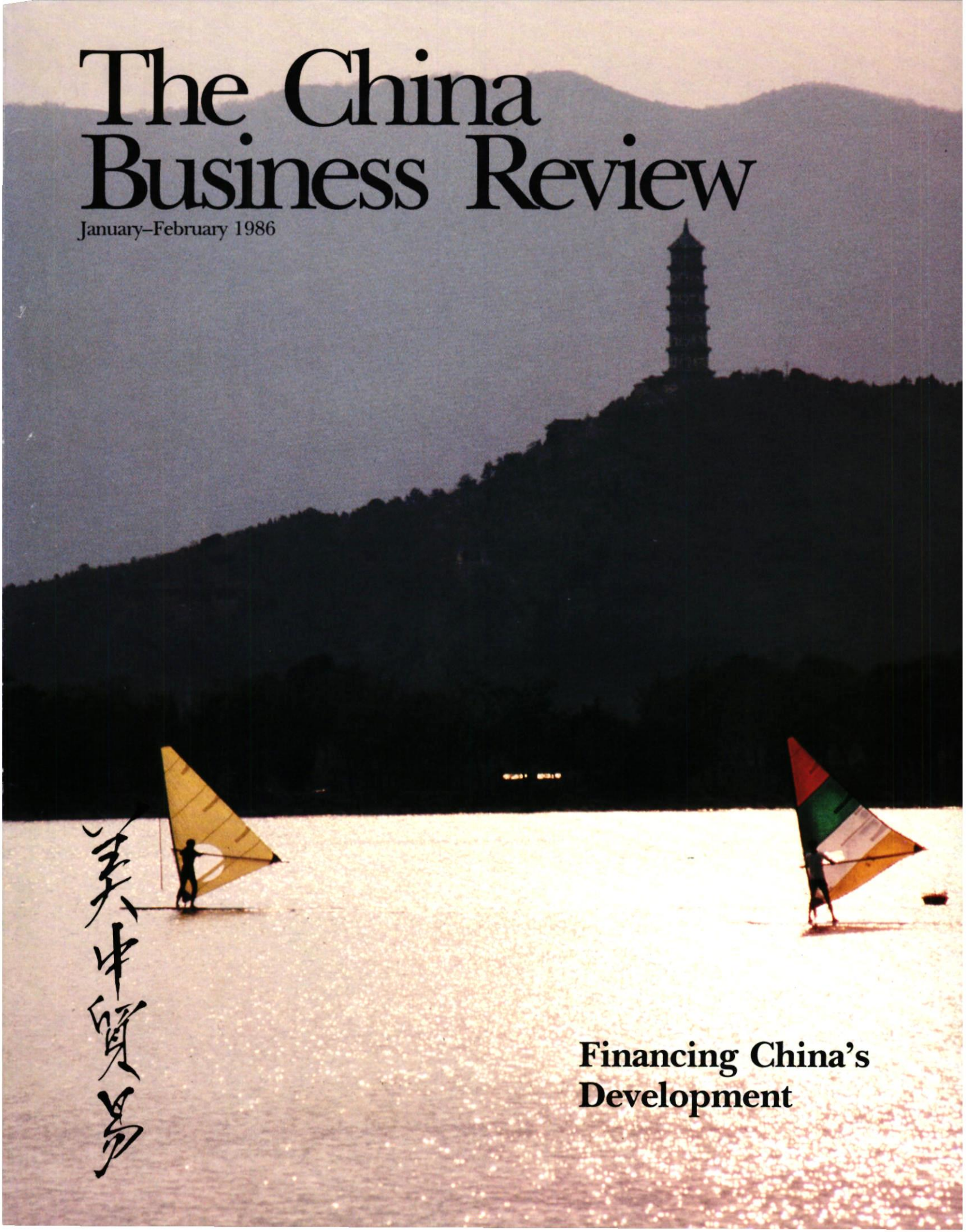
The China Business Review

January–February 1986



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The China Business Review

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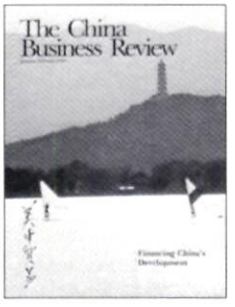
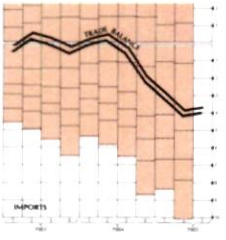
Cover: The estimated $20-$40 billion in foreign capital needed to finance modernization during the Seventh Five-Year Plan will come from a variety of sources. *Photo of Lake Kunming in Beijing by Dean Conger, © National Geographic Society*



Joint Ventures: Remuneration of high-level Chinese and foreign management is a sensitive issue since no Chinese laws currently mention the "equal pay for equal work" principle often advocated by Chinese negotiators. **Page 10.**

Foreign exchange: China's foreign trade deficit in 1985 precipitated a foreign exchange "crisis" and a series of strict measures to curb the growth of imports. **Page 14.**



Departments

摘要

AVOIDING A BRAIN DRAIN

The United States hosts over one-third of the 37,000 Chinese citizens now studying in 36 countries. Of the 14,000 to 15,000 Chinese students and scholars in the United States, an estimated 9,000 are government sponsored (4,000 "visiting scholars" and 5,000 degree candidates), and 5,000 to 6,000 are self-supported. The increasing number of Chinese students and scholars coming to—and staying in—the US is an issue of vital concern to both governments.

Although the brain drain in China has reached nowhere near the proportions of some other Third World countries such as India, it is still of concern to a country that desperately needs the advanced knowledge and skills that foreign-educated students can provide. At present most of the government-sponsored scholars and students return after completing their studies, but few of the self-sponsored students go back. Some of the brightest students sent abroad by the government in the early 1980s to obtain doctorate degrees in the sciences are just now approaching graduation, and it is unclear how many of these highly trained people will go back.

China faces a dilemma: it needs the advanced technical skills obtained by students in three-to-five year advanced degree programs in the United States, but their longer tenure abroad may promote ideological conversion and disillusionment with what they perceive as a lack of support from the Chinese government. Degree candidates must cope with language problems, loneliness, academic pressures, and limited funds. Meanwhile, the suspension of ties to their Chinese work units make them begin to feel cut off from their homeland.

Students give myriad reasons for not wanting to return to China. The higher standard of living in the US tops the list, but other common reasons include freedom, career mobility, and, ironically, pressures from people in China who expect them to remain, and consider the returnees failures that couldn't make it in America.

So far the Chinese government seems willing to live with the risk, and even adopted a more flexible foreign study policy in January 1985. This allows almost any self-sponsored student, regardless of age or length of employment, to go abroad provided he or she can show a letter of acceptance from a foreign institution and evidence of financial support.

Since an estimated 70–80 percent of all privately funded students want to study in the US, this new policy has increased pressure on the US Embassy and consulates, which were already besieged with long lines of visa applicants. American concern over the number of students staying in the US results in visa refusals for more than 50 percent of the self-sponsored applicants, often because the student seems unlikely to return to China. But the total number of approvals is expected to continue growing for the next few years. In 1985 the US Embassy in Beijing alone awarded some 1,500 F-1 visas (usually granted to privately supported students), almost twice the number granted the previous year. Cultural exchange visas, J-1, issued in Beijing rose from 2,297 in 1983 to 5,247 in 1985. These visas are usually granted to government-sponsored students who go abroad through official channels such as school-to-school exchange programs. The Chinese government will usually only guarantee financial support to such students for one to two years, assuming that the good ones can eventually win full scholarships to continue their study. Although these measures save the government foreign exchange, they also encourage student independence and self-sufficiency, and do not foster the strong feelings of obligation to the home country that a long-term stipend would.

Although China is willing to take the risk of many students not returning, it still tries to entice privately sponsored students back by paying the return air fare for those who have obtained masters or doctorate degrees, and officially stating that these students will be given jobs comparable to those of government-sponsored students. China may also reform the job placement system for returned students in order to give them more choice and use their talents more effectively.

But some students remain wary. Traditional values dominate career attitudes among older Chinese students abroad. Some view China as still unpredictable and in the midst of basic changes. They prefer to work in the US for some years and establish themselves before going back to China. Other students feel strong ties and want to make a contribution to China, but believe that this can best be done by remaining in the US to pursue their career indefinitely, eventually reflecting greater glory on China through achievements here.

Recurring rumors of a Chinese government clampdown on the numbers going abroad hint at the instability of the present liberal policy. University professors talk about reinstating the requirement that university grads must work two years before leaving the country on a self-sponsored basis. (Master's degree holders already have this requirement.) This would guarantee at least some return on the State's investment in the student's education even if they ultimately choose not to return.

The issue is sensitive on all sides.

REMINDER

As of February 3, the National Council will be located at 1818 N Street, N.W., Suite 500, Washington, DC 20036. Our telephone and telex numbers remain the same. The new offices include better facilities for holding meetings with member companies, and an expanded library.

China has made it clear that it would like the US State Department and Immigration and Naturalization Service to encourage students to return to China. But in practice these organizations have minimal control. Monitoring of students is difficult, particularly if US companies want to hire them. The PRC will have to develop its own stronger incentives to lure students back by improving working and living conditions, and convincing students that the country values the knowledge and skills they have acquired. —JSS and AN

TRENDS IN TECH TRANSFER

It has now been more than six years since China shifted its focus away from turn-key plant imports, and began to purchase straight technological know-how through licensing, service, and coproduction contracts. While technology imports will continue to receive high priority as a cost-effective use of limited foreign exchange, some of the downstream problems in absorbing this technology are finally being addressed at the national level, and more central supervision over the entire process is likely in 1986.

Articles discussing problems in the technology import process became more frequent last year. *The People's Daily* minced no words on the subject: "Importation without digestion cannot help but create a dependence on foreign technology."

At a year-end national conference on technological progress in Chinese enterprises, the State Economic Commission (SEC) announced that technical advisory centers are now being established at the national and provincial levels to review all technology imports before contracts can be finalized. A wide range of organizations involved in technical and financial aspects of technology purchases will be represented on the advisory panels. The overall effect of this new system will probably be to slow down technology import decisions this year.

Many foreign suppliers have long recognized the problem of waste and duplication in China's technology purchases. But while they see the problem largely as a lack of coordination in China and poor technical skills at the enterprise level, the Chinese press frequently criticizes foreign firms for not providing adequate training and post-sales service. As a result, foreign suppliers of technology will be asked in the future to guarantee after-sales service, in order to help Chinese end-users successfully "digest and absorb" new technology, and lower the cost of subsequent repairs and replacement parts to the enterprise.

Many foreign companies feel they have already provided more than enough in the way of training and advice. Still, most are not likely to lose interest in this market. China claims it spent $2.9 billion between 1983 and 1985 to import 3,000 items of technology, and will spend an even larger amount in the next three years for another 3,000 projects. Five hundred large State enterprises that plan technical renovation projects are first on the list to receive funds for technology imports this year. Cost effective means to allow smaller enterprises access to foreign technology are also being sought. Last December China held its first "International Conference on Secondhand Equipment Trade" to promote the idea that 1970s and early 1980s technology is appropriate for China's smaller enterprises, and can be purchased secondhand at relatively little cost.

The United States, Britain, France, West Germany, and Japan are China's main technology suppliers. The growing share of total technology contracts signed with European countries received much publicity in 1985, perhaps in an attempt to bait the US and Japan—both of whom still hold much of the technology China wants. China has been especially critical of Japanese firms, who have so far been the least willing to transfer their technology. Technology sales accounted for more than 80 percent of the overall value of contracts signed by British and French firms in 1984, while the figure for the US was 72 percent, West Germany 52 percent, and Japan only 6.2 percent, according to Chinese statistics.

The US government supports the efforts of US firms to sell technology through the Industrial Renovation Work program signed during Commerce Secretary Malcolm Baldrige's trip to China last spring. The agreement is designed to help match US suppliers with technical renovation projects in Chinese factories, but it is too soon to tell whether it will play a major role in promoting US technology sales to China. —MCR

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石油快讯

Short-term Prospects Improving?

Charlie Kirkwood

Despite the doubts of many outside analysts, China managed to increase oil production by approximately 9 percent from 114.5 million tonnes in 1984 to 124.8 tonnes in 1985. The Shengli field, China's second largest, raised output by 19.5 percent, achieving a production rate of 584,000 barrels per day at the end of the year. Even Daqing, the largest mature oil field located in northeast China, managed a slight (3.6 percent) increase, confounding the predictions of most Western observers.

Yet China's soaring energy requirements to support growth in agriculture and industry put substantial pressure on the Ministry of Petroleum Industry (MOPI) for even greater gains in petroleum output, at least through the next decade. China must meet its 1990 production target of 150 million metric tonnes of crude petroleum (1 tonne equals 7.3 barrels) from existing fields, in order to buy much-needed time to develop substantial reserves in new areas. These reserves will be necessary to meet overall economic goals in the 21st century.

Chinese oil officials are quite confident that they can rely on existing fields to achieve the 1990 goal and privately say that some fields, like Liaohe, may far exceed production targets. My own field estimates showing how the 1990 target might be achieved are presented in the accompanying table.

Even if China achieves its 1990 production target, it still will not have enough petroleum to meet domestic demand. Nonetheless, China is expected to continue to export oil to earn foreign exchange. Many Western observers doubt that China can sustain 1984's $5 billion level of crude and product exports, but the Chinese hope to increase that level—although exports will probably fall as a percentage of total production.

Keys to reaching production goals

How has China achieved its recent increases despite widespread doubt that its oil fields could continue to produce at previous levels? Will they be able to sustain the growth in output required throughout this decade? I believe that they can, due to several changes taking place within the oil industry. These promising changes are summarized below:

Higher technical competence and better equipment. The Chinese clearly intend to increase their technical competence and improve their oil field equipment. Already this commitment is having a slow but perceptible effect at the oil fields. For instance, the Chinese are drilling more wells and drilling them faster. Total drilling amounted to 2.1 million meters in 1984, over 3 million meters in 1985, and is projected to reach 3.6 million meters in 1986, although the number of drilling crews will remain relatively constant over this period. Annual meterage per rig has increased significantly, although it remains far behind Western crew averages.

Advanced Western technology is being used to advantage in drilling operations. Recently Shengli started using computers to calculate drilling speeds, bit weight, and mud pressures. The vast majority of China's 900-plus rigs are copies of old Russian rigs, which seem durable and relatively easy to operate. Though the rigs are somewhat slow, a shortage of funds—and not speed or the availability of rigs—is the limiting factor in China's drilling. Several people I met with from oil fields had crews and rigs available but were not drilling due to capital constraints.

China claims that the reserve/production ratio is improving, but the country will have to continue to discover more reserves near existing fields to meet future production targets. In this area the Chinese have been particularly willing to invest more capital, and bring in foreign oil field equipment and technical personnel (*see The CBR*, Jan–Feb 1985, page 18) to find more reserves.

Although China is making good progress in equipping their seismic crews, foreign oil personnel working in China doubt that the capability for geophysical analysis has improved markedly yet. Several provinces have seismic analysis centers, with Zhouxian in Hebei by far the most advanced. Zhouxian has a contract with Western Geophysical (US) to lease an IBM 3033 and provide training for operators and analysts. But most existing seismic centers do not yet have the capability to perform the quantity of work needed to find vital additional reserves.

In 1985 there were 280 Chinese seismic teams and approximately 10 foreign crews operating in China. More than half of the Chinese teams were equipped with 128-channel seismic-recording equipment; the remainder still used less efficient 48-channel equipment. Until recently, virtually all the equipment was analog, but now digital equipment has become more common. In 1981

Charlie Kirkwood is an independent oilman from Shawnee-on-Delaware, PA. He recently led a 15-member delegation of US oilmen to China to put on a four-week seminar jointly sponsored by MOPI and the US Department of Commerce. The information in this article comes from meetings with MOPI executives, officials from the State Economic and Planning Commissions, the China National Oil Development Company, and interviews with participants in the seminar, who were generally managers, economists, and geologists working in oil fields in China.

crews surveyed an average of only 200 km per year, but this figure reached 450 km per year in 1985 and some places, including Shengli, averaged over 600 km per year. Ministry officials in charge of these crews anticipate a national average of 600 km per year by 1990. Recently, some PRC crews have added the capability to do three-dimensional area mapping, first introduced to China by foreign crews in 1982. While the quantity of advanced analysis is growing, it is too early to judge the quality of Chinese field work.

Work incentives and better management. The effects of the new responsibility system on China's oil production are less well known, but also significant. MOPI seems dedicated to improving management by delegating more responsibility to the individual oil fields and instituting more rational pricing and wage incentives. But the central planning function of MOPI will probably not change significantly. MOPI will continue to make exploration decisions, allocate exploration funds, and decide production targets. But project implementation and worker compensation decisions will be made at the oil field level whenever possible.

The new responsibility system takes effect on two levels: moving responsibility for setting goals and making operational decisions down to a lower level in the production chain, and giving some financial reward to the individuals who exceed their goals. It began to be introduced in the industrial and petroleum sectors about two years ago. People actually working in the oil fields are now very aware of how to obtain a bonus, how much they produce each day, and how much their bonus will be. Managers are well armed with statistics on quotas, current production levels, and bonus amounts.

An important element of the responsibility system is getting information to the workers, and every area I visited had relatively efficient information-gathering systems. An assistant manager at the Yumen oil field said that every day she learned the previous days' production from each well, and the total number of meters drilled. The Shengli warehouse had monthly sales figures posted on a common room wall showing each department's monthly output and inventory position. Cadres from MOPI claimed that relatively good telephone communication between the oil fields enabled them to know total national monthly production figures only a few days after the end of each month.

Developing new areas

Improvements at existing fields will be important in the short term, but new sources of oil must be developed to satisfy long-term domestic demand. Foreign oil companies are likely to play an important role in new exploration and development. In the last few years over $1.7 billion has been spent in offshore exploration, virtually all of it by foreign oil companies. Recently the Chinese have also indicated their plan to open onshore fields in 10 provinces south of the Yangtze River to foreign participation. But the productivity of these areas is uncertain, and China has prudently not included any substantial production from either the offshore areas or 10 southern provinces (except for a small amount from the existing field in Jiangsu) in their 1990 output projections.

The far northwest, including the Tarim and Junggar basins, is the most promising of China's oil frontiers. The Tarim Basin is the largest land basin in the world at 553,000 sq km, and the 130,000 sq km Junggar basin is also large by world standards. There is only one relatively small oil field, Karamay, now producing in the northwest, but reconnaissance geophysical work being done in the region looks promising. The president of China National Oil Development Corp. (CNODC) has remarked on several occasions that the question is not whether huge reserves of oil exist, but how to get the oil out. Since this is a remote and mountainous area, a pipeline of at least 3,700 km will have to be built from Xinjiang Province to the populous east—an expensive technological challenge.

China has invited foreign oil companies to look at the huge northwestern fields and several large US firms have shown an interest. Obviously the world price will affect the interest of foreign joint venture partners, but China is one of the few places in the world where major oil field development must continue regardless of world price. Output from existing reserves, coupled with aggressive development policies, will move China into the front ranks of oil producers by the end of the century. The industry's performance in 1985 demonstrates that it is already moving in the right direction.

PRC CRUDE OIL PRODUCTION BY FIELD 1982-1985 AND 1990 ESTIMATE (million metric tonnes)

Field	1982	1983	1984	1985[1]	1990[2] (Estimate)
Major Fields:					
Daqing	51.94	52.35	53.56	55.50	53.0
Shengli	16.36	18.37	23.01	27.50	48.0
Huabei	11.31	10.55	10.20	10.20	9.2
Liaohe	5.31	6.11	7.65	8.70	12.8
Xinjiang (mainly Karamay)	4.03	4.27	4.57	4.87	6.0
Zhongyuan	2.33	3.03	4.00	5.50	10.0
Subtotal	91.28	94.68	102.99	112.27	139.0
Minor Fields:					
Nanyang	—	—	—	2.20	2.13
Changqing	—	—	—	1.40	1.4
Yumen	—	—	—	.60	.6
Yanchang	—	—	—	.12	.12
Jianhan	—	—	—	1.00	1.00
Sichuan	—	—	—	.10	.10
Jiangsu	—	—	—	.35	.35
Jilin	—	—	—	1.80	1.80
Qinghai	—	—	—	.10	.10
Dagang	—	—	—	3.20	2.4
Subtotal	10.84	11.39	11.54	12.43[3]	10.0
Offshore	—	—	—	—	1.0
10 southern provinces	—	—	—	—	0
Total	**102.12**	**106.07**	**114.53**	**124.70**	**150.0**

[1]Based on actual production through September, plus estimates for the last quarter.
[2]The announced production target for 1990 is 150 million tonnes. Field breakdowns for 1990 are the author's own estimates. Officials say they are not counting on any offshore production or new production from fields in the 10 southern provinces in this target, although a small amount of offshore production is postulated by the author in 1990.
[3]Subtotal does not add up due to rounding and production from some minor fields.

Taxi!

Passengers in Beijing wait and wait for improved service

Carroll Bogert

No one who has been to Beijing on business has escaped the frustrations of getting around town. Customers may wait in taxi lines nearly an hour at peak times—8 am, 12 noon, and dinner time. Drivers, despite sharp admonitions from Beijing traffic authorities, still maintain a maddening pick-and-choose attitude toward customers. Recent months have seen a few encouraging improvements in taxi service, but relief for the rider is still a long way off.

Shortage of drivers

Since 1984 the number of vehicles in Beijing—including sedans, tour buses, and the loaf-shaped, eight-seat mini-buses known as "bread trucks"—has almost tripled, to about 10,000. The previous car shortage has been solved, but the supply of drivers has not kept pace with the rapid increase in vehicles. Many of the present drivers drove jeeps in the military and have now returned to civilian life, while some drivers are being borrowed from other work units.

Some taxi companies have begun training their own drivers. Although the Taxi Administration Office says training should ideally last two-and-a-half to three years, companies are now so eager to expand that they are putting new drivers on the road after less than one year of training. If trainees survive the chaos of Chinese roads without an accident during the six-month probation period, they will be made full-fledged drivers and given higher-grade cars.

The taxi problem feeds on itself in a discouraging, vicious circle. Tired of standing in interminable taxi lines, many business people choose to hire a car by the day, the week, or the month, at a cost of at least ¥100 per day. The larger taxi firms can easily rent 30 percent of their cars this way. For the visitor with a hefty spending allowance and a tight schedule, long-term hiring makes the most sense. But it unquestionably makes the shortage worse by using scarce resources inefficiently, since the driver spends most of his time smoking cigarettes and waiting for his customer.

Foreign friends! There are no taxis just now, so you may go back to your hotel rooms and take a rest.

Certain taxi regulations also exacerbate the situation. Each driver must fulfill a daily quota of kilometers, and any mileage beyond that total earns him a bonus of three, four, or five fen, or cents, per kilometer, depending on the amount by which he exceeds the quota. The need to chalk up a high number of kilometers makes drivers unwilling to take passengers on shorter rides. Taxi meters run according to kilometer only, not according to a mix of kilometer and time combined, so the driver earns nothing while sitting in a traffic jam. This puts further pressure on drivers not to waste time on short trips in the congested central city.

Carroll Bogert is a free-lance writer living in Beijing.

Reforming the taxi fleet

The recent increase in the number of taxi firms may eventually improve service. According to Zhang Yingzi, chief of the recently established Taxi Administration Office of the Beijing Municipal Management Commission, the city did not really have any taxi service until the late 1970s, when four companies began to serve the entire market. Now Beijing boasts well over 100 taxi companies. But 30 of them, says Mr. Zhang, do 90 percent of the business, and many companies consist of only one or two cars.

Unfortunately, most of the new taxis appear to be conforming to industry standards of slothfulness rather than sparking competition. But they do tend to be cheaper, charging 5 to 6 jiao (or just under 20 cents) per kilometer rather than the 8 jiao price of the more established companies (about a quarter). And they are marginally more eager for business. Late on a cold night along Beijing's Second Ring Road, a taxi from one of the new firms is more likely to stop for a stranded foreigner than a taxi from Capital. (Capital is one of Beijing's original four taxi companies, featured in a popular postcard showing a parked Capital taxi in the foreground, and in the background, secondarily, the Great Wall.)

A recent policy change may improve service in the long run. On September 1, 1985, it technically became possible to hail a taxi on the street. Previously, taxis were available only at designated taxi stands—mostly hotels and a few bus stops. But although the new regulations allow drivers to stop for passengers anywhere except Tian'anmen Square and a few other high-speed areas, in practice few drivers are willing to do so.

The easiest spots in Beijing to hail a cab are along Chang'an Avenue, with its string of international hotels, along Xizhimen Avenue by the zoo, near which several taxi firms have parking lots, or any major road with heavy taxi traffic. A timid wave from curbside will not do. It helps to plunge into traffic waving one's arms dramatically, or simply to open the door of an empty taxi waiting at a red light and hope the driver agrees.

The Chinese are beginning to suffer from the taxi situation, too. This may be the greatest impetus of all for change since the majority of taxi customers are now local residents. Three years ago, 60–70 percent of customers were foreign, but in the past year, 60–70 percent were Chinese. The increased use of cabs by Chinese further strains the limited supplies and results in bitter disputes between Chinese passengers and drivers who must fulfill foreign exchange quotas everyday, and therefore often refuse service to local customers.

Finally, the problem is receiving more public attention. This summer, Beijing's Mayor Chen Xitong spoke out against the 10 reasons drivers frequently give for refusing passengers: a good TV show, quitting time, meal time, daily quota completed, short trip, wrong direction, bad weather, night trip, bad road, passenger without foreign exchange. Establishment of the city's Taxi Administration Office in July 1985 further indicates growing goverment concern with the taxi problem.

Learning to live with the system

If you do not want to hire a car by the day, two hints may make your task of finding transportation easier: 1) Look for a driver who wants to go your way. Most taxi companies are attached to a particular hotel, building, or taxi line. They are more likely to want to go back toward their home base, especially if it is close to meal time. Find out which company is attached to your hotel and seek out those cars during periods of peak demand. 2) Name your ultimate destination and have the driver wait at any intermediate stops you planned to make. The longer your trip sounds, the more likely a driver will agree to it. However, if it's close to meal time or late at night, do not expect the driver to wait more than 10 minutes.

The diffident manner of some Beijing taxi drivers is enough to send blood pressure sky-rocketing. But before losing patience, consider a few of the constraints on a driver's behavior.

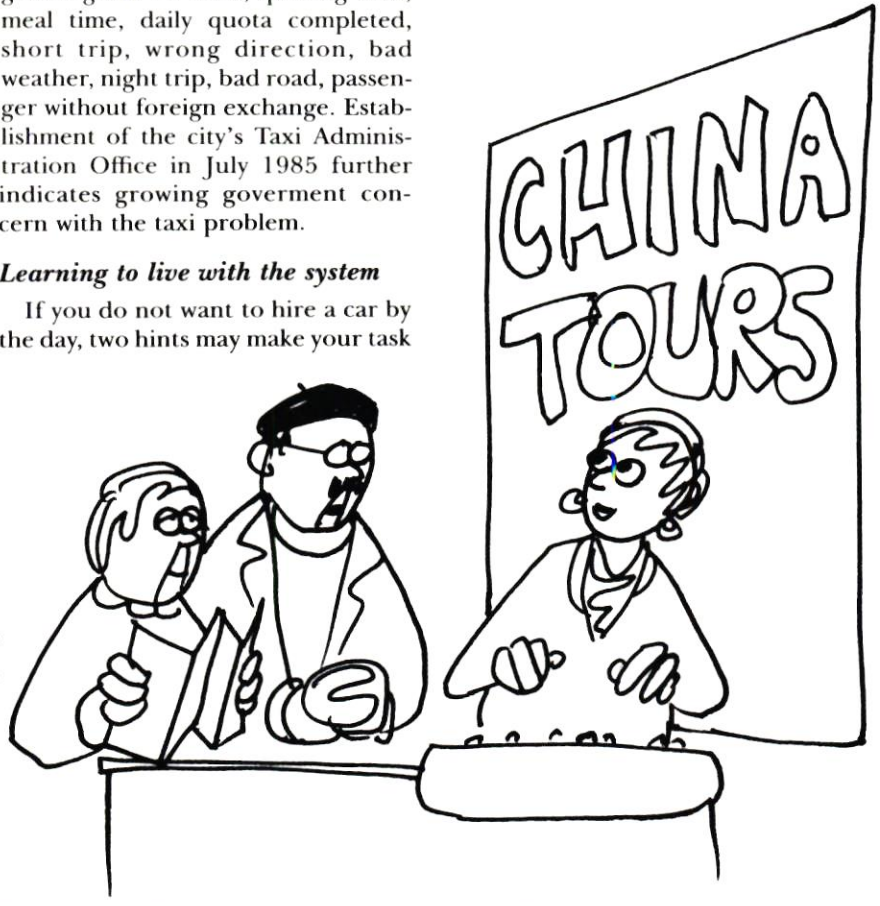
As you wait in a long taxi line at 8 am and look out over a parking lot filled with drivers assiduously washing every square inch of their vehicles, remember that their company will fine them for driving a car that is not spick-and-span. The Beijing Taxi Administration Office will also fine for overcharging customers or providing shoddy service, and after three such fines taxi-driving privileges are revoked. Indeed, Beijing taxi drivers must be among the most honest in the world, even more so than their counterparts in some other Chinese cities such as Guangzhou.

While you're on duty, might I please borrow your bicycle?

But Beijing's truly fearsome authority is the Traffic Department of the Public Security Bureau, whose policemen are posted at every major intersection. Each driver has a booklet of four tickets, and if he breaks a traffic regulation the policeman takes one. When all the tickets are gone, the driver loses his license. A few packs of cigarettes may help to change a traffic cop's mind, but his power is arbitrary and nearly absolute. Of course, The hardships of being a taxi driver are perhaps mitigated by the potential to earn a monthly income of up to four times that of the average Beijing worker through putting in extra hours.

Once you've finally obtained a taxi, you are at least assured of a reasonable fare. Most taxis in Beijing cost 6, 7, or 8 jiao per kilometer. Benzes, Red Flags, and "bread trucks" cost ¥1, and smaller, older cars start as low as 5 jiao. A sticker on the rear window indicates how much the taxi charges per kilometer.

The meter begins with a 4-kilometer charge. An extra 1 jiao per kilometer is added between the hours of 11 pm and 5 am. If the taxi waits for a passenger, five minutes' waiting time or any fraction thereof (recently reduced from 10 minutes) will be counted as one kilometer. Beyond Beijing's Third Ring Road, the driver may charge one-and-a-half times the normal rate per kilometer. And, of course, tipping is not required and officially not permitted. 完



Cartoons by Eugene A. Theroux

Would it be possible to reserve a taxi at the airport in Beijing before we leave New York?

Equal Pay for Equal Work

Remuneration for high-level management in Chinese–foreign equity joint ventures

Jerome Alan Cohen and Charles H. Harris

One difficult issue in negotiating contracts in China has been the question of appropriate remuneration for the high-level management of Chinese–foreign joint ventures. Specifically, how can the principle of "equal pay for equal work," frequently asserted by the Chinese side in joint venture negotiations, be reconciled with the differing circumstances of Chinese and foreign managers and the demands of economic efficiency and profitability?

The problem

There are few guidelines to use in dealing with the issue of salary for high-level managers. The 1979 Law of the People's Republic of China on Chinese–Foreign Joint Ventures does not mention the principle of equal pay for equal work. Its only reference to the remuneration of joint venture management is in Article 6, which empowers the board of directors, pursuant to the provisions of the articles of association of the joint venture, to discuss and decide all major problems of the venture including "the appointment or employment of the general manager and deputy general managers, the chief engineer, the treasurer and the auditor, as well as their powers and terms of employment." Article 6 also states that "The offices of general manager and deputy general manager(s) (or factory manager and deputy manager(s)) shall be assumed by the respective parties to the venture," implying that the very highest management positions of the venture are to be allocated among Chinese and foreign personnel. It goes on to authorize the parties to agree upon the remuneration of high-level managers and other personnel prior to establishing the venture. But it provides no guidance as to what their levels of remuneration should be.

The earliest Chinese–foreign joint venture contracts do not fix the salaries of high-level managers, even though certain contracts did fix the remuneration of ordinary staff and workers for an initial period. But after some ventures were established, Chinese members of the board of directors began to invoke the equal pay for equal work principle to assert that Chinese and foreign managers must be paid the same salaries. Chinese directors were not able to indicate any legislative basis for this demand. They claimed that, although no law yet prescribed it, the requirement was imposed by an "internal," i.e., unpublished, rule or policy.

