both obtained results that were broadly similar to ours.

We did our work in the Washington, D.C., area, and in Beijing, Hong Kong, and Shanghai, China. We performed our work from October 2002 to January 2004 in accordance with generally accepted government auditing standards.

# Questionnaire of U.S. Companies in China (and U.S. Nonprofit Agricultural Organizations) on China-WTO Issues

Note: The questionnaire given to company representatives differed slightly from the version administered to nonprofit agricultural organizations. Wording differences for questions that differed are noted throughout the questionnaire in parentheses. Agricultural organizations were not asked a few questions in this questionnaire. An asterisk marks one additional question that was asked of agricultural organizations and not asked of company representatives. Numbers shown in bold throughout the questionnaire denote company representatives' responses and do not include responses by nonprofit agricultural organizations. Agricultural organizations' responses are denoted in parentheses for applicable questions.



**U.S. General Accounting Office  
2003 Questionnaire of U.S.  
Companies (and U.S. Nonprofit  
Agricultural Organizations) in  
China on China-WTO Issues**

a) Interview location:		g) Respondent's name:	
b) Industry group:	AG BK MH PH	h) Respondent's title:	
c) Specific industry:		i) Respondent's company:	
d) Name of interviewer:		j) Respondent's phone:	
e) Date of interview:		k) Respondent's e-mail:	
f) Interview ID number:			

**COMPANY BACKGROUND QUESTIONS**

We'd like to start off with a few background questions that will help us learn about your company's business operations (organization's operations) in China in the \_\_\_\_\_ industry.

**Q1) First of all, could you please provide some background information about your company's business operations (organization's operations) in the \_\_\_\_\_ industry in China?**

N (Total company representatives and nonprofit agricultural organizations) = 93  
N (Total company representatives without nonprofit agricultural organizations) = 82

N (Agricultural companies) = 5  
N (Nonprofit agricultural organizations) = 11  
N (Banking companies) = 10  
N (Machinery companies) = 53  
N (Pharmaceutical companies) = 12  
N (Other) = 2

**\*Q1a) (for agricultural organizations only) Do all U.S. sales of your main commodity commonly go through your organization?**

**Appendix II  
Questionnaire of U.S. Companies in China  
(and U.S. Nonprofit Agricultural  
Organizations) on China-WTO Issues**

**Q2) Currently, what forms of business investment and operations does your company have in China? N = 82**

1. [11] Agent/Distributor in China
2. [42] Representative Office
3. [10] Minority Equity Joint Venture
4. [31] Majority Equity Joint Venture
5. [ 4 ] Contractual Joint Venture
6. [ 4 ] Foreign-invested Stock Companies
7. [48] Wholly Owned Foreign Enterprise
8. [12] Other (*Please describe.*)

**Q3) Where in China does your company have facilities or any other presence? N = 81**

	Facilities/ other presence		Facilities/ other presence
a) Anhui	11	p) Inner Mongolia	4
b) Beijing	63	q) Jiangsu	26
c) Chongqing	15	r) Jiangxi	7
d) Dalian	14	s) Jilin	7
e) Fujian	16	t) Liaoning (except Shenyang)	10
f) Guangdong	20	u) Shandong	15
g) Guangzhou	33	v) Shanghai	66
h) Guangxi	9	w) Shanxi	8
i) Guizhou & Yunnan	6	x) Shenyang	14
j) Hainan	7	y) Shenzhen	16
k) Hebei	13	z) Sichuan	14
l) Heilongjiang	8	aa) Tianjin	23
m) Henan	8	ab) Western province (Any) (Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, & Tibet)	9
n) Hubei	8	ac) Zhejiang	12
o) Hunan	7	ad) Other	16

**Q4) Approximately how many permanent, full-time employees does your company (organization) have in the United States and in China? N = 82**

- a) Approximate number of permanent full-time employees in the United States \_\_\_\_\_
- b) Approximate number of permanent full-time employees in China \_\_\_\_\_

**Appendix II  
Questionnaire of U.S. Companies in China  
(and U.S. Nonprofit Agricultural  
Organizations) on China-WTO Issues**

**WTO-RELATED QUESTIONS**

Now we'd like to ask you some questions about your company's (organization's) experiences in your industry since China joined the World Trade Organization in December 2001.

Q5a) Please look at the list of China's WTO reform commitment areas. Which are important to your company (organization) and why?

<b>Tariff &amp; nontariff trade restrictions (increased market access)</b>	
1. Tariffs, fees, & charges	N=79 (Ag Org N=10)
2. Quotas and other quantitative import restrictions (licensing & tendering requirements)	N=78 (Ag Org N=11)
3. Standards, certifications, registration, & testing requirements (product safety, animal, plant, & health standards, etc.)	N=78 (Ag Org N=11)
4. Customs procedures & inspection practices	N=78 (Ag Org N=11)
5. Export restrictions	N=77 (Ag Org N=9)
6. Market access for services	N=79 (Ag Org N=9)
<b>Investment-related measures (liberalized foreign investment)</b>	
7. Government requirements stipulating minimum amount of production that must be exported	N=78 (Ag Org N=10)
8. Foreign exchange restrictions (including balancing & repatriation of profits)	N=79 (Ag Org N=10)
9. Technology transfer requirements	N=77 (Ag Org N=10)
10. Local content requirements	N=76 (Ag Org N=10)
11. Scope of business restrictions <b>for goods</b> (types you can provide, customers you can do business with, number of transactions you can conduct, & where you can conduct business geographically)	N=76 (Ag Org N=11)
12. Scope of business restrictions <b>for services</b> (types you can provide, customers you can do business with, number of transactions you can conduct, & where you can conduct business geographically)	N=75 (Ag Org N=10)
13. Restrictions on partnerships & joint ventures (choice of partner & equity limits)	N=77 (Ag Org N=10)
14. Establishment & employment requirements (capital, deposit, years in practice, threshold sales, forced investment, & nationality/residency requirements)	N=77 (Ag Org N=10)
<b>Fundamental market reforms</b>	
15. Trading rights (ability to import & export)	N=77 (Ag Org N=10)
16. Distribution rights (retail, wholesale and courier)	N=78 (Ag Org N=10)
17. Subsidies (for Chinese firms or for export)	N=78 (Ag Org N=11)



