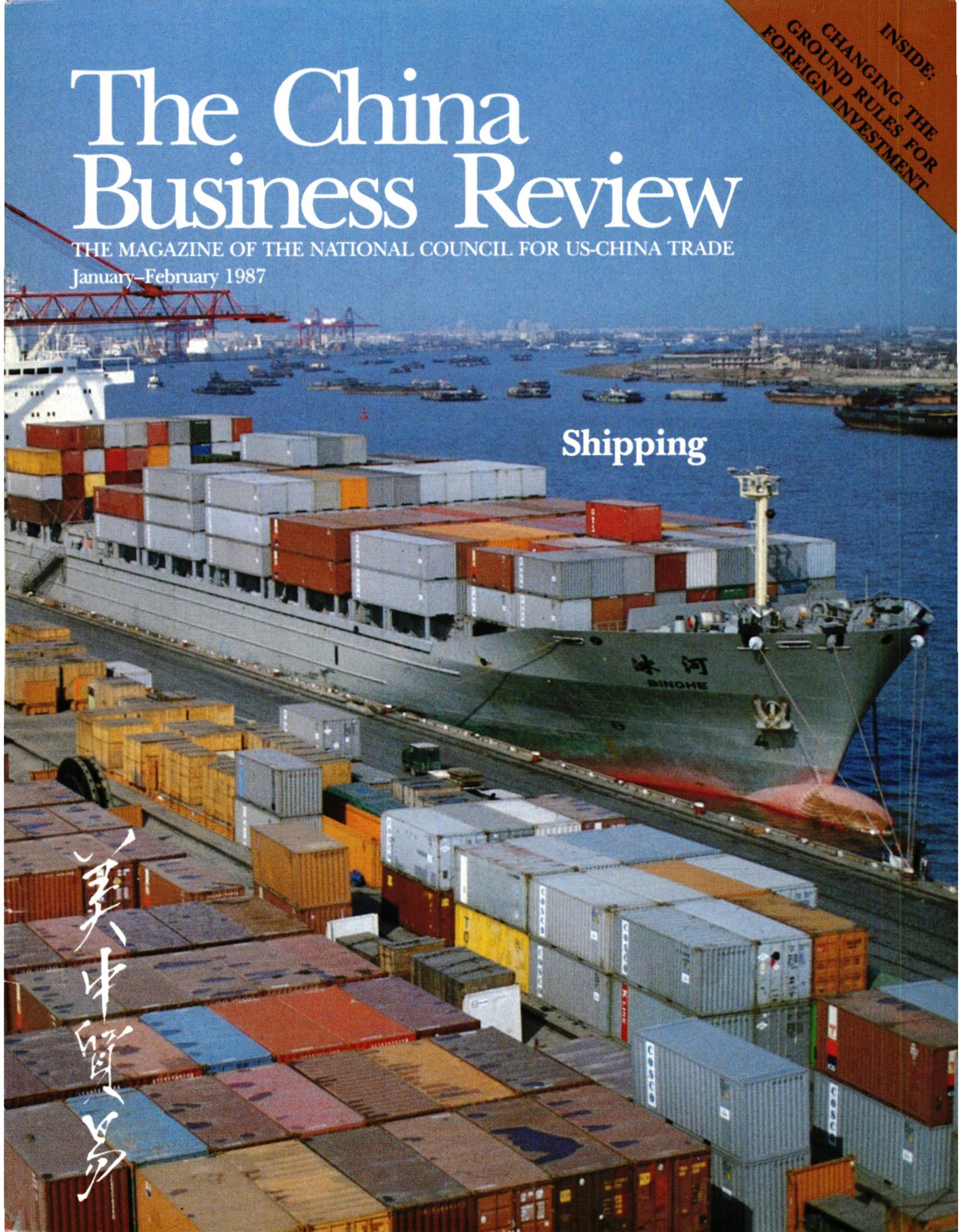
The China Business Review

THE MAGAZINE OF THE NATIONAL COUNCIL FOR US-CHINA TRADE

January–February 1987

INSIDE: CHANGING THE GROUND RULES FOR FOREIGN INVESTMENT



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The China Business Review

The magazine of the National Council for US–China Trade

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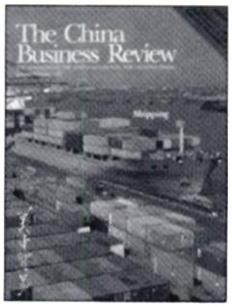
Cover: Container-ization is the next step in modernizing China's shipping fleet. Shown here: the *Binghe*, a container vessel, makes regularly scheduled calls on the US. *Photo courtesy of COSCO.*



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PRC IMPORTS THAT REQUIRE A LICENSE:

TRENDS & ISSUES

摘要

LABOR FOR HIRE

When it comes to export earnings from its trade with Iraq, China's leading "commodity" may be its people. In fact, by mid-1986, more Chinese were working overseas in Iraq than in any other country—20,000 in all. Chinese workers have been lending a hand in Iraq since 1979—making army uniforms, constructing bridges, putting up a new textiles factory, drilling oil wells, and building irrigation works—among other projects.

China began contracting excess labor to other countries in 1978. In 1985 alone more than 56,000 Chinese working overseas earned China $1.2 billion—90 percent of it in cash. Fully 66 Chinese organizations at central and local levels are now certified to take on contracts overseas, and the list is growing.

Most of China's projects are concentrated in Africa and the Middle East—notably constructing the Luapula River Bridge in Zambia, a 1700-km highway in Somalia, drydocks in Malta, apartments in Egypt, and a university in Jordan. And a good number of workers in the service sector—seamen, doctors, nurses, technicians, and chefs—also serve the typical two- to three-year stints.

But declining Mideast oil revenues are pushing China to look elsewhere for business. One success story is the United States, where the $36 million worth of contracts awarded to China in 1985 is slightly more than the sum total of the last seven years. Some Chinese workers are building two large housing projects in Guam, while others are chefs for renowned restaurants in New York, Washington, and other major cities.

To induce workers to leave home for this length of time, salaries are high. The ¥250–¥300 earned each month is more than double the average worker's take-home pay. And since at least a portion of most overseas salaries is paid in foreign exchange, workers can buy imported televisions, refrigerators, stereos and the like at China's hard currency duty-free stores when they return to China. Many admit that this incentive, more than any other, is worth leaving home for. —JSS

TUNNEL VISION

The Shanghai underground, well-known communist breeding ground of the 1930s, may take on a whole new meaning as China's most crowded city seeks space to grow. With population pressures as high as 100,000 people per square kilometer in the city center, Shanghai is being forced to build down as well as up, and several large underground projects are already in the works.

The city already has considerable experience in tunneling through the soft alluvial soil it lies on. In the past few years it built three underpasses for trains, one for pedestrians, and is considering many more. Tunnel projects are already fairly well along. Shanghai completed its first Huangpu River tunnel in 1970, hopes to finish the second by late next year, and is now trying to select the location for at least three more to be undertaken by the end of the decade, to help move people to the less densely populated eastern shore of the Huangpu.

Public parking in Shanghai is almost nonexistent, and with a rapidly rising vehicle count that reached 130,000 last year, the city can ill afford the present solution of parking cars along narrow and overcrowded streets. Few older buildings have parking space, and city officials complain that most of the newer high-rises going up also neglect adequate parking facilities. The concept of underground parking projects is being explored, the most ambitious proposal being for an underground shopping mall and two-level parking lot for 600 cars beneath the surface of Shanghai's People's Square.

With public transportation strained to capacity at 14 million riders a day, the city is also reconsidering a proposal for an underground subway system that has been on the drawing board since the late 1950s. Attention is now focused on a 14.4-km segment through the city center that will link the brand new train station in the north to Xinlonghua in the southwest, and feasibility studies have been completed by both Chinese and foreign teams. A 600-meter experimental tunnel dug years ago at what would be the southwest terminal point has been dusted off, and a spot for the northern terminus has been made at the new train station.

But the dream of a subway running between the two points is still far off. With costs estimated at ¥100 million per kilometer, a viable financing plan poses just the first stumbling block. Technical problems are also formidable, particularly the high water table and the complex system of pipes and cables under the city. Coordinating the various units involved, not to mention massive relocation work, are just some of the major problems to be faced.

Heated debate continues over the pros and cons of the subway plan—especially considering the other expensive infrastructure projects the city badly needs. The new Shanghai underground already has political overtones all its own—but there is little question that the city must increasingly look below the surface for answers to its problems out of sheer practical necessity. —MCR

MIND OVER MATTER

China's system of health care, the object of worldwide admiration for decades, earned its laurels by making adequate health services widely available to rural and urban dwellers alike. Often overlooked by foreign admirers, however, is how little attention is paid to the mental health needs of the population.

"Totally unprepared" is how one US clinical psychologist describes China's 6,000 psychiatrists and fewer than 1,000 psychologists in clinical practice. Dr. May Tung, an American who examined patients in Chinese mental hospitals last June, was amazed to find that psychologists in outpatient wards sometimes saw as many as 20 to 30 people in a morning. Dr. Tung notes that some meetings last as little as two minutes—the time it takes to dispense medicine for aches and pains.

Prescribing medication for a whole host of mental ills is often a substitute for in-depth counseling, not only because mental hospitals and clinics are so short-staffed, but also because there has been little research on the efficacy of psychological counseling. Western observers contend that Chinese counselors have inordinate faith in the power of reasoning to cure a variety of mental ills, including psychosis. Only a handful of counselors have begun to take an interest in developing the detailed personal histories considered so essential to clinical practice in the West.

Branded a "pseudo-science" during the Cultural Revolution, psychology has been making a slow comeback since the mid-1970s. New ideas and attitudes toward mental health are beginning to take hold among professional mental health workers and the general population. "When I visited China in 1979, they just laughed at Freud. But when I returned this year, his theories were one of the first things they wanted to talk about," Tung notes. Three of Freud's works have been translated and copies are snapped up as soon as they hit the bookstores. The public has also been treated to television programs about mental disorders, leading to greater recognition of symptoms of mental illness, and a greater degree of openness about even taboo subjects like sexual dysfunction.

Yet conditions are not likely to change anytime soon. Speaking last October at only the second national conference on psychiatry held in China in 30 years, He Jiesheng, vice minister of public health, noted that China's "facilities and staff are far from sufficient" to cope with the problems of an estimated 10 million people suffering from mental ailments. There are 348 mental hospitals nationwide (compared to nearly 500 in the United States), and about 140 patients for every bed, according to Public Health Ministry statistics. China's first two counseling clinics were established only in 1985—compared to a well developed network of some 2,000 clinics in the United States.

Officials in China's mental hospitals acknowledge the enormous difficulties they have attracting new professionals. Most mental hospitals are located far from the city and offer poorer working conditions than other hospitals. And only about 100 psychology students graduate each year from universities. How many of these choose counseling over research upon graduation is not known.

One reason for the growing number of seminars and conferences on mental health in China is a belief that the increasing number of only children in China are more prone to behavioral abnormalities than other children. But judging from the almost complete neglect of child psychiatry in nearby Hong Kong—where Western influence is much greater—it is likely that traditional Chinese tendencies to avoid "dwelling" on mental illness or to keep it hidden from public view will continue for some time. —DDK

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THE BUSINESS TRAVELER

商业旅行

The 1987 Outlook

Carol S. Goldsmith

This is the year of superlatives in China travel. Business travelers will find the greatest number of modern hotels, the widest offering of recreational services, and—not surprisingly—the highest prices ever charged in the nine years since China reopened to Western travel.

The outlook is, on the whole, quite positive. With the opening of modern hotels in Beijing, Shanghai, Tianjin, and other key cities, and a modest expansion of domestic flights, tourists and businesspeople will find traveling easier than usual during the busy spring and autumn months.

But progress has its price. Last year's devaluation of the yuan to ¥3.7:$1 has caught up with the business traveler, exacerbating the already evident trend toward higher prices in China.

Both joint venture and Chinese hotels have switched to quoting prices in dollars to protect their earnings from currency fluctuations. China International Travel Service (CITS), the primary ground-handler for foreign travelers, has increased its 1987 package rates (in dollars) by 30 to 40 percent, in part because of increases in the price of food, fuel, and other essentials. And CAAC, which raised domestic air fares last year, is reportedly considering another 30 percent jump in 1987.

Wholesale travel companies in the United States are cutting deeply into their profit margins to help keep China competitive in the world travel market. But travel companies pass most of those savings on to tour groups rather than businesspeople, unless the wholesaler happens to be one of the few offering a program designed for the executive traveler.

While business travelers can expect to pay higher prices in China this year, they will also get better service for their money. For instance:

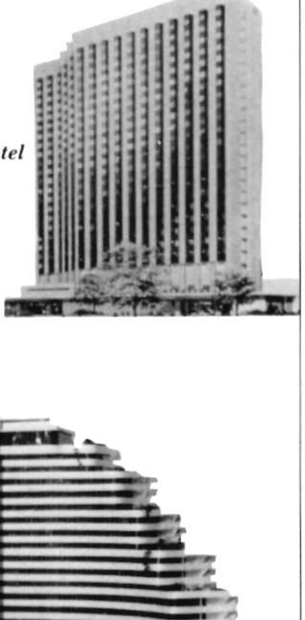
Hotels An ever-growing number of deluxe and first-class hotels, many of them managed by international hotel chains, have opened their doors in Beijing, Shanghai, Tianjin, Xi'an, Guilin, and even Lhasa, bringing the current number of beds available to foreigners across China to 240,000, a 15 percent increase since 1985.

Fans of the Shangri-La Hotel in Hong Kong and Bangkok will be pleased to learn of the opening of a Shangri-La in **Beijing**. This deluxe 786-room property, located near the Exhibition Hall, boasts a new "Three-in-One Concept"—a full-service office complex, residential tower, and hotel/meeting facilities complete with gymnasium, sauna, solariums, and more. Room rates (which vary seasonally) average $70 for a single and $75 for a double.

Beijing's new Kunlun Hotel, a project of China's National Tourism Administration (NTA), makes a splashy addition to the already high-class neighborhood of the Great Wall Sheraton Hotel. The Kunlun Hotel even looks a lot like the Great Wall, with its grand marble lobby and glass-enclosed restaurant perched atop the roof like a flying saucer. Room rates fall within the $80–$100 range, in line with the slightly smaller but comparable Sheraton rooms across the street. And the opening of another NTA hotel, the Guoji (International), will give Beijing 1,100 more rooms in the deluxe category later this year.

Meanwhile, Hyatt Hotels has opened the first deluxe, international-class hotel in nearby **Tianjin**. On the banks of the Hai River, the 420-room Hyatt Tianjin charges from $80 for a standard double and $140–$150 for a room and breakfast package on the private Regency Club floor.

Carol S. Goldsmith, based in Washington, DC, is director of business development for the Inter Pacific Travel Management Group.



Shangri-La Hotel in Beijing

Kunlun Hotel in Beijing

Hua Ting Sheraton Hotel in Shanghai

In **Shanghai**, the recently opened Hua Ting Sheraton Hotel adds 1,008 rooms to China's most congested city. Situated across from the Shanghai Stadium in the southwest part of the city, the Hua Ting Sheraton offers convention, business, and recreational facilities, a shopping arcade, the ubiquitous rooftop restaurant, and even underground parking for 100 cars. Rates are $75 (single) and $82.50 (double).

Guangzhou will not host any major new hotel openings this year but is already adequately served by several luxury hotels that opened in the past few years.

And travelers to China in 1987 will at long last see improvement in two of the country's most popular and problematic tourist cities. **Xi'an** can now offer 400 new rooms in the Chinese first-class category at the Tang Cheng Hotel. (The rates, unpublished at press time, should be in the $40–$50 range.) **Guilin** does even better, with four ribbon-cutting occasions this year: the Guilin Mandarin (no relation to the famed Mandarin Hotel chain), a 239-room deluxe hotel constructed and managed with Hong Kong assistance; the Guilin Riverside Resort, a 200-room property with Hong Kong management; the Osmanthus, a 400-room Chinese first-class hotel; and, before year's end, the 300-room Guilin Holiday Inn.

Recreation

Swimming pools, bowling alleys, and other athletic facilities accompany many of the new hotels, and China is laying the groundwork for another favorite international pastime: golf.

With the help of Japanese and Hong Kong developers, 18-hole golf courses are opening in Beijing, Tianjin, and several sites in Guangdong Province, with more still on the drawing board. The first and best-known of these is the Arnold Palmer-designed Chung Shan Hot Spring Golf Club. Located at the birthplace of Sun Yatsen in Guangdong, about 45 minutes from Macau, the Chung Shan resort also offers swimming, tennis, horseback riding, and archery.

Transportation

While everyone still awaits the creation of "competitive" regional airlines and the installation of a computerized airline reservation system in China, CAAC has at least announced some improvements in its international service. CAAC will begin weekly service from Chicago's O'Hare Airport to Shanghai and Beijing via San Francisco this summer. More important, the airline will inaugurate direct service from the United States to Tokyo with continuing service on to Beijing. At press time CAAC was planning to add these Tokyo stopovers to its Sunday flights out of New York and San Francisco. And business travelers will have a new option in April when All Nippon Airways joins the exclusive Beijing route club, offering three flights a week between Tokyo and Beijing with direct connections to Los Angeles and Washington, DC.

On the ground, major Chinese cities continue to increase their fleets of shiny new foreign-made taxis. Some of the newest and best hotels have hired their own cars and drivers to cater to their clientele. The fares may be a bit higher than other cabs, but in China, as around the world, whether you're talking about taxis, hotels, or food services, the same old adage applies—you get what you pay for.

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The Investment Climate

National Council delegation finds China in the midst of a major step forward

Roger W. Sullivan

In the history of China's policy of opening to the outside world, 1986 may go down as "the year of the investor." Not since 1979, when China released its first law governing Sino–foreign joint ventures, has the topic of investment been on the minds of so many members of the China business community. The issue of whether China can really offer investors an attractive and competitive business environment was challenged more directly than ever before last year: the problems of specific investment projects received unprecedented publicity, while the contracted value of new investment projects dropped 42 percent in the first nine months compared to the same period in the year before.

Publicity continued through the end of the year—but with Chinese officials, and not foreign investors, gradually taking the initiative. During the summer, local government officials began announcing reductions in costs for foreign investors in their localities, while the central government helped several ventures solve outstanding problems. Chinese initiatives picked up speed with the October 11 promulgation of the national "Provisions of the State Council for the Encouragement of Foreign Investment" (the "Provisions," *see* p. 11). The 22-article Provisions laid out principles that immediately began to be picked up and expanded in a host of local provisions (*see* p. 16).