After the boards of directors of early ventures sought to apply the equal pay principle for management remuneration, the Chinese side in subsequent joint venture negotiations began to assert that high-level Chinese managers would have to be paid the same salary as their foreign counterparts. This stipulation frequently derailed negotiations and has delayed or prevented the signing of many contracts.

The foreign reaction

Foreign investors are generally stymied by the demand for equal pay for equal work among high-level Chinese and foreign managers. While not opposed to the principle, many believe its current application in joint ventures in China is misguided for the following reasons:

▶Chinese and foreign managers come from and continue to be rooted in entirely different communities and economies. A foreign manager, when in his own country, is paid a salary reflecting the price his company attaches to the value of his services based on skill level, number of jobs to be filled, and supply of experienced managers. Moreover, to persuade a foreign manager to work abroad, especially in the unfamiliar and more challenging conditions of a developing country, competitive business conditions generally require the company to pay him a premium above his domestic salary.

▶A Chinese manager in China is paid a salary reflecting the price China attaches to the value of his services, using government-set wage guidelines. Furthermore, he is not uprooted from his homeland to serve the venture. The greater responsibilities he may bear in the joint venture, in comparison with his previous position in a State enterprise or government department, presumably justify a salary increase. But such an increase should rationally be determined in terms of his previous employment and China's economy, rather than in terms of the cost of attracting his foreign counterpart to China.

▶Some foreign investors also maintain that, if honestly applied in the joint venture context, the equal pay for equal work principle would generally not lead to equal pay for high-level Chinese and foreign managers. They argue that in most situations their work is, inevitably, not equal—even though their titles may be. Indeed, the Chinese government's policy of seeking to establish joint ventures is, to a great extent,

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based upon recognition of the fact that foreign managers bring to China a level of technology, know-how, experience, and administration that Chinese managers usually do not yet possess. In fact, this is part of the justification for inviting foreign managers to China.

▶Virtually all foreign investors have noted that those Chinese joint venture managers being paid very high salaries in response to the equal pay for equal work principle do not actually receive or retain the overwhelming bulk of their salary but must hand it over to the venture's Chinese investor or to some other Chinese agency. Thus, the Chinese managers themselves derive only modest benefits from the high salaries, which in effect amount to a hidden subsidy or tax paid by the venture (and indirectly by the foreign investor in proportion to the ratio of its investment). Foreign investors' skepticism about the equal pay principle has increased as a result of this practice.

▶Finally, the lack of any legislative basis for the equal pay for equal work demand has added to foreign disenchantment, especially since that demand runs counter to the spirit of existing legislative provisions. Being asked to comply with a rule or policy that they cannot be shown and that has not been promulgated according to the Constitution of the People's Republic of China and regularized through administrative processes offends Western investors' belief in the rule of law and appears to contradict the development of socialist legality in China since 1978.

In mid-1980 the new Provisions of the People's Republic of China for Labor Management in Chinese–Foreign Joint Ventures (the "Provisions"), stated that a joint venture's wage levels for staff and workers should be fixed in terms of the wage levels in State enterprises in the same line of business in that locality—not in terms of wage levels in the foreign investor's country. Article 8 of the Provisions authorizes fixing wages at 120 to 150 percent of real wages in China. Because of the greater productivity expectations for staff and workers selected for a joint venture, the principle embodied in Article 8 has been readily accepted by foreign investors. Yet this principle is inconsistent with the equal pay for equal work principle that requires Chinese managers to be paid the same as foreign counterparts. Moreover, it should be noted, the Provisions do not authorize the principle of equal pay for equal work, even though they were promulgated at the same time that Chinese representatives began to assert this principle.

Foreign investors believe that the spirit of Article 8 requires that pay standards for high-level Chinese managers, like those for Chinese workers and staff, should be consistent with conditions in China. The Provisions deal with the terms of employment, including remuneration, for foreign staff and workers separately in Article 1, implicitly confirming that the standards for paying foreign and Chinese personnel are not the same.

Pre-1983 compromises in practice

During the first four years following promulgation of the 1979 Joint Venture Law, foreign and Chinese investors sought through a variety of compromises to reconcile the need of the venture for economical operation with the imposition of the equal pay principle. In many cases the two sides agreed to reduce the number of high-level managers to whom the principle would apply, thereby reducing the cost to the venture. Sometimes, the foreign investor simply assigned fewer managerial personnel to the venture in order to minimize the cost of applying the principle. But this alternative correspondingly defeats China's objective of fostering the transfer of technology and related skills. In other cases, certain foreign managers were designated "consultants" rather than "managers" of the venture, whose salaries need not be matched because they had no Chinese counterparts. Sometimes joint ventures pay only a portion of the foreign managers' actual salaries, with the remaining portion coming out of the pocket of the foreign investor. This option lowers the venture's expenses by reducing the amount required to match the foreign managers' salaries when paying Chinese counterparts. But the practice also unfairly requires the foreign investor to subsidize the venture.

In one case, the problem was avoided by paying the Chinese general manager of the venture a rather small salary, while the two deputy general managers of the venture—one a foreigner and one a Chinese—were paid much more than the general manager. In this way the Chinese deputy general manager's salary was

fixed to match his counterpart's, complying with the principle of equal pay for equal work in a precise, if somewhat paradoxical, way. In another contract, the parties to the venture agreed to reduce the salary differences between Chinese and foreign executives over time, but allowed substantial differences to exist at the outset.

In some instances the Chinese side has agreed to let its executives be paid at roughly two-thirds the salary level of the foreign executives in the venture. Other negotiations have sought to distinguish between "base pay" for all executives and a range of additional allowances and subsidies for the foreigner that would take into account his far greater financial obligations in his home country.

The American Motors contract for a joint venture to produce jeeps in Beijing applies the most imaginative solution yet reported. According to *The Wall Street Journal*, American Motors refused to accept imposition of the principle of equal pay for equal work until embodied in a published Chinese law or regulation. A compromise was worked out in which the parties agreed that, until the principle is promulgated in published form, the high-level Chinese managers of the venture would be paid at levels commensurate with Chinese conditions. However, each month an amount equal to the difference between what they were actually paid and what they would have been paid in accordance with the principle is deposited in a bank escrow account. The money will accumulate until publication of the principle, at which time it will be distributed to the Chinese side.

Photo courtesy of New China Pictures

The Tianshan Woolen Textile Company, Ltd., in Xinjiang, is jointly run by China, Hong Kong, and Japan. Here the deputy general manager of the company and the Japanese director discuss work.

Photo courtesy of American Motors Corp.

Chinese and foreign workers celebrate the first Jeep Cherokee produced at the Beijing Jeep Corporation plant, a joint venture between American Motors Corp. and Beijing Auto Works in 1985.

The 1983 joint venture regulations

At the time of the various compromises mentioned above, the long-awaited Joint Venture Law Implementing Regulations (the "Regulations") had not yet been promulgated. It was widely anticipated that, in light of the ongoing controversy, the Regulations would prescribe guidelines for handling the problem of equal pay for equal work. But when the Regulations appeared in September 1983, they made no mention of this principle.

When privately asked about this surprising omission, one senior official of the Ministry of Foreign Economic Relations and Trade (MOFERT) responded, "If we had mentioned the principle, we would have had to endorse it." It would appear that MOFERT, which took primary responsibility for drafting the Regulations and has the right to interpret them, does not believe that a strict application of the equal pay for equal work principle is desirable—at least at this early stage of Chinese–foreign cooperation.

The 1983 Regulations do not completely ignore the problem of remuneration for high-level managerial personnel, however. Article 94 provides that: "The wages and treatment of the joint venture's general manager, deputy general managers, chief engineer, deputy chief engineer, treasurer, deputy treasurer, and other high-level managerial personnel shall be determined by its board of directors."

In giving the board of directors the right to decide upon remuneration for managers, Article 94 does not prevent joint venture partners from

Sometimes joint ventures pay only a portion of the foreign manager's salaries, with the remaining portion coming out of the pocket of the foreign investor. This option lowers the venture's expenses by reducing the amount required to match the foreign managers' salaries when paying Chinese counterparts. But it also unfairly requires the foreign investor to subsidize the venture.

continuing to lay down guidelines for the board in their contract and articles of association—at least until clear legislative guidelines on the matter are promulgated.

In continuing to deal with the matter in their contracts, joint venture parties should take account of the principles regarding remuneration that the Regulations *do* endorse. Article 93 states: "A joint venture's wage and benefits system must accord with the principles of 'to each according to his work' and 'more to those who work more.' " These principles emphasize that remuneration should reflect the contribution of each individual rather than merely the particular job description or position that the individual fills. In meeting the spirit of Article 93, contract negotiators and board members appear to be free to set high-level management salaries in light of the differences in contributions made by different managers, foreign and Chinese.

Article 94 of the Regulations also identifies at least some "high-level managerial personnel," for purposes of considering remuneration. It implies that the chief engineer, deputy chief engineer, treasurer, and deputy treasurer, as well as the general manager and deputy general managers, all qualify for that label. The auditor of the venture (if there is one), is not referred to in Article 94 but probably should be regarded as among "the other high-level managerial personnel" to whom Article 94 refers.

Experience since 1983

Since the equal pay for equal work problem is not resolved in the 1983 Regulations, contract negotiators and boards of directors continue to cope with the problem as best they can. In some contract negotiations the Chinese side has eventually withdrawn its demand for equal pay after the absence of any legislative support for the demand has been pointed out to them. Yet the demand is frequently heard again following approval of the contract, when the board of directors meets to set up the joint venture operation.

Compromises similar to those signed prior to the 1983 Regulations continue to be reached. For example, despite Article 94's implication that there should be at least six high-level managers, the Volkswagen joint venture parties agreed to have only four managers, but made them subject to the equal pay principle. Some other negotiations have reportedly settled on paying Chinese managers 70 percent of the salary allocated to foreign managers of the same rank.

The problem continues to delay negotiations and create misunderstanding between Chinese and foreign investors. Foreign investors often interpret the equal pay principle as merely a device for imposing an undue financial burden upon the new joint venture company and, indirectly, on the foreign investor—to the benefit of the Chinese investor or other Chinese entities. Plainly some authoritative, reasonable guidance to resolve the issue in a fair manner is necessary.

A proposed solution

Many possible solutions could be suggested. For example, the relevant Chinese authorities could promulgate a rule clearly identifying those Chinese officers of a joint venture who are deemed high-level managers for purposes of the equal pay rule and go on to prescribe that their salaries be based upon a fixed percentage of their foreign counterparts' base pay (not including the foreigners' special benefits). A less mechanical rule, which leaves it to the parties involved to identify the relevant Chinese and foreign managers and to develop a remuneration scheme, would better reflect the actual situation in most cases—that, as the venture progresses, the value of Chinese managers' contributions will grow and therefore their remuneration should increase accordingly. A Chinese manager who at the outset of the venture ought to be paid only modestly more than his counterparts in a Chinese state enterprise (in line with the general increase authorized for Chinese workers switching to joint ventures), could conceivably be making a contribution equivalent to that of his foreign counterpart after several years of training and experience with the venture. If so, he might well receive incremental salary increases throughout this period, provided that he is allowed to personally retain the salary.

Clearly, a supplement to the Joint Venture Law Implementing Regulations is badly needed and should address the issue of remuneration for high-level management in Chinese–foreign joint ventures. Based on the foregoing analysis, we propose the following wording for such a supplement in the hope that it will serve as a basis for discussion and stimulate further research into and consideration of China's joint venture laws.

"High-level Chinese managers in Chinese–foreign joint ventures should receive an initial base wage that is 150 to 180 percent higher than Chinese managers in State-owned enterprises or government departments in the same line of business and locality. As the managers gain experience, they should be granted annual wage increases that reflect their increased responsibilities and contributions to the joint venture. The size of the increases shall be determined by the board of directors. The managers shall not be paid an amount in excess of what they are personally able to retain." 完

The Foreign Exchange Situation

China will have to cut imports, borrow more abroad, or both

John Stuermer

China's foreign exchange picture has changed dramatically since mid-1984, when one of the most distinctive features of the economy was its large and growing reserves of foreign exchange. The merchandise trade balance and current account both enjoyed healthy surpluses. While bankers feared over-borrowed Latin American countries might upset the international financial system, China was repaying its loans ahead of time, prompting complaints that it did not borrow more from foreign banks. Western analyses of this period generally saw little let-up in China's accumulation of foreign exchange. One such analysis by the present author (*see The CBR*, Jan–Feb 1984, page 34) predicted continued growth in the foreign reserves until at least 1986.

But by the middle of last year, this foreign exchange hoard had become the foreign exchange drain. Some Chinese spokesmen referred to it as the foreign exchange crisis. Official reserves had tumbled from their 1984 third quarter peak of $16.7 billion to $10.9 billion at the end of June 1985, a precipitous drop even for as creditworthy a borrower as China. The PRC had indeed begun to spend some of its cash on imports. Worried exporters wrestled with this foreign exchange squeeze and the series of government measures aimed at stemming the growth of imports.

The reasons for this striking turn of events are not mysterious. China's foreign exchange mountain was largely built up during the 1979–1982 "readjustment" program, which sharply reduced industrial growth and slashed imports. Relaxing this readjustment policy in 1983 led to renewed economic growth and imports. Foreign trade reforms implemented in late 1984 contributed to the import surge by effectively placing more foreign exchange at the disposal of localities. Meanwhile, exports stagnated last year because of sluggish demand in buyer nations and the fact that Chinese domestic prices for many goods exceeded falling world prices. The Chinese chose to finance their resulting trade deficit by drawing down foreign exchange reserves.

Leap in manufactured imports

The rapid growth of imports during the last year can be analyzed with two sets of data: customs clearance statistics, which record the physical movement of goods across China's borders, or balance of payments data that record financial flows, and which the People's Bank of China publicly released for the first time in 1985.

The customs data illustrate the emergence of a trade deficit reaching almost $2 billion in the last quarter of 1984 (*see* graph). The trade balance had previously been in deficit for a few quarters in 1983 and in the third quarter of 1984, but these deficits were quite small, amounting to only several hundred million dollars, and were interspersed with much larger trade surpluses. However, import growth—compared to the equivalent period in the preceding year—accelerated by 35 percent in the last quarter of 1984, 57 percent in the first quarter of 1985, and 75 percent in the second quarter, before declining slightly to 62 percent in the third quarter.

The second source of China's external account information—balance of payments data released by China for the first time in August 1985—confirms the rapid growth of imports during 1984. Although the numbers for exports, imports, and the trade balance in the two data sets are different (the customs data reveal a trade surplus of $1.8 billion in 1984, while the balance of payments data show a roughly balanced trade account) both illustrate a deterioration in the trade account during 1984. Differences in these numbers are to be expected, since the balance of payments data are adjusted for re-exports. Furthermore, the balance of payments calculates imports on an FOB basis, while the Chinese customs data are calculated on a CIF basis and are thought to include payment of engineering and other sales-related services that by convention should be placed in the services account.

None of China's sudden surge in imports stemmed from commodities and raw materials; during all of 1984 and 1985 imports of primary products remained below their average quarterly levels of $1.4 billion in 1983. The stagnation of raw material imports reflects the success of China's agricultural reform, which has made the country either self-sufficient in, or a net exporter of, many commodities it used to import.

Instead the increase in imports came entirely from manufactured goods. This reflects the extremely rapid growth of the whole economy, and especially the industrial sector, since the last quarter of 1984. During much of 1985 industrial production grew in excess of 20 percent over the equivalent period in 1984, and GNP probably grew at a rate in the low

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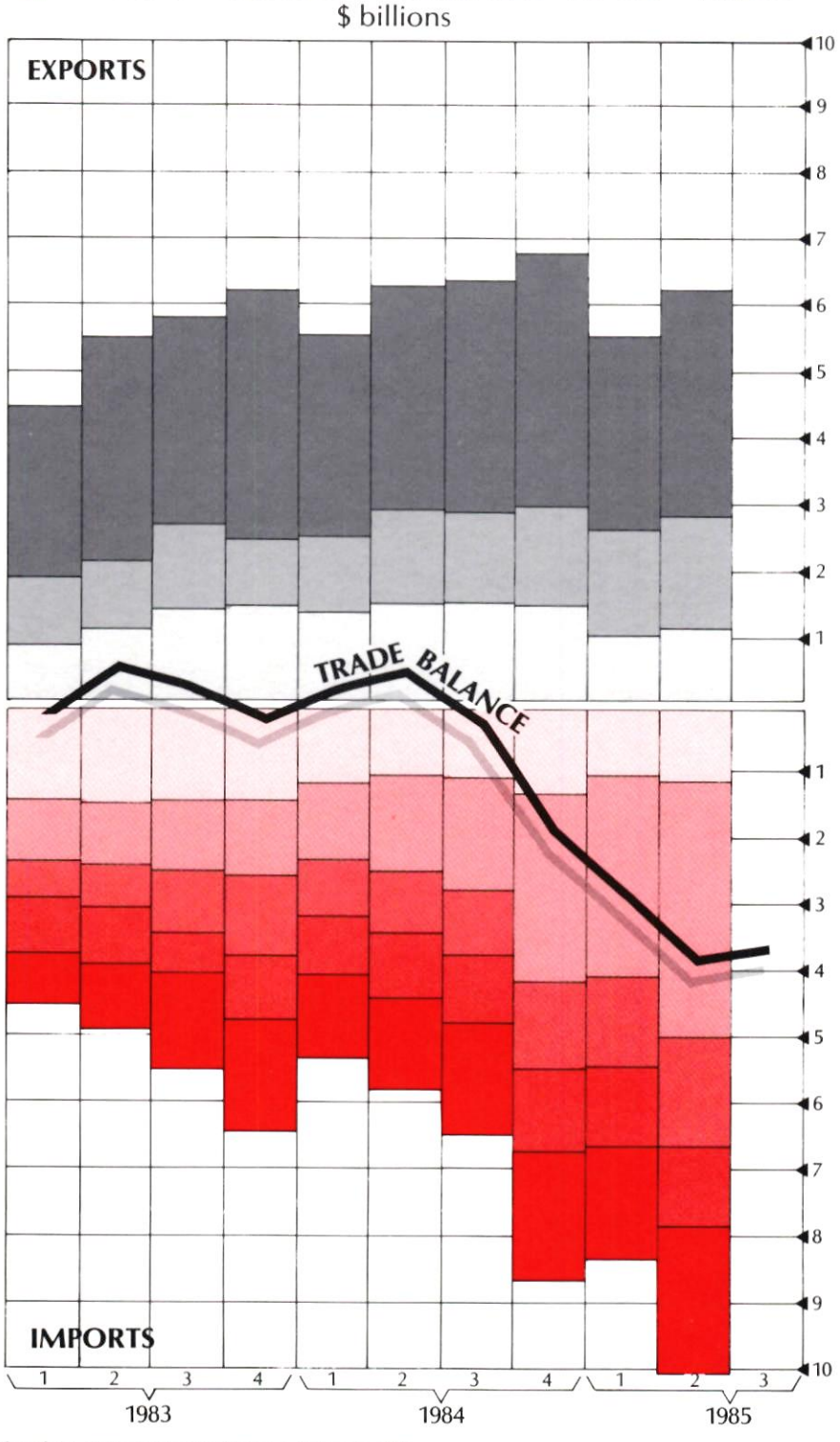
teens. Consequently, the resulting leap in industrial sector demand for imports caused manufactured products' share of total imports to rise from 76 percent in the first quarter of 1984 to 88 percent in the second quarter of 1985, while primary products' share fell from 24 percent to 12 percent.

Machinery and transport equipment are the manufactured products most responsible for the rapid increase in imports over the last year. All manufactured imports during the first half of 1985 were up 85 percent over the same period in 1984, but machinery and transport equipment alone rose 177 percent. Growth of other manufactured imports was also substantial: iron and steel imports rose 65 percent, chemicals and related products increased 21 percent, and all other manufactured imports grew 58 percent.

Japan was the principal source of these imports, supplying 36 percent of China's total imports during the first half of 1985, followed by western Europe, the United States, and Hong Kong. Japan dominates the Chinese import market for machinery and transport equipment, and iron and steel, supplying 55 percent and 56 percent of these markets respectively. The United States is the principal foreign supplier of chemicals and related products to China, accounting for 27 percent of total chemical imports. Other important suppliers of manufactured imports from abroad include Romania, which accounts for 8 percent of chemical imports, and Brazil, which has a 7 percent share of the imported steel market.

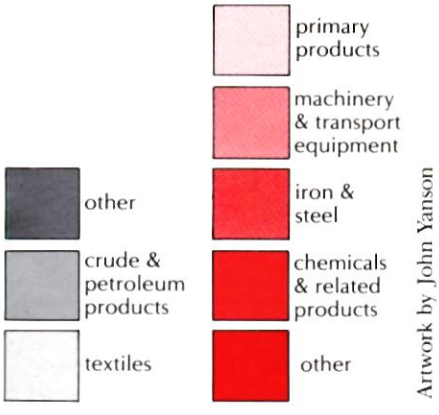
China's Trade Balance 1983–1985



The export challenge

On the other side of China's trade balance, only the country's petroleum exports have continued to grow. The dollar value of crude and petroleum product exports was 27 percent higher in the first half of 1985 than in the first half of 1984. This reflects a 12 percent increase in exports to Japan, which absorbs half of China's petroleum exports, and a 270 percent increase in exports to Singapore, whose share of China's petroleum exports rose from 8 percent to 24 percent between the first halves of 1984 and 1985. Singapore has found in China a new source of crude for its underutilized refineries. The share of Chinese petroleum exports sold to America declined over these periods, from 12 percent to 9 percent.

Since the prices of both crude and product exports fell over the last year and a half, China has had to increase the volume of petroleum exports by almost 30 percent over the last year



Artwork by John Yanson

SOURCE: *China's Customs Statistics*

to achieve the increase in revenues. The country exported 16.8 million tonnes (approximately 123 million barrels) in the first half of 1985, slightly more than a quarter of its total crude oil production. The rapid increase in petrolem export volume was made possible by a 9–10 percent increase in onshore production last year and aggressive conservation measures in the domestic economy. The country's domestic energy shortage will probably make it difficult to sustain such export growth rates in the future. More modest increases will still be feasible, however, thanks to rising optimism over possibilities for boosting onshore production (*see* page 6) and the government's firm commitment to maintain the revenues China receives from its petroleum exports.

In the longer term, China's export potential is based on the sheer size of its economy and the probability that it can diversify beyond textiles and petroleum, which now account for half of total exports. At the two-digit level of the SITC code trade classification system (which divides commodities into 100 categories), only four categories of exports other than textiles and petroleum account for more than 2 percent of total exports. China's shortcoming at present is the lack of technology, infrastructure, and marketing capability to develop these diverse areas in both industry and agriculture. As China remedies these shortcomings, its export sector should grow dramatically and over time could come to resemble the diversified export sectors of European countries, rather than the highly concentrated export sectors of Japan and the newly industrializing countries of Asia.

Restricting imports—without readjustment

The trade trend established in late 1984 and 1985 is not sustainable. But the Chinese government hopes to stem the acceleration of imports and rebuild foreign reserves without instituting another dramatic readjustment program like the one that took place between 1979 and 1982. This readjustment reduced industrial growth to a low point of 4.1 percent in 1981 and reduced imports (on a customs clearance basis) to $18.9 billion in 1982. Another round of readjustment would seriously limit the availability of foreign equipment and technology necessary to carry out the ambitious program of modernization and economic reform being pursued by China's political leadership at present.

Instead, the Chinese government has implemented a now well-publicized series of import and foreign exchange restrictions over the past year. These include imposition of high import duties and taxes, holding up foreign exchange payments, delaying expensive projects, curbing spending authority granted to local authorities, and steady depreciation of the yuan. Between the end of 1984 and mid-December 1985, Chinese authorities let the yuan depreciate 19.7 percent against the US dollar.

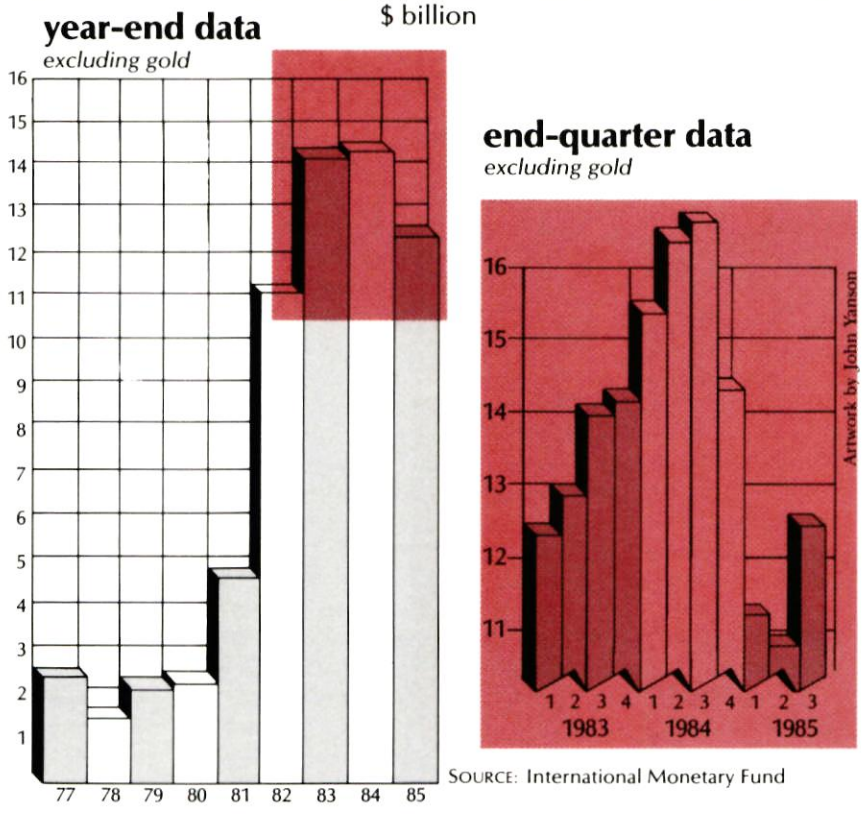
How well are these measures working? China's December 1985 announcement that its official foreign exchange reserves rose from $10.9 billion at the end of June 1985 to $12.6 billion at the end of September seems to suggest movement in the desired direction. But closer inspection is required.

This announcement suggests a sudden reversal of the large trade deficits—averaging around $1 billion a month—that the country has recorded over the last year. In fact, no such reversal has occurred. Chinese customs data between June and September show that the trade deficit declined only slightly. Some improvement may have occurred in the invisibles account, such as a sudden surge in tourist receipts or overseas remittances, and disbursements from foreign lenders may have accelerated. But most of the apparent improvement in the foreign exchange reserves is probably due to a simple redefinition, still not publicly announced, of the types of foreign assets included in official foreign reserves.

Defining reserves to reflect reality

For some time China has understated its official foreign exchange reserves. Evidence comes from the country's own balance of payments, as seen in the capital account lines of China's recently released balance of payments data (*see* page 17). These numbers show substantial reserve increases between 1982 and 1984 consistent with changes reported in China's total official reserves. In addition to yearly additions to reserves of $-6.3, $-3.7, and $-0.1 billion for 1982, 1983, and 1984 (according to balance of payments

Official Foreign Exchange Reserves



SOURCE: International Monetary Fund

accounting rules, a positive sign for a change in reserves indicates a draw down or *usage* while a negative sign indicates the *accumulation* of reserves), the "capital account" and "errors and omissions" entries were also negative in 1983 and 1984. The large size of the negative numbers in the latter two accounts suggests the purchase of foreign assets not included in China's official data for foreign exchange reserves.

Further evidence for an understatement of reserves comes from the Bank for International Settlements (BIS), whose data on Chinese deposits in BIS member banks have been consistently higher than China's official reserve numbers. This discrepancy helps explain how China was able to finance an estimated current account deficit of some $5.7 billion in the first half of 1985, at the same time that official reserves declined by only $3.5 billion and foreign bank lending (as reported by the BIS) rose only a net $700 million. The difference was provided by drawing down the unofficial reserves. BIS data show China's total deposits in foreign banks declining $5 billion, from $17 billion at the end of 1984 to $12 billion last June.

With the decline in foreign exchange reserves last year, the government may be trying to allay concerns about China's creditworthiness by redefining reserves closer to reality, and including formerly unreported reserves in the new total. While that is a positive development, it remains true that foreign exchange reserves are still falling, not rising as the official view (*see* chart on page 16) would suggest. Indeed, liquidation of some of China's foreign assets and increased foreign borrowing moved the country last year from its enviable position among developing countries as a net lender to the world economy to that of a net borrower.

A soft landing in 1986?

China's current economic situation is far from alarming. At the end of 1985, foreign reserves were still sufficient to provide about four months of import coverage. Furthermore, China's gold reserves of 12.7 million ounces—worth $4.1 billion at current market prices—are still intact. Its foreign debt increased by about $2 billion last year to an estimated $12.4 billion, but this is still a rather light debt burden for a country with $30 billion in annual exports of goods and services.

Nonetheless, reserves have been drawn down to a level that requires Chinese authorities either to dramatically trim imports in 1986 from their 1985 level (since exports are unlikely to improve enough to balance the current account), or to depart from past practice and become significant borrowers of foreign funds. Ideally, the Chinese would do a bit of both, and the country's balance of payments would come to a soft landing this year. The 1986 forecasts in the balance of payments table show how this might work.

Under this scenario, which the Chinese are likely to follow, the 1985 current account deficit of $9 billion is cut in half, with almost 90 percent of the improvement coming from reduced imports. Export earnings will remain steady, with an increase in the volume of oil exports assumed to offset any decline in price—a distinct possibility given OPEC's recent decision to adopt a more flexible pricing policy and retrieve market share lost to non-OPEC producers such as China. The PRC continues to withdraw its assets in foreign banks and to borrow more from them. Thus the forecast assumes total foreign debt increases by another $3 billion to $15.4 billion, remaining at a reasonable level. China's foreign reserves drop another $1.5 billion, much less than last year, to a level still providing more than three months of import coverage. If all goes according to such a scenario the domestic Chinese economy should be able to maintain a vigorous pace of growth, though perhaps not the double-digit levels of the recent past. 完

CHINA'S BALANCE OF PAYMENTS

($ Billions)

	1982	1983	1984	(est) 1985	(forecast) 1986
Exports (FOB)	21.1	20.7	23.9	25.3	26.0
Imports (FOB)	−16.9	−18.7	−23.9	−35.9	−32.0
Trade balance	4.2	2.0	0.0	−10.6	−6.0
Invisibles, net	1.5	2.2	2.0	1.6	1.5
Current account	5.7	4.2	2.0	−9.0	−4.5
Capital account, net	0.3	−0.2	−1.0	2.0	3.0
Long-term	0.4	0.1	0.1	NA	NA
Short-term	−0.1	−0.3	−0.9	NA	NA
Errors and omissions	0.3	−0.4	−0.9	0.0	0.0
Change in reserves[1]	−6.3	−3.7	−0.1	7.0	1.5
Memo Items					
Assets					
Total Official Reserves[3] of which:	11.3	15.0	15.1	12.3[2]	10.8[2]
Foreign Exchange	11.1	14.5	14.4	11.6[2]	10.1[2]
SDRS	0.2	0.3	0.4	NA	NA
Position in the fund	0.0	0.2	0.3	NA	NA
Deposits in BIS Banks	NA	16.0	17.0	10.0	8.5
Gold (at market prices)	4.8	5.4	4.6	4.1	4.1
Liabilities					
Total foreign debt of which:	NA	NA	10.3	12.4	15.4
Debt to BIS Banks	1.2	3.0	4.3	5.3	6.3
Non-bank trade-related credits	2.5	4.3	5.0	5.8	6.8
World Bank and other	NA	NA	1.0	1.3	2.3

[1] Negative sign indicates addition to reserves equivalent to a capital inflow; positive number indicates a drawdown of reserves or usage of reserves equivalent to a capital outflow.
[2] Based on revision of official foreign exchange reserves data in September 1985.
[3] Total official reserves include special drawing rights (SDRs) with the International Monetary Fund and position with the Fund in addition to official foreign exchange reserves proper. The Chinese government typically cites official foreign exchange reserves rather than total official reserves—thus excluding SDRs and position with the Fund—when discussing its foreign exchange trends. However, changes in total official reserves—rather than changes in foreign exchange—are consistent with the change in reserve line in the balance of payments.
SOURCES: BOC, IMF, BIS/OECD projections made by the author.