**Appendix II  
Questionnaire of U.S. Companies in China  
(and U.S. Nonprofit Agricultural  
Organizations) on China-WTO Issues**

18. Operation of state-owned enterprises	N=76 (Ag Org N=10)
19. Price controls including dual and discriminatory pricing	N=76 (Ag Org N=10)
20. Equal treatment (in taxation, access to funding, and under Chinese law)	N=76 (Ag Org N=10)
<b>Rule of law/Other</b>	
21. Consistent application of laws, regulations, & practices (within & among national, provincial & local levels)	N=78 (Ag Org N=10)
22. Transparency of laws, regulations, & practices (publishing and making publicly available)	N=78 (Ag Org N=11)
23. Enforcement of contracts & judgments/Settlement of disputes in Chinese court system	N=77 (Ag Org N=11)
24. Independence of judicial bodies	N=77 (Ag Org N=10)
25. Intellectual Property Rights	N=76 (Ag Org N=10)
26. China's application of safeguards against U.S. exports (antidumping and other legal actions against import surges)	N=73 (Ag Org N=10)

Q5b) Now that you've thought about the commitments, could you please tell us which three are most important to your company (organization), in order of importance? (Please review the list of commitments when answering this question.)

- a) Which is the most important? \_\_\_\_\_
- b) Which is the second most important? \_\_\_\_\_
- c) Which is the third most important? \_\_\_\_\_

Q6) Overall, based on your company's (organization's) experience, to what extent – if any - has China actually made reforms in the commitment areas that are important to your company (organization)? Have they done so to a... N= 77 (Ag Org N=11)

- 1. [11 (3)] Great extent
- 2. [32 (2)] Moderate extent
- 3. [29 (4)] Some or little extent
- 4. [ 5 (1)] No extent
- .....
- 5. [ (1)] Don't know/No basis to judge

Follow up: Please explain your response.

**Appendix II  
Questionnaire of U.S. Companies in China  
(and U.S. Nonprofit Agricultural  
Organizations) on China-WTO Issues**

**Q7) Please look at the list of WTO-related reform commitments again. Based on your company's (organization's) experience in your industry, to what extent has China actually made reforms in these commitment areas since joining the WTO? If you are not familiar with any of the reform commitments, please indicate that you have no basis to judge.**  
*(Please respond according to the extent scale.)*

	No basis to judge (i)	No extent (ii)	Some or little extent (iii)	Moderate extent (iv)	Great extent (v)
<b>Tariff &amp; nontariff trade restrictions (increased market access)</b>					
1. Tariffs, fees, & charges N=79 (Ag Org N=11)	22 (1)	2 (0)	16 (1)	23 (4)	16 (5)
2. Quotas and other quantitative import restrictions (licensing & tendering requirements) N=80 (Ag Org N=11)	49 (5)	7 (2)	15 (2)	7 (2)	2 (0)
3. Standards, certifications, registration, & testing requirements (product safety, animal, plant, & health standards, etc.) N=79 (Ag Org N=10)	24 (0)	16 (2)	27 (4)	10 (2)	2 (2)
4. Customs procedures & inspection practices N=80 (Ag Org N=11)	26 (1)	15 (1)	17 (5)	19 (3)	3 (1)
5. Export restrictions N=80 (Ag Org N=11)	66 (9)	4 (0)	2 (0)	2 (0)	6 (2)
6. Market access for services N=80 (Ag Org N=11)	35 (11)	7 (0)	13 (0)	17 (0)	8 (0)
<b>Investment-related measures (liberalized foreign investment)</b>					
7. Government requirements stipulating minimum amount of production that must be exported N=80 (Ag Org N=10)	60 (9)	3 (1)	4 (0)	5 (0)	8 (0)
8. Foreign exchange restrictions (including balancing & repatriation of profits) N=79 (Ag Org N=10)	24 (9)	19 (0)	19 (0)	11 (1)	6 (0)
9. Technology transfer requirements N=78 (Ag Org N=10)	56 (10)	1 (0)	7 (0)	11 (0)	3 (0)
10. Local content requirements N=77 (Ag Org N=10)	58 (10)	2 (0)	4 (0)	8 (0)	5 (0)
11. Scope of business restrictions for goods (types you can provide, customers you can do business with, number of transactions you can conduct, & where you can conduct business geographically) N=78 (Ag Org N=10)	46 (9)	11 (0)	12 (1)	7 (0)	2 (0)
12. Scope of business restrictions for services (types you can provide, customers you can do business with, number of transactions you can conduct, & where you can conduct business geographically) N=77 (Ag Org N=10)	38 (10)	9 (0)	16 (0)	10 (0)	4 (0)
13. Restrictions on partnerships & joint ventures (choice of partner & equity limits) N=77 (Ag Org N=10)	42 (9)	6 (0)	6 (1)	11 (0)	12 (0)
14. Establishment & employment requirements (capital, deposit, years in practice, threshold sales, forced investment, & nationality/residency requirements) N=78 (Ag Org N=10)	43 (9)	7 (1)	15 (0)	8 (0)	5 (0)
<b>Fundamental market reforms</b>					
15. Trading rights (ability to import & export) N=79 (Ag Org N=11)	30 (2)	18 (2)	15 (4)	14 (1)	2 (2)
16. Distribution rights (retail, wholesale and courier) N=79 (Ag Org N=11)	38 (5)	14 (1)	14 (1)	10 (3)	3 (1)
17. Subsidies (for Chinese firms or for export) N=79 (Ag Org N=11)	58 (5)	7 (3)	10 (3)	3 (0)	1 (0)
18. Operation of state-owned enterprises N=77 (Ag Org N=11)	53 (6)	4 (2)	9 (1)	9 (2)	2 (0)
19. Price controls including dual and discriminatory pricing N=78 (Ag Org N=11)	52 (9)	11 (2)	8 (0)	4 (0)	3 (0)
20. Equal treatment (in taxation, access to funding, and under Chinese law) N=79 (Ag Org N=11)	34 (5)	11 (3)	19 (1)	9 (1)	6 (1)

**Appendix II  
Questionnaire of U.S. Companies in China  
(and U.S. Nonprofit Agricultural  
Organizations) on China-WTO Issues**