The most important new legislation is yet to come, however. Sixteen sets of detailed implementing regulations covering specific investor concerns (including foreign exchange, import substitution, and the Chinese definition of "advanced technology") are to be completed by the end of 1986 and implemented by March 1987. The first set, on labor management, was completed in November 1986.

Chinese policy and regulation should recognize that the issue is not exports but management of scarce foreign exchange—saving foreign exchange is the functional equivalent of earning it through exporting.

The foreign business community will be better able to judge the true extent of investment reforms once these implementing regulations appear, since these regulations will determine how the encouraging but vaguely worded October Provisions are put into practice. The importance of implementing regulations can be seen from the fact that investment in China did not pick up until 1984—after the release of implementing regulations in 1983 to flesh out the 1979 Joint Venture Law. It is encouraging that in this case the lag time between the release of laws and their implementing regulations has been telescoped into months, rather than years.

The significance of these events goes beyond the laws themselves. For three years now, China has attracted significant levels of foreign investment. But when serious problems came to a head in 1986, the demonstrated willingness of Chinese officials to learn from past mistakes and face difficult investment problems directly (rather than hide behind rhetoric) proved to be one of the most encouraging developments of that year. As just one example of this attitude, the State Planning Commission requested an objective study from the International Finance Corporation of the World Bank on how China's foreign investment program compares with that of several other developing countries.

National Council initiative

Encouraged by the evidence that China was seeking honest assessments and advice—and not just help in papering over a public relations problem—the National Council for US–China Trade initiated a series of member company meetings to address the two basic questions Chinese officials were asking: why isn't there more American investment in China, and how can China turn the situation around? Out of these meetings grew the idea of preparing a detailed investment "issues paper," and sending a delegation to China to explore these issues further.

The resulting National Council delegation went to Beijing the week of November 17 to discuss American views on investment with senior policy-making officials, and recommend short-term steps that China could

Roger W. Sullivan is president of the National Council for US–China Trade, and led the November delegation to China. A detailed report on the delegation's meetings in China, prepared by the Council staff and reviewed by delegation participants, is available to interested member companies of the National Council for US–China Trade.

take to restore foreign confidence in China's investment climate. The delegation returned from its meetings encouraged that the officials responsible for investment policy in China understand what needs to be done, and are moving quickly and resolutely to draft implementing regulations intended to flesh out the general statements of principle and policy contained in the October Provisions.

This is not to say the millenium is here. Many impediments to foreign investment, such as lack of infrastructure, power shortages, and even bureaucratic obstructionism, will require time and effort to overcome. And the Chinese leadership acknowledges that—even in the limited realm of policy changes that can be made in the short term—the going will be tough and almost certainly slower than American investors might hope.

Gu Mu, State councilor in charge of the State Council Leading Group on Foreign Investment (*see* box) explained that the government's basic objective is to make China "competitive in the world investment market." Thus the Provisions represent only the first step in an effort to "quickly attract more foreign investment." But how successfully China can compete will depend on the actual wording of the 16 sets of implementing regulations that Gu Mu assured the delegation would be in place no later than the end of the first quarter of 1987. He noted that one set of these implementing regulations will detail the various mechanisms that joint ventures can use to balance foreign exchange, because the Chinese government recognizes that each individual joint venture cannot be expected to balance its own foreign exchange requirements.

Import substitution to get the nod

Import substitution was a major topic of discussion during the meetings. The delegation repeatedly stressed that China's emphasis on export as the primary method to balance foreign exchange discourages the formation of joint ventures in import substitution industries. To be sure, as unit labor costs decline and infrastructure and quality control improve, more industries will gradually find China a competitive site for investments in export products. But in the short term, import substitution ventures hold the greatest potential for expansion of foreign investment—provided that various disincentives and regulatory obstacles can be removed.

The delegation recommended that China abolish some of these disincentives, particularly import duty exemptions for high-technology products that could instead be bought from joint ventures in China. At the same time, a system of incentives for import substitution industries should be set up. China must find ways to support import substitution projects by making foreign exchange available for operations—at least during their start-up period when exporting is next to impossible. And Chinese policy should go one step further by recognizing that import substitution joint ventures manufacturing components or other intermediate products may *never* be able to export. Import substitution joint ventures should be entitled to import components without paying duty and taxes—a right already enjoyed by exporting joint ventures. In short, Chinese policy and regulation should recognize that the issue is not exports but management of scarce foreign exchange—saving foreign exchange is the functional equivalent of earning it through exporting.

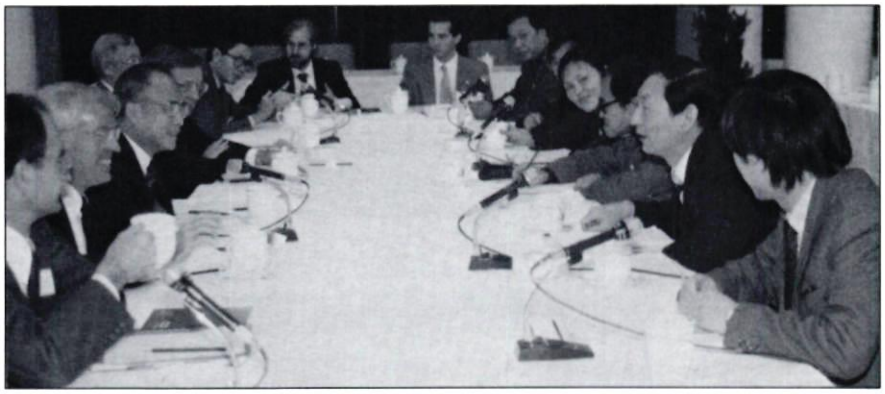
The Chinese officials were generally receptive to this line of argument. Gu Mu noted that China is considering many of the steps recommended by the Council delegation. Confirming what was only hinted at in the Provisions, Gu said that specific implementing regulations governing import substitution joint ventures are now being drafted to assure that they—along with export-oriented joint ventures—get preferential treatment. But these are the most complex and difficult regulations to draft, and are thus likely to be the last of the 16 sets of regulations released.

Photos by Walter Landolt

Premier Yao Yilin (r) and National Council President Roger W. Sullivan

Gu Mu, State councilor in charge of the State Leading Group on Foreign Investment, welcomes the National Council delegation to the Great Hall of the People for meetings.

Discussions with the State Economic Commission. SEC vice chairman is second from right.



THE STATE COUNCIL LEADING GROUP ON FOREIGN INVESTMENT

The principal tasks of the Foreign Investment Leading Group are to draw up policy and plans for using foreign investment, and submit these suggestions to the State Council. The Leading Group is also in charge of supervising the work of localities and government departments involved with foreign investment and undertaking arbitration and adjustment when major problems arise related to foreign investment. This leading group also supervises the relevant authorities in their task of drafting investment laws. The director of the State Council's Special Economic Zones Office is responsible for handling the daily affairs of the Foreign Investment Leading Group.

The State Council's Foreign Investment Leading Group, headed by State Councilor Gu Mu (a vice premier-level position) includes the following members:

1. Yan Ying (f), deputy secretary general, State Council
2. Gan Ziyu, vice chairman, State Planning Commission
3. Zhu Rongji, vice chairman, State Economic Commission
4. Wang Wendong, assistant to the minister, Ministry of Foreign Economic Relations and Trade
5. Xiang Huacheng, vice minister, Ministry of Finance
6. Liu Hongru, vice president, People's Bank of China
7. Wang Deyan, president, Bank of China
8. Dai Jie, director, China Customs Administration
9. Gan Guoping, director, China General Administration of Industry and Commerce
10. Ling Zeti, bureau chief, China Foreign Exchange Administration Bureau
11. He Chunlin, director, State Council Special Economic Zones Office

Source: National Council for US–China Trade

Chinese government will provide lists as guidelines

The Council delegation also held long and productive meetings with Yao Yilin, vice premier in charge of economics and finance; Zhang Haoruo, a new vice minister of MOFERT; He Chunlin, director, Office of the State Council Leading Group on Foreign Investment; Zhu Rongji, vice chairman of the State Economic Commission (SEC), and officials of the newly created China Coordinating Center for Business Cooperation, a trouble-shooting group under the SEC; Rong Yiren, chairman of the China International Trust and Investment Corporation (CITIC); and Jia Shi, chairman of the China Council for the Promotion of International Trade (CCPIT).

In meetings with the State Council leading group, MOFERT, and the State Economic Commission, the delegation learned that the Chinese government is drawing up two important lists. The first may be simply a validation and amplification of those lists already being published by local governments, confirming which existing foreign investment enterprises are eligible for central government, as well as local government, support and preferential treatment, based on their designation as "advanced technology" or "export-oriented" ventures. The second, intended as a guide for companies considering investment in China, will clarify which technologies qualify a joint venture for preferential treatment (including preferential access to foreign exchange under the promised new regulations on import substitution industries). In a significant move toward guidance planning, local authorities will be able to adapt this list to local conditions according to detailed central guidelines.

For purposes of the October Provisions, "advanced technology" is broadly defined to include almost any project that is not in the service sector: the definition covers technology that China does not have and plans to acquire under the Seventh Five-Year Plan; technology that can help China develop new export products; and technology needed by an import substitution industry. This would include any technology related to transportation and energy, for example.

The Leading Group emphasized that the foreign partner in a prospective joint venture making products in one of these technology categories will no longer have to cope with the venture's ongoing foreign exchange problems alone. Instead, such joint ventures should now be able to work out their foreign exchange requirements—and have them approved—in advance, at the feasibility study stage.

Resolve to move ahead

Every Chinese official the delegation met was careful not to promise too much. "We cannot do everything at once," Vice Premier Yao Yilin cautioned. Still the resolve to move ahead was evident—as was a surprisingly sophisticated understanding of the minimum steps necessary to attract the capital and technology that come with foreign investment.

At the conclusion of the trip, the delegation agreed that although many questions remain to be answered, China's investment climate is going to get better—maybe significantly better—in the coming year, particularly for companies interested in manufacturing import substitutes for the Chinese domestic market. According to one delegate, if his company had already given up on a joint venture proposal in China, he would now be willing, on the basis of what he learned during the trip, to go back and try again. The other delegates all agreed. 完

THE CHINA BUSINESS HANDBOOK

THE CHINA BUSINESS HANDBOOK

By Arne J. deKeijzer
(intro. by Christopher H. Phillips)

"A breezy, upbeat Baedeker. . .tells you what the Chinese want. . ."
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This succinct guide covers China's foreign trade structure, rules, policies, and contract methods. Also provides practical advice on dealing with the Chinese, travel, leisure activities, etc. Major cities and Special Economic Zones are discussed in detail. China Books, 1986, 240 pp., paper, ISBN 0-8351-1776-6 . . . . . $16.95

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New Foreign Investment Provisions

Finally, a new set of principles to address foreign investor's concerns

Jerome Alan Cohen and Ta-kuang Chang

Foreign investment in China declined last year for the first time since the beginning of the open door policy. Moreover, a spate of horror stories cataloging the frustrations of foreign investors in China appeared in dozens of publications during the spring and summer, marking a nadir in the cycle of alternating euphoria and disillusionment that still characterizes the attitude of foreign companies toward investment in China. Unfortunately, most of these stories were accurate—a fact that China's leaders gradually came to recognize.

By mid-summer the leadership was ready to respond with concrete action. First, they granted immediate relief to certain joint ventures suffering from highly publicized shortages of foreign exchange. Next, cities from Dalian to Shekou announced localized reductions in the notoriously high costs to foreigners of doing business, combined with more attractive investment incentives. Meanwhile, the State Council organized a new "leading group" at the top of the administrative hierarchy to coordinate the investment treatment meted out by the many ministries concerned. And Prime Minister Zhao Ziyang, whose policies are closely tied to the success of foreign investment, sent government officials scrambling to draft new investment legislation.

In record time, the State Council responded to the situation with the 22-article "Provisions of the State Council for the Encouragement of Foreign Investment" (the "Provisions"), promulgated on October 11 and effective immediately. These Provisions are probably the most important legislation affecting foreign investment issued in China in the past year, and they are in the process of being supplemented both by local investment regulations (*see* p. 18) and national implementing rules.

EXPORT AND TECHNOLOGICALLY ADVANCED ENTERPRISES
Creating a privileged class of investment enterprises

The Provisions grant certain incentives, including important new foreign exchange options, to all present and future Chinese–foreign equity joint ventures, cooperative ventures, and wholly foreign-owned enterprises ("foreign investment enterprises"). But they offer particularly strong incentives to two newly designated types of foreign investment enterprises: (1) productive enterprises "whose products are mainly used for export" and that have a surplus of foreign exchange ("Export Enterprises"), and (2) productive enterprises that provide advanced technology, engage in the development of new products, or contribute to the upgrading and replacement of products in order to increase foreign exchange generated by exports or to substitute for imports ("Technology Enterprises"). The State Council saw no need to single out nonproductive foreign investment enterprises, such as hotels, for especially favorable treatment, since these have tended to proliferate and sometimes even to prosper despite well known difficulties and occasional government discouragement.

In creating two new categories of foreign investment enterprises entitled to especially favorable incentives, the Provisions borrow a technique already found in the foreign investment policies of many other countries and regions. Under Taiwan's Statute for Investment by Foreign Nationals, for example, projects meeting certain criteria are granted many incentives, the most important being the ability to convert local currency into foreign exchange for repatriating annual profits and invested capital—an incentive that, regrettably, is missing from China's new Provisions.

Under China's Provisions, foreign investment enterprises that fit either of these two definitions are to receive explicit certification. Beijing and Shanghai, for example, quickly certified a number of foreign investment enterprises in October (*see* p. 17) and other cities promptly followed suit. However, if a certified Export Enterprise does not fulfill its foreign exchange surplus target in a given year, as specified in the contract that established the enterprise, taxes or fees for the year in which it was exempt must be made up the following year. This makes the drafting of investment contracts, and the feasibility studies on which they rest, more important than ever.

Infrastructure supports: Among the most important of the new incentives granted to Export Enterprises and Technology Enterprises is the assurance that they will have priority in the supply of water, electricity, transportation, and communications equipment—at the same cost that applies to local State enterprises. In China's economy of scarcity, much of an enterprise's success depends on its ability to obtain basic business necessities such as uninterrupted electric power, timely cargo space on trains or ships, and installation of tele-

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phone or telex lines in less than six months. In the past, such necessities were sometimes available to the foreign venture only if they paid an outrageous price. Thus, many operational problems will diminish if the Chinese government conscientiously carries out this provision.

Conspicuously missing from the Provisions, however, is any guarantee of priority in the supply of raw materials—a serious problem that should have been addressed. To their credit, some Chinese cities are already trying to do something about this in their newly released investment regulations. Beijing, Guangzhou, Shanghai, and Tianjin, for example, have established foreign enterprise materials and equipment supply companies for the express purpose of procuring materials and equipment for foreign investment enterprises, at the same cost as applies to State enterprises.

Income tax incentives: Several new and favorable income tax incentives apply specifically to Export Enterprises and Technology Enterprises. Foreign investors in qualified equity joint ventures are now exempt from paying the 10 percent profit remittance tax on repatriated profits, for instance. Technology Enterprises that are equity joint ventures will have their pre-existing tax holiday of two years exemption and three years at half the applicable tax rate extended by three additional years at half the tax rate, while similarly qualified cooperative ventures and wholly foreign-owned enterprises also enjoy a three-year half-rate holiday. These and other important tax incentives are contained in Articles 7, 8, 9, and 10 of the Provisions.

Reduced land-use fees: Until the Provisions, land-use fees in China were not subject to national standards and the widely varying local regulations were often so broad as to permit virtually arbitrary decisions as to how much each foreign-related enterprise should pay. Article 4 of the Provisions offers generally lower land-use fees to Export Enterprises and Technology Enterprises, other than those in "busy urban sectors of large cities." And local governments can grant an exemption from these fees altogether. Beijing Municipality has announced, for example, that such exemptions will be possible, upon approval of the Beijing Foreign Economic Relations and Trade Commission and the Beijing Bureau for the Administration of Real Estate.

Yet because many foreign investment enterprises are forced for reasons of labor supply and infrastructure to locate in or near industrialized cities, we hope that the exception for busy urban districts will not be interpreted so broadly as to swallow up the rule.

Chinese officials could also help the process by becoming more open about land-use fees. They might, for instance, cease the practice of guarding the applicable land fees as State secrets until the parties have determined their capital contributions, and then announcing land fees that—lo and behold—equal precisely the Chinese capital contribution. Reform of the land fee system is so important that we believe it should also be extended to *all* foreign investment enterprises.

Loan priority: After approval by the Bank of China, Export Enterprises and Technology Enterprises are to have priority in obtaining short-term working capital loans and "other necessary credit funds"—presumably from the Bank of China and other eligible Chinese financial institutions. Such loans apparently may be made in foreign exchange as well as in renminbi. Although the phrase "other necessary credit funds" could be narrowly interpreted to preclude priority for financing an enterprise's fixed assets, the Provisions' draftsmen reportedly do regard this language as authorizing fixed-asset loans. This is fortunate because, at least in the absence of effective national mortgage and bankruptcy laws and procedures in China, foreign banks have generally refused even to consider any unguaranteed long-term loans to foreign investment enterprises. Thus, the probable availability of both short-term and long-term financing is welcome to cash-starved enterprises, although its practical significance will of course depend on the interest rate and other terms upon which such loans are granted.

Limitations on labor costs: According to the Provisions, Export Enterprises and Technology Enterprises will not have to pay their Chinese workers and staff any amount in addition to wages other than labor insurance, welfare expenses, and housing subsidies. Previous regulations never explicitly required foreign investment enterprises to provide housing for their work force, but in practice many were forced to do so. According to a briefing given by Chinese officials to American businesspeople in Beijing in late October, this new provision is designed to eliminate the payment of subsidies for heat, cooking oil, grain allowance, and other items that make up an estimated 20 percent of the current labor costs for foreign investment enterprises.

Local governments have issued their own, more specific, guidelines for foreign investment enterprises. Guangzhou has stipulated that the welfare and insurance benefits paid to the staff and workers of all foreign investment enterprises should match those paid to staff and workers in State enterprises, and that these currently should not exceed 27 percent of total wages and benefits. Beijing has established a uniform rate of ¥60 per month (¥30 of which constitutes the housing subsidy) for subsidies paid to the State for staff and workers of all foreign investment enterprises other than Export Enterprises and Technology Enterprises (which need only pay housing subsidies).

Yet the national and local implementing rules also contain some disquieting wage provisions. For example, the implementing rules recently issued by the Ministry of Labor and Personnel seem to remove the general stipulations in previous regulations that the wages of staff and workers of Chinese–foreign joint ventures will not exceed 150 percent of the wages of comparable staff and workers in State enterprises.