Foreign investors find China creditworthy

Borrowing on World Bond Markets

Elizabeth Morrison

In the next five years China will need an estimated $20 billion to $30 billion in foreign capital, and experts agree that foreign and international bonds are likely to be an increasingly important source of these funds. While the amount of money raised so far through foreign and international bond issues is not huge in absolute terms, it is growing rapidly. Bonds were first issued in 1982, but it wasn't until November 1984 that their use began in earnest. Since then more than 90 percent of the $930 million China has raised through bonds has been issued.

Investment bankers agree that China has followed a wise strategy for entering world bond markets. Chinese borrowers first made small private issues in Japan. Reception was favorable, so public issues of foreign bonds began, also in Japan. Why was Japan China's logical first market? The oft-cited reason of proximity is only part of the answer. Japan is also China's major supplier of imports. In the first three quarters of 1985, China spent almost $10.7 billion on Japanese goods and suffered a bilateral trade deficit of $6.3 billion in that period. China was also attracted by capital-rich Japan's high savings rate and relatively low interest rates. And given China's inexperience in international financial dealings, the country's financiers prudently decided to enter the market step by step, focusing their first bond issues on just one country.

The next step, then, was Europe and international bonds. Both Bank of China and China International Trust and Investment Corporation (CITIC) placed Deutschemark bonds in 1985. The BOC also placed a Eurodollar bond in Japan last September, and CITIC had a similar placement in December. CITIC has also ventured into Hong Kong. The next logical steps for China would be the London and New York bond markets. Here, however, the so far very successful Chinese run up against some well publicized legal problems pertaining to prerevolutionary bonds now in default. On this, more later.

A creditworthy borrower

China's future foreign capital needs will be met from a variety of sources. The World Bank will likely supply $2 billion on concessional terms (and at least twice that in market rate loans) during the next five years, and Japan, the major supplier of bilateral loans, will probably provide $7 billion, some at soft rates. China is also encouraging direct investment, and this source of capital is growing rapidly. By the end of last June, $4.8 billion in direct investment had been utilized, according to the Ministry of Foreign Economic Relations and Trade, much of it since 1983. But direct investment will only be forthcoming for projects that profit foreign investors, and many of the critical projects in energy and transportation will not be able to tap this source of funds. Commercial borrowing, then, will supply the country's remaining needs.

The extent to which China hopes to utilize world bond markets depends on a number of factors. China has a long list of development projects and the speed with which they are implemented will in part determine how much money China needs to borrow commercially. Of course, the price of commercial funds relative to the economic return of the projects under consideration will also have a major impact on the decision process.

China is not unique in this regard. The capital gap common in developing countries is often financed by a combination of direct investment and soft and commercial loans. But unlike many developing countries, and especially those with such a low per capita income, China is sufficiently creditworthy to borrow on the fixed rate bond market at lower interest rates. China is therefore not limited to the usually more expensive floating rate syndicated loans for its commercial borrowing, but can shop around to find the instrument best suited to its needs at a particular time.

China has indeed received enviable interest rates for its bond issues to date. In Japan the BOC issues have received the highest AAA rating, and both BOC and CITIC have enjoyed rates comparable with well-established sovereign borrowers. The *Japan Economic Journal* reports that the BOC's October 1985 yen and dollar bonds enjoyed "the lowest interest rates ever offered on 10-year bonds."

China's favorable reputation was established early on. The purchasers of CITIC's private issue in 1982 read like a who's who in Japanese finance. For the Bank of China's first public issue in late 1984, the long list of underwriters made the negligible J¥20 billion issue look like a decimal place error. Because of the possibility that China will become an important issuer, no one wants to be left out, and the competition for China's bond business has been intense.

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Playing too hard to get?

With the biggest and best investment banks worldwide lining up, China faces a borrower's market for now. The Chinese media have publicized this fact, and reminded people that the open door policy does not mean foreign capitalists can take advantage of China. The press, however, tends to compare the favorable rates China gets with those of bonds issued on different days or with different maturities—comparing financial apples with oranges. More important, China's low interest rates may not be sustainable in the long term. A number of bankers and analysts call this a courting period when low rates are achievable due to such factors as novelty and scarcity value, which attract investors, and attractive pricing by managers who hope to obtain future business.

But investors and bankers can also lose interest. When CITIC issued Hong Kong dollar-denominated bonds last August, the coupon rate was so low that, at par, many prominent banks opted not to join the underwriting syndicate. Enough other banks did that the issue went fairly smoothly, but many of the participating banks have kept the bonds in their own or their parent's portfolio due to the low resale price. The bonds' limited liquidity is exacerbated by Hong Kong's underdeveloped secondary market, where certificates of deposit with maturities of less than three years are the primary instrument. Some banks openly acknowledge that they bought the bonds as an investment in future business with China, rather than for their intrinsic value. While the Hong Kong case is the most blatant indication of pricing problems, bankers complain that other issues have also been priced too low. One bank's marketing department advised against participation in a BOC Eurobond placement, but the bank went ahead in an effort to cultivate the BOC as a potential client.

Like any borrower, the Chinese are practicing the art of juggling to set a rate as low as possible and still be attractive to investors now and in the future. But a reputation for being aggressive on price could pose a problem for future borrowing. China wants the reputation of a Norway or Sweden, which can come to market anytime in large amounts and get good rates, but it takes time to build that kind of reputation. As one investment banker notes, "A new borrower should not be too concerned about every basis point (1/100 of a percent). The important thing is to establish your name as a good borrower. To do that, your bonds need to leave a good aftertaste with the investor. They should make people want to buy them because they're a good investment and sell well on the secondary market."

Economists generally dismiss such views as self-serving. "You expect banks to complain of low interest rates," notes one economist. "They try to win the business and then complain the rates are too low because that's where they make their money. The Chinese should take advantage of as low an interest rate as they can get." The fact that investment houses admit that no one has lost money on China's new bonds suggests he has a point.

US bankers also complain that Japanese investment houses have certain advantages over them. Nomura Securities, for example, has sponsored several construction projects in China to help develop good relations. Japanese houses also tend to initially offer lower rates to win customers, while US houses price each issue according to the market, regardless of the future. Yet while the Japan issues were aggressively priced, several were sold below par with yields not out of line for a creditworthy borrower. In fact, it was the Hong Kong issue, led by Chase Manhattan, that had the most questionable pricing. Moreover, US investment banks price with an eye both to building the issuer's reputation and to keeping the client happy. The strategy for accomplishing both at once varies and therefore so do opinions on the pricing of any given issue.

While China enjoys its status as a creditworthy borrower, many experts do not believe the country will borrow on the bond market in large quantities. As one investment banker observes, "China is cautious. It is more likely that bonds will be one option for foreign funds, used occasionally." China's well known financial conservatism, though it has helped its credit rating, has thus also dampened expectations of large-scale borrowing to meet the country's considerable development needs.

Nonetheless, China retains the option to borrow big should planners want to speed growth. If China came to market with a series of large issues, however, they would probably have to pay somewhat higher rates. At present there are very few Chinese bonds on the market so investor demand is high. At some point, investors will feel that they have enough Chinese bonds in their portfolios, and will need to be induced with higher yields. China is far from that point, however.

Skeletons in the closet

Another question mark is where China will go for funds. So far it has mainly utilized the Japan market, accounting for an estimated 10 percent of the Samurai bonds issued in the last year. But interest rates have been rising in Japan, so price-conscious China may want to go elsewhere for funds. China will undoubtedly further pursue European markets and will increase its borrowing of currencies other than yen. Some experts feel China may begin to issue more bonds in the Hong Kong market, partly to show support for the territory.

Like any major borrower, though, China will ultimately want access to the premier financial capitals of London and New York. This raises the whole question of China's defaulted railroad bonds. These were issued by China between 1895 and 1937, mostly to finance railroad construction. After the People's Republic was founded in 1949, the government refused to honor the bonds, which it

Bank of China

Japanese Yen Bonds – Second Series (1985)

20,000,000,000 Japanese Yen

7.1% Bonds Due 1995

The Nomura Securities Co., Ltd.

Yamaichi Securities Company, Limited The Nikko Securities Co., Ltd. Daiwa Securities Co. Ltd.

The Nippon Kangyo Kakumaru Securities Co., Ltd.

Courtesy of Nomura Securities

Underwriters in Bank of China's second bond issue in Japan

the former governments to issue. Owners of the bonds, especially those in the United States and Britain, argue that the present government is responsible for repayment.

In Britain, government policy denies access to the sterling bond market by any government that has defaulted on bonded debt. Since bond issuers need prior consent from the Bank of England (BOE), China will be barred from such issues. Although there is no legal prohibition against a Chinese Eurodollar issue in London, the BOE can still bring pressure on the market not to be accommodating to the Chinese. According to an American financier familiar with the London market, serious discussions have recently transpired there concerning a potential Chinese Eurodollar placement. But the BOE has responded by stepping up pressure on banks and investment houses not to participate in such a Chinese issue. The BOE is reportedly extending this pressure to non-British institutions operating in the London market and even frowning upon participation by both British and non-British houses in Chinese bond issues in non-British markets.

This is not to say China can't raise funds in London. Last September the Bank of China successfully issued $200 million in five-year CDs at LIBOR (London Inter-Bank Offered Rate). This issue did not require prior consent of the Bank of England because CDs are considered a banking instrument and not, like bonds, a capital instrument, and because the issue was denominated in a non-British currency. If China can raise medium-term money in sufficient quantity at attractive interest rates by using other instruments, it may find bond issues in London unnecessary. After all, the CD issue was larger than any single bond issue, and its maturity is as long as the bonds issued in Hong Kong. China may also have been testing the waters with an untarnished instrument and may soon feel confident enough to issue dollar-denominated bonds in London if longer maturity is needed.

In the United States, court cases pertaining to China's defaulted railroad bonds may determine when China will come to the US market. In 1981 a default judgment for more than $43 million was obtained against China in a case brought for payment on the Huguang railway bonds. These bonds were issued in 1911 (a bad year to invest in China) and have been in default at least since 1937. But in 1983 the federal district court that entered this judgment annulled its earlier decision and in 1984 dismissed the case in China's favor. Bond holders have appealed the dismissal, and according to Thomas Peele of Baker & McKenzie, the law firm representing China in the case, a decision on the appeal is likely early this year.

Since 1952 the United States has followed the restrictive principle of sovereign immunity (codified in 1976), whereby commercial activity (such as issuing bonds) cannot enjoy sovereign immunity even if conducted by a sovereign state or its agencies. China's position is that it is absolutely immune. In any case, the US federal district court decided in 1984 that the restrictive principle is not retroactive and therefore does not apply to the Huguang bonds or, presumably, to other Chinese bonds issued before 1952.

A decision of this appeal affirming the court's dismissal may or may not affect China's hopes to issue new bonds in America. If the plantiffs lose, they can appeal to the Supreme Court. It is unlikely that the Supreme Court would hear them, effectively ending the case. But another two cases against old Chinese bonds are

CHINA'S FOREIGN AND EUROBOND ISSUES

Li Cheng
China Features

The table below illustrates China's expanding use of bond sales on foreign markets to raise funds needed for the country's modernization program. Since that program began in 1979, China has needed considerable foreign exchange to finance large-scale development projects and to import advanced equipment and technology and other goods. By the end of June 1985, China had used foreign capital totaling $18.8 billion, according to the Ministry of Foreign Economic Relations and Trade.

Since 1982 China has issued bonds abroad through the Bank of China, CITIC, and the Fujian Investment and Enterprise Corporation. These overseas bonds have totaled ¥125 billion, DM300 million, HK$300 million, and $250 million, according to the State Administration of Exchange Control. Director of the SAEC Tang Gengyao says China is a developing country that needs huge amounts of foreign exchange to finance its imports. "The use of foreign capital is part of China's long-range policy," he stresses.

"The Bank of China is the main channel to raise foreign capital abroad. To serve the needs of opening to the outside world, some subsidiary channels are necessary. CITIC and local trust and investment corporations may, upon approval, also issue bonds or make commercial loans abroad," he says.

Date	Amount	Borrower	Market	Lead Underwriter	Description
1/82	J¥10 bil.	CITIC	Japan	NA	Private issue; 12 yrs., coupon, 8.7%
8/83	J¥5 bil.	FIEC	Japan	Nomura Securities Sanyo Securities Tokyo Bank	Private, 10 yrs., coupon 8.5%
11/84	J¥20 bil.	BOC	Japan	Nomura Securities	Public, 10 yrs., coupon 7%, price 99.65
1/85	J¥30 bil.	CITIC	Japan	Daiwa Securities	Public, 10 yrs., coupon 6.6%, price 99.55
4/85	J¥20 bil.	BOC	Japan	Nomura Securities	Public, 10 yrs., coupon 7.1%, at par
6/85	DM150 mil.	BOC	West Germany	Deutsche Bank	Public, 7 yrs., coupon 7%, at par
8/85	HK$300 mil.	CITIC	Hong Kong	Chase	Private, 5 yrs., coupon 9.375%, at par
9/85	$150 mil.	BOC	Japan	Nomura Securities	Public, 10 yrs., coupon 10%, at par
9/85	J¥30 bil.	BOC	Japan	Nomura Securities	Public, 10 yrs., coupon 6.1%, price 99.85
9/85	DM150 mil.	CITIC	West Germany	Deutsche Bank	Public, 6 yrs., coupon 6.625%, price 99.75
11/85	J¥10 bil.	FIEC	Japan	Nomura Securities	Public, 10 yrs., coupon 7.1%
12/85	$100 mil.	CITIC	Japan	Yamaichi Securities	Public, coupon 9.625%, price 100.75
1/86 Planned	J¥40 bil.	CITIC	Japan	NA	Public
1/86 Planned	J¥10 bil.	SITCO	Japan	NA	

SOURCES: China Features and National Council files

pending in New York. Should either court rule in favor of the plaintiffs, these bond holders might attempt to execute the judgment by seizing related assets such as new bonds issued by China. While most analysts believe that a seizure is highly unlikely, the possibility has to be considered.

It is conceivable but unlikely that China would issue bonds in the United States prior to a favorable settlement of the default cases. Chinese financial experts know that it is important that the first bond issue in America be successful—even more important than that it carry a low interest rate. Indeed, Wang Lili of the Bank of China's Foreign Exchange Department says the BOC will not issue bonds in the United States in the near future because of the old debt problem.

The sometimes more aggressive CITIC is marginally more likely to test the US bond market before the default cases are resolved. Dou Jianzhong, assistant general manager of CITIC's banking department, says CITIC is considering the US market but is unsure of the feasibility of a public offering. Even without the defaulted bond question, a Chinese borrower would probably begin with a private issue to test the waters. Should either borrower issue bonds in America, they would probably be well received. Speculation that the BOC or CITIC would receive a AAA rating is widespread. Not only is China creditworthy in financial terms, but default this time around is unlikely. The present bonds are not being issued under coercion by foreign powers, and any US issues now would be made with the understanding that sovereign immunity would not apply.

The Chinese must, of course, comply with the disclosure regulations applying to foreign borrowers. While these are stricter in the United States than elsewhere, most experts see this problem as negligible. A few years ago, when even a balance of payments statement was not freely available, China might have been reluctant to comply. But by now it has already disclosed much information in prospectuses for past issues, so should not find the procedures an insurmountable problem.

One advantage to issuing bonds in the United States is that longer maturities are common. Another would be the chance for China to spread out its debts and shop for the best interest rates. Interest rates and maturities are not the only consideration, however. A US issue offers prestige as well as the option of another major market. "They'll come eventually; everyone issuing dollar-denominated bonds does," commented one banker.

Limiting the players

Another intriguing question concerns what Chinese entities will be allowed to borrow on the bond market. The Bank of China and CITIC have been the main borrowers and are the premier financial institutions with the experience and reputations to win low interest rates. But a provincially owned company called the Fujian Investment and Enterprise Corporation (FIEC) made a J¥5 billion private issue in 1983—before the BOC even entered the game. Since then CITIC and BOC have been the dominant players. This may be changing, though. FIEC signed an agreement last November to issue its first public bond, and Shanghai Investment and Trust Company (SITCO) is scheduled to issue public bonds in Japan in early 1986. These local companies will probably have to be satisfied with AA ratings, rather than AAA ratings awarded to the BOC and CITIC.

Despite the fact that several provincial enterprises are testing the waters, it is unlikely that bond markets will see a plethora of new Chinese players in the near future. Beijing Investment and Trust Corporation has no concrete plans to issue bonds, and Guangdong International Trust and Investment Corporation claims it has not yet been given approval for bond issues. Moreover, all indicators point to increased central control over foreign currency borrowing and, indeed, all bond issues must be approved by the State Administration of Exchange Control under the People's Bank of China, the central bank. China cannot afford and is philosophically disinclined to let local areas run huge foreign debt obligations. Thus it is likely that in the short term BOC and CITIC will continue as the dominant players, with a few local entities playing lesser roles.

The long term may be different. As BOC and CITIC paper become sufficient in enough portfolios, investors might look favorably on new Chinese borrowers. While no one local "ITIC" will be an especially large borrower, collectively they could become significant. If the local "ITICs" issue project-specific bonds, such as FIEC's recent issue that was used to finance a factory, the reception would probably be favorable. But the provincial companies will not enjoy the same low interest rates as the big issuers. Thus for some projects, it may be cheaper for the BOC or CITIC to borrow the money and then lend to provincial projects.

Learning new instruments

The Chinese have a wide choice of instruments to raise capital on international markets. Bonds and CDs have both been successfully issued, and their prevalence in the market makes them easy to distribute. A range of maturities has also been tested. Ten-year bonds are the most common, but five-, six-, and seven-year bonds have also been used. The Chinese have so far kept exclusively to fixed interest rates on bonds, though the CD issue in London was a floating rate pegged to LIBOR. Most bankers predict that floating rates on bonds will eventually be used. In fact, the BOC is considering a floating note issue this year in Japan or Europe. But CITIC's Dou says his corporation's fixed costs mean a preference for fixed rates.

The BOC and CITIC may also begin to issue project-specific bonds. So far, all their bonds have been for general "modernization" or "economic development" with limited earmarking of funds for certain imports, provinces, or, in the case of the Hong Kong issue, investment in the colony. By making bonds specific to a high-return project, the BOC and CITIC could add variety to their issues.

Bankers who have been involved in China's foreign and international bond issues have been impressed by Bank of China and CITIC officials. They are holding their own in a sophisticated environment, where free-market forces are at their most subtle and complex. Like the most savvy Western borrowers, they watch interest rates, foreign exchange rates, macroeconomic policies, and other variables. But ultimately, unlike non-sovereign Western borrowers, which are private, what Chinese financial institutions do—where, when, and how much they borrow and which ones participate—will depend on decisions made by central planners. 元

Self-reliant donor becomes a recipient

The Impact of Foreign Aid

David Denny

For much of its history the People's Republic of China has been a net aid donor to other countries—often countries with substantially higher per capita incomes than China. In fact, the concept of self-reliance became so firmly ingrained that China used to brag of its refusal to accept international aid and technical assistance available to other countries. But China shed this attitude with the unveiling of a new economic agenda late in 1978, and has subsequently emerged as an active recipient of foreign aid. The decision to abandon self-reliant policies and accept foreign aid ranks among the most important symbolic shifts in China's economic program in the past decade.

Growth in the amount of foreign aid committed to China since 1978 has been impressive. Even more impressive are the wide range of foreign aid donors eager to make funds available to China, the number of economic sectors that are benefiting, and the broad geographic spread of Chinese recipients. The aid program has influenced China not only by making new equipment and technologies available but also by providing incentives and support for domestic reformers eager to introduce new ideas, techniques, and institutions to the country.

Foreign aid: the big picture

Multilateral organizations and donor countries began committing foreign aid funds to China in 1979. From a small start of $4.8 million that year, official development assistance committed to China and loans from the World Bank grew to a total of $1.2 billion in 1983. The rapid expansion of World Bank and UN programs suggests that when official figures for 1984 and 1985 are released, the annual flow of new foreign aid commitments to China will approach $1.5 billion.

The actual disbursement of funds has grown much more slowly because many of the large aid programs involve major construction projects with long lead times and the introduction of equipment staggered over a number of years. Nevertheless, as early as 1981, the net flow of actual foreign aid disbursements to China had reached nearly half a billion dollars and by 1983 exceeded $700 million. Although reliable figures for the last two years are still unavailable, disbursements have almost certainly continued to increase. Thus, during China's Sixth Five-Year Plan (1981–1985) the country probably made use of between $3 and $4 billion in foreign economic assistance.

New commitments of economic assistance will continue to be made during the Seventh Five-Year Plan (1986–1990) and may reach $2 billion per year by the late 1980s. Disbursement of economic assistance will grow even more rapidly, as major projects undertaken in recent years by the World Bank and Japan begin in earnest. By the end of the decade the pace of disbursements could catch up with commitments and reach $2 billion per year, accumulating to approximately $7 billion for the Seventh Five-Year Plan as a whole.

Multilateral aid: World Bank and UN are major players

The World Bank has extended a total of 30 loans and credits worth just over $3 billion to China since the lending program began in 1981. Of this, $767.3 million had been actually disbursed as of November 1985. The World Bank selects projects that promote economic and social progress in developing nations. Many are large infrastructure development projects. Projects approved for China in 1985 include coal mine development, railway modernization, and agricultural research. (*see The CBR* July–Aug 1985, page 48 for a list of projects approved in 1985).

The World Bank's funds come from two sources: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). IDA credits are granted to countries whose annual per capita GNP falls below $795; China qualifies under this criteria. Credits are granted only to governments, who then re-lend the funds to state or private organizations. IDA assistance is interest-free and usually repaid over 50 years, after a seven-year grace period.

Because China is not among the world's poorest countries and has significant foreign exchange reserves, it does not qualify to receive only IDA grants, but instead receives a combination of IDA and IBRD funds. IBRD loans are issued at interest rates based on the World Bank's cost of money, and technically are not considered foreign aid because the Bank's interest rate is close to market rates. However, the length of repayment and the fact that the World Bank usually provides generous technical assistance as part of the loan package give the IBRD loans important characteristics of foreign aid.

Even more important, the Bank's IBRD loans are closely linked to the provision of interest-free IDA grants. Thus IDA and IBRD funds have been blended to produce low-interest loan packages in cases such as the University Development Project, and loans for land reclamation and agricultural research and education. Another example is the World Bank's loan to support the China Investment Bank (CIB), which blended $30 million of interest-free IDA funds with $40.6 million of IBRD funds at 11.4 percent interest. The Chinese government then lent out the funds to CIB at 6.9 percent. CIB in turn makes funds available to Chinese enterprises at interest rates that must be no lower than 8 percent.

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When China joined the World Bank in 1980, it was initially expected that a 50–50 blend of IBRD loans and IDA grants would be appropriate and acceptable. Under those conditions, Chinese and World Bank officials talked publicly in terms of an eventual World Bank lending program to China approximating $2 billion per year in the latter part of the 1980s. This target proved to be too optimistic, primarily due to an overall cutback in IDA funds. In 1985 World Bank lending commitments to China amounted to $1.1 billion, with IBRD loans accounting for approximately $660 million of this, and IDA grants the rest.

United Nations agencies led by the United Nations Development Program (UNDP) have been China's second major source of multilateral funds. Between 1979 and 1984, China used nearly $75 million of UNDP aid to support approximately 150 projects. The largest UNDP program, in cooperation with the Italian government, promotes the use of geothermal energy. Other UNDP projects promote aeronautical training, waste recycling, agricultural applications for remote sensing, thermal power plant simulation training, and oil exploration.

The World Food Program (WFP) has offered China $400 million since 1979, and it is supplying nearly $100 million in dairy products between 1984 and 1988. Sales of these products will support development of dairy herds and a milk processing industry in 20 metropolitan areas. Recently, the WFP agreed to provide $72.6 million in funding for six projects from improving tea oil production in Hunan to rural road construction in Shanxi. The Food and Agricultural Program (FAO) has supplied a total of $5 million, some of which is being used for technical aid to 14 projects throughout the country.

UN aid also encompasses social welfare programs in China. The UN Fund for Population Activities (UNFPA) supports a contraceptive plant in Shanghai, and the World Health Organization has established a medical center in Inner Mongolia and plans to build three more in Shanghai, Guangdong, and Shandong. UNICEF has contributed by sponsoring children's first aid and development centers around the country.

Bilateral aid: mixing altruism and good business

Bilateral aid has also increased steadily as China cultivates friendly relations with a growing number of foreign countries. The country receives most of its development assistance from Japan, Australia, countries in the Middle East (i.e., Kuwait), and Western Europe. Official development assistance, or ODA, is a term used by the OECD to refer to pledges of multilateral and bilateral assistance from OECD countries, provided free or at extremely favorable rates. Loans from national export-support banks are not included in this total because they carry interest close to market rates.

During the Sixth Five-Year Plan, which ended in 1985, China made use of between $3 and $4 billion in foreign economic assistance. New aid commitments may reach $2 billion per year by the late 1980s.

The total amount of official development assistance granted to China from OECD countries exceeded $616 million in 1983. This figure does not reflect the very active Kuwaiti aid program that began in 1982. The Kuwait Fund for Arab Economic Development is providing China with two large low-interest loan packages. The first loan package, totaling $150 million, was used in four projects including an airport in Xiamen and a cement factory in Anhui. The second batch of loans will be disbursed over the next few years; agreements have already been reached on construction of plywood, small vehicle, and hydroelectric plants.

Official development assistance also does not take into account the large number of exchanges taking place in the scientific, technical, educational, and cultural fields. Such programs are often funded by foreign governments as a grant or on a low-interest loan basis. The many activities and exchanges that take place under the US government's 24 science and technology protocols with China are a good example of such a program. Needless to say, the ODA figures also do not include the vast number of private activities funded by universities, foundations, and private companies that provide technical assistance and educational opportunities at little or no cost.

The size of Japan's bilateral aid program dwarfs those of other countries. Japan's Overseas Economic Cooperation Fund (OECF) has provided China with two sizable loans since 1979. In 1979 Japan committed J¥300 billion (approximately $1.36 billion) to be disbursed over five years. The loan carries an interest rate of 3 percent and will be repaid over 30 years. The money is being used on six projects, primarily to develop ports and railways to enhance China's ability to move coal exports to port. Remaining funds are being used to provide commodity loans to offset local currency costs on the construction of the Baoshan Steel Works and the Daqing Petrochemical Complex. Not surprisingly, Japanese companies are the primary suppliers of equipment and services for these two long-stalled projects.

Japan's second major loan package, announced in March 1984, provides J¥470 billion ($1.96 billion) over the seven-year period of 1984–1990 to finance seven projects. These include three harbor projects; two rail projects; telecommunications modernization in the cities of Tianjin, Shanghai, and Guangzhou; and construction of the Tianshengqiao hydropower plant.

Other bilateral aid programs to China are small compared to Japan's efforts, but a large number of countries provide such aid. The Belgians have helped finance telecommunications sales to China and, more recently, provided an interest-free loan to a Beijing brewery to import beer production technology. The Italians used a similar strategy to encourage China to purchase Italian poultry-raising equipment. Other aid programs include the Australian government's support for engineering work at a Guizhou hydropower site, Ger-

man aid for engineering work on underground coal mines, and Canadian support for a power transmission project. In these cases bilateral and multilateral aid went hand in hand—governments lent money to promote early involvement of their companies in projects targeted to receive World Bank funds.

Almost all of the bilateral aid programs actively support the commercial interests of companies from the donor country. It should come as no surprise that these bilateral programs, while they may maintain an element of altruism, also have clear commercial goals. Japan, for example, has used its aid program to ensure the completion of important Japanese investment projects and, even more important, to develop the means for China to export coal to Japan. By developing the transportation network, Japan hopes to gain long-term access to Chinese coal supplies. And China's coal exports earn money that enables the country to purchase large amounts of equipment and technology from Japan as negotiated under a long-term trade agreement. But this feature is not unique to Japan—few governments lend money without an eye toward capturing eventual contracts.

The United States plays the same game, but unfortunately the US Trade and Development Program (TDP) has long been the only US aid program open to China. When TDP gives money to enterprises for project feasibility studies (*see The CBR* Sep–Oct 1985, page 8), the Chinese organizations involved sign a statement stipulating that all other things (such as price, quality, and terms) being equal, US companies will be the favored suppliers if China proceeds with the project.

But TDP's resources are small in relation to those of Japan and other countries with which US companies compete. Last year the US Foreign Assistance Act was amended to make it easier for the president to waive prohibitions restricting China's access to US foreign aid programs. But this was largely a cosmetic change, because at the same time the administration made it clear that it had no current intention of beginning more aid programs to China. At present, in addition to TDP, China can only participate in US AID's training programs and regional projects, such as conferences.

Foreign aid and the process of reforms

A significant amount of foreign aid is used to pay for "soft" items such as technical assistance, consultancy services, and engineering studies. Not surprisingly, multinational and bilateral aid donors have found Chinese organizations more interested in acquiring hardware than advice on how to get things done. Although not a bias unique to China, the country's past emphasis on self-reliance makes officials particularly sensitive to adopting foreign advice and technical assistance without modification to fit Chinese conditions.

Nevertheless, over the last five years foreign aid programs have helped China see the value of "soft" assistance. The petroleum sector illustrates this well. At present a large number of foreign seismic crews, reservoir engineers, specialty drilling teams, logging teams, and other consultants work in Chinese oil fields. Most began their work with funds from World Bank and UNDP programs. But the Chinese now seem more aware of the value of these services and are willing to pay for them: an increasing number of service contracts have been signed in the last two years on normal commercial terms.

Thus foreign aid programs are helping to change some traditional ideas. They are even helping to facilitate institutional reform in the Chinese economy. It appears that foreign economic assistance has already begun to have a widespread impact on reforming the Chinese economy, and been a positive source of intellectual stimulation for China's own reformers.

World Bank and OECF programs are credited with introducing the concept of economic and technical feasibility studies as a necessary part of project formulation. The Chinese have also become interested in the bidding process used for World Bank projects. World Bank officials relate that Chinese authorities were very impressed with the low price offers they received as part of the competitive international bidding process required for World Bank loans. Now, in a major departure from traditional practice, competitive bidding is being introduced in both the domestic economy and in soliciting bids from foreign companies on some major projects.

Multilateral aid programs have also encouraged such basic economic reforms as price reforms. In the case of coal, many Chinese officials and economists argued for years that the price of coal was too low to encourage coal production and energy conservation. But perhaps even more important, low coal prices made it difficult to justify coal mine development projects proposed in recent years by multilateral agencies and private investors. Chinese officials recently indicated that they have finally decided to gradually raise the price of coal—a decision that helped pave the way for the World Bank's first coal industry loan to China. And in the area of education, French scholar Marianne Bastid, who has analyzed China's educational reforms, concludes that "a crucial part in this process seems to have been played by UNESCO and World Bank advisors . . . [their] advice has supported the essential points of the new educational policy ushered in by Deng Xiaoping in 1975."

The establishment of the China Investment Bank to distribute World Bank funds to smaller industrial renovation projects also has potentially far-reaching institutional implications for China. CIB assesses projects by using Western banking techniques. Clearly the World Bank and some Chinese officials hope that the use of such techniques will catch on and influence the rest of China's banking system.

The foreign aid projects described throughout this article have brought benefits to most of China's economic sectors and regions, both urban and rural. Coal is produced in Shaanxi mines aided by foreign economic assistance, moved across north China on railroads constructed by Japanese aid, and shipped from ports modernized by World Bank and Japanese aid. Land is being reclaimed in Heilongjiang, and modern forestry techniques introduced in Sichuan. Universities, secondary schools, and research institutes throughout China have all been targeted for aid projects. Although most of these programs have only begun in the last few years, they have already had a wide impact on diverse groups. China's leaders seem to have carefully ensured that large numbers of Chinese people and organizations will benefit from foreign aid programs, widening the base of support for this aspect of China's open door policies. 完

Economic plans are creating opportunities

Commercial Banks in China

Anne A. LeBourgeois and Stephen K. F. Chung

The investment requirements of China's modernization program promise to outpace China's traditional sources of funds—both internal and external—by a significant margin. Commercial lending institutions hope this will soon translate into increased opportunities to exercise their traditional lending roles within the China market. Western commercial banks aim to expand lending activities in China while continuing to engage in a wide variety of nonlending activities to assist corporate customers trading with China.