<b>Rule of law/Other</b>					
21. Consistent application of laws, regulations, & practices (within & among national, provincial & local levels) N=79 (Ag Org N=11)	13 (1)	13 (2)	37 (5)	13 (3)	3 (0)
22. Transparency of laws, regulations, & practices (publishing and making publicly available) N=79 (Ag Org N=11)	12 (1)	11 (2)	33 (5)	17 (2)	6 (1)
23. Enforcement of contracts & judgments/Settlement of disputes in Chinese court system N=78 (Ag Org N=10)	33 (5)	14 (2)	25 (1)	6 (2)	0 (0)
24. Independence of judicial bodies N=79 (Ag Org N=10)	44 (6)	12 (2)	19 (2)	4 (0)	0 (0)
25. Intellectual Property Rights N=80 (Ag Org N=10)	23 (7)	13 (2)	31 (1)	12 (0)	1 (0)
26. China's application of safeguards against U.S. exports (antidumping and other legal actions against import surges) N=79 (Ag Org N=9)	63 (8)	2 (1)	10 (0)	2 (0)	2 (0)

**Q8) Overall, what impact has China's implementation of its WTO commitments had on your company's (organization's members) ability to do business in China?** N=80 (Ag Org N=11)

*(Summarize the answers with the following prompt: Overall, would you say that the impact has been....)*

1. [10 (4)] Very positive
2. [44 (4)] Generally positive
3. [24 (1)] Little or no impact
4. [ 1 (2)] Generally negative
5. [ 1 ] Very negative
- .....
6. [ ] Don't know/No basis to judge

**Follow-up: Does your company (organization) have any expectations about the likely impact in two years' time?**

**Q9a) Is the United States Government doing anything on your behalf to ensure that China's WTO commitments are implemented?** N=55 (Ag Org N=11)

**Follow-up: Is the USG doing anything on your behalf about IPR commitments?** N=57 (Ag Org N=9)

**Appendix II  
Questionnaire of U.S. Companies in China  
(and U.S. Nonprofit Agricultural  
Organizations) on China-WTO Issues**

**Q9b) How satisfied or dissatisfied are you with the United States Government's efforts to ensure that China's WTO commitments are implemented? N=80 (Ag Org N=11)**

- 1. [ 6(4) ] Very satisfied
- 2. [ 31(6) ] Generally satisfied
- 3. [ 3(1) ] As satisfied as dissatisfied
- 4. [ 5 ] Generally dissatisfied
- 5. [ 1 ] Very dissatisfied
- .....
- 6. [ 34 ] Don't know/No basis to judge

Follow-up (If applicable): **How satisfied are you with the U.S. Government's efforts to ensure that IPR commitments are implemented?**

**Q10) Has your company (Have your organization's members) contacted any professional associations or government agencies in China or the United States about any WTO issues?**

[Note: We are not presenting the results to this question because we changed the wording during questionnaire administration to account for differences in how respondents interpreted the question.]

- 1. [ ] Yes
- 2. [ ] No   ⇒ GO TO QUESTION 11.
- 3. [ ] Not sure   ⇒ GO TO QUESTION 11.

Follow-up if the answer is "Yes." **Which ones?**

*(Check off the boxes that correspond to the organizations.)*

a. China's Ministry of Commerce	
b. Other Chinese government agencies or officials <i>(Please specify)</i>	
c. Provincial officials	
d. Consultants	
e. U.S. trade associations representing your company's interests	
f. U.S. Embassy	
g. U.S. Trade Representative	
h. U.S. Department of Agriculture	
i. U.S. Department of Commerce	
j. U.S. Department of State	
k. U.S. Congress	
l. Other <i>(Please specify):</i>	

Follow up: **Whom did you contact on which issues?  
What happened after you contacted these organizations and/or agencies?**

**Appendix II  
Questionnaire of U.S. Companies in China  
(and U.S. Nonprofit Agricultural  
Organizations) on China-WTO Issues**

**Q11) Some reform commitments have to be made by different levels of government, such as the central government or the provincial or city governments. Has your company (organization) experienced any differences in how reforms have been implemented within and among national, provincial and local levels of government?**

**Q12) Please tell me whether your company's (organization members') activities in each of the following areas have increased, stayed about the same, or decreased since China joined the WTO in December 2001. (Please respond using the scale provided.)**

	Increased (i)	Stayed about the same (ii)	Decreased (iii)	No basis to judge/ no answer (iv)
1. Number of facilities in China N=82 (Ag Org N=9)	56 (2)	23 (1)	2 (0)	1 (6)
2. Value of total investments in China N=82 (Ag Org N=9)	65 (0)	13 (1)	2 (0)	2 (8)
3. Number of employees in China N=82 (Ag Org N=10)	66 (4)	11(1)	4 (0)	1 (5)
4. Number of employees in the U.S. N=80 (Ag Org N=10)	12 (0)	33 (3)	20 (1)	15 (6)
5. Scope of product distribution in China N=81 (Ag Org N=10)	55 (8)	17 (0)	0 (0)	9 (2)
6. Number of products distributed in China N=82 (Ag Org N=11)	60 (7)	12 (1)	0 (0)	10 (3)
7. Number of services provided in China N=82 (Ag Org N=11)	51 (0)	22 (0)	0 (0)	9 (11)
8. Number of ventures with Chinese partners N=82 (Ag Org N=11)	23 (0)	29 (1)	4 (0)	26 (10)
9. Value of ventures with Chinese partners N=82 (Ag Org N=10)	23 (0)	22 (1)	5 (0)	32 (9)
10. Value of exports to China N=82 (Ag Org N=10)	51 (8)	8 (2)	6 (0)	17 (0)
11. Value of exports from China N=82 (Ag Org N=11)	38 (2)	15 (0)	1 (0)	28 (9)
12. Volume of production in China N=82 (Ag Org N=11)	59 (0)	3 (1)	1 (0)	19 (10)
13. Company revenue stream N=82 (Ag Org N=10)	72 (4)	4 (2)	2 (0)	4 (4)

**Q13) Is there anything else you would like to tell us regarding China's joining the WTO, and its implementation of its WTO commitments?**

Thank you for your participation and help!