INCENTIVES FOR ALL INVESTMENT ENTERPRISES
The promise of more autonomy

The Provisions may have their greatest impact through those articles applicable to all foreign investment enterprises. Among the most important of these is the renewed promise that foreign investment enterprises in China can manage their own affairs. Within the scope of its approved contract, a foreign investment enterprise can formulate its own production and operating plans, raise and use its funds, procure materials, sell products, and determine its own wage standards and incentives. The Provisions reaffirm and expand the ability of all foreign investment enterprises to hire and fire workers. This will be welcome news to the many foreign investors who have found that the much-touted low labor costs in China are quickly inflated by inefficient workers who, at least until now, could not be easily disciplined or fired.

The departments in charge of foreign investment enterprises, accustomed to having total control over Chinese enterprises, have often interfered in all aspects of joint venture operations and management, from important matters to minutiae. Now the local governments and relevant departments-in-charge are required to ensure the autonomy of foreign investment enterprises. A good example of the problem and its solution occurred just before promulgation of the Provisions, when the Hubei provincial government reinstated the manager and deputy manager of the Sino-American Parker Seal Joint Venture Company. These officers had been dismissed by the Hubei Machinery Bureau, the government "department in charge" that directly supervises the joint venture. The provincial government's reversal affirms that, unlike Chinese enterprises, the supreme authority over a Chinese-foreign joint venture lies with its board of directors—not the government department in charge.

This legal guarantee of autonomy will provide strong ammunition—though certainly no guarantee of effectiveness in practice—when foreign investment enterprises assert their right to make decisions relating to the enterprises. The problems and frustrations that have confronted foreign investment enterprises are similar to those that Chinese enterprises have had to deal with themselves, and the provision may also foreshadow similar reforms for Chinese enterprises.

Collateralized loans and foreign exchange trading: The Provisions outline an imaginative scheme for relieving the foreign exchange problems of foreign investment enterprises in China. If such enterprises have a surplus of foreign exchange, but need renminbi to pay local costs, they will no longer have to sell their excess foreign exchange to the Bank of China for renminbi. As is already the practice in Guangdong Province and the special economic zones, the enterprise can deposit the excess foreign exchange in a Chinese bank as collateral and borrow the equivalent amount in renminbi. This allows the enterprise to maintain ownership of the foreign exchange so that eventually it and another foreign investment enterprise that has a foreign exchange deficiency can "mutually adjust their foreign exchange surpluses and deficits."

The mechanism for this foreign exchange and renminbi trading is not spelled out, nor is the applicable exchange rate. But the Provisions specify, for the first time, that all foreign investment enterprises can engage in these transactions, and that their transactions need only be under the "supervision" of the foreign exchange control departments—not subject to their approval. According to authoritative officials, enterprises trading in foreign exchange need only report these transactions to such departments after the fact, "for the record," and they are free to arrive at their own bargained exchange rates without regard to the official posted rates. New foreign exchange trading centers have been established, for example in Guangzhou, to facilitate such trading transactions.

These new provisions may be of some help in solving the foreign exchange shortages of foreign investment enterprises. But, realistically, the entire pot of foreign exchange surpluses of joint venture hotels and the few other ventures with surpluses can never meet more than a fraction of the foreign exchange needs of foreign investment enterprises. The needs of such ventures can only be solved by combining Chinese government efforts with the various methods of balancing foreign exchange that are gradually emerging—and for which further detailed implementing regulations are reportedly forthcoming. Guangzhou, for instance, announced in its local investment rules that a foreign investment enterprise manufacturing products that could substitute for imports may be permitted to sell such products for foreign exchange and to count such sales as export sales for the purpose of fulfilling export obligations. In addition, the rules add that the import of such products will be restricted.

Consolidated tax, customs duty, and import-export licenses: With the exception of oil-related products, the Provisions exempt all exports of foreign investment enterprises from the industrial and commercial consolidated tax and, presumably, from any customs duty. The Provisions also confirm that foreign investment enterprises may export their own products without going through a government trading corporation. The applicable export licenses need only be applied for every six months.

More significant, all equipment and material imports needed for "performing product export contracts," including those items whose import is restricted by the government, will be exempt from the requirements for approval and import licensing. This implicitly exempts these imports from customs duty and the consolidated tax. Such items may not then be resold on the domestic market and, if used in products sold domestically, all duties, taxes, and import procedures are to be applied retroactively. This broad provision will enable foreign investors to cut through bureaucratic red tape that has, in many cases, made China unattractive for export processing. At the same time, this provision needs to be strictly enforced, so that it is not abused by enterprising smugglers.

Hastening government approval: The Provisions admonish government officials and departments at all levels to strengthen coordination and handle promptly all matters relating to foreign investment enterprises. Yet this exhortation is less than convincing. The only specific requirement accompanying it merely states that contracts and articles of association must be approved by departments in charge under the State Council within three months—the same time limit already contained in joint venture legislation.

Some localities have already gone one step further, however. Beijing Municipality, for example, promises that the preliminary project proposal, feasibility study, contract, and articles of association for all foreign investment projects will each be approved or rejected within one month. Moreover, projects that meet certain criteria specified in Beijing's investment rules may be approved by the district or county level rather than by the superior city government.

A path for appeal to the top: The Provisions offer foreign investment enterprises new ways to resist unreasonable charges. They order all local governments to comply with the "Notice of the State Council on Resolutely Curbing the Indiscriminate Levy of Charges on Enterprises," a document that until now has applied only to Chinese State enterprises. If a foreign investment enterprise believes certain charges are unreasonable, it can refuse to pay and, if necessary, appeal to the local economic commission and then all the way up to the State Economic Commission.

The Provisions thus establish a separate route for appealing grievances that is distinct from, parallel to, and, at the central level, higher than the route ordinarily pursued by foreign investors through the Ministry of Foreign Economic Relations and Trade (MOFERT) and the local foreign economic relations and trade commissions subordinate to MOFERT. This appeals procedure could provide a direct means for solving other problems of foreign investment enterprises and might some day prove as effective as seeking help from a highly placed relative or other connections (*guanxi*)—the trump card of many foreign investment enterprises that have obtained official relief so far.

Structural reform to improve coordination: If this new grievance procedure proves effective, it will not be the first time a structural change in bureaucratic authority has had an impact on foreign investment in China. For example, when the Foreign Investment Control Commission was merged into MOFERT in 1983, this once top-level commission that could coordinate among ministries and local governments and "knock heads together" became merely the Foreign Investment Administration Bureau of only one relevant ministry. Although the bureau continued to approve all foreign investment projects from its much lower perch, it lost the power to coordinate other ministries and local governments, each of which wanted to protect its own turf. The recent establishment of an Investment Leading Group within the State Council is belated recognition of the need to restore such coordination (*see* box, p. 10).

Ending "dump on China" season

Will the Provisions end "dump on China" season? Surely not by themselves. The real significance of these rather general principles will be apparent only when the government agencies concerned promulgate the 16 expected implementing regulations and the host of local supplementary rules designed to put flesh on the bare bones discussed above. Most of these regulations are expected to be implemented by the end of the first quarter of 1987.

Nevertheless, those involved in day-to-day negotiations with Chinese enterprises and agencies can testify that, not only in the policies of the leaders but also in the actions of many working-level Chinese officials, a new spirit of self-criticism and determination to make a success of foreign economic cooperation is emerging. The Provisions are partly a reflection of this new spirit, and are meant to send the message loud and clear to conservative or unpersuaded bureaucrats—and to foreign investors—that the Chinese leaders mean business. 完

Provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment

Article 1. These Provisions are formulated in order to improve the investment environment, better absorb investment by foreign businesses, attract advanced technology, raise product quality, and expand exports in order to generate foreign exchange and develop the national economy.

Article 2. The State encourages foreign companies, enterprises, and other economic organizations or individuals (hereafter referred to as "Foreign Investors") to establish Chinese–foreign equity joint ventures, Chinese–foreign cooperative ventures, and wholly foreign-owned enterprises (hereafter referred to as "Enterprises with Foreign Investment") within the territory of China.

The State shall grant special preferences to the following Enterprises with Foreign Investment:

(1) Those productive enterprises whose products are used mainly for export and that have a foreign exchange surplus after deducting from the amount of their total annual foreign exchange revenues the amount of annual foreign exchange production and operating expenditures and the amount of foreign exchange needed for the foreign investor to remit abroad its share of profits (hereafter referred to as "Export Enterprises"); and

(2) Those productive enterprises to which the Foreign Investor provides advanced technology and that engage in developing new products and upgrading and replacing products in order to increase foreign exchange generated by exports or for import substitution (hereafter referred to as "Technologically Advanced Enterprises").

This law was promulgated by the State Council on October 11, 1986. Translated by Paul, Weiss, Rifkind, Wharton & Garrison.

Article 3. Export Enterprises and Technologically Advanced Enterprises shall be exempted from paying all State subsidies to staff and workers, except for the payment or allocation of funds for labor insurance, welfare costs, and housing subsidies for Chinese staff and workers in accordance with State provisions.

Article 4. The site-use fees for Export Enterprises and Technologically Advanced Enterprises, except for those located in busy urban sectors of large cities, shall be computed and collected according to the following standards:

(1) in regions where the development fee and use fee are computed and collected together, ¥5 to ¥20 per square meter per year; and

(2) in regions where the development fee is computed and collected on a one-time basis or where the site is developed by the above-mentioned enterprises themselves, the use fee shall not exceed ¥3 per square meter per year.

The local people's governments may exercise discretion in light of the circumstances to grant exemptions for specified periods of time from the fees stipulated in the foregoing paragraphs.

Article 5. Export Enterprises and Technologically Advanced Enterprises shall be given priority in the provision of water, electricity, transportation conditions, and communication facilities needed for their production and operations. Fees shall be computed and collected in accordance with the standards for State enterprises in the locality.

Article 6. Export Enterprises and Technologically Advanced Enterprises shall, after examination and verification by the Bank of China, be given priority in obtaining loans for short-term revolving funds needed in the course of production and distribution, as well as for other necessary credit funds.

Article 7. When Foreign Investors in Export Enterprises and Technologically Advanced Enterprises remit abroad their share of profits obtained from such enterprises, the amount remitted shall be exempted from income tax.

Article 8. After the period for the reduction of or exemption from enterprise income tax in accordance with State provisions has expired, Export Enterprises may, for any year in which the production value of products exported by the enterprise reaches or exceeds 70 percent of the production value of enterprise products for that year, pay enterprise income tax at half of the current tax rate.

Export Enterprises in the special economic zones and in the economic and technological development zones, as well as other Export Enterprises that already pay enterprise income tax at a tax rate of 15 percent, that meet the conditions set forth in the above paragraph shall pay enterprise income tax at a reduced tax rate of 10 percent.

Article 9. After the period for the reduction of or exemption from enterprise income tax in accordance with State provisions has expired, Technologically Advanced Enterprises may continue for three more years to pay enterprise income tax at a rate reduced by one-half.

Article 10. Foreign Investors that reinvest in China their share of profits from an enterprise to establish or expand Export Enterprise or Technologically Advanced Enterprises for a period of operation of not less than five years shall, after application to and verification by the tax authorities, be refunded the total amount of enterprise income tax already paid on the reinvested portion. If such investment is withdrawn before the period of operation reaches five years, the amount of enterprise income tax already refunded shall be repaid.

Article 11. With the exception of crude oil, finished oil products, and other products stipulated by the State, export products of Enterprises with Foreign Investment shall be exempted from the consolidated industrial and commercial tax.

Article 12. Enterprises with Foreign Investment may organize the export of their products themselves and may also entrust agents with their export in accordance with State provisions. For products that require an export license, application for the license shall be made every six months in accordance with the annual export plan of the enterprise.

Article 13. Machinery and equipment, vehicles used in production, raw materials, fuel, completely knocked-down parts, spare parts, components and sets of parts (including those the import of which is restricted by the State) that Enterprises with Foreign Investment need to import in order to perform their product export contracts shall not require further applications for examination and approval and shall be exempted from the requirement to obtain import licenses. The Customs shall exercise supervision and control, and shall inspect and release such imports on the basis of the enterprise contract or the import–export contract.

The imported materials and items referred to in the above paragraph shall be restricted to use by the enterprise itself and may not be sold on the domestic market. If they are used in products to be sold domestically, import procedures shall be handled retroactively in accordance with provisions, and taxes shall be made up according to regulations.

Article 14. Under the supervision of the foreign exchange control departments, Enterprises with Foreign Investment may mutually adjust their foreign exchange surpluses and deficits.

The Bank of China and other banks designated by the People's Bank of China may commence cash collateral business and may grant loans in renminbi to Enterprises with Foreign Investment.

Article 15. The people's governments at various levels and the relevant departments in charge shall safeguard the right of autonomy of Enterprises with Foreign Investment and shall support Enterprises with Foreign Investment in managing themselves in accordance with international advanced scientific methods.

Within the scope of their approved contracts, Enterprises with Foreign Investment have the right on their own to formulate production and operating plans, raise funds and use funds, procure production materials and sell products, as well as to determine on their own wage standards, the forms of wages, and incentive and allowance systems.

Enterprises with Foreign Investment may, in accordance with their production and operation requirements, on their own determine their organizational structure and personnel staffing, employ or dismiss high-level management personnel, and increase or dismiss staff and workers. They may recruit and employ technical personnel, managerial personnel, and workers in their locality, and the units to which such employed personnel belong shall provide support and shall permit their transfer. Staff and workers who violate the system of rules and regulations and thereby cause certain bad consequences may, in accordance with the seriousness of the case, be given differing sanctions, up to that of discharge. Enterprises with Foreign Investment that recruit, employ, dismiss, or discharge staff and workers shall file a report with the local labor and personnel department for the record.

Article 16. The various regions and departments must implement the Notice of the State Council on Resolutely Curbing the Indiscriminate Levy of Charges on Enterprises. The people's governments at the provincial level shall formulate specific measures and strengthen supervision and administration.

Enterprises with Foreign Investment that encounter unreasonable charges may refuse to pay them and may also appeal to the local economic commissions and up to the State Economic Commission.

Article 17. The people's governments at various levels and the relevant departments in charge shall strengthen their coordination work, raise their efficiency in handling matters and promptly examine and approve matters, reported to them by Enterprises with Foreign Investment that require response and resolution. With respect to agreements, contracts, and articles of association for Enterprises with Foreign Investment that are to be examined and approved by the departments in charge under the State Council, the examination and approval authorities must, within three months from the date of receipt of all documents, decide whether or not to grant approval.

Article 18. The Export Enterprises and Technologically Advanced Enterprises referred to in these Provisions shall be confirmed as such jointly by the foreign economic relations and trade departments where such enterprises are located and the relevant departments, based on the enterprise contract, and shall be issued a certificate.

If the actual annual export results of an Export Enterprise are unable to realize any goal in respect of a surplus in the foreign exchange balance that is stipulated in the enterprise contract, any taxes and fees that have already been reduced or exempted in the previous year shall be made up in the following year.

Article 19. Except where these Provisions expressly provide that they are to be applicable to Export Enterprises or Technological Advanced Enterprises, the other articles shall be applicable to all Enterprises with Foreign Investment.

These Provisions shall apply from their effective date to those Enterprises with Foreign Investment that have obtained approval for establishment before such effective date and that meet the conditions of these Provisions for preferential treatment.

Article 20. These Provisions shall be implemented by reference, with respect to enterprises established with investment from companies, enterprises, and other economic organizations or individuals from Hong Kong, Macau, and Taiwan.

Article 21. The Ministry of Foreign Economic Relations and Trade shall be responsible for interpreting these Provisions.

Article 22. These Provisions shall go into effect on the date of their issuance. 完

Shanghai Responds

A welcome change in attitude accompanies the city's new foreign investment regulations

Ellen R. Eliasoph

The 22-article Provisions aimed at encouraging foreign investment, issued by China's State Council on October 11, are just the first in a series of investment laws that China's officials promise will greatly enhance conditions for foreign investors. Following the October 12 release of local regulations by Beijing and Tianjin, 11 cities (including Guangzhou, Shanghai, and Dalian), 11 provinces, and three of the four SEZs had come out with their own versions of the national Provisions by mid-December—and more are on the way. For the most part, the local regulations reiterate investment principles contained in the national Provisions. Reduced land-use fees, income taxes, customs duties, and labor costs, as well as less red tape, were standard offerings in most of the local regulations.

But some localities have taken the national incentives a step further or come up with a few novel ideas of their own. To make local governments more responsive to investors' needs, many of the regulations set up new investment administrative organs. Foreign investment supervisory groups headed by high-ranking officials, foreign investment service centers to help investors through the investment maze, and centers to assist with materials procurement are all in vogue. A few localities have begun to set up foreign exchange trading centers for investors. Guangdong's innovative new investment regulations allow foreign investment enterprises to issue stocks and bonds. Fuzhou and Guangzhou have officially recognized the concerns of their main investors—Hong Kong and overseas Chinese—by allowing such investors to invite relatives living in China to act as their agents or work in their enterprises. And Fujian offers extremely tempting incentives to those willing to invest in "impoverished areas."

But perhaps most important, the local regulations demonstrate support from cities and provinces for the national government's attempts to improve China's investment climate. The method for determining which enterprises are eligible for special incentives through official designation as "technologically advanced" or "export oriented" offers the best insight into the nature of the working relationship between the central and local governments on investment issues. The central level will set the guidelines, and the local authorities can then apply these in drawing up their own list of qualifying enterprises.

Shanghai's reputation among foreign investors as the most bureaucratic and frustrating Chinese city in which to do business has begun to take a turn for the better—largely as a result of activities leading up to and surrounding the issuance of the city's own investment provisions in October. Since this past summer, city leaders have taken steps to enact legislative and administrative reforms designed to make their foreign investment program workable—and profitable—for all participants.

In just a few months, new legislation that is more carefully conceived and drafted than the interim provisions of previous years has improved Shanghai's heretofore tentative, confused legal framework for investment (*see The CBR*, May–June 1986, p. 47). The changes began in July and August with the appearance of new rules on representative offices and approval procedures for foreign investment projects, as well as clarification from the Shanghai Municipal Taxation Bureau on questions of foreign enterprise taxation.

These were just a prelude of things to come, however. Shanghai responded swiftly to the new national guidelines for encouragement of foreign investment that appeared October 11, 1986: less than two weeks later, Shanghai issued the Provisions of Shanghai Municipality for the Encouragement of Foreign Investment (the "Shanghai Provisions"), which entered into effect on November 1, 1986.