While estimates of China's future borrowings vary, the level will definitely increase. According to the general manager of the Bank of China's foreign exchange department, China plans substantial borrowings for the short, middle, and long-range requirements of the Seventh Five-Year Plan (1986–1990). One Bank of China estimate puts the country's total level of borrowing during the next five-year period at $40 billion. In a more modest analysis, the president of China International Economic Consultants estimates that China will borrow roughly 5 percent of its annual foreign trade figure ($65 billion in 1985) each year in the next five years. This would be equal to $5.1 billion in foreign borrowing in 1990 if China's trade reaches the projected level of $103 billion in that year. Over the next five years it would bring borrowing to an estimated total of over $21 billion.

The challenge for commercial lenders

A high level of foreign borrowing does not necessarily translate into greater activity for commercial banks. According to a representative of the Bank of China, "We are interested in acquiring foreign exchange at the cheapest price possible." Traditional bank loans are far from the top of China's list of preferred financing methods. No matter how thin a spread commercial banks are willing to accept over their funding costs, their financing is necessarily more expensive than concessional financing now available to the People's Republic (*see* page 22). International capital markets also provide an attractively priced component of the country's overall foreign borrowings (*see* page 18). Finally, China's success in attracting direct foreign investment and the level of capital commitment that companies are willing to make to their China projects will be key variables in determining China's borrowing needs.

China's borrowing profile to date reflects extreme cost consciousness. Heretofore, payments in cash have not been uncommon, even on large equipment purchases from abroad. The country's ambitious modernization program, however, is forcing a move away from the cash payment mentality. Current estimates place China's total foreign debt at close to $12 billion. Of this amount about 50 percent is made up of government-to-government loans, often at less than commercial rates. Another $1 to $2 billion consists of loans from the World Bank and other multinational institutions, while foreign bank lending at commercial rates accounts for more than $5 billion of the total. US banks now account for about 20 percent of China's foreign commercial borrowing.

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Tang Gengyao, director of the State Administration for Exchange Control, confirmed last October that China plans to increase foreign commercial borrowing over the next five years. Energy, transport, communications, and the raw and semi-finished materials industries are all priorities for increased investment in the Seventh Five-Year Plan, and thus likely users of foreign funds. But since many of these projects will require large amounts of money and lack export-earning potential, China will seek loans provided by governments or international financial organizations on favorable terms to the extent possible. Commercial credits are likely to be sought for projects that do not meet development goals of concessional financing. Thus, more likely targets for foreign commercial loans include projects in economically developed areas and those with strong foreign exchange earning potential, as well as projects whose products will replace currently imported ones.

Commercial banks are already active in loan negotiations for such vast energy projects as the $3.5 billion Daya Bay nuclear power plant near Hong Kong, Occidental Petroleum's $600 million Pingshuo coal mine in Shanxi Province, and a $400 million oil refinery to be constructed in Fujian Province.

Lending opportunities to date have been greatest in real estate—joint venture hotels, apartment complexes, and office towers—that are being constructed to serve the swelling ranks of tourists, expatriate businessmen, and diplomats in China. To date, numerous real estate projects have been completed with bank financing, and many more are either near completion or on the drawing board. Projects are mainly located in Beijing and Shanghai, in industrial cities such as Tianjin, and in such major tourist centers as Guilin and Xi'an.

So many of these projects are going forward, in fact, that both foreign and Chinese financiers fear the real estate market may be glutted in a few years. Both the Bank of China and CITIC, which in the past have offered guarantees for up to 100 percent of the borrowed amount, are now becoming more wary. Recently, BOC and CITIC targeted 60 percent as the amount of foreign lending that they would be willing to guarantee for

joint venture hotel projects. However, the 60 percent figure has proven subject to negotiation. In recent cases such as the Portman Group's $145 million Shanghai Centre and the $85 million Shanghai Hilton, BOC guarantees have been committed in amounts ranging from 70 to 90 percent. This level of support is deemed necessary for projects requiring large loans and extended repayment periods.

Regulating enterprise borrowing

Beijing is adopting measures to ensure that foreign currency borrowings and the guarantees that support these borrowings are properly regulated. In early 1985 the State Administration for Exchange Control (SAEC), a division of the People's Bank of China, created a list of financial institutions authorized to provide guarantees for foreign currency borrowing. Forty institutions had been approved as of November 1985, among them the Bank of China, CITIC, and other domestic and joint venture banks and municipal investment and trust companies (*see* box).

In order to "make the list," the approved organizations underwent a thorough investigation by the SAEC to determine whether they had access to sufficient foreign exchange to honor guarantee commitments. Generally, the total amount of foreign exchange guarantees issued by these approved institutions cannot exceed 20 times the amount of that organization's own foreign exchange holdings.

These foreign exchange guarantees can only, in turn, be made to approved enterprises. In mid-1985 the People's Bank issued comprehensive regulations requiring all would-be borrowers of foreign currency to undergo a basic credit analysis by one of the bank's local, provincial, or central offices. In this way, bank officials hope, all prospective borrowers will be screened for their ability to repay and the appropriateness of their project to national and provincial objectives. Such rationalization of the pool of borrowers and guarantors is good news for foreign commercial bankers. But even the approvals of PBOC and SAEC do not guarantee that a borrower will hold foreign currency on the day of loan repayment.

The approvals *do* indicate that the planned foreign exchange cash flow of the approved enterprise has been incorporated into State plans. As one senior SAEC official explained, "We hope foreign banks will respect our approval, but it is not a guarantee of foreign exchange availability to meet a specific obligation. It signifies our belief that the management is capable and their plans realizable. If, however, at the time a specific obligation falls due plans have not been realized and the obligor has insufficient foreign exchange to remit, we will not provide foreign exchange for him to meet his obligation. He has three alternatives: to borrow foreign exchange from the Bank of China, to purchase foreign exchange from another enterprise that has a surplus, or to pay in renminbi." This last alternative would not be acceptable to many foreign banks and would likely lead to a fourth option—sitting down with the lender to renegotiate.

ORGANIZATIONS PROVIDING FOREIGN EXCHANGE GUARANTEES

Bank of China
Bank of China Trust & Consultancy Co.
China International Trust & Investment Co. (CITIC)
China Industrial & Commerical Bank Trust & Investment Co.
Zhongyuan Development Trust & Investment Co.
China Investment Bank
Hong Kong & Shanghai Banking Corporation, Shanghai Branch
The Chartered Bank, Shanghai Branch
Overseas Union Bank Ltd., Shanghai Branch
Bank of East Asia, Shanghai Branch
Nanyang Commercial Bank, Shenzhen Branch
Nanyang Commercial Bank, Shekou Branch
Nantong Bank, Zhuhai Branch
Guangdong Provincial Bank, Shenzhen Branch
Guangdong ITIC
Guangdong ITIC, Shenzhen Branch
Fujian Investment Enterprises Co.
Hebei Province ITIC
Zhejiang Province ITIC
Liaoning Province ITIC
Hebei Province ITIC
Jiangsu Province ITIC
Jiangxi Province ITIC
Shaanxi Province Financial United Investment Co.
Sichuan Province Changjiang ITIC
Anhui Province ITIC
Jilin Province ITIC
Henan Province ITIC
Shanxi Economic Development Investment Co.
Guangxi ITIC
Hunan ITIC
China Ningxia Islam ITIC
Shantou ITIC
Shanghai City Trust & Investment Co. (SITCO)
Tianjin ITIC
Guangzhou ITIC
Beijing ITIC
Shenyang ITIC
China Chongqing ITIC

ITIC=International Trust and Investment Co.
List current as of November 1985

Repaying loans is not simply a matter of the factory directly reimbursing the foreign bank, since foreign exchange earned by Chinese factories must generally be turned over to the Bank of China. A portion of foreign exchange earnings is returned to the exporting enterprise in the form of a quota account held at the local branch of the SAEC. The percentage of earnings that the enterprise may keep an account at SAEC varies depending on location and industry, with the average factory receiving about 12.5 percent. Special export incentives have been granted to certain industries such as machinery and electrical goods, which receive credit for 50 percent of the value of their exports, and the tourism sector, which retains 30 percent. To use the money in the quota account, enterprises must still obtain authorization from many bureaucratic layers. Repayment does not become a problem unless the city or region has exceeded overall foreign exchange spending targets set by the planning commission when it comes time to pay back the loan.

Representative offices and branches provide varied services

While making loans is the traditional activity of international banks, commercial banks with offices in China also pursue a wide range of nonlending business with Chinese financial institutions, state corporations, joint venture companies, and corporate customers worldwide. As of December 1985 there were some 170 branches and representative offices of foreign financial institutions in the PRC according to the People's Bank of China, including multiple offices of the same bank and a handful of investment banks and insurance companies. Almost half of these offices are located in Beijing, with

US BANK REPRESENTATIVE OFFICES IN CHINA

Bank of America
Chief Officer: Joseph H. Greene, vice-president
Address: 23 Qianmen Dong Dajie, West Building 1, Beijing
Telephone: 5042685
Telex: 22562 BKAME CN

Chief Officer: Joseph H. Greene, vice-president
Address: 1802 Shanghai Union Bldg., 100 Yanan Rd. East, Shanghai
Telephone: 261132
Telex: 33326 BKAME CN

Bank of the Orient
Chief Officer: Quinpin Yuyitung, representative
Address: Ste. 1102, Overseas Chinese Bldg., Xinhua Road, Xiamen, Fujian
Telephone: 25614

Chase Manhattan Bank
Chief Officer: Michael Clatterbuck, representative
Address: Room 1522-1524, Beijing Hotel, Beijing
Telephone: 5007766
Telex: 22595 CHBJG CN

Chemical Bank
Chief Officer: George W. Brain, representative
Address: Room 105, Jianguo Hotel, Jianguomenwai Dajie, Beijing
Telephone: 5002233
Telex: 22817 CHEMB CN

CITIBANK
Chief Officer: C. P. Cheng, representative
Address: Room 172-174, Jianguo Hotel, Jianguomenwai Dajie, Beijing
Telephone: 5004425
Telex: 22816 CTBBJ CN

Chief Officer: Doris Szeto, representative
Address: Rm. 805, North Block, Shenzhen Int'l Commercial Bldg., Shenzhen
Telephone: 39130

Chief Officer: Latman Cheung, representative
Address: Room 1904, Shanghai Union Bldg., Yanan Rd. East/Sichuan Rd., Shanghai
Telephone: 289661, 289662
Telex: 33400 CTBSH CN

First Interstate Bank of California
Chief Officer: David Paris, representative
Address: Room 505, Hepingmenwai, Kaoyadian, Beijing
Telephone: 3030322
Telex: 22430 FICBJ CN

First National Bank of Chicago
Chief Officer: Pheng Hon Mum, deputy representative
Address: Suite 7022, Beijing Hotel, Beijing
Mailing Address: P. O. Box 9031, Beijing
Telephone: 5007766
Telex: 22433 FNBC CN

Manufacturers Hanover Trust
Chief Officer: Anne A. LeBourgeois, representative
Address: Room 114-116, Jianguo Hotel, Jianguomenwai Dajie, Beijing
Telephone: 5002233/5001986 (Direct)
Telex: 20446 MHTBJ CN
Cable: 6677 BEIJING

Chief Officer: Stephen K. F. Chung, representative
Address: Room 2606, Shanghai Union Bldg., Yanan Rd. East/Sichuan Rd., Shanghai
Telephone: 261888, 263888
Telex: 33533 MHTSH CN
Cable: MANTRUST

OTHER FOREIGN BANKS IN CHINA

Amsterdam-Rotterdam Bank N.V.
Rep. office(s): Beijing

Arab Bank
Rep. office(s): Beijing

Banca Commerciale Italiana
Rep. office(s): Beijing

Banca Nazionale Del Lavoro
Rep. office(s): Beijing

Banco Di Roma
Rep. office(s): Beijing

Banco Do Brasil S.A.
Rep. office(s): Beijing

Banco Exterior De Espana
Rep. office(s): Beijing

Bank of Credit and Commerce (Overseas) International
Rep. office(s): Beijing
Branch(s): Shenzhen

Bank of East Asia, Ltd.
Rep. office(s): Shenzhen, Guangzhou
Branch(s): Shanghai, Xiamen

Bank of Montreal
Rep. office(s): Beijing

Bank of Nova Scotia
Rep. office(s): Beijing

Bank of Tokyo
Rep. office(s): Beijing, Dalian, Guangzhou, Shanghai
Branch(s): Shenzhen*

Banque de L'Indochine
Rep. office(s): Shenzhen

Banque De L'Union Europeenne
Rep. office(s): Beijing

Banque Indosuez
Rep. office(s): Beijing, Shanghai
Branch(s): Shenzhen

Banque Nationale de Paris
Rep. office(s): Beijing, Shenzhen, Guangzhou, Shanghai

Banque Paribas
Rep. office(s): Tianjin, Beijing, Guangzhou, Shanghai

Barclays Bank Plc.
Rep. office(s): Beijing

Bergen Bank
Rep. office(s): Beijing

Canadian Imperial Bank of Commerce
Rep. office(s): Beijing

Caisse Nationale de Credit Agricole
Rep. office(s): Beijing

Chiyu Bank Corp. Ltd.
Branch: Xiamen

Christiania Bank Og Kreditkasse
Rep. office(s): Beijing

Commerzbank AG
Rep. office(s): Beijing

Credit Lyonnais
Rep. office(s): Beijing, Guangzhou, Shanghai, Shenzhen

Credit Suisse
Rep. office(s): Beijing

Dai-Ichi Kangyo Bank
Rep. office(s): Beijing, Guangzhou, Shanghai

Daiwa Bank, Ltd.
Rep. office(s): Beijing, Shanghai

Den Norske Creditbank
Rep. office(s): Beijing

Deutsche Bank AG
Rep. office(s): Beijing

Dresdner Bank AG
Rep. office(s): Beijing

Export-Import Bank of Japan
Rep. office(s): Beijing, Shanghai

Fuji Bank Ltd.
Rep. office(s): Beijing, Dalian, Guangzhou, Shanghai

Gotabanken
Rep. office(s): Beijing, Shanghai

Guangdong Provincial Bank
Branch: Shenzhen

Hang Seng Bank
Rep. office(s): Shenzhen

Hokkaido Takushoku Bank, Ltd.
Rep. office(s): Beijing
Branch(s): Shenzhen*

Hong Kong & Shanghai Banking Corp.
Rep. office(s): Beijing, Guangzhou, Wuhan, Xiamen
Branch(s): Shenzhen, Shanghai

Industrial Bank of Japan, Ltd.
Rep. office(s): Beijing, Dalian, Shanghai, Guangzhou

Ka Wah Bank
Rep. Office: Xiamen

Kogyo Bank
Rep. Office: Guangzhou

Kyowa Bank, Ltd.
Rep. Office: Beijing

Lloyds Bank International Ltd.
Rep. Office: Shenzhen

Long-Term Credit Bank of Japan, Ltd.
Rep. office(s): Beijing, Shanghai

Midland Bank Plc.
Rep. office: Beijing

Mitsubishi Bank, Ltd.
Rep. office(s): Beijing, Shanghai, Guangzhou, Dalian

Mitsubishi Trust & Banking Corp.
Rep. office(s): Beijing

Mitsui Bank, Ltd.
Rep. office(s): Beijing, Shanghai, Guangzhou

Nantong Bank Ltd.
Branch(s): Zhuhai

Nanyang Commercial Bank, Ltd.
Branch(s): Shenzhen, Shekou

National Australia Bank, Ltd.
Rep. office(s): Beijing

National Bank of Pakistan
Rep. office(s): Beijing

Nikko Securities Co.
Rep. office(s): Qingdao

Osterreichische Landerbank AG
Rep. office(s): Beijing

Oversea-Chinese Banking Corp. Ltd.
Branch(s): Shanghai, Xiamen

Overseas Union Bank Ltd.
Rep. office(s): Beijing, Shenzhen

Philippine National Bank
Rep. office(s): Beijing

Poet-och kreditbanken, Pkbanken
Rep. office(s): Beijing

Royal Bank of Canada
Rep. office(s): Beijing, Shenzhen

Saitama Bank, Ltd.
Rep. office(s): Beijing

Sanwa Bank, Ltd.
Rep. office(s): Beijing, Shanghai, Dalian
Branch(s): Shenzhen*

Skandinaviska Enskilda Banken
Rep. office(s): Beijing

Societe Generale
Rep. office(s): Beijing, Shanghai, Guangzhou
Branch: Shenzhen

Standard Chartered Bank
Rep. office(s): Beijing, Xiamen, Guangzhou
Branch(s): Shanghai, Shenzhen

Sumitomo Bank, Ltd.
Rep. office(s): Beijing, Guangzhou, Shanghai, Dalian

Sumitomo Trust and Banking Co. Ltd.
Rep. office(s): Beijing

Sun Hung Kai Bank
Rep. office(s): Beijing, Shanghai

Svenska Handelsbanken
Rep. office(s): Beijing

Taiyo Kobe Bank, Ltd.
Rep. office(s): Beijing, Tianjin

Taknugin International (Asia)
Rep. office(s): Shenzhen, Guangzhou

Tokai Bank, Ltd.
Rep. office(s): Beijing, Shanghai

Toyo Trust and Banking Co., Ltd.
Rep. office(s): Beijing, Shenzhen, Shanghai

United Overseas Bank Group
Rep. office(s): Beijing
Branch(s): Xiamen

Westpac Banking Corp
Rep. office(s): Beijing

Xiamen International Bank
Branch: Xiamen

Yamaguchi Bank
Rep. office: Qingdao

Yasuda Trust and Banking Co., Ltd.
Rep. office(s): Beijing

*Due to open early this year

Compiled by Betsy Saik

SOURCE: National Council files, People's Bank of China

This list may not be exhaustive due to the rapid rate of office registrations.

other major concentrations in Shanghai, Shenzhen, and Guangzhou (*see* list). Activities vary widely according to the type of institution and office, nationality, and location in China.

Many international banks pursue their China business through one or more "representative offices." These representative offices are intended principally as liaison offices, and are limited by Chinese law in their scope of business. Although not allowed to offer full banking services, representative staffs work closely with their bank's home offices to promote various products and services in China and to serve the needs of their international customers. Typically, bank representatives in China engage in the following activities:

1) Gathering market information and establishing a network of government and corporate contacts.

2) Providing information and facilitating trade financing (short of actually negotiating and issuing letters of credit), and helping customers avoid potential pitfalls and future trouble in their China business.

3) Assisting customers in identification of potential joint venture partners, negotiation of joint venture agreements, and financing of joint venture projects.

4) Acting on behalf of the head office and major domestic and overseas branches in interacting with the Bank of China and other Chinese financial institutions on correspondent banking business.

5) Promoting products and services provided by the bank's related nonbanking subsidiaries.

During the past year the Chinese government promulgated new regulations permitting foreign banks to set up branches offering full banking services or establish joint venture banks in limited cases. Banks are currently limited to opening branches in China's four special economic zones, but PBOC is also considering allowing branches in major cities on the coast. There are four existing foreign branches in Shanghai that have maintained at least a limited presence in the city since before 1949. However, it is likely that the practice of allowing branches in the SEZs is an experiment that will be closely watched before it is broadened. Nine banks established branches in the SEZs as of late 1985, and further bank branches are expected to be established in Shenzhen and elsewhere in the coming year.

Theoretically, foreign bank branches are authorized by the People's Bank of China to pursue a much broader scope of business than representative offices. Branches may engage in such international trade finance activities as opening, advising, and negotiating letters of credit, making foreign currency loans, performing foreign exchange transactions, and accepting foreign exchange or renminbi deposits.

But while their scope of activities is broadly defined, many restrictions apply to the branches in practice. For example, foreign bank branches may only accept deposits from foreigners and overseas Chinese. Thus their potential market is drastically limited. Foreign branches may only accept renminbi deposits when acting as an agent of the Industrial and Commercial Bank, a service for which they earn a small commission. In trade finance, foreign bank branches may open letters of credit without restriction only for Sino–foreign joint ventures and foreign-owned companies. PRC corporations, including the major import–export firms, require approval from government authorities, obtained through a difficult and cumbersome process, in order to open letters of credit through these branches. Foreign banks will continue to press for expanded opportunities in China.

Positioning for future payoffs

In analyzing how best to expand their China business, foreign commercial banks must decide whether to open an office in China and, if so, the type of office, location, and staffing levels they will maintain. Some banks continue to serve their customers in China solely through their Hong Kong branches, but this necessarily limits their scope of activities in China. Other banks have opened offices in the PRC, but continue to receive strong support from the Hong Kong office.

Although the establishment and operation of offices in China is very costly, Beijing offices give banks an important profile in the city where a large proportion of China's major project financing decisions are made. A Beijing location is also essential if foreign banks are to maintain close relations with the Bank of China, People's Bank of China, key industrial ministries, and the head offices of major trade corporations.

To pursue opportunities outside Beijing, foreign banks have generally followed one of two courses of action. The first is to follow changes in the banking regulatory environment and establish branch offices when this option becomes available—as is now possible in the SEZs. Banks establishing branches in these locations must be willing to accept the limited size of the market in the SEZs, restrictions on business activity, and the high initial capital requirement set for bank branches by the PRC government.

A second alternative is to follow the underlying economics of a city or region and to set up an additional representative office(s) in important centers of activity prior to changes in the central government's banking regulations. Banks following this course of action anticipate that development of an already established industrial and commercial base and an influx of foreign companies will generate business, and they therefore have set up representative offices in cities such as Shanghai, Tianjin, Dalian, Wuhan, and Guangzhou. They assume that banking regulations will eventually catch up with the underlying economics, and permit establishment of foreign bank branches in such cities.

To meet the challenge of providing financial services for the China market, foreign commercial banks must above all be creative and well-informed. While the lowest price may win the deal in some cases, banks that have experienced personnel on location and offer a diverse range of financial services will be best equipped to identify and meet their customers' needs in China. Huge loan portfolios may or may not result—indeed, many commercial banks, especially US institutions, are likely to be very selective about the credits that they are willing to put on their books in their attempt to increase earnings and improve asset quality. However, it is clear that an increase in commercial lending and nonlending financial services can be achieved by those commercial banks that have the greatest knowledge of existing business opportunities, an understanding of their customers' needs, and a willingness to commit significant resources to developing business in the PRC. 完

Enterprises learn that rented foreign equipment gets the job done just fine

Financing Imports through Leasing

Jimmy Wenhu Hsu

China's ambitious modernization program depends on substantial imports of foreign equipment and technology to upgrade the many factories in need of technical renovation and to build the big energy and transport projects planned around the country. Despite China's still sizable foreign exchange reserves, the cost of the needed equipment imports dwarfs the available funds. As a result, more and more Chinese enterprises are obtaining foreign equipment through leasing arrangements.

China imported equipment worth more than $500 million under leasing arrangements in 1984, and that figure could easily double by 1990. To meet this growing demand, foreign leasing companies are taking note of China, while new Chinese leasing companies are proliferating and forming joint ventures with foreign firms, especially large banks. Given the restrictions on commercial lending in China, the surge in leasing has given some foreign banks their first real chance to finance trade from their China offices.

Leasing was virtually unknown in China prior to the 1980s. The country's first modern leasing company, China Orient Leasing Co. Ltd., was established in April 1981 as a joint venture among Orient Leasing Co. Ltd. of Japan, China International Trust and Investment Corp. (CITIC), and the Beijing Machinery and Electric Equipment Corp. In July of the same year, the China Leasing Co. Ltd. was set up as a joint enterprise operated by CITIC and the State Bureau of Supplies. Four Chinese financial institutions and four industrial ministries all later decided to participate in the latter company.

These two leasing firms, which have similar levels of turnover and similarly comprehensive business lines, have grown into nationwide operations that today constitute the core of China's leasing industry. But they face competition from a growing number of new leasing companies (*see* box). Clearly, leasing is gaining acceptance as a means of equipment financing in China, and the demand for leasing services is on the rise.

Advantages of leasing in China

Leasing represents a financing tool that allows the lessee to obtain a piece of equipment with a lower initial capital investment than needed to buy it. Lease financing can be arranged with flexible terms and conditions as to the lease period, currencies, and methods of payment, and can therefore be tailored to the lessee's particular cash flow requirements. Once set, rental rates are usually fixed so the lessee pays a fee that will not be affected by inflation in the country supplying the equipment. Leasing also provides a hedge against the future obsolescence of industrial equipment.

In addition to these basic advantages, a number of factors particular to China make leasing especially attractive to Chinese enterprises in need of advanced equipment:

Financing for medium and small enterprises. The Chinese government, in allocating national foreign currency reserves, gives priority to large projects such as construction of dams and power plants, modernization of railroads and harbors, and exploitation of coal and oil resources. But thousands of medium and small factories at provincial and municipal levels are in need of technical renovation. Many of these plants have access to retained foreign exchange earnings sufficient to lease the machinery and technology they need, but not to purchase it all at once. Thus leasing allows a greater number of projects to be carried out with China's limited foreign exchange reserves.

Ease of obtaining approval. It is generally much easier to obtain approval from the relevant authorities for leasing foreign equipment than for importing it outright. Prospective Chinese lessees usually need go no higher than provincial authorities to get the go-ahead for a leasing transaction, while they often need central approval for straight purchases.

Lessees can often use the argument that they will be able to make lease payments from the profits they make operating the leased equipment. China's ongoing industrial reforms heighten this advantage of leasing. With the recent expansion of enterprise autonomy, Chinese factories can now retain more of their profits, but they must also bear their losses. Leasing promotes cost-consciousness in enterprises and makes it easier to monitor profits and the efficiency of investment, since the lease contract calls for rental payment in equal amounts over a stipulated period of time.

Variety of services offered. From the lessee's standpoint, China's leasing companies have the advantage of providing not only financing, but also the services of trading houses. When a Chinese enterprise commissions a leasing company to finance its purchase of machinery or equip-

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ment, the leasing company is expected to obtain the technical information on the desired machinery and offers from the manufacturers. It will further lay the necessary groundwork for technical advice and business negotiations. After conclusion of a sales contract, the leasing company must open a letter of credit for the leased item. Leasing companies in China also offer their customers other services, such as providing the most up-to-date information on world financial markets. In this respect, they differ from most leasing companies in other countries.

All the above factors also represent advantages to equipment manufacturers and leasing companies, because they increase the population of potential customers. If a foreign manufacturer negotiating with a prospective Chinese customer senses that the buyer lacks sufficient foreign currency to make a purchase, he would be well advised to suggest that the equipment be imported under a leasing arrangement.

From the supplier's perspective, leasing poses a solution to funding problems and may help bring about the successful conclusion of some negotiations. Moreover, leasing makes it easier for suppliers to collect their bills, since the leasing company pays the supplier directly for leased machinery and equipment either by a letter of credit or cash on delivery.

The advantages of leasing in China are also acknowledged by a number of investors, many from Hong Kong and Macau. For instance, Hong Kong corporations that intend to establish operations north of the border may make an investment in kind financed by a third party in Hong Kong, or they can offer cross-border lease financing through a Hong Kong-based leasing company. In the latter case, leasing not only performs the function of financing, but ensures that the terms and conditions of financing are arrived at objectively, since financing is provided by a third party independent of the joint venture partners. Moreover, it encourages the Chinese partner to take a more responsible attitude in managing the venture. In an increasing number of cases, foreign partners in compensation trade and processing transactions have reduced their financial burden by offering leased machinery and equipment to their Chinese partners through third-party leasing companies.

PRINCIPAL LEASING COMPANIES IN CHINA

Name of Venture	Partners	Comments
China International Leasing Co. Ltd.	Mitsui Bussan Co. (Japan), China Investment Bank, TECHIMPORT.	Formed 1985; based in Shanghai; registered capital: $3 mil.
China International Nonferrous Metals Leasing Co.	First Interstate Bank (US), Banque Nationale de Paris, BOCTCC, ICBC, China National Nonferrous Metals Industry Corp.	Formed 1984; capital: $3 mil.
China International Packaging Leasing Co.	BOCTCC, Banca Commerciale Italiana, Banque Paribas (France), China National Packaging Industry Corp.	Established Oct. 1984; capital: $3 mil. 1985 estimated turnover: $100 mil.
CITIC		Has a leasing department.
China-Japan (Shenzhen) Leasing Co.	Shenzhen Municipal Industrial Development Service Co. and 7 Japanese firms: C. Itoh & Co., C. Itoh Construction Machinery Sales Co., Century Leasing System Inc., Takenaka Doboku Co., Nitto Leasing Co., Showa Leasing Co., and Yamazaki Construction Co.	Based in Shenzhen; capital: J¥200 mil. Specializes in construction machinery.
China Leasing Co. Ltd.	CITIC, State Bureau of Supplies, PCBC, ABC, ICBC, MLI, MCI, MWREP, MEI, PICC.	One of top two Chinese leasing companies; has agents in most provinces and cities. 1985 estimated turnover: $150 mil.
China Orient Leasing Co. Ltd.	CITIC, Japan Orient Leasing Co. Ltd., Beijing Machinery and Electrical Equipment Corp.	One of top two Chinese leasing companies; founded in 1981. 1985 estimated turnover: $150 mil.
China Pacific Leasing Co. Ltd.	China Leasing Co. Ltd., Shanghai Municipal Foreign Trade Corp., ICBC Trust and Investment Co. Shanghai branch, Japan Leasing Co. Ltd., Long-term Credit Bank of Japan.	Formed April 1985 in Shanghai economic zone.
China Unified International Leasing Co.	Mitsui Bank Ltd. (Japan), Trilease International Ltd. (HK), Guangdong ITIC.	Based in Guangzhou; capital: $5 mil. Shares: China 50%, Japan 25%, HK 25%.
China Universal Leasing Co. Ltd.	Dresdener Bank (West Germany), Sanwa Bank Ltd. (Japan), BOCTCC, MACHIMPEX, TECHIMPORT, INSTRIMPEX.	Opened Jan. 1985; capital: $3 mil. 1985 estimated turnover: $100 mil.

Types of leasing

China's leasing business is mainly confined to finance leases. Finance leases include 1) leases after direct purchase, in which a leasing company purchases the equipment from a supplier and then leases it to the lessee; 2) cross-border subleases, where a Chinese leasing company leases the equipment from a foreign supplier or leasing company and then subleases it to the Chinese lessee; 3) leasebacks, in which an enterprise buys a piece of equipment and then leases it back to the seller; and 4) leveraged leases, a US tax reduction scheme. Three big Japanese leasing firms made use of a leveraged lease in 1984 for the transfer of five Boeing passenger planes to CAAC—one of the biggest leasing deals yet with China. They bought the planes from Boeing, then sold them to a subsidiary of a major US food company, which leased them to CAAC. The subsidiary was able to enjoy accelerated cost recovery and also pass part of the savings along to CAAC in the form of lower rent for the planes.

Operating leases are less common in China. Most Chinese enterprises are still not familiar with the concept of using rented equipment to facilitate production and then returning it when is has outlived its usefulness. Most of the time their ultimate goal is to purchase the equipment outright, and thus most lease contracts in China require that the ownership of the equipment should transfer to the lessee at the expiration of the lease period. It is therefore a general prac-

tice that the lessee purchase the equipment at an attractive price when the lease expires. This is further evidence that the primary function of leasing in China is as a finance tool, rather than a short-term means of obtaining the use of equipment.

Tax incentives

China's tax laws offer certain incentives to the leasing industry. These laws require all foreign companies, enterprises, and other economic organizations with business establishments in China to pay two kinds of taxes. First is the industrial and commercial consolidated tax, to be levied at a rate of 5 percent of the enterprise's rentals or income. In the case of finance leasing, the lessor pays an industrial and commercial consolidated tax of 5 percent on the amount of rental payments received minus the purchasing price of the leased equipment and the cost of borrowing for purchasing. The second is the venture income tax, to be levied at a rate prescribed in tax law. The taxable income of a leasing company is defined as the excess of its gross income in a tax year over its deductible costs, expenses, and losses. The income tax rate on joint ventures is 30 percent. In addition, a local income tax of 10 percent of the assessed income tax is levied by local tax bureaus. The income tax on cooperative enterprises or independent foreign enterprises is computed at progressive rates of 20 to 40 percent of the taxable income. In addition, a local income tax of 10 percent of taxable income is levied.

In most businesses, taxpayers with no establishment in China are taxed on income earned in China at a flat rate of 20 percent in accordance with the Foreign Enterprise Income Tax Law. But to encourage foreign leasing firms to be active in China, they pay income tax of only 10 percent if leasing equipment to Chinese enterprises. The taxable income will be considered the value of rentals in excess of the cost of equipment leased to a Chinese enterprise. The cost of borrowing for purchasing the leased equipment may be written off from the taxable income if the lessor can submit relevant loan agreements and interest statements showing that the loan is an export credit provided by banks of the lessor's country or that the loan, if not an export credit, carries lower or equal interest than an export credit.