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# Profile of U.S. Investment and Trade with China

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U.S. investment and trade with China have grown significantly over the past decade. As a result of significant new investments from Hong Kong, the United States, Japan, and Taiwan; China surpassed the United States as the world's largest recipient of foreign direct investment flows in 2002. However, China still represents a very small share of the total stock of U.S. investments worldwide. In terms of trade in goods and services, China is the United States' fourth largest trading partner, after Canada, Mexico, and Japan. Both U.S. exports to China and imports from China have risen rapidly over the past decade. However, the United States imports significantly more from China than it exports to China, resulting in a U.S. bilateral trade (goods and services) deficit with China of \$102 billion in 2002, according to U.S. trade statistics.<sup>1</sup>

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## U.S. Investment in China

As of the end of 2002, U.S. companies had a total stock of direct investments in China of \$10.3 billion—more than 10 times the approximately \$900 million invested a decade earlier in 1993. However, compared to the \$1.5 trillion of accumulated U.S. direct investments worldwide, China accounts for less than 1 percent of total U.S. investment.<sup>2</sup> In terms of new investment inflows, though, China receives significant investments from several countries, in addition to the United States. In 2002, according to Chinese statistics, nearly \$53 billion in foreign direct investment flowed into China, making it the world's top investment destination (rather than the United States) for the first time.<sup>3</sup> Hong Kong was by far the largest supplier of foreign direct investment to China, with

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<sup>1</sup>The U.S. bilateral goods deficit continued to grow in 2003, reaching about \$125 billion. However, data on U.S. bilateral services with China were not yet available for 2003.

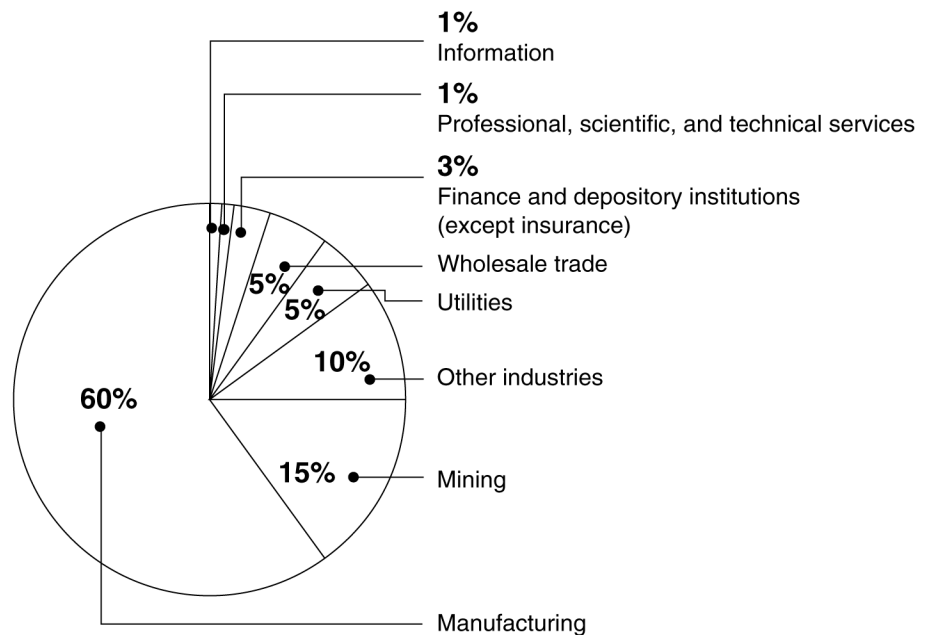
<sup>2</sup>Foreign direct investment statistics for the United States, unless otherwise noted, are from the Bureau of Economic Analysis (BEA), *Survey of Current Business* (Washington, D.C.: BEA, Sept. 2003). BEA defines U.S. direct investment abroad as the ownership or control, directly or indirectly, by one U.S. resident of 10 percent or more of the voting securities of an incorporated foreign business enterprise or the equivalent interest in an unincorporated foreign business enterprise.

<sup>3</sup>In past years, the United States has been the top recipient. Initial reports for 2003 indicate that the United States was again the top destination, though these are preliminary statistics. We did not independently assess the reliability of Chinese foreign direct investment data. We report these statistics here solely to provide background on U.S. trade and investment with China and not as a basis for any findings or recommendations.

about 34 percent of the total, followed by the United States (over 10 percent), Japan (8 percent), and Taiwan (about 8 percent).<sup>4</sup>

U.S. direct investment in China has largely focused on manufacturing sectors, particularly computer and electronic products and chemicals. Mining has also been a significant area of U.S. investment. Figure 8 shows the distribution of the stock of U.S. direct investment in China as of 2002.

**Figure 8: Stock of U.S. Direct Investment in China, 2002 (\$10 billion)**



Source: GAO.

**Notes:**

Investment in this figure is U.S. direct investment position abroad on a historical-cost basis.

The U.S. Bureau of Economic Analysis has modified its industry classifications used for U.S. direct investment abroad since GAO's September 2002 report, [GAO-02-1056](#). Therefore, a direct comparison between the statistics on U.S. investment abroad by industry presented in that report and the information provided in this figure cannot be made.

<sup>4</sup>See Congressional Research Service, *China's Economic Conditions*, Issue Brief IB98014 (Washington, D.C.: Jan. 23, 2004). Figures cited are based on Chinese government statistics.

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**Appendix III**  
**Profile of U.S. Investment and Trade with**  
**China**

