THE MAGAZINE OF THE NATIONAL COUNCIL FOR US-CHINA TRADE JAN.-FEB. 1974

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U.S. CHINA BUSINESS REVIEW

TM

COUNCIL SERVICES FOR MEMBERS

Direct Contact with Chinese Commercial Officials

Member firms will have the opportunity to meet with officials of the China Council for the Promotion of International Trade (CCPIT), Foreign Trade Corporations, and the Commercial Section of the Liaison Office during various Chinese visits arranged by the National Council to different parts of the U.S. The Council has sponsored visits by commercial officials from China's Washington Liaison Office to several American firms.

The Canton Fair

The Council has a full-time representative at the twice yearly Chinese Export Commodities Fair. The office at the Fair supplies typewriters, copying facilities, consultations, introductions to Chinese officials and practical help of all kinds to visiting U.S. businessmen. In addition to a report on the Canton Fair, the Council also provides a list for members of all the major products on display at the Fair, and an index of catalogues issued by China's Foreign Trade Corporations. Members may order copies of these catalogues, and are free to consult them at any time in the National Council's library. An informative film on the Canton Fair, prepared by the Chinese, is circulated free to members exclusively by the Council.

Publications

The Council publishes a bi-monthly magazine, the "U.S.-China Business Review." The magazine is oriented toward the practical and the informative.

Special Reports and booklets are also published by the Council.

The American Industrial Report

This magazine, published by a National Council member firm and circulated only in China to China's foreign trade officials, is endorsed and supported in its aims by the National Council. Some 15,000 copies, circulated to a potential 250,000 Chinese, bring information about company products in advertisements and articles directly to the Chinese and in the Chinese language.

Practical Help and Consultations

Any member company desiring information on any aspect of business with China is invited to approach Council professional staff, for practical guidance at any time, in the development of its own trade with China.

Translation Services

As an aid to companies seeking to communicate with China's trade corporations in modern, simplified Chinese, the Council offers complete translation services at cost to members. The services made available by the Council are also recommended by the Liaison Office of the PRC.

Reciprocal Exhibitions

The Council is the agreed upon contact point for the first trade exhibitions to be held by the U.S. in China and by China in the U.S. To date, there have been no exhibits arranged by either side in the other's country, and the commercial exhibits planned by the CCPIT and the National Council will be the first of such events.

Library and Research Service

The Council is developing a professional reference library on all China trade and economic topics, concerning both the U.S. and the rest of the world. The library includes periodicals, books, Chinese catalogues, etc.

Seminars

The National Council has launched a series of conferences and luncheon meetings for businessmen on China trade subjects.

Telecopier Services

Any member firm with a Xerox Telecopier wishing to receive photostats by telephone of any information available at the Council, including pages of Chinese export catalogues, can do so by calling the Council.

Importers Referral Service

Any request from importers in the US concerning availability of Chinese products addressed to the Council is referred without charge to the relevant foreign trade corporation in China, with a request that the trading agency reply direct to the US importer regarding the products.

Visits to China

No one but the Chinese themselves extend invitations for travel to China. Nevertheless, Chinese trade officials made it clear at the Canton Fair and during the Council's Peking discussions that the Council's recommendation with respect to American firms interested in traveling to China would receive the most serious consideration.

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U.S. CHINA BUSINESS REVIEW

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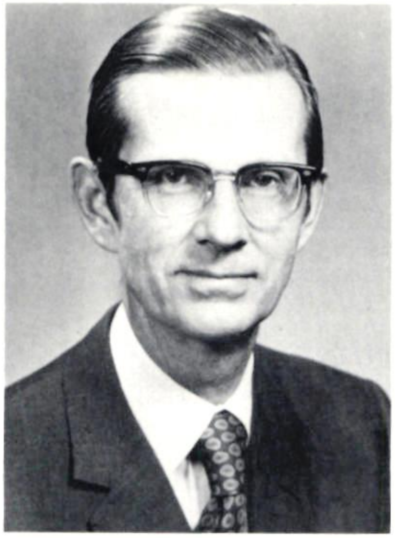
Front Cover: The Chairman of the National Council's mission to Peking, D. C. Burnham, talking with Li Hsien-nien, Vice President of the People's Republic of China in the Great Hall of the People, Peking, November 8, 1973.

The U.S. CHINA BUSINESS REVIEW is published by the National Council for US-China Trade, 1100 17th Street, N.W., Suite 513, Washington, D.C. 20036 USA. The National Council is a non-profit organization incorporated under the laws of the District of Columbia. The U.S. CHINA BUSINESS REVIEW is published principally for members of the National Council. Second class postage pending in the District of Columbia. The magazine is available for subscription in the US and Canada at $60 per year; elsewhere at $75 a year including airmail postage. Single copies are available only to members.

The National Council for United States-China Trade is grateful to His Excellency Huang Chen, Chief of the Liaison Office of The People's Republic of China in Washington for the calligraphy on the front cover of the U.S. China Business Review.



This magazine is for companies interested or involved in doing business with China. We hope you find it practical, constructive and informative.

Besides being a reference to developments in China's commerce with the United States, this magazine should provide useful material on China's worldwide trade. Our objective is to provide the executive involved in planning China trade strategy with an indispensible resource.

The content of this and future issues is oriented as much toward the importer as the exporter, and to small as well as large firms. In addition to features of immediate practicality, broader articles on China's economy and trade trends having bearing on the future of China's foreign trade are included.

We have tried to be as thorough as possible in the compilation of the contents and articles in this magazine. We invite suggestions for improvement, however, and especially any thoughts you may have for future articles which would help you and your firm in carrying out its business with China.

May I draw attention to the Council's own activities, and those of its members, that are included in this magazine. Our lead article concerns the Council's mission to Peking, which we hope will be of interest to all Council members represented by our mission.

Finally, I would like to thank Ambassador Huang Chen, the Chief of the Liaison Office of the People's Republic of China in Washington, D.C., for the calligraphy that he so kindly provided for the front cover of our magazine. We thank him for this gesture, and we take the occasion of this first issue to pledge our magazine to increasingly solid economic bonds and understanding between the United States and China.

The National Council for U.S. – China Trade

Christopher H. Phillips

Christopher H. Phillips
President

COUNCIL DELEGATION IN PEKING: THE EXCHANGES BEGIN

Two coming events mark further milestones in the rapidly evolving U.S.-China relationship: the first commercial mission from China to the U.S., now expected before this summer, and the first Chinese trade exhibition in the U.S. expected by 1975. These are fruits of the first trade discussions between National Council representatives and Chinese trade officials in Peking.

Peking's trade mission, to be organized by the China Council for the Promotion of International Trade (CCPIT), and hosted by the National Council, is expected to include representatives of China's foreign trade corporation, as well as officials of the Bank of China and the exhibition and legal departments of the CCPIT.

The trade exhibition, from preliminary discussions with the Chinese, could be the largest exposition of its kind ever held outside of China. These discussions include negotiations over the type and timing of one or more U.S. trade shows in Peking.

When Han Hsu, Acting Chief of the Chinese Liaison Office, in Washington, told the inaugural National Council conference in May, 1973, that his Government viewed the Council as one founded "precisely in accordance with the principles of the Shanghai Communique", it became inevitable that the National Council would come to be the principle focal point in the U.S. for trade promotion activities countries. A visible sign that this function was underway occurred in November 1973, when National Council Chairman, D.C. Burnham, led a 10-member mission to China for discussions with the CCPIT.

The National Council visit was not without political as well as economic significance. It was the first broadly based delegation of American businessmen to visit China since the Chinese People's Republic was proclaimed in October 1949.

The meetings with the CCPIT were successful from several points of view. Among the most important results, the National Council was established as the United States counterpart of the CCPIT, China's principal organization for trade promotion activities, including trade missions and exhibitions. Agreements were reached with the CCPIT with respect to trade exchanges, exhibition planning in the two countries, exchange of trade and economic data, and mechanisms to discuss financing and legal matters which both sides agreed could facilitate bilateral trade. (See box)

That the meetings were a success from the Chinese point of view is evident from the fact that, upon the conclusion of the discussions, the delegation was invited for an extended exchange of views with China's Vice Premier, Li Hsien-nien and for discussions with China's newly-appointed Minister of Foreign Trade, Li Chiang.

Prior to the departure of the delegation from the United States, Secretary of State Kissinger described the Council's mission as a "historic one". Noting that the journey was "the first visit to Peking by a broadly representative American business delegation in 24 years," he added that the National Council had come into being with the support of the United States Government and pledged "that the National Council will continue to enjoy the support of the Department of State".

Preparation for Peking Meetings

To assure that the views and objectives of National Council member firms would find expression in the meetings in Peking, Council President Phillips by letter in advance of the group's departure, surveyed the membership to solicit suggestions for the agenda, and invited comments on matters of sufficient concern to member firms to be raised directly in the discussions with the CCPIT. Comprehensive responses from the membership were compiled and indexed, and became an invaluable resource volume from which delegation presentations to the CCPIT were, in part, prepared.

Discussion Format

Discussions with the CCPIT continued over a four-day period between November 5th and November 9th at Peking. The CCPIT delegation was led by Wang Yao-ting, President of the CCPIT and a former high official of the China National Textile Import and Export Corporation. Mr. Wang's delegation included representatives of the Chinese Ministry of Foreign Trade, the CCPIT departments of Foreign Exhibitions in China, Chinese Exhibitions Abroad, and Legal Department, as well as officials from the Bank of China, the China National Cereals, Oils and Foodstuffs Corporation, the China National Light Industrial Products Corporation, the China National Machinery Corporation, and the China National Technical Corporation.

The National Council presentation to the Chinese was opened by Chairman Burnham and President

Phillips, who described the goals of the National Council in general, and Council expectations for the meeting in particular. This general introduction was followed by remarks from each individual member of the delegation, the text of whose presentations were prepared in advance and which appear, along with a full report of the entire mission, in a special report to members available on a strictly limited basis from the National Council headquarters in Washington.

To demonstrate the National Council's awareness of the imbalance of trade and the consequent need for China to expand her exports to the U.S., the National Council's individual presentations were opened by William Batten, Chairman of the J. C. Penney Company, who addressed the question of China's exports to the U.S.

Presentation by the Delegation

Mr. Batten's remarks dealt principally with the consumer's goods market in the United States. He acknowledged that certain obstacles remained for the United States to cure before trade might expand noticeably. He referred particularly, for example, to the absence of most-favored-nation tariff treatment on imports from China.

In a comprehensive exposition of practical problems faced by importers of goods from China, Mr. Batten mentioned the need for China to address itself to such matters as identification of market opportunities for specific Chinese exports, identification of product requirements in terms of quality, design and pricing, and application of certain federal and state laws and regulations with respect to product safety and consumer information.

He described requirements for labeling, packaging requirements including the matter of private company labels, long-term purchasing methods of U.S. firms and the resulting need for assurance of quantity, continuity of supply, and reliable delivery dates. Mr. Batten outlined specialized buying practices, such as quantity discount pricing and, in general, stressed the need for China's study of the

MEMBERS OF THE PEKING DELEGATION

The delegation from the National Council for U.S.-China Trade to Peking, November, 1973, consisted of:

DONALD C. BURNHAM
Mr. Burnham is Chairman of the Board of Directors and Chairman of the Executive Committee of the National Council for United States-China Trade. He is Chairman and Chief Executive Officer of the Westinghouse Electric Corporation.

CHRISTOPHER H. PHILLIPS
Mr. Phillips is President of the National Council for United States-China Trade and an ex officio member of its Executive Committee. He was formerly Deputy Representative of the United States to the United Nations with the rank of Ambassador.

WILLIAM A. HEWITT
Mr. Hewitt is Vice Chairman of the Board of Directors and a member of the Executive Committee of the National Council for United States-China Trade. He is also Chairman and Chief Executive Officer of Deere & Company.

GABRIEL HAUGE
Mr. Hauge is Secretary-Treasurer of the National Council and a member of the Executive Committee. He is also the Chairman of the Board of Manufacturers Hanover Trust.

WALTER STERLING SURREY
Mr. Surrey is the Legal Counsel of The National Council for United States-China Trade and an ex officio member of its Executive Committee. He is the senior partner of the law firm of Surrey, Karasik and Morse.

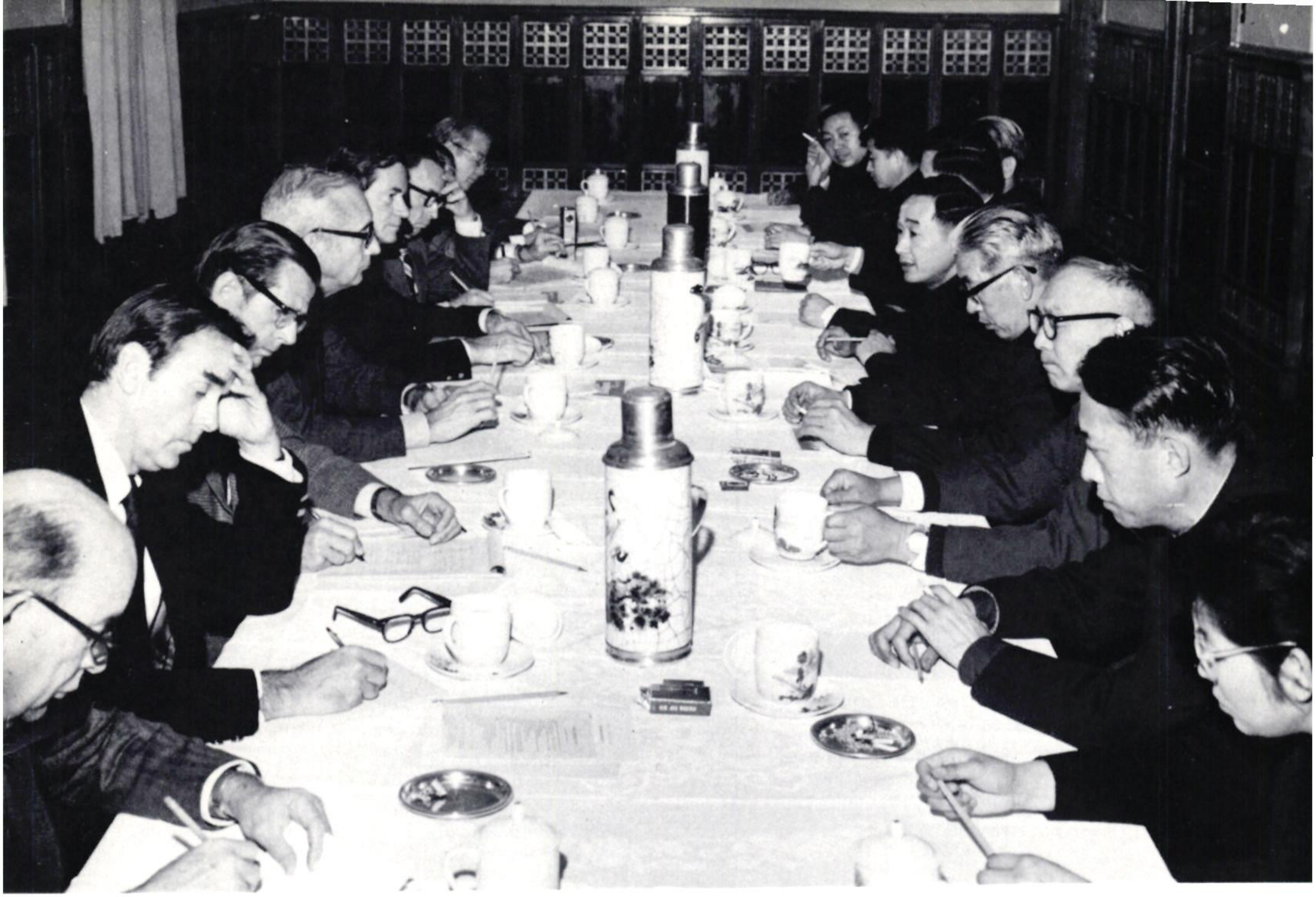
ANDREW E. GIBSON
Mr. Gibson is President of the Interstate Oil Transport Company and a member of the Executive Committee of the National Council. He is a former Assistant Secretary of Commerce for Domestic and International Business.

FRED M. SEED
Mr. Seed is President of Cargill, Incorporated. He is a member of the Executive Committee of The National Council for United States-China Trade.

WILLIAM M. BATTEN
Mr. Batten is Chairman of the J. C. Penney Company, Inc., the first major retailing firm to join the National Council.

CHARLES H. WEAVER
Mr. Weaver is President, World Regions of the Westinghouse Electric Corporation and serves as advisor to Mr. Burnham on matters relating to the National Council.

EUGENE A. THEROUX
Mr. Theroux is an attorney with the National Council. He visited China in June 1972 with U.S. House Leaders Hale Boggs and Gerald Ford, and in May 1973 for the law firm of Baker and McKenzie.



Getting down to business. Formal sessions with the CCPIT were held at the Peking Hotel.

scope and diversity of the United States market. He urged the Chinese to send a delegation to the United States for the purpose of addressing itself to these and other questions.

William Hewitt, Chairman of Deere and Company and Vice Chairman of the National Council, emphasized the need for reciprocal exchanges of technical, sales and purchasing missions, exhibitions, and the exchange of trade, technical and economic information. He itemized numerous areas in which exchanges could occur, proposals largely drawn from suggestions made by the membership to the National Council in advance of the delegation's departure to Peking. Mr. Hewitt emphasized the importance of reciprocal exhibitions in introducing products and concepts to appropriate parties in the two countries, and pledged the cooperation of the National Council in arranging such exhibitions.

Banking and financing matters were covered by Gabriel Hauge, Chairman of Manufacturers Hanover Trust Company. Mr. Hauge urged the establishment of correspondent relationships between the Bank of China and banks in the United States as essential to the normalization of economic relations between the two countries. He sought to learn China's current views on long-term credits on exports to China, and described the special problems of U.S. importers of Chinese products with respect to financing their trade. In particular, as to problems of the small importers, we described concern over currency fluctuations and the relatively high cost of letters of credit in small transactions. Many importers have expressed a preference for payment to China in cabled cash remittances rather than by letters of credit.

With 85 percent of China's population engaged in agriculture, and in view of innovations made in agriculture in the United States in recent years, the delegation considered it important to address this subject. Mr. Fred Seed, President of Cargill, Inc., urged the Chinese to consider delegation and information exchanges on such matters as food processing, canning, packing, storing and distribution, as well as food and feed grain production and harvesting, vegetable and food production and harvesting, swine, poultry, dairy, beef, cattle and sheep production, processing and distribution, irrigation, development of seed varieties and necessity of working toward mutually beneficial agricultural chemical utilization.

In addition, Mr. Seed urged consideration of the arrangements for agricultural product inspection and quarantine procedures. Here again, the delegation sought to emphasize to the Chinese its interest in fostering Chinese exports to the United States, laying the groundwork for an understanding of and cooperation with standard United States procedures relating in agricultural goods.

There may be no lawyers in China, but the law itself is inescapable. Walter Sterling Surrey, Senior partner of Surrey, Karasik and Morse, and Legal Counsel to the National Council, addressed the • subject of legal issues. If studied further, he said, this was an area which might permit facilitated trade between the two countries. Mr. Surrey addressed such matters as arbitration, insurance law, standard contract language, trademarks, patent protection, copyrights and certain legal aspects of trade financing.

Mr. Gibson elaborated upon the fact that development of China's energy resources could accelerate the development of agriculture and industry, and suitably expanded, could be an important source of foreign exchange. Mr. Gibson outlined a variety of methods under which American firms might participate in the development of these resources and sought comments from the Chinese side on these observations.

These meetings were followed by special sessions on banking matters between Mr. Hauge and officials of the Bank of China in Peking, and on legal matters between Walter Sterling Surrey and Eugene A. Theroux, both attorneys, and Chinese legal experts from CCPIT, also in Peking. These discussions went further into the technical details of subjects broadly considered in the formal sessions.

Both sides acknowledged the importance of certain legal issues in the general facilitation of trade. These relate to matters of copyright, trademark, patent protection, dispute settlement procedures, varying contract forms and clauses, insurance, trade documentation, contractural arrangements for major transactions, U.S. export control and other laws, shipping and similar regulations and other matters. Exchange of information on this subject is currently under way.

Following formal sessions in Peking, the National Council delegation travelled to Shanghai for visits to industrial plants, further discussions with local corporation officials, and a visit to the Shanghai Industrial Exhibition. The group then travelled to Canton for a visit to the Chinese Export Commodities Fair and further discussions with negotiators and officials of the Foreign Trade Corporations present.

Coordination with the U.S. Liaison Office in Peking was established with an extensive briefing session for the delegation by Ambassador Bruce and his staff upon the arrival of the delegation in Peking.

Text of the Statement Released at a Press Conference in Hong Kong at 3:00 P.M. November 16, 1973 by the National Council

In the spirit of the Shanghai Communique, and in the interest of developing trade on the basis of equality and mutual benefit, The China Council for the Promotion of International Trade and the National Council for United States-China Trade reached agreement on the following points:

1. The China Council for the Promotion of International Trade, as the counterpart of the National Council for United States-China Trade, has accepted the National Council's invitation to send a trade delegation to the United States in 1974. This will be the first commercial mission from the People's Republic of China to visit the United States. It is expected that the delegation will include representatives of the interested Foreign Trade Corporations as well as the China Council for the Promotion of International Trade.

2. The China Council and the National Council have agreed, in principle, to exchange trade exhibitions and act as contact points for arrangements. Details of the exhibits, including dates, will be worked out between the two sides. To date, there have been no exhibits arranged by either side in the other's country, and the commercial exhibits planned by the China Council and the National Council will be the first such events.

3. With the development of trade between China and the United States, the two sides agreed to begin the exchange of sales and purchasing missions as required to better understand each other's markets. This subject, like that of the exhibitions, will be discussed further during the 1974 visit of the China Council delegation to the United States.

4. The two sides agreed to exchange trade, economic and technical information in order to better understand the economies and trade policies and practices in the two countries.

HOW TO START IMPORTS FROM CHINA

To initiate business with China, an American importer must first communicate directly with one of China's eight Foreign Trade Corporations (FTCs), which are legally responsible for negotiating all China's trade contracts. Seven of these FTCs are both import and export corporations. The eighth, the China National Technical Import Corporation, which deals with plants and equipment, only imports from abroad, and is therefore of no concern to the US importers of Chinese goods.

US importers, in their initial approach to China, should be patient, persistent, and prepared for the unpredictable. Experience of importers from other countries has shown that the Chinese attach an importance to the establishment of truly personal business relationships. It is also well to bear in mind, as Chinese trade officials and negotiators frequently remind American businessmen, that for more than twenty years our two countries did not engage in trade. Thus, time is necessarily required before we fully understand each other's trade interests and requirements.