Great fanfare accompanies release of Shanghai Provisions

Shanghai devoted extensive efforts to the announcement of the Shanghai Provisions. Even before the provisions were issued, Shanghai officials provided the city's foreign business representatives with preliminary explanations. On October 24, the Shanghai Provisions were distributed in the course of a ceremony at which Mayor Jiang Zemin and other officials, accompanied by the bracing strains of martial music, issued certificates to the representatives of the 43 foreign enterprises Shanghai has designated as "export enterprises" and the 26 it designated "technologically advanced enterprises"—confirming their entitlement to special treatment under both the national and Shanghai Provisions.

The nature and number of the enterprises included on the list, as well as the explanations provided by Shanghai officials, clearly show that Shanghai plans to adopt liberal definitions of what constitutes an "export enterprise" and a "technologically advanced enterprise." Shanghai officials have also said that Sino–foreign ventures still in the planning stages may receive a preliminary re-

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view of their eligibility to be included in one category or the other, and they have in fact already begun to give advance, albeit provisional, assessments to ventures under negotiation.

The Shanghai Provisions contain 16 articles, some of which closely follow the State Council Provisions. The State Council Provisions and the Shanghai Provisions both state that export enterprises and technologically advanced enterprises will be "given priority" in obtaining basic utilities and facilities, and provide that the fees charged shall accord with the fees charged to local State-run enterprises for such items. In addition, export enterprises and technologically advanced enterprises in Shanghai, as under the State Council Provisions generally, are entitled to receive priority in the granting of loans required for working capital and other uses. To emphasize the close relationship between the central and the local provisions, Article 1 of the Shanghai Provisions exhorts all local units to strictly implement both sets of investment guidelines.

Nevertheless, certain incentives found in the Shanghai provisions go beyond those contained in the State Council Provisions. These include:

Exemption from local income tax. Export enterprises and technologically advanced enterprises in Shanghai will be exempt from local income tax during the period of tax exemption provided under national law (which, for equity joint ventures, is generally two years); enjoy a continued exemption from local income tax for the subsequent three years (a period during which, under national regulations, equity joint ventures are entitled to a 50 percent reduction in national income tax); and thereafter enjoy a three-year reduction of local income tax to 50 percent of the amount otherwise payable. These provisions go further, on a local level, than the corresponding central provisions, which accord technologically advanced enterprises an additional three-year, 50 percent reduction in national income tax following the initial five-year exemption and reduction period, and do not offer automatic continued exemptions or reductions to export enterprises.

The Shanghai Provisions also offer export enterprises generous additional local incentives by providing that in any year in which products for export constitute 70 percent of the total production value of an export enterprise, the enterprise in question shall be exempt from local tax. Under the State Council Provisions, an export enterprise meeting the 70 percent target will enjoy a 50 percent reduction in the national enterprise income tax.

Exemption from land-use fees. With the exception of those established in "busy urban sectors" (which in Shanghai could constitute a fairly significant exception), export enterprises and technologically advanced enterprises shall be exempt from land-use fees for the three-year period following their establishment. Such exemptions are left to "the discretion of the local people's governments" by the State Council Provisions. The land-use fees payable by such enterprises will be significantly reduced from their published rates to a maximum of¥2.5 per square meter per year—although, according to Shanghai officials, the city will continue to levy site-development fees (which can often be substantial) in addition to site-use fees. New Shanghai site-use regulations, which also came into effect on November 1,

SINO-FOREIGN CERTIFIED ENTERPRISES IN BEIJING AND SHANGHAI

Beijing enterprises designated as Export Enterprises with Foreign Investment:

1) Beijing Core Software Co. Ltd. (Japan)
2) Beijing Orafi Ornament Co. Ltd. (Italy)
3) Daxing Metal Industries Co. Ltd. (Japan)
4) Huaxing Shirt Co. Ltd. (Singapore)
5) Smart Garments Ltd. (Singapore)
6) Beijing Kowin Simonds Steel File Co. Ltd. (US)
7) Beijing Jingle Co. Ltd. (Japan)
8) Beijing Prince Wool Spinning Co. Ltd. (HK)
9) Cagotai Knitting and Garments Co. Ltd. (HK)
10) Donglian Enterprise Co. Ltd. (HK)
11) Mirixing Food Industry Co. (Japan)
12) DRV Sino-American Communications Co. Ltd. (US)

Beijing enterprises designated as Technologically Advanced Enterprises with Foreign Investment:

1) Beijing Jeep Corp. Ltd. (US)
2) Babcock and Wilcox Beijing Co. Ltd. (US)
3) Capital Iron and Steel Kanthal Corp. Ltd. (Sweden)
4) Beijing Philips Audio and Video Corp. (Netherlands)
5) Beijing Amsterdam Biomaterials Industry (Netherlands)
6) Beijing Nantsune Meat Machinery Corp. Ltd. (Japan)
7) Beijing Yinyan Electronic Flash Co. Ltd. (HK)
8) CP-China Co. (US)
9) Yili-Nabisco Biscuit and Food Co. Ltd. (US)
10) Beijing Huade Metal Packaging Container Co. Ltd. (Singapore)
11) Beijing Poultry Breeding Co. Ltd. (US)
12) Beijing Contact Lens Ltd. (US)

Compiled by the National Council for US-China Trade

Shanghai enterprises designated as Export Enterprises with Foreign Investment:

1) China-Schindler Elevator Co. Ltd., Shanghai Elevator Works (Switzerland)
2) Shanghai United Wooltex Corp. Ltd. (HK)
3) Shanghai Cosfra Co. Ltd. (US)
4) Shanghai Universal Toys Co. Ltd. (HK)
5) Shanghai Yilian Textile Factory (HK)
6) Shanghai Gardening Service (HK)
7) Shanghai Xin Yi Wooltex Co., Ltd. (HK)
8) Shanghai Hong Kong Industrial Commercial Ltd. (HK)
9) Shanghai Bolu Co. Ltd. (US)
10) Hu Xing Electronics Corp. Ltd. (HK)
11) United Timber Industries Co. Ltd. (HK)
12) Shanghai ACE Luggage & Bags Co. Ltd. (HK)
13) Hongqiao Asahata Embroidery Factory (Japan)
14) Shanghai Best Wool Textile Co. Ltd. (HK)
15) Messrs, Gracefo Shoe Manufacturing Co., Ltd. (Japan)
16) Herald Plastic Products Co. Ltd. (HK)
17) Shanghai Da Jiang Co. Ltd. (Thailand)
18) Shanghai Total Paper Products Co. Ltd. (Philippines)
19) Huade Plastics Corp. Ltd. (FRG)
20) Shanghai-Pigeon Dental Material Co. Ltd. (Japan)
21) Shanghai Jinshan United Industry Corp. Ltd. (HK)
22) Polymold-Jiaotong Corp. (US)
23) Shanghai Ganlin Beverage Ltd. (HK)
24) Shanghai Great Wall Zipper Co. Ltd. (HK)
25) Shanghai Gemstone Art Handicraft Co. Ltd. (HK)
26) Shanghai Ever Well United Ltd. (HK)
27) Shanghai Broadway Wooltex Ltd. (HK)
28) Flora Horticultural Co. Ltd. (HK)
29) Taishan Ceramics Co. Ltd. (US)
30) Shanghai Jin Kang Linen & Wool Ltd. (HK)
31) Haigang Health Equipment Manufacturers Ltd. (HK)
32) Shanghai Lea-Tong Surface Finishing Inc. (HK)
33) Guojia Optoelectronics Co. Ltd. (HK)
34) Shanghai Shen Shi Textile Co. Ltd. (HK)
35) Shanghai Lever Co. Ltd. (UK)
36) General Jewelry (Shanghai) Co. Ltd. (US)
37) Shanghai Baoshan Feather Products Co. Ltd. (US)
38) Shanghai Carden Ramie & Woolentex Co. Ltd. (HK)
39) Shanghai Kurada Glove Co. Ltd. (Japan)
40) Shanghai Haixin Co. Ltd. (HK)
41) Shanghai Vicera Sensor Co. Ltd. (Japan)
42) Shanghai Sum Mi Co. Ltd. (Singapore)
43) Shanghai Printronics Circuit Corp. (Australia)

Shanghai enterprises designated as Technologically Advanced Enterprises with Foreign Investment:

1) China-Schindler Elevator Co. Ltd., Shanghai Elevator Works (Switzerland)
2) Sino-American Shanghai Squibb Pharmaceuticals Ltd. (US)
3) Shanghai-Foxboro Co. Ltd. (US)
4) Shanghai Bell Telephone Equipment Manufacturing Co. Ltd. (Belgium)
5) Shanghai Yaohua Pilkington Glass Co. Ltd. (UK)
6) Shanghai Lian Hua Fiber Inc. (Thailand)
7) Shanghai-Ek Chor Motorcycle Co. Ltd. (Thailand)
8) Shanghai Volkswagen Automotive Co. Ltd. (FRG)
9) Vetco-Dalong Offshore Equipment Co. (US)
10) United Timber Industries Co. Ltd. (HK)
11) Shanghai-CAST Software Corp. (US)
12) Shanghai An Wang Computer Development Corp. Ltd. (US)
13) Shanghai Satellite Co. Ltd. (US)
14) Shanghai Da Jiang Co. Ltd. (Thailand)
15) Huade Plastics Corp. (FRG)
16) Polymold-Jiaotong Corp. (US)
17) Shanghai Espec Environmental Equipment Corp. (Japan)
18) Taishan Ceramics Co. Ltd. (US)
19) CASCO Signal Co. Ltd. (US)
20) Guojia Optoelectronics Co. Ltd. (HK)
21) Shanghai Nicera Sensor Co. Ltd. (Japan)
22) Shanghai Pacific Ceramics Ltd. (US)
23) Bayer-Shanghai Dental Ltd. (FRG)
24) Shanghai Gaoqiao-Polysar Co. Ltd. (Canada)
25) Shanghai Printronics Circuit Corp. (Australia)
26) Grace China Ltd. (US)

Shanghia enterprise list compiled and translated by Wei-Tai Kwok, resident Shanghai paralegal for Paul, Weiss, Rifkind, Wharton & Garrison, with the assistance of the Shanghai Administrative Bureau for Industry and Commerce.

1986, set forth the schedule of fees for sites in various zones, and contain detailed stipulations regarding the requisitioning and use of sites.

In addition to the preferential treatment outlined for export enterprises and technologically advanced enterprises, the Shanghai Provisions contain the following measures designed to benefit all Shanghai enterprises with foreign investment ("Shanghai foreign enterprises"):

Exemption from paying 'housing subsidies.' Shanghai foreign enterprises will no longer have to pay housing subsidies to the State. Under the Shanghai labor management legislation heretofore in effect, such subsidies were fixed at ¥30 per PRC employee per month. The Shanghai Provisions state that, in lieu of paying these subsidies, Shanghai foreign ventures may "retain the money as funds to be used for the improvement of the housing conditions of their Chinese staff and workers." While it remains unclear how such funds will be utilized in practice, Ministry of Labor regulations that appeared in late November provide some clues by stipulating that such funds "shall be used by the Chinese joint venture partner to pay the costs of supplementing building or purchasing housing for staff and workers." Presumably, export enterprises and technologically advanced enterprises in Shanghai will *also* enjoy the exemption from payment of "State subsidies" offered by the State Council Regulations (*see* p. 11).

The Shanghai Provisions mandate the establishment of three new investment-related groups in Shanghai:

A "foreign investment service center." Under the guidance of the Shanghai Municipal Foreign Economic Relations and Trade Commission, the center, targeted to open on January 1, 1987, will provide information and consulting services to foreign investors and help them shepherd their projects through the bureaucracy; Shanghai officials have characterized the set-up as "one-stop shopping" for foreign investors.

A "foreign exchange adjustment agency." Under the supervision of the local departments of foreign exchange control, this agency will help foreign enterprises conduct the foreign exchange adjustments and swaps contemplated by the State Council Regulations. A trading center, the first opened specifically for enterprises with foreign investment, has been operating once a week since November 1, 1986. Foreign investors have been permitted to make their currency swaps at rates differing from the official exchange rates.

A "commodities service agency." This agency will assist Shanghai foreign enterprises in obtaining the raw materials they require for their business activities, at prices equal to those paid by local State-run enterprises. A January 1, 1987, opening date is planned for this organization.

More moves on the drawing board

Mayor Jiang Zemin has indicated that Shanghai is studying a broad range of foreign investment-related issues and may in the near future adopt measures even more extensive than those provided for in the new legislation. Other measures now being considered by the Shanghai authorities include: a planned increase in Shanghai's borrowings from international capital markets; the concept that the surcharges on PRC workers' salaries paid by Shanghai ventures will be reduced while the "actual income of the workers will be increased"; and an accelerated depreciation term for the assets of certain types of enterprises.

Particularly intriguing are official indications that in cases where Shanghai's foreign enterprises are producing goods that are equivalent, in terms of quality, delivery cycle, and price, to goods that would otherwise be imported, the import of the latter will be restricted. Prospective Chinese importers will be directed to purchase from the Shanghai foreign enterprises, making payment in foreign exchange or a mix of foreign exchange and renminbi. The implementation of this novel approach, not only in Shanghai but nationwide, can take place as soon as the central government issues its planned list of technologies that qualify as "import substitutes" (*see* p. 8).

Naturally, the new rules and administrative mechanisms are very welcome. But perhaps even more impressive is the fresh attitude that has accompanied them. In recent months, many long-time residents of Shanghai have noticed a new ease in their business dealings with their Shanghai partners and local officials.

For years, Shanghai's (and the rest of China's) legislation and official publications referred to the foreign investment program as a scheme for the "utilization" of foreign investment. It is perhaps an indication of increased sensitivity to the problems foreigners confront in China that the word "utilization" has been replaced by the word "encouragement." 完

LOCAL INVESTMENT REGULATIONS

This list includes the provinces and municipalities that had issued local investment regulations by mid-December. While the regulations issued by some provinces are meant to cover all municipalities within their jurisdiction, other provinces allow open cities or special economic zones to issue their own regulations.

In general, provincial regulations tend to be broader than municipal ones, specifying the general principles used to determine when to award preferential treatment. If they do get specific, provincial regulations tend to indicate a broad range within which taxes and fees can fluctuate. Municipalities, in contrast, tend to pin down the terms they will offer investors more precisely.

Anhui Province, October 25*
Anshan, November 7
Beijing, October 12
Dalian, November 23*
Fujian Province, November 17*
Fuzhou, October 12
Gannan Autonomous Region (in Gansu Province), November 5*
Guangdong Province, October 13
Guangzhou, November 10*
Guizhou Province, October 16
Hebei Province, November 15
Hunan Province, October 16
Jiangsu Province, November 10
Jiangxi Province, October 15
Lianyungang, October 24
Liaoning Province, October 17
Nantong, November 6
Ningbo, October 16*
Qinhuangdao, December 4
Qingdao, October 16
Shandong Province, October 15
Shanghai, October 24
Shenzhen, November 10*
Tianjin, October 12
Xiamen, November 10*
Xinjiang Province, November 3*
Yantai, October 22*
Zhejiang Province, October 29
Zhuhai, November 6

* Official promulgation date not available. Date given is the first day the regulations were mentioned or appeared in the press.

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PROJECT NOTEBOOK

The Guangdong Float Glass Company

Martin Weil

During a year in which problems with China's investment climate have received prominent publicity, the Guangdong Float Glass Company (GFG) stands out as an instructive example of cooperation between foreign and Chinese interests. The company, a 15-year 50–50 joint venture between PPG Industries (US) and Thai interests on the one hand, and a consortium of Chinese interests on the other hand, is building a new $75 million factory in the Shekou area of the Shenzhen Special Economic Zone to produce flat glass using modern float technology. The 150,000-tonne per year capacity plant is, to date, probably the only foreign project of its magnitude in China likely to be completed according to the original timetable, despite a tight construction period of two years. It will also be the largest US manufacturing joint venture in China (in terms of up-front money spent) when it is commissioned in mid-1987.

Getting off to a good start

Two keys to the project's success to date are the foreign parties' choice of partner and site. PPG, one of the world's largest producers of flat glass using the float method, early identified China as a major growth market—a judgment vindicated by an approximately 85 percent growth in the size of the flat glass market from 1981 to 1985. After inspecting several sites, PPG chose Guangdong Province as the appropriate location for a flat glass facility, given its rapid economic growth, proximity to Hong Kong, and relatively plentiful supply of foreign exchange. GFG's proximity to Hong Kong has vastly simplified the logistical problems of importing equipment and maintaining communications with the outside world. Pilkington (UK), one of PPG's rivals, chose Shanghai as the site of a joint venture factory even larger than PPG's.

Having China Merchants Steam Navigation Company (CMSN) as a Chinese partner has also been beneficial. CMSN, an arm of the Ministry of Communications that controls shipping from the mainland to Hong Kong and supervises the Shekou zone's development, was introduced to the project by the Thai intermediaries—associated with the family of an influential Thai businessman—who are now PPG's partners in the joint venture. After reaching a preliminary agreement in July 1984, the PPG–Thai consortium (incorporated in Hong Kong under the name Pennvasia) and the China Merchants consortium (known as China Southern Glass Company Ltd.) signed a joint venture contract in April 1985. PPG has found the China Merchants group both flexible and sophisticated in dealing with foreign businesspeople.

Another of the venture's strengths is that it has lined up a large amount of start-up money. The registered capital is relatively modest: $20 million in cash, split evenly between Pennvasia (in which PPG is the majority partner) and China Southern Glass (in which CMSN is the majority partner and the Shenzhen Building Materials Bureau, the Ministry of Ordnance's trading arm, China North Industries Company, and the Guangdong International Trust and Investment Corporation are minority partners). Most of the venture's funds, however, come from a $62 million syndicated loan arranged by the First National Bank of Chicago and Nanyang Ltd. (HK), a member of the Bank of China group. The loan, subscribed by 14 banks in the United States, Europe, Japan, and Hong Kong, is in two parts: a 12-year fixed-rate portion for the factory equipment; and a 10-year variable-rate portion covering other construction costs. The loan is guaranteed by CMSN and the Guangdong International Trust and Investment Corporation.

GFG secured a fixed interest rate for most of the loan when the Italian government agreed to subsidize any difference between the fixed rate and prevailing market rates in the future. While this subsidy means nothing as long as floating market rates stay low, it will become very valuable if interest rates rise—as GFG anticipates they will. In return for the Italian government's assistance, GFG is purchasing equipment from Italy through the firm International Glass Engineering (Inglen).