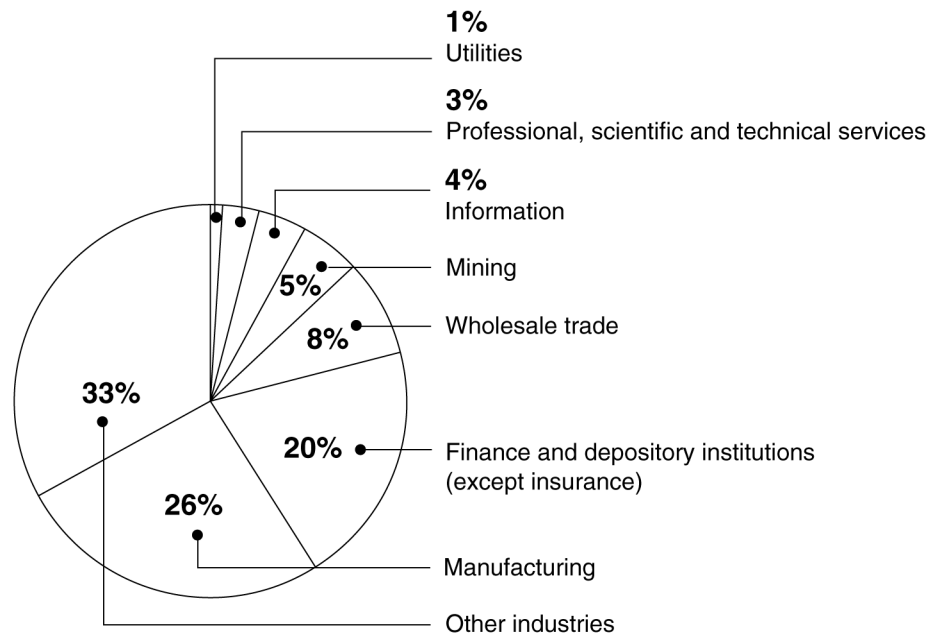
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The industry classifications used in this figure do not correspond directly with the industry classification used in our questionnaire. For example, our questionnaire included firms classified as agriculture. However, these firms may have investments in China in wholesale trade (of agricultural products) and manufacturing (of fertilizers, processed foods, or other agriculturally related products). In addition, because of the limited number of responses that we received, the companies that did respond to our questionnaire in each area do not constitute a representative sample of their overall industry group.

The pattern of U.S. investment in China, however, differs from the worldwide pattern of U.S. investment. Figure 9 shows that manufacturing accounts for about 26 percent of U.S. investments worldwide compared with about 60 percent of investments in China (fig. 8). Similarly, globally the United States has about one third (33 percent) of the stock of its investments in other industries (e.g., agriculture, construction, retail trade, and transportation and warehousing) compared with about 10 percent of its investments in China in the other industries category. Finance and depository institutions (except insurance) is the third largest area of U.S. global investments, accounting for about 20 percent in 2002, while in China, only about 3 percent of U.S. investments are in this area. This difference in the pattern of U.S. investment in China compared to global patterns is not surprising, because China is a developing country, has an abundant supply of relatively low-cost labor, and is a growing producer of manufactured goods worldwide. In contrast, the European Union, Canada, and Japan, which accounted for well over half of the stock of U.S. direct investment abroad, are developed countries with economies similar to the United States.



**Figure 9: Stock of U.S. Direct Investment Worldwide, 2002 (\$1.5 trillion)**



Source: GAO.

**Notes:**

Investment in this figure is U.S. direct investment position abroad on a historical-cost basis.

The U.S. Bureau of Economic Analysis has modified its industry classifications used for U.S. direct investment abroad since GAO's September 2002 report, [GAO-02-1056](#). Therefore, a direct comparison between the statistics on U.S. investment abroad by industry presented in that report and the information provided in this figure cannot be made.

The industry classifications used in this figure do not correspond directly with the industry classification used in our questionnaire. For example, our questionnaire included firms classified as agriculture. However, these firms may have investments in China in wholesale trade (of agricultural products) and manufacturing (of fertilizers, processed foods, or other agriculturally related products). In addition, because of the limited number of responses that we received, the companies that did respond to our questionnaire in each area do not constitute a representative sample of their overall industry group.

## U.S. Trade with China

U.S. trade in goods and services with China has also grown significantly during the past decade. From 1993 to 2002, U.S. exports to China grew at an average annual rate of 12 percent, compared with 5 percent for U.S. exports worldwide during the same time period. Similarly, U.S. imports from China grew at an average annual rate of 17 percent, while overall U.S. imports grew at 8 percent annually. Consequently, China was the U.S.'s fourth largest trading partner in 2002 (after Canada, Mexico, and Japan),

with about \$27 billion in U.S. exports (goods and services) and about \$129 billion in U.S. imports from China (goods and services). In 2003, goods trade data show that this rapid growth continued, with U.S. exports to China at about \$27 billion, an increase of 30 percent from 2002. Similarly, U.S. imports from China in 2003 were about \$152 billion, an increase of 21 percent from 2002. Services trade data for 2003 were not available as of the date of this report.<sup>5</sup>

As a result of the difference between U.S. exports and imports, the United States has had a growing bilateral trade deficit with China. In 2002, the U.S. bilateral trade deficit with China reached \$102 billion, the largest with any country. The deficit resulted from the \$104 billion difference in goods trade (as opposed to services trade). The United States maintained about a \$2 billion surplus in services trade with China in 2002.