There follows a step-by-step check list which the Council hopes will be a practical help to firms interested in buying from the PRC:

Write Direct to the FTC that Deals in Your Products

For instance, if your firm is interested in buying carpets, you should write to the China National Native Produce and Animal By-Products Corporation. If you want to buy food stuffs, such as canned goods or spirits, you should write directly to the China National Cereals, Oils and Foodstuffs Import and Export Corporation. Each of China's FTCs has branches throughout China and it may be that the particular product you wish to purchase is handled by one of these branches. If this is the case, and you send your letter to the head office of the FTC in Peking, your letter will be forwarded to the relevant regional office. More details about this are given below. While it is difficult to generalize among the FTCs and their branches, you may be able to obtain, from your first communication, information on quantities and prices available for specific goods, or an FTC's agreement to provide you with samples. If you deal in a range of products, you must write a separate letter to the foreign trade corporation concerned with each product. All correspondence should be addressed to the People's Republic of China, not simply "China," or it may be returned or go astray.

How to Find Out Which FTC Deals in the Products Your Firm Wishes to Import

A general list of products handled by each FTC is given in the box accompanying this article. A more detailed list of the FTCs and all their regional branches, is given in a booklet freely available from the National Council. For members of the Council, there is available in the Council's Washington library a comprehensive set of catalogues of the products available for purchase from China from each branch office of all the foreign trade corporations. These catalogues are one of the best ways to zero in on exactly what China has to offer. The Council has an index available to members on request. But, regardless of whether the product you are interested in is listed in one of these catalogues or not, it is recommended that your firm writes to the FTC.

The Form and Content of Your Letter

Your letter to China should be to the FTC, rather than to any individual in the FTC whose name you may happened to have found. It should express your company's interest in doing business with the PRC, give a brief background of your firm's history and activities, describe your wholesale or retail sales organization and volume, and list the specific products your firm is interested in buying. You may wish to request samples or price and delivery quotations if you know what particular goods interest you. You may also indicate your willingness to conduct business by correspondence, cable, or telex, in a manner most suitable to the trade corporation and the product. If the products of interest to you are ordinarily purchased after examination of samples and negotiation of terms of sale, you may also wish to request an invitation to the Kwangchow Fair, naming the individuals your company would wish to send there. Only a limited number of people from each firm can be invited to the fair, at most three, and usually one or two. The letter should be signed by the executive who is likely to be directly responsible for carrying out negotiations with the Chinese.

Accompanying the letter should be five sets each of the following items: annual reports or other informative brochures about your firm; brief biographies of those executives mentioned in the letter and, if possible, xeroxed copies of a translation of the letter into Chinese. At Kwangchow, a one page summary of your company's sales and import volume, history, and main product areas is normally sufficient.

Translation of the Letter

China's FTCs are large organizations through which inquiries must be disseminated to the appropriate officials concerning your particular products. Clearly, if the letter is in Chinese it is likely to be sent directly to the officials concerned and by-pass China's overburdened translation services. The original inquiry will not only be disseminated faster when it reaches China, but also any response to it is likely to be more rapidly forthcoming than if your letter is in English. How would your firm handle an inquiry from China written in Chinese?

Care should be taken that the translation sent is in modern, simplified Chinese characters and that the usage is correct; the characters and phraseology of overseas Chinese differs considerably from those in use in the PRC today.

CHINA'S FOREIGN TRADE CORPORATIONS RESPONSIBLE FOR EXPORTING

China National Chemicals Import and Export Corporation
Erh Li Kou, Hsi Chiao, Peking
Rubber, rubber tires, and other rubber products, petroleum and petroleum products, chemical fertilizers, insecticides, fungicides, pharmaceuticals, medical apparatus, chemical raw materials, dyestuffs, and pigments.

China National Native Produce and Animal By-Products Corporation
82 Tung An Men Street, Peking
Tea, coffee, coca, bast fiber, rosin, feeding-stuffs, timber, forest products, spices, essential oils, patent medicines and medicinal herbs, as well as other native produce, bristles, horsetails, feathers, down, feathers for decorative use, rabbit hair, wool, cashmere, camel hair, castings, hides, leathers, fur mattresses, fur products, carpets, down products, living animals.

China National Light Industrial Products Import and Export Corporation
82 Tung An Men Street, Peking
Paper, general merchandise, stationery, musical instruments, sporting goods, toys, building materials and electrical appliances, fishnets, net yarns, leather shoes, leather products, pottery and porcelain, human hair, pearls, precious stones and jewelry, ivory and jade carvings, lacquer ware, plaited articles, furniture, artistic handicrafts, and other handicrafts.

China National Textiles Import and Export Corporation
82 Tung An Men Street, Peking
Cotton, cotton yarns, raw slik, steam filature, wool tops, rayon fibers, synthetic and manmade fibers, cotton piecegoods, woolen piecegoods, linen, garments and wearing apparel, knitted goods, cotton and woolen manufactured goods, readymade silk articles, drawn works.

China National Cereals, Oils and Foodstuffs Import and Export Corporation
82 Tung An Men Street, Peking
Cereals, edible vegetables and animal oils and fats, vegetable and animal oils and fats for industrial use, oil seeds, seeds, oil cakes, feedingstuffs, salt, edible livestock and poultry, meat and meat products, eggs and egg products, fresh fruits and fruit products, aquatic and marine products, canned goods of various kinds, sugar and sweets, wines, liquors and spirits of various kinds, dairy products, vegetables and condiments, bean flour noodles, grain products, canned goods, nuts and dried vegetables.

China National Machinery Import and Export Corporation
Erh Li Kou, Hsi Chiao, Peking
Machine tools, presses, hammers, shears, forging machines, diesel engines, gasoline engines, steam turbines, boilers, mining machinery, metallurgical machinery, compressors and pumps, hoists, winches and cranes, transport machinery (motor vehicles) and parts thereof, vessels, etc., agricultural machinery and implements, printing machines, knitting machines, building machinery, machinery for other light industries, ball and roller bearings, tungsten carbide, electric machinery and equipment, telecommunication equipment, electric and electronic measuring instruments, and scientific instruments.

China National Metals and Minerals Import and Export Corporation
Erh Li Kou, Hsi Chiao, Peking
Steel plates, sheets and pipes, steel sections, steel tubes, special steel railway materials, metallic products, pig iron, ferroalloys, nonferrous metals, precious rare metals, ferrous mineral ores, nonferrous mineral ores, nonmetal minerals and products thereof, coal, cement, and hardware.

Use of translation services for importers of Chinese products, nonetheless, is not of critical importance, since most of China's export departments are well-acquainted with English.

Who Not To Write To

A United States importer should not write to the China Council for the Promotion of International Trade (CCPIT) in Peking. This organization, the counterpart of the National Council in China, is involved in promoting trade with foreign countries, and though legally empowered to sign trade contracts, very rarely does so. Likewise, correspondence relating to individual products should not be sent to China's Ministry of Foreign Trade. Letters sent to either the Ministry or to CCPIT normally result in a form reply indicating that the inquiry should be sent directly to a FTC. If you expect to be in touch with the Chinese Liaison Office in Washington about your business, you may wish to send an information copy to the Commercial Section of that office.

Possible Chinese Response to Your Inquiry

It is difficult to predict for any individual purchase inquiry, how soon an FTC will respond. If China has the item immediately available or is seriously interested in selling the item at some future date, response may come within a few weeks. However, it is also likely that response to your letter may be several months or more coming.

If no reply has arrived after three months, send the FTC a follow-up letter, telex, or cable mentioning the initial request and perhaps elaborating or modifying the initial inquiry in some way. This follow-up can be brief. If six months after that, still no reply is forthcoming, send another follow-up communication.

The Kwangchow Fair and How to Obtain an Invitation

The semi-annual Chinese Export Commodities Fair, more commonly known as the Kwangchow Fair or Canton Trade Fair, is China's principal forum for trade with non-communist countries. This Fair is, as its name suggests, principally oriented towards sales of Chinese products. Depending upon the type and scale of business you would like to do with China, obtaining an invitation to the Fair is an important step in the initiating of a long term business relationship with China. It is at the Fair your firms' executives meet and negotiate with the Chinese and establish the personal contact which the Chinese value in their business relationships.

The Fair is also sometimes a stepping-stone to Peking where larger scale business and more long term business arrangements may be negotiated. For traders from countries which have been trading with China over the last several years, a visit to the Fair may be preceded or followed by visits to Chinese factories to discuss styling, packaging and packing of products for export.

Invitations to the Fair are obtainable only from the foreign trade corporations and, in limited instances, from the Secretary of the Fair (address: The General Secretary, The Chinese Export Commodities Fair, Pearl River Square, Kwangchow, People's Republic of China). Only after you receive the invitation can you apply for a Chinese visa, available from the PRC's Liaison Office in Washington, D. C.

The National Council has been asked, by the Chinese, to recommend member firms with a bona fide interest in attending the Fair.

The Canton Fair

The Fair is held every year from April 15 to May 15 and October 15 to November 15. Correspondence regarding the Fair should be sent well in advance of the dates of the Fair, even several months prior to the Fair, to allow enough time for the Chinese to respond. Invitations to the Fair are normally sent out three to five weeks ahead of the Fair. During the time of the Fair, correspondence with FTCs and their branches may not be acted upon as promptly as at other times. This is because representatives from all the FTCs and all their branches converge on Canton at the time of the Fair. The National Council has published a handbook for businessmen on the Canton Fair which is available free to members.

Initiating a Business Relationship at Canton

The Canton Fair, in its occasionally grueling, mysterious and fascinating atmosphere, is a very good place, indeed the only place, to start a long-term business relationship with China. After the Fair, business may be carried out by correspondence, cable and telex, and become a commercial relationship perhaps more similar to that you may have with other countries.

The Best Way to Import From China

Your firm's interest in doing business with the PRC will obviously be tailored to the individual needs of your company. And every importing company will have different needs. It is easy to spend a lot of money trying to develop business with China without making progress. If your firm is seriously interested in buying from China, it would be well for you to assess on a general policy or cost-benefit basis what the best approach for your company may be in the long run.

Different Approaches

1. *Large Scale Import of Brand Name Products*

Until very recently, China has not been very receptive to requests by foreign firms to have products made to specification with brand name labeling and packaging for retail purposes in the US or any countries. However, Hsinhua, China's news agency, on November 11, 1973, towards the end of the Fall 1973 Canton Fair, stated that "Chinese trading groups have discussed with friends from trade circles of various countries, canvassing their opinions about the varieties, designs, quality, specifications and packing of China's export commodities." China's moves in this direction are likely to be slow, nevertheless.

Should your firm be engaged in large scale retailing, or similar business, it may be useful for you to ask to follow your Fair visit with a visit to Peking or to large factories manufacturing goods of special interest to you. This is because the types and volume of goods your firm may be interested in buying from China involve policy questions best discussed at a higher level or less hurried atmosphere than may be possible at the Canton Fair. But not many firms are invited to Peking from the fair.

2. *Import of Specialty Products and Commodities*

If your firm specializes in certain products and thinks there may be potential for obtaining these products on a regular basis from China, the approach outlined in this article is recommended. But your firm should aim to initiate a relationship which will allow your executives to visit all the branches of the FTC dealing in your products, on a regular basis, outside of the Canton Fair. For instance, a few United States firms dealing in such commodities as bristles, feathers, flowers and similar items, have visited many of the regional branches of FTCs, periodically, to see different varieties of the products available in each region.

Whatever the goods you wish to import, you may wish to bring to the Fair samples of your own to illustrate the kinds of goods offered by China's competitors, the type of product you may wish China to produce, indicating packaging or styling features, and so forth.

3. *Using an Intermediary*

Using a trade firm or other intermediary that specializes in doing business with China can be worthwhile under certain circumstances. If your firm expects purchases to be low-volume or irregular, does not want to assume the risks that may be involved in importing goods from China, does not wish to station a buyer of its own for a week or two or more at the Fair, or simply wishes to obtain samples or place orders for known goods, an intermediary may be useful to your firm. An intermediary may have the goods you want in stock, negotiating advantages (e.g. bulk buying), specialized legal services, language ability, offices in Hong Kong, Europe and elsewhere, and may be able to provide a comprehensive picture of a given product supply situation.

A company considering this route of initiating business with China is advised to be thorough in its assessment of the intermediary it is going to use.

4. *A World-Wide Strategy for Initiating Imports From China*

If your firm is a multi-national corporation primarily engaged in sales and, particularly, if it is interested in selling products to China, it may be very worthwhile for your firm to consider directing subsidiaries abroad to see what they can source from China. At least one US firm has a policy of balancing its trade with China by its foreign subsidiaries buying from China as much as the US parent sells directly to China. Since China, as a whole likes to balance its trade, as far as possible, world-wide—and with individual countries over a period—anything a multi-national company can do to maintain a balance in its own dealings with China may be appreciated. This is particularly true in the case of the US because the US has tended to export to China many times more than it has imported from the PRC.

Contacting Chinese Officials

Time permitting, the Commercial staff of the Liaison Office of the People's Republic of China in Washington are always happy to talk with companies interested in doing business with China. If a member firm so wishes, the National Council can make the introduction and accompany your representative to the meeting. However, in most cases, an inquiring firm will be referred to the appropriate FTC and invited to contact the FTC directly. The National Council's representative at the Canton Fair will be happy to introduce any executives invited to the Fair to the relevant trade corporation officials at the Fair and help with initiating negotiations. But first a company must obtain an invitation to the Fair.

Further Details

If member firms wish to discuss the matter of initiating business with China in more detail, the staff of the Council is always happy to do so. Some statistical information on the present products imported by the US from China, and world-wide China trade statistics, as found in the pages of the *U.S. China Business Review* and the Council's *Special Reports* to members may also be of help in assessing what China has to sell. Any firm following the steps outlined above, however, can be assured that it will have taken the basic steps necessary to initiate business with the People's Republic of China. 完

IMPORTERS COMMITTEE FORMED

A major Council effort to aid American importers of Chinese goods began in December when the Board of Directors created a new membership category for importers. Affiliate membership is now open to importer firms with 10 million or less in gross annual sales. Importers pay annual dues of $250.

These affiliates, together with larger full membership firms interested in buying goods from China, constitute an Importers Committee of the Council.

Kurt Reinsberg, a Board member who has attended two Canton fairs and whose company has imported from China, has been named by Council Chairman Burnham to head the Committee. Mr. Reinsberg is Senior Vice President of Associated Metals and Minerals Corporation in New York.

The broad purposes of the Committee are to advise American firms about importing from China, and to familiarize China's foreign trade corporations with the U.S. market for Chinese goods. The new Committee will play an active part in planning a 1974 visit by a Chinese commercial delegation interested in learning about sales requirements and opportunities in the American market.

The National Council delegation which visited Peking for CCPIT discussions in November, and later met with Chinese negotiators at the Fall 1973 Kwangchow Fair, found the Chinese interested in such subjects as State and Federal regulations on inspection, labeling and packing; the styling and design of products for export to the United States; and business practices with respect to the purchasing, pricing and shipping of imported goods.

Contact with China's Export Corporations

The Committee will act as a collective voice for U.S. importers of Chinese goods, many of whom hope to have more impact not only in persuading China's foreign trade corporations to adapt to the peculiarities of the American market, but also to advise the U.S. Congress on tariff and other matters.

Problems faced by small importers in their trade with China continue to play a part in the low volume of Chinese exports of consumer goods to the U.S. These include changes in the value of the Renminbi, lack of forward facilities, small quantity offers, Chinese unfamiliarity with U.S. market conditions, and lack of regular and expeditious dispute settlement channels.

The Committe will provide a means for importers to make their views known directly to Chinese officials concerned with expanding China's exports to the U.S. This will be done through:

- Direct representation by the Importers Committee to China's FTC's at the Canton Fair and in Peking:
- Hosting visits by officials of FTC delegations to the U.S.,
- Meeting with commercial officials at the Chinese Liaison Office in Washington, and
- Communication in writing on trade subjects of mutual interest, supplemented with Council printed material, prepared especially for the Chinese.

Aids to Importer Members

Among the practical ways in which the Committee will assist importer members are:

- Support of most-favored-nation tariff treatment on imports from China. Council President Phillips will present testimony on this subject to the Senate Finance Committee at its 1974 hearings on the pending trade reform act.
- Maintenance of an up-todate library of China's export catalogues available for inspection at the Council office, for photocopying and mailing to importer members, or for transmission by telephonic photocopying.
- Translation services at cost.
- Special Reports of particular importer interest. Reports have already been prepared on China's 1973 import and export patterns, an inventory of goods for export displayed at the 1973 Canton Fall Fair, an index of China's export catalogues by commodity, and a guide to dispute settlement in U.S.-China trade.
- Canton Fair services
- Maintenance of a directory of U.S. importers and attendees at each Kwangchow Fair.
- Services conferences and strategy sessions for importers on problems of common concern. The first of these meetings is scheduled for the World Trade Institute in New York City in early April, just prior to the Fair. These meetings will be held year-round and throughout the country, as well as at Canton during the twice-yearly Fair.
- Private consultations with Council staff for importers new to the China trade or to more experienced firms seeking Council assistance.

YOUR OFFICE AWAY FROM THE OFFICE AT THE KWANGCHOW FAIR

Merkle Photo

For the first time since American businessmen began attending the Kwangchow Fair, the Chinese invited the National Council in the Fall, 1973, to send a full-time representative to the Fair.

The Council maintained an information and counseling service, with daily office hours seven days a week, at a suite in the new addition of the Tung Fang Hotel. An office library contained reference works for businessmen, including the U.S. tariff schedules and various United States laws and regulations governing customs, food, drug, inspection, labeling, and other reference materials of interest to importers and exporters. In addition, newspapers, periodicals and other light reading material, otherwise largely unavailable in China, was circulated among Americans at the Fair.

Services to Members

Consultative sessions were the most popular of services made available to members visiting the Fair. They included advice on all aspects of doing business with the Chinese. These included discussion on Chinese negotiating techniques, pricing, contract terms, financing, and such occasionally negotiable points as *force majeur* and dispute settlement mechanisms.

On occasion, at the request of traders, the National council representative arranged appointments and accompanied businessmen to initial meetings with officials of the Chinese foreign trade corporations. On an experimental basis, the National Council representative presented proposals prepared by member firms, themselves unable to attend the Fair, for consideration by various foreign trade corporations.

Together with reference materials, the National Council made available, without charge to members, the use of four IBM electric typewriters and a 3M desktop photocopying machine. The Council is grateful to IBM and to the 3M Company for the free loan of these pieces of equipment, which proved invaluable to Americans at the Fair.

Canton Fair Handbook

With the possible exception of a contract for Mao-tai or the Fair invitation itself, no item was more coveted at the Fall 1973 Fair than the handbook prepared for businessmen by the National Council. Prepared originally for the use of National Council members exclusively, the handbook rapidly became a sought-after guide for visiting businessmen from Lagos as well as Los Angeles, from Beirut as well as Boston. The handbook, copies of which are available free to members from the Council, offers indispensable and practical information for Fairgoers, from making arrangements to visit the Fair to obtaining train tickets in Hong Kong and dining out in Kwangchow. A guide to China's foreign trade corporations is also included.

Liaison With the Chinese

In addition to the services to members, the National Council representatives held regular meetings with Fair officials to determine ways of promoting and facilitating bilaterial trade. These sessions included meetings with senior officials of the Fair, and leading representatives of the several corporations at the Fair, including spokesmen for the machinery, foodstuffs, textiles, light industrial, and technical import corporations.

In cooperation with these Fair officials, a reception was held at the end of the Fair for the delegation from the National Council which had just completed its discussions with the China Council for the Promotion of International Trade in Peking. This reception, and meetings with corporation negotiators which followed, enabled delegation members to exchange views at the Fair on trade expansion policies and programs discussed earlier with the CCPIT in Peking.

Other events which brought Americans and Chinese together included reception and dinners given in cooperation with the representatives of the United States Government at the Fair, Messrs. Linwood Starbird and Robert Perito of the United States Consulate in Hong Kong, Messrs. Herbert Horowitz and William Rope of the United States Liaison Office in Peking, and Mr. William Clarke of the Department of Commerce.

A Fair Inventory

In the course of the Fair, an inventory of principal goods displayed at the Fair was compiled by the National Council representative. This was done, with the knowledge of the Chinese, by the National Council representative walking through each Fair exhibit hall and tape recording his observations of each item displayed. Tapes were then airmailed to National Council headquarters in Washington where they were transcribed. A report of these inventories is available free to members from the National Council as Special Report No. 2.

What China Has to Sell

While at the Fair, Council representatives also collected all available export catalogues of China's foreign trade corporations and, though still incomplete, the collection, has been compiled, by product, catalogue title and trade corporation. This catalogue index, available free to member firms as a Special Report, is the best existing reference guide to China's export goods though it is not necessarily an indication of availability. Prices are not included. All the catalogues are available for inspection at Council offices in Washington, for xerox, on written or telephoned request, and by Xerox Telecopier. If your office has a telecopier receiver, call (202) 659-9693 for this service.

Prices and Other Problems

Generally speaking, Americans at the Fall 1973 Fair found the Chinese to be more accommodating and more willing to complete negotiations on an expedited basis than at any time previously. Prices were generally similar to those at the Spring Fair, which were markedly higher than prices at earlier Fairs attended by Americans. But there was little complaining among Americans about prices. Most concern expressed related to insufficient quantities available to importers.

Other problems cited by American importers at the 1973 Fall Fair included: (1) Unwillingness of the Chinese to put private company names or labels in garments and on manufactured goods. In some cases, the Chinese are apparently willing to add the label of a U. S. importer or retailing establishment, but are unwilling to remove their own label from garments. (2) Interpretation during negotiations, though often excellent, is occasionally spotty according to some traders. (3) Some Americans still find it difficult to make the necessary appointments with the appropriate negotiators in the various delegations with the ease and rapidity they expect at similar events elsewhere in the world. Many of these are first-timers at the Fair, who naturally find Chinese business practices unusual. Customized service for Americans as a whole, evident to some earlier Fairs, does seem to be disappearing. (4) Pricing is a problem at each Fair. Importers long accustomed to quantity discounts are frustrated at Chinese unwillingness to adopt this practice. A tension also exists between importers and retailers, both of whom are quoted identical prices, and each of whom feel justified in seeking preferred prices. (5) Large retailers, interested in importing textiles and other items in large quantities, found it difficult to obtain the quantities they need, and to explain to the Chinese some problems they experience in retailing Chinese goods. For example, while they may wish to purchase large amounts of an item, they may wish these shipped other than in traditional Chinese methods. An example of this occurred when one large firm balked at Chinese "master packing" by which one order of 600 dozen handkerchiefs would have arrived in the United States not only unboxed, but packed loosely in one bale. Relatively recent U.S. regulations on care and flammability of garments, and retailers' general insistence that shrinkage and other characteristics be guaranteed to close tolerances, are relatively novel U. S. requirements to which the Chinese have not had to adhere in trading with other countries.

