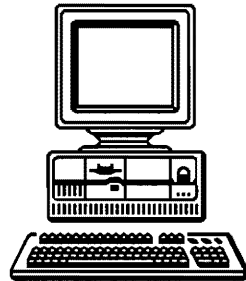


Senior Project Thesis:

**Can timely and valuable information concerning
Chinese businesses be found on the internet?**



Wei Zhou
April, 1997

Table of Contents

Part I. Some of the Timely and Important Issues in China

The Lion in Winter and China in Her Springtime

— Deng Xiaoping's economic reform policies

The Lion Did Not Survive the Winter, Will China's Springtime Last Under the Next Leadership?

— China's new leadership and the challenges they face

- China's Political Structure
- China's Legal Reform
- Efforts to increase foreign investments and international business
- What will happen to Hong Kong after June 30, 1997?
- Relationship with Taiwan

Part II: How Are Some of These Timely and Important Issues Reflected on the Internet?

China Business Connections By Wei Zhou

— Wei Zhou's homepage of a collection of relevant links

A Discussion of the Selected Links

- How are the links reflecting current issues?
- A general discussion of the limitations of such links

Part III: Conclusion

Introduction:
The Lion in Winter and China in Her Springtime

*"1979, during the spring time,
There was an old man who drew a tiny circle on China's Map,
From that circle, rose modern cities with modern economies*

*1992, another springtime,
That same old man revisited the Special Districts,
He led the people in the right direction once again."*

These words came from a song, named "The Story of Spring," composed to honor and praise Deng Xiaoping and his economic reform policies. However, these few words convey much more about Deng and the history of China's economic reform than what is said on the surface.

In 1979, Deng made the history changing decision of establishing special economic districts/zones in the southeastern corner of China and thus began the great Chinese economic reform experiment. After Mao died in 1976, Deng had quickly abandoned Mao's "class struggle" hard-liner policy. Instead, he declared that "the Four Modernizations-agriculture, industry, national defense, and science and technology were to take precedence over class struggle."¹ Deng believed that "good material resources combined with sophisticated technology from around the world"² will aid China in achieving these four modernizations. Therefore, among other economic reform measures, he encouraged the infusion of foreign investments and technology into the special zones, and cracked China's door open toward the West for his now-famous "open door policy." As the song says, in 1979, Deng's economic policy awakened China to the modern world after years of harsh isolation, and thus brought China a beautiful "spring time."

By 1989, ten years of economic reform had made China one of the world's fastest growing economies and improved the living standards for China's mass population. However, the "open door policy" had created side-effects for the communist ruling class in China. Along with foreign investments and technology,

also came ideologies previously foreign to the average Chinese person- ideals such like "democracy." The yearning for freedom and democracy, fueled by anger toward government corruption, caused hundreds and thousands of common Chinese citizens to come together in peaceful demonstrations. Sadly, The world knew the rest of the story too well.

The Tiananmen Square Demonstration did not become China's "Boston Tea Party" that would steer the country toward democracy as many people had hoped. Instead the demonstration ended like the brief "Whiskey Rebellion" in the American history— the defeat of the movement only demonstrated how a powerful government could easily crush the wills of its people.

However, Deng made a clear distinction between crushing wills of democracy and choking economic growth. Five days after the Tiananmen Massacre, Deng Xiaoping appeared in public to condemn the student demonstrators and praise the troops who had crushed them. At the same time, he vowed that "China would not again become a 'closed country,' and affirmed that his program of economic liberalization would go forward." 3

Meanwhile, the rest of the country slowly recovered from their shock, grief and disbelief. But as the good, obedient Chinese they were raised up and trained to be, the people learned to bury the memories deep inside while trying to pursue the only dreams they were allowed to have by the government— dreams of economic growth for the country and financial independence for the individuals. Nevertheless, many people, including Chinese entrepreneurs and international investors, remained suspicious of China's commitment in

the continuation of economic reform, and fearful of what the Chinese government's "iron fist," as demonstrated in Tiananmen Square, could do to their businesses and investments.