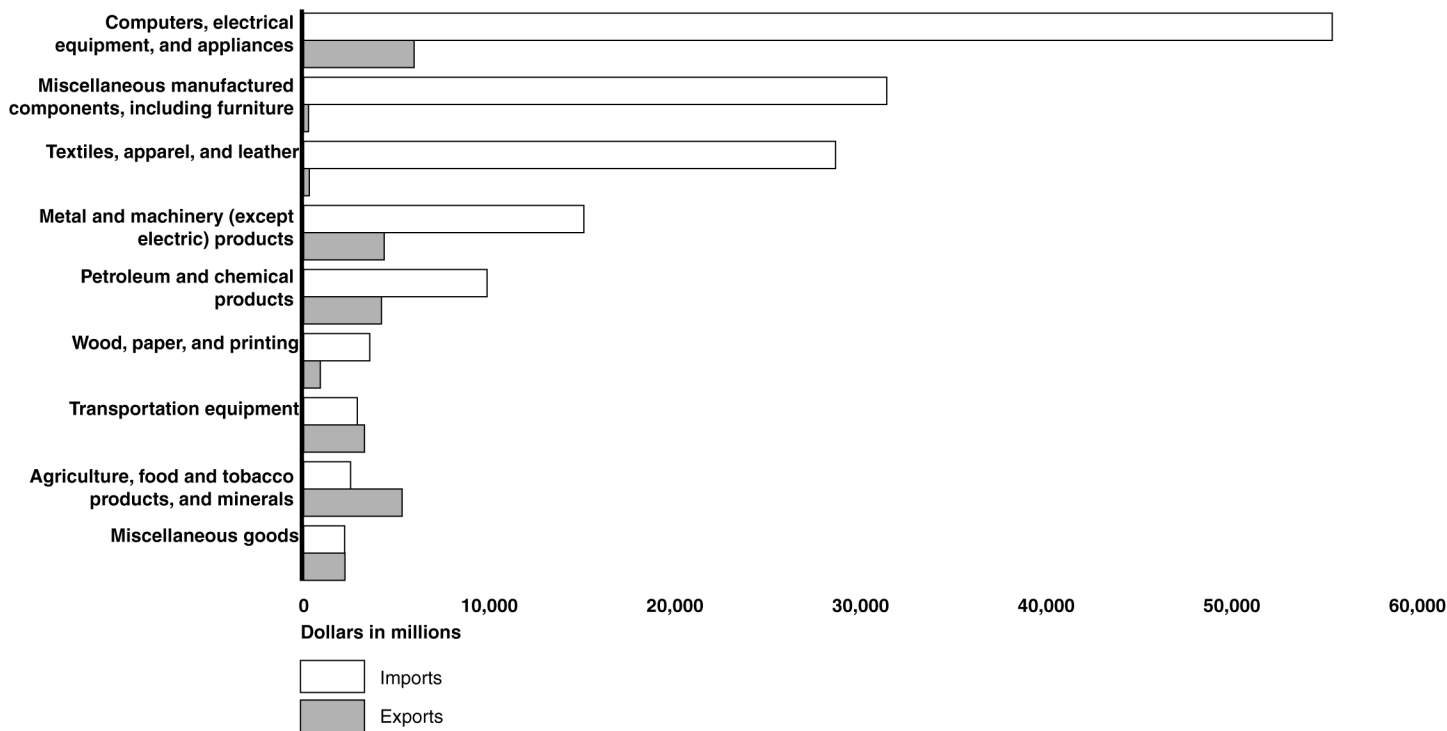
In 2003, the U.S. bilateral goods trade deficit with China expanded further, to about \$125 billion, an increase of about \$21 billion. The increase was primarily due to an increase in the trade deficit in computers, electrical equipment, and appliances, as well as smaller increases in textiles, apparel, and leather; metal and machinery (except electric) products; and miscellaneous manufactured components, including furniture. However, the U.S. bilateral trade surplus with China in agriculture, food and tobacco products, and minerals rose from about \$260 million in 2002 to about \$2.8 billion in 2003. Figure 10 shows U.S. exports and imports of goods by broad industry category in 2003.

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<sup>5</sup>The U.S. Bureau of Economic Analysis publishes private services trade data by country annually (for the previous year) in the October issue of the *Survey of Current Business*.

**Appendix III  
Profile of U.S. Investment and Trade with  
China**

**Figure 10: U.S. Exports and Imports of Goods with China, by Industry, 2003**



Source: GAO analysis of U.S. Census Bureau official trade statistics.

**Notes:**

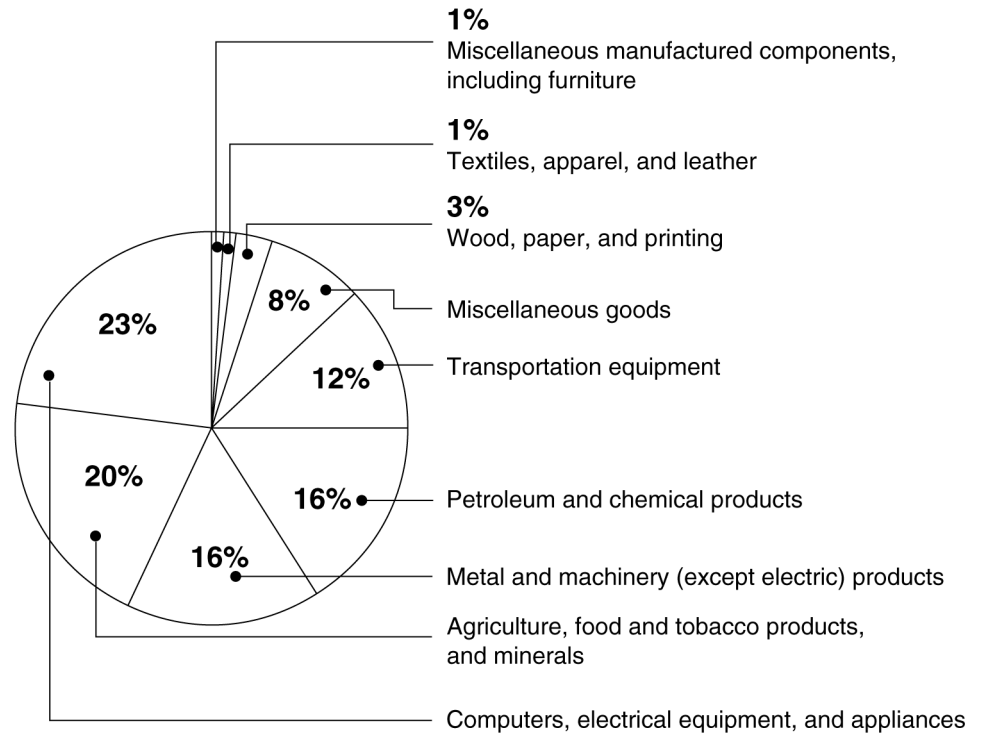
Exports are domestic exports valued at free-alongside-ship (FAS) value. Imports are imports for consumption at customs value. Categories are based on the North American Industry Classification System (NAICS).

The industry classifications used in this figure do not correspond directly with the industry classification used in our questionnaire. For example, our questionnaire included firms classified as agriculture. However, these firms may have investments in China in wholesale trade (of agricultural products) and manufacturing (of fertilizers, processed foods, or other agriculturally related products). In addition, because of the limited number of responses that we received, the companies that did respond to our questionnaire in each area do not constitute a representative sample of their overall industry group.

In terms of U.S. goods exports, China ranks sixth after Canada, Mexico, Japan, the United Kingdom, and Germany. Top U.S. goods exports to China in 2003 included: computers, electrical equipment, and appliances (23 percent); agriculture, food and tobacco products, and minerals (20 percent); metal and machinery (except electrical) products (16 percent); petroleum and chemical products (16 percent); and transportation equipment (12 percent). U.S. goods exports to China increased by 30 percent from 2002 to 2003, compared to an increase of 3 percent for U.S.

goods exports worldwide during the same period. Figure 11 shows the relative share of broad industry groups in U.S. exports to China in 2003.