For exporters, of course, the Fair is a great opportunity and a great frustration. Naturally, first attention by the Chinese is devoted to those at the Fair interested in buying Chinese goods. Yet, the Fair has increasingly become for American export firms a place at which they may make their initial presentations, and the fall 1973 event was no exception. Exporters, including those marketing technology and highly sophisticated systems almost invariably find themselves cast in the role of supplicants, waiting in line for appointments or waiting, upon Chinese instruction, in their hotel rooms for that telephone to ring. Most come with the hope and expectation they will be invited to Peking for negotiations leading to a major deal, and most are disappointed. Nevertheless, the Fair does afford an opportunity for a company to begin to acquaint itself with Chinese business practices, and occasionally to make contact with the proper import officials of China's foreign trade corporations.

The Spring 1974 Fair

On April 15, 1974, the 35th Chinese Export Commodities Fair will be opened and will run through May 15th. Once again, the National Council will send a representative who will be present and available to assist American businessmen. As at the last Fair, members will be invited to use the National Council office as their own throughout the Fair.

Among the innovations which the National Council expects to make at the 1974 Spring Fair, will be the installation of improved communication facilities for American firms. At the present time, Canton is not linked by telex with the outside world. Urgent communications are sent by cable at a high rate. Cable communication at the Fall 1973 Fair, delayed by customary backlogs, was complicated by a wireless workers strike in Hong Kong. Thus, discussions are now under way between Council officials and the Chinese to permit the installation, at least on a temporary basis, of a telex transmitter and receiver at the National Council office at the Spring Fair.

Another innovation planned by the Council is that enabling member firms in the U. S. to make requests of the Council representative during the course of the Fair. The Council representative has registered the Council cable address in Canton, and cables addressed to "USCHINTRAD Kwangchow People's Republic of China" will reach the Council representative. Member firms are invited to query the Council representative on matters relating to price, quantity or other information on goods available for import or, as well, information related to exports. With this new service, for example,

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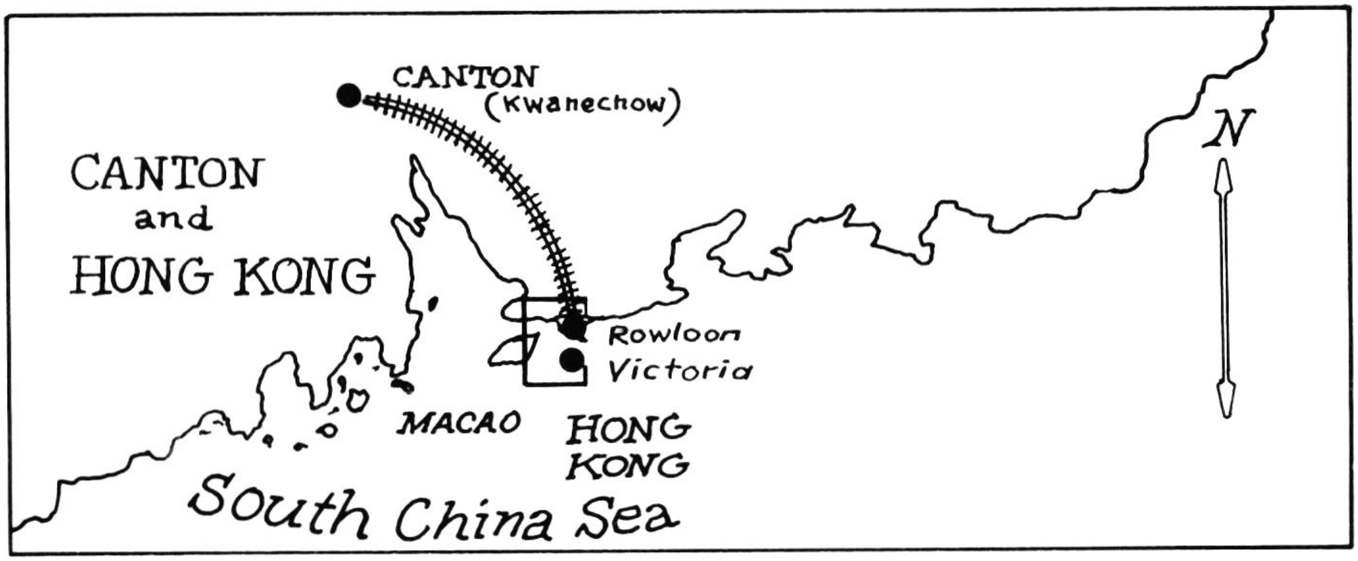
the Council representative would be in a position to cable back quotes on prices or quantities available of Chinese textiles, metals, minerals or chemicals. While the Council representative will not conclude contracts on behalf of member firms, these could be consummated in cable communication after the Council representative has secured the basic contract information. Cables or mail addressed to Fairgoers from member firms in case of the Council representative will be delivered or held, as appropriate, at the Council office.

The Council has also noted one of the suggestions made by one member firm with respect to the library of light reading material maintained at Canton. Mindful of the fact that Canton affords few of the pleasures and diversions commonplace in other major cities of the world, the Council plans to bring at least one copy of Hemingway's "Men Without Women." 竞



USEFUL TELEX AND CABLE ADDRESSES IN PEKING

ORGANIZATION	*CABLE ADDRESS*	*TELEX ANSWER BACK CODE*
China National Cereals, Oils and Foodstuffs Import and Export Corporation	CEROILFOOD PEKING	CHINAFOOD PK 426
China National Textiles Import and Export Corporation	CHINATEX PEKING	CHITEXTIL PK 428
China National Light Industrial Products Import and Export Corporation	INDUSTRY PEKING	CHINLIGHT PK 430
China National Native Produce and Animal By-Products Import and Export Corporation	CHINATUHSU PEKING	CHINATIVE PK 432
China National Chartering Corporation	ZHINGZU PEKING	ZHONGZU PK 331
China National Foreign Trade Transportation Corporation	ZHONGWAIYUN PEKING	WAIYUN PK 335
Head Office, Bank of China	HOCHUNKGUO PEKING	CHUNGKUO PK 307

Peking is 12 hours ahead of New York and 15 hours ahead of San Francisco. The area code for Peking is 716. Thus the six-digit telex code of the China National Chartering Corporation is 716331. The cost per minute of a telex message from anywhere in the U.S. to Peking is $3. As telex numbers for other trade organizations in China become available, the National Council will publish details.

China's Foreign Trade System Changes Gear

Audrey Donnithorne

The importance of foreign trade in the economic life of China received a significant boost in 1972-73 as a result of a decision by the Chinese government to accept larger and longer foreign credits than hitherto. The extent of the boost must not be exaggerated, for China's per capita foreign trade still remains one of the lowest in the world. Nevertheless a change in attitude may have occurred which could have major repercussions on the Chinese economy.

Both traditional and Communist thought in China have tended to despise trade as being an activity inferior to production. A primitive Marxist disapproval of commerce, considering it inevitably tainted with capitalism, has at times been apparent. The system of planning by material balances which, in theory at least, has been prevalent in China, relegates trade to an afterthought to fill gaps or dispose of surpluses in the productive possibilities of an enterprise, an administrative area, or of the country as a whole. Self sufficiency and self reliance have been the preferred situation, while the notion of comparative costs and of the advantages of specialisation and scale, have been neglected.

Against this, however, has been the strength of commercial instincts in China, especially in centres such as Shanghai and Canton. Economic planning too, has often been honoured more in theory than in practice, for the administrative structure and the abundance of numerate persons required to implement it have both been lacking. Therefore commercial dealings of one kind or another have often been used to supplement the planning structure —e.g. for the distribution of numerous small commodities. Thus trade has in fact played a more significant role in the contemporary Chinese scene than a simplistic description of the working of the economy would lead one to suppose.

Organisation of Trade

Much, but not all, of this trade has been conducted by or under the aegis of the commercial departments at each level of the administration—by the central government's Ministry of Commerce or by the bureaus and departments of commerce of provinces, municipalities or *hsien* (counties) and other local authorities. In a system where local authorities control a large part of industry and of trade, their boundaries take on a greater economic importance, especially when as in 1969-70 they are encouraged to 'build small but complete local industrial systems by self reliance'. Local control over commerce provides an inbuilt protection of local industry to which it automatically tends to give preference and, together with a high degree of local control of many prices, ensures that local enterprises are able to generate profits for local re-investment. This is apt to widen local differentiation in rates of economic growth.

This tendency towards local self sufficiency and a cellular economy is not undisputed. Other forces are at work, such as the industrial superiority of the large cities, especially Shanghai. The advantages their enterprises possess of internal and external economies of scale enable them to produce a wider range of goods of better quality at lower cost to a degree which wears down predilections to self sufficiency in their hinterlands. This process is fostered by the demand of the great cities for raw materials. Hence the economic advantages in trade between the largest centres and other parts of the country have apparently led to an increase in the domestic 'exports' of Shanghai and Tientsin at a time when many of their markets were claiming a steep rise in local self sufficiency. This may be explained by a decline in the trade of the medium sized industrial centres.

The nation-wide corporations for internal trade which existed before the Cultural Revolution are reported to have been abolished. Distribution of goods between local administration units is now arranged by the Ministry of Commerce, or by representatives of local bureaus and departments of commerce gathered at special commodity exchange meetings; also, it is thought, by 'unofficial' means, sometimes of the nature of barter.

The Ministry of Commerce and the bureaus of commerce of local authorities, are responsible for much of the economic initiative in China. They can spot the gaps in production and the possible sources of raw materials. Often they are reported to have suggested the establishment of factories to make new lines of goods.

Such is the internal trade organisation in China and the attitudes towards trade on which the foreign trade system is grafted.

The Ministry of Foreign Trade heads the Chinese foreign trade structure. Under it are the national export and import corporations (now numbering eight), two corporations engaged in transporting and handling goods, the local branches of the export and import corporations and the local bureaus of foreign

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trade. The number of these local bureaus appears to be on the increase so that now they are found in some medium sized local authorities as well as in provinces and the larger municipalities.

Local bureaus of foreign trade and local branches of the corporations send representatives to the twice a year Canton Export Fair, as do the Ministry of Foreign Trade and the Peking head offices of the corporations. Here they meet foreign businessmen and take orders for export commodities. Some import business is also done at the Fair but the larger import contracts are usually negotiated in Peking. The Canton Fair plays a role in China's foreign trade similar to that of the commodity exchange meetings in its internal trade.

The Chinese have a preference for bilateral deals in foreign trade. Such deals accord readily with the attitude to trade as a residual and with planning by material balances. Trade with socialist countries has been largely conducted through bilateral exchanges but this has not been possible with most other trading partners.

The Planning of Trade

Our knowledge of how decisions about foreign trade are made remains sketchy. In the economic decentralisation of 1957-58 the total value of exports and imports together with the volume of unspecified important export and import commodities were among the planning targets still to be set by the central government. The chief central organ for planning is the State Planning Commission which is charged with effecting an overall balance of supply and demand for such commodities (or such categories of certain commodities—e.g. steel from most major steel plants) as are subject to central control. The planning of trade, which as we have noted is viewed as a residual, has usually come as an offshoot of this internal balancing.

The details of the annual and quarterly foreign trade plans are presumably drawn up by the Ministry of Foreign Trade and the foreign trade corporations in the light of detailed information about the availability of export goods and taking into account the requests for imported goods coming from end users. Here we are up against the vital question of where the decisions to import and initiatives to export originate, and the differing degrees of filtering to which decisions from different sources are subject as they go upwards.

There is known to be a degree of local control over at least some local foreign currency earnings, including remittances from Overseas Chinese. The extent of such control may well vary from locality to locality and from one period to another. One cause of variation may be the degree to which a local authority is dependent on the facilities provided by the central government for the conduct of foreign trade. Thus a powerful authority with its own well-developed foreign trade organs, such as Shanghai, is likely to be in a stronger bargaining position to secure local control than is an economically undeveloped province in the interior.

Competition between different parts of China in export markets is attested by the existence of different provincial brands of the same goods—e.g. canned fruit—selling alongside each other abroad. Some Western traders have been able to play one local branch of a Chinese foreign trade corporation off against another. The growth in importance and dependence of the Shanghai branches has recently been noted by foreign businessmen. Indeed some have said that Shanghai is now taking the leading role in foreign trade previously held by Peking.

New Policy on Foreign Credit

One aspect of national self reliance has been the refusal of the Chinese government, since paying off the Soviet loans extended in the 1950s, to borrow from abroad. A few plants were bought on deferred terms, seldom publicly announced, but such credit was on a relatively small scale.

Towards the end of 1972 a change in policy occurred. Since then a large number of contracts have been signed for complete plant and other capital equipment on credit repayable over a period of five years. Petrochemical and chemical fertiliser plants and iron and steel mills figure prominently among these imports, ordered, or under negotiation, from Japan, West Europe and North America. Most of these new projects are, it appears, to be built near the big east coast cities or in the industrial north east.

The immediate and most pressing motive force behind this determination to accelerate the strengthening of China's industrial base is no doubt what China perceives as the Soviet threat. It is part of the overall policy of 'preparation for war' which has also prompted the political detente with the West. The increased imports of wheat in 1972-73 should also be seen in this context. The fear that both external and internal transport might be dislocated by war dictates the need for larger grain reserves and this is probably one reason, although not the sole one, for the heavy imports.

Another purpose is also served by the new willingness to accept foreign credit. These funds are lent to agencies of the central government and thus strengthen its resources relative to those of the local authorities. Few large civilian capital projects had been put in hand by the central government in the previous fifteen years, after the completion of those financed by loans from the Soviet Union. In the interval the investment funds for civil purposes at the

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disposal of the central government had languished and the bulk of new non-military projects had been locally financed.

Thus the change in policy towards borrowing abroad can be expected to strengthen Peking both externally and internally. It will expand the modern industrial base which China needs to confront the Soviet Union and at the same time it will increase the proportion of this base which is directly controlled by the central authorities.

The new foreign loans of 1972-73 are believed to exceed $1 billion in total and their volume is likely to be augmented. Even if refinancing is practicable and acceptable to the Chinese, the eventual payment of these loans will involve orienting the Chinese economy towards export markets to a greater extent than hitherto.

Export Potential

The lines of exports which the Chinese authorities hope to push in order to gain the additional foreign exchange needed for repayments is still a matter for conjecture. The output of some of the new imported plants themselves, especially petrochemicals, is one likely source of imports. Another might be oil from the Taching oilfield (some of which is already being exported to Japan) and from others which may be developed. There is a possibility of reviving the pre-war shipments of Chinese coal to Japan. Agriculture is unlikely to provide much in the way of additional exports. Consumer manufactures may find wider markets abroad but this will entail considerable adaptation. The main exports markets so far for Chinese manufactures have been Hong Kong and South East Asia, where there are large Chinese populations whose tastes are easy for China to cater for, and the developing countries of Africa and elsewhere that do not demand great sophistication. In recent years markets have been expanded in Europe, North America and Australasia, but largely in textiles and clothing which are often subject to quota restrictions and in small, cheap miscellaneous goods; in all these lines China is in competition with other developing lands.

If there is to be a significant expansion of Chinese exports of manufactures to western markets, a great deal more attention will have to be given to market research, design, packaging and quality control. More emphasis will have to be placed on middle level technical management to supervise production. All these changes are likely to have side effects that will not be confined to the export sector but may rub off on the Chinese economy as a whole. A decision to expand tourism for the purpose of earning foreign exchange might be even more far reaching in its implications.

Wider Repercussions

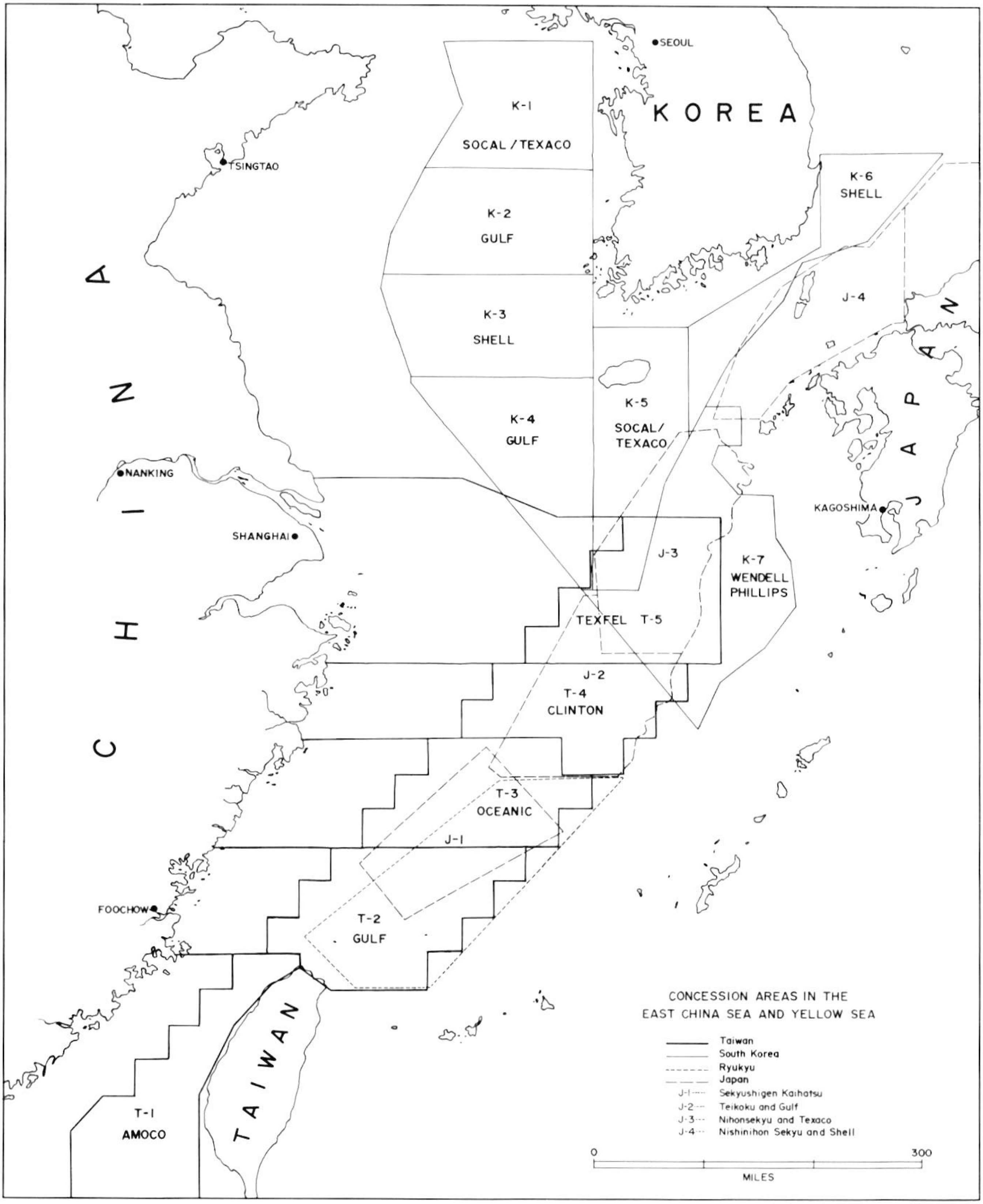
A large scale shift of resources into the export sector in China would lead to a further polarization in development between the industrial centres in the east and north east and the rest of the country. A corollary of this will be increased regional division of labour as the great cities make continually greater demands for raw materials and foodstuffs; this may however be somewhat modified to the extent that the expanded export industries are chemically based. A growing complementarity and mutual dependence of different regions may spontaneously bring about an economic unification of the country more readily than can be accomplished by the cumbersome process of central economic planning in the absence of such motivation. This could reverse the earlier tendencies toward a cellular economy.

Growth in foreign trade is likely to change attitudes to trade in general and to influence thought about internal trade. More careful consideration will also have to be given to the relative advantages of developing export industries or import substitutes, to expanding one export industry or another. This will lead to calculations of rates of return from different types of investment. Such thoughts have never been altogether absent from the minds of economic decision-makers in China. Often however, they have been camouflaged: now perhaps such matters may be brought out for open discussion.

Thus the decision to raise imports through acceptance of foreign credits may produce wide ranging and varied repercussions throughout China's economy and beyond into other sectors of the national life. 完

Tientsin Harbor, one of China's ports handling foreign trade, has recently been enlarged.

UPI



Based on U.S. State Department Map No. 261 7-71 State (RGE) with Additions

Each issue of the UCBR will contain a sectoral report on an area of major significance concerning Sino-US trade relations. In this first issue oil is the subject of the report.

CHINA'S OIL

Nicholas Ludlow

". . . Mr. Burnham explained . . . that if China could develop her oil reserves, it would be a likely item for export to the U.S. Mr. Li replied by saying that China does not have very much oil. We are currently only self-sufficient, he said. As to how much there may be underground we just don't know. He explained that Chinese geologists were now endeavoring to determine the extent of China's oil reserves. He said, in fact, that Chinese technicians had been directed to drill very deep into the earth in the search for oil, but to refrain from drilling too deep so as not to drill through to the United States."

From a Summary of the National Council for US-China Trade Delegation's Meeting with Li Hsien-nien, Vice Premier of the People's Republic of China, November 8, 1973.

Within five years the People's Republic of China could be earning $1 billion annually in hard currency from its exports of high-grade oil. Ten years from now those earnings could be $2 billion yearly and China could be supplying the US with petroleum products. The effect on China's balance-of-payments could significantly modify the PRC's attitude toward deferred financing and toward its other exports. Oil will affect China domestically.

But the impact of China's oil development onshore and offshore has political significance, reflecting Peking's enmity toward Moscow, future ties with Taiwan, and leadership of developing nations, that cannot be overemphasized. In the long term, with millions of dollars of equipment and possibly billions of dollars of crude oil supplies at stake, US oil companies—critical to the speed of development of China's oil resources—must decide where their long term interests lie.

If, in the Asian political arena, that interest is in a durable and peaceful regional stability, any major oil firm, faced with a choice between Saigon and Taipei or Peking, is almost surely bound to opt for Peking. In the context of long-term Sino-US relations, US oil firms could well be a key bond linking the two economies.

The National Council told the Chinese in Peking, in November 1973, that the US "is currently considering new polices designed to facilitate better cooperation and greater technological exchange with China in the explorative and future development of petroleum resources, both onshore and offshore." Since November 1973 almost $10 million worth of US onshore and offshore oil exploration and production equipment has been sold to China by US firms.

China and Russia

Why did Chou En-lai reportedly tell Japan's Foreign Minister that China's 1973 oil output was 50 million tons? Why did Ichizo Kimura, on a Japanese trade mission to Peking in late 1973, say China's oil production will exceed 100 million tons annually by 1978?

For strategic reasons China would much rather assure Japan of supplies of oil than see Japan help the USSR develop its oil resources just over the PRC's northeast border. The USSR has promised to deliver 25 millions tons of oil yearly to Japan, which is 99% dependent on foreign oil supplies, following joint development of reserves in Siberia.