The Chinese government looks especially favorably on leasing deals with compensation trade possibilities. Foreign leasing companies will be exempted from income tax altogether if they lease equipment to a Chinese enterprise that pays its rental fees with earnings from product sales or by supplying the finished products to the lessor.

Foreign exchange allocations and other outstanding issues

While the prospects for leasing in China are encouraging, some difficult issues still hinder development of the country's leasing industry. Perhaps the thorniest issue involves State control of foreign currency. Under China's current system, an enterprise that wants to import equipment or technology must apply for approval and request a quota of foreign exchange from the local authorities. If the foreign exchange quota granted is not sufficient for a direct purchase from abroad, the enterprise may still be able to receive foreign exchange quota installments over several years, enabling it to make leasing payments. However, most Chinese enterprises cannot secure a quota, and have only renminbi on hand. Since Chinese leasing companies and Sino–foreign joint leasing companies are not granted a foreign exchange quota to make purchases of equipment and technology from abroad, it is difficult for them to handle lease applications from enterprises without any source of foreign currency. Thus, under the current system, only enterprises that secure a

Name of Venture	Partners	Comments
Guangdong International Leasing Co.		Owned by Guangdong ITIC.
Huahe International Leasing Co.	Showa Leasing Co. (Japan), Qingdao Leasing Co., BOCTCC Qingdao branch.	Based in Qingdao; capital: $1 mil.
Shanghai Toyo Lease Co.	Toyo Trust & Banking (Japan), Nissho Iwai (Japan), Nichimen Corp (Japan), BOCTCC Shanghai branch, MACHIMPEX	Formed June 1985; capital: $3 mil;
North China International Leasing Co. Ltd.	Standard Chartered Bank (UK), TECHIMPORT, Liaoning ITIC, Dalian Local Trust and Investment Corp., Nichimen Corp. (Japan).	Based in Dalian; capital: $3 mil. Agreement reached Sept. 1985. Shares: China 60%, Japan 25%, UK 15%.
Qingdao Leasing Co.		Managed by Qingdao Foreign Trade Corp.
Shanghai International Leasing Co. Ltd.	SITCO, BOCTCC Shanghai branch, ICBC Shanghai branch.	Handles all aspects of leasing in the municipality and the Shanghai economic zone.
Shenzhen Leasing Co. Ltd.	China Leasing Co. Ltd. and Shenzhen ITIC	Opened Jan. 1985.
South China International Leasing Co.	Banque Nationale de Paris, BOC Shenzhen branch, Hokkaido Takushoku Bank Ltd. (Japan), Bank of Communications (HK), China Merchants Steam Navigation Co. Ltd., Nanhai Oil Shenzhen Development and Service Corp.	Agreement signed March 1985; capital: $5 mil.; most business to be offered in the Shenzhen area.
Southwest China Leasing Co. Ltd.	Sichuan Changjiang Enterprise Corp., CITIC	Based in Chengdu.
Trilease International Ltd.	BOC, Bank of East Asia Ltd. (HK), Societe Generale (France).	Based in Hong Kong; set up Nov. 1983 and entered China market March 1984.

Key

ABC	Agricultural Bank of China	MLI	Ministry of Light Industry
BOC	Bank of China	MWREP	Ministry of Water Resources and Electric Power
BOCTCC	Bank of China Trust and Consultancy Co.	PBOC	People's Bank of China
CITIC	China International Trust and Investment Corp.	PCBC	People's Construction Bank of China
ICBC	Industrial and Commercial Bank of China	PICC	People's Insurance Company of China
ITIC	International Trust and Investment Corp.	SITCO	Shanghai Investment and Trust Corp.
MCI	Ministry of Chemical Industry	turnover = value of equipment imported.	
MEI	Ministry of Electronics Industry		

foreign exchange quota, or can export their products and retain some of the foreign currency they earn, are able to undertake smooth leasing arrangements.

Payment guarantees are another outstanding issue. Leasing companies in China require lessees to present guarantee of rental payments when they lease equipment. Most guarantees are issued by a government agency such as an economic commission or bureau. These kinds of guarantees are not legally enforceable, and are no guarantee at all should the lessee default. The reason is simple: government agencies are not independent legal persons.

A third problem is that China's accounting system does not treat leased equipment as a fixed asset of the lessor, so the lessor cannot enjoy any depreciation of the leased equipment or any investment tax credit. Thus the lessor is unable to reduce the cost of rentals paid by the lessee. Moreover, the leased equipment is not treated as a liability of the lessee, and the lessee cannot write off rentals as costs from its pre-tax profits.

Given these issues, certain regulations or provisions are needed to pave the way for further development of the leasing industry in China. Some provinces provide tax exemptions for lessees that make regular rent payments, but unfortunately most do not. Many provinces have no specific laws governing leasing transactions. There should be a national law on this matter to provide a uniform standard for all of China.

At the very least, foreign exchange control regulations should be changed to allow foreign exchange quotas to be granted to Chinese leasing companies and to allow Chinese lessees to pay rentals in renminbi. When a leasing company remains the legal owner of leased machinery, it should be permitted to enjoy depreciation, as it would in other countries. The depreciation period should be set at about five years, since lease periods in China usually do not exceed that length of time.

Chinese authorities and leasing companies are highly interested in leasing and well aware of its advantages. This provides reason to hope that authorities will be willing to work toward a solution to the obstacles remaining in the way of the industry's further development. 完

The Bank of China now accepts different methods of payment

Tools of the Trade

R. Barry Spaulding and JoAnne Kellow

The rapid increase in China's trade over the past decade has brought with it a diversification in the forms of trade payments. Not long ago, almost all exports to China had to be paid under a Bank of China (BOC) letter of credit (*see The CBR*, Jan–Feb 1984, page 30). But as trade patterns have changed, so have the underlying bank mechanisms that support that trade.

In the late 1970s, the majority of US sales to China consisted of commodities, and payment was easily structured under a simple letter of credit. But China is now buying more high-technology machinery and equipment from the United States,

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sales that often involve complex technology transfer arrangements and include training, installation, and other services. BOC procedures have had to change to accommodate the more complex payment arrangements that result. The Bank of China is also stepping up pressure on companies that have been doing business with China for several years, asking them to make sales on an open account or a documentary collection basis, rather than on a letter of credit basis, as both are less expensive and easier to administer.

This article discusses the mechanics of some of these more recent developments in trade payments and provides examples of the types of payment mechanism documents that now can replace or supplement letters of credit in trade dealings with China. The three basic forms reviewed are: 1) bid bonds, 2) advance payment bonds, and 3) BOC letters of guarantee.

BID BONDS

Bid bonds are often required when many different companies offer competing bids for a particular project in China. A bond is posted by each bidder to guarantee the company's ability to uphold its commitment should it be selected as the supplier. In China, World Bank projects require a bid bond issued by the prospective exporter's bank to be submitted with the completed bid documents. All such bid bonds are written individually and tailored to a specific project or transaction by the trade finance specialists in the US exporter's bank.

Bid bonds can be opened in two ways. One method is for the opening bank (the exporter's bank) to issue the bond in the form of an irrevocable letter of credit in favor of the BOC. The BOC then opens a bid bond in favor of the Chinese buyer. The second method would be to open the bond directly in favor of the Chinese buyer. Generally, the BOC prefers the former method, and charges a .25 percent flat fee on the total value of the bond. If the first method is used, the BOC will base the wording of its bond directly on an acceptable bid bond format supplied by the exporter's bank. A sample of wording that has been acceptable in the past is reproduced here, with the variable inputs noted. However, wording will vary depending on the project the bid bond covers.

SAMPLE BID BOND
(opened by Bank of China)

中國銀行
BANK OF CHINA
HEAD OFFICE, BEIJING CHINA

TO: China National Technical Import Corporation
Erligou
Xijiao, Beijing

Bank Guarantee form for Bid Bond — Issue Date

Bid bond for Invitation for Bid No. XY65125

For: Basic Education Technology Improvement Project

This bond is hereby issued to serve as a bid bond of ABC Computer Corporation (hereinafter called Bidder)

for Bid No. XY65125 for the supply of four sets of CNX basic microcomputer systems and peripherals

to China National Technical Import Corporation, Erligou, Xijiao, Beijing.

The Bank of China hereby unconditionally and irrevocably guarantees and binds itself, its successors and assigns to pay you immediately without recourse, the sum of US$ $50,000 (representing approximately 10% of the estimated bid value) upon receipt of your written notification stating any of the following:

a) The Bidder has withdrawn his bid after the time and date of the bid opening and before the expiration of its validity period: or

b) The Bidder has failed to enter into contract with you within thirty (30) calendar days after notification of contract award: or

c) The bidder has failed to establish acceptable performance bond within thirty (30) calendar days after nomination of contract award.

It is fully understood that this guarantee takes effect from the date of opening the bid and shall remain valid for a period of 90 calendar days thereafter, and during the period of any extension thereof that may be agreed upon between you and the Bidder with notice to us, unless sooner terminated and/or released by you.

Bank of China
Head Office
Beijing

Authorized signature

ADVANCE PAYMENT BOND

An advance payment bond, like a bid bond, guarantees the Chinese purchaser that the service or items it has contracted for will be provided. In China's machinery imports and technology transfer contracts, the Chinese typically agree to pay a certain amount (10 to 20 percent of the contract price) up front before the seller ships the merchandise or transfers the technology. But Chinese buyers are generally only willing to make such advance payment if the seller's bank issues an advance payment bond guaranteeing repayment of the funds, with interest, if the exporter fails to fulfill his obligations. Advance payment bonds can also be used in situations where installment payments are made over the life of the contract.

American banks issue standby letters of credit (SBLCs) to satisfy the requirements of an advance payment bond. The BOC accepts advance payment bonds in the form of a letter of credit with itself as the beneficiary. The BOC then opens a performance letter of credit with the same conditions to the importer in China.

An example of an SBLC format used successfully in the past is shown below. However, because the terms of each SBLC are closely tied to the transaction and terms of the contract, a standard SBLC does not exist and pricing varies according to the credit standing of the seller. Thus it is important to work with an international bank that has experience in these types of transactions to structure an SBLC best suited to the transaction being concluded in China.

SAMPLE ADVANCE PAYMENT BOND

(in the form of US banks' Standard Letter of Credit)

TO: BANK OF CHINA
CHANGSHA BRANCH
WUYI DONGLU 25
CHANGSHA
HUNAN PROVINCE
CHINA

FROM: FABULON BANKING CORP.
1 WALL STREET
NEW YORK, NY

WE HAVE OPENED OUR IRREVOCABLE LETTER OF CREDIT NO. P123456 IN YOUR FAVOR FOR ACCOUNT OF:
TIP TOP TRADERS INC.
DIVISION OF TRADE AMERICA CORP.
5 TRADERS WAY
DES MOINES, IOWA
UP TO AN AGGREGATE AMOUNT OF THIRTY THOUSAND US DOLLARS AND NO CENTS (30,000.00) AVAILABLE UPON RECEIPT BY US OF:

(1) YOUR AUTHENTICATED CABLE/TELEX STATING: 'WE HEREBY DEMAND PAYMENT OF USD....., SUCH AMOUNT REPRESENTS THE AMOUNT THE UNDERSIGNED WAS CALLED UPON TO PAY UNDER ITS GUARANTEE ISSUED TO EXPIRE JUNE 10, 1986 IN FAVOR OF CHINA ELECTRONICS IMPORT/EXPORT CORP. CHANGSHA BRANCH, CHANGSHA, HUNAN, CHINA FOR ACCOUNT OF TIP TOP TRADERS INC. RELATING TO CONTRACT NO. TVP 107107XY SIGNED ON JANUARY 10, 1986 BETWEEN CHINA ELECTRONICS IMPORT/EXPORT CORP. AND TIP TOP TRADERS. UNDER MONETARY SUPPORT AND PROTECTION OF THIS LETTER OF CREDIT AND PER CUSTOMER'S REQUEST, PLEASE ISSUE YOUR GUARANTEE AS FOLLOWS:

QUOTE:
WITH REFERENCE TO THE CONTRACT NO. TVP107107XY (HEREINAFTER REFERRED TO AS THE 'CONTRACT') SIGNED ON JAN. 10, 1986 BETWEEN CHINA ELECTRONICS IMPORT/EXPORT CORPORATION (HEREINAFTER REFERRED TO AS THE 'BUYER') AND TIP TOP TRADERS, 5 TRADERS WAY, DES MOINES, IOWA, USA (HEREINAFTER REFERRED TO AS THE 'SELLER') CONCERNING THE SALE OF INTERGALACTIC GYROSCOPES WHEREIN A TOTAL AMOUNT OF USD300,000.00 (THREE HUNDRED THOUSAND ONLY) HAS BEEN STIPULATED, WE AT THE REQUEST OF THE SELLER, HEREBY OPEN AN IRREVOCABLE LETTER OF GUARANTEE NO. ... IN FAVOR OF THE BUYER AMOUNTING TO 10 PERCENT OF THE SALE PRICE, WHICH IS USD30,000 (THIRTY THOUSAND ONLY) AND GUARANTEE AS FOLLOWS:

(2) WE ARE OBLIGATED TO REFUND THE SAID AMOUNT TOGETHER WITH THE INTEREST AT THE ANNUAL RATE OF 10 PERCENT CALCULATED FROM THE DATE ON WHICH TIP TOP TRADERS WAS PAID, UP TO AND INCLUDING THE DATE OF THIS DEMAND, WITH PAYMENT BASED ON A 360 DAY YEAR AND AMOUNTING TO USD.... THIS WILL BE REFUNDED TO YOU WITHIN 10 (TEN) DAYS AFTER RECEIPT OF THE BUYER'S WRITTEN NOTICE STATING THAT THE SELLER DID NOT FULFILL HIS OBLIGATIONS TO DELIVER THE PRODUCT AS SET FORTH UNDER APPENDIX 5 TO THE CONTRACT.

(3) THIS LETTER OF GUARANTEE SHALL BECOME VALID AS FROM THE DATE WHEN THE SELLER RECEIVES THE ADVANCE PAYMENT AND SHALL BECOME NULL AND VOID AFTER THE SELLER HAS COMPLETED THE DELIVERY OF GOODS SPECIFIED UNDER APPENDIX 5 TO THE CONTRACT, OR JUNE 10, 1986, WHICHEVER SHALL FIRST OCCUR.

THIS WILL BE PROVED, AS STIPULATED IN 5.6 OF SECTION 5 OF THE CONTRACT, BY THE CONFIRMATION OF THE BUYER OF THE COMPLETENESS OF THE DOCUMENTATION ACCORDING TO THE LIST OF DOCUMENTATION.

UNQUOTE.

(4) THIS LETTER OF CREDIT EXPIRES AT OUR OFFICE ON JUNE 10, 1986.

(5) REFERENCES TO CONTRACT NO. TVP107107XY ARE FOR INFORMATION PURPOSES ONLY AND ITS TERMS, COVENANTS AND CONDITIONS ARE NOT BY SUCH REFERENCE INCORPORATED HEREIN. WE HEREBY AGREE WITH THE DRAWERS OF ALL DRAWINGS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT, THAT SUCH DRAWINGS WILL BE DULY HONORED UPON RECEIPT BY THE DRAWEE. ALL DRAWINGS UNDER THIS LETTER OF CREDIT MUST MENTION OUR IRREVOCABLE LETTER OF CREDIT NO. P123456.

(6) THIS LETTER OF CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1983 REVISION) INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 400.

SIGNED
FABULON BANKING CORP.

Examining the SBLC, several important points require elaboration:

1. The total payment demanded by the beneficiary must be clearly stated. It cannot be left up to the bank to calculate the payment amount, which consists of the up-front payment plus interest.
2. The interest rate and method of calculation must be clearly stipulated.
3. The beneficiary's demand for payment must be accompanied by a signed statement explaining why the claim is being made.
4. The SBLC must have a specific expiry date to limit the bank's liability.
5. The contract can be cited as a reference, but the bank cannot be obligated in any way to check the contract provisions or be responsible for making payment in accordance with the contract specifications.
6. The credit must be subject to UCP 400. Although some Chinese enterprises occasionally question this since most Chinese letters of credit are not yet subject to UCP 400, US banks follow international regulations, and the BOC expects them to abide by UCP 400 as well.

LETTERS OF GUARANTEE

In the past several years, letters of guarantee issued by the BOC have become an increasingly popular means of guaranteeing that the Chinese side will pay for the contracted products or services. A letter of guarantee functions as a hybrid between the traditional letter of credit and the straight documentary collection methods for payment used previously in China trade.

A documentary collection and a letter of credit have at least two fundamental differences in risk. First, under a documentary collection, the bank assisting the seller to collect payment does not stipulate the nature of the documents to be submitted, as does a letter of credit. There is thus no documentary reference point against which the bank can examine documents, and therefore it does not do so before sending the documents to China. Second, under a documentary collection, the primary credit risk is that of the Chinese buyer rather than that of the BOC, because the latter does not have an obligation, like that contained in a letter of credit, to pay if the buyer does not.

As Chinese importers have increas-

ingly pressed exporters to sell without letters of credit, many exporters to China now agree to ship under a documentary collection, but with the provision that the BOC provide a letter of guarantee to support the transaction. Thus, if the buyer does not pay, this letter of guarantee provides for payment by the BOC.

Recently, Chinese buyers have become particularly fond of this method of payment, seeming to prefer it to a letter of credit. One reason for this may be that Chinese buyers do not have to fully collateralize a letter of guarantee. Sellers often think they requested a letter of credit in their contract with a Chinese buyer, only to find that in fact they have received a letter of guarantee. Since the BOC letter of credit payments are almost always subject to approval of the documents by the buyer, there is not a large difference between a BOC letter of guarantee and letter of credit from an ultimate risk standpoint—provided the letter of guarantee is well-structured. However, one important difference is that under a letter of guarantee the advising bank in the United States is not required to examine documents. This responsibility falls to the seller. However, if the seller would prefer the bank to help with the collection and examine documents in advance, this service can be requested.

A letter of guarantee is a unique instrument, tailored to the specific transaction it supports. However, structure of the letter is crucial if this support from the BOC is to provide as much safety as the standard BOC letter of credit. Thus, it is important to include an appendix in the contract that incorporates the preferred format of the letter of guarantee. Some general points to include in a letter of guarantee are:

1. The date on which payment is due under the original contract should be tied to a specific verifiable event, e.g., 30 days from bill of lading date. For payments due under training, technology transfer, equipment installation, or other service contracts, payment should be linked to the invoice date or invoice due date.
2. A timetable should be established under which the BOC must make payment.
3. The letter of guarantee should stipulate an interest rate for interest payments due to the seller to cover the period from the date that payment was due to the date of actual payment by the BOC under the letter of guarantee.

Generally, documents to be provided to the BOC should include a certified statement from the seller that payment has not been received, and documentation that proves shipment was made or the agreed-upon service was provided.

Finally, try not to include any documents that the importer must sign or provide, as this may severely delay your ability to obtain payment under the letter of guarantee from the BOC.

The increasingly common use of these three payment mechanisms in China trade attests both to the rapid development of the market and to the growing acceptance of international practices in the PRC financial system. Procedures will continue to change, and proper structuring of payment mechanisms and documentary support for the transaction will continue to be important parts of the negotiating process in China. 完

SAMPLE LETTER OF GUARANTEE
(opened by Bank of China)

中國銀行

Bank of China
Head Office
Banking Department
Beijing, China

BANK OF CHINA
HEAD OFFICE, BEIJING, CHINA

To: US Farm Supply Inc.
777 Shady Lane
Anytown, USA

Irrevocable letter of guarantee No. LTG 1011

With reference to contract No. EZAS 123 (hereinafter referred to as the contract) signed on December 16, 1985 between China National Machinery and Equipment Import/Export Corporation and US Farm Supply Inc., concerning the buyer's purchase from you of 30 LXE tractors amounting to a total of US$ 400,000 we, at the request of the buyer, hereby issue this irrevocable letter of guarantee No. LTG 1011 in your favor to the aggregate amount of US$ 400,000 as stipulated in the contract section 9A.

In the case that you fulfill the obligations according to the contract stipulations whereas the buyer fails to effect the payment according to the terms and conditions as stipulated in section 5B of the contract (which stipulates payment within 30 days of bill of lading date) we shall within 15 days after receipt of the written notice from you pay to you the relevant amount by telegraphic bank transfer together with interest at the annual rate of 10%. This irrevocable letter of guarantee shall become effective from this date. The amount of this letter of guarantee shall be decreased automatically in proportion to the payments made by the buyer as stipulated in section 5A of the contract.

(1) (2) (3)

This letter of guarantee shall remain valid until the last payment as stipulated in section 5A of the contract is effected, but not later than Nov. 30, 1986.

This letter of guarantee shall be returned to us immediately after its expiration.

Bank of China
Head office
Beijing

Authorized signature

Enterprises that sell shares face a reluctant banking system

Stocks: New Domestic Financial Tool

Tom Engle

Late last year large numbers of people in Guangdong Province reportedly rushed to their banks and withdrew their savings in order to buy stocks issued by local enterprises. Earlier in the year, thousands of Shanghai residents braved a cold morning queue for the chance to buy stock in the collectively owned Yan Zhong Industrial Company, Ltd., a provider of photocopying and photo processing services. And Inner Mongolia's regional government says it will issue

stocks to raise more than ¥1 billion to build a new railway line. Throughout China more and more enterprises are issuing stock as a means to raise investment capital, and public demand for these so-called socialist securities appears very high.

One government publication last September described the new attitude toward stocks like this: "In the past, stock ownership was considered a kind of capitalist exploitation of workers. Now, as part of its new economic policies, China is making its people into stockholders." It is tempting to see another step toward creeping capitalism in the spread of stocks—or at least a sign of the Chinese economy's growing maturity. But at this point, either inference would be premature.

For one thing, China's "stocks" are quite different from those that the average Western broker buys and sells. It is far from clear in many cases that China's stocks actually represent possession of equity for the holder. For another, stockbrokers would find little to do in China because there is no regular buying and selling of securities. Most important, in the past 18 months a public debate over the appropriateness of stocks to the Chinese economy has revealed the presence of powerful interests that feel threatened by their expanded use. Nonetheless, stocks are emerging as a potentially viable alternative in the changing world of Chinese enterprise finance. If that were not true, the heated debate over their appropriateness would not be taking place.

Securities with Chinese characteristics

It's no wonder that Chinese citizens with spare cash are willing to sink their savings into stocks. While the stocks being issued in China come in several varieties, most promise return of principal and a guaranteed annual interest rate. The interest they earn is always higher than the approximately 7 percent that bank savings deposits now earn and sometimes up to three times as high. In addition, stocks pay a dividend when the holder cashes them in at "maturity." The size of the dividend depends on the issuing enterprise's performance; in one reported case it varied from 3 to 5 percent. The combination of higher interest and reasonable dividends makes stock an attractive investment. Indeed, given the inflation that has accompanied price reform in China, stocks are one of the few investment vehicles open to the the public that earn a positive real rate of return.

China's stocks thus combine elements of Western-style preferred stock and conventional bonds. In two crucial aspects, however, they differ from Western stocks. The price of a share of stock in China may not change. And stocks may not be freely traded, though they may be "transferred."

In recent instances, stocks have actually been issued by a bank, usually a local branch of the Industrial and Commercial Bank of China (ICBC), on behalf of the enterprise seeking to raise capital. Buyers include other enterprises, public agencies, employees of the enterprise, individuals, and even other banks.

Like so many other aspects of China's economic reform program, the impetus to mobilize funds through issuing stocks began first in the countryside. Many rural commercial and small-scale industrial enterprises are establishing themselves as "stock partnerships," described in the press last May as a "new type of rural economic set-up now esteemed as a vital way to further develop various industries in rural areas." Farmers or collectives pool their cash and/or real assets in the partnership and possess shares of stock in proportion to their contribution. They then enjoy profits in proportion to their ownership.

Credit for issuing the first urban stock is a matter of conflicting claims among Chinese cities. The practice appears to have begun in the early 1980s with enterprises selling stocks to their employees. Shanghai economist Sheng Mujie revealed in 1984 that a textile factory in his city quietly issued stock in 1981 to finance construction of a new workshop. "The factory was accused of adopting capitalist ideas, but I thought it was right," Sheng says.

More participants and publicity since 1984

By 1984 more enterprises had begun issuing stock to the general public. A food processing firm in Shenzhen called the Sanhe Co. Ltd. issued shares worth ¥200 million early that year in what was also reportedly the first stock issue in a special economic zone. *Intertrade* magazine noted hyperbolically that the issue "aroused an enthusiastic response from investors all over the country and from all corners of the world."

The city of Foshan, Fujian, has been in the vanguard of cities issuing stocks. Its No. 2 Cotton Weaving Factory reportedly raised ¥400,000 in 1984 by selling 4,000 shares to its workers at ¥100 each. The Foshan Trust and Investment Corp. joined the act by selling 1 million shares at ¥100 each. These stocks promised an annual return 50 percent higher than bank interest rates and were guaranteed by the Foshan municipal government in case the corporation did not perform as well as expected. The corporation invited investors who bought at least 500 shares to sit on its board of directors.

Perhaps because of its location in one of China's most prosperous regions, the Foshan corporation apparently had no trouble selling its stock. But stock issues have not been confined to China's relatively rich areas. Xinjiang's Urumqi Islamic Association became the country's first Moslem enterprise to issue shares to the public when it sold 100 shares at about ¥200 each in 1984. The firm planned to use the funds to open an Islamic goods store and had plans to issue more stocks to enter other lines of business such as printing, food processing, tanning, and catering.

In 1985 even more stock issues took place, generating greater publicity for this new financial tool. The Yan Zhong Company was able to attract a large turnout for its Shanghai offer because it advertised the event for several days beforehand on local television. A survey of 200 enterprises in six Guangdong cities found they had raised ¥370 million through sales of stocks and bonds in just the first nine months of 1985. Most of this was evidently raised last March when a consortium of Guangzhou organizations issued ¥200 million in shares to help finance construction of a three-skyscraper commercial complex planned for downtown. Some of the stocks were reportedly denominated in US and Hong Kong dollars and targeted at Hong Kong, Macau, and other overseas Chinese investors.

Last year also saw the first announcement that a Sino–foreign joint venture would issue part of its equity as stock. The venture is a partnership among the Guangzhou Auto-

mobile Factory, France's Peugeot, the China International Trust and Investment Corporation, and the International Finance Corporation affiliated with the World Bank. Ten percent of the joint venture's total equity will be sold as stock when light vehicle production commences in 1988. The issue will come out of the Guangzhou partner's share and attempt to raise about ¥7.5 million. Preference will be given to employees of the joint venture; officials have apparently not yet decided whether foreigners will be allowed to buy stock in the Guangzhou–Peugeot venture.

But foreign investors are welcome to buy shares in what will be the biggest stock issue in post-1949 China: the ¥1.1 billion issue to raise funds for construction of an 870-kilometer railway across Inner Mongolia. The government of the Inner Mongolia Autonomous Region will issue the stocks, and according to the first secretary of the region's Communist Party Committee, foreigners as well as Chinese can buy them. Scheduled for completion in five or six years, the proposed link between Jining and Tongliao will be one of China's longest rail lines.

Credit squeeze prompts stock issues

Given the attractiveness of stocks, the surprising fact is not that so many people want to buy them, but that so many enterprises can afford to issue them. The explanation for last year's increased issuing activity lies in the restrictions on bank credit announced during the year. These restrictions came in response to a sharp rise in unauthorized business investment in late 1984 and early 1985. Faced with a rapidly rising money supply and a jump in local borrowing that central authorities considered imprudent, Beijing raised interest rates and took other steps to restrict enterprise finance. Enterprises that needed money hit upon the idea of issuing stock as an alternative. Since stocks were such a new thing, enterprises also benefited from the lax regulatory environment.

CHINA'S STOCK MARKET—BORN AGAIN?

The issuance of so many stocks has forced the issue of whether China should resuscitate a stock exchange on which to trade these securities. Shanghai had a stock exchange from 1919 to 1949 and served as one of Asia's major money centers during that period. The victorious Communists viewed the exchange as one of the most oppressive symbols of capitalism and closed it posthaste. The fact that the issue is being revived at all provides one measure of the distance China has come in recent years.

Western analysts interested in the re-emergence of stocks in China tend to focus on the stock market—and not just because the ideological angle makes good copy. It is hard to imagine stocks ever becoming a viable, long-term financial instrument without an established secondary market. But restoring the country's stock market is far from a foregone conclusion. In early 1985 a Shanghai newspaper declared that the Zhuhai special economic zone adjacent to Macau would set up a stock exchange with the help of Hong Kong financiers, but the project does not seem to have advanced beyond the preparatory committee stage. And Chen Muhua, president of the People's Bank of China (PBOC), threw cold water on the concept in June when she stated that "the belief abroad that China has restored the stock exchange is not true." A staunch conservative in fiscal and monetary affairs, Chen added that "at present, we have not given consideration to the question of whether stock shares can be bought and sold freely."

This latter statement may have been going a bit far. The record shows that a lively debate about restoring the stock market was at least a year old at that point. In fact, a PBOC deputy manager had called five months earlier for opening "a socialist securities market step by step," and a *China Daily* report from Shanghai in March described the issue as "the debate of the day in financial circles in China's largest metropolis."

It is a debate that shows no sign of diminishing, despite Chen's remarks last year. A Shanghai municipal government spokesman said in October that the city was setting up a company to buy and sell shares issued by local State-run firms. The company is to operate under the local branch of the Industrial and Commercial Bank. Aside from the Zhuhai misfire, attention has always focused on Shanghai as the most likely place to re-establish a stock market, and some see this new company as the first step toward restoring Shanghai's exchange. The main obstacle would seem to be a purely symbolic one, namely the negative historical connotations of Shanghai's earlier stock exchange.

Even if a stock market does emerge in the near future, its activity will be very limited unless share prices are allowed to fluctuate. And even if the ideological issues are resolved, a host of technical problems will accompany creation of a viable stock exchange. One American financier notes that the Chinese must answer several questions before trying to set up an exchange: "What companies should be listed? How large a pool of funds is available to buy stocks? What instruments should be listed? Has a curb market developed first?" This last question is probably the most important. In most cases of successful stock trading, a spontaneous curb market flourished before any formal exchange was established. Imposing a secondary market in the absence of a curb market could backfire and show that the secondary market was not needed.

Attempts to set up stock exchanges in other developing countries have flopped at times, and this could happen in China too. Westerners anxious to see a stock market because they want another sign that China is 'going capitalist' should wish instead for a gradual, evolutionary development that will result in a stock exchange likely to last. —TE

Photo courtesy of New China Pictures

The site of the former Shanghai Stock Exchange on Hankou Road is now a wholesale department store for telecommunications equipment.

Faced with a jump in local borrowing in late 1984 and early 1985 the central authorities considered imprudent, Beijing raised interest rates and took other steps to restrict enterprise finance. Enterprises that needed money hit upon the idea of issuing stock as an alternative.

Seen in this light, the emergence of stocks as a vehicle for enterprise finance in China may be only a high-risk, high-cost attempt to circumvent bank credit restrictions, rather than evidence of a maturing economy. The staying power of stock finance will be tested by either a return to an easier monetary policy or increased central regulation of securities to a point commensurate with that of central regulation of the banking system.

Although stocks emerged as a response to presumably temporary circumstances, their presence nonetheless has forced the issue of their long-term appropriateness to China's socialist economy. Like many other such debates about specific policy instruments, the one over stocks and share ownership is often couched in terms of severe struggle. At the risk of oversimplifying still evolving positions, at least three points of view are discernible.

Differing views on the dangers and benefits of stocks

The first can be termed the "purist socialist" position. Purists oppose all forms of stock ownership, which they see as a capitalist instrument allowing people to earn profits without working. Buying and selling of stocks involves speculation and has the same result. Except for household articles, assets should be owned by the State or collectives. Stock ownership reflects the concentration of wealth in a capitalist class that exploits the working class, in whose name the revolution was fought and won.

In contrast to the purist position, the other two views tolerate limited stock ownership as a feature of the economy. But they differ on how far this new mechanism should be allowed to penetrate the economy, how freely stocks should be traded, and—probably most important—how freely stocks should compete with the established mechanism of enterprise finance.