Amid these complicated problems, in 1992, Deng made a highly-publicized tour through the special economic zones in southeastern China. Everywhere he went, he made speeches to praise the merits of economic reforms and pledge his continued support for the "open door" policy. His tour was welcomed by the Chinese public and the world as the definite assurance they needed for China's future direction: the economic revolution would continue. As pointed out by that song, "he led the people in the right direction once again."

Praising and honoring Deng's accomplishments, the song "The Story of Spring" was broadcasted to nearly one billion Chinese during the annual televised Spring Festival Celebration hosted in Beijing in January, 1997. A few weeks after the broadcast, on February 19, 1997, Deng Xiaoping passed away at the age of 93.

The Lion Did Not Survive Through the Winter.

Will China's spring time last under the next leadership?

"China's flourishing stock markets took the news of Deng's death without missing a beat... Shenzhen went up a bit, and so did Shanghai."4 These facts may seem to be a bit cold-hearted.

Shouldn't the Chinese stock market mourn at all for the man who created the modern Chinese economy, including its stock markets?

Jiang Zemin, Deng's heir apparent, finally stood out of Deng's shadows and is now positioned to take over China's next leadership as the President and the top military and Communist Party leader. Previously seen by some western press as only "the functionary with bad hair who read every utterance from crib sheets," he is also China's first Number One leader who is not a hero of the revolutionary war and who is a college graduate. He is among the few Chinese leaders who can start a conversation on computer technology with IBM chairman Louis Gerstner Jr. 5

Jiang Zemin will be working with other top ranking Chinese officials to carry on China's leadership. Qiao Shi is the head of the National Parliament and a key advocate of the legal reforms in China. Zhu Rongji is the economic boss who has tamed inflation and laid a foundation for sound central banking system. 6

Will China's spring time last under their leadership?

In order to answer this question, one must first understand what political, economic, business and legal infrastructures are already in place in China, and then examine what are the promises of reform in these areas for the future.

China's Political Structure

According to the Chinese Constitution, China's Government Structure is composed of three branches: the executive branch, now headed by President Jiang Zemin and Vice President Rong Yiren; the National People's Congress, led by Qiao Shi, the Chairman of its Standing Committee; the Supreme People's Court with its President, Ren Jianxin. Directly under the leadership of the National People's Congress, is the State Council led by Premier Li Peng and Executive Vice Premier Zhu Rongji. 7

By the Constitution, the National People's Congress is the supreme governmental power in China. It rules over the executive branch and the Supreme People's Court. However, in the past, the National People's Congress has been largely a form of window dressing. The head of the Communist Party, not the leader of the Congress, is the leader of China. As the head of the Communist party, President of China and the top military leader, is Jiang Zemin positioned to make himself the next autocrat of China, after Mao and Deng?

Jiang probably won't be able to do it. The success of a dictatorship relies on the blind faith of the people. But today's Chinese prefer democracy over dictatorship. If they cannot demand change from the top through demonstrations, they will start at the grass root level. In fact, there are many small villages and small townships today in China that hold their own elections to choose local leaders from the local people. One no longer has to be a Communist Party member in order to be the head of a village.

China's Legal Reforms

"The only legitimacy China's leaders have derives from their abilities to keep improving the economy and they can't build a fully modern economy or keep attracting massive global investments without instilling into the Chinese system more predictability, fairness and transparency based on a rule of law."⁸ In fact, Qiao Shi, Chairman of the National People's Congress' Standing Committee has been actively working on the passage of new laws over the past few years. Qiao has the help from "those Chinese who were working within the system--bureaucrats, lawyers, factory managers- to advance the rule of law." ⁹

The following is a list of major legal reforms in China and their profound implications for China. In 1982, the revised version of the Chinese Constitution stated that the Constitution has the highest legal power in China. All parties (including the Chinese Communist Party) must subject themselves to the rules of the Constitutions and other laws of the land. In 1986, the general rules of civil laws and regulation were passed to build the foundations of the modern economy. Consequent laws passed include the Financial Contracts, Consumer Rights Protection, Corporate, and Unfair Competition/Anti-trust laws. The Governmental Administrative Law that was passed in 1989 made government officials to be legally responsible for their actions and gave common people the rights to sue their officials for wrongdoings. Most recently, in 1996, the Chinese Criminal Law was re-written in order to protect human rights. Many Chinese legal scholars were excited over the new clause,