More than this, Peking would rather see Chinese oil, not Soviet oil, going to the US—a strong prospect for the 1980s. The development of Siberian energy resources and consequent export of oil and methanol have high priority in Soviet plans for 1976-1980 (the 10th Five Year Plan). US help has been long discussed, as well as Japanese, for building pipelines, plant and transportation equipment.

The oil the USSR supplied Japan would represent, at least initially, a fraction of total Soviet oil exports, most of which now flow to Eastern and Western Europe. But, as with China, oil exports would solve a lot balance-of-payments problems in Russia's two way trade with both Japan and the US, in addition to Siberia's relatively convenient location for such exports.

The tensions between China and the USSR show no sign of subsiding, either on their joint border—the longest in the world—or externally. It is probable that the proximity to the USSR of China's major Taching oilfield (developed with old Russian and newer Romanian equipment) and the Dzungarian Basin in the northwest, has led Peking gradually to shift emphasis in oil production to areas far from the Russian border—to the Gulf of Chihli (Po Hai) and further offshore.

Reflecting the strategic aspect of petroleum resources, China is also known to have stockpiled oil in strategically-placed, underground concrete bunkers.

The shift offshore has another potential advantage: the viscosity of the oil under the sea may be better than that underground at Taching. That is, it may have a congealing point (pour point) lower than Taching's and be easier to handle technically.

If China, in the interest of its security, wants dramatically to improve its oil exports to Japan,

CHINA'S OIL EXPORTS TO ASIA

The PRC made its appearance as a major oil supplier in April 1973 when it contracted with Japan's International Oil Trading Co. (IOTC), a ten-firm consortium, to deliver a million long tons of high grade, low sulfur (0.08-0.11%) content crude oil through December 31, 1973 at RMB 59.14 per lt, 80% fob Dairen, the balance c&f at RMB 7 per lt freight. China's tanker *Jinhu* delivered its first shipment to Kashima in Ibaraki prefecture on September 17, 1973. The PRC's earnings were the equivalent of $30 million. In 1974 and 1975, the tonnage China exports to Japan will triple, and the price per ton, in accordance with the going price for this type of oil, similar to Sumatra light or Minas, found in Indonesia, has more than doubled.

The price the China National Chemical Import and Export Corporation (CNCIEC) negotiated with Japan in April 1973 of about $3.73 a barrel (there are 7.11 barrels in a long ton) is now well below the world market prices for Minas crude, which was upped to $6.00 November 1, and on January 1, 1974 reached $10.80 a barrel. China's 1974 price fob Dairen is reportedly $8.60 a barrel: three million tons at that price would gross the PRC about $183 million this year. Japan, still desperate for China's high quality fuel despite OPEC's eased embargo, is now asking Peking for five million tons a year, and ten million tons, worth $611 million yearly at China's 1974 prices, may be possible by 1978.

Besides providing Japan with crude at lower than going prices (Taching oil exported by China is also better quality than Indonesia's), China has sold Thailand 50,000 tons of diesel fuel, December 24-27 in Peking, at "cheaper than world price", and has offered the Philippines fuel oil at less than world market prices.

In early January 1974 China agreed to boost its sales of diesel fuel to Hong Kong, increasing its local market share from 1% to about 20%. (Esso, Mobil and Shell will sell the diesel fuel.) The PRC's shipments to Hong Kong, from the Maoming Refinery via Tsamkong 200 miles west of the colony, will be substantially increased in 1974 and will include gasoline and heavy industrial oil. China has also supplied Hong Kong with Taching's Kwong Ming brand kerosene since 1971, now accounting for 6-7% of the local market at prices 10 US cents per 4-gallon tin below those of Western suppliers.

China has for some years also been exporting oil to North Vietnam, and since about 1964 North Korea's burgeoning petrochemical industry has relied heavily on Chinese oil supplies, most of which comes from Taching. A $35 million petrochemical complex was sold North Korea in late 1971 by a group headed by France's Speichim. In mid-1973 another complex, for ammonia and urea, valued at about $70 million, was sold North Korea by Austria's Simmering-Graz-Pauker (SGP). Other units have been built with Russian and Chinese help.

which presently account for only a few days of Japan's annual consumption, it must assure Japan it has plenty of oil to sell. That, perhaps, was Chou En-lai's message.

The PRC will also have to show the US it can handle large scale exports of oil. By the 1980s it is quite possible Peking will have used oil as a mutually beneficial bond in relations with US, acceptable to both nations, strengthening ties that are in both nation's interest in the long term. US technology can only be of help in this developing relationship.

Meanwhile, China's feud with the USSR, its efforts to regain Taiwan, and its suddenly enormously significant potential offshore oil reserves in a world of haves and have-nots, have led to new initiatives beyond China's shores.

China, the USSR and Taiwan: The South China Sea

China's territorial waters, so far as oil companies with expensive offshore drilling rigs were concerned, were dramatically exposed in the January 19 incident in which Chinese MIGs attacked South Vietnamese vessels in the Paracels, a disputed island group in the South China Sea. (Saigon's oil concessions well to the south, the first batch awarded July 1973 to Esso, Mobil, Royal Dutch Shell, and Sunningdale, were already under initial exploration, against a February 1974 deadline.)

Territorial boundaries in the South China Sea are disputed: 12 out of Saigon's initial 30 concessions are disputed by South Vietnam, the Khmer Republic and Malaysia. To the east, the sea area focusing on the Paracel and Spratly Islands has been claimed on and off by China since the Han Dynasty two thousand years ago.

The potential of oil in this area threatens Soviet pressures on Chinese claims from two directions—the Philippines and North Vietnam—and, independently, from Saigon and Taipei. In Saigon's case, the US has explicitly stated it is "not involved . . . It is for the claimants to settle among themselves."

North Vietnam, with Russian assistance, has apparently located potentially substantial oil reserves in the Gulf of Tonkin, and has discussed joint development with two Japanese consortia, led by C. Itoh and Nissho Iwai. These talks, held with Hanoi's National Planning Commission in October 1973, could develop into government-to-government cooperation arrangements between Japan and North Vietnam, with the USSR—long the principal source of material assistance to Hanoi—not far in the background.

The Philippines, which staked out oil concessions in the South China Sea in 1971 (and nationalized Esso Philippines on December 21, 1973) has been approached by the USSR for assistance in exploring for offshore oil. President Marcos has clashed with both Peking and Taipei on the Philippines claim to islands in the Spratly group.

China's successful battle with South Vietnamese forces in the South China Sea, however, made a point felt in one place especially: Taiwan. Taipei, in its claim to govern all China, has also laid claim to the South China Sea territory. Asserting that claim in more than rhetorical terms has now become potentially very dangerous, while, for the first time, South East Asian nations have seen, before their very eyes, forceful Chinese military action in support of Chinese policy statements.

For Taiwan, the Paracels battle has this ominous portent: What happens in the South China Sea today could happen in the East China Sea tomorrow.

A Wedge Toward Taiwan

De facto assistance of US firms in asserting China's sovereignty over sea areas claimed by Taiwan could be very significant in Peking's gradual campaign to embrace Taiwan. At present a mass of conflicting concessions in the Yellow and East China Seas claimed by Taiwan, Japan, and Korea using different criteria for boundaries, has led to virtual standstill in exploration.

In April 1971 the US advised oil firms in the US to forego oil exploration in disputed offshore areas: of the seventeen concessions at that time, thirteen overlapped. Joint development has proved possible only in Japan-Korea overlaps, where US, Dutch and Japanese interests have so far drilled dry holes.

In March 1973 Peking protested a US-chartered, Panama-registered oil drilling vessel operating in the East China Sea, where Gulf and Caltex were reported drilling. The April 1971 warning by the US that the US could not intercede if China seized American drilling vessels was brought into focus by China's protest: "The areas of jurisdiction of China and her neighbors in the Yellow Sea and the East China Sea have not yet been delimited . . . The Chinese government hereby reserves all rights in connection with the possible consequences arising therefrom (drilling activities by foreign oil companies)."

The US and other international oil firms directly involved in the concessions in China's coastal seas, active or not, include, in Japan's blocs, Gulf, Texaco and Royal Dutch Shell; in South Korea's blocs, Caltex (two), Gulf (two), and Shell (two); and in Taiwan's blocs, Amoco, Gulf, Oceanic Exploration, Clinton, and Texfel. The US stake in these concessions is substantial. (See map).

The test, in these seas, as to sovereignty of most of the blocs, nearly all of which are in territory

Peking considers to be the PRC's, is to come. Ownership of the Tiao-yu-t'ai Islands in the Ryukyus is a delicate question to be worked out between China and Japan by mutual consent. No such arrangement is likely, however,—at this time—between Peking and Taipei.

The key to this situation could be the extent to which Peking purchases oil exploration equipment and technology from US firms, which could be important at a time when Taiwan has stated its intention to allocate $108 million for energy resources exploration, especially for offshore oil. China's present pattern of purchases (see box) will not see the PRC with a viable offshore rig fleet till at least 1976.

Exporting Oil to Taiwan

Exports of China's oil to Taiwan would create a link Peking has been seeking to forge that would be more than symbolic. It would add to the PRC's growing exports to Taiwan via Hong Kong: more Chinese goods ($8.8 million) were in fact re-exported to Taiwan via Hong Kong in the first half of 1973 than were re-exported to the US, a rise over the same period in 1972 of 306%.

Taiwan, 98% dependent on external sources of oil, suffering from high oil prices and short supply, embarked on a $1 billion program of petrochemicals development, has been tantalized by Peking's low-priced, high-quality supplies of oil to nearly all neighboring countries (see box). Further, in December 1973 it was reported that Taiwan was cutting down on fuel supplied to shipping, while China assured Japan of its readiness to bunker Japanese ships, some 55-60 of which now ply monthly between Japan and China.

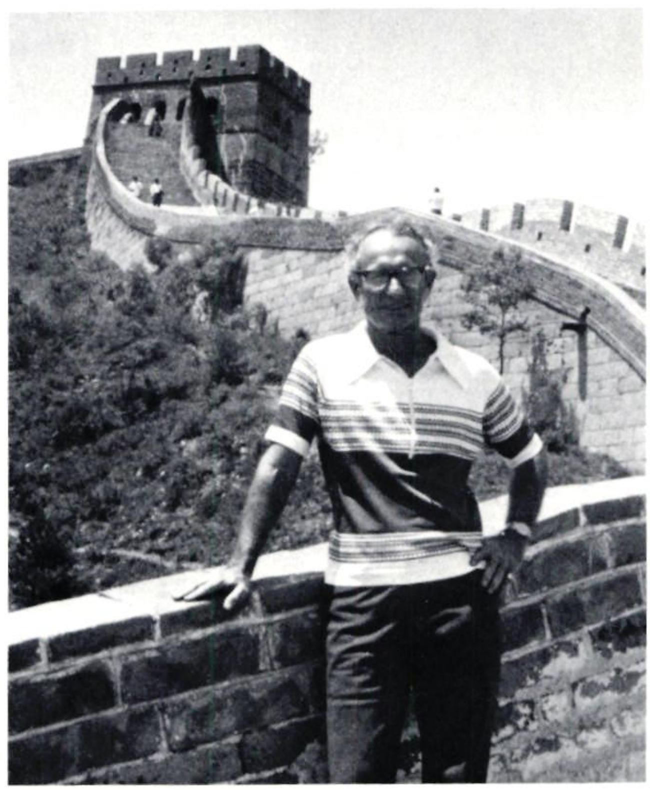
China has offered to supply Taiwan: On December 18, 1973, Chinese broadcasts proclaimed that ". . . when Taiwan is liberated . . . Taching and other oilfields will successively ship crude oil for refining at the Kaohsiung and other oil refineries . . . all provinces on the mainland will surely support Taiwan in manpower, materials, funds, and equipment to help it develop its petroleum resources . . . In the embrace of the motherland, Taiwan province, like other provinces will rid itself of control of foreign oil and use domestically-produced oil, and the broad masses of Taiwan compatriots will no longer be annoyed by oil shortages."

Oil to Taiwan at bargain prices, besides being less costly than oil from Indonesia or the Middle East, would provide the energy for many types of industrial development on Taiwan. These developments, including the petrochemical program, could eventually complement the economy on continental China. Some US firms are known to be thinking in those terms.

It is also possible US oil firms would have to be involved at some stage in shipping, processing, or marketing oil imports from China's mainland. Clearly a number of US oil companies have interested China enough to invite them to the Kwangchow Fair. In the last two years Caltex, Chevron, Conoco, Exxon, Mobil, Phillips, and perhaps others have been invited to the Fair.

China and the Third World

In early 1973 a Chinese broadcast stated that China "must not follow the predatory, imperialist ways of oil extraction which might produce quick results but would do long-range damage to production. Taking into consideration both present and future interests, the party committee set the principle of operation that would ensure high and stable output over the long run."



Houstonian J. Ray Pace of Baker Trading, a member firm of the Council, at the Great Wall of China during talks with Techimport in Peking. Baker Trading represented, besides Baker Oil Tools Inc of Los Angeles, three Houston firms, Hughes Tool, Hydrill, and Byron Jackson. A number of other US oil equipment firms have been represented in China, including Smith International by Council member Harned Hoose and Vetco Offshore, by another Council member, May Lee Industries. Rucker of Oakland, California has sold China 20 land blowout preventer stacks valued at approximately $2 million, to be delivered in later 1974. Both ram and spherical preventers with high pressure gate valves will be supplied. Four will be specially treated for high toxic, sour gas drilling conditions and will be equipped with rotating blow out preventers. Rucker Shaffer, in Houston, will make the equipment.

The PRC has, for many years, been the champion of the Third World, both as non-profit oriented model of development and a leader of less developed country interests in world organizations. For many developing nations whose fuel supplies are jeopardized by Western oil firms at loggerheads with Middle Eastern producers, high oil prices, and uncertain delivery, the idea of long range, stable supplies unhindered by the threat of nationalization, war, or short-term oil extraction methods must appear favorable.

Oil, for many developing nations, is an item more important than fuel: it is the raw material for fertilizer, without which grain yields cannot be increased, and for various herbicides, weedicides, fungicides, pesticides etc., important in grain culture. The impact of an oil shortage on these nations is akin to drought, since it puts up the price for food and drains a small nation's finances of funds that might be used to improve the lot of nationals in other ways.

The revelation that Middle Eastern countries have mined their oil fields in case of forced takeover, plus OPEC's early January appraisal of a special oil price ("dual tier") for developing nations as "unrealistic", forces LDCs toward serious consideration of alternative sources of supply. The reported premiums for oil purchases from new "Haves" such as Nigeria ($35,000 key money for oil talks, or new Cadillacs) may indeed make other developing nations wonder where to turn next.

India, faced with paying out 80% of this year's export earnings for oil as a result of the price hikes, accepted Russia's offer to develop exploration and production of oil within two weeks of OPEC's dual tier rebuff. (In January too, India announced takeover of 74% of Esso's Indian operation). The establishment of a long-term development bank in India and other poorer nations to help provide loans for oil purchases, proposed by OPEC when rejected on the dual tier, was turned down by India. (Ironically, just as China is reverting coal-fueled factories to oil, India is changing oil facilities to use coal).

Arab capitalists, the First Big New Haves, have little appeal for some of those in the Third World who Have Not. By the 1980's, however, as supply of raw materials becomes a critical component of world economic development, subject less to market forces than government-to-government agreements, China's policies will surely have had considerable impact.

It is also significant that in China's deals with Japan, which is dependent on US oil firms for most of its supplies, that the four major Japanese firms originally involved in importing China's oil (Idemitsu Kosan, Daikyo, Maruzen, and Kyodo) are all independent local firms, with a maximum 20% US equity in only one of them.

China's stance is attractive to many South East Asian nations because oil gives the PRC the beginnings of an economic and psychological counterweight to Japan's influence in the area, a counterweight some Asian countries will appreciate. China's oil also gives another alternative to Pertamina, Indonesia's state-owned oil concern, now producing 1.4 million barrels daily, and set to earn $2 billion in 1974.

Pertamina, which recently offered the Philippines, Malaysia, Singapore and Thailand 5,000 barrels of extra gasoline daily to appease their needs, puts up its prices in concert with OPEC nations. And through its massive revenues from "Karya" contractors such as Caltex, it has a source of wealth that has not been shared with Indonesia's people in the most equitable manner.

China and Europe

Oil gives Peking a talking point with oil-thirsty France and the UK, both with Third World ties. Significantly, China, France and the UK form a majority on the UN Security Council, and France and the UK are important members of the EEC, so far as the EEC remains a unit. In continuing maneuvering against Moscow, China may find useful allies in these ties with Europe. Any oil provided France or the UK, or developing nations with which both have links, would be mere gesture at this time. In future, however, such gestures could take on more substance, and during the 1980s could be significant.

China's Balance-of-Payments and Trade

If China is earning $1 billion five years hence, and $2 billion ten years from now, each year, from oil, foreign exchange from oil could dominate all of China's export earnings. China exports to import. With this new found source of funds the pressure for other Chinese foreign trade corporations to export might lessen, and only half hearted efforts be made to market Chinese goods abroad, which could well make foreign importers of Chinese goods nervous by 1980.

China's use of deferred payment for plant imports, now running at $1.1 billion for 1973, could decline. But more likely, China's oil earnings could be used to expand imports of foreign technology and equipment without heavy financial dependence on foreign suppliers, which would well suit China's quest for self-reliance.

China's Domestic Politics and Economy

The future of China's economy includes growing use of oil as a fuel: the PRC's billion dollar's worth of foreign plant purchases in 1973, almost all for petrochemical plant of one kind or another, is for delivery in 1975-76-77, by which time China will need sufficient petroleum supplies as feedstock. Purchases of petrochemical plant from abroad have not abated. There is, as noted above, a trend toward use of oil instead of coal in Chinese factories. Oil will thus become increasingly significant in the operation of China's economy, possibly tending to dampen oil exports.

A considerable amount of China's new purchases from abroad have been for fertilizer and fertilizer feedstock plants that will substantially increase China's own capacity to produce fertilizer when they come on stream in two-to-three years time. Japan, China's major supplier of fertilizers, has had to reduce its output because of the oil shortage, oil being a basic raw material. Ironically, China's exports of oil to Japan could be used to ensure that Japan is able to supply the PRC with fertilizer, a commodity critical to the development of China's agriculture.

In the future, China's reliance on Japan for fertilizer may be reduced, as self-sufficiency is increased. Feeding the people comes first. Synthetic

PRACTICE FIRST: A CHINESE NEWS REPORT

New China News Agency
Peking, August 2, 1973

ENGINEERS AT TACHING OILFIELD MAKE CONTRIBUTIONS TO PRODUCTION

Engineers and technicians at the Institute of Designing and Research of the famous Taching oilfield completed 154 items of designing from January to May this year, twice as many as the same 1972 period. Their designs for oilfield electricity and water supply projects were of the highest standard since the Taching oilfield was opened. They made these achievements because of their on-the-spot investigations and close cooperation with the workers.

Under the leadership of the Institute Party Committee, the engineers made a good study of Chairman Mao's "On Practice", "On Contradiction" and other works and criticized the idealist apriorism pushed by Liu Shao-Chi and other political swindlers. They fostered the viewpoint of "practice first", which guided them whenever they made a design. They went to the worksite, joined the workers in productive labour and made investigations at the same time.

In this way, they successfully completed both long-range construction plan and the present programme for readjusting the expansion of the oilfield. Working in 12 special groups, they held more than three hundred meetings and made careful investigations into the oil and water wells, pipelines, pumping centres, storage tanks and other installations. They accumulated 500,000 data through repeated experiments and a great deal of first-hand information, which contributed to the successful designing of these big projects. In the same way, they designed a closed oil and gas gathering and transport system that involves new techniques and equipment with a high degree of automation.

The engineers and technicians have achieved greater, faster, better and more economical results by following the mass line. Every year, they hold one or two big meetings to consult with the workers and canvass their opinions on major technical problems. When they were designing a water supply project in February 1972, they accepted the workers opinions for improvement of 15 processes. The work was so well done that it was commended as a model in designing.

Engineers and technicians taking part in designing some of the preliminary projects for new oilfields, lived and worked at the worksite, ignoring hardships and fatigue. They finished the designs quickly and successfully.

Over the last few years, 28 engineers and technicians of the Institute have been admitted into the Communist Party, and one-fourth of the Institute's technical staff have been commended.

fiber plants, also dependent on oil derivatives, are also high on Peking's priorities: clothing the people comes close second to feeding them.

At the same time, the pressure for China to export oil for financial reasons (the PRC with a $500 million trade deficit in 1973), and strategic reasons is unlikely to decline.

At a time when China's internal tensions are rising, the domestic repercussions of a state Ministry (of Fuel and Chemical Industries, founded 1970) and exporting agency (China National Chemicals), with potentially huge political power resulting from oil, could be considerable, especially in the relationship between provinces and Peking.

In every other nation where oil has become a major source of revenue, the domestic power held by the producing agencies has been immense. Developments relating to oil in China should be closely watched: conceivably, oil could be a catalyst to chaos in China's centralized political and economic power structure. Conversely China's oil, and its bountiful natural gas, could be the greatest boon to Peking.

China, Oil and the US

What can be predicted?

The pressure for China to export oil in the face of other nations' search for alternative sources of supply will increase: if the PRC is to be a viable source it must act fast. For developing nations whose food supply itself may be affected, an alternative source is an increasingly pressing need.

China's bonds with Japan, looking into the 1980s, could be cemented or constricted by oil. Japan, desperate for new energy sources, and wooed by the USSR, must consider every alternative, if its industry is to have the fuel it needs.

More important, each time border tension between the USSR and China rises, the need for China to have its oilfields developed as far as possible increases. Strategically too, the bond between the US and China, now sturdily growing, becomes more important to both nations. The next twenty years should see this link increasingly firm.

The beginnings of this link could be simple. Bunkering of Chinese-owned or chartered ships in U.S. ports offers an intriguing possibility for American oil companies, who may be able to arrange for payment not in cash but in Chinese replacement fuel pumped into the firm's Hong Kong tanks. Payment in this form, not unknown in international fuel transactions, could be the beginning of a form of "in kind" payment in petroleum by the Chinese.

How can China increase oil exports? Ten years from now what will China's oil exports and development be like if the PRC's interests are to be achieved? Oil exports require pipelines, port facilities, lighters, rigs, support vessels, tankers, storage, technology. The equipment China has bought to date has tended to be of small dimensions or second-rate.

What will be the picture in 1985?