**Figure 11: U.S. Exports of Goods to China, Share by Industry, 2003**



Source: GAO analysis of U.S. Census Bureau official trade statistics.

**Notes:**

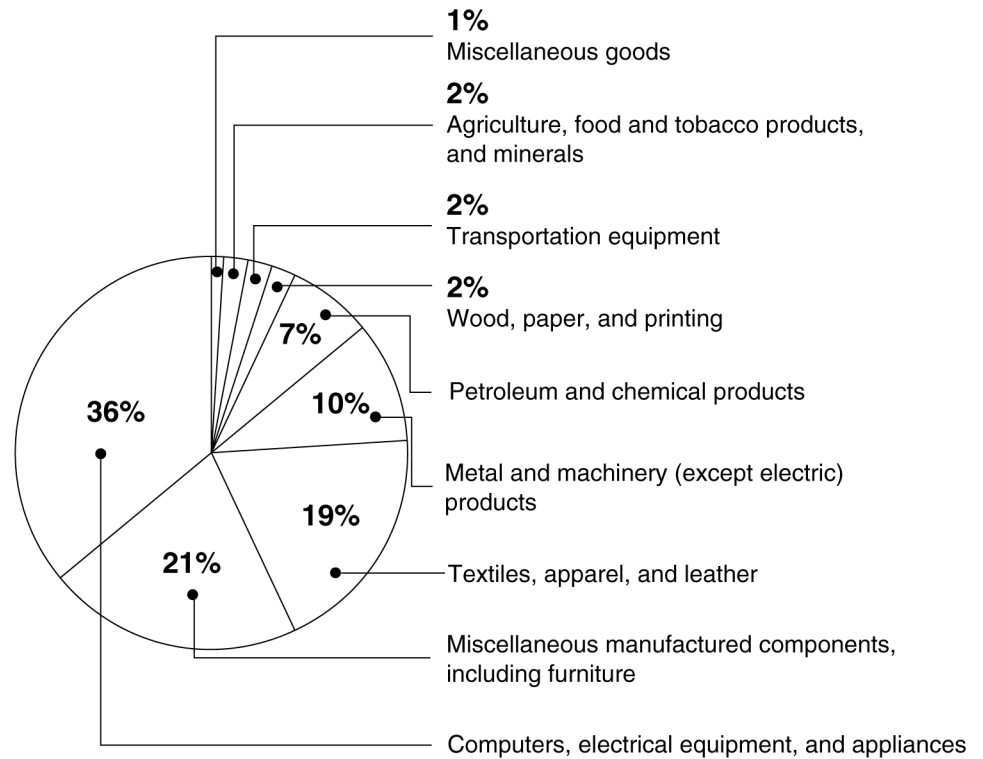
Exports are domestic exports valued at free-alongside-ship (FAS) value. Categories are based on NAICS.

The industry classifications used in this figure do not correspond directly with the industry classification used in our questionnaire. For example, our questionnaire included firms classified as agriculture. However, these firms may have investments in China in wholesale trade (of agricultural products) and manufacturing (of fertilizers, processed foods, or other agriculturally related products). In addition, because of the limited number of responses that we received, the companies that did respond to our questionnaire in each area do not constitute a representative sample of their overall industry group.

In terms of U.S. imports of goods, China is the second largest foreign supplier to the U.S. market after Canada and ahead of Mexico. Top U.S. goods imports from China in 2003 also included computers, electrical equipment, and appliances (36 percent). As previously noted, U.S. direct

investment in China was relatively large in the computer and electronic products area. A share of trade in this area between the United States and China is likely to be intracompany trade, in which components are produced in one country and exported to the other country. The components are then used to produce final goods that are ultimately sold in each market, as well as other countries. Other important imports included miscellaneous manufactured components, including furniture (21 percent) and textiles, apparel, and leather (19 percent). Figure 12 shows the relative share of broad industry groups in U.S. imports from China in 2003.

**Figure 12: U.S. Imports of Goods from China, Share by Industry, 2003**



Source: GAO analysis of U.S. Census Bureau official trade statistics.

**Notes:**

Imports are imports for consumption at customs value. Categories are based on NAICS.

The industry classifications used in this figure do not correspond directly with the industry classification used in our questionnaire. For example, our questionnaire included firms classified as agriculture. However, these firms may have investments in China in wholesale trade (of agricultural products) and manufacturing (of fertilizers, processed foods, or other agriculturally related products). In addition,

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**Appendix III**  
**Profile of U.S. Investment and Trade with**  
**China**

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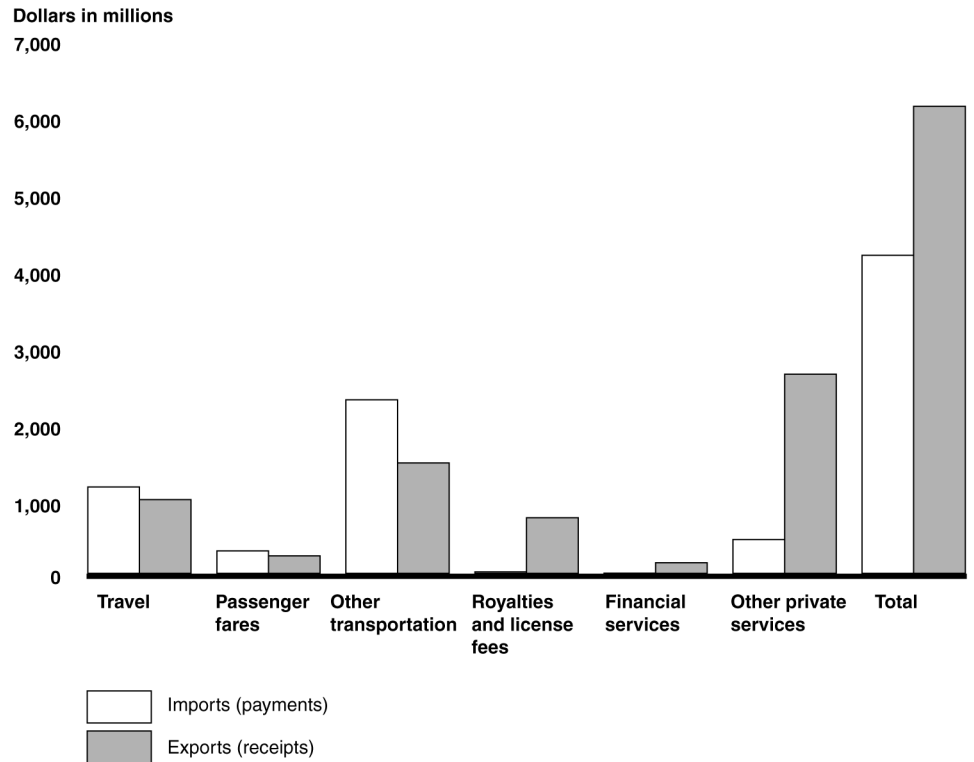
because of the limited number of responses that we received, the companies that did respond to our questionnaire in each area do not constitute a representative sample of their overall industry group.