"Benefit of the doubt goes to the defendant." Before the recognition of that clause, Chinese defendants had carried the unique burden of "guilty until proven innocent" for thousands of years.¹⁰

However, laws are only good if they are enforced. The American President Andrew Jackson once challenged the US Supreme Court to enforce its own ruling over the protection of Cherokee Indians. Of course, the Court could not enforce the ruling, and "The Trail of Tears" stained American history. "There is a serious argument that says China's leaders will never let the rule of law apply to them." ¹¹ To defend their rights, the ordinary Chinese citizens would still have to fight the hundreds and thousands of Chinese Bureaucrats who are used to their old privileges and set in their old ways. But at least this time, the laws, however imperfect they still maybe, will be leaning toward the people's side.

Efforts to increase foreign investments and businesses

"... By 1993, China's GDP has surged at an annualized 14%...Not since Japan just after World War II has a major economy seen such a growth explosion." "Already, China's economy is the world's third-largest behind U.S. and Japan, indicated the International Monetary Fund. "By 2010," declares the Washington-based U.S.- China Business Council, "China's economy may be the world's largest." 14

Foreign investments and business partnerships have been a major driving force behind China's economic success.

Deng's original vision of Special Economic Zones include the cities of Shenzhen, Xiamen, Shantou, Hainan, and Zhuhai. In the mid-1980's, fourteen additional coastal cities opened to foreign businesses and investments. 12 Originally, the intention of the central government was that the interior would supply raw materials and semi-finished products to the coastal areas for processing and export. However, the inland provinces wanted to develop industrial and export abilities of their own, and eventually the policy was modified to allow "the interior to become master of its own industrial fate." 13 Browsing through Chinese business related internet sites, one could easily see the abundant business opportunities with virtually every province in China. Every part of China (including its interior) is actively reaching out for foreign business partnerships and investments by many means, including setting up English versions of their homepages.

However, China realizes that desires and enthusiasm alone cannot attract foreign business partners. In addition to reforming the

legal system, China must modernize its financial system, including its Accounting practices.

In 1991, when Shanghai Stock Exchange wanted to issue several B shares in Hong Kong, the issuance had to be postponed because the Chinese companies' statements and reports were incomprehensible to the Hong Kong investors. On July 1, 1993, the new Business Accounting Standards and the General Rules of Financial Affairs for Enterprises came into effect. It is intended to end the time when the country had tens of accounting systems for enterprises managed by different government departments, making consolidation and annual reports impossible to produce. By a new law that went into effect on January 1, 1994, foreigners can now obtain Chinese accountancy qualifications. 15

"China is about to issue a core set of accounting standards that is based on and broadly complies with international accounting standards that provide relevant and reliable information for investors," according to an announcement at the International Accounting Standards Committee symposium in Beijing in 1995. 16

However, recently the author of this paper had an opportunity to translate the financial statements of a median-size Chinese company which wanted to establish a branch company in America. Adherent to internationally accepted standards, that company's financial statements had four parts— the Balance Sheet, Income Statement, Statement of Retained Earnings, and Statement of Changes in Financial Positions (which is somewhat different in form from the Statement of Cash flows used in America, but is still internationally accepted.) Yet, the financial statements were not

particularly well-prepared. For example, apparently there was no effort during the preparation of the financial statements to consolidate the financial statements of its subsidiaries, or to eliminate sales transactions between the subsidiaries in the consolidated statements, or even to depreciate any fix assets. The author of this paper sincerely hopes that those financial statements were not prepared by one of the 30,000 CPAs officially certified in China today.

Nevertheless, no one can dispute that China is marching in the right direction economically. It may require a little more patience and understanding on the part of investors and business people to deal with the many imperfections still exist in China's business system. However, having the patience to deal with China's growing pains will pay out in the long run.

What Will Happen to Hong Kong after June 30, 1997?

"On July 1, 1997, when you wake up, you will see the Chinese flag and the newly designed flag of China's Hong Kong District. Besides that Hong Kong is still the old Hong Kong, " according to one senior Chinese official. 17

For the big picture, the Chinese central government will be responsible for Hong Kong's defense and foreign diplomatic affairs. Hong Kong will still issue its own currency. Cantonese, Mandarin and English will all be accepted in public. Hong Kong government will retain its three branches of checks and balances political system, which include the executive branch, legislative branch, and the judicial branch. The Judicial branch will remain independent. In court, English and Chinese will both be used. Most of the laws in Hong Kong will not be changed.