Those favoring wider use of stocks, the "liberal reformers," claim that issuing stocks helps pool scattered, idle funds for national construction. Freely trading stocks whose prices may vary mobilizes even more capital. Speculation, of course, must be avoided, but this is possible through regulation. Selling shares to employees gives them a stake in the success of the enterprise and increases their motivation to work hard.

The liberal reformers span a range of views from experts favoring occasional stock issues by scattered enterprises to others calling for "development of a stock company-oriented economy." Sometimes the proponents of these "joint stock companies" have in mind little more than the merger of several small, inefficient enterprises into one rationalized firm. But some are thinking more along the lines of the modern Western corporation. The most radical liberals would even sell shares in China's big State-owned enterprises without stipulating that the State retain a controlling interest. Such ideas clearly stretch the definition of socialism.

What unites the liberal reformers, though, is the desire to establish stocks as an alternative to the banking system's monopoly on enterprise finance. And it is that point that brings them into conflict with the third camp, the "cautious reformers."

The cautious reformers are fiscal conservatives who generally support China's economic reforms but fear the loss of central control. They believe China's banking system should remain the main vehicle for distributing investment funds to local enterprises, following the guidelines of central and provincial plans. Cautious reformers supported the tighter credit controls imposed on the banking system last year, and see stocks as another way for enterprises to avoid central control by raising funds outside the purview of the banking system.

But cautious reformers do not oppose stocks altogether. They prefer to see them develop slowly in conjunction with a strict system of securities regulation. If stock issues among local enterprises could be regulated, it might actually increase central control over funds now outside the central plan.

To do that, bank branches might be required to approve stock issues—and in fact bank approval for stock issues already seems to be the government's policy. The problem is that local bank branch officials are under at least as much influence from local enterprise officials as from their banking bosses in Beijing. Regulating stock issues could turn out to be no easier than preventing unauthorized bank loans has been.

The cautious reformers' middle-of-the-road stance seems to represent China's most likely approach to stocks in the near future. The government is continuing efforts to limit stock issues while tightening the regulatory apparatus governing such issues. But if stock issues continue to avoid regulation, this form of enterprise finance may lose favor altogether and begin to be depicted as another of the "economic crimes" supposedly rampant in reformist China. (This view would not be wholly unjustified, as some enterprises reportedly "sell" stock only by coercing employees to buy it.) As a last resort, the cautious reformers might have to adopt the ideologically strident language of the purist socialists and depict the issuers and buyers of stock as enemies of socialism.

The situation is not likely to be pushed that far due to built-in technical and practical impediments to the rapid development of stock finance in China. These include poor communications, and underdeveloped legal, accounting, auditing, and other ancillary technical services. Stocks may help raise some cash for enterprises lucky enough to issue them and prosperous enough to afford them. But they're not about to revolutionize the Chinese economy any time soon. 完

Upgrading Paper Production

China's needs range from raw materials to equipment and technology

May Seto and Julia S. Sensenbrenner

The country that invented paper ironically now faces a severe shortage of it. Although China is among the top 10 paper producers in the world, its 1984 production of 7.5 million metric tonnes could not meet the demand of its 1 billion citizens. Per capita consumption of paper is a mere 7 kilograms compared with the world average of 40 kgs and an American average of 300 kgs. Chinese planners, who see over $300 million of their precious foreign exchange going to pulp and paper imports each year, have targeted the paper industry for large production increases. The current goal is to produce enough paper to allow for 13 kgs per capita consumption by the year 2000. To do so, the industry must raise production from the 1984 level to 11 million tonnes in 1990 and to 15.6 million tonnes in 2000.

Low wood reserves, underdeveloped pulp production, and an antiquated manufacturing base force China to import large quantities of everything from logs, lumber, and long-grain wood pulp to paper and paper-making machinery. In 1984 China imported 640,000 tonnes of pulp and wastepaper and 607,400 tonnes of paper and paperboard, while signing numerous contracts for upgrading its paper-making machinery.

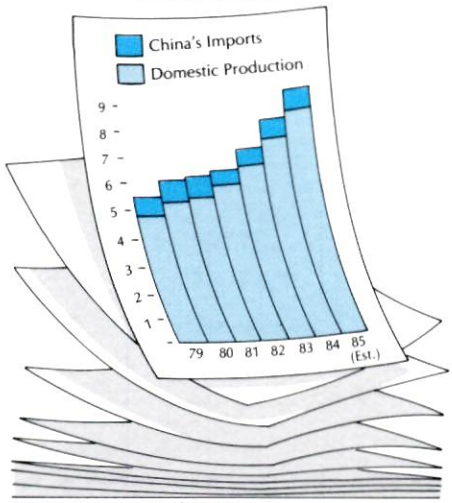
Quantity increases alone will not eliminate the need for imports. Rising living standards have put further pressure on the paper industry to raise the quality of its output. China requires new technology to produce better wrapping and packaging paper for export commodities, high-speed offset press newsprint, and high-quality writing paper—all three of which are now imported in large amounts.

Artwork by John Yanson

Industry structure constrains progress

It will not be easy to increase quantity and quality. The paper industry is decentralized and inefficient. Small mills oriented toward local consumption comprise over 90 percent of the country's paper mills. China has an estimated 2,400 paper mills, but only about 30 of these mills have annual capacities of 30,000 tonnes, and approximately 100 more mills produce 10,000–30,000 tonnes of paper per year. The smallest mills, with capacities of less than 10,000 tonnes per year, account for 55–60 percent of total paper output. The technology used in these mills lags far behind that of industrialized countries. Most use nonwood fibers as the pulp base to produce low-quality printing and writing papers for domestic consumption.

Paper & Paperboard Supply 1979–1985



SOURCE: State Statistical Bureau and *China's Customs Statistics.*

Industrial reforms have targeted small, inefficient factories scattered across the country, and the paper industry is no exception. A packaging official recently commented that approximately 75 percent of China's paper mills should be closed, or upgraded to produce at least 10,000 tonnes of paper per year. But efforts at renovation and reform are hampered by constraints on the industry.

For instance, most small mills are locally run. The Ministry of Light Industry (MLI) exercises indirect control in setting overall targets but cannot force a mill to suspend or upgrade operations. As a result, local supplies continue to depend on small-scale production and backward technology. Satisfying consumer demands will not be easy for these small mills, and yet they must continue to supply the majority of the population for some time. With no foreign exchange to obtain the latest technology, small mills can only wait for information to trickle down from the largest plants, a process that could take years.

Second, the severe shortage of long-grain fibers will make it difficult to raise quality at both small and large mills. Sixty percent of China's paper is made from nonwood fibers (bagasse, bamboo, wheat straw, waste paper and chips), which produce a lower quality product. Wood only comprises 20 to 25 percent of the pulp base, and half of China's wood pulp is imported. An ambitious reforestation program (planting 10 million acres each year for the next 15 years in the northeast and south-

May Seto, former associate editor of The CBR, *recently moved to Taiwan, where she plans to work in broadcasting. Julia S. Sensenbrenner recently joined the staff of* The CBR *as an associate editor upon returning from two years of teaching in Shanghai.*

eastern provinces) should bring eventual self-sufficiency in wood pulp production. But China's paper mills are likely to be dependent on imported pulp and timber until well into the next century.

The shortage of domestic pulp is complicated by the fact that responsibility for pulp production falls under the Ministry of Forestry Industry, while paper plants are under MLI (*see* chart). The division increases inefficiency and inhibits coordination between pulp producers and users. For instance, paper must compete with the booming furniture industry for already limited wood reserves.

Foreign exchange availability is yet another constraint. Foreign exchange is needed to buy everything from long-grain pulp to produce the quality paper in demand to machinery and technology to renovate the large mills. And China must continue to import high-grade paper until its mills can turn out enough to satisfy demand. China currently exports 3–4 percent of total domestic paper and paperboard production, mainly to Asian countries, but this does not even come close to balancing the industry's foreign exchange account.

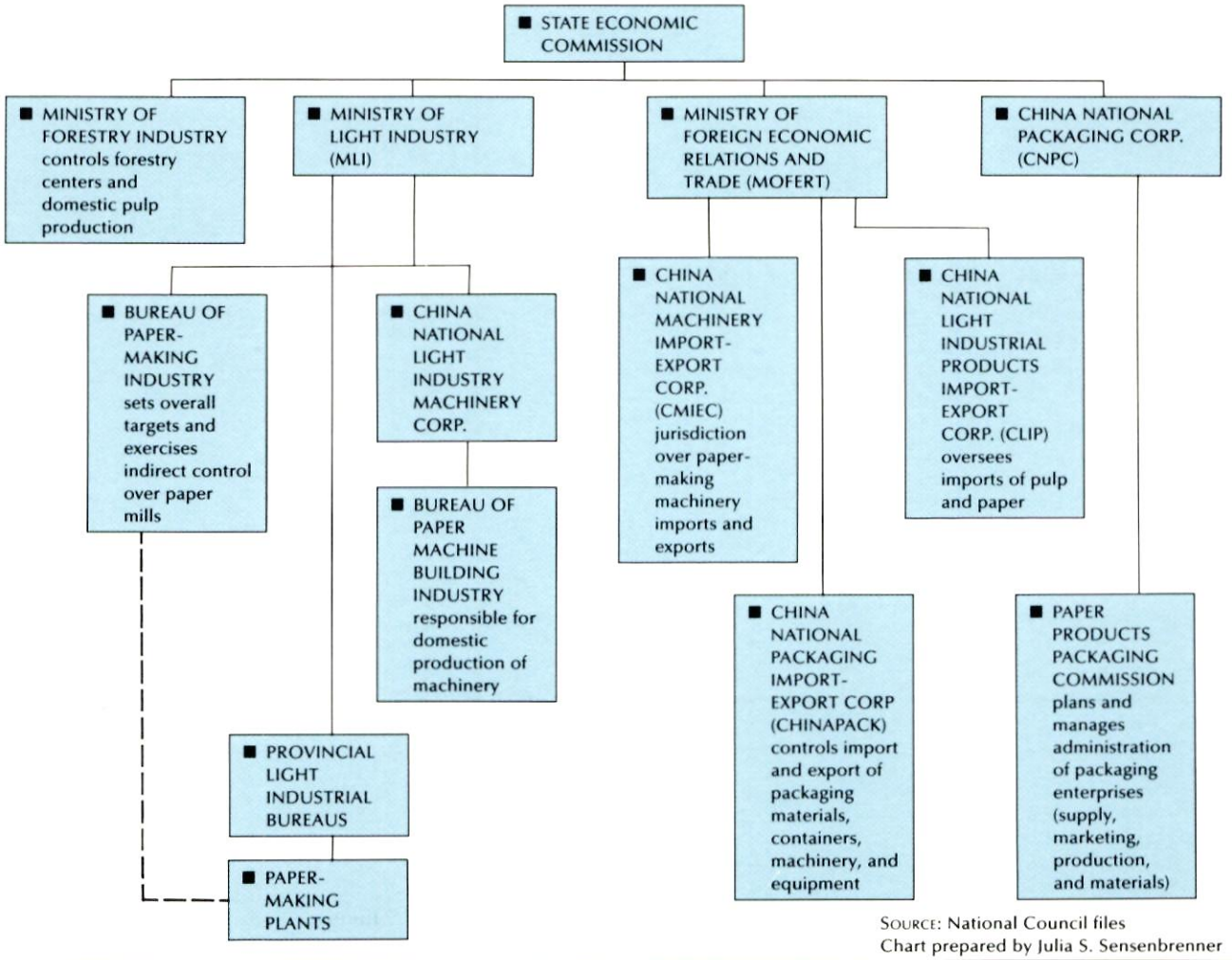
Largest mills to be renovated

The capital intensity of the paper industry makes it cost effective to focus efforts on the renovation of the country's largest mills, rather than attempting to build new plants or renovate many smaller ones. Rebuilding and upgrading paper machinery can help increase production levels, quality, and efficiency. China's underdeveloped paper machinery industry cannot produce the large paper machines required to boost output significantly, so the role of supplying new machines and rebuilding existing machines is falling largely to foreign companies.

The first priority in increasing paper output, then, is to equip China's larger mills with better machinery. For total paper and paperboard production to reach its target of 11 million tonnes by 1990, 70,000 tonnes of new paper-making machinery will be needed every year according to Chinese estimates. China's 45 paper machinery factories have the capacity to produce only 55,000 tonnes of equipment and parts per year, and 1985 production has been estimated at only 35,000 tonnes of machinery—about half the demand. Currently the highest production level of a domestic-made paper machine is 50 tonnes of paper per day. But with the help of foreign upgrading equipment, the Chinese have rebuilt some of these paper machines to produce up to 300 tonnes per day.

Another major constraint on the paper mills is the fact that most of their machinery produces only narrow-width paper, severely limiting the products that can be made from the paper. China now has just over

CONTROL OF PAPER-MAKING AND RELATED INDUSTRIES



SOURCE: National Council files
Chart prepared by Julia S. Sensenbrenner

400 relatively advanced fourdrinier paper machines, but these only amount to about 2 percent of the total number of machines. Seven of these fourdrinier machines produce paper with a width of 3.5–5.5 meters, 83 make papers 2.4 meters wide, and the remaining 315 produce papers less than 2 meters wide. All other kinds of paper machines produce paper with a width of less than 2 meters.

Sales of paper machinery

Beloit Corp. (US), the largest paper machinery manufacturer in the world, has captured about 70 percent of the current China market and is involved in the largest-scale rebuilds, according to Jacques M. Leonard, Beloit's business development manager. Beloit has already rebuilt three machines at a total cost of $20 million (*see* table on page 42). The Japanese licensee of Beloit, Mitsubishi, is involved in a machine rebuilding project at the Jiamusi Paper Mill. In October 1984, the Swedish trading company Elof Hanssen sold the Yibin Paper Mill in Sichuan a secondhand paper machine to produce 30,000 metric tonnes per year of printing and writing grade paper. The German paper concern Voith was also awarded a contract to add to a 27-year-old, 3.5 meter-wide paper machine at the Jincheng Paper Mill in Jilin.

An accurate breakdown of sales of machinery by country is difficult to obtain since paper machinery is not a discrete industry but includes unique parts of machinery and generic parts such as pumps and fans. Most machinery produced is for rebuilds rather than new equipment, since machinery runs 24 hours a day and is subject to intense wear and tear. In general, the Japanese tend to sell individual pieces of paper machinery equipment to China rather than a complete system. Other foreign firms pursue a strategy of selling complete systems or doing major rebuilds of a whole mill, which involves sales of almost-complete systems. US sales on the accompanying table appear low because not all components are included and sales of machine control systems, an area in which US firms dominate, are also not included in calculations. In addition, major US suppliers like Beloit make many sales through overseas subsidiaries. Thus Beloit reports total deliveries to China of $10 million in 1984.

Although difficult to calcualte, China's imports of foreign paper-making machinery are definitely on the rise. According to MOFERT, China imported close to $4 million worth of paper-making machines and parts in 1982, $7.4 million in 1983, and almost $10.5 million in 1984. China has no choice but to continue these imports since their own paper machinery technology cannot satisfy the paper industry's lofty expansion goals, and current renovation projects cannot keep pace with growing consumer demand for paper.

In addition to making purchases, some paper mills are seeking opportunities for cooperative production with foreign assistance. To date, Beloit seems to be the main firm moving in this direction. In mid-1985 Beloit and MLI announced the establishment of a joint venture to produce rubber-covered rolls and synthetic roll coverings for use in the domestic paper industry. Technology transfer, including transfer of designs and drawings, formulations of compounds for covers, and training of engineers and technicians, is a major aspect of the deal. This joint venture may be a trial run, as Beloit is also holding promising negotiations with MLI for a licensing agreement that could cover the whole paper-making machinery industry. The Ganjiang Paper Mill in Jiangxi will go straight to the root of the problem, pulp quality, in obtaining engineering services and technical advice from PEADCO (US). Capacity and quality of pulping operations will be improved by using PEADCO's technology for fiber preparation, pulping, and bleaching.

The need for quality packaging

Several aspects of paper production are of particular urgency to achieving current development goals. For instance, improvement of the packaging industry has become a national priority as China pushes to increase exports to earn foreign exchange. Package design and construction failures result in delivery of damaged goods and contract breaches costing China millions of dollars each year. Domestically, the construction industry loses an average of 5 million of the 125 million tonnes of cement it produces annually when bags break before reaching the construction site. Consumers are also seeking more convenient packaging, and regional economic specialization requires goods to be

SELECTED FOREIGN PARTICIPATION IN CHINA'S MAJOR PAPER MILLS

FACTORY/LOCATION	PRODUCTS	FOREIGN COMPANY INVOLVEMENT AND PROJECT DETAILS
10 LARGEST MILLS		
Jiamusi Pulp and Paper Mill (Heilongjiang)	Cable paper, electrical insulating paper, sack craft paper, kraft paper, braille paper, wrapping paper, pulp sheet	Mitsubishi (Japan–Beloit licensee): sale in 1984 to rebuild 5.5 meter-wide Valmet fourdrinier paper machine (PM) with Converflo headbox, two-nip Nipco press extension of wire section and improvements to PM drives. Measurex (US): 1985 sales of computer control system. Under negotiation: Clupak (US) extensible paper system.
Jilin Paper Mill (Jilin)	Newsprint, kraft bag paper, packing kraft paper, pitched waterproof board	Measurex (US): 1985 sale of computer system for old 2 meter-wide fourdrinier.
Guangzhou Paper Mill (Guangdong)	Newsprint, corrugated medium paper, wrapping paper	
Qingzhou Paper Mill (Fujian)	Sack paper for kraft paper, streaked kraft paper	Beloit (US): 1984 sale. Italian subsidiary rebuilt Voith fourdrinier, Converflo headbox, 4-roll tri-nip press section and modernized wire section with foils and cantilever beam wire-changing section. Clupack (US): 1984 installation of extensible paper unit. Measurex (US): 1985 sale of computer control system. New capacity: 300 tonnes/day.
Yueyang Paper Mill (Henan)	Newsprint, relief printing paper, case board	Beloit (US): 1984 project to rebuild 4.5-m trim Wartsila fourdrinier PM including Bel-Bond headboxes, foils to replace table rolls in wire sections, tri-nip press sections, four-roll machine calenders and Jagenberg rewinders. Startup due end 1986. AccuRay (US): October 1985 sale of one computer control system. New capacity: 160 tonnes/day of 48-60 g/m² printing paper.
Yinkou Paper Mill (Liaoning)	Paper and boards, capacitator tissue, typographic printing, cap paper, machine-glazed white-coated duplex board, toilet tissues	
Qiqihar Paper Mill (Heilongjiang)	Newsprint, paper-making machines and rolls for machines	
Yibin Paper Mill (Sichuan)	Newsprint, relief printing paper, writing paper, lacquer-coated base paper, art base paper	Elof Hanssen Trading Co. (Sweden): October 1984 $2.7 million sale of Hornefors Bruk Mills secondhand KMW paper machine and supercalender to produce printing and writing grades. 1987 startup. Project output: 30,000 tonnes/year.
Jincheng Paper Mill (Liaoning)	Typographic printing paper and cardboard offset paper	Voith (Austria): March 1985 delivery to modernize PM 5 by adding Voith Duoformer H twinwire section and headboard. Onstream June 1985. AccuRay (US): October 1985 sale of one paper machine measurement and control system. New capacity: 95 tonnes/day of 52 g/m².

sold in packages designed for transport.

Boxes made of corrugated paper, linerboard, and paperboard are one focus of activity. In 1984 Agnati (Italy) sold corrugating machines to a Xiamen paper packaging mill and a Fuzhou paper mill. Linerboard, the two facings that sandwich corrugated paper to make boxes, has been a consistently large US export to China, with 1984 exports totaling $30.7 million. China has relied on foreign linerboard to package its exports since the mid-1970s when the ongoing export drive began. Domestically produced linerboard, made with nonwood materials such as rice straw, collapses in the hot and humid conditions not uncommon in the southeast Asian countries to which China exports. Limited wood sources constrain domestic linerboard production and assure continuation of imports. The Chinese do not have enough converters to turn the linerboard into boxes, so there is also a growing machinery market for converters to fold linerboard and corrugated paper into boxes.

The domestic packaging industry also requires more paperboard for packages and stronger industrial strength bags for bulk transport. Machines that make recycled paperboard from wastepaper and extensible paper are in high demand since they can stretch limited domestic wood reserves. Stafford Machinery (US) has submitted a proposal to MLI to sell two secondhand cylinder board machines to make cardboard. Each would produce about 50 tonnes of cardboard paper per day.

The market for extensible bag technology is promising since China's construction industry is booming, increasing the demand for industrial-strength cement bags. And agricultural modernization is fueling demand for paper sacks to hold items such as animal feed, fertilizers, and rice. Clupak licensed one extensible paper system that Beloit built at the Qingzhou Paper Mill in 1984, and talks are underway concerning a system for the Jiamusi Paper Mill in Heilongjiang, China's largest. The extensible paper system puts stretching capacity into industrial bags so they can survive greater impact if dropped. The process increases durability of both wood and nonwood fibers, and thus is particularly useful to local enterprises with limited wood fiber supplies.

Shixian Paper Mill (Tumen County, Jilin)	Pulps, rolled newsprint, offset printing paper, single-side manila board, toilet tissue	AccuRay (US): October 1985 sale of two paper machine measurement and control systems.
OTHER MAJOR MILLS WITH FOREIGN INVOLVEMENT		
Beijing Paper Mill	N/A	Black-Clawson (US): sale of Voith flotation cell deinking line, onstream late 1985. Unnamed company PM rebuild of 2.1 meter-wide machine. Planned restart end 1985.
Fuzhou Paper Mill (Fujian)	Packaging papers	Agnati (Italy): 1984 sale of new 1.7 meter-wide, 40 tonne/day corrugating machine. Scheduled October 1985 startup.
Huasheng Paper Mill (Hangzhou, Zhejiang)	Cigarette paper and other specialty papers	Beloit (US): December 1985 sale of complete stock preparation machinery for cigarette paper and planned cooperation in local production of dry end machinery.
Ganjiang Paper Mill (Jiangxi)	Relief printing paper, writing paper, white playing cards base paper, white manifold paper, drawing paper, one-side offset printing paper, bookcover paper, account book paper	PEADCO (WR Grace subsidiary) (US): Provide engineering services and technical advice to renovate mill. Plan to increase plant's capacity of pulping operations for bagasse and bamboo to 30,000 tonnes of pulp/year.
Liujiang Paper Mill (Guangxi)	Newsprint, relief printing paper	Beloit (US): 1984 sale with project specs same as Yueyang mill. AccuRay (US): October 1985 sale of one paper machine measurement and control system. New capacity: 160 tonnes/day of 48-60 g/m² printing paper.
Leshan Paper Mill (Sichuan)	Technical papers used in the power and electronics industries, high-purity insulating wood pulp	AccuRay (US): October 1985 sale of one paper machine measurement and control system.
Nanping Paper Mill (Fujian)	Newsprint, bleached kraft paper, kraft pulp, dissolved pulp	AccuRay (US): 1985 sales of four paper machine measurement and control systems. Unspecified company negotiating remodeling of kraft PM.
Xiamen Packaging Paper Mill (Fujian)	Packaging papers	Agnati (Italy): 1984 sale of new 1.7 meter wide, 40 tonnes/day corrugating machine. Started May 1985.
XI-BE Roll Covering Company (Xian, Shanxi)	Rubber-covered rolls	Beloit (US): Joint venture to produce rubber and synthetic rollers. Targeted to begin production July 1986.
Location undecided (Nanning, Guangxi or Shaowu Prefecture, Fujian)	Newsprint	Klockner Industries Anlagen (FDR): Discussing joint venture with CITIC to use bamboo and masson pine to produce newsprint, with investment of $105,600.

SOURCE: National Council files.
Prepared by Julia S. Sensenbrenner

US EXPORTS OF PAPER-MAKING MACHINERY TO CHINA

(in thousands of dollars)

Commodity	1980	1981	1982	1983	1984	Jan–Sept 1984	Jan–Sept 1985
Industrial machinery for the treatment of paper and parts thereof	0	0	40	0	13	13	0
Machines for making cellulosic pulp	0	0	0	0	3	3	0
Machines for making paper and paperboard	0	0	0	15	0	0	0
Machines for making boxes, cartons, tubes, drums, and similar rigid cartons	0	0	1	0	0	0	0
Machines for making bags, sacks, envelopes, and similar nonrigid containers	0	0	2	0	0	0	756
Machines for finishing pulp, paper, or paperboard	0	0	0	0	159	159	0
Machines for cutting pulp, paper, or paperboard	243	54	76	15	125	89	375
Parts, nspf, of machines for making cellulosic pulp, paper, or paperboard	9	8	0	242	524	519	81
Parts of machines for processing cellulosic pulp, paper, or paperboard	0	11,470	0	24	19	18	5
TOTAL	**253**	**11,531**	**118**	**296**	**842**	**801**	**1,217**

SOURCE: US Department of Commerce

Nontraditional solutions to the shortage of packaging and wrapping paper are also being tried. The China National Packaging Corporation, responsible for coordinating all aspects of the packaging industry, recently purchased the Morris Paperboard Plant in Paterson, New Jersey (*see* box). The mill, one of the first fully owned Chinese factories in the United States, will ship 80 percent of the high-quality packaging materials it produces back to China, primarily to packaging plants, for final processing. Despite the transportation involved, the Chinese view production in the United States, where they have access to a ready supply of wood fibers, as a viable means of obtaining the high-grade packaging supplies that they urgently need.

Newsprint shortage limits publishing

The 1984 publication of 65 million books and 3,900 different periodicals placed China among the world's leading publishers. But lack of newsprint consistently delays the publication of books and magazines, making this another national priority for the paper industry. In 1984 planners estimated China would use 510,000 tonnes of newsprint for newspapers and books. Domestic production reached only 410,000 tonnes, primarily of a low-quality printing paper made from ground wood and chemical pulp. Meanwhile, the publishing explosion created a far greater demand than anticipated, and the country had to import 130,000 tonnes of newsprint and 90,000 tonnes of relief printing paper.

For China to increase its newsprint production, high-speed offset press newsprint machines are needed. Several of the country's largest mills produce newsprint and relief printing paper, and their ongoing renovation should improve the supply. Klockner Industries (FDR) is negotiating a joint venture to produce newsprint from bamboo and masson pine in either Guangxi or Fujian. And the Liujiang and Yueyang paper mills are currently being renovated with equipment from Beloit Corp. Reed pulp, the main pulp input at these plants, is notorious for creating linting problems, so Beloit will aim to eliminate the problem and produce printing paper suitable for offset printing.

Growing publication of high-quality magazines and books has also raised the demand for magazine-quality coated paper. Recently, five coating machines were imported for use in Shanghai, Beijing, and Shandong.

Finally, a variety of mills are adding quality-control equipment to optimize their consumption of limited quantities of raw materials and energy. AccuRay Corporation (US) sold 10 paper machine measurement and control systems to China in 1984 worth $4 million. Measurex (US) computer control systems have also been installed on fourdrinier machines at the Jilin, Qingzhou, and Jiamusi paper mills. Quality control seems to be a significant emphasis in modernization of mills, and AccuRay expects to announce new projects in China shortly.

Despite all these purchases, the time lag between acquisition of machinery and technology and their effective use in China's paper industry will assure continued high imports of pulp and finished paper products. Meanwhile, if China sticks to its ambitious goals, imports of machinery and technology to boost domestic capacity are likely to continue for at least the next five years. 完

CHINESE COMPANY PURCHASES US PAPER PLANT

In December 1985 the China National Packaging Corp. (CNPC) announced its purchase of the Morris Paperboard plant in Paterson, New Jersey. The 60,000 square foot plant, closed by Berles Carlton, Inc. in 1983, was purchased for $1.66 million at a bankruptcy court auction in October. Ownership of an American plant is a new venture for the Chinese packaging industry, which is seeking alternative means to increase its output value by ¥5.7 billion during the Seventh Five-Year Plan.

A new company, the Chiang An Co., has been formed to control the mill. American labor and raw materials will be used, while management will be both Chinese and American. CNPC found the New Jersey facility after a three-year search. Its advantages include convenient port access and a plant that can probably continue to operate for another 20 years, according to Mr. Xing Ji, assistant general manager of Chiang An.

China lacks an adequate supply of wood pulp to make packaging boxes suitable for export commodities. The Chinese management of Chiang An plans to sell the high-grade packaging paper produced in NJ to packaging plants back in China and will require payment in US dollars. The plants in China will gain a reliable supplier of packaging materials and can use export earnings to pay for their US purchases.

The Chiang An plant will be able to obtain the necessary raw materials and produce high-grade products in the United States far more easily than in China. The costs of labor and transportation will be higher than in China, but raw material supplies will be dependable and no pulp imports will be necessary. Also, the new source of supplies will mean that many small packaging factories attached to processing plants in China will not have to be renovated immediately. In the meantime, China will gain a valuable firsthand understanding of the American business environment, and the management of a US plant. —JSS

Have Credit, Will Travel

Carol S. Goldsmith

Time was, not long ago, when foreign visitors to China worried about how much money to take on their trip. Cash payments were required for virtually all goods and services: hotels, transportation, carpets, antiques. . . . But now, with foreign credit cards in China and the opening of more foreign-managed hotels, travelers wonder how *little* cash they can get away with carrying.

Progress notwithstanding, China has not fully entered the "plastic age." Credit cards can be used at quite a few shops that cater to expensive tastes, such as the State-run Friendship stores. But for the most part, foreigners in China should still be prepared to pay cash. The following update on cash, checks, and credit in China should help with the financial planning of your next trip:

■ *Credit Cards:* American Express, MasterCard, Visa, and Diner's Club are the most widely accepted US credit cards in China—in that order.

American Express, easily the most popular, is now accepted in 180 shops, restaurants, and hotels in China's major cities. This is a growing, but still relatively small, number. Most hotels that accept "the card" are foreign-managed properties, though a few Chinese hotels in Beijing, Xi'an, Shanghai, and elsewhere are joining the list. In card-accepting hotels, guests and nonguests alike generally can use AmEx to charge meals and purchases in the hotel shops.

Most local stores that honor American Express will take MasterCard as well. (The hotels often stick to American Express.) Travelers use Visa and Diner's Club in China primarily for cash advances, not charges.

To assist both card members and business travelers, American Express recently opened a Travel Services Center in the lobby of Beijing's Jinglun (Beijing–Toronto) Hotel. The center accepts mail for card members and users of AmEx traveler's checks, reports lost or stolen credit cards and traveler's checks, and handles emergency card replacement. Unlike AmEx centers here, however, this office cannot handle your travel arrangements, sell traveler's checks, or issue a refund for missing checks. All matters pertaining to traveler's checks are handled by Bank of China branches.

■ *Traveler's Checks:* All major international brands of traveler's checks are accepted by Bank of China branches and subbranches, and foreign exchange counters in airports, hotels, and Friendship stores. Should you lose your traveler's checks, getting a refund in China may be possible. Bank of America and American Express will arrange an instant refund up to a value of $500. Bank of China branches in seven cities can handle the matter: Beijing, Shanghai, Guangzhou, Tianjin, Qingdao, Hangzhou, and Shijiazhuang. Users of Visa and Citicorp traveler's checks must wait for their reimbursement. The Bank of China reports the loss to a customer service office outside China. Obtaining a refund for the total amount usually takes three to four weeks.

■ *Personal Checks:* American Express offers its card members an emergency check-cashing service in China's major cities. Holders of the ubiquitous Green Card are entitled to as much as $800 in American Express traveler's checks, and up to the equivalent of $200 in local currency, over a 21-day period. Gold Card members can receive up to $2,000. Special counters at Bank of China branches and subbranches in major cities assist with this transaction.

■ *Cash Advances:* Holders of MasterCard, Visa, and Diner's Club can receive a cash advance by presenting their passport and credit card at major Bank of China branches. With MasterCard and Visa, the cash limit is ¥500 in any business day; with Diner's Club, it's ¥1,000. The service charge is 4 percent.

■ *Changing Money:* The colorful foreign exchange certificates (FEC) issued to foreign travelers in China as their version of the local currency remain a prized commodity among locals. Chinese cab drivers and street vendors will give you change in ordinary renminbi (RMB) whenever possible, so they can use the FEC to purchase imported goods. Local moneychangers waiting outside the hotels and Friendship stores have talked many an unwary tourist into accepting RMB at impressive exchange rates. When foreigners try spending this "people's" money, however, they often find that payment must be made in FEC.