Inglen plays another important role. Although a Sichuan company under the Ministry of Railroads is undertaking the venture's civil construction (using a mixture of local and imported construction materials), the Italian firm is supervising factory construction and equipment installation. Joint venture General Manager Robert Niederberger believes that the Chinese willingness, after initial reluctance, to allow an

Martin Weil is director of the National Council's Beijing office. Project Notebook will run periodically in The CBR, *spotlighting the progress of major projects in China.*

For more information on this project, contact: Guangdong Float Glass Company Ltd.: (1) Shenzhen: 507 Crystal Centre, Shekou Industrial Zone, Shenzhen, Guangdong Province. Telephone: 22626-92136. Telex: 44578 GFG CN. Contact: Robert Niederberger, general manager. (2) Hong Kong: Pennvasia Ltd. 805B, World Wide House, 19 Des Voeux Road, Central. Telephone: 5-8101938. Telex: 83583 PENVA HX. Contact: Hans U. Reppermund, managing director.

experienced foreign company to manage construction is one of the principal reasons that the Guangdong factory is likely to be completed on schedule. In contrast, the Pilkington–Shanghai Factory, which is more deeply enmeshed in the Chinese domestic system of material supplies and construction management, began construction over a year earlier, yet may go into operation as much as six months to a year later than GFG. Of course, the presence of a foreign contractor does not automatically eliminate all the problems associated with building a plant in China—the first equipment shipments were held up by customs inspectors' insistence that all bills of lading be translated in detail from Italian to Chinese.

Initial problem solving

The venture has had a few other problems to solve as well. The plant's raw material prices are likely to be higher than anticipated in the feasibility study conducted in 1983–84 due to inflation in China and the requirement that joint ventures buy at free-market, rather than State plan prices.

PPG personnel are currently scouring China for reliable material suppliers and have already signed the first contracts—for silica sand from Guangdong, dolomite from Jiangsu, and limestone and saltcake from western China. Of the major raw materials needed, only soda ash cannot be supplied domestically. As the feasibility study correctly surmised, the United States is currently the sole source of the dense, high-purity ash necessary to produce float glass up to quality standards. Until China develops its own high-quality ash, the joint venture's soda ash import bill could run as high as $4–$5 million per year.

Electricity posed an unexpected problem when PPG discovered that frequent outages and voltage fluctuations in the local grid as high as 15–20 percent would necessitate extra investment in voltage regulating equipment. But the recent construction of a line connecting the Shekou power grid to that of China Light and Power in Hong Kong will guarantee a stable, albeit potentially expensive, power supply.

Management challenges

PPG will manage the plant for the first three years of operation. In addition to the general manager position, PPG personnel will initially occupy all key technical slots, including glass processing superintendent, tank superintendent, maintenance superintendent, and treasurer. An additional 20 expatriates will be on site to help with plant start-up.

PPG would like to gradually turn management over to the Chinese, and is already beginning to hire Chinese technical and managerial personnel. But PPG is finding that, due to the effects of the Cultural Revolution, there is a dearth of the type of people it wants: well-educated engineers or managers with 5–10 years of production experience. Older people are reluctant to change jobs and move their families, and younger people lack experience. Some of the best and brightest candidates work in research and design institutes, but PPG worries that their skills may be overly theoretical.

When the Shekou Labor Service Co. proved unable to find qualified people for technical and management jobs, GFG placed an ad in a Beijing newspaper. Ultimately 350 people were interviewed, from which 30 qualified people were identified. But the work units of 10 of these people flatly refused to release them, and to date, only 15 of the remaining 20 have successfully negotiated job transfers.

Marketing and foreign exchange

But the biggest challenges are yet to come—when the venture begins production and starts marketing. Up to 5 percent of total production will be purchased by a mirror factory being built in Shekou by one of the Chinese partners in Guangdong Float Glass. But this still leaves a lot to sell. While GFG's product will be superior to any other Chinese factory (with the arguable exception of the Pilkington–Shanghai plant, to which it will be roughly equivalent), its price will also be considerably higher. And the venture is coming onstream at a time when the slowdown in capital construction (about 9 percent growth in 1986 compared to over 20 percent in 1983–85) is putting the first damper on the flat glass market in a long time—since new buildings account for the vast majority of Chinese flat glass consumption. GFG marketing personnel are already making trips as far north as Beijing to begin lining up customers, and to let both foreign businesses in China and domestic entities know that their product should be available by the second half of 1987.

GFG anticipates some difficulties in generating foreign exchange to cover operating costs in the early years, but does not expect the foreign exchange balance to be a major problem in the long run. The venture originally planned to export about half its output to Asian and South Pacific markets to generate the currency to repay loans, but at present is finding competition stiff and export prices lower than expected.

Several plans are now in the works to help solve this problem. In addition to exporting, GFG hopes to generate additional foreign exchange by making some domestic sales for hard currency. The company will also try to reduce land-use fees. GFG hopes to take advantage of recent Shekou zone regulations allowing new ventures an exemption from land-use fees during construction, and a 50 percent reduction in the land-use rate for the first two years of operation. GFG also hopes to reduce its land-use assessment to the lower levels mentioned in China's recently issued Provisions for the Encouragement of Foreign Investment—and to change the currency of payment from foreign exchange to renminbi. And GFG would like to eventually find a way to eliminate the large foreign exchange outflow for soda ash, and to switch a portion of payments to the local payroll service company from foreign exchange to renminbi.

Beginning in mid-1987 PPG hopes to prove that it is possible for a foreign company to successfully operate a joint venture making a key industrial raw material in China. The record to date is encouraging: PPG is navigating its way with unprecedented success through the construction phase of its joint venture in China.

Full Steam Ahead

Already a tough competitor, China's merchant marine is getting stronger all the time

Irwin Millard Heine

It took the People's Republic of China less than 25 years to become a major force in international shipping. Along the route the twists and turns in China's economic and political policies could have slowed the growth of the merchant marine had it not been for the unflagging determination of the Chinese government in pursuing its maritime objectives. And this determination undoubtedly will continue to inspire major improvements in the fleet during the Seventh Five-Year Plan (FYP).

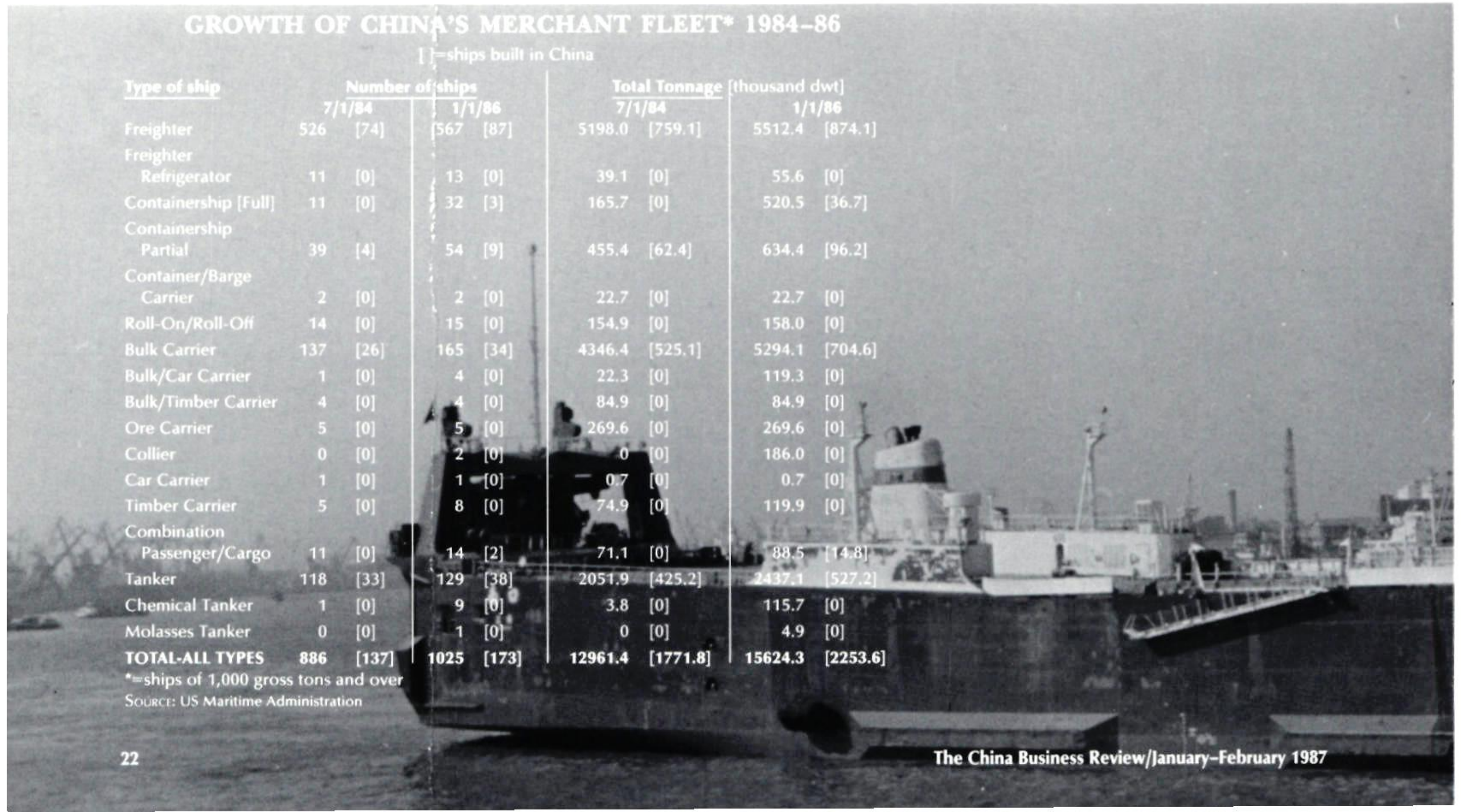
At a time when many of the world's leading merchant fleets are declining in tonnage, the Chinese merchant marine is expanding. Since 1961 China's ship tonnage has grown on average 13.6 percent each year, faster than any other maritime fleet. The Soviet Union, which began its maritime surge about the same time but from a larger base, grew at an average annual rate of 8.1 percent throughout the same 25-year period. From very modest beginnings, China has emerged with the ninth largest merchant marine in the world in terms of tonnage.

In the 1950s China did not need a large merchant fleet. The Soviet Union accounted for some 40 percent of China's foreign trade, about 90 percent of which moved over land and river routes. But after 1960, when Sino–Soviet trade declined sharply, China was obliged to seek overseas trading partners. To that end it required a merchant marine that would free it of dependence on foreign carriers.

In 1961, when China established its first ocean shipping company—the China Ocean Shipping Company, or COSCO, the merchant marine consisted of 150 small, aged, oceangoing ships totaling 760,000 deadweight tons (dwt). Only 20 of these, together with five chartered ships, were reportedly engaged in overseas trade. By the end of 1985, the country's merchant fleet boasted 1,025 ships (*see* Table 1), the great majority of them involved in foreign trade. In 1985 alone, China added a net of 124 ships totaling 2.4 million deadweight tons to its fleet.

State-financed expansion

During the ongoing slump in world shipping, government-supported



GROWTH OF CHINA'S MERCHANT FLEET* 1984–86

[ ]=ships built in China

Type of ship	Number of ships				Total Tonnage [thousand dwt]			
	7/1/84		1/1/86		7/1/84		1/1/86	
Freighter	526	[74]	567	[87]	5198.0	[759.1]	5512.4	[874.1]
Freighter Refrigerator	11	[0]	13	[0]	39.1	[0]	55.6	[0]
Containership [Full]	11	[0]	32	[3]	165.7	[0]	520.5	[36.7]
Containership Partial	39	[4]	54	[9]	455.4	[62.4]	634.4	[96.2]
Container/Barge Carrier	2	[0]	2	[0]	22.7	[0]	22.7	[0]
Roll-On/Roll-Off	14	[0]	15	[0]	154.9	[0]	158.0	[0]
Bulk Carrier	137	[26]	165	[34]	4346.4	[525.1]	5294.1	[704.6]
Bulk/Car Carrier	1	[0]	4	[0]	22.3	[0]	119.3	[0]
Bulk/Timber Carrier	4	[0]	4	[0]	84.9	[0]	84.9	[0]
Ore Carrier	5	[0]	5	[0]	269.6	[0]	269.6	[0]
Collier	0	[0]	2	[0]	0	[0]	186.0	[0]
Car Carrier	1	[0]	1	[0]	0.7	[0]	0.7	[0]
Timber Carrier	5	[0]	8	[0]	74.9	[0]	119.9	[0]
Combination Passenger/Cargo	11	[0]	14	[2]	71.1	[0]	88.5	[14.8]
Tanker	118	[33]	129	[38]	2051.9	[425.2]	2437.1	[527.2]
Chemical Tanker	1	[0]	9	[0]	3.8	[0]	115.7	[0]
Molasses Tanker	0	[0]	1	[0]	0	[0]	4.9	[0]
TOTAL-ALL TYPES	**886**	**[137]**	**1025**	**[173]**	**12961.4**	**[1771.8]**	**15624.3**	**[2253.6]**

*=ships of 1,000 gross tons and over

SOURCE: US Maritime Administration

merchant fleets have the advantage of direct and indirect State support to keep them afloat. China's merchant marine is no exception.

Although at least 12 ministries, commissions, corporations, and departments have maritime-associated activities, China's Ministry of Communications (MOC) plays the dominant role in both domestic and overseas shipping. MOC's responsibilities include coordinating the activities of inland waterways; coastal and overseas shipping; harbor dredging corporations; port design and construction companies; communications and navigation; hydrography; rescue and salvage; foreign maritime affairs; ship registration; and supervision of China's Maritime Law of 1984. In addition to 16 divisions concerned with water transportation, MOC also has control over China's highways and science and technology related to water and highway transport.

MOC oversees COSCO operations indirectly through its Bureau of Ocean Shipping. Although COSCO reportedly lost money on its US container ship services because of the transpacific rate wars,[1] and sustains modest losses on its worldwide operations, its position under MOC enables it to take advantage of State support.

China has taken the long view of its place in world container and other shipping trades, and is steadily increasing the containership segment of its fleet.

A formidable competitor in world shipping, COSCO had a diversified fleet of 614 ships totaling 13 million dwt by 1986. In all, COSCO serves some 600 ports in 120 countries and regions, operates 95 container and general cargo scheduled services worldwide, and bulk cargo and tanker nonscheduled operations. In 1985 COSCO handled 60 million tonnes of freight (probably including chartered tonnage), compared with the 127 million tonnes and 27 million tonnes carried by the Soviet Union and US flag ships, respectively.

Irwin Millard Heine is widely recognized as a leading author on international trade affairs. He has published over 40 articles, monographs, and books on American, Soviet, and Chinese maritime relations and activities. This article is adapted from the chapter on the merchant marine in his forthcoming book Maritime Revival Under the People's Republic of China.

In the 1960s COSCO began to acquire ships from the international secondhand market and from Chinese and foreign shipyards. Its greatest gains were achieved in the 1970s, however, when COSCO added 302 ships of various types, mainly from foreign sources, totaling 5.4 million dwt.

The devastating decline in world oceanborne trade that began in the late 1970s created large surpluses of bulk carriers, tankers, and various types of general cargo ships worldwide. COSCO has taken advantage of the depressed international shipping market to acquire modern ships at very favorable prices.

COSCO subsidiaries play growing role

In its early years, COSCO's activities were directed from its headquarters in Beijing. As the scope of its scheduled services widened and the managers of COSCO's subsidiary branches demonstrated their competence, the branches were given greater control over their own operations. But COSCO's Beijing head-

quarters still approves the number and type of ships the subsidiary companies can acquire, the addition of scheduled services, and bulk carrier and tanker activities.

COSCO's subsidiaries may compete with each other by offering a scheduled service with container or general cargo ships to the same range of ports. But they have also found that by merging their services they can improve operating efficiency and financial returns. In July 1986, for example, COSCO Shanghai and COSCO Guangzhou, which operate container services to England and northern European ports, formed a joint container service operating between Tianjin, Shanghai, Huangpu, and London, Antwerp, Rotterdam, Hamburg, and Le Havre.

In addition to China's own merchant marine, COSCO directs the operations of Chinese flag ships engaged in joint shipping operations with Poland, Tanzania, and Sri Lanka. The oldest and most successful of these is the Chinese–Polish Joint Stock Shipping Company (CHIPOLBROK), established in 1951 following the signing of a joint shipping agreement between the two countries. The number of Chinese flag ships in joint shipping operations is small, however, and such agreements have greater political than economic significance. China has signed 42 other bilateral maritime accords since then, a few of which are inoperative or have lapsed, notably the United States–China Maritime Agreement that ended in December 1983.

Increasing competition from private companies

Although COSCO has been designated as China's principal overseas shipping company, a number of local and provincial authorities have received approval from the State Council to establish shipping companies of their own. COSCO and its 11 subsidiary companies are feeling the pinch of the estimated 67 small shipping companies engaged in overseas shipping services in 1985. These companies compete with COSCO not so much on the basis of greater productivity but on the loyalty of shippers in their localities, which give them preference in cargoes. Their presence may give COSCO the incentive it needs to better adapt its services to local needs.

Because of their size and age, most ships in the local and provincial fleets travel no further than Hong Kong and Japan with cargoes for transshipment to the United States, Europe, and Australia. But with little foreign exchange at their disposal, the private fleets may be hard hit by new regulations requiring them to pay half of the cost of building ships with their foreign exchange earnings. Until recently they could pay in renminbi for ships built in Chinese shipyards. COSCO by contrast, can draw upon its sizable foreign exchange earnings to meet the stiffer requirement of paying entirely in hard currency for its ships.

The "shadow" fleet

Any analysis of the size and effectiveness of China's merchant marine must consider the 127 ships, totaling 3.9 million dwt, that operate under Liberian, Panamanian, and British Colonies registries, which the Chinese government wholly owns and controls through MOC. Directly or indirectly the Chinese government can influence the operations of those companies to its advantage.

These foreign-registered ships are themselves formidable competitors for bulk, general cargo, and some specialized tanker cargoes on world trade routes. Not to be overlooked are their hard currency earnings, part of which, in one way or another, find their way into China's reserves.

Chartered foreign flag services were introduced in part to thwart US and Nationalist Chinese attempts to blockade and embargo China's foreign trade following the outbreak of the Korean conflict in the 1950s. China's flags of convenience also helped it avoid the risk of confiscation at the ports of countries with claims against Chinese assets. The precipitous decline in trade with the Soviet Union after 1960 was yet another factor that forced China to turn to foreign registries to meet its import/export needs.