On a more personal level, there will not be planned birth control in Hong Kong. Hong Kongers can still use their old passports for traveling abroad, and will still enjoy special investment privileges given to foreign businesses. 18

Hong Kong has no need to fear the Chinese government's "iron fist," because an iron fist would never be used to break a "gold pot." In 1993, Hong Kong has a population of 5.9 million and gross domestic product of 110 billion. 19 Since China first instituted its "open door" policy in 1979, Hong Kong has remained the Number One foreign investment source in China. In 1991, contracted investment from Hong Kong totaled 7.2 billion dollars, more than all the other foreign sources combined. 20 In 1995, Hong Kong ranked as China's

Number Two trading partner with 44.6 billion dollars, right behind Japan, and ahead of the U.S. with 40.8 billion. 21

The financial future of Hong Kong will certainly remain bright after 1997. If the political structure and legal systems created for Hong Kong as a compromise between China's central government and Hong Kong's old systems could receive acceptance and achieve success, then maybe Hong Kong could even serve as a model for the gradual democratic processes in other provinces of China.

Relationship with Taiwan

Americans tend to think of Taiwan as the natural adversary of mainland China. Political adversaries, maybe. But financially, Taiwan has been mainland China's partner for many years. Since 1987, Taiwan has actively invested in mainland China. In fact, it has ranked Number Four in direct foreign investments consistently, right behind Hong Kong, Japan, and the United States. 22 In 1996, Taiwan was the sixth largest trading partner with mainland China with 17.9 billion dollars.

According to Dr. Kissinger, Deng's position concerning Taiwan had always been quite nationalistic. He insisted that China will one day take Taiwan back, and that "Chinese restraint toward Taiwan was a voluntary contribution with the United States; it was not a right on which Washington could insist."23 Deng's successor Jiang Zemin would be unlikely to deviate from the strong position already set by Deng.

However, in the near future, any political or military tension across the Taiwan Channel would be unlikely to cause any real crisis. China has to continuously develop its economy, and Taiwan wants to benefit from mainland China's economic growth. There is an old saying in China, "good enemies make good friend." For the sake of the people on both sides of the Taiwan Channel, I hope this saying comes true.

**How Are Some of These Timely and Important Issues
Reflected on the Internet?**

China Business Connections By Wei Zhou
Wei Zhou's homepage of a collection of relevant links

Welcome to China Business Connections on the Internet

Put China on your map for BUSINESS



Let China sleep...When she awakes, she is going to shake the whole world -- Napoleon

Learn more about China and Chinese Business

- [Why China?- Wei Zhou's paper](#)

- [General information by category](#)
- [China business Overview I](#)
- [China business Overview II](#)
- [China Time online business magazine](#)
- [Key to Chinese Business](#)
- [China update](#)
- [China Chamber of International Commerce](#)
- [China Council for Promotion of International Trade](#)
- [China Commerce Net](#)
- [more business topics](#)

Start your business with China



- [A Guide to Doing Business in China](#)
- [Business Wanted](#)
- [Join Great China Business Finder Network](#)
- [China business network](#)
- [sources of products and services from Asia-China](#)
- [Business Consultants](#)
- [Businesses of Interests](#)
- [Asia trade network](#)
- [US China trade](#)
- [trade opportunities/news](#)
- [careers in China](#)
- [China business online directory](#)
- [internet yellow pages of big Chinese Cities](#)

Investment Opportunities



- [Track Global stock markets](#)
- [China Investment help1](#)
- [China Investment help2](#)

Doing Business with Taiwan



- [Taiwan's trade winds](#)
- [Open Taiwan](#)
- [Taiwan External Trade Development Council](#)



What will happen to HongKong?

HongKong Business

Law Firms in HongKong

HongKong in '97

HongKong Super Net

finance **Fun Stuff**

How are the links reflecting current issues?