By 1985 it is not unlikely that the following scenario will have been played out:

- China will have bought substantial offshore oil equipment, including rigs, bits and technology, from US firms.
- US firms will be lending technical assistance to Chinese rigs operating in many parts of China's coastal waters, and to Chinese survey vessels in the Yellow, East China, and South China Seas.
- China will have a substantial tanker fleet, either chartered, bought, or made in China, and will be entering into arrangements with US oil firms and neighboring states to supply oil and related products.
- Some Chinese oil products will be entering the US, especially byproducts needed in times of shortage in the US.
- Chinese oil will be flowing to Taiwan, South Korea and South Vietnam, as well as to Japan, either directly or indirectly, as shortages and prices continue to rise.
- The exchange of oil and petrochemicals technology between China and the US will be substantial and broadranging.
- As the well-to-pump activities of US oil firms decrease worldwide and US oil firms continue to be nationalized, the new role of US oil companies as oil servicing operations will be of particular relevance to China. The arrangements by which such services are provided have yet to be agreed upon (China has rejected "joint ventures"), but mutually beneficial arrangements will be made.
- China's oil exports will be no longer confined to Asian countries, but to Africa, Latin America, and other areas.
- China's abundant natural gas, in Szechuan and other locations, will have been developed, this too with the help of US equipment and technology, and may be exported to the US.
- China's domestic industrial development, spurred by oil fuel in sufficient quantities, will be well on the way to making China a major world economic power. 完

LIFE AT AN OIL REFINERY NEAR PEKING

from a journal by H. F. Marks, June 1972

It is situated about 60 km South West of Peking at the foot hills of a chain of sparsely wooded mountains; the manager Yong Tsin-fu has his office in Peking; we were led through the plant by the Technical Superintendent Mr. Tsao-Li-Chen, who was excellently informed and is evidently a very capable and highly respected plant site executive. The unit refines 2.5 million tons per year; the crude comes by rail from the fields near Harbin (about 1200 km in the North East) is distilled, cracked and reformed to give such liquid products as light, medium and heavy gasoline, fuel oil and luboil together with wax and asphalt.

The plant was started in 1968 and is supposed to be finished by the end of 1973; it will ultimately consist of 35 separate units of which eleven (the largest) are now on stream. At present, there are 12,000 workers active in the plant plus 10,000 construction workers, who are building the unfinished parts.

The entire commune is very large; it consists of about 20,000 families (around 80,000 people); has several schools, hospitals, supermarkets, department stores, post offices and a large bus terminal for the commuting workers. A commuters ticket to Peking costs 3.50Y per month (about $1.50). The people live either (about 40%) in small apartment houses in the immediate neighborhood of the plant or (about 60%) in smaller villages nearby and in the South West suburbs of Peking

The entire commune, including the area of the electrical processing operations, is spotlessly clean and there is no odor at all in the air. We did not see any flare; all unused by-products are burned completely inside of a large incinerator and the heat is all used in the Commune. Extreme care is taken to purify the water effluents; they are first sedimented and afterwards treated by flotation, filtration and bio-oxydation. Part of the resulting water is utilized for the irrigation of rice paddies and for the growing of fish and ducks; the rest is reused in the refinery.

GIANT DISTILLING TANKS AT THE REFINERY VISITED BY H. F. MARKS (UPI)

CHINA'S OIL PRODUCTION & CONSUMPTION

Peter Weintraub

Premier Chou En-Lai's reported statement to Japanese Foreign Minister Ohira that China's 1973 oil production reached 50 million tons was a surprise. Most observers put the PRC's output that year at about 40 million tons. Lacking official statistics, China's pre-1960 production figures and subsequent statements attributed to Chinese officials must be used to estimate the PRC's crude oil production. The following table, based on information gathered by Professor Choon-ho-Park, indicates China's probable crude production from 1961 to the present:

OIL PRODUCTION IN CHINA

Year	*Amount (million tons)*	*% Change from previous year*
1961	6.2	
1962	6.8	9.7
1963	7.5	10.3
1964	8.5	13.3
1965	10.0	17.6
1966	13.0	30.0
1967	11.0	−18.2
1968	15.0	36.4
1969	20.0	33.3
1970	20.0	0.0
1971	26.0	30.0
1972	31.0	19.2
1973	40.0	29.0

Onshore Reserves

Chinese oil production has been confined until recently to onshore fields. Inland areas with oil bearing capability are thought to approximate four million square kilometers, about a third of China's total land area. The embryonic state of petroleum exploration in the PRC makes it difficult to assess onshore reserves definitively, but a nationwide geomagnetic survey completed August 1973 and other known ongoing surveys may provide Peking with more substantial data. Present estimates of recoverable onshore crude range from six to ten billion tons.

The Taching field in China's Northeast has been the backbone of China's oil industry. Since operations began in 1960, Taching's low sulphur production has increased at an annual rate approaching 35% (though this pace has reportedly slackened in the last 18 months) to the point where almost 2,000 wells now account for about 30% of China's annual petroleum production.

Other major fields are in the west in Sinkiang, the northwest (Shensi) and in the industrial east (Shantung). The newly discovered Itu field in Shantung's Shengli complex, reports the New China News Agency, "has resources far greater than the Taching oil field". Its proximity to industrial centers and distance from the Soviet border gives Itu clear advantages over the potentially less secure Taching.

Another incentive for emphasizing production at Shengli may be the relative ease with which its oil can be transported. Some western experts suspect that Taching crude has a pour point (or congealing temperature) of 90° F. If this is the case, the maintenance of the pipeline between Taching and Darien could be prohibitively expensive. Shengli crude, however, is thought to have a lower pour point and thus present fewer transportation problems.

An important aspect of China's onshore capability is its oil shale deposits, which China probably sees only as a supplement to liquid crude. The amount of shale oil in the PRC's four major concentrations is thought to exceed 350 billion tons. Given an average 6% oil content this would yield more than 20 billion tons, or twice as much as the highest present estimate of onshore liquid petroleum. China's total oil onshore reserves therefore are probably in the region of 25-30 billion tons.

Offshore Reserves

Since 1969, when the UN ECAFE (Economic Commission for Asia and the Far East) reported that the continental shelf between Japan and Taiwan may be among "the most prolific oil reservoirs in the world", and that deposits under the Yellow Sea may constitute a "second favorable area", interest in China's offshore petroleum development has been high. (See main story.) The lack of thorough undersea exploration in the region renders most estimates of petroleum potential unreliable, though the figure of 20 billion tons has achieved an acceptance of sorts.

Before any definitive estimate of the region's potential is available, the complex series of territorial disputes among states in the area will have to be resolved. (See map.) The PRC's vigorous defense of the 200 mile territorial limit of some South American nations is an indication of Peking's possible negotiating posture.

The offshore area clearly within the Chinese territorial limits, the Gulf of Pohai, has been the focus of recent exploration. In April 1973 three test wells were reported to have gushed crude, and the type and amount of equipment the Chinese are purchasing from foreign suppliers (see box) indicates that they are engaging in a major effort to exploit Po Hai's undersea resources.

Negotiations for the sale of offshore pipeline to be used from well heads in the Pohai Gulf to onshore refineries were underway last October between the China National Technical Import Corporation and a ten-firm Japanese consortium—the OITC—including Nippon Steel, Mitsui Ocean Development and Engineering Co., Mitusi & Co. and Teikoku Oil Co.

The Po Hai is an inland Sea, no greater than 25 feet deep up to seven miles from shore and averaging only 66 feet deep, which simplifies the task of offshore development in the area: man-made concrete dikes have been built 1-2 miles out to aid drilling in a typically Chinese accomplishment.

Refining Capacity

Refinery capacity in the PRC has grown at a rate almost parallel to growth in oil production: In 1972 China's refineries could process about 29 million tons while production for that year amounted to about 31 million tons. Oil production is presently growing faster than refinery capacity.

The PRC's largest refinery complex is located at Lanchou in the northeast with a capacity of 3 million tons. In September 1973, Peking reported that Lanchou makes 160 products including synthetic rubber, fibers and plastics. Other refineries are at Anshan, Dairen, Fushun, Peking, Nanking, Shanghai and Taching.

The Chinese have continued to expand their network of transport facilities in and around areas of petroleum production. The soon to be completed 375 mile, 60 cm. pipeline between Taching and Luta (Dairen) will facilitate oil shipments from the Northeast to industrial areas and expedite exports of Taching petroleum to Japan. Rail development in the Tsaidam Basin region in west central China will hasten the shipment of oil supplies previously moved by truck.

At present China derives only about 12% of her energy requirements from oil. Coal accounts for about 85% while the remainder is taken up by hydroelectric power. As more oil becomes available, the Chinese are decreasing their reliance on coal. Locomotives, for example, previously coal fueled, are switching

OIL MISSIONS FROM CHINA

17 man Chinese Petroleum study group, led by Deputy Fuel Minister, T'ang K'o to Canada, for study of oil refineries, gas plants and evaluation of equipment manufacturers. Among refineries visited was Gulf. Also went to France.	16 September—28 October 1972
7 from China Oil and Natural Gas Development & Exploration Corp., led by Deputy Manager Chou Yu-hsu to Britain—visit to installations organized by Shell and British Petroleum.	Arrived London week of 18 March 1973
Headed by Wang Yao-t'ing, Chairman of the China Council for the Promotion of International Trade, this 11-man first official Chinese trade mission to the Philippines offered to sell Manila an unspecified amount of oil.	23 November—2 December 1973

OIL MISSIONS TO CHINA

Canadian, headed by energy minister Donald McDonald. Mission numbered about 30, including representatives from oil equipment suppliers.	22 April—6 May 1973
Japan Federation of Economic Organizations (Keidanren). Led by Keidanren President Kogoro Uemura, numbering 22. Pressed for expanded Chinese oil exports to Japan.	week of 1 September 73, arrived Peking
Japanese, headed by Ichizo Kimura, vice-president of International Petroleum and including 54 Japanese industrial leaders, pressed for increase of Chinese oil exports to Japan.	week of 22 November 73
Thai, led by Deputy Foreign Minister Chatchai Chunhawan; this general trade mission negotiated Thailand's purchase of 50,000 tons of diesel oil from the PRC.	week of 27 December 73

to diesel. Factories are switching to oil fuel. Over a billion dollars worth of petrochemical plants, whose basic raw material is oil of one kind or another, were purchased by the PRC in 1973. One estimate suggests that by 1980, one quarter of China's energy needs will be filled by oil.

In addition, the PRC is dramatically stepping up production and purchase of petroleum dependent equipment. High octane fuel for aviation purposes produced since about 1965 will be used for China's growing fleet of Trident and Boeing jets. Truck manufacture rose to 100,000 units in 1973, and is expected to increase at 6-10% yearly. (China's two ton trucks do 16 miles per gallon, four ton, 8 miles per gallon). Passenger cars, using gas at $1.98 a gallon, for foreigners at least, are unlikely to displace bicycles for many years as a means of private transportation.

Expanded fleets of ships, motorized junks and irrigation equipment as well as agricultural machinery will also require additional supplies of fuel oil. 完

OIL TECHNOLOGY AND EQUIPMENT TO CHINA

COMPANY	ITEM	PURPOSE	STATUS
Japan Offshore Drilling	Offshore well drilling rig—"Fuji" with its support ship and components included.	Able to drill 15,000 feet in maximum of 175 feet of water. For use in Pohai Gulf.	Contract awarded 9/12/72, price Y2,615 m ($9.8 m)
Asia Offshore Drilling (Affiliated with Teikoku Oil)	"Jacket Type" undersea oil drilling unit.	This is a stationary rig suited for use in shallow waters and destined for the Pohai Gulf.	AOD's President visited Peking early in 1973 in search of agreement on use of jacket.
Nippon Kokan	Onshore oil pipeline 60 cm in diameter	For part of 375 mile pipeline from Taching to Luta on Pohai Gulf	2 Japanese technicians from N.K.K. visited Peking for consultations on laying of pipeline. Completion 1974.
Nippon Kokan	Self-propelling bucket dredgers (8)	Possibly for offshore use in conjunction with Pohai Gulf development	Contract signed 6/29/73, Y14,000m ($53m.) Delivery 1974-75.
Nippon Steel Mitsui & Co. Mitsui Ocean Development and Engineering Corp. Teikoku Oil Co.	Offshore pipeline (120 cm in diameter)	For pipeline in Pohai Gulf as part of Pohai oil development project	8 Japanese technical experts arrived Canton 10/29/73 for discussions with officials of China National Technical Import Corp.
N.V. Industrieele Handelscombinate (Holland)	Trailing suction hopper dredges (4)	Possibly for offshore use in conjunction with Pohai development	Contract signed early 1973 for late 1974 delivery. ($39.3m)
Weco (Denmark) Aarhus Flydedok A/S (Denmark)	Oil Rig supply and towing vessel (8)	For use in Pohai Gulf Can service up to 10 rigs.	Contract signed Dec. 73, $20m. Delivery between Jan. 74 and Oct. 75.
Mitsubishi Heavy Industries	No. 2 Hakuryu second-hand heavy duty drilling rig	For Pohai Gulf	Contract signed December 1973 for Y6,000m ($21.4) Negotiations proceeding for second rig.
Rucker	Land blowout preventer stacks (20)	For use at onshore facilities to control well bore pressure.	Contract signed December 1973 for delivery 2nd half 1974. Price $2 m.

DOING BUSINESS WITH THE PEOPLE'S REPUBLIC OF CHINA

Business International, One Dag Hammarskjold Plaza, New York, N.Y. 10017; 122 pps.; $115.00

Of the many books available on China and China trade, few offer themselves as the complete guide to doing business with China. This volume is the exception. Squeezed without frills into 122 pages, this *Business International* document is, on balance, a valuable resource for any company interested in marketing its products to the Chinese People's Republic.

International vice presidents for most firms these days could read themselves blind on the books and periodicals currently available on China, China trade, and U.S.-China trade relations, and still be left without a clue on how to do business with China. This book seeks to remedy that problem, and thus the most useful portions of the book are those containing the very practical suggestions on exhibiting products in China, buying and selling at the Canton Fair, and providing first hand guidance by firms which themselves have had success in selling to China.

Some analysis of Japanese trade experiences with China, together with reports of China's exports and her trade apparatus, provide a useful guide to the exporting American firm. A diverse and enlightening appendix offers not only trade statistics revealing China's import and export patterns, but even a standard form for applying for invitations to the Canton Trade Fair.

If the book has a fault, it is that evidently it was hurried into print with the recognition that a book of its kind, though indispensable, had not yet been prepared. The haste with which the book was prepared is glaringly evident in cases in which, for example, the Chinese industrial city of Shenyang is identified on maps by the infamous name given it during the Japanese occupation—Mukden, by the unaccountable omission of the very important—perhaps most important for exporters—China National Technical Import Corporation from the appendix listing of China's Foreign Trade Corporations, and by an organization of material which, though adequate, is below the standard Business International set for itself in its useful work prepared some time ago to aid American firms interested in establishing trade with the Soviet Union.

Despite its shortcomings, however, the BI handbook is useful to American firms, and especially to those which have yet to determine an export strategy. Chapters on exhibiting products in China, which show by way of a shopping list those goods which China has already admitted for exhibition from other countries, and the chapter dealing with the first-hand experiences of 22 firms with significant experience in trading with China, perhaps alone make the volume worth its stiff purchase price.

A dangerous temptation is offered in an appendix which lists names and titles of individual personnel of China's various ministries and agencies. Personnel turnover is not uncommon in China, and many of those listed by name may no longer occupy the positions given for them. For this reason it would be prudent to address mail, as the Chinese always suggest mail be addressed, not to individuals but to the ministry or agency concerned.

Another small reminder of how quickly these trade guides become dated is afforded by an appendix guide to visiting Peking. The BI book advises that Peking taxi rates are cheap and have changed little in 15 to 20 years. As any recent visitor to Peking well knows, the Chinese have drastically increased the price of a taxi ride from the airport at Peking to the Peking Hotel. It is now $20 and comparative with the cost in most U.S. cities for travel over a similar distance.—EAT

An Importers Introduction To The Canton Fair

Stanley and Judith Lubman

The interest which the Chinese trade corporations showed at the Fall, 1973 Canton Fair in selling Chinese goods to the United States suggests that they intend to expand sales to American importers. As more American importers become involved in trading with China, they will become familiar with some of the special aspects of the China trade generally, and the Canton Fair at which most Chinese sales are transacted. This article is intended to review some of the points which American importers may keep in mind the first time they visit China to do business.

* * *

Although the pace at which business is done at the Canton Fair has quickened in recent years, it is still highly desirable for the first-time visitor to take the time to introduce his company and business activities carefully to the Chinese with whom he negotiates. Corporate annual reports are much less informative than a simple summary of the company's lines of business, its annual sales and the volume of its imports. If the company has been in its business for a long time, that is useful information for the Chinese, who value expertise on the part of their clients.

The Chinese will also be interested in the ultimate fate of the goods they sell. If the importer purchases raw materials or semi-finished goods he will find the Chinese interested in their further processing, and all importers encounter Chinese interest in the distribution of Chinese goods. Importers sometimes find that considerable time is consumed by the effort involved in answering Chinese questions in detail. Also, some are unaware of the intense Chinese interest in collecting information on markets for their goods and of the Chinese penchant for asking importers to supply much information. It is advisable to be cooperative in this regard, because helpfulness and accurate answers can contribute to increasing Chinese familiarity with a market still not clearly known to them.

Legal requirements

The Chinese are also necessarily interested in learning about legal requirements that may affect their exports to the United States, such as FDA and labeling regulations. By now most Chinese negotiators are familiar with the general outline of American regulations affecting the import of the products in which they specialize, but some may nonetheless want to quiz importers about their specific contents, questions of interpretation, or new developments. The importer should be careful to distinguish labeling or other requirements which are required by law from changes in design, labeling or packaging that he would prefer from a business point of view.

At the moment, the Chinese are reluctant to use their customers' labels on Chinese manufactured goods. Nonetheless, as more importers impress the importance on them of the private label, it may be possible in the future to change Chinese policy, particularly for large and repeated orders. Labeling and other requirements which are reasonable should by all means be presented to the Chinese in detail, as part of the efforts of American importers to inform their new Chinese suppliers about the characteristics of the American market for Chinese goods.

When the American importer has made known his requirements, the Chinese will tell him of the availability, specifications, price and delivery of the products they would like to sell. Increasingly, all of these terms are negotiable except for delivery dates, which remain subject to internal transportation difficulties and a rigid shipping plan.

Quantities are a problem; the importer who wishes to place a large order will often be told that sufficient quantities are unavailable, while the importer who wishes to place a small sample order may be told it is too small. The buyer who wants more than the Chinese can initially provide may find that with persistence and patience he can obtain larger quantities, while the buyer who wants only a small amount may have to increase his order.

Specifications

So far as specifications are concerned, both the Light Industries and Textiles corporations have increasingly shown willingness to modify the design of their products for American market conditions, although it may be most economical for them to accommodate only the largest buyer. It may be best for importers desiring large quantities manufactured according to their specifications to purchase from existing stocks in order to begin their relationships with the Chinese, and then move on in the next round of negotiating for special changes.

Price, too, may be negotiable. Certainly some were at the most recent Fair. If the buyer believes that a Chinese price is too high, he should be prepared to demonstrate the existence of lower prices of comparable goods from other countries. A persuasive argument may buttress a reasonable counter-offer.

The importer will find that his agreement to purchase will be summarized in a very sparse "Sales Confirmation" or "Sales Contract" that expresses only the most basic elements of the transaction, such as a concise description of the goods and their specifications, delivery date (usually expressed in a two-month period, e.g., "January-February, 1974"), packing, unit price and total price. The terms are usually now C&F, with the currency of payment fixed in Renminbi, the Chinese currency.

Payment

Payment is by a letter of credit opened through one of a number of third-country banks with offices in the United States, such as the Chartered Bank and the Hong Kong and Shanghai Bank. At the time of writing (December, 1973) no American bank can open a letter of credit directly with the Bank of China. Worse yet, no rate of exchange can be fixed, and the dollar-RMB rate on the date the letter of credit is drawn governs settlement.

Negotiating at the Canton Fair

European buyers, by contrast, can purchase RMB forward for a period of up to six months to protect themselves against short-term currency fluctuations. This practice will probably be extended to the United States after the resumption of direct banking relations.

The American importer will find that the Chinese are now increasingly familiar with the Special Customs Invoice, as well as special forms required for the import of cotton textiles into the United States. They are also familiar with American legal requirements of country-of-origin labeling. Yet, because these documentary requirements are relatively new, the importer would be careful to remind the Chinese sellers about them. Usually they will not insert a clause in the contract describing the necessary documentation, but the American importer can protect himself by doing so in his letter of credit.

At the moment, Chinese sellers will not agree to insertion of a clause under which they must take back any goods and refund the purchase price if they do not pass FDA inspection. Buyers purchase extra insurance, take their chances on rejection, or, like many, prefer to wait for the Chinese to change their position on this issue.

The buyer may find that delivery is late. Under these circumstances the Chinese will expect him to extend his letter of credit or reopen it if it has expired. The Chinese do not normally compensate a buyer for any losses suffered through late delivery, although some concessions may be given on a subsequent transaction.

The points on negotiations and the terms of import contracts may provide some guidance to American importers. No review of these matters, however, can substitute for tact, patience and good sense. At this early stage in U.S.-China trade, it seems necessary to remind importers that they should not abandon good business practice just because they are dealing with the Chinese for the first time. At least one large buyer from the Chinese at the last Fair simply accepted the first price at which the goods were offered and never even bothered to ask the Chinese to label the goods in a manner consistent with American legal requirements. Concessions on these matters were deemed important, evidently, as means of ingratiating the buyer with his new seller. Such leaning over backwards causes importers to look foolish and also, where legal requirements are not insisted on, calls into question the sincerity of other importers who are trying to familiarize the Chinese with legitimate requirements. 完

Mr. and Mrs. Lubman direct Lubman & Company, which represents American importers in the China trade.

AMERICAN INDUSTRIAL REPORT

The American Industrial Report is a bi-monthly magazine whose purpose is to disseminate information about US products and companies in the People's Republic of China in Chinese. Since the magazine is distributed solely in China, to Chinese foreign trade agencies, end-users and technicians, it is a good way for US firms—both exporters and importers—to convey information to the Chinese. The magazine has a glossy, black and white format, over 30 pages, and illustrated text type-set entirely in modern simplified Chinese characters.

The magazine is published by Chinese Consultants International, a member firm, in cooperation with the National Council for U.S. China Trade. It is distributed in China with the permission of the Chinese trade corporations, and early editions have received comments from the CCPIT in Peking, China Resources in Hong Kong and the Chinese Liaison Office in Washington, D.C.

Distribution is throughout China, initially to the national trade corporations and provincial branches. These agencies then distribute copies to end-users. End-users, as described by Chinese authorities, are engineers, teachers, commune leaders, factory managers and workers in a position to place requirements on the foreign trade corporations.

Current distribution in China is more than 15,000 copies, and officials in China estimate that *American Industrial Report* has a potential readership of a quarter million end-users. Favorable reader reactions from within China have already been received from national and provincial trade corporations in Peking, Shanghai, Shantung and Swatow.