The fact that the Chinese government was willing to sustain the drain of foreign exchange to pay for charter hire is a measure of the seriousness with which the nation's maritime requirements were viewed. Even today, ship chartering continues to be a drain on China's foreign exchange resources. Since 1978 COSCO has time-chartered an annual average of

TOP 10 MERCHANT FLEETS OF THE WORLD

(as of January 1, 1986)
(Tonnage in Thousands)

	Total Vessels			Combination Passenger and Cargo			Freighters			Bulk Carriers			Tankers		
Country	No.	Gross Tons	Dwt	No.	Gross Tons	Dwt	No.	Gross Tons	Dwt	No.	Gross Tons	Dwt	No.	Gross Tons	Dwt
Liberia	1,852	62,126	119,080	8	136	53	386	3,517	4,818	764	21,391	40,072	694	37,082	74,137
Panama	3,620	42,101	69,710	35	464	219	2,068	12,964	18,123	952	18,225	31,683	565	10,447	19,685
Japan	1,604	37,366	60,287	6	44	16	633	6,302	6,280	497	14,780	25,535	468	16,239	28,456
Greece	1,835	32,092	57,130	33	209	98	733	5,448	8,112	760	15,145	26,943	309	11,290	21,978
UK*	991	22,569	36,334	14	340	77	402	3,980	4,621	300	9,287	15,989	275	8,961	15,648
USSR	2,514	18,717	24,858	52	478	124	1,793	9,841	11,967	221	3,356	5,222	448	5,042	7,546
USA	737	16,034	24,339	37	514	300	417	6,383	7,353	25	693	1,152	258	8,444	15,535
Norway	424	12,572	21,116	22	358	68	130	1,147	1,431	90	3,584	6,212	182	7,483	13,406
China	**1,025**	**10,278**	**15,624**	**14**	**141**	**89**	**692**	**4,985**	**7,024**	**180**	**3,567**	**5,954**	**139**	**1,584**	**2,558**
Cyprus	716	8,900	15,322	6	45	21	451	2,174	3,324	168	3,152	5,320	91	3,530	6,657

*Includes British Colonies
SOURCE: US Maritime Administration

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95 ships totaling 1.8 million dwt of foreign flag shipping. Zhou Enlai's vision of China free from the need to employ chartered tonnage has yet to be realized.

Among the leading PRC-owned and controlled shipping companies based outside the mainland are Hong Kong-registered Ocean Tramping Company, Ltd., and Yick Fung Shipping and Enterprises Company, Ltd., established in 1958 and 1960, respectively. In recent years, their ships and those of their subsidiary companies have operated mainly under Liberian and Panamanian registries, while ships under the British Colonies flag (Hong Kong) account for the remainder.

Another Hong Kong-based company, Hong Kong Ming Wah Shipping Company, Ltd. was established in 1980. It operates a feeder service between Hong Kong and Chinese ports and also transports cargoes to and from West African and European ports. Operations are directed by the MOC-controlled China Merchant Steam Navigation Company in Hong Kong.

Flags of convenience are no longer as critical to the conduct of China's overseas trade as they once were. With a steady flow of trained officers and seamen entering the Chinese merchant marine every year, former manpower shortages have been largely overcome. Wage rates for seamen on COSCO ships are as low, if not lower in some respects, than those for their counterparts on China's flag of convenience ships. And

YANGTZE RIVER PORTS OPEN TO FOREIGN SHIPS

Qi Daqing
China Features

Photo courtesy of China Features

A new 10,000-tonne wharf at Nantong Port

Inland ports open to foreign ships include Tongjiang in Heilongjiang Province, at the confluence of the Amur and Songhua rivers; Rongqi in Guangdong, on the Xijiang River; and the three Yangtze River ports: Nanjing, opened to direct foreign trade early in 1986, and Zhangjiagang and Nantong, opened in 1982.

The following report describes the current and planned capacities of the three Yangtze ports, whose rapid expansion, it is hoped, will relieve serious congestion at China's largest port—Shanghai.

Nanjing, 300 kilometers from the mouth of the Yangtze River, is China's largest inland port. In 1985 it handled 36.63 million tonnes of cargo—second only to Shanghai. The port has a quay line of 2,275 meters with 35 wharves, some of which are designated for container ships and tankers.

Nanjing is a leading crude oil port. After a year of dogged effort, expansion of two oil terminals for 10,000-dwt tankers was completed last April, and both are now running at full speed. These are China's largest oil terminals on inland waterways. They handle crude coming through pipelines from Renqiu field in Hebei, Shengli field in Shandong, and Zhongyuan field in Henan. Oil products of Nanjing's refinery, formerly shipped overseas via Shanghai, are now transported directly to Japan and the United States in 10,000-dwt tankers.

Expansion of the Nanjing Port has entered its second phase now that construction of three 10,000-dwt berths has been completed. During the Seventh Five-Year Plan (FYP) Nanjing will build five additional 10,000-dwt berths, two general cargo berths, and one 20,000-dwt container berth. When completed by 1990, Nanjing's handling capacity will more than double, according to Yong Xianyun, an official at the Inland Water Bureau of the Ministry of Communications.

Originally intended as a subsidiary to Shanghai's port, **Zhangjiagang Port** has grown into a sizable modern port with links to the Grand Canal and the national rail network. Midway between Nanjing and Shanghai, anchorage can accommodate five 10,000-dwt ships at the same time.

The port now has four berths for 10,000-dwt ships and two for vessels of 5,000 dwt. In 1985 it handled 26,000 standard containers and 3.405 million tonnes of cargo, about half of which went overseas.

During the Seventh FYP, Zhangjiagang Port will add three to five deepwater berths for 10,000-dwt ships as well as coal, timber, and container terminals. Annual port handling capacity is expected to reach 15 million tonnes by 1990.

Ideally located at the mouth of the Yangtze River, **Nantong Port** is often compared to New Orleans. The Nantong port area extends 15 kilometers, with three stevedoring districts. Together, the port districts have three deep-water berths for 10,000- to 25,000-dwt ships and six medium-sized berths for 3,000- to 5,000-dwt ships. They also have 16,696 square meters of entrepot with a stacking capacity of 11,190 tonnes, as well as 130,000 square meters of freight yards capable of piling 155,390 tonnes.

The tonnage loaded and unloaded at Nantong in 1985—10.192 million—actually exceeded its designed capacity of 7.5 million tonnes. A joint venture with a Dutch consortium will build five deep-water berths during the Seventh FYP. By 1990 the annual handling capacity of the port is expected to reach 25 million tonnes.

flag of convenience ships are no longer needed to evade foreign claims on Chinese assets. Yet there is nothing to suggest that China intends to bring flags of convenience under the Chinese flag. It may well be that as long as port facilities remain inadequate, flags of convenience vessels give China's maritime planners greater flexibility of operations. Political considerations may also be a factor in keeping so large a fleet under foreign registries. Although maintaining flags of convenience does not jibe with China's goal of achieving self-reliance in shipping, the Chinese government is prepared—now, as in the past—to forgo principles that interfere with the pursuit of broader national objectives.

Modernizing the Chinese fleet

Although chartering operations remain an important component of its merchant marine, China has no intention of neglecting the Chinese-flag fleet. Construction of some 400 additional ships of various types in Chinese and foreign shipyards during the Seventh FYP could add about 5–6 million dwt to China's merchant marine.

During the past five years Chinese shipyards delivered 55 ships of various types—including bulk cargo, freighters, tankers, containerships, and partial containerships and passenger-cargo vessels—totaling 751,600 dwt for the Chinese registry. By the end of 1985, 17 percent of the ships in the Chinese merchant marine were built in the nation's shipyards (*see* Table 1). The newly acquired ships improve COSCO's competitiveness: they are less expensive to operate and more productive than the outmoded general cargo ships that form a substantial part of COSCO's fleet.

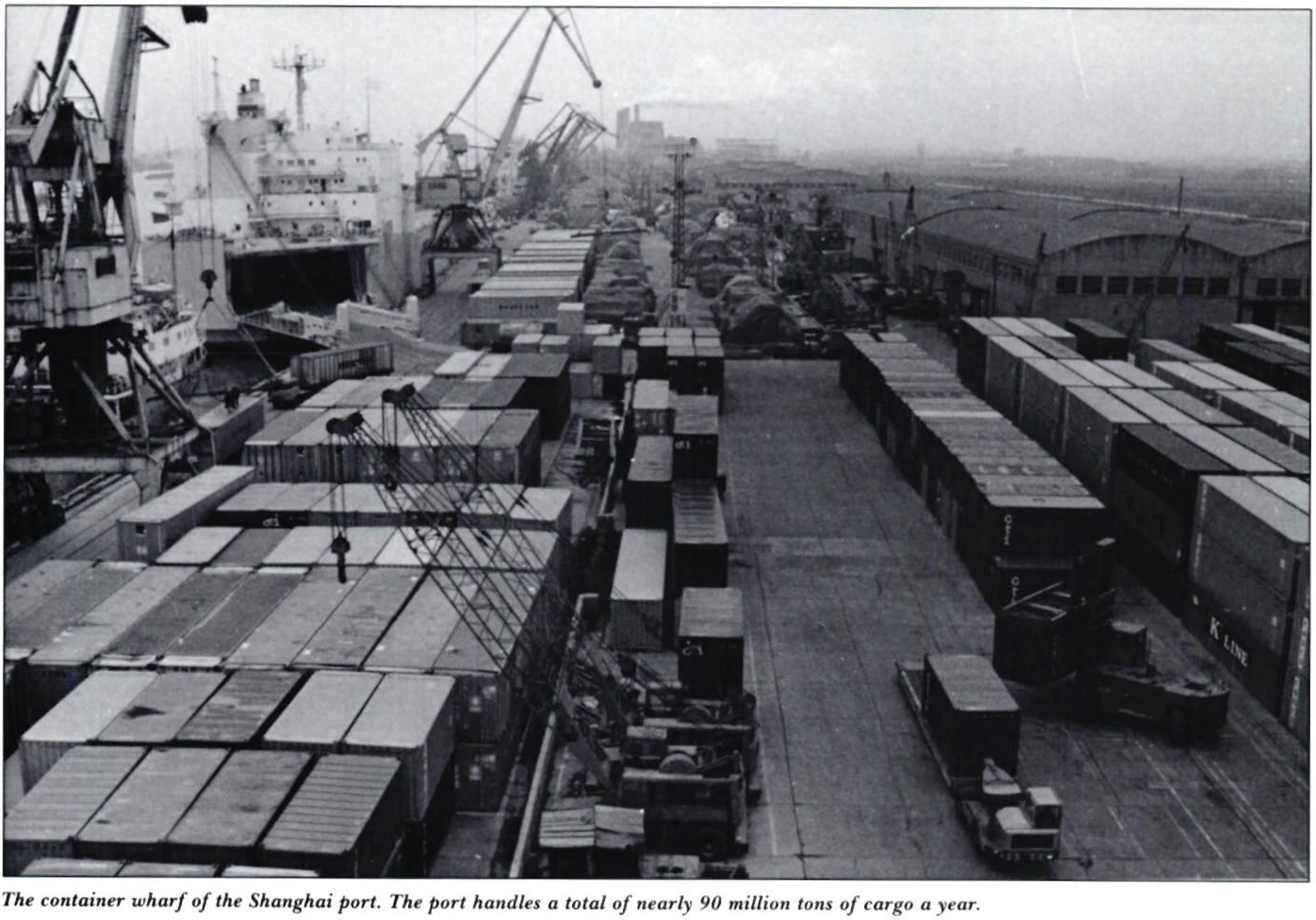
But modernizing the Chinese merchant marine is an enormous task involving both Chinese and foreign shipbuilders. China's ratio of 21 general cargo ships to one full containership is far out of line with the average of 9 to 1 for the world's fleets. In 1982 the average age of China's merchant fleet was 16 years; younger than the American but older than the Soviet fleets. The net gain of 214 ships brought into the fleet since then and year-end 1985 has lowered the fleet's average age. Still, general cargo ships make up the major segment of COSCO's fleet, and about 20 percent of these ships are more than 20 years old.

COSCO relies principally on West German and Japanese shipyards for containerships and roll-on/roll-off (RO/RO) vessels. Chinese yards could build these ships, but the China State Shipbuilding Corp. has sought to increase its market share of foreign orders. In recent years China's shipyards have increasingly focused on building specialized vessels, some of which are exported. Even so, COSCO's need for additional ships to meet China's expanding foreign trade will keep China's shipyards busy in the years ahead—a position other world shipyards would more than welcome.

The push for containerization and port improvements

Aware of the greater efficiency of container ships compared to general cargo freighters, MOC established the Container Transport Corporation in 1980 to coordinate the country's domestic and international container traffic. Undaunted by domestic port constraints and unattractive international market condi-

Photo courtesy of China Features



The container wharf of the Shanghai port. The port handles a total of nearly 90 million tons of cargo a year.

tions, China has taken the long view of its place in world container and other shipping trades, and is steadily increasing the containership segment of its fleet. In 1980, when China's containership program got under way, COSCO ships carried about 16,400 20-foot equivalent (TEU) size containers. By 1984 the number rose elevenfold to 184,000. And COSCO is acquiring West German ships capable of carrying 1,300 to 1,700 TEU size containers, and smaller size containerships from Japanese and Chinese shipyards, ranging from 400 TEUs to 700 TEUs.

While the West German containerships are the largest China has ever purchased, they cannot compare with the capacity of containerships of up to 4,000 TEUs built for US and East Asian shipping companies. Nonetheless, they are a beginning. And as COSCO becomes even more competitive on high freight rate trade routes, larger containerships are likely to enter its fleet in the years ahead.

The use of containers in China's trade is expected to increase at an average annual rate of about 15 percent through 1990, according to Chinese planners. At present, COSCO containerships are serving Australian, Persian Gulf, Southeast Asian, European, North American, and Japanese ports from Dalian, Tianjin, Qingdao, Shanghai, and Huangpu. Operations to and from Hong Kong, which serves as a transshipment port in China's foreign trade, are carried on from Dalian, Qingdao, Xiamen, Shanghai, and the inland port of Zhangjiagang.

Port development, linked to the increasing use of containerships, is another priority. The construction of facilities for handling containerized cargo, as well as improved intermodal links to move cargo quickly and efficiently to the interior, are crucial to the development of China's foreign trade. Currently, ship congestion in China's ports—leading to long delays in transferring export and import cargoes between ship and shore—are costly to ship operators, exporters, and importers alike.

Construction of 132 additional deep-water berths at 15 ports began under the Sixth FYP, and the 54 berths already completed in 1985 have added an estimated 100 million tonnes of handling capacity to China's ports.By the end of 1986, total handling capacity should reach 335 million tonnes, up 35 million tonnes from year-end 1985, according to the Ministry of Communications.

But port development is extremely costly. In addition to the $3.1 billion already pledged by the State to expand port handling capacity to 550 million tonnes by 1990, China hopes to attract substantial foreign investment. Thus the State Council extended preferential treatment to foreign investors involved in port development, through Provisional Regulations issued on September 30, 1985.

Crews for Chinese flag ships

Modernizing the Chinese fleet depends not only on the introduction of new and advanced ships, but on the availability of trained officers and crews to man them. A Chinese official noted in 1981 that China's maritime manpower consisted of 18,000 officers and 38,000 seamen. The numbers have grown substantially since then, possibly by as much as 11,000 total shipboard personnel, given the net additions of 275 ships between 1981 and the end of 1985. By contrast, the major Western maritime nations are steadily losing shipboard personnel as their merchant fleets decline in number. For example, the numbers of officers and seamen in the US merchant marine con-

UPCOMING MARITIME EXHIBITIONS

INTL HARBOR CONSTRUCTION & FACILITIES EXPO '87 July 18–23, 1987. Tianjin. Scope of exhibits to include surveying instruments, reclamation and technology, remote underwater earth-moving equipment, drilling equipment, ramming equipment, weight-lifting equipment. *Contact:* Betty Lum at National Council member company China Business Enterprises, 109 East 15th Street, New York, NY 10003. Tel: 212/682-1511.

WATER TRANSPORT '87/HARBOR & RIVER TRANSPORT TECHNOLOGY, EQUIPMENT & ENGINES EXHIBITION & CONFERENCE May 28–June 3, 1987. Beijing. Scope of exhibits to include harbor and inland water transport technology and equipment; waterway survey and dredging equipment; diesel engines and ship equipment. *Contact:* Harry Lepinske at International Marketing Services, Ltd., 1030 S. LaGrange Road, LaGrange, IL 60525, Tel: 312/354-3900.

INTL MATERIALS HANDLING CHINA '87 July 20–26, 1987. Shanghai. Scope of exhibits to include packing and packaging, computer systems, automated guided vehicles, atmospheric controls, distribution systems, security, storage systems, preventive maintenance, computer-integrated manufacturing (CIM). *Contact:* Richard R. Craig at National Council member company Cahners Exposition Group, 7315 Wisconsin Avenue, P.O. Box 70007, Washington, DC 20088. Tel: 301/657-3090.

TRANSPORTATION CHINA '87 August 24–29, 1987. Beijing. Scope of exhibits to include navigation equipment, river and coastal traffic systems and equipment, cargo cages, container handling equipment, interchangeable containers, cranes, forklifts, hoists, packaging systems. *Contact:* Richard R. Craig at National Council member company Cahners Exposition Group (*see* above).

SEA & LAND TRANSPORT CHINA '87 September 7–12, 1987. Tianjin. Scope of exhibits to include port development; navigation and maritime services; urban and rural road transport distribution and storage; assistance in consultation in design, construction, electric equipment, and technology in railways and subways; signaling, communication instrumentation. *Contact:* Don Chow at China International Trade Fair, 708 Silvercord, Tower One, 30 Canton Road, Kowloon, Hong Kong. Telex: 49446 PLWIN HX.

MARINTEC CHINA '87 & MARINTEC OFFSHORE CHINA/ INTL EXHIBITION & CONFERENCE FOR SHIPBUILDING, PORT DEVELOPMENT & MARINE TECHNOLOGY December 7–11, 1987. Shanghai. Scope of exhibits to include shipbuilding, shipping, ports, dredging, cargo handling, inland waterways, fishing and fisheries, offshore exploration, and investment opportunities. *Contact:* Richard R. Craig at National Council member company Cahners Exposition Group (*see* above).

Compiled by Priscilla Totten.

Notice of upcoming exhibitions may be sent to Jennifer Little at The National Council for US–China Trade, 1818 N Street, NW, Suite 500, Washington, DC 20036.

tinue to decline—from 22,000 in 1980 to an estimated 15,000 to 16,000 in 1986.