My homepage is divided into five individual sections. Learn more about China and Chinese Business, Start your business with China, Investment Opportunities, Doing Business with Taiwan, and What will happen to Hong Kong. In order to prepare for the development of my homepage, I have searched hundreds of China Business related homepages. While I have tried my best to select the homepages that will provide the most useful and practical information on China and Chinese Businesses to an interested Businessperson or investor, I certainly make no claim as to the completeness and appropriateness of the sites that I have selected. My homepage is a showcase, if just on a very small scale, of the tremendous amount of information available about China and Chinese Businesses on the internet. It is my sincere hope that my homepage will generate interest among its visitors to start their own researches about China and Chinese Businesses.

In my first section, Learn more about China and Chinese Businesses, I provided links, such as General Information by category, China Business Overview I and II, that would provide visitors with general information on many aspects of China, and get a feel about the general Chinese Business environment. In addition, China Time online business magazine gives visitors updated news, and links like the China Chamber of International Commerce will give the visitors a sense of Chinese government's involvement in the promotion of international trades.

In my second section, Start your business with China, I have selected links that offer specific services that might be interesting

to a business person in a particular industry. For example, A Guide to Doing Business in China offers specific steps and suggestions for a business person to get started in China, and Business Wanted can help people to locate some of the products and services available from China directly online. Links like the China business online directory and internet yellow pages of big Chinese Cities will help people with their communication needs, even though the lists they have are far from complete.

In my third section, Investment Opportunities, I think the link to Track Global stock markets will be especially useful to interested investors. The stock market listed there include China's Shenzhen and Shanghai stock markets. The stock prices are almost real time -only 15 minutes delayed.

In my fourth and fifth section, I selected a few links relating to doing Business with Taiwan and Hong Kong. There are some interesting homepages discussing the future of Hong Kong, however, most of them are written in Chinese, and will not be relevant to English readers. Therefore, I did not select them.

A general discussion of the limitations of the Homepage

As with any other homepages on the internet, it will be very difficult to evaluate the completeness and the accuracy of the information provided on the homepages I have selected as links. Every minute there are new homepages being created, but there are no laws against the creation of "bad homepages." During my long search for the right homepages concerning China and Chinese Businesses, I have encountered many pages that provide either little information, or promise to provide much information but is always under construction. Even with the links that I have on my homepage, I suggest that visitors should take the information with a certain level of caution. Again, the completeness and accuracy of such information have not been checked.

The process of developing my homepage has lasted for over half a year. During the process, I had to constantly update my homepage with new information, and at the same time delete old links to homepages that no longer exist. Not everybody takes the trouble to maintain their homepages. Sometimes if a person's old e-mail account expires and the person did not remember to transfer the homepage's html file to his/her new account, the homepage, along with all the information a visitor likes so much, just disappears with it. There are worse cases where a homepage is simply "eaten" by "virus" or "worm" send through the web. In trying to locate a particular homepage, I read one message that says, "Sorry I ate your homepage. It was juicy and tart on my tongue." What a cruel joke it is for the creator of that homepage who put all the work into it, and

for the visitors who could have learned so much from that homepage. Therefore, it is my advice for all the homepage owners to keep a copy of their html file in document format and keep it safely away from the internet where the unexpected can happen.

The final limitation is felt by almost everybody. It is the incredible internet down time that could be experienced by users. Whether it is American Online users, or UT's Slip Account users, there are many times when users are simply told that "the system is down," or "too many users, try back later."

Because there are so many limitation to the information provided through the internet, I suggest that we should use the net as a valuable research tool, but must caution ourselves against total dependence on the net.

Conclusion:

There are good timely information on the internet concerning Chinese businesses. But because of the freedom to produce bad/irrelevant homepages on any subject, it takes time to find good information. On one hand, because more and more information are becoming available everyday on the internet, the search of the best links will never end. On the other hand, one must treat the internet as a tool of research not a substitution for all researches. Many times, the most valuable, insightful and timely information comes from the old fashion library.

Just as my paper demonstrates, I have found much good information and many interesting homepages on China and Chinese businesses on the internet, but my research could not have been complete without the Part I of my paper discussing the current issues in China. I am able to complete my research on China and Chinese businesses because along with researching on the net, I also did my research the old fashion way, reading books, magazines and conference papers, using the library, and talking to people who have expertise in related areas.

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