The publishers of *American Industrial Report* are Mr. Chou Tsai-fei, a Peking-born and educated executive, and Mr. William E. Donnett, a retired American Foreign Service officer who spent more than 20 years abroad as a China specialist. The publishers write technical articles accompanied with glossy prints and diagrams on new subjects of interest to the Chinese. Advertising in the magazine is available to American firms interested in determining the export market for their goods. Advertising by US importers of Chinese products is particularly welcome.

Advertising rates are modest, the magazine's translations are technically competent and the Chinese are likely to look to the *American Industrial Report* as an effective and helpful medium to identify American products, technology, and services. The National Council recommends consideration by member firms of use of the *American Industrial Report* as one of the mechanisms for reaching Chinese end-users.

For ad rates, publication dates and other information, members should contact China Consultants International, Ltd. at 3286 "M" Street N.W., Washington, D.C. 20007, phone (202) 338-2388; or China Consultants Ltd., Hong Kong at 53 Printing House, Ice House Street, Hong Kong, phone HK 227501 or HK 246515.

Chou Tsai-fei, Vice President of China Consultants International Ltd. and co-publisher of the AMERICAN INDUSTRIAL REPORT, is seen in China discussing the new Chinese language technical magazine with Mr. Sun Fang, a senior member of the China Council for the Promotion of International Trade. AMERICAN INDUSTRIAL REPORT is published for American industries, is being distributed in the People's Republic of China through the Chinese Trade Corporations and is endorsed by the National Council for U.S.-China Trade.

PLANT SALES TO CHINA 1973

	COMPANIES	TYPE OF PLANT Yearly Output Metric Tons (Technology in Parenthesis)	PRICE ($Million and Equivalent)	TERMS
1.	Toyo Engineering (TEC) Toko Bussan C. Itoh Mitsui Toatsu Chemicals	Ethylene 300,000 Butadiene 45,000 (Lummus and Nippon Zeon)	46 Y14,000m	Signed 12/29/72. 20% down, 80% at 6% for 5 years on completion of plant in late 1975. Yen/yuan transaction. First major sale of Japanese plant to China using Japanese Eximbank credits since 1963.
2.	Kellogg Continental (51% owned by Pullman's Kellogg division of the U.S.) Dutch State Mines (DSM) Verenigde Machine Fabrieken	Three urea plants 480,000 each (DSM's Stamicarbon process)	34	Late January 1973. Guilders. Payment to DSM over four years. Start up 1976.
3.	Mitsubishi Petrochemical Mitsubishi Heavy Industries Western Japan Trading Mitsubishi Corp.	Ethylene 120,000. Desulfurization unit for cracking oil (Mitsubishi)	34 Y9,000m	2.2.73, Payable in RMB. Exim. financing, 6% over five years, covers 80% of amount.
4.	Linde A.G.	Oxygen Separation Processing Plant	NVG	February 1973
5.	Asahi Chemical Niigata Engineering Chori Trading	Acrylonitrile 50,000 Acetonitrile 1,000 Cyanic acid 5,000 Waste water treatment (Sohio and Asahi Chemical)	30 Y8,000m	3.8.73. Exim financing. Sohio being paid about $8 million in seven installments through 1977, in dollars, direct from over and above cost of plant. Completion early 1976.
6.	Kuraray Industries	Ethylene Vinyl acetate 66,000 Polyvinyl alcohol 33,000 (Bayer and Kuraray)	26 Y6,900m	3.20.73. 30% down, 70% in 10 semiannual installments over five years at 6% after final shipment in 1976. Payable in yuan. Bayer being paid in lump sum, direct from PRC.
7.	Mitsui Toatsu TEC Hiroshima Trading	Ammonia 330,000 Urea 528,000 Waste water treatment (Kellogg and Mitsui)	42 Y11,000m	4.12.73. 20% down payment, 80% in 10 semiannual installments over five years at 6%. Payable in RMB. Exim finance. Completion 1975.
8.	Toray Industries Mitsui Shipbuilding	Polyester polymer 25,000 (Toray technology based on improved ICI process)	49	5.4.73. Exim financing. Completion 1976.
9.	Sumitomo Chemical	Benzol-toluol-xylol 50-60,000 (Universal Oil Products—UOP)	6	5.14.73. Exim financing. Completion 1976.
10.	Speichem Humphreys & Glasgow Rhone-Poulenc, BASF Lurgi Virg, L'Air Liquide	Vinyl Acetate and Methanol 90,000	90 Fr. 400m	5.16.73. Probably five year deferred payments. Inc. Fr. 150mil. for technology. Completion 1976.
11.	M. W. Kellogg (Division of Pullman, Inc.)	Three Ammonia Plants 330,000 (Kellogg)	70	6.29.73. Completion 1976. Spot cash: no financing involved. Normal terms, approx. 20% down, 70% on completion, 10% on start up.
12.	Frederich Uhde & Hoechst	Acetaldehyde 30,000 (own)	4	7.17.73. Cash deal, 50% down, 40% on delivery, 10% on acceptance.
13.	Technicolor Ltd.	35mm Motion Picture Processing Plant 100,000,000 ft. of film per year (own)	8.5	7.19.73. Cash deal, 50% down, 40% on delivery, 10% on acceptance.
14.	Mitsubishi Petrochemical Hitachi Chori Western Japan Trading	High Pressure, low density Polyethylene plant 60,000 (based on improved version of BASF process)	22 Y5,800m	7.26.73. Five year deferred payment at 6%.

NVG—No Value Given

15. Kellogg Continental (51% owned by M. W. Kellogg of Houston) DSM	Five Urea Plants. 480,000 each (DSM's stamicarbon process)	56 Fl. 150m	Late August 1973. 1976-77 startup.
16. TEC Mitsui Toatsu	Ammonia Plant 330,000 Urea Plant 528,000 (Kellogg)	42	Late August 1973. 1976 Startup. Exim financing as in earlier TEC, Mitsui Toatsu, Hiroshima Trading Ammonia plant transaction.
17. Sumitomo Chemical Ishikawajima-Harima Heavy Industry	High Pressure, low density Polyethylene plant 180,000 (based on improved version of ICI process)	41 Y11,000m	9.7.73. Exim financing, completion in 1976.
18. Technip Speichem	*Petrochemical Complex* *Catalytic Reforming* 155,000 Hydrogen Production 5,000 m³/hour (Technip) Ethylene production 73,000 Gasoline Hydrogenation 65,000 (IFP & Speichem) Ethylene Oxide Production 35,000 (Chemische Werke Huls, CWH) Ethylene Glycol Production 35,000 (CWH) Aromatics Extraction 163,000 (IPP) Paraxylene Production 123,000 (Atlantic Richfield Engelhard) Dimethylterephtalate Production 88,000 (Dynamit Nobel) Polyester Production 87,000 (Rhone Poulenc Textiles) Nitric Acid Production 54,000 (Rhone Progil) Cyclohexane Production 45,000 (IFP) Cyclohecanol, Cyclo-Hexanone Production 45,000 (Societe des Usines Chimique Rhone Poulenc) Adipic Acid Production 55,000 (SUCRP) Hexamethalyne-diamine Production 22,000 (SUCRP) Salifacation (SUCRP) Nylon Crystallization 46,000 (SUCRP)	282 Fr. 1.2 Bil.	9.26.73. Five year terms, after plant supply, by Credit Lyonnais, Banque de L'Union Europeene, and Banque Francaise pour Le Commerce Exterieur.
19. Mitsui Petrochemical C. Itoh Kosho Trading Mitsui Shipbuilding & Engineering	Polypropylene Plant 80,000 (Mitsui Petrochemical)	26 Y7,000m	10.18.73. For delivery in 1976, contract price to be paid in installments over five years.
20. M. W. Kellogg	Five Ammonia Plants 330,000 (Kellogg)	130	11.8.73 Beginning 1976, start up to dovetail with previous Kellogg plant sales. Cash, as in earlier contract—see #11.
21. Snam Progretti	Polypropylene Plant 35,000 (Standard Oil of Indiana)	15	Late 1973. Startup 1977. Cash deal, normal terms.
Totals	**58 individual units**	**$1.05 billion**	

PLANT SALES TO CHINA UNDER NEGOTIATION

	COMPANIES	TYPE OF PLANT Yearly Output Metric Tons	REPORTED PRICE ($Million and Equivalent)	STATUS (Date of Last Report)
1.	Nippon Steel Kawasaki Steel Hitachi Manufacturing	*Steel Mill* Hot Strip Mill 3,000,000 Cold Strip Mill 1,000,000 Silicon Steel Plate producing Mill 68,000 Tinning Plant 100,000 Galvanizing Plant 150,000 Continuous Casting Unit 1,600,000	433 Y130,000m	Deal apparently stalled over price of Continuous Casting Unit which is the Hitachi component. This is likely to improve the chances of one of the German combines listed below. (January 1974).
2.	Mannesman A.G. Thyssen	Steel Complex 4,000,000	408	Under negotiation (January 1974).
3.	Demag Schloemann-Siemag	Steel Complex 4,000,000	555 DM 1.5b	Under negotiation (January 1974).
4.	Nippon Shokubai Kagaku Kogyo	Ethylene Glycol Plant 33,000	NVG	Under negotiation (September 1973).
5.	Mitsubishi Heavy Industries	Ethylene Plant 65,000	NVG	Inquiry received (September 1973).
6.	Toshiba Hitachi Matsushita Electric	Color Television Picture Plant 10 inch-25,000/month 16 inch-25,000/month 20 inch-25,000/month	19 Y5,000m	Inquiry received (April 1973).
7.	A.E.G. Telefunken	Color Television Picture Tube Plant	NVG	Inquiry received, specifications similar to Toshiba plant (April 1973).
8.	Dai Nippon Printing Dai Nippon Screen Manufacturing Tokyo Shibura	Color Television Picture Tube Plant	NVG	Inquiry recvd., specifications similar to Toshiba plant.
9.	R.C.A.	Color Television Picture Tube Plant 25,000 units per month	NVG	Inquiry rcvd, specifications similar to Toshiba plant (April 1973).
10.	Toyobo	Polyester Plant	NVG	Inquiry rcvd. (September 1973).
11.	Unitika Ltd.	Vinyl Acetate Plant	NVG	Under negotiation (September 1973).
12.	Volkswagen	Integrated Automobile Manufacturing Plant	NVG	Preliminary discussions held (September 1973).
13.	Toyota	Integrated Automobile Manufacturing Plant	377 Y100,000m	Discussions held 10-6-73.
14.	Dai Nippon Ink and Chemicals	Single Cell (Synthetic) Protein Plant	NVG	Preliminary technical briefings held (9-19-73).
15.	Kanegafuchi Chemical Industry	Single Cell (Synthetic) Protein Plant	NVG	Preliminary technical briefings held (September, 1973).
16.	Ciments Lafarge S.A.	Cement Factory	6 Fr. 27m	Under negotiation (September 1973).
17.	Asahi Chemical	Acrylonitrile Plant 20,000 (Sohio)	29	Under negotiation (October 1973).
18.	(German firm)	Polyester Plant	34	Under negotiation (December 1973).
19.	Hitachi Shipbuilding Japan Catalytic Chemical	Two Ethylene Plants (Glycol and Oxide)	9.7 Y3,500m	Under negotiation (December 1973).
20.	Teijin	Synthetic Fibre Polyester Plant (25,000)	16	Under negotiation, basic agreement reported January, 1974.
21.	Toray	Synthetic Fibre Polyester Plant (25,000)	16	Under negotiation (December 1973).

NVG—No Value Given

FROM WASHINGTON . . .

China Trade and U.S. Tariffs

To the sorrow of many importers of Chinese goods, 1974 will most likely not be the year in which China is accorded most-favored-nation tariff treatment on exports to the United States.

Since the Korean War, Congress has denied most-favored-nation tariff treatment on imports from China. After President Nixon's visit to Peking in 1972, the trade embargo imposed by the United States began to be dismantled, but the discriminatory tariff has remained.

In December, Congress had a chance to remove this last major obstacle to Sino-U.S. trade. But the House, in a strong show of disapproval for Soviet domestic policy, approved the Vanik amendment to the Trade Reform Act of 1973 severely limiting the ability of the President to approve a most-favored-nation trade agreement with any non-market economy.

By this action, China may have become an unintended casualty in the growing Congressional campaign to force changes in the immigration policies in the Soviet Union. The Vanik amendment approved by the House originated with Senator Henry Jackson in the Senate. In April, 1973, he described his amendment to the Trade Bill, as one which "would require the President, prior to the granting of most-favored-nation treatment to non-market economies—*the Soviet Union and the countries of central Europe*—or the extension to them of credits, credit guarantees or investment guarantees, to submit to the Congress a report indicating that the recipient of these benefits does not deny its citizens the right or opportunity to emigrate." By Senator Jackson's own description, then, the amendment was never intended to apply to the Chinese.

The problem is that whether or not China interferes unduly in the right of its citizens to emigrate may not be the controlling or real reason why this amendment could be used against increased Chinese exports to the U.S. The Vanik Amendment had the support of organized labor, which has shown indications of apprehension over the prospect of expanded Chinese exports.

Action on the measure now shifts to the Senate, where the Senate Finance Committee is expected to begin hearings late in February or early March. Christopher H. Phillips, President of the National Council, has requested an opportunity to appear before the Committee to express his conviction that, consistent with U.S. strategic interests and appropriate reciprocal terms, the Senate bill should be written in a way to permit a lowering of import duties on goods from China.

Unless some way is found to exempt China from the sanctions imposed on other non-market economies, particularly the Soviet Union, most-favored-nation tariff treatment could not be extended to China in any trade agreement unless the President could certify to the Congress annually that China respects human rights and does not unduly restrict the free right of emigration. The relative suddenness with which this sanction came to be applied on a pre-existing US-USSR trade agreement well illustrates the peril potential in any future trade agreement between the United States and China. The Jackson-Vanik Amendment already has the support of an absolute and large majority of the members of the Senate, and thus it seems almost certain that the Amendment will appear in the final Senate bill in some form. Perhaps more importantly, the rising rate of unemployment expected in 1974 may require labor leaders to oppose any modification of the Bill which would tend to permit expanded Chinese exports to the U.S. The prospect, then, is for a 1974 Trade Reform Act which would not permit the extension of most-favored-nation tariff treatment to the Chinese any time this year.

Organizing for Export

One of the traditional laments of American businessmen visiting the Canton Fair is that American antitrust laws prohibit the kind of industry mobilization which would enable them to compete more effectively with Japanese and other foreign combinations of export interests. Only in relaxation over a mao-tai in far off Canton have Americans dared venture the thought that they should combine with each other to market their exports as a package, with other companies, to compete more effectively for China's foreign exchange. Invariably, though, some kill-joy mentions the anti-trust laws, and the conversation stops.

Unknown to most of these exporters, perhaps, is the fact that for more than half a century there has been the possibility, under Federal law, for American businessmen to form trade

China's new offices in Washington, formerly the Windsor Park Hotel.

associations permitting them to market export packages, which would include technology, goods and equipment, and even financing, in a manner which would make them immune from the antitrust laws. This has been possible under the Export Trade Act of 1918, designed to encourage the formation of trade associations as a means of exploiting foreign market potential.

Known as the Webb-Pomerene Act, this legislation has unfortunately been languishing unused as a result of administrative and judicial interpretation which makes businessmen wary of taking full advantage of it. To restore the statute to its intended purpose and foster its use, Senator Daniel K. Inouye (D-Hawaii) has introduced a bill, S. 1483, which, if passed could make some significant changes in American exporting techniques.

S. 1483 and a similar bill, S. 1774, have Administration support. Commerce Secretary Dent, favoring the S. 1774 version as "more extensive", said in Senate testimony that the measure would help U.S. firms "compete on a more equal footing with the export cartels of other nations."

Hearings on the bill, held in June and September, 1973, by the Senate Commerce Committee, are available from that Committee as Senate Document 93–32.

Additional hearings are likely in 1974.

Those Export Controls

The export control regulations of the Department of Commerce, requiring end-use information from foreign customers, are still being applied.

It is the position of the Department of Commerce, and the export control mechanism of the United States Government in general, that the need for end-use documentation arises from the fact that most items under validated license control by the Department of Commerce have dual uses. That is, they may be used for either military or peaceful purposes. As explained in the "Summary of U.S. Export Control Regulations" issued by Commerce, the end-use statement is required for completion by the foreign consignee, or purchasor, of a commodity valued at $1,000 or more. The statement represents a certification by the importer to the Office of Export Control regarding the nature of the transaction and the proposed disposition of the commodities to be imported.

Commerce administers export controls under a legislation which says that "it is the policy of the United States . . . to restrict the export of goods and technology which would make a significant contribution to the military potential of any other nation or nations which would prove detrimental to the National Security of the United States".

Consequently, Commerce has in effect a requirement that potential consignees complete a form (FC-842) which will both develop information as to the intended use of U.S. goods, and serve as a deterrent against unauthorized diversion of U.S. goods.

Cut off from trade with the United States for many years, China was naturally unaware of the role of end-use information requirements in connection with U.S. exports and, perhaps, with the analogous requirements of other nations *(continued from previous page)* participating in the international control mechanism known as COCOM. Thus, Chinese trading corporations have been unwilling to complete the required forms. It is the position of the Department of Commerce that if this information cannot be obtained on the required form, applications may be accepted for consideration which are supported by a written statement from the Chinese, directly or indirectly, presenting the necessary information respecting use and user of the item or items involved. Some Chinese foreign trade corporations have proved more willing to have this information supplied than others.

In specific cases, companies should address their questions directly to the Office of Export Control at the Department of Commerce in Washington. In general it can be said, however, that Commerce is unlikely to be satisfied with an end-use statement which simply reiterates the function of the commodity or which is otherwise uninformative as to the actual intended use of the equipment. It should also be borne in mind that some applications may, after consideration by Commerce, be disapproved despite a detailed end-use statement if a judgment is made that a peaceful end-use purpose has not been satisfactorily assured or that the risk to diversion to other military or strategic uses is too great.

New Importer Headache

Beginning December 10, 1973, importers of goods from China were faced with yet another hurdle. Beginning that day, the U.S. Government began to require completion of a new form by "persons making entry or withdrawal of articles imported into the customs territory of the United States." Non-compliance with the requirement, according to the Tariff Commission "may be cause for rejection by Customs officers."

These requirements are for statistical, as opposed to appraisal purposes. The Special Customs Invoice, or green form which in 95% of cases is usually not half completed by foreign shippers, is still in effect. Both forms apply to all countries and the new requirement brings U.S. reporting in line with most other members of GATT.

Perhaps the most difficult section of the form for importers of goods from China to complete will be that requiring information on the aggregate cost in U.S. dollars of freight, insurance, and all other charges, costs, and expenses, "*each of which charges, costs, and expenses shall be separately itemized on or attached to the related invoice,*" incurred in bringing the merchandise from alongside the carrier at the port of exportation in the country of exportation and placing it alongside the carrier at the first U.S. port of entry. Other information required by the form includes a description of the article with sufficient detail to permit classification under the proper statistical reporting number in the tariff schedules, and the statistical reporting numbers under which the articles are classifiable.

In addition, importers are now required to show the purchase price in U.S. dollars and, when not included in the price, all charges, costs, and expenses incurred in placing the merchandise alongside the carrier at the port of exportation in the country of exportation.

Other information required by the form includes the number of the Cutom District and the Port where the articles are being entered for consumption or warehousing, the name of the flag vessel or airline by which the articles first arrived in the U.S., the foreign port of lading, the U.S. port of unlading, date of importation, country of origin of the articles, the date of exportation, gross weight in pounds for the article covered by each reporting number when imported on vessels or aircraft, the net quantity in the units specified, and other information.

Known as "The New Program for the Collection and Reporting of F.O.B. and CIF Data on Imports", the purpose of the new requirement is to obtain for the Tariff Commission and other interested U.S. agencies a more accurate picture of the position of the United States in world trade. One question the new requirements pose is that of tariff rates, which are presently based on f.o.b. data and would be higher if c.i.f. was used as base.

Opposition to the program was mounted by importers who saw the new requirement as unduly burdensome. Suit was filed by the American Importers Association, and others, in the United States District Court of the Southern District of New York seeking to set aside the implementation for enforcement of the program. In response to that suit, the Tariff Commission early last Fall solicited public comments. Following receipt of comments, views and recommendations from interested parties, the Tariff Commission on November 8, 1973 announced modified requirements with the December 10 effective date in the Federal Register. Further information on this new program may be obtained from the U.S. Tariff Commission, Washington, D.C. 20436, Telephone: (202) NA 8-3947.

Claims Against China

To those wondering when they will see a Chinese flag vessel in a U.S. Port, or visit a Chinese exhibition of goods in the United States, the answer is probably only after a settlement has been reached between the two countries on the claims by U.S. citizens against China for losses sustained after October 1st, 1949.

The Foreign Claims Settlement Commission, under a law passed by Congress in 1956, has certified 384 claims for $196,861,834, without interest. Private discussions between representatives of China and the United States have been going on since shortly after the Nixon visit in 1972, but no resolution of this matter has been accomplished. It has generally been speculated that these claims could be satisfied out of the $80 million in assets which have been blocked and frozen under the Foreign Assets Control Regulations of the United States at the time of the Korean War. But, as of this writing, no settlement has occurred.

One model for a possible settlement is the "Litvinov Assignment" of 1933, by which the Soviet Union settled U.S. claims by the assignment of assets due the Soviet Government as the successor of prior Russian governments. Should this model be adopted in the present case, funds would be available to compensate China claimants up to approximately 40 percent of their losses. Another method of compensation would be to follow the War Claims Distribution of 1962 under which individual and small claims would be fully compensated, and larger claims on a percentage of claim basis.

Recent articles on this subject may be found in the Georgia Journal of International and Comparative Law, Volume III, Issue 2, 1973, pages 449 to 455, and in the American Journal of International Law, October 1973, Volume 67, No. 4

GAO Study Seeks U.S. Trade Promotion Improvement

The U.S. Liaison Office in Peking, alone among U.S. diplomatic posts in foreign capitals, lacks any representative of either the Departments of Commerce or Agriculture. The mission is not, of course, a full-fledged Embassy, but Ambassador Bruce, Chief of the Liaison Office, is known to favor continued staffing of his mission exclusively with Foreign Service personnel.

It remains to be seen if and to what extent Bruce may eventually augment his staff with commercial aides from Agriculture and Commerce. Bruce is presently very ably assisted by Foreign Service Commercial Officers Herbert Horowitz and William Rope. U.S. trade development policy in general including commercial efforts by overseas U.S. posts, was the subject of a General Accounting Office report made to Congress last November 23.

The GAO found that Federal agencies involved in international trade lacked clear objectives and programs designed to expand U.S. foreign trade. The result, said the study, is that no export strategies have been adapted to "the peculiarities and special opportunities of individual markets."