As a rule, be sure to get some FEC in ¥5 and ¥10 denominations when you change money, to pay small charges. And try not to accept RMB notes over a value of ¥2 as change. Small notes generally can be slipped in with your cab fare or bill at a local Chinese restaurant. RMB can also be used at local department stores and markets; the Friendship Store accepts RMB for locally produced items that cost less than ¥4, or as partial payment for more expensive local goods.

When you leave the country, the Bank of China may exchange a small amount of RMB, say ¥30—¥40, for dollars. But if you're carrying more renminbi than that, you'll have to use the bills for souvenirs. 完

Carol S. Goldsmith is executive vice-president of China Travel Management in Washington, DC. CTM's Beijing representative, Victoria Paton, researched this article.

会员动态

Given the tendency to focus on manufacturing ventures in China, the activities of US companies providing services to Chinese organizations and other firms in the China trade are often less well known. Yet development of the service sector has been given an important place in China's upcoming five-year plan, as a means to promote production and improve the standard of living. Thus it comes as no surprise to learn that several National Council members providing innovative services have recently decided to strengthen their presence in China. We present the activities of three such member firms.

PUTTING THE PR IN THE PRC

Burson-Marsteller International, a subsidiary of member company Young & Rubicam Inc., has joined forces with China's State-owned Xinhua News Agency to provide public relations services to firms doing business with China. In an eight-year agreement signed last August, Burson-Marsteller and Xinhua's marketing subsidiary, China Development Inc., established a new entity called China Global Public Relations.

The cooperative venture can serve clients both inside and outside the PRC. China Global exclusively represents Burson-Marsteller throughout China using Xinhua's 29 offices. Burson-Marsteller represents China Global in the 20 countries where it has offices. Burson-Marsteller is also training Xinhua staffers working for the venture, at first in their Hong Kong office, but perhaps later in US offices. Scott Seligman, who heads Burson-Marsteller's China activities in the United States, says the first trainee, a China Global deputy manager, is being "exposed to all aspects of what a PR agency does; he's working right alongside everyone else in the office."

Seligman says China Global has already performed PR services in Beijing and Shanghai, including arranging detailed client briefings, press conferences, media interviews, special events, press releases, and media monitoring.

Burson-Marsteller is running its own China subsidiary, Burson-Marsteller China Ltd., out of its Hong Kong office to complement the efforts of China Global, and does not plan to open a Beijing office in the immediate future. Since public relations in the Western sense is a new industry in China, however, company staffers make frequent trips to the mainland to assist Xinhua people in serving clients. Seligman, who used to run the National Council's Beijing office, says, "We're working very closely with our Xinhua partners and are providing continuing support in areas of public relations that are new to them."

TRAINING OIL FIELD WORKERS

Telemedia, Inc., a Chicago-based international training and management company, has launched its China business with a contract under a World Bank-funded project to train personnel at the big Zhongyuan oil field in Henan and Shandong provinces. Telemedia previously provided training services on energy and industrial projects in the Middle East and Southeast Asia, but this project is its first in China.

Under the three-year contract, Telemedia is helping the Zhongyuan Petroleum Exploration Board design and operate a new technical training center. Work began last September when a Telemedia team of five drilling, production, and training specialists looked into current training practices at Zhongyuan and studied the requirements of new production technologies the field plans to introduce. Now back in Chicago, the team has been joined by six Chinese engineers and training personnel who will help develop a master plan for the new center. As Telemedia Vice-President Bill Thebus puts it, "the best results are obtained when engineers and trainers work side-by-side throughout the process selection, design, and engineering phases of a new project. That way, there are no surprises when the process comes on-line."

The master plan will cover training requirements, curriculum, equipment, and operation of the center. Telemedia will also assist in selecting and training faculty and staff, both in China and the United States, and in recommending, procuring, and installing equipment at the Zhongyuan training center.

Telemedia is the first American firm to win a World Bank human resources development contract in China's energy sector after international bidding. US firms have sold goods and engineering services to China under World Bank projects, but this may be their first 'people' contract. Thebus, who is working on new business development in China, says, "The Chinese are justifiably proud of their history and culture. They have been educating people in China for thousands of years and have difficulty accepting the need for an outside training company to assist in that process. Our success is based on being able to show both the Chinese and Western companies working there that modern training constitutes a technology of its own that needs to be transferred to China just as any industrial process is transferred." Telemedia is currently pursuing additional China contracts in the transportation and industrial as well as energy sectors.

Thebus says Telemedia was not daunted by the horror stories of protracted and complex contract negotiations in China. "We concluded the negotiations with a two-man team in a matter of weeks. That may be just luck, but I prefer to think that we have something to offer that the customer wants."

COMBINING LAW AND BUSINESS CONSULTING

In an apparent first for a law firm, New York-based Kaye, Scholer, Fierman, Hayes & Handler last July set up

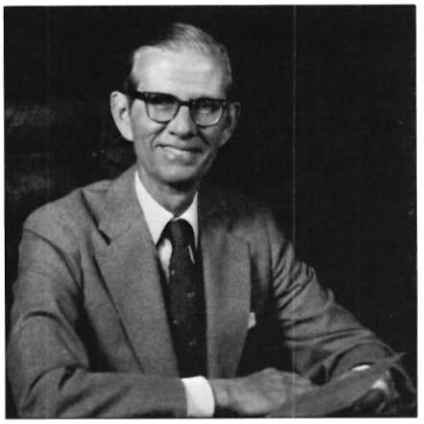
a consulting affiliate to assist clients contemplating business opportunities in China. Known as Kaye, Scholer China Business Consulting Group, Ltd., the affiliate is led by Managing Director Franklin Chu, who also serves as managing partner of Kaye, Scholer's law practice in Hong Kong. Day-to-day work is not carried out by attorneys, however, but by a three-person staff of business consultants in Washington, DC, led by General Manager Jeanne Chiang. According to Chiang, the consulting group will open its own representative office in Beijing sometime this year.

Kaye, Scholer China Business provides a wide range of consulting services including advising on Chinese development priorities and plans for specific industries, identifying end users of particular products, participating in joint negotiating teams, helping clients prepare product literature and project proposals, and preparing client staff for the Chinese business world. If these seem like the standard tools of the trade, Chiang points out that what distinguishes the firm is its search for clients focusing on long-term business prospects in China, especially technology transfer and joint venture opportunities. "This doesn't mean we'll never do commission sales," Chiang says, "but we don't go after them. We're working on long-term projects." According to Chiang, firms they advise range from those formulating a corporate plan and wondering how investments in China will fit in, to those with well developed ideas on the type of project they'd like to set up in the PRC.

The parent law firm Kaye, Scholer was founded in New York in 1917 and joined the National Council in 1984—one year before establishing its presence in Beijing. —TE

The China Business Review *welcomes suggestions for member company profiles to appear in this column. If interested, please send a draft of 200–400 words detailing an aspect of your company's China activities to: Associate Editor,* The China Business Review, *1818 N Street, N.W., Suite 500, Washington, DC 20036.*

我会活动



Christopher H. Phillips

Roger W. Sullivan

Christopher H. Phillips has informed the board of directors of his intention to retire as president of the National Council for US–China Trade. The board, meeting in Washington in December, accepted Phillips's decision with regret and asked him to remain in an advisory capacity as an honorary member of the board. The board members then named Executive Vice-President Roger W. Sullivan to succeed Phillips as National Council president when his retirement becomes effective June 1, 1986. Phillips has served as the Council's president since its founding in 1973.

At their December meeting, directors also heard a report on the National Council board of directors delegation to China last October 9–12, the sixth since 1973. Led by Council Chairman David C. Scott, chairman of Allis-Chalmers Corporation, and President Phillips, the delegation also included William R. Arthur (Sun Hung Kai), William B. Graham (Baxter Travenol Laboratories), Thomas L. Gossage (Monsanto), and Joseph Boyd (Harris). The Council's official counterpart organization, the China Council for the Promotion of International Trade, hosted the delegation, and board members met with its chairman, Wang Yaoting. Delegates also conducted wide-ranging and candid discussions in Beijing with other top Chinese officials including Vice-Premier Li Peng, State Economic Commission Vice-Minister Zhu Rongji, Minister of Foreign Economic Relations and Trade Zheng Tuobin, Bank of China President Wang Deyan, and Chairman of the China International Trust and Investment Corporation Rong Yiren.

The two sides discussed ways to expand US–China trade and industrial cooperation. National Council board members also raised questions about the leadership changes in China and the country's controls on foreign exchange expenditures.

From October 29 to November 10, the National Council led another successful delegation to China, this one comprised of executives from leading US defense industry firms. Led by Executive Vice-President Roger Sullivan, the delegates included 17 representatives from 15 firms and was hosted by New Era Corporation, the commercial arm of China's National Defense, Science, Technology, and Industry Commission.

The trip began with a two-day symposium in Beijing on the two countries' defense industries. Council delegates discussed the structure of the US defense industry, its relations with the American government, and the foreign military sales process. The various Chinese representatives delineated their respective areas of responsibility and discussed plans for development of China's military industry. The delegation then visited eight defense equipment factories in three different provinces covering ground defense, air and space, naval, and avionics/electronics production. Council participants agreed the delegation provided valuable knowledge of China's defense industry and prospects for commercial cooperation in the military sector.

Vice-Premier Li Peng greets President Phillips during board delegation's recent trip to China

National Council defense delegation at the Xi'an Aircraft Factory

The China Business Review
1985 Index

Compiled by Betsy Saik.

书刊介绍

Commercial, Business and Trade Laws: People's Republic of China, edited by Owen D. Nee, Jr. New York: Oceana (75 Main Street, Dobbs Ferry, NY 10522), 1985. Two volumes. $250 ($200 for NCUSCT members) plus $2.75 domestic and $6.25 foreign postage.

Published in August 1985, this is the third release of a looseleaf two-volume set containing the texts of major Chinese laws affecting foreign business, trade, and investment. This edition was reorganized to focus on foreign business law, dropping some domestic laws that appeared in previous editions.

This collection is set apart from other collections of Chinese laws by the author's commentaries in Part I. Part I covers laws directly affecting foreign companies in China, and the eight "practice commentaries" introduce each foreign law topic, e. g., foreign enterprise registration, joint ventures, and taxation. In his commentaries, Owen Nee examines the present laws and describes their application in a readable fashion—a real asset for laymen and newcomers to the field of Chinese law. For example, the commentary on foreign investment gives a clear explanation of differences between equity and contractual joint ventures.

Parts II and III contain domestic laws that may pertain to business transactions. Laws dealing with economic contracts, environmental protection, and even the Chinese constitution are located in these sections.

Texts of bilateral agreements and sample model contracts contained in parts IV and V are other unique features of this volume. Section IV includes China's trade agreement with the US and China's bilateral tax agreements with the United States, Japan, and the United Kingdom. The Swedish bilateral investment treaty is reprinted, but other investment treaties that China has signed are not included. The model agreement section, Part V, covers joint ventures, licensing, and plant sales, but does not include sample contracts for direct sales.

These volumes cover the basic laws affecting business with China as of May 1985. Oceana plans to release supplements of more current laws every six months at an additional cost to the purchaser. Although the editor regrets the fact that Chinese law texts do not accompany the unofficial English versions, the comprehensiveness of this publication still makes it a worthwhile purchase for the China trader or researcher.

Country Market Profile: The People's Republic of China. Washington, DC: US Dept. of Commerce (Office of Information Product Development & Distribution, P. O. Box 14207, Washington, DC 20044), 1985. 155 pp. $300 ($250 for NCUSCT members). Additional copies $100 each.

Published by the Trade Information Service of the US and Foreign Commercial Service, this market study investigates present and potential US export markets in China, focusing on straight sales of US commodities and equipment.

The report begins with a country overview, and includes a brief description of China's trade and economic policies, economic trends, and the general outlook for US exports. Of particular note are the statistical tables that list the fastest growing US exports to China between 1980 and 1984, as well as those exports for which China is our leading purchaser. Another interesting feature of this study is a listing of the 12 best prospects for US commodity and equipment sales in 1986 and 1987, based on available trade statistics, market research, and US Embassy reporting.

The second section discusses six US industry sectors that have good potential for sales to China: aircraft, avionics, and ground support equipment; electronics and computers; medical equipment; mining and extraction equipment; power generating and distribution equipment; and telecommunications. Each industry section includes a brief description of the US competitive position, tables of 1980–1984 US exports, and useful China trade contact names and addresses.

The *Country Market Profile* also includes a section with many statistical tables derived from US Bureau of the Census trade data. Much of the statistical findings of this report have not been published elsewhere, making it an excellent source of market information for US export growth industries.

Included with the *Country Market Profile* is the *Consumer Demand Factbook: China* by Jeffrey R. Taylor and Karen A. Hardee, both from the US Bureau of the Census. An in-depth analysis of China's growing consumerism, this factbook is divided into two parts. The first part profiles Chinese consumers by providing trends in urban and rural income levels; living expenditures; and consumption of food, durables, and nondurables. One chapter compares and contrasts consumption patterns by province. Future consumer demand is considered, and the authors conclude that per capita consumption may double by the year 2000.

The second part is a compilation of statistical charts. Using 1984 data wherever possible (in some instances only 1983 information is available), the authors have provided time series for national urban wages and rural income, consumption of consumer goods, and living expenditures, among other things. Printed in November 1985, this factbook is an excellent current guide to Chinese consumer demand.

Modernization in China: The Case of the Shenzhen Special Economic Zone, edited by Kwan-yiu Wong and David K. Y. Chu. Hong Kong: Oxford University Press, 1985. 229 pp. $29.95

This useful volume begins with

background on the concept of special economic zones, comparing China's version to the export processing zones in other Asian countries. Part Two examines the past and potential development of industry, tourism, and agriculture in Shenzhen, pointing out Shenzhen's difficulty in attracting the type of industrial investment desired. Part Three will be of greatest value to potential investors, as it covers the physical planning of Shenzhen and the zone's infrastructure and labor. Chapter 11, which focuses on the investment environment, is of special note. Shenzhen's administrative structure is described at length. The editors have also constructed an investment flow chart, which, while helpful, inevitably oversimplifies a complex and rapidly evolving situation.

The fourth and final section of the book is an upbeat summary of the contribution of the special economic zones to China's modernization. The optimistic conclusions, however, have been overshadowed by setbacks and criticisms of Shenzhen and other zones since this book was written.

The book will be a useful reference for scholars and businessmen. Data through 1984 are included where available. Some chapters will be heavy wading for the nonspecialist, but useful information is readily accessible through many tables, charts, maps, and a helpful bibliography. Frequent reference is made to other works in the field, and the bibliography provides a complete list of these. The book was edited by two members of the Department of Geography at the Chinese University of Hong Kong, with contributions from other researchers in that department as well as researchers at Hong Kong University and Zhongshan University in Guangzhou. —SJL and MCR

The Rice Economy of Asia, by Randolph Barker and Robert W. Herdt with Beth Rose. Washington, DC: Resources for the Future, 1985. 328 pp. $30 hardcover; $12 paperback.

More than a third of the world's population depends on rice as a primary dietary staple, and over 90 percent of the world's rice is grown and consumed in Asia. This comprehensive study of Asia's rice economy examines the topic from scientific, economic, and policy perspectives. The book covers technology, varietal improvements, irrigation and fertilizer advances, modern-day consumption and marketing patterns, mechanization and employment, and the role of rice policy as a government tool. The authors examine every rice-producing country in Asia—from the largest (China and India) and the most modern (Japan, Taiwan, and Korea), to the smallest (Pakistan) and the most traditional (Thailand and Burma).

Clearly written scientific and economic discussions, carefully explained charts, and ample historical background make this book accessible to the policy maker, academic, student, and layperson. The book's main drawbacks are a double-column page design reminiscent of a textbook, and poor contrast of typeset and paper. —ARJ

Chinese Democracy, by Andrew J. Nathan. New York: Alfred A. Knopf, 1985. 313 pp. $22.95.

In 1895, 8,000 young men about to take the national civil service examination in Beijing demanded rejection of the treaty China had just signed with Japan, and signed a petition calling for government reform. Andrew Nathan demonstrates that democratic activism has been alive in China ever since, culminating in the democracy movement of 1978 and its aftermath—both analyzed in depth in this book.

Nathan traces the movement back to the early democratic philosophy espoused by Liang Qichao, one of the 1895 protesters. He analyzes the nature of China's democracy movement, its differences from American-style democracy, historical obstacles to its development (cultural bias and the interference of the bureaucracy), conflicts between individual political participation and Party dictatorship, and the ebb and flow of the movement's fortunes depending on China's political climate.

The author argues that the democracy movement of the late 1970s was a reaction to the Cultural Revolution and the excesses of Mao. As long as Deng Xiaoping perceived the views being expressed as beneficial to his reform efforts, the movement was tacitly approved. But when the criticism went too far, a swift crackdown sent the movement underground again. The fragility of Chinese democracy is amply demonstrated, but so are the hopes that keep it alive. —PT

BOOKS RECEIVED

China: Long Term Development Issues and Options, published by the World Bank. Baltimore: Johns Hopkins University Press, 1985.

Main Report and Annexes, $35. Main Report, $14.95. Annexes 1) Issues and Prospects in Education, $5; 2) Agriculture to the Year 2000, $8; 3) The Energy Sector, $10; 4) Economic Model and Projections, $5; 5) Economic Structure in International Perspective, $5; and 6) The Transport Sector, $8.

(Available from World Bank Publications Sales Unit, 1818 H St., N.W., Washington, DC 20433)

The Making of Foreign Policy in China: Structure and Process, by A. Doak Barnett. Boulder, CO: Westview Press, 1985. 160 pp. $18.50 hardcover; $10.95 paperback.

China and Japan: New Economic Diplomacy, by Chae-Jin Lee. Stanford, CA: Hoover Institution Press, 1984. 174 pp. $19.95 hardcover; $9.95 paperback.

China and the Soviet Union 1949–84, compiled by Peter Jones and Sian Kevill. General editor Alan J. Day. New York: Facts on File, 1985. 203 pp. $22.95.

National Security Interests in the Pacific Basin, edited by Claude A. Buss. Stanford, CA: Hoover Institution Press, 1985. 317 pp. $27.95.

Human Rights in Post-Mao China, by John F. Copper, Franz Michael, and Yuan-li Wu. Boulder, CO: Westview Press, 1985. 117 pp. $15.

China Rights Annals 1: Human Rights Developments in the People's Republic of China from October 1983 through September 1984, by James D. Seymour. Armonk, NY: M. E. Sharpe, 1985. 195 pp. $25.

Books and business guides submitted for possible review in The China Business Review *should be sent to the National Council's book editor, Jennifer Little.*

中外贸易

Judith S. Taylor
Research Assistant

The following tables contain recent press reports of business contracts and negotiations exclusive of those listed in previous issues. Joint ventures, licensing arrangements, and other forms of business arrangements are included if classified as such in Chinese and foreign media reports. For the most part, the accuracy of these reports is not independently confirmed by *The CBR*.

National Council members can contact the library to obtain a copy of news sources and other available background information concerning the business arrangements appearing below. Moreover, member firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in *The CBR* by sending the information to the attention of Judith S. Taylor.

中外贸易 **CHINA'S IMPORTS THROUGH NOVEMBER 30**

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agricultural Commodities	
Plum Creek Timber Co. and Bank America World Trade Corp. (US)/China TUHSU	Shipped 6 million feet of logs. 5/6/85.
Webster Ltd. (Australia)/ Fujian	Signed a contract to provide beef cattle and letter of intent for shipment of dairy cattle. 6/4/85.
Canadian Wheat Board	Signed short-term agreement for spring and winter wheats during balance of 1985. 8/13/85.
(Argentina)	Ordered 200,000 tonnes of wheat for first quarter of 1986. 9/3/85.
(Bangladesh)	Will buy 10,000 tonnes of raw jute $3.4 million (100 million taka). 9/25/85.
(France)	Purchased 500,000 tonnes of soft wheat. 11/6/85.
Agricultural Technology	
Lamipak (Singapore)/ Guangzhou	LIC: Negotiating production of multilayered plastic film used for weed control. 12/25/84.
Webster (Australia)/ Jiangxi	Will assist in establishing pasture lands and developing a dairy operation. $2.1 million (A$3 million). 6/6/85.
Hickson's Timber Products Ltd. (UK)	Will supply timber treatment plants and chemicals for rubberwood industry. $480,200. (£375,000). 8/85.
Agripost Inc. (US)/Sunfire Co. (HK and Guangzhou)	Will provide facilities to convert municipal solid waste into organic soil conditioner. 9/85.
Oklahoma State University (US)/Gansu	Consulting on soil improvement. 9/85.
May Nursery Co. (US)/ Research Institute of Forestry and Pomology, Tianjin	Will ship 5,000 apple and soft fruit trees and vines. 10/85.
TECO International (US)/ Shenyang Farming Reclamation Combined Corp.	Will construct a broiler-chicken and egg-production plant. 10/85.
Chemicals and Chemical and Petrochemical Plants and Equipment	
American Natural Soda Ash Corp. (US)	Will supply major portion of approximately 1 million tonnes of soda ash imported annually in PRC. 4/85.
Bechtel Petroleum, Inc. and Bechtel China, Inc. (US)/CNTIC	Awarded a contract for consulting services on a commercial coal gasification project. 8/85.
LMP (Italy)	Delivered three turnkey lines for the production of expandable polystyrene foam. 8/85.
Mikuni Jukogyo (Japan)/ Nanjing Petrochemical Complex	Will export two large-scale air compressors. $652,000 (J¥140 million). 9/85.
Mikuni Jukogyo (Japan)/ Jilin Petrochemical Complex	Will export two butadiene vacuum pumps. $280,000 (J¥60 million). 9/85.
Sabic Marketing (Saudi Arabia)/Shanghai	Will supply 3,000 tonnes of ethylene glycol. 9/30/85.
Stone & Webster Engineering Corp. (US)/ SINOPEC, Zhenhai, and Wuhan	Awarded contracts to upgrade two refineries. 10/9/85.
UOP, unit of Allied-Signal Corp. (US)/SINOPEC, Nanjing	Signed contract for expansion of linear alkylbenzene complex. 10/14/85.
The Polyolefin Co. (Singapore)	Will supply low density polyethylene and polypropylene. $47 million (S$100 million annually). 10/22/85.
UOP, unit of Allied-Signal Corp. (US)/Guangzhou Petrochemical Works, subsidiary of SINOPEC	Will design petroleum processing unit. 11/14/85.
Showa Denko K.K., Toyo Soda Manufacturing Co., and Tonen Sekiyukagaku K.K. (Japan)	Will supply 10,000 tonnes of polyolefins, mostly high-density polyethylene. 11/23/85.
Construction Materials and Equipment	
Frederick Parker Group (UK)	Will supply asphalt plants with machinery and train workers. 6/6/85.

NA = Not available.

NOTES: Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in *International Financial Statistics (IMF)*. Contracts concluded over two months ago are also included if they were not reported in the last issue of *The CBR*. Leasing (LEAS), Licensing (LIC), Compensation (CT), and Assembling (ASSEM) deals are now included in the "China's Imports" section.

Nippon Light Metal Co. (Japan)	Received order to line the outside walls of three newly built hotels with aluminum material. $7 million (J¥1.5 million). 8/14/85.
Fox Industries (US)	LIC: Signed letter of intent for technology transfer of various construction techniques and materials. 9/85.
Laidlaw Drew (UK)/ Lanzhou Glass-Making Plant, Gansu	Will supply combustion equipment. £250,000. 9/21/85.
Tumac Hoists Ltd. (UK)/ Dalian	Received orders for Buildmaster hoists. $327,000 (£230,000). 9/26/85.
NA (Denmark)/CNTIC, Guangzhou Foreign Trade Corp. and Guangzhou Zhujiang Cement Plant Planning Office	Signed agreement for construction of 1.2 million tonne per year cement plant. $130 million (¥400 million). 10/85.
Nippon Steel Corp. (Japan)/BOC	Won bid to supply and construct steel structures for Hong Kong branch building. $19 million (J¥4 billion). 10/26/85.
Burlington Slate Co. (UK)/Shenzhen	Supplied 120 tonnes of slate for museum floor. 11/85.
Reifenhauser Co. (W. Germany)/Shenyang, Liaoning	LEAS: 2,000 tonne per year automated organic glass production line went into operation. 11/11/85.
Orenstein & Koppel AG (W. Germany)/ MACHIMPEX, Machinery Bureau of MURCEP, and Beijing Engineering Excavator Factory	Signed agreement on importing special technology for producing hydraulic excavators. 11/18/85.

Consumer Goods

Ronson (UK)	Sold 250,000 cans of lighter fluid. 6/6/85.
RCA (US)/China Record Co. and Shanghai Music	Will ship cassettes of 24 classical titles. 7/31/85.
Fuji (Japan)/Swatow (Shantou) Photo Materials Factory, Guangdong	Will build a manufacturing facility to produce color film and materials. 9/85.
Kodak (US)	Will build color negative film and color paper factory. 9/85.
Shiseido (Japan)	Will transfer technology for complete line of cosmetics. 9/85.
Ranco (US)	Will supply component parts for the production of refrigerator thermostats and provide training in installation and maintenance of equipment. 9/27/85.

Electronics and Electrical Equipment

Alcatel-Thomson, subsidiary of Cie Generale d'Electricite (France)/ Beijing	Will supply 100,000 lines. $62 million (Fr500 million). 1/85.
National Industry (Norway)	Signed contract for delivery of a computer-controlled drying installation for production of transformers. 3/20/85.
Ultimate Corp. (US)/ China Electronics & Communication Co. and the Ministry of Railroads	Received order for minicomputers. $2.2 million. 5/15/85.
Elec & Eltek (HK)/ Shantou and Huangpu	Signed contract to supply three printed circuit board plants. $10.3 million (HK$80 million). 5/20/85.
Toshiba (Japan)/Dalian Electric Machine Works	Concluded contract to supply technology and manufacturing facilities for inverter manufacturing. $5 million (J¥1 billion). 8/6/85.
Cognitronics Corp. (US)/ Song Tao Hotel, Zhaoqing, Guangdong	Supplied two speech recorder/announcer units for automatic wake up service. 8/26/85.
Toshiba Mitsui & Co. (Japan)/CNTIC	Will supply automatic transformers and remote electric power control systems for electrification of railway between Zhengzhou and Baoji. $1.1 billion. 9/85.
Radwar Foreign Trade Bureau (Poland)	Will supply a production line of high-power silicon controlled rectifers, with technology for their production. $6 million (SFr13 million). 9/28/85.
Accuray (US)/Nanping, Jincheng, Leshan, Liujiang, Yueyang, and Shixian Paper Mills	Ordered 10 paper machine measurement and control systems. $10 million. 10/85.
IPL Systems Inc. (US)/East China Computer Research Institute of Shanghai	Signed order for two processors and peripheral equipment. $750,000. 10/1/85.
Northwest Instrument Systems (US)/Beijing Microelectronics Technology Application Research Institute and CNEIEC.	LIC: Signed agreement for production of computer-based tools. $2.5 million. 10/7/85.
Digital Equipment China Ltd., subsidiary of Digital Equipment Corp. (US)	Will supply computer systems to educational establishments. $12.7 million. 11/11/85.

Electronics (Consumer)

ABDY (W. Germany)/ CNTIC, Beijing and Beijing Television Technology Research Institute	Negotiating supply of 3D television system. 10/7/85.
Victor Co. (Japan)/Shanghai Broadcasting and TV Industry Co.	ASSEM: Will supply parts for production of compact disc players. 11/85.

Engineering and Construction

Rotterdam City Public Project Bureau (Netherlands)/Shanghai Water Conservancy Bureau	Signed a technical cooperation memorandum to design an antiwave sluice gate at the mouth of the Suzhou river and other antiflood projects. 7/16/85.
Allied-Signal Corp. (US)/ China Chengdu Chemical Engineering Corp.	Signed agreement to provide engineering and construction technology for chemical, fine chemical, and pharmaceutical industries. 9/9/85.

Food Processing

Huppmann-Handel GmbH and Co. KG (W. Germany)/China Jiangsu Suntory Foods Co. Ltd.	Placed an order for a multivessel brewery plant. 6/85.
Geo. J. Meyer Manufacturing (US)	Awarded contract for soft drink factory. 9/85.
Kirin Brewery Co. (Japan)/China Guyunhe Beverage Corp., Jiangsu	Will provide technology on soft drink production and supply concentrate. 9/7/85.
EX Technologies, Ltd. (W. Germany)/Sanjiang Food Corporation of the Heilongjiang General State Farm Bureau	Signed agreement for soybean processing technology and equipment. 10/14/85.
Gold Key Group (Hong Kong)/Changji Hui Autonomous Prefecture, Xinjiang	Will set up brewery and glassworks. 10/28/85.
NA (HK)/Yili Farm Reclamation Agro-Industrial-Commercial United Enterprise Corp.	CT: Set up a frozen fresh sweet potato chips processing factory. HK firm will have exclusive marketing rights for 10 years. 10/28/85.
NA (Japan)/August First Sugar Refinery, Shihezi	CT: Will help process beet sugar. 10/28/85.
Meiji Machine Co. (Japan)/Hubei	Will design and install flour-milling plant. $1.9 million (J¥400 million). 11/16/85.

Machine Tools and Machinery

Nokia Koneteollisuus (Finland)	Sold power and telephone cable production lines and robotized control cable unit. $11 million (65 million markka). 1/29/85.
Ranco (US)/China North Industries Corp.	Will sell specialized machine tools, computer software and technology for inside diameter machining and finishing operations. $870,000. 5/13/85.

Waste Heat Technologies Inc. (US)/China North Industries Corp.	Will supply specialized machine tools, a brazing furnace, soldering station, computer hardware and software, and technology for external finned tubing production. $1.37 million. 5/13/85.
SI Spark Plug and Machinery Co. (UK)	Will supply presses and ancillary equipment for the manufacture of small alumina tubes used in energy-saving, high-pressure sodium vapor lamps. $1.6 million. 7/4/85.
Bridgeport Textron (UK)/ Tianjin	Sold horizontal machining center and two milling machines. $213,000 (£150,000). 7/23/85.
Dainichi Kiko Co. (Japan)/MMBI	LIC: Will build industrial robots. $1.2 million (J¥250 million). 7/31/85.
Vac-Tec Systems (US)/ Tianjin Tool Works	Ordered unit to apply wear resistant coating to cutting and forming tools. 8/85.
Kanthal Electroheat AB (Sweden)	Sold complete production system for the manufacturer of tubular heating elements, including training and software. $1.3 million. 10/85.

Medical Equipment

Chinam Med Corp. (US)	Sold used, refurbished, and modified medical equipment. $20 million. 5/12/85.
Hyperion Inc., affiliate of Cordis Corp. (US)/Shanghai	Negotiating final contract for bioconditioner for neuromuscular therapy. 5/27/85.
Toshiba (Japan)/Shanghai Medical Equipment Factory and Southwest Medical Equipment Factory	Technical assistance for production of x-ray apparatus and export of main parts. $3.3–$3.7 million (J¥700-800 million). 9/85.

Metals, Minerals, and Processing Technology

LTV (US)/Shanghai No. 2 Iron and Steel Works	Sold used two-strand, high-speed rod mill. 4/85.
Krupp Polysius AG (W. Germany) and Refractories Consulting & Engineering GmbH (Austria)/ Liaoning Magnesite Co.	Will supply 50,000 tpy magnesite sintering plant, including electrical equipment and special laboratory facilities. 7/85.
Mitsui Mining and Smelting Co., Mitsui Co., and Mesco Inc. (Japan)/ Huludao, Liaoning	Will renovate 35-year-old zinc refinery. $1.9 million (J¥400 million). 7/12/85.
Mannesmann Demag Huttentechnik (W. Germany)/Anshan Iron and Steel Complex	Received order for iron powder production facility. 8/85.
Voest-Alpine (Austria)/ Taiyuan Alloy Steel Works, Shanxi	Awarded contract to install a single-strand slab caster. $10.2 million (Sch190 million). 8/6/85.
Edwards of Enfield Ltd. (UK)/Liming Machinery	Won contract to supply aluminum machinery. 8/15/85.
Mitsui Engineering Service (Japan)/Shandong Export-Import Trade Corp.	Will establish brass wire production facility and provide technical assistance. $605,000 (J¥130 million). 9/85.
United States Steel Corp. (US)/Anshan Iron & Steel Complex	Sold 465,000 tpy rod mill. 9/6/85.
Sriwijaya Fertilizer Co. (Indonesia)/Guizhou	Shipped 10,000 tonnes of urea fertilizer. $1.29 million. 9/6/85.
Davy McKee (UK)	Received three orders to supply aluminum foil, steel tube, and strip mills. $28.5 million (£20 million). 9/26/85.
Mannesmann Demag Huttentechnik (W. Germany)/Ministry of Metallurgical Industry and Zunyi Ferroalloy Plant, Guizhou	Will import three large electric furnaces to double production capacity. $13.5 million. 10/15/85.
Sumitomo Metal Industries Ltd. (Japan)/Taiyuan Steel Works, Shanxi	Will supply equipment and technology to improve quality control and productivity. 10/18/85.
China-America International Engineering Inc., a joint venture of International Bechtel Inc. (US) and China National Coal Development Corp. (PRC)/Junggar, Inner Mongolia Autonomous Region	Signed contract to build open-cut coal mine and coal mine dressing plant. 11/12/85.