Originally the MOC administered three institutes and one maritime college to educate and train personnel for shipboard occupations. The number graduated, however, could not meet the rising demand for crews as ships were rapidly added to the merchant marine. There are now eight principal institutes and seaman's schools in Dalian, Shanghai, Xiamen, Qingdao, Nanjing, Tianjin, and Guangzhou, with their own training ships. There are also training centers for seamen run by local authorities in coastal areas.

In addition to graduates from the institutes, navigation, and technical schools, seamen are drawn from public schools, usually after undergoing a year's training at a navigational school. Occasionally, sailors from China's navy obtain permission to transfer to merchant ships, but only after they receive training at a navigation or technical school.

Training of officers and seamen is also a function of Chinese flag ship complements. By overcrewing or doubling certain licensed officers in the deck and engineering departments, senior and junior officers gain additional training and experience.

In a number of instances entire crews are furnished to foreign ships operators at their request, through the China Ocean Shipping Agency (COSA), which negotiates the terms of service and payment. Sending seamen to work on foreign flag ships serves two purposes: it enables China to earn foreign exchange; and it gives Chinese officers and seamen additional training on modern, technically advanced containerships, roll-on/roll-off, and multipurpose ships, from which they benefit when they serve on board similar types of ships that are entering China's merchant marine in increasing numbers.

Except for allowances and living expenses, crews are paid in Chinese currency, although payment from the foreign operator for the service is made in hard currency. Wage scales for Chinese officers and seamen are considerably less than those paid by operators of ships registered under the flags of other maritime nations, a competitive plus for COSCO. They are high, however, by Chinese standards compared to pay scales for jobs on land.

Investing for the 1990s

Falling freight rates over a period of years in all trades, and cut-throat competition for available cargoes, has affected the earnings and viability of many shipping companies throughout the world. Carriers are expecting lean years to drag on through the remainder of this decade. Despite the benefits of State support, COSCO has not been immune to the hardships suffered by its competitors.

To become a profitable enterprise in the years to come, COSCO will have to focus on more than just adding ships and trained seamen to its fleet. One priority will have to be better planning and scheduling for ships and available cargoes. More research must be done concerning the most cost-effective mix of ship types, financing of ships, the opportunities for COSCO in the cross-trades, and the cost effectiveness of buying versus chartering ships in various phases of international shipping cycles.

Better management is another priority, as Chinese planners themselves acknowledge. An important initiative undertaken during the Sixth FYP to improve efficiency of operations was the separation of governmental functions from business management. Technological know-how also needs to be upgraded, and productivity in all areas affecting the operations of the merchant marine must be increased considerably. One estimate puts Chinese productivity in the shipyards, for example, at about 10 percent that of Japanese shipyards.

Planners continue to set ambitious goals for the merchant marine. Since the government's policy is to transport as much of China's foreign trade as possible in Chinese flag ships, high growth rates in trade volume must be matched by gains in the merchant fleet. If China's total foreign trade is to reach $150 billion by the year 2000, as some planners forecast, the merchant marine will have to almost double present capacity to reach about 30 million dwt at the end of the century.

Can China do it? On balance, it would appear probable. After all, China has maintained a consistent, dynamic, and well-funded maritime program for the past 25 years. Judging from the merchant marine's continued importance in the Seventh FYP, there are valid reasons to believe the fleet will continue to be a leading magnet for national energies—and a source of national pride in the years ahead. 完

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US–China Shipping

Chinese companies handle the lion's share of the cargo

Lee A. Merkle

The value of two-way trade between the United States and China rose to $8 billion in 1985, translating into more than 15 million tonnes of air and surface cargoes for the year. As in the past, this tonnage crossed the Pacific primarily by sea. But while goods traded between the United States and China sail both ways in roughly equal amounts, shipping conditions are far less equitable.

China dominates the US–China sea trade through two State-run transport companies: the China Ocean Shipping Company (COSCO) and the China National Foreign Trade Transportation Corporation (SINOTRANS), which handle almost all of China's outbound trade. At the same time, COSCO and SINOTRANS also participate relatively freely in the US market, competing one-on-one with their American and other foreign counterparts.

American shipping lines, on the other hand, no longer call directly on China's ports, in part because of Chinese cargo allotment practices that US shipping representatives say favor Chinese ships, port congestion, and Chinese port fees that are reputed to be among the highest in the world. Other US attempts to enter the Chinese market have been prohibited outright. US freight forwarders and shipping lines cannot directly solicit business from Chinese importers and exporters. And US shipping lines are essentially excluded from operating feeder services between China and Hong Kong because China claims this is a domestic route subject to cabotage—a provision that reserves domestic trade for domestic shipping companies. Other countries object to this claim on the grounds that Hong Kong cannot be considered a Chinese port until the British colony reverts to Chinese control in 1997, and because much of the cargo in question is international cargo bound for transshipment, rather than domestic cargo.

Unfortunately for US carriers, the arrival of Chinese feeder ships in Hong Kong and Kobe harbors often does not coincide with scheduled liner departures, making transshipment less efficient and more costly. Because Chinese feeder services monopolize the Hong Kong–PRC route, US shipping sources say, these companies have no incentive either to lower rates or improve service.

Waning role of US carriers

China's State-run shipping firm, COSCO, now offers the only direct service from mainland China to the United States. COSCO and its five main branches have regularly scheduled liner services to both East and West Coast US ports (*see* map) that compete for US–China cargo in both directions.

The three US shipping lines still involved in US–China trade transship goods via Hong Kong (currently an entrepot for two-thirds of US–PRC trade) and Kobe, Japan—both of which are served by Chinese feeder ships. Kobe is also served by Japanese shipping companies and Sino–Japanese shipping ventures.

Unfortunately for US carriers, the arrival of Chinese feeder ships in Hong Kong and Kobe harbors often does not coincide with scheduled liner departures, making transshipment less efficient and more costly. Because Chinese feeder services monopolize the Hong Kong–PRC shipping route, US shipping sources say, these companies have no incentive either to lower their exorbitant rates or to improve services.

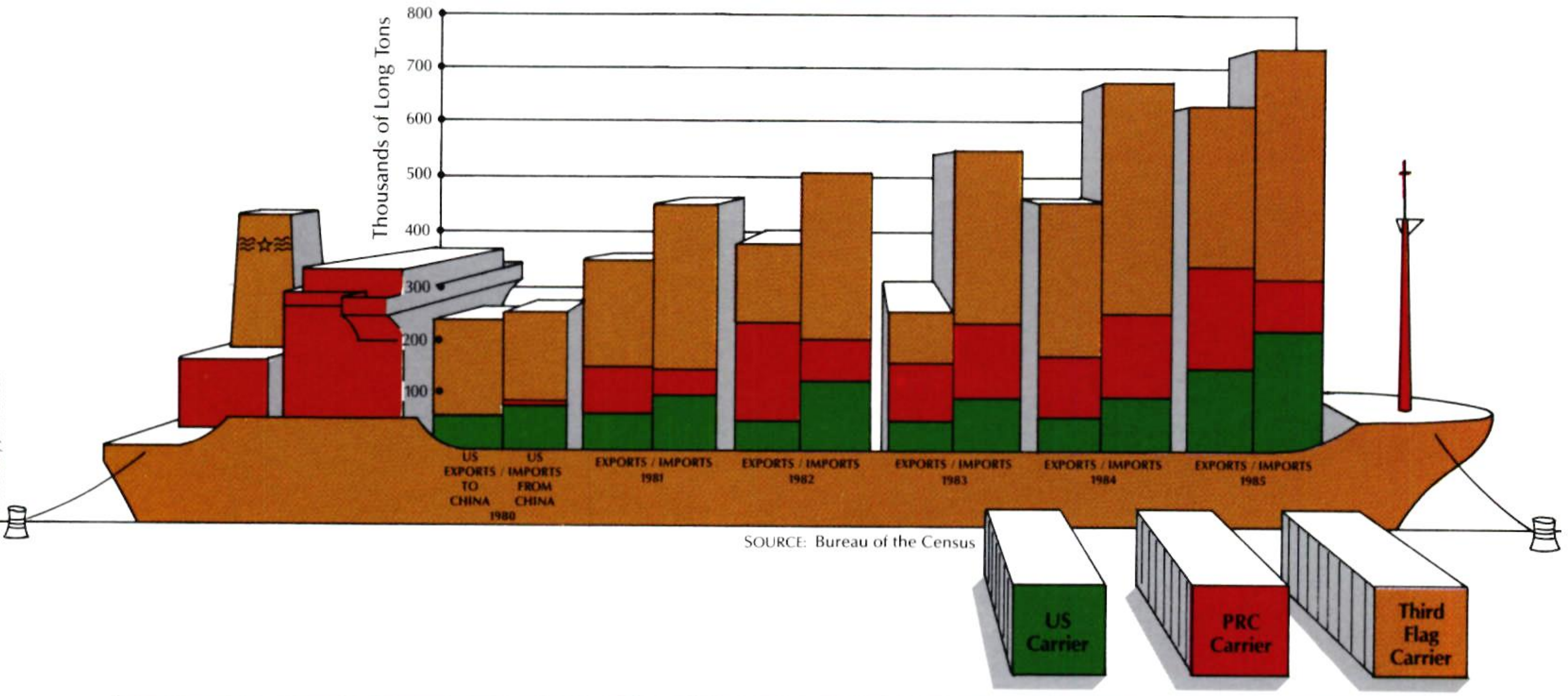
There are limited ways for US carriers to get involved in HK–PRC shipping, but as all arrangements are controlled by Chinese interests, foreigners cannot gain a foothold in this portion of the shipping market. US Lines, for instance, has a limited joint venture arrangement for Hong Kong–Shanghai shipping. On occasion, American President Lines was asked to send its smaller multipurpose ships into Chinese ports for special shipments, but has not received similar invitations since early 1986.

US–China maritime agreement uncovers new problems

In an attempt to serve the interests of both countries, the governments of the United States and China signed a bilateral Agreement on Maritime Transport in September 1980. The pact proved to be more of a cata-

Lee A. Merkle, a graduate of Dartmouth College, worked on bilateral trade issues in the China Office of the USTR, and has lived in the PRC and Taiwan. She has interned at the National Council for US-China Trade since October.

US–CHINA SHIPPING BY LINER SERVICE



SOURCE: Bureau of the Census

Artwork by John Yanson

US-CHINA SHIPPING BY FLAG CARRIER AND TYPE OF SERVICE

(long tons)

	US EXPORTS						US IMPORTS					
Type and year	US flag	%	PRC flag	%	third flag	%	US flag	%	PRC flag	%	third flag	%
LINER												
1980	67,459	29.8	0	0.0	158,653	70.2	83,015	32.6	455	0.2	171,011	67.2
1981	72,743	20.4	84,727	23.7	199,416	55.9	109,730	24.0	41,558	9.1	306,660	66.9
1982	53,767	14.0	167,157	43.5	163,462	42.5	118,689	23.2	79,994	15.6	313,735	61.2
1983	50,041	19.6	117,300	45.9	88,092	34.5	105,338	19.0	112,987	20.4	335,548	60.6
1984	68,430	14.9	214,347	46.6	177,314	38.5	101,976	15.1	146,570	21.8	425,259	63.1
1985	161,699	25.5	175,700	27.7	297,193	46.8	211,926	28.8	105,336	14.3	419,226	56.9
TANKER												
1980	212	0.1	0	0.0	229,243	99.9	48	0.0	0	0.0	528,184	99.9
1981	0	0.0	0	0.0	59,200	100.0	36,041	4.0	0	0.0	871,287	96.0
1982	56,600	65.8	0	0.0	29,466	34.2	37	0.0	38,521	1.8	2,095,924	98.2
1983	0	0.0	0	0.0	26,050	100.0	50,926	3.0	97,927	5.8	1,547,509	91.2
1984	0	0.0	0	0.0	52,317	100.0	107,537	4.1	267,719	10.3	2,223,022	85.6
1985	0	0.0	12,499	26.8	34,108	73.2	157,189	3.4	175,196	3.7	4,346,393	92.9
NON-LINER												
1980	10,626	0.1	224,359	2.1	10,398,794	97.8	243	0.0	36,126	5.4	637,073	94.6
1981	37,040	0.4	1,688,376	15.6	8,776,460	84.0	24	0.0	85,004	9.3	827,419	90.7
1982	15,484	0.1	2,741,132	22.7	9,342,282	77.2	28	0.0	95,694	10.2	838,642	89.8
1983	17,020	0.2	1,105,043	13.2	7,224,123	86.6	26	0.0	14,084	1.7	813,670	98.3
1984	14	0.0	1,295,837	13.2	2,521,679	86.8	1,942	0.2	354,826	34.0	687,530	65.8
1985	3,538	0.1	107,065	1.5	7,246,976	98.4	41,426	3.0	418,048	30.7	902,099	66.3

Note: Statistics on Chinese feeder services to Hong Kong and Japan are not reflected in the above figures, thus understating the actual PRC flag share and overstating the US and third-flag carriage.

Chart prepared by US Maritime Administration

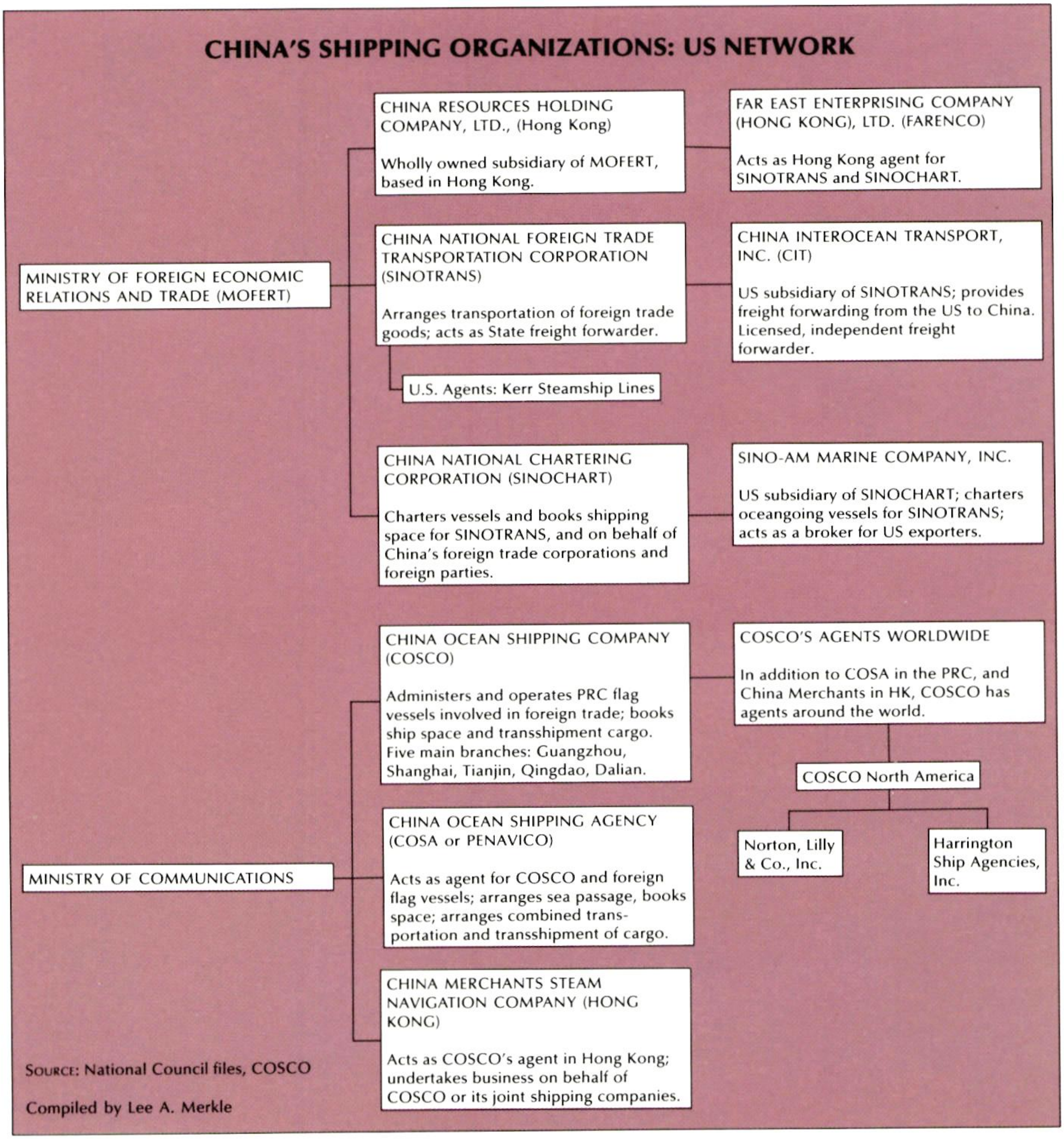
Source: Bureau of the Census

lyst for recognition of—rather than an end to—bilateral shipping problems; negotiations failed to produce an extension of the accord when the original agreement expired in 1983.

Article 8, which formed the heart of the 1980 agreement, tried to satisfy the desire of US shipping lines for more equitable cargo allotment by providing that US and Chinese "national flag vessels will carry not less than one-third of bilateral cargoes." Although the agreement covered both general and bulk cargoes, US shipping firms were primarily concerned with access to general cargo, which usually travels by liner services. Bulk cargo moves at lower freight rates, and in recent years has proven unprofitable for US carriers.

The agreement did encourage US carriers to test the waters. Encouraged by positive trends in US–China trade, Lykes Brothers Steamship Co. Inc. had already resumed direct liner service to China in 1979. After the 1980 agreement was signed, four more US carriers followed suit: American President Lines Ltd. (APL), Sea-Land Service Inc., United States Lines, Inc., and Waterman Steamship Corporation. But US carriers quickly grew disheartened by the numerous operational problems they encountered, many of which were not even anticipated before the agreement went into effect. The US liner services' share of US–China cargo actually decreased from roughly 30 percent to 19 percent over the course of the agreement (*see* p. 31).

CHINA'S SHIPPING ORGANIZATIONS: US NETWORK



MINISTRY OF FOREIGN ECONOMIC RELATIONS AND TRADE (MOFERT)

CHINA RESOURCES HOLDING COMPANY, LTD., (Hong Kong)

Wholly owned subsidiary of MOFERT, based in Hong Kong.

FAR EAST ENTERPRISING COMPANY (HONG KONG), LTD. (FARENCO)

Acts as Hong Kong agent for SINOTRANS and SINOCHART.

CHINA NATIONAL FOREIGN TRADE TRANSPORTATION CORPORATION (SINOTRANS)

Arranges transportation of foreign trade goods; acts as State freight forwarder.