The GAO recommended development of trade strategies on a country by basis, and called upon the Secretary of State to "take the lead role in combining individual agency strategies into overall U.S. country, regional, and worldwide trade strategies so that agencies coordinate their activities and assist each other." The Secretary was also called upon to "direct U.S. Embassies to participate actively in the preparation of strategies for their respective countries."

NEW CHINESE ADDRESS

Having purchased the former Windsor Park Hotel, the Chinese have moved their Washington Liaison Office permanently to:

2300 Connecticut Avenue, N.W.
Washington, D.C. 20008

The Chinese at Ease

It has been mostly work and little play for China's official representatives in Washington. They are regarded as among the most hard working representatives of any nation in Washington. Perhaps for this reason, Bill Hulett, Manager of the Mayflower Hotel in Washington in which the Chinese resided for some 9 months, provided some imaginative respite. Just prior to the formal move of the Chinese to their new quarters at 2300 Connecticut Avenue, N.W. Mr. Hulett organized a small, very private farewell reception with a western motif. Chinese officials were outfitted with cowboy hats and neckerchiefs, and were treated to an evening of western music, pinball machines, horseshoe pitching, and old-fashioned barbecued ribs of beef. The Chinese loved it. 實

INTERNATIONAL CHINA NOTES

Sino-Japanese Trade Pact Includes MFN

Japan has joined a growing number of nations granting most-favored-nation tariff treatment on imports for China. This was among the provisions of the trade agreement signed by Tokyo Foreign Minister Ohira in Peking on January 5, 1974. The three-year accord also provides for: commercial arbitration machinery; annual meetings of a joint trade committee alternately in Tokyo and Peking; facilitation of industrial technology exchange; promotion of trade exhibitions; finance of trade by payment in mutually agreed-upon currencies as well as in yen and yuan.

In granting MFN to China, Japan follows Austria, which extended MFN to China in November, 1972; Greece in May, 1973; Germany in July, 1973 and Australia in late July, 1973. The pact with Japan, like China's trade agreements with Australia and Italy is for three years, suggesting that Peking is increasingly viewing trade relationships on a long term basis.

The *Japan Economic Journal* reported on January 15 that, in view of the new accord, Japanese firms now hoped for long term export and import contracts with the Chinese. The trade agreement may also permit progress on shipping and aviation agreements between the two countries. Maritime and air links discussions have foundered on the troublesome issue of the Tokyo-Taipei relationship.

Peking's Maritime Interests Quicken

China's traditionally low profile in commercial maritime matters is rising. For the first time, Chinese representatives participated in the international Assembly of the Intergovernmental Maritime Consultative Organization (IMCO) late last year. The 8th Assembly was held in London in November. China's delegation was led by Yu Mei, who told the gathering that "each country's sovereign rights over the sea areas under its jurisdiction should be respected."

A month before, Peking had advised IMCO that China would participate in the 1960 London Convention for the Safety of Life at Sea and the 1966 London Convention on Load Lines.

Following the IMCO meetings, the Chinese delegation traveled to Paris in late November where a maritime agreement was initialed with the French. In December, China participated in the Third United Nations Conference on the Law of the Sea and in a U.N.-sponsored conference in Geneva on a code of conduct for liner conferences.

At the Geneva meeting, Chinese representatives expressed Peking's readiness "to establish and develop friendly shipping cooperation with more countries and shipping lines on the basis of equality and mutual benefit." In line with this latter position, Peking hosted a delegation in December from the Singapore National Shipping Council. The meeting produced a Sino-Singapore agreement permitting larger numbers of non-conference Chinese ships calling at Singapore. China's freight rates are about 20 per cent below those charged by the conference lines.

Chinese flag vessels have not yet entered U.S. waters, though 1973 saw the first Chinese charter vessel visit to American ports. A Chinese charter under Somali registry visited the West Coast, and a sharp increase in such visits is expected this year. The *Caspian Sea,* under charter to the China National Chartering Corporation, took on general cargo, including 15,000 bales of cotton, at San Francisco after loading 2,000 tons of aluminum ingots at Longview, Washington. A further load of 10,000 bales of cotton was later put aboard at Long Beach. Owner of the *Caspian Sea,* Yick Fung Shipping Co. Ltd. of Hong Kong, is thought by some to be financed by Peking.

A personal U. S. welcome to the vessel and crew by Harry Bridges, President of the International Longshoremen's and Warehousemen's Union, indicates that dock workers are unlikely to complicate U.S. maritime commerce with China with political strikes or slowdowns at least on the west coast. The Chinese crew reciprocated Bridges' hospitality with a messroom reception under the banner "Long Live China-U.S. Peoples Friendship."

It is unlikely that Chinese flag vessels will call at U.S. ports until there has been a settlement of U.S. private claims against China. The U.S. Government has rescinded regulations forbidding U.S. flag vessels from calling at Chinese ports, but no such visits have been made since Chinese permission has not yet been granted in any case.

Aviation Developments

China now has more than 80 civil air routes linking 70 cities to Peking according to a November, 1973 New China News Agency dispatch. The same report said total air mileage has increased sixfold since just after 1949. In the same period, the number of passengers has increased 46 per cent and the amount of cargo 31 per cent. The report also says that China presently has "contacts" with more than 100 airlines abroad.

In addition to passengers and freight, the dispatch reports that China uses aircraft for spraying insecticides, aerial geophysical surveys, location of mineral resources, aerial photography, forest surveys, and aerial mapping for industry, agriculture, railway lines and water conservancy.

An indication of China's interest in international air transport came in November, when the General Administration of Civil Aviation of China (CAAC) hosted two officials of the International Civil Aviation Organization (ICAO). China is presently reachable by air only on Pakistan International Airlines, Air France, Aeroflot, Ethiopian Airways and the airline of North Korea. A January visit to Peking by Pan Am's Chairman signifies U.S. interest in serving China, but several U.S. carriers are vying for transpacific routes to China, a competition only the Civil Aeronautics Board can resolve.

Air France added Peking to its China service in September, 1973, and now has two Boeing 707 flights each week between Paris and Peking. Ethiopian Airlines began direct service to Peking in November, augmenting its Shanghai service which commenced in February, 1973. British Airways is reportedly ready to begin service between London and Shanghai this year, via Hong Kong. The British eventually hope to use the Concorde on this route, in part perhaps to show it off to the Chinese who have not yet taken steps to exercise their option on three of the supersonic airliners.

A civil air agreement was signed between China and Switzerland in November, 1973 but no service has yet begun. Likewise, long-standing air agreements with Afganistan and Iran have yet to lead to scheduled service. Discussions leading toward possible air agreements have been proceeding between China and the Governments of Canada, Italy, Japan, Lebanon, Finland and West Germany.

Air Equipment

With most of the Boeing 707s now delivered, and in view of the unmistakable signs that China has decided to pursue long distance air service, there has been speculation that international carriers may seek to sell China used long range aircraft (747s, DC-10s), grounded by the fuel shortage, at bargain prices. British Caledonian Airways has already offered two of its VC-10s at $3.69 million each. There are no signs that China currently wants anything but the very latest—and newest—equipment, however. Next year, Hawker Siddeley will start delivery of 15 more Trident 2E aircraft, an addition to the 20 already sold to China. *Flight International* has recently reported Chinese interest in the Australian-built NOMAD STOL, a 2-engine craft convertible from 10 passengers to full cargo, as well as 13 Aerospatiale's Super Frelon helicopters for use, among other things, in coastal oil exploration.

United Aircraft of Canada has sold 16 jet engines to China for 1975 delivery. These include seven turbo-fans for Chinese-developed prototypes of a light transport jet and six helicopters. United Aircraft in the U.S. has denied widely reported news stories that the company has interested the Chinese in a military-type heavy duty helicopter. The China National Machinery Corporation has purchased flight simulators for delivery this year from the Redifon Flight Simulators Ltd. of the U.K. for instructing Boeing 707 and Trident crews.

Briefly noted . . .

In a step holding the promise of eventual Chinese adherence to international conventions on trademarks, copyrights and patents, the China Council for the Promotion of International Trade sent an "observer group" to the Second Plenary Session of the World Intellectual Property Rights Convention (WIPO) in Geneva in November . . . the 17th Session of the Conference of the Food and Agriculture Organization in Rome in November was also host to a Chinese delegation . . . a Hsinhua correspondent and the New China News Agency reported extensively in the European Economic Community meetings held in Brussels late in 1973 to discuss tariffs, trade and future EEC relations with 43 developing countries . . . Peking hosted a World Health Organization 7-member medical team in December . . . China's Ministry of Foreign Trade last fall arranged a tour of Nanking, Wuhsi and Soochow for foreign commercial counselors posted to Peking . . . a trade delegation from Sri Lanka visited Peking in December. 宪

UNCERTAIN TRUMPET CATEGORY

Peking's January attacks on classical Western music were severe enough to bring Eugene Ormandy publicly to the defense of Beethoven. Now *Parade Magazine* reports that London's "Moody Blues" rock group has been asked to tour Peking, Shanghai and Canton. The group's manager said the invitation stems from Chinese exposure to a Moody Blues album which accompanied a member of the British table tennis team to Peking in 1972.

COUNCIL SPONSORS FIRST VISITS

Chinese Officials Visit a Member Firm—Monsanto

In the first visit to a member company outside the Washington, D.C. area, the National Council arranged for Chinese Liaison Office officials to travel to St. Louis, Missouri and Akron, Ohio on November 20 and 21, to visit Monsanto. On this trip, the first time commercial officials from China's Washington office had crossed the Mississippi, were Chang Chien-hua, Commercial Counselor; Huang Wen-chun, Wang T'ien-ming, and Hsu Shang-wei. They were accompanied by Eugene Theroux, Vice President of the National Council, and Peter Karlow, Monsanto Vice President for International Affairs.

During the Monsanto visit, the Chinese met executives of several of the largest companies in St. Louis, including Emerson Electric Company; Mallinckrodt Chemical Works; INTERCO Inc.; Brown Group, Inc., Stix, Baer and Fuller; Famous-Barr Company; McDonnell-Douglas; General Dynamics; Ralston-Purina; Pet, Inc.; Seven-Up International Inc.; First National Bank of St. Louis; Mercantile Trust Company; Boatman's National Bank; and Anheuser-Busch, Inc.

During the Monsanto visit, the Chinese expressed particular interest in Monsanto's herbicide, pesticide, and fungicide development program, and in Monsanto's new "Polaris" chemical, designed to increase the sugar content yield in sugar cane.

The Chinese met with Monsanto workers and visited the Company's employee cafeteria and retail store.

Following these visits, the Chinese asked the National Council to plan a series of such visits to other cities and firms around the country.

Executives of 14 major St. Louis corporations attended a dinner for the Chinese delegates, hosted by Monsanto President John W. Hanley (right). To his right are Chang, Wang and James S. McDonnell, chairman, McDonnell-Douglas Corporation.

Visit to a Retail and Distribution Center

A visit of Chinese officials sponsored by the State Department in cooperation with the National Council to a large food retailing and distribution operation in the Washington area, took place on November 2, 1973. Chinese commercial staff from the Liaison Office of the People's Republic of China in Washington had the chance to observe the Giant Food Company's operation from start to finish.

The Chinese, Chang Chien-hua, Commercial Counselor of the Chinese Liaison Office in Washington; Huang Wen-chun, First Secretary of the Commercial Section; Wang T'ien-ming, Third Secretary; and Hsu Shang-wei, an economist on the Liaison Office staff, were accompanied by members of the Council staff, Nicholas Ludlow and Lillian Leung. Charles W. Freeman, Jr., of the U.S. State Department, and Graham Metson of the Department of Commerce, also accompanied the group. The tour included a visit to Giant's dairy, followed by a tour of a suburban Giant Food supermarket.

The visit ended at Giant's nine acre automated warehouse facilities at Jessup, Maryland, designed to move 8,000 cases of merchandise weekly. Pricing, labeling, packaging and many other aspects of the retail operation were discussed during the visit, which was hosted by Mrs. Esther Peterson, consumer advisor to Giant Food, and Mr. James R. Terry, Vice President of Giant's retail food operations.

Explaining how a retail operation works: Mrs. Esther Peterson, Consumer Advisor to Giant Food Inc., gives details of operating a supermarket to Mr. Chang Chien-hua, Commercial Counsellor at the PRC's Washington Liaison Office. Packaging, labelling, brand-names, and other topics were discussed on the visit. Left to right: James Terry, Vice President of Giant's Retail Food Operations; Mrs. Peterson; Wang T'ien Ming, Commercial Secretary; Charles W. Freeman Jr. of the U.S. State Department; and Chang Chien-hua.

NEWS OF MEMBERS

This past December, *RCA* played host to a delegation of the China Technical Import Corporation. The Chinese visited RCA facilities in Indiana, Ohio, Pennsylvania and New Jersey, as well as corporate headquarters in New York.

It was announced in New York and London on January 2 that Kenneth P. Morse, a U.S. citizen, would coordinate *Schroders'* International China Activities. Schroders, headquartered in London, is one of the foreign banks that maintains a correspondent relationship with the Bank of China in Peking and has active financial service companies in the U.S.

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Rohm and Haas, Philadelphia manufacturer of chemicals, fibres, plastics and health products, has created a new position of Director-People's Republic of China Affairs. Dr. R. W. Auten, for the last twelve years director of the company's Far Eastern Operations, was named for the post which he'll direct from Tokyo.

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J. C. *Penney's* retail outlet in Garden City, N. Y. was visited December 1973 by officials of the Commercial Section of the Chinese Liaison Office. Textile goods were one item of interest to the Chinese.

C. J. Wang, President of the *International Corporation of America,* Washington, D.C., was in Peking last October to complete a sale of $20 million worth of mining equipment to China. Begun over a year ago, negotiations were concluded just before Christmas.

Clark International Marketing, S.A., a subsidiary of *Clark Equipment,* shipped twenty towing tractors worth $125,000-$150,000 on order from the China National Machinery Import and Export Corporation in August, 1973. The tractors, suitable for pulling aircraft, are similar to the one shown above.

William Hulett, official of Western International Hotels, a subsidiary of *United Airlines,* was invited for a visit and discussions in Peking in late January and early February. Western International owns and operates hotels primarily in Asia. The Mayflower, its Washington, D.C. hotel, managed by Mr. Hulett, was for nine months the home of the Chinese Liaison Office. Western International has also housed the Chinese in Seattle for Boeing meetings and training.

IDC Marketing's President Paul Speltz celebrated the New Year by presenting the Chinese Liaison Office with ten cases of Tsingtao Beer. IDC, whose affiliate, Tsingtao Import Company of Oakland, the major American importer of the famous beer, has embarked on a program for its national distribution. At time of writing, assistance in national marketing of the beer is invited by Mr. Speltz.

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New York's *May Lee Industries* recently consummated a close to half-million-dollar sale for clients in the energy development field. Almost $200,000 worth of woolen rugs purchased from China by May Lee were on sale at Altman in New York, as of January, 1974.

UOP hosts a banquet for Technimport in Peking. Left to right: Tsui Chun, Managing Director of Techimport; John O. Logan, Chief Executive Officer of UOP; and John H. Holdridge, Deputy Chief of the US Liaison Office in Peking.

Supply of technology for petroleum refining and petrochemical processing were among topics discussed when a twelve-member *Universal Oil Products* delegation visited China last May and June at the invitation of the China National Technical Import Corporation. Among those on the mission were John Logan, President and Chief Executive Officer of UOP, and Robert Johnson and Harvey Plonsker, of the Corporate Planning staff.

Mr. Wang T'ien-ming of the Commercial Section of the Chinese Liaison Office in Washington discussed market conditions in the United States with David Cookson, Manager of China Trade and veteran of the Canton Fair for the *ICD Group*, a New York trading firm, December 19. Mr. Cookson is shown above on a recent trip to China.

William Seawell, Chairman and Chief Executive Officer of *Pan American World Airways* began the New Year with a visit to China. Accompanied by Senior Vice-President Thomas Flanagan and Dan Colussy, Vice-President for Passenger Markets, Mr. Seawell hopes to discuss travel and tourism with Chinese officials.

Anyone wanting an education on China Trade might consider Marchall Kaplan's course at the New School in New York this semester. Mr. Kaplan, President of *China Trade Business Associates*, attended the fall Fair in Canton.

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Among other members at the Fair were William Irik of *Allied Chemical*, Walter Simon of *Associated Metal and Minerals*, J. Ray Pace of *Baker Trading*, Ray Gerhart of *Caltex*, Jeremy Lange of *Cargill*, A. J. Miller of *Caterpillar*, William Donnett of *China Consultants International*, Charles Abrams of *China Trade Corporation*, Peter Fairbarns of *Coca-Cola*, Leonard Kuhl of *Continental Grain*, Robert Lundeen of *Dow Chemical*, Georg Hansen of *East Asiatic*, Hubert O'Malley of *Exxon*, Charles Anderson of *Far East Importers*, Robert Abboud of *First National Bank of Chicago*, Harned Hoose of *Hoose China Trade Services*, David Cookson of *ICD Group*, Paul Speltz of *IDC Marketing*, Robert Chan of *ITT*, C. J. Wang of *ICA*, Robert Boulogne of *J. C. Penney*, Cornell Maier of *Kaiser Trading*, Richard Louie of *May Lee*, Everett Checket of *Mobil*, Keith Hoy of *Monsanto*, Dana Robinson of *Olivier*, Lawrence Higgs of *Pfizer*, Geoff Olerenshaw of *Philip Morris*, Claudio Galvis of *Phillips Petroleum*, Alexander Dunbar of *Singer*, Wallace Chavkin of *U.S.-China Trade*, Kenneth Lamb of *Union Carbide*, Jack Rimmer of *W. R. Grace* and Keith Johnson of *Westinghouse*.

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The National Council knows of an experienced China trader, extensively travelled with a thorough practical knowledge of international trading over eleven years. Seeks senior management position with multi-national company where energetic and proven entrepreneurial background can be used to the full. Write the UCBR for details.

CHINESE WASHINGTON OFFICE COMMERCIAL OFFICIALS LISTED

Chang Chien-hua

Huang Wen-chun

Tung Chih-kuang

Wang T'ien-ming

Ts'ui Kao-pi

Yu Jen-Chuan

ADDRESS:

LIAISON OFFICE OF THE PEOPLE'S REPUBLIC OF CHINA
2300 CONNECTICUT AVENUE NW
WASHINGTON, D.C. 20008

The Council welcomes all news and pictures from member firms concerning your China activities for this column.

THIRD COUNTRY BANKS IN THE US THROUGH WHICH TRADE WITH CHINA CAN BE TRANSACTED

New York

Banca Nazionale del Lavoro
25 West 51st Street
New York, New York 10019
Tel: (212) 581-0710

Bank of Montreal
2 Wall Street
New York, New York 10005
Tel: (212) 964-1100

Bank of Nova Scotia
67 Wall Street
New York, New York 10005
Tel: (212) 422-1420

Bank of Tokyo
100 Broadway
New York, New York 10005
Tel: (212) 577-6600

Canadian Imperial Bank of Commerce
32 William Street
New York, New York 10005
Tel: (212) 344-3800

The Chartered Bank
76 William Street
New York, New York 10005
Tel: (212) 944-3420

Credit Lyonnais
55 Broad St.
New York, New York 10004
Tel: (212) 344-0500

Credit Suisse
100 Wall Street
New York, New York 10005
Tel: (212) 422-1450

*French American Banking Corp.
(Affiliated with Banque National de Paris)
120 Broadway
New York, New York 10005
Tel: (212) 964-4127

Hong Kong & Shanghai Banking Corp.
80 Pine Street
New York, New York 10005
Tel: (212) 944-1441

National Bank of Pakistan
99 Wall Street
New York, New York 10005
Tel: (212) 344-8822

National Westminster Bank Ltd.
100 Wall Street
New York, New York 10005
Tel: (212) 483-8400

Royal Bank of Canada
68 William Street
New York, New York 10005
Tel: (212) 363-6000

*Schroders
1 State Street Plaza
New York, New York 10015
Tel: (212) 269-6500

Toronto-Dominion Bank
45 Wall Street
New York, New York 10005
Tel: (212) 425-5600

PERSONAL CREDIT IN CHINA

The Bank of China, which has branches in all major Chinese cities, will accept American Express, Chartered Bank, First National City Bank, Hong Kong and Shanghai Bank, Bank of America and Bank of Tokyo travelers checks. Personal travelers letters of credit are also negotiable via Banca Nazionale del Lavoro, Chartered Bank, Chase Manhattan, Hong Kong and Shanghai Bank, and National Westminster.

*Member of The National Council

West Coast

Banque Nationale de Paris
130 Montgomery Street
San Francisco, California 94104
Tel: (415) 398-1700

Barclays Bank of California
111 Pine Street
San Francisco, California 94111
Tel: (415) 981-8090

Hong Kong Bank of California
180 Sansome Street
San Francisco, California 94104
Tel: (415) 421-3077

Toronto-Dominion Bank
114 Sansome Street
San Francisco, California 94104
Tel: (415) 989-4900

Bank of Montreal (California)
508 South Spring Street
Los Angeles, California 90013
Tel: (213) 624-0255

Canadian Imperial Bank of Commerce
801 2nd Avenue
Seattle, Washington 98111
Tel: (206) 682-2424

Bank of Montreal (California)
425 California Street
San Francisco, California 94104
Tel: (415) 391-8060

The Chartered Bank
465 California Street
San Francisco, California 94104
Tel: (415) 981-6350

Bank of Nova Scotia
315 California Street
San Francisco, California 94104
Tel: (415) 986-1100

Barclays Bank of California
641 South Spring Street
Los Angeles, California 90014
Tel: (213) 627-9902

Bank of Montreal (California)
812 J Street
Sacramento, California 95814
Tel: (916) 444-6790

Canadian Imperial Bank of Commerce
504 Southwest 6th Avenue
Portland, Oregon 97207
Tel: (50) 228-8493

From Payment Information Furnished a U.S. Importer by the China National Textiles Import and Export Corporation

According to the contract stipulations, the Letter of Credit should reach the sellers 30 days before the shipment month. For the sake of strict execution of the contract, we hereby furnish you with the following information for reference . . .

. . . In view of the fact that it takes about 25 days for the Letter of Credit to reach our branch concerned after it is established, the Letter of Credit should be opened in the middle of July in case of September delivery being contracted. In the event of failure in making the L/C reach us in due course, it will not only affect your timely use of the goods, but also cause our branch concerned a lot of inconvenience.

There are branches of the Bank of China where our branches are located. Therefore, you are requested to open the Letter of Credit in favour of our branch concerned and send the same direct to the branch of the Bank of China. And it is unnecessary to dispatch the credit to the Head Office of the Bank of China in Peking for transferring to the branch of the Bank of China.

AN INTRODUCTION TO THE RENMINBI: PART ONE

THE RENMINBI AND THE DOLLAR

What is the renminbi?