Services trade with China is less significant to the United States relative to services trade with other partners. Unlike goods trade, China is not in the top 10 importers or exporters of services trade with the United States. In 2002, the United States exported about \$6 billion worth of services to China, compared with about \$280 billion in exports worldwide.<sup>6</sup> Other private services (such as education, insurance, telecommunications, and business, professional, and technical services) generated \$2.6 billion in sales, followed by other transportation such as freight charges from transportation of goods by ocean, air, or land, and port charges (\$1.4 billion). The United States imported about \$4 billion in services from China in 2002, compared with about \$205 billion worldwide. Top U.S. imports of services from China included other transportation (\$2.3 billion) and travel services (\$1.1 billion). Figure 13 shows the value of U.S. services exports and imports with China in 2002 by category.

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<sup>6</sup>Data on U.S. bilateral services with China were not available for 2003. The U.S. Bureau of Economic Analysis publishes private services trade data by country annually (for the previous year) in the October issue of the *Survey of Current Business*.

**Figure 13: U.S. Exports and Imports of Services with China, by Category, 2002**



Source: GAO analysis of U.S. Bureau of Economic Analysis data. See *Survey of Current Business* (Washington, D.C.; BEA, Oct. 2003).

Note: The industry classifications used in this figure do not correspond directly to the industry classification used in our questionnaire. For example, our questionnaire included firms also classified as financial services. However, these firms may or may not provide cross-border financial services (as opposed to providing financial services to China from their operations in China). In addition, because of the limited number of responses that we received, the companies that did respond to our questionnaire in each area do not constitute a representative sample of their overall industry group.

## Sources and Methods

In order to provide background on U.S. investment and trade with China, we collected and analyzed the most recently available direct investment abroad and cross-border private services trade data from the Bureau of Economic Analysis (BEA) as well as goods trade data from the Bureau of the Census. We collected the most recently available Census trade data through the U.S. International Trade Commission's Dataweb. We also collected information on worldwide investment in China from reports from the Organization for Economic Cooperation and Development and the Congressional Research Service (based on Chinese government data

sources). Since these data are used solely in this appendix as background information to the report, we did not assess the reliability of these data. For more information on BEA's methodology for collecting U.S. direct investment abroad data, see "U.S. Direct Investment Abroad" in the September 2003 issue of the *Survey of Current Business* and "U.S. Direct Investment Abroad: 1994 Benchmark Survey, Final Results" located at BEA's Web site at [www.bea.gov](http://www.bea.gov). For more information on BEA's methodology for collecting U.S. international services data, see "U.S. International Services" in the October 2003 issue of the *Survey of Current Business* also available at BEA's Web site.

The industry categories that BEA and Census use do not correspond to the industry classifications used in our questionnaire. Because of this, and because the number of firms that responded to our questionnaire are not representative of all companies in China nor of all U.S. companies in China from these industries, these responses are not representative of the industry groups used in this profile of U.S. investment and trade with China. In addition, the industry categories used by BEA and Census have changed since our 2002 report.<sup>7</sup> Therefore, the figures in this report and our prior GAO report are not comparable. In order to present broader industry groups, we combined some Census data categories. These groupings are presented in table 5. Census goods trade categories are based on the North American Industry Classification System (NAICS). We collected these data at the three-digit level of aggregation and combined product categories into broader groups. These NAICS codes are listed in table 5. For services trade data from BEA, we separated the category "financial services" from the broader category of "other services."

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<sup>7</sup>[GAO-02-1056](#).



**Appendix III**  
**Profile of U.S. Investment and Trade with**  
**China**

**Table 5: List of GAO Industry Groupings from Census Goods Trade Data**

GAO industry group	NAICS industry category	NAICS 3-digit code
<b>Agriculture, food and tobacco products, and minerals</b>	Agricultural products	111
	Livestock and livestock products	112
	Forestry products (not elsewhere specified)	113
	Fish, fresh, chilled, or frozen, and other marine products	114
	Oil and gas	211
	Minerals and ores	212
	Food manufacturing	311
	Beverages and tobacco products	312
<b>Textiles, apparel, and leather</b>	Textiles and fabrics	313
	Textile mill products	314
	Apparel and accessories	315
	Leather and allied products	316
<b>Wood, paper, and printing</b>	Wood products	321
	Paper	322
	Printing, publishing, and similar products	323
<b>Petroleum and chemical products</b>	Petroleum and coal products	324
	Chemicals	325
	Plastics and rubber products	326
	Nonmetallic mineral products	327
<b>Metal and machinery (except electric) products</b>	Primary metal manufacturing	331
	Fabricated metal products (not elsewhere specified)	332
	Machinery, except electrical	333
<b>Computers, electrical equipment, and appliances</b>	Computer and electronic products	334
	Electrical equipment, appliances, and components	335
<b>Transportation equipment</b>	Transportation equipment	336
<b>Miscellaneous manufactured components, including furniture</b>	Furniture and fixtures	337
	Miscellaneous manufactured commodities	339
<b>Miscellaneous goods</b>	Waste and scrap	910
	Public administration	920
	Goods returned to Canada or re-imported to the United States	980
	Special classification provisions (not elsewhere specified)	990

Source: GAO.

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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## Staff Acknowledgments

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*World Trade Organization: First-Year U.S. Efforts to Monitor China's Compliance.* Washington, D.C.: [GAO-03-461](#), March 31, 2003.

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