Military Equipment

(US)	Offered to sell plans and equipment for a munitions factory. $98 million. 10/1/85.

Mining Equipment

Tecnotrade (Italy)/China South-West Energy Resources Corp.	Signed contract to supply coal mining equipment. 6/3/85.
Bechtel China, Inc. (US)	Will train 1,400 operations and maintenace personnel who will operate Antaibao Mine. 8/28/85.
Kaiser Engineers and Constructors, Inc. (US)/ CNTIC, Shanxi, and Anhui	Awarded contracts for computer controlled systems to monitor and control specific gravity of heavy medium to coal preparation plants. 9/85.
Anderson Strathclyde (UK)	Received order for mining equipment. $9.2 million (£6.6 million). 10/15/85.

Packaging

Agnati Spa (Italy)/China National Packaging Import/Export Corp., Fuzhou Paperboard, Fujian	Sold complete corrugator. 12/84.
Superfos Emballage (Denmark)	Obtained order for packaging plant. $1 million (10 million kroner). 2/18/85.
M.S. Willett, Inc. (US)	Shipped tooling for the production of easy-open can ends. $400,000. 8/85.

Petroleum, Natural Gas, and Related Equipment

Novacorp International Consulting Ltd. (Canada)	Will be responsible for engineering design, automation, surge control design, and construction and start-up assistance for a 155-mile crude line from the Shengli field to Huangdao. 5/85.
Sembawang Engineering (Pte.) Ltd. (Singapore)/ CNOOC	Contracted to fabricate a three-phase horizontal test separator. 6/85.
Solum Oil Tool Corp. (US)/Shengli Field, Shandong	Awarded contract for sand control program. $1 million. 6/85.
Wah Chang International Corp. Pte. Ltd. (Singapore)/Bohai Oil Corp., subsidiary of CNOOC	Won contract to convert a 3,000-tonne barge into a derrick and pipe-laying offshore barge. $6 million (HK$44.2 million). 7/22/85.
British Gas (UK)/China National Oil & Gas Co.	Designing a 210-mile gas pipeline from Pujiang to Cangzhou to supply a major fertilizer plant. 9/85.
Mutual Oil (US)/Nanhai Oil Shenzhen Development Service Corp.	Negotiating contract for construction of 60,000 b/d refinery. 9/2/85.
Equipments Mecaniques & Hydrauliques (France)/ Gulf of Beibu and Bohai Field	Won contracts for single point mooring systems and floating production, storage, and offloading facilities. 9/16/85.
Marex (UK)	Will supply four databuoys and spares for gathering weather information in support of the offshore oil industry. $854,000 (£600,000). 9/85.
Bechtel (UK) and Bohai Engineering & Design Co. (PRC)/Japan China Oil Development Co.	Received engineering contract for floating production unit. 9/16/85.
GTS (US)/CNOGEDC	Signed a letter of intent to reprocess seismic data relating to certain onshore areas. 9/16/85.

Loffland Bros. North Sea Inc., subsidiary of Loffland Bros. Co. (US)/ Ministry of Geology and Mineral Resources	Will operate rig and train personnel in drilling operations. 9/23/85.
Atlantic Richfield (US) and Santa Fe Minerals (Kuwait)/CNOOC	Signed an agreement to build a natural gas production platform and subsea pipeline. $400 million. 10/7/85.
Fluor China Services Inc., unit of Fluor Corp. (US)/ CNTIC, Liaoning	Awarded a contract to install a natural gas liquids recovery plant. 10/16/85.
American Bureau of Shipping (US)/Bohai	Received contract for pipeline classification. 10/23/85.
Thyssen Ruhrpumpen (W. Germany)/CNTIC	Awarded order for the Tieling-Dalian crude pipeline. 11/4/85.
Amoco Corp. (US)/ CNOOC	Will sign contract to explore for oil off China's southeast coast. 11/12/85.
Esso China Ltd., unit of Exxon Corp. (US) and Shell Exploration Ltd., unit of Royal Dutch Shell (Netherlands)/CNOOC	Signed accord to explore for oil in a 1,500-square-mile area in the South China Sea. 11/18/85.

Ports

ITM Offshore Ltd. (UK)	Received order for specifications for two floating harbors. 7/29/85.
Port of Singapore Authority/Tianjin Port Authority	Signed engineering consultancy contract. $480 million. 7/30/85.
Mitsui OSK Lines (Japan)/ Shanghai	Will provide technical and managerial know-how for five new container terminals. 9/13/85.
Rotterdam Multi-Purpose Dock Co. (Netherlands)/ Nantong, Jiangsu	Will build 8 deep-water berths, 10 medium-sized berths, and 12 small berths. 10/15/85.

Power Plants and Equipment

(UK)	Signed agreement on nuclear cooperation. 6/3/85.
Thermal Efficiency (US)/ Chongqing, Sichuan	Signed agreement to supply gas compressors. 8/26/85.
Combustion Engineering (US)	Signed agreement to provide components for two coal fired steam generators. 9/85.
Brown Boveri and Co. (W. Germany), subsidiary of Brown Boveri (Switzerland)/CNTIC, Shanghai	Signed contract to supply seven 50-MW single-phase reactors for power factor correction. $11.3 million (DM30 million). 9/85.
Radwar (Poland)/China Electronic Export-Import Corp.	Signed contract for delivery of a complete assembly line for high-power thyristors with manufacturing technology, equipment, technological assistance, and training of specialists. $6 million (Sfr13 million). 9/27/85.
Brown Boveri Corp. (Switzerland)	Received order for materials and technology for high-voltage power substation in east China. 11/14/85.
Brown Boveri Corp. (Switzerland)/Panjiakou, Hebei	Will help construct power station. 11/14/85.
Brown Boveri Corp. (Switzerland)	Received order for chief equipment and technology to be used in a direct current high voltage transmission from Gezhouba hydroelectric station to Shanghai. 11/14/85.

Property Development

Dillingham Construction (HK), subsidiary of Dillingham Corp. (US) and China Everbest Development Co. Ltd./ Gansu Provincial Tourism Bureau	Signed contract for design and installation of air-conditioning and bathroom facilities for an extension of the Jincheng Hotel in Lanzhou, Gansu. $1 million. 8/26/85.
Kurokawa Nori Aki Co. (Japan)/Lushan Mountain Scenic Spot Administration, Jiangxi	Signed agreement to develop Lushan Mountain tourist district. 9/16/85.
GBC Management Services, subsidiary of the Gammon Group (HK)/ Hua Mei Sanitary Ware Co., joint venture between American Standand (US), the Guangdong branch of China National Light Industrial Products Import-Export Corp. and Qingyuan City Economic Development Corp.	Awarded a project management contract for construction of a sanitary ware factory complex. 10/85.
Sheraton, subsidiary of ITT (US)/Shanghai Municipal Tourism Bureau	Signed agreement to operate the Hua Ting Sheraton Hotel. 10/18/85.
Holiday Inn International (US)/Kim Realty Investment & Pte. Ltd. (Singapore) and Xiamen Construction Project Corp.	Signed hotel management contract. 11/85.

Scientific Instruments

Institut Francais du Petrole and Compagnie Generale de Geophysique (France)	Will supply four Myriaseis seismic data acquisition systems. 6/85.
Keithley Instruments, Inc. (US)	Completed negotiations for the next phase of final assembly and calibration of digital multimeters. 6/85.
Johnson Controls, Inc. (US)/China Electronics Import & Export Corp., representing Beijing Instrument Industry Co.	Signed five-year technology agreement involving automated temperature control technology for hotels and office buildings. $1.8 million. 6/3/85.
Shandong Southern Products (UK)	Won contract to supply laboratory equipment to rural areas. 9/3/85.

Shipping

Westamarin A/S (Norway)/Pudu Shipping Enterprises, Ltd.	Awarded a contract for building two coastal passenger vessels. $5.1–$5.7 million (40-45 million kroner). 4/2/85.
Marsa Yard (Malta)/ CNOOC	Constructing two anchor handling tug supply vessels. $14.13 million. (£10 million). 7/22/85.
Racal Marine Radar (UK)/ Qingdao, Shandong	Concluded technology transfer contract for supply of radar kits, associated manufacturing and test equipment, and provision of training facilities. $1.34 million (£1 million). 9/19/85.

Telecommunications

CIT Alcatel (France)	Won contract to provide satellite communications receiving equipment. $2 million. 3/85.
Nokia Telecommunications (Finland)/Shandong	Received first order for digital radio links. $1 million. 5/27/85.
CIT Alcatel (France)/ Guangdong	Received order for three E10 digital switches. $3.8 million. 6/85.
Harris Broadcast Group (US)/Tianjin Broadcast Equipment Co.	Finalized contract for delivery of transmitters. 7/85.
TFT (US)/Zhangjiakou Factory	Signed contract to supply studio-to-transmitter links and modulation monitors with training and transfer of technology. $2 million. 7/85.
AT&T (US)/Hubei Post and Telecommunications Switching Administration	Will supply Wuhan with ESS digital switch. 7/11/85.
Ericsson (Sweden)/ MACHIMPEX, Guangzhou	Supplied two major telephone exchanges. 7/26/85.
Pacific Telesis (US) and Telefonica (Spain)/ Zhenjiang	Will establish factory to manufacture and install radio transmission equipment. 8/85.
Intelsat	Signed agreement for use of satellite. $1.6 million annually. 8/26/85.

Elk Telecommunications (US)/Hunan	Installed a 50-km fiber optic link connecting Changsha with Zhuzhou. 9/85.
Kinetics (US)/Tianjin	Signed agreement for sale of automatic fiber analysis system. 9/85.
NIT International (Japan)	Will lay 418-mile fiber optic cable linking Datong to Fenghuangdao via Beijing. 9/5/85.
Siemens AG (W. Germany)/Changsha, Hunan	Will supply fully digital local and long-distance exchanges, transmission systems, beam wave guide, communications net, and an operating and service center. 9/5/85.
STC Telecommunications (UK)/Guandong Post and Telecommunications Authority	Will supply optical transmission systems. $1.3 million (£1 million). 9/23/85.
National Telephone Systems (UK)	Received order for private office telephone exchanges. $427,000 (£300,000). 10/10/85.
Matsushita Communication Industrial Corp. (Japan)/Telecommunications Training Center, Beijing	Will supply automobile telephone system. $186,000 (J¥40 million). 10/26/85.
Italtel (Italy)/CNTIC, Chongqing, Sichuan	Will supply equipment and technical assistance for digital telecommunication equipment factory. 11/19/85.

Textiles and Textile Plants and Equipment

Pei Bi Fei Co. (W. Germany)/Zhejiang Provincial Silk Co.	CT: Signed agreement for printed and dyed silk. 9/20/85.
Nissan Motor Co. (Japan)/Ministry of Textile Industry	ASSEM: Concluded agreement to provide technology on fast water-type weaving machines. 10/15/85.
Toyo Menka Kaisha Ltd. (Japan)	Negotiating to set up cotton ginning plants. 11/9/85.

Transportation Equipment

Selcom (Sweden)	Sold complete computer-based systems for dimension control of rubber details in automotive tire production. 2/13/85.
Hawker Pacific (Australia)/CAAC	Signed contracts for long-term supply of spare parts and maintenance support of CAAC's existing aircraft fleet. 6/85.
Freuhauf Corp. (US)/China National Automobile Industrial Corp.	Negotiating agreement to produce up to 200,000 truck trailers. 7/8/85.
Trailer Train Co., David J. Joseph Co., and Trans-America Transportation Service Inc. (US)	Received letters of intent to buy used rail cars. 7/30/85.
Dennis Eagle (UK)	Sold road sweeper. $57,000 (£40,000). 8/27/85.
Atlas Copco (HK), subsidiary of Atlas Copco (Sweden)	Signed contract for tunneling equipment for the Datong to Qinhuangdao railway. $19.2 million. 9/85.
Space Vector Corp. (US)/Beijing Wan Yuan Industries Corp.	Will trade marketing rights for launch vehicle technologies. 9/85.
NA (Poland)	Signed contract for purchase of gliders. 9/7/85.
NA (Hungary)	Will sell buses. $53 million. 9/9/85.
CASA (Spain)	Sold five CASA-Nurtanio CN-235 regional commuter aircraft. 9/10/85.
CAE Electronics (Canada)/CAAC	Received order for flight simulator with visual training system. $7.1 million (C$9.7 million). 9/13/85.
Renault (France)	Received order for 1,000 cars. 9/25/85.
Honeywell (US)/CAAC	Ordered three laser inertial reference systems. 11/4/85.
Piaggio & C. S.p.A. (Italy)/Beijing Automotive Import-Export Corp.	LIC: Will supply and assist in production of "Ape" small trucks. 11/6/85.
Toshiba Corp. and Mitsui & Co. Ltd. (Japan)/CNTIC	Received order for supervisory remote control system electrification program between Zhengzhou and Sanmenxia. 11/13/85.
Brown Boveri (Switzerland)/Shanxi	Will supply 150 diesel locomotives for transporting coal. 11/14/85.
General Motors (US)/Shenzhen Auto Industry Co.	Signed contract for 500 Chevrolet Monzas and a letter of intent for another 2,500. 11/20/85.

Miscellaneous

T.I. Accles and Pollock (UK)/LIGHTINDUSTRY Corp.	Ordered 220 Olympic javelins. 7/17/85.
Corac Printing Ink, Inc. (US)	Will assist in design and construction of ink factory. $3 million. 8/16/85.
Colordry Ltd. (UK)	Received order for printing and drying equipment. $356,000 (£250,000). 9/6/85.
San Kwong and Kook Je (South Korea)	CT: Will supply electronic products, textiles, industrial equipment, and consumer goods in exchange for agricultural products and industrial material. $100 million. 10/4/85.
Oxford University Press (UK)	Will publish national population atlas of China, Economic Geography, and Monuments of China. 11/1/85.

中外贸易

JOINT VENTURES AND DIRECT INVESTMENT THROUGH NOVEMBER 30

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported

Agriculture Commodities

TECO International Ltd. (US)/Shenyang	Negotiated farming and poultry project. 5/85.
Ocean Fishery Industrial Corp. (Japan)/Zhoushan No. 2 Marine Fishery Corp. and BOC, Zhoushan branch	Will engage in deep-sea fishing, aquatic product breeding, processing, and marketing. 9/16/85.
Elders IXL Group (Australia)/Nanning Agriculture Complex	Will cultivate 7,500 acres to produce pineapples for canning and export. 11/20/85.

Agricultural Technology

RBR International (US)/Fujian	Negotiated beef-cattle technology agreement covering full scope of operation and management. 10/85.
Norbest Japan Inc. and Norbest Inc. (US)/Tianjin	Will form Tianjin Utah Turkey Food Co. to provide technology of turkey farming and processing of turkey meat. (50–50). 10/26/85.

Chemicals and Chemical and Petrochemical Plants and Equipment

NA (France)/Zhejiang	Inaugurated Hangzhou Sino-France Chemical Co. Ltd. to employ French technology and equipment to manufacture epoxy, epoxy polyester, polyester, and special-purpose polyester resin. 2/20/85.
Amspec Chemical (US)/Hunan	Will co-produce and market antimony oxide. 8/85.
Lummus Crest, unit of Combustion Engineering (US)/SINOPEC	Formed joint venture to provide design, engineering, and project management services for developing and modernizing petroleum and petrochemical process plants. 9/85.
Nihon Parkerizing Co. and Chori Co. (Japan)/Shenyang Auxiliary Agent Factory	Will produce 300 chemicals for treating metal surfaces. $978,000 (¥3 million). 9/4/85.
Allied-Signal Corp. (US)/CNODC	Will modernize ethylene facility. $40 million. 9/9/85.

Allied-Signal Corp. (US)/ Fula'erji Heavy Machinery Works, Manchuria	Will replace old gasifiers using Westinghouse technology. $15–$30 million. 9/9/85.
Gold Key Group (HK)/ Xinjiang Chemical Industrial Corp.	Will jointly establish the Hami Soda Co. Ltd. ¥110 million. 10/28/85.
Amano Pharmaceutical Co. (Japan)/Wuxi, Jiangsu	Will collaborate in production of saccharification enzymes. 11/16/85.

Construction Materials and Equipment

Nippon Steel and Asahi Trading Co. (Japan)/ MACHIMPEX and Beijing Construction Excavator Factory	Will fabricate steel sections for multi-story buildings. $400,000. (50–50). 7/12/85.
Chris Savage and Associates (Australia)/ Guangdong	Will supply gypsum plant and equipment. 11/20/85.

Consumer Goods

Ridgefield Co. Ltd. (HK)/ Baolin Scientific and Technical Co. Ltd., affiliate of CITIC	Opened Liying Color Photo Center in Beijing. 7/16/85.
NA (France)/Harbin	Set up company to produce furniture from Heilongjiang timber. 8/23/85.
Chee Eng Hang Pte. Ltd. (Singapore)/Shenyang Petrochemical Works	Will produce special galoshes and furniture. 9/4/85.
Dainichi Sangyo K.K. (Japan)/Shanghai Furniture Co.	Will produce wooden furniture. $1.9 million (J¥400 million). (50–50). 9/7/85.
Kin Lai Industry Co. Ltd., a subsidiary of Lin's Kwong Ming Co. Ltd. (HK)/Beijing Dongdan Leather Shoes Factory	Will produce leather shoes. $350,000. (50–50). 10/7/85.
Parfums Jaques Bogart (France)/CITIC, Nantong Food & Flavor Industrial Co., and Nantong United Economic Development Corp.	Will form the Jacques Bogart China Co. Ltd. to produce perfume, lipstick, nail polish, rouge, cologne, and shampoo. $700,000. (Fr:45%–PRC:55%). 10/16/85.
Celanese Corp. (US)/ China National Tobacco Corp. for Nantong, Jiangsu	Will produce cellulose acetate for cigarette filters. 11/4/85.
The Ace Co. (Japan)/ Shanghai Stationery and Sporting Goods branch of LIGHTINDUSTRY	Set up Shanghai Ace Luggage Co. to produce baggage for export. 10/31/85.
Horn Abbot Ltd. (Canada)/Shanghai Toy Import and Export Corp.	Will produce a Chinese-language version of the game "Trivial Pursuit." 11/14/85.

Electronics and Electrical Equipment

Ultimate Corp. (US)/Jing An Equipment Import and Export Corp.	Will form a dealership to market Ultimate computer systems. 5/85.
Interlab Robotics Inc. (US)/Chang Feng Industry Corp.	Signed joint development, production, and marketing agreement. 5/29/85.
Datron (UK)/Tianjin No. 1 Radio Factory	Formed joint cooperation production unit. 7/85.
Uchida Yoko (Japan)/ Computer Center, China Academy of Science	Established joint software development firm. $466,000 (J¥100 million). 9/85.
(France)	Will supply electronic component research center. 9/9/85.
Analogic Corp. (US)/ Kejian Corp., sponsored by the Academy of Science, the State Science and Technology Commission, and the State Planning Commission	Will manufacture signal processing and high speed computational electronic instruments and supply the sub-assemblies to the joint venture. (50–50). 10/7/85.
Rhode & Schwarz Co. (W. Germany)/Oriental Scientific Instruments Import and Export Corp.	Opened electronics center in Beijing for electronic measuring and communications equipment. 10/16/85.
General Robotics Corp. (US)/MACHIMPEX, Tianjin	Will open service center. 10/22/85.
Hewlett Packard Co. (US)/Beijing University	Donated HP 3000-68 computer to new computer center. $500,000. 11/16/85.

Electronics (Consumer)

Matsushita Electric Industrial Co. Ltd. (Japan)/ Beijing Electron Tube Factory	Will co-produce 1.5 million color television tubes per year. 5/20/85.
Powan Electronic Co. (HK)/Jieshou Township and Anhui International Trust and Investment Service. Co.	Set up the Huazhong Electronics Co. to produce multifunctional electronic wrist watches and electronic calculators. 9/16/85.
PolyGram Records, Ltd. (HK)/China Audio and Video Recording Co.	Co-producing laser discs with Chinese music. 11/13/85.

Engineering and Construction

Dangroup International A/S (Denmark)/Ministry of Housing and Environment	Will cooperate with China Building Technology Development Center to provide consulting engineering services. 3/13/85.

Finance, Leasing

Toyo Trust & Banking, Nissho Iwai, and Nichimen (Japan)/Bank of China Trust Consultancy Corp. and MACHIMPEX, Shanghai Branch	Will form Shanghai Toyo Lease Co. to deal in facilities and equipment for factory innovation, as well as business machines, office computers, etc. $3 million. 6/29/85.
Banque Nationale de Paris (France), Hokkaido Takushoku Bank Ltd. (Japan) Bank of Communications (HK)/China Merchants Steam Navigation Co. Ltd., Bank of China Shenzhen branch, Nanhai Oil Shenzhen Development and Service Corp.	Will form North China International Leasing Ltd. in Shenzhen. 8/29/85.
(Yugoslavia)	Signed protocol on bank cooperation. 10/9/85.
Sanbar Co. (US)/Central China International Economic and Trade Corp.	Will engage in resource exploration and investment in Henan. 11/6/85.
Westpac Banking Corp. (Australia)/Industrial & Commercial Bank of China	Signed a business cooperation agreement. 11/7/85.

Food Processing and Food Service

Costan Refrigerazione S.p.A. (Italy)/Beijing	Will jointly manufacture commercial refrigeration equipment. 5/20/85.
Suntory (Japan)/Xinjiang Agro-Industrial Commercial Corp.	Will cooperate on technology for wine production. 9/85.
Nissin Seika Group (Japan)/Qingdao Second Foodstuff Factory	Will co-produce cookies and foods made of peanuts, azuki beans, and asparagus. $1.7 million (J¥360 million). (50–50). 9/7/85.
General Foods Corp. (US)/Guangzhou Dairy Products Factory	Started production of instant coffee by the Guangdong Food Co. Ltd. (50–50). 10/14/85.
Hong Kong Seasam Co. Ltd./Shanghai Jingjiang United Corp. and Shanghai United Wollen Corp.	Opened Shanghai Shangri-la Restaurant to serve Western cuisine. 10/23/85.
Nantsune Iron Works Co. Ltd. and Fuji Bank, Ltd. (Japan)/Beijing Machinery and Electricity Institute and CITIC	Will manufacture meat processing machinery. $1 million. (50–50). 10/25/85.

NA (Japan)/Shanshan Grape Development Co. Ltd.	Formed Grape Development Co. to produce high-grade wine for world markets. 10/28/85.
Xinxian Food Product Co. Ltd. (HK)/Turpan Melon and Fruit Industry Corp., Xinjiang	Will establish Turpan Xingang Canned Melon and Fruit Co-Management Co. $4.6 million (¥13.97 million). 10/28/85.
Burns Philp (Australia)/ Meishan Corp., Guangdong	Will build yeast plant in Meishan Sugar Mill. 11/20/85.

Machine Tools and Machinery

Yokohama (Japan)/ Shanghai	Formed Shanghai Zhongtiao Pipeline Engineering Co. 6/20/85.
Okano Valve Mfg. Co. (Japan)/Dalian	Formed venture for manufacture of high-pressure valves for the energy industry. $1.1 million (¥3.5 million). (J:40%–PRC:60%). 7/17/85.
Surface Combustion, division of Midland-Ross Corp. (US)/CNTIC and Shanghai Electric Furnace Co.	Will build new heat treat line for Nankou Rolling Stock Machinery Works in Beijing. 7/29/85.
Hong Kong Feifeng Co. Ltd./Shenyang Vacuum Equipment Plant	Set up joint company. $600,000. (HK:51%–PRC:49%). 9/11/85.
Gold Key Group (HK)/ Bostenhu Paper Mill	Set up Xinjiang Bostenhu Paper Mill to make paper from pulp from reeds growing in Bosten Lake. $1.2 million (¥250 million). 10/28/85.

Minerals and Metals

Bechtel Civil Engineering and Mining Corp. (US)/ Xi'an Coal Mine Design Institute	Will jointly draw up initial overall plan for the Shenfu coal field in Shaanxi. 6/4/85.
(USSR)/Hegang Coal Mine Administration, Heilongjiang Province	Will jointly renovate the Xingangtai mine. 7/23/85.
(Poland)	Signed protocol on scientific and technical cooperation in coal mining. 10/12/85.
Ministry of Geology (E. Germany)/Ministry of Geology and Mineral Resources	Signed protocol for cooperation in exploration and exploitation of energy and mineral resources. 10/19/85.
Kentucky (US)/Coal Ministry, Jiangxi	Signed technology-exchange agreement. 10/22/85.
Ruhrkohle Corp. (W. Germany)	Signed agreement on cooperation in extraction, processing, and coal research. A joint mine is planned in the Kailuan area. 10/30/85.

Petroleum, Natural Gas, and Related Equipment

Idemitsu Oil Development Co. (Japan), Cluff Oil Ltd. (UK), and Reading & Bates Oil & Gas Co. (US)	Will begin prospecting efforts, including a geophysical survey in the Beibu Bay area. 10/26/85.
Japan Petroleum Exploration Co., Huanan Oil Development Co., and Nippon Mining Co. (Japan)	Will begin exploration in the Pearl River Basin. 11/11/85.
Amoco (US)/CNOOC	Signed accord to drill for oil in the Pearl River Basin. 11/13/85.
Esso China Ltd. (US) and Shell Exploration Ltd. (UK)/CNOOC	Signed joint contract for exploration rights in the Pearl River Basin. 11/16/85.

Pharmaceuticals

Leeco Diagnostics Inc. (US)	Signed tentative agreement to establish a joint venture to produce a visual pregnancy test kit. 8/26/85.

Ports

Sun Cheong Piling Co. (Singapore)/Nanhai Oil Shenzhen Development & Service Co.	Signed contract for joint harbor construction. $160 million. 9/18/85.
Nippon Kokan and Marubeni Corp. (Japan)/ Tianjin Shipbuilding	Set up TSIC.NKK Offshore Engineering & Services to focus on construction and marketing of offshore structures. 10/7/85.

Power Plants and Equipment

Federation of Electric Power Companies (Japan)	Will set up representative office in Beijing to offer assistance on nuclear power construction. 5/85.
General Electric Co. (US)/ Dong Fang Electric Corp., Sichuan	Signed agreement to jointly design and manufacture steam turbine engines for use in coal-fired electric power plants. 5/31/85.
(Denmark)/Tibet	Will provide feasibility reports on schemes of establishing wind power stations and factories and cold storage using electricity from wind energy. 9/21/85.
Canadian International Project Managers	Will perform a pre-feasibility study of a hydroelectric project at Three Gorges. $1.2 million (C$1.6 million). 10/16/85.

Property Development

Fushan Investment and Designing Co. Ltd. (HK)/ International Trading and Trust Co., Xiamen City Real Estate Co., and Xiamen City Commodities Co.	Are developing Fushan International Exhibition City in Fujian. 1/3/85.
Yingde Corp. Ltd. (HK)/ Jilin Provincial International Trust and Investment Co.	Will jointly build Jida hotel. 6/20/85.
Pearl Glorious Investment Ltd. (HK)/CAAC, Guangzhou	Will build 600-room Pearl Hotel in Guangzhou. $30 million. 9/23/85.
Carroway Enterprises Ltd. (HK)/Urumqi Economic Development Corp., Xinjiang	Began work on World Plaza Hotel. $25 million. 10/2/85.
Abacus Group of America, Inc. (US)/Shenyang, Liaoning	Will begin construction on international trade center. $30 million. 10/11/85.
Macao Land Investment Co. Ltd. (Macao)/China Cooperative Industrial International Development Corp.	Will jointly operate Zhengzhou Wenhua Hotel. $20 million. 10/30/85.
NA (HK)/Shenyang City Department Store	Will construct a modern comprehensive service center. $1.3 million (¥4 million). 11/4/85.

Scientific Instruments

Geotronics (Sweden)/ Beijing Optical Factory	Opened factory to manufacture surveying instruments. 1/28/85.
Interlab Robotics Corp. (US)/Chang Feng Industry Corp.	Will jointly develop, produce, and market robot-related products and manufacturing systems. 5/30/85.
Tektronix (UK)/Shanghai 21st Radio Factory	Signed cooperative manufacturing agreement for assembly of portable oscilloscope. 7/85.

Shipping

IHC Holland (Netherlands)/Xin He Shipyard	Signed cooperation agreement for cutter suction dredge. $7 million (21 million guilders). 8/85.

Telecommunications

ANT Nachrichtentechnik (W. Germany)/Xinhua	Will jointly develop a word and text processing system with Chinese and Latin characters for newsroom workstations. 8/26/85.
Mitel Corp. (Canada) and Tricom Systems (HK)/ Nanhai Oil Electronic Corp. and PT & T Industrial Corp.	Will manufacture and market private automatic branch exchanges. $50 million. 9/85.
Cable & Wireless Plc. (UK)/Guangzhou	Will install a fiber-optic cable between Hong Kong and Guangzhou. 9/85.

GEC Telecommunications (UK)/Sichuan Telecommunications Exchange Equipment Factory	Will manufacture public and private telephone exchanges. 9/25/85.
Tai Co. (US)/Tianjin	Established joint venture with three local firms to produce program controlled digital telephone exchanges. $6 million. (50–50). 10/16/85.

Textile Plants and Equipment

NA (Italy)/Yantai, Shandong	Opened China Yantai Silk Printing and Dyeing Mill. 9/28/85.
Universal Textile Co. Ltd. (US)/Xinjiang Long-Staple Cotton Textiles Co. Ltd. and Xinjiang Autonomous Region Textiles Corp.	Signed contract for joint venture. $37.2 million (¥114 million). 10/28/85.
NA (HK)/China Merchants Steam Navigation Co. Ltd. and Zhejiang Silk Co.	Joint venture, Huasi Holdings Co. Ltd., began production. 11/85.
Wacoal Corp. (Japan)/ Hongdu Fashion Corp.	Set up Beijing Wacoal Co. to produce women's undergarments. $800,000. (J:49%–PRC:51%). 11/9/85.

Transportation

Renault Vehicules Industriels (France)/Factory No. 2, Shiyan, Hubei	Co-producing diesel truck. 10/4/85.
(W. Germany)/Hangzhou City Public Transportation Co.	Will jointly manage buses. 9/20/85.
Messerschmitt-Boelkow-Blohm (W. Germany)/ CATIC	Negotiating joint development and production of commercial aircraft and civilian and military helicopters. 10/3/85.
Orlando Helicopter Airways (US)/Guangzhou	Will produce Sikorsky-model helicopters. 10/29/85.
Transworld Aerospace, unit of Transworld Group Inc. (US)/Great Wall Industry Corp., Beijing Wanyuan Industry Corp., China Leasing Co. Ltd., and Ministry of Astronautics	Will form Global Aviation Modernization Association Corp. to modernize Boeing 727-200 aircraft. $40 million. 11/19/85.
ASG (Sweden)	Opened Sino Service Ltd., a representative office in Beijing. 11/20/85.

Miscellaneous

ABC Video Enterprises (US) and Japan Broadcasting Corp./China Central Television	Will cooperate on 10-hour series on "The Yellow River." 6/10/85.
Terry Corley, Martin Fink, and Edward Mosk (US)/ Beijing Film Studios	Will co-produce "Treasure of the Middle Kingdom." 7/31/85.
Iseto Shiko Co. (Japan)/ Tianjin Paper Making Industry Corp.	Will co-produce computer printout paper. $800,000. (50–50). 9/19/85.
Data Base Asia Ltd. (HK)/ China Hua Yang Technology and Trade Corp.	Will cooperate to provide worldwide distribution of economic and business information to and from China. 10/21/85.
Elizabeth Arden (US)/ White Swan Hotel, Guangzhou	Opened Red Door Salon. 11/12/85.

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