On March 1, 1955, the PRC established a new unit of currency, the new Yuan, with a theoretical gold equivalent and a rate of 2.46 to the US dollar. The name renminbi (RMB), meaning "people's currency", was coined by Peking in 1969 as an alternative term for the Yuan. The usage of the term is similar to "sterling" versus "pounds". Colloquially pronounced as K'uai, the Yuan is divided into 10 Chiao (dimes), and 100 fen (pennies).

The value of China's yuan appears to be theoretically set at .3610 grams of gold. Its rate to the US dollar, as set by China's central bank, remained unchanged at 2.46:US$1 from 1955 to August 1971. For most of this period there was no trade between China and the US.

Until the world currency crisis, renminbi rates were not directly subject to supply and demand: the Bank of China (BOC), the PRC's foreign exchange bank, set a single buying and selling rate against major currencies and changed these rates as it saw fit. The world's strongest Communist currency, the RMB, could, until recently be only bought in connection with confirmed contracts with China's foreign trade corporations.

The BOC also permits forward exchange cover with Hong Kong dollars, sterling and deutschemarks. In the case of sterling, premiums quoted by the BOC in London presently vary from 0.6% for one month to 3.0% for six months. In Hong Kong, the premiums are similar, from 0.6% to 2.8%. Since forward premiums are based on a set spot rate provided by the BOC, the importer or exporter has little leeway except in the charges individual banks ask as fees. Forward rates are not available against the US dollar.

In April 1972, following the visit of President Nixon to Peking in February, China began issuing traveler's rates for the dollar, and at the Spring 1973 Kwangchow Fair it first quoted trade rates for the US dollar. These rates, cabled directly to third country banks in the US, have since been available to all US companies involved in business with China.

Since 1968, the BOC has responded to the instability of international currencies, apparently using the RMB's theoretical gold value as the basis of its rates against other currencies, with adjustments for individual party/market rate differentials.

In early 1970, China proposed that renminbi be used in Sino-British trade settlement, resulting

Renminbi: Dollar Rate Changes 1972-1974

Date	*RMB: US$1*	*% Change*
1972		
May	2.2174	—
June 15	2.2673	+2.25
July 1	2.2174	−2.20
November 18	2.2401	+1.02
1973		
February 16	2.0502	−8.48
February 27	2.0088	−2.02
March 19	1.9820	−1.33
March 26	2.0032	+1.07
April 5	2.0179	+0.73
April 9	2.0066	−0.56
May 17	1.9612	−2.26
June 1	1.9416	−1.00
June 6	1.9028	−2.00
June 8	1.9220	+1.00
June 21	1.8993	−1.18
July 10	1.8018	−5.13
July 11	1.8835	+4.53
July 18	1.8647	−1.00
July 31	1.8740	+0.50
August 7	1.8965	+1.20
August 17	1.9720	+3.98
August 22	1.9326	−2.00
September 6	1.9229	−0.50
September 21	1.9133	−0.50
October 29	1.9221	+0.46
October 30	1.9317	+0.50
November 7	1.9472	+0.80
November 8	1.9569	+0.50
November 13	1.9863	+1.50
November 15	1.9761	−0.51
November 23	1.9959	+1.00
November 26	2.0017	+0.29
November 28	1.9979	−0.19
December 5	2.0059	+0.40
December 31	2.0202	+0.71
1974		
January 8	2.0406	+1.01
February 5	2.0202	−1.00

Rates source: Chartered Bank

in dual use of sterling and renminbi in Sino-British trade transactions. From late 1970 to Spring of 1971, a number of other countries agreed to use renminbi as a settlement currency, including Canada, France, Italy, Switzerland and West Germany. After the Smithsonian parity adjustments in December 1971, Japan and China began discussing a yen-yuan payment system. By September 1972, the BOC was quoting rates against over fifteen currencies.

China's yuan has a special relationship with the Hong Kong dollar. The RMB rate to the Hong Kong dollar, a key interface in China's foreign exchange dealings since a major part of the PRC's foreign earnings derive from the colony, has apparently been fairly constantly discounted in favor of the RMB in terms of gold, tending to maximize China's exchange earnings from Hong Kong.

The BOC appears to use cross rates of major currencies against the US dollar in establishing its own dollar rates. As the accompanying chart indicates, the BOC has responded plentifully to the weakening and strengthening of the US dollar.

The first indication that the BOC seemed to be interested in linking the RMB more closely to the greenback was on March 13, 1972, when RCA Global Communications contracted to supply China with a satellite communications earth station originally provided for President Nixon's visit to China. China paid RCA sterling.

Later, in four successive sales (August 17, September 12, and October 8 and 24, 1972), China denominated all its purchase contracts from RCA, Boeing, United Aircraft and Western Union International, in dollars, paying substantial amounts of cash down in each case. By the end of 1972, China had contracted to buy $158.2 million worth of US-made equipment.

After about mid-1972, these payments to US firms were made through Canadian rather than London-based banks, as initially, which considerably reduced document processing time.

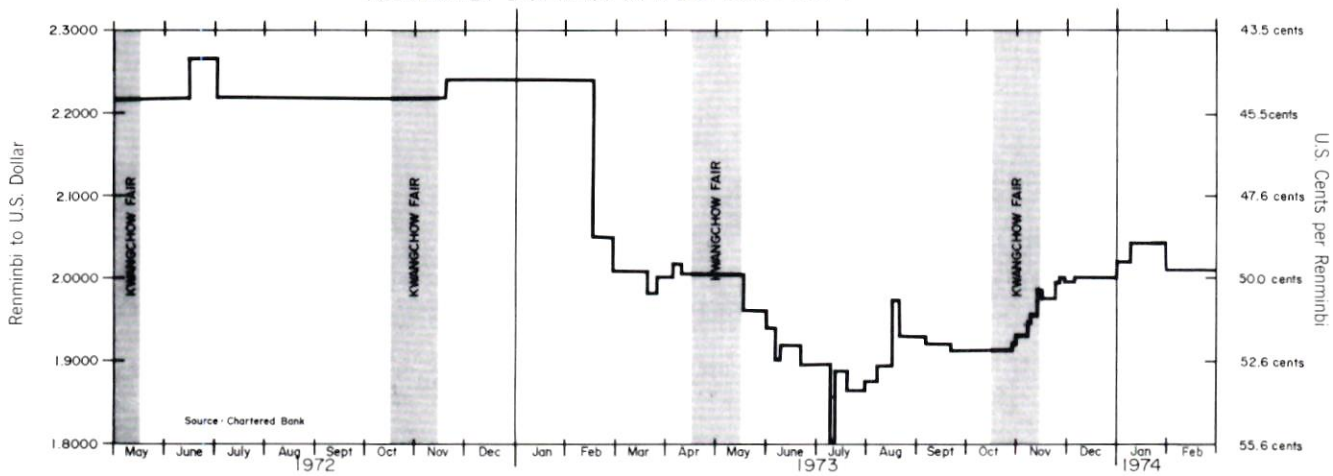
In late 1972, China's major import contracts began to be denominated and payable in renminbi as the US dollar continued to lose strength against world currency and the yen strengthened. The $17 million worth of freighters sold by Hitachi Shipbuilding and Engineering in late 1972 was the first major sale to China denominated in RMB. On December 31, 1972, Japan made its first plant sale to China since 1963, denominated and payable in yuan.

In August 1973, the New York foreign exchange market was mentioned for the first time in a Chinese payments agreement, another step toward direct RMB—dollar relations. The agreement was between the BOC and the Bank of Tokyo, Japan's chief foreign exchange bank, for all payments between China and Japan.

As of August 8, the date of the agreement, the yen-yuan rate was arbitrated by the Bank of Tokyo (and 19 other Japanese banks) on the basis of the yuan-pound quote of the People's Bank of China, on the previous day's dollar-sterling quote on the New York foreign exchange market, and on the prevailing yen-dollar rate in Tokyo. This agreement permitted perpetual automatic extension should no disagreement arise.

The payments agreement with Japan marked a major development in the increased convertibility of China's currency—among other things, the Bank of Tokyo is now also discussing renminbi traveler's checks with the Bank of China. The next in this series will deal with the convertibility of China's currency.

RENMINBI:DOLLAR RATES 1972-1974



Peking's Famous Temple of Heaven

NEGOTIATING IN PEKING

On May 6, 1973, six representatives of the Monsanto Company of St. Louis, Missouri, entered the People's Republic of China to begin exploratory business discussions with officials of the China National Technical Import Corporation. This 14-day visit was one of the first by an American firm during which broad-ranging, rather than specifically project-oriented, discussions were held with the Chinese.

In twice daily, three-hour sessions in Peking, the Monsanto representatives and their counterparts at the Chinese foreign trade corporation held what the leader of Monsanto's team, Senior Vice-President John L. Gillis, described as "intensive and detailed" business discussions, accompanied by "very aromatic, constantly replenished, and ever-present jasmine tea."

The other members of the Monsanto delegation to Peking were Edmund Greene, commercial director of the International Division; Paul Runge, international planning director for Monsanto Textiles Company; Seaton Hunter, a director of technology for Monsanto Polymers & Petrochemicals Co.; John T. Tung, marketing director for textiles in the Far East; and Keith Hoy, managing director of Monsanto Far East Ltd.

Details of their trip to the PRC were given by Messrs. Greene, Hunter, and Runge in the following interview, published by permission of Monsanto Company.

Monsanto's Paul Runge explains a technical detail to Chinese representatives of Tech Import in Peking

What kind of trade do you envision between China and the West?

Mr. Runge: I think it is almost too early to say just how much or even what kind of business will be conducted between the P.R.C. and the western nations. We understand that the Chinese are aggressively planning to expand their industrial base and, at the same time, trying to maintain their trade balances. As a result, they have already announced increases in the prices of the things they were selling at the last Canton Fair. Even the little things like the cost of hotel rooms and restaurant meals went up 50 per cent soon after we left Peking.

Mr. Hunter: I guess I'm the optimist in this area. The Chinese definitely want to trade with the West, and they have real needs, especially in the area of technology. I don't think, however, that trade with China will necessarily be uniquely rewarding, any more so than doing business with some other country.

Mr. Runge: I mentioned that hotel and restaurant prices are going up. Maybe I should mention that even with the increases, a hotel still costs only seven or eight dollars a night, and dinner at a restaurant for our party of six wouldn't run more than $15. And believe me, that's for all we could eat, and plenty of beer, too.

What is your impression of the Chinese as people to do business with?

Mr. Greene: The people we dealt with in Peking were not businessmen. They were government representatives of whichever official ministry had responsibility for a particular product line or industrial process. The men and women we met were cordial and friendly . . .

Mr. Runge: . . . and obviously well-educated. Their technical reading was up-to-date, and they knew what we were talking about when we discussed various aspects of technology.

Mr. Hunter: True, but their knowledge seemed to be more theoretical than experienced-based. Some of the men, for instance, who were talking about textile fibers or petrochemicals—it was pretty clear that they had never really worked in a commercial plant that made the things they were talking about.

In your opinion, why are the Chinese suddenly interested in buying western technology, even to the extent of reversing their long-standing policy of not going into debt?

Mr. Greene: It's an awfully complex situation, and frankly all one can really do is speculate. Back in the 1950's, with the deterioration of their relations with the Soviet Union, they found themselves heavily in debt to the Russians. Understandably, the Chinese don't ever again want to get so completely dependent upon one nation or group of nations. For many years, they were very insistent, you know, about maintaining trade and payment balances. But there have been a number of significant recent developments, including some severe droughts that forced them to concentrate on food production and left them short of fiber.

Mr. Runge: It's no secret that the recent discovery of oil resources has opened up possibilities for additional foreign exchange that they didn't have before. And to raise the standard of living, which the Chinese are doing, they have got to begin expanding and diversifying their local production and world trade.

Did you experience any unusual problems in your talks in Peking?

Mr. Hunter: Language was the main thing. The Chinese language and culture are so radically different from ours that there are very few interpreters, either English-speaking or Chinese-speaking, who can communicate nuances and subtleties.

Mr. Greene: Yes, the language was an obstacle, especially since we weren't always sure who we were talking to at our meetings. At the start of the sessions, we handed our business cards around, which, of course, gave our names and titles. But we never got anything in return. With few exceptions we were never sure which person on the Chinese side of the table had responsibility or authority for what. Perhaps this absence of titles or insignia of rank is another expression of the Chinese theory of egalitarian society. You know, no man or woman is better than anybody else. But it can be a little confusing, especially when you find out later that the senior man in their delegation was the one who kept getting up to fill everyone's cup with jasmine tea.

Mr. Hunter: The language barrier had a tendency to magnify another difficulty, which was getting an insight into their general planning scheme, so we could fit into it the know-how we had to offer. The Chinese were really quite reluctant to divulge any aspect of their planning processes, and the techniques of avoiding answers are multiplied several-fold by going through a translator.

Mr. Runge: I think the fact that we had John Tung with us kept the discussion from ever getting to the point where there was a lack of understanding. John could listen to both sides of the conversation, and whenever the interpreter got off course, he would leap in. John Tung played a crucial role at every stage in the negotiations, beginning with his earlier trips to Peking, which led eventually to our group's visit in May.

Crossing the Lo Wu Bridge from Hong Kong to the PRC are, from left, Monsanto's Seaton Hunter, John Gillis, John Tung, and Keith Hoy

When you learned that you were going to Peking, did you have any preconceived ideas of what you might encounter there?

Mr. Runge: I suppose that I did have the notion—based on my experiences in Russia—that we would be subject to close surveillance, that we would have the feeling that we were being closely watched. That didn't seem to be the case in China. Of course, they made a very careful check at the various points on our itineraries, to make sure we had the proper visas and passports and so forth. But otherwise, the freedom we had with respect to movement and communication seemed greater than we had in Russia.
Mr. Hunter: Once we got to Peking, it seemed to me that nobody made any attempt to find out where we went within the city. Part of the time they arranged sight-seeing trips for us, and on those trips they watched over us like—like mother hens.
Mr. Runge: Public transportation in a foreign country is always a fascinating experience, but without knowing the local language, it's often very difficult. And yet we met other visitors in Peking, who also had little knowledge of the Chinese language, and they would simply get on a bus or into a taxi and show the driver a hand-written note indicating where they wanted to go. These people got around Peking quite well, although they were always, as foreigners, a cause for curiosity.

Where did you stay in Peking?

Mr. Runge: We all stayed at the Min Zu Hotel, which is where many foreign visitors are lodged. It's about a 400-room, eight-story building with a 1910 atmosphere, in the center of the city, not far from the People's Great Hall where Chou En-lai entertained the President.
Mr. Hunter: Our accommodations were not grossly uncomfortable or anything like that. The bathroom facilities were old, but everything worked. The furniture was unattractive by our standards, but it was quite functional and comfortable.
Mr. Runge: I would say the Min Zu is in need of a lot of refurbishing to bring it up to first-class standards!
Mr. Greene: Peking is probably the only capital in the world where they sweep the streets every day but change the linen only once a week. One day I even tried including the towels in the bag when I sent out my laundry, but someone very carefully took them out and neatly hung them up again. The last day we were at the hotel, the man who was in charge of the cleaning crew on our floor came over to say goodbye. He asked if we had any criticism of the service. So I asked John Tung to tell the man about the towels. They had a conversation in Chinese, and then John said to me that if we had asked to have the towels changed, they would have changed them!

Did you see any Russians in Peking?

Mr. Runge: The only evidence of Russian influence we saw were signs, in the hotel and government buildings, that were written in Chinese and Russian. Although occasionally in English as well. And we talked with some people who said they had studied Russian, although they also said they hadn't used that language for seven or eight years, either.
Mr. Greene: I got the impression that the Russian signs in the government offices were vestiges from long ago.
Mr. Runge: Well, the Chinese still maintain a fair amount of foreign trade with the Russians. I think the percentage last year was something like 8 per cent, which of course is nothing compared with the early '50s, when it was 80 or 90 per cent. And the Russian Ilyushin jet we flew in, from Canton to Peking, couldn't have been 10 years old.
Mr. Greene: Your mention of language studies reminds me of the commune school they showed us, where all the children were reciting their English lesson. It was a group recitation, and it was unbelievably loud and clear. And the children were being taught American English.

What impressions did you receive of modern Chinese society?

Mr. Runge: Well, I would say that the main thing the Chinese are striving for is equalization. They seem to

CANTON CURES

Laid low with a throbbing head cold and a hacking cough—one Fairgoer sought relief at the medicinal counter at the Main Fair Exhibition Building. He bought a bottle of pills, whose instructions, in English and Chinese, assured the patient that "colds is a disease with which people are apt to be attacked". Symptoms, said the instructions, occur when people "snuffle, sneeze, cough, snivel and feel feeble." The pills, the directions went on, were the achievement of the Tientsin Drug Company's "unremitting efforts in making researches." He bought the pills, and also a bottle of throat lozenges, having, he said, "the size, appearance, consistency and taste of corks found in antique clarinet keys." The tablets, said the label, were "recommended for the irritated throat overtaxed by singing, smoking and talking." He took the pills and chewed the lozenges as directed, and was restored to health. Moral: those labels might amuse the curious and alarm the FDA, but these Chinese medicines work!

PEOPLE'S INFLATION

The Japanese news service KYODO has reported that fares for foreigners traveling on domestic routes in China aboard Chinese civil aircraft more than doubled on January 15th. Civil aviation authorities in China revealed that international rates would be applied to all foreigners on domestic flights. Foreigners utilizing domestic flights were charged the same fares as those applied to Chinese nationals prior to the rate announcement.

Under the new measure, the fare for a flight from Peking to Kwangchow will be increased 270% in the case of a foreigner, to 244 yuan from the present 91 yuan. The fare from Peking to Shanghai also will be raised to 150 yuan from the present 64 yuan, and that from Peking to Sian to 132 yuan from 57 yuan, an increase of some 230%.

This follows price rises noticed by 1973 Fall Fairgoers in hotel rates, taxi fares and meals. Even the tea served on the train to Kwangchow, once offered free, now brings Peking three cents a cup.

(continued from previous page)

have eliminated the special-privilege people and the tremendous economic gap that existed in the old China. Even professional people today are not paid significantly more than the people working in the fields—and about 80 per cent of the Chinese people still are involved in working the land. And they have apparently succeeded in providing inexpensive food and lodging for everyone.

Mr. Hunter: So when you hear of someone in China working for the equivalent of $35 a month, which is the average salary there now, remember that he gets his medical care and all education free, and he spends only $2 for lodging and perhaps $5 to $6 a month per person for food. And there is no income tax!

Mr. Greene: Another thing that is very apparent is that there is a fair amount of disposable income, judging from the goods that are available in the department stores and the number of people buying things. I didn't do any comparison shopping, So I don't know if there is any substantial difference in goods between the Chinese department stores and the Friendship Store, which is run exclusively for foreigners.

Mr. Hunter: I bought my People's jacket at the Friendship Store. There were several grades of cloth, and the price ranged from about $2.50 to $6.00 for a hip-length cotton jacket, rather shapelessly tailored.

Mr. Greene: We were told beforehand not to put too much emphasis on dress, because some of the top officials might be rather shabbily dressed.

Mr. Runge: I wouldn't call it shabby, but it was not well tailored.

Mr. Hunter: Well, shapeless, then. Still, on the average, I think there was a difference. I never saw any peasants wearing what looked like excellent quality woolens, and I did see those on a few well-tailored officials.

How was the food?

Mr. Greene: Marvellous. And we always ended up with too much. You know, Paul would have some kind of beef dish, Seaton had to have his crisp chicken, I would get shrimp, and then John Tung, who translated the menus for us, would order something else. By the time we got through, we would have six to eight dishes.

Mr. Hunter: I was impressed by the incredible variety of food. I remember one restaurant that listed 160 items of Chinese cookery, and a similar number of European dishes.

Mr. Runge: The Northern food we ate in Peking tends to be spicier and dryer and less larded up with sauces than Cantonese cooking, which is generally what we get in the United States.

Mr. Hunter: I sure would like to have their recipe for that chicken.

TRANSLATION SERVICES OF THE NATIONAL COUNCIL

The National Council provides translation services for member companies and other firms wishing to have material translated into modern, simplified Chinese characters.

In all business contacts with the People's Republic of China, having correspondence, brochures, and other information translated into the script presently used in China facilitates communications with China's trade organizations. This is because China has limited translation resources: information received in China in Chinese can be disseminated and responded to much faster than if the correspondence is in English.

It is very important for the Chinese characters used in correspondence with Chinese trade authorities to have clear, fluid, well-drawn characters, of the type presently in use in China. It is important to recognize that present terminology and style of business correspondence used among overseas Chinese differ considerably from that now in use in the People's Republic of China.

Services Offered

The National Council offers a translation service, with strict quality control, for all companies involved in business with China for translation of:

- Correspondence
- Business Cards
- Brochures and Pamphlets
- Summary of Technical Data
- Advertisements
- Catalogues
- Any other form of communication required

These services also include review, revision and correction of translations, both written and oral, made via other agencies in the U. S. and elsewhere, and referral to printing houses possessing modern Chinese ideographic forms.

As information that companies wish to convey to the Chinese normally includes technical terms, the Council's services also include a reference system of leading Chinese-speaking authorities in the U.S. in all major technical fields. These include those of applied mathematics, physics, biochemistry, civil engineering, construction, electrical engineering, medical technology, metallurgy, statistics, computer sciences, heavy engineering, textile machinery, electronics and petroleum technology.

The Council also has an extensive set of reference works available including specialized dictionaries, atlases, and recent literature from China.

In the preparation of Chinese script, the following processes are involved: initial translation, research for technical terms, reference to specialized dictionaries, calligraphic copying, and final checking of contents.

To insure strict quality control, the translators used by the Council have been screened by authorities on modern Chinese usage. The services made available by the Council are also often recommended by the Washington Liaison Office of the People's Republic of China.

Charges

The terms of translation for Council members are at cost, as follows: $15 per hour for all translation services, plus additional fees where translation consultations with specialists are involved. For non-members the charge is $30 per hour, plus additional fees.

Any material a company wishes to have translated should be sent to the National Council to the attention of Translation Services. All services are provided in strictest confidence.

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FULL MEMBERSHIP

Membership in the National Council for United States-China Trade is open to American firms interested in doing business with the People's Republic of China. The principal categories of membership are (1) corporations or business entities with sales or gross income equal to or greater than $50 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are $2,500; (2) those with sales or gross income of between $20 million and $50 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are $1,000; and (3) those with sales or gross income of less than $20 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are $500.

IMPORTERS AFFILIATE MEMBERSHIP

In a special effort to assist smaller American firms interested in importing goods from China, the National Council has a special category of affiliated membership. Companies engaged primarily in importing, and having sales or gross income of less than $10 million in the year immediately preceding the date of application for membership, may join the National Council upon payment of annual dues of $250.

Importers in the National Council constitute a special committee whose activities are designed not only to acquaint importers and potential importers with Chinese manufacturing, sales and trading practices, but also to aid the Chinese Foreign Trade Corporations in understanding the import regulations, consumer tastes and other market conditions in the United States.