U.S. Agents: Kerr Steamship Lines

CHINA INTEROCEAN TRANSPORT, INC. (CIT)

US subsidiary of SINOTRANS; provides freight forwarding from the US to China. Licensed, independent freight forwarder.

CHINA NATIONAL CHARTERING CORPORATION (SINOCHART)

Charters vessels and books shipping space for SINOTRANS, and on behalf of China's foreign trade corporations and foreign parties.

SINO-AM MARINE COMPANY, INC.

US subsidiary of SINOCHART; charters oceangoing vessels for SINOTRANS; acts as a broker for US exporters.

MINISTRY OF COMMUNICATIONS

CHINA OCEAN SHIPPING COMPANY (COSCO)

Administers and operates PRC flag vessels involved in foreign trade; books ship space and transshipment cargo. Five main branches: Guangzhou, Shanghai, Tianjin, Qingdao, Dalian.

COSCO'S AGENTS WORLDWIDE

In addition to COSA in the PRC, and China Merchants in HK, COSCO has agents around the world.

COSCO North America

Norton, Lilly & Co., Inc.

Harrington Ship Agencies, Inc.

CHINA OCEAN SHIPPING AGENCY (COSA or PENAVICO)

Acts as agent for COSCO and foreign flag vessels; arranges sea passage, books space; arranges combined transportation and transshipment of cargo.

CHINA MERCHANTS STEAM NAVIGATION COMPANY (HONG KONG)

Acts as COSCO's agent in Hong Kong; undertakes business on behalf of COSCO or its joint shipping companies.

SOURCE: National Council files, COSCO

Compiled by Lee A. Merkle

Faced with congestion and long turnaround times at Chinese ports, carriers resorted to Dispatch Agreements (high payments to China's local port authorities to ensure priority unloading rights) to avoid unreasonably long port calls. Before long, however, US carriers came to realize that even reducing delays would not make direct service to China profitable. They were constrained by China's practice of assigning each US shipping line to only one port of call, charging excessive fees for ports calls and cargo handling (reportedly as high as $10,000 per port call in Shanghai), and assigning Chinese ships most of the cargo. Thus, by the time the bilateral agreement lapsed in 1983, most US carriers had realized that regularly scheduled service to China was not a viable option for the time being. Of the five US lines originally involved in US–PRC trade after normalization, three have lessened their emphasis on China. Waterman Steamship Corp. reorganized its fleet after 1983 and dropped China service completely, while Lykes Brothers ceased calling on China directly several years ago and pulled out of the Pacific altogether last year. Recently US Lines also announced plans to reorganize its fleet, which reportedly will involve reduced service for China. The idea of directly serving the China trade has slipped to a lower rung on the US carriers' list of priorities.

China gains greater access to US ports

The Chinese fared better under the terms of the 1980 agreement. In return for concessions on cargo sharing, China ships were given greater access to US ports, entitling them to give only four day's notice (compared to seven-day's notice for US carriers calling in China) to the US Coast Guard before entering any of the 55 US ports listed in the letters accompanying the agreement. China also gained access to all other US ports with seven-day notification, except ports closed to international trade for reasons of national security.

Another provision of the letters was a commitment from each country to open more ports to the other. In keeping with this provision, China has requested further access to US ports. It refuses, however, to open more Chinese ports, on the grounds that—except for the 22 ports specified in the letters accompanying the agreement—China's ports are not equipped to handle foreign trade.

Also to China's benefit, the agreement included assurances that general port access fees charged by US customs would be merely 6¢ per ton, the rate charged all countries with MFN status. After the agreement lapsed, China's port access fees have increased from 6¢ per ton to $1 per ton, costing the PRC a considerably larger sum of hard currency each year to enter US ports.

The role of freight forwarders

Virtually all cargo originating in China is booked for transpacific passage by SINOTRANS. Chinese companies generally insist upon importing on an FOB basis, and exporting CIF, which in both cases gives them responsibility for arranging transport—usually with SINOTRANS. The main reason for Chinese insistence

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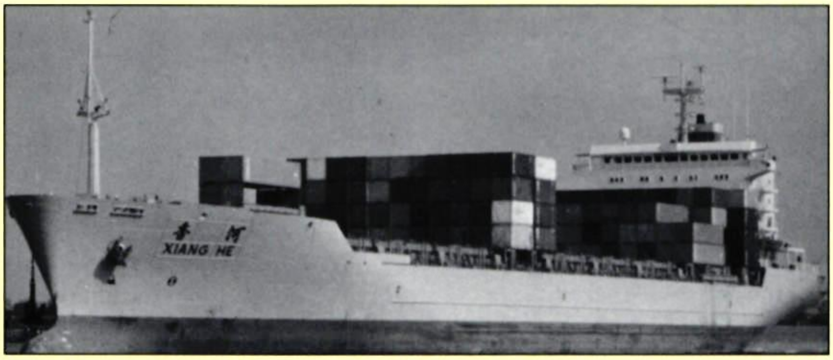
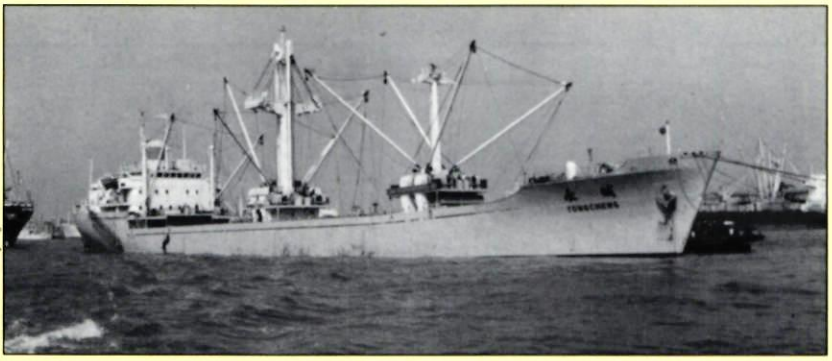
FOUR SHIPS FROM COSCO'S FLEET



Xiang He: a containership on the regular US–China liner service

Pu An Hai: a bulk carrier that calls on US ports

Wei He: a multipurpose vessel; previously part of the US–China liner service, and now a tramp vessel



Yong Cheng: a general cargo vessel that services the Portland liner route in the early 1980s; no longer calls on US ports

Photos courtesy of COSCO

on this arrangement is economic: the Chinese company conserves foreign exchange by paying the Chinese shipping organizations in renminbi. Chinese preference for dealing with domestically based transport organizations has begun to change, however, according to one COSCO official, who notes that Chinese enterprises with greater access to foreign exchange sometimes prefer US freight forwarders to handle shipping from the US end.

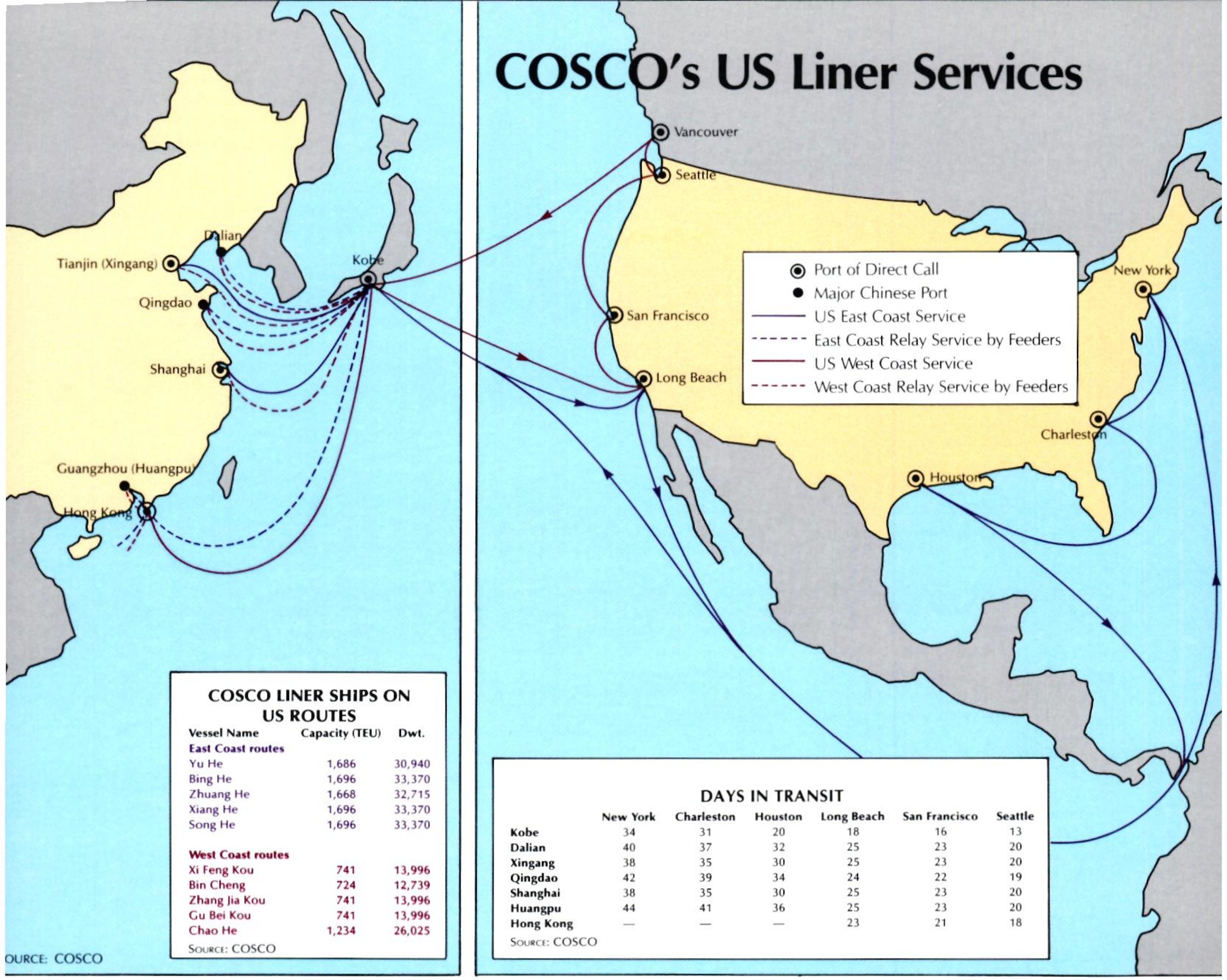
To handle freight forwarding operations from the United States to China, SINOTRANS has established two New York–based companies: China Interocean Transport, Inc. (CIT), a licensed freight forwarder, and SINO-AM Marine Company, Inc., a subsidiary of SINOCHART, which charters ocean carriers for SINOTRANS, and acts as a broker for US exporters (*see* chart, p. 32).

When an American seller signs a contract to export CIF to China, it is often referred by the Chinese party to CIT, SINOTRANS' wholly owned subsidiary, to make shipping arrangements. CIT claims to select a carrier "according to the most reasonable freight rates," and books about 85 percent of the cargo it handles on COSCO ships.

About 75 percent of CIT's responsibilities involve moving freight to China on behalf of Chinese buyers who purchased FOB; the goods are generally chemicals, machinery, and textiles. Although CIT has the advantage of SINOTRANS backing, CIT's inefficiency has caused some US sellers to renegotiate the terms of trade from FOB–US port to CIF–PRC port even after the cargo is in transit, according to an American freight forwarder.

SINOTRANS, CIT's parent company, is directly responsible for most of China's outbound freight. Like CIT, SINOTRANS reportedly allots most cargo aboard Chinese flag carriers. An operations manager of a US steamship line described SINOTRANS' allotment procedure this way: once a month, staff from the various SINOTRANS offices meet to decide how much cargo is available for the following month. They then broadly allocate this cargo to various carriers, including COSCO, other small Chinese shipping lines, and foreign lines. Volumes and types of cargoes, and thus value of cargoes, fluctuate depending on the relationship

COSCO's US Liner Services



OURCE: COSCO

COSCO LINER SHIPS ON US ROUTES

Vessel Name	Capacity (TEU)	Dwt.
East Coast routes		
Yu He	1,686	30,940
Bing He	1,696	33,370
Zhuang He	1,668	32,715
Xiang He	1,696	33,370
Song He	1,696	33,370
West Coast routes		
Xi Feng Kou	741	13,996
Bin Cheng	724	12,739
Zhang Jia Kou	741	13,996
Gu Bei Kou	741	13,996
Chao He	1,234	26,025

Source: COSCO

DAYS IN TRANSIT

	New York	Charleston	Houston	Long Beach	San Francisco	Seattle
Kobe	34	31	20	18	16	13
Dalian	40	37	32	25	23	20
Xingang	38	35	30	25	23	20
Qingdao	42	39	34	24	22	19
Shanghai	38	35	30	25	23	20
Huangpu	44	41	36	25	23	20
Hong Kong	—	—	—	23	21	18

Source: COSCO

each carrier has with the Chinese forwarder. "There does not seem to be any exact science to SINOTRANS' allocation procedures" he notes. "American flag carriers receive a percentage of cargoes through strong consignee solicitation and an aggressive posture of friendship and cooperation with SINOTRANS."

According to a SINOTRANS representative in New York, the Chinese forwarder chooses a ship suitable to carry the cargo according to the type of ship, the ship's schedule, and the freight rate. These criteria would seemingly give American carriers a healthy percentage of cargo. Although both SINOTRANS and COSCO officials claim that China has no official policy to give priority to Chinese carriers, American industry representatives claim that COSCO ships are filled first. And although Chinese officials do not admit to alloting cargo to Chinese ships on a preferential basis, they do acknowledge that foreign currency is a factor in the allocation process. Because foreign carriers require payment in scarce hard currency, they cannot be assigned cargo in China unless the organization they are working with has access to foreign exchange.

US attempts to enter Chinese freight forwarding market

For the most part US freight forwarders can arrange shipment of exports from the US point of origin to a Chinese port, but foreign enterprises are barred from arranging transportation of goods within China, forcing the foreign freight forwarder to relinquish responsibility to SINOTRANS at the Chinese port for delivery to the inland destination.

Although foreign freight forwarders are denied open access to the Chinese market, they have developed various methods of operating within the restrictions. One freight forwarder, Schenkers International Forwarders, Inc., has established a joint venture with SINOTRANS for land transportation. This arrangement allows Schenkers to subcontract the various links of the transportation chain to Chinese entities. The cargo can thus move on one bill of lading, which covers each segment of the move from points in the US to the destination in China. Schenkers' liaison office in China does not make the shipping arrangements to interior points but entrusts this work to SINOTRANS, which acts as

Schenkers' agent in China. Because of this unique position (only one other firm, from Japan, has a similar contract with SINOTRANS), Schenkers can offer intermodal service for US exports to China, coordinating land, air and sea transportation. The company plans to open its second representative office in China this year.

SINOTRANS' sea transportation department, in contrast with the land transportation department, has not formed joint ventures, but has entered into agency agreements with a number of foreign shipping companies including Schenkers. Earlier in 1986, Lep International, Inc. signed an agreement with SINOTRANS to jointly develop ocean freight forwarding. Like Schenkers, Lep can provide a single bill of lading to points in China and has an office in China to ensure cargo delivery. Since Chinese importers and exporters cannot approach the foreign firms directly, all parties must work through SINOTRANS. Recently, however, in what may be an encouraging sign for foreign freight forwarders, LEP reports being approached by SINOTRANS to arrange shipping for a Chinese exporter. Yet another freight forwarder, Panalpina USA, Inc., with three liaison offices in China, has been able to offer a house bill of lading to points within China.

SINOTRANS also agrees to work with foreign forwarding agents on a case by case basis: if the forwarder has cargo, SINOTRANS will often cooperate even without an agency agreement.

Although SINOTRANS maintains a high level of control over both inbound and outbound shipments, this control is no longer absolute. Since 1984 an increasing number of small Chinese freight forwarders have entered the Chinese market. Lacking the tremendous financial resources of the large State-run company, however, these small firms tend to cooperate rather than compete with SINOTRANS. A local or provincial exporter or importer can now reportedly arrange its own shipments by approaching a Chinese shipping line directly, or working through one of the new, relatively inexperienced Chinese freight forwarders. They are, however, still denied direct access to foreign shipping companies and freight forwarders.

Photo courtesy of American President Lines

An American President Lines 40-foot container is lifted aboard a Chinese feeder vessel at Qingdao. It will connect at Hong Kong with one of APL's weekly containership services.

VIA US STEAMER TO CHINA

According to Tim Rhein, senior vice president of American President Lines, Ltd. (APL), there are four ways to ship cargo to the United States through Hong Kong on an American steamship line—three of which involve Chinese feeder services. The American carrier, working under a connecting carrier agreement with the China Ocean Shipping Company (COSCO), or another Chinese shipping company providing feeder service from the mainland port, can ship the cargo on a through bill of lading to the United States. In this first case, China's State freight forwarder, SINOTRANS, books the Chinese cargo on the US carrier. Second, China also has two forwarding agents in Hong Kong that book space on American vessels: the Far East Enterprising Company, Ltd., (FARENCO), owned by MOFERT's Hong Kong subsidiary—China Resources, Inc.; and China Merchants Steamship Navigation Company (CMSN), a wholly owned subsidiary of the Ministry of Communications. If either FARENCO or CMSN arranges for transport on a US line, then the cargo usually moves by train, truck, or barge from southern China to Hong Kong, with a bill of lading from Hong Kong to the United States.

A third way for a US carrier to receive cargo in Hong Kong is by making arrangements with a Chinese port-operated or provincial feeder service. And finally, an American ship may be invited to make a direct call on a Chinese port, usually to handle a shipment for which China is not equipped. These instances have been extremely rare, however, and may end altogether as China's feeder services improve.

Three US steamship lines, American President Lines, Ltd., Sea-Land Service, Inc., and United States Lines, continue to have some involvement in US–China trade. American President Lines operates intermodal services to Asia. Twenty APL double-stacked container trains pick up and deliver cargo throughout the United States, delivering the cargo to port at Los Angeles, Oakland, or Seattle in time for twice-weekly APL containership departures for Hong Kong and other ports, connecting in turn with Chinese feederships. Their ships operate exclusively on the Pacific, handling only transpacific and inter-Asian shipments, and providing customers with a through bill of lading.

Sea-Land sails from both Tacoma, Washington, and from Long Beach/Oakland twice each week, with one ship calling at Kobe, and the others going to Hong Kong. Sea-Land has an opportunity vessel that serves as a Kobe–Shanghai feeder when freight merits a trip. Freight from the East Coast and the midwest move by mini- and micro-bridge rail service to connect with West Coast departures.

US Lines, which had been the largest US shipping interest in China, has reduced its transpacific services and recently filed for protection from creditors under Chapter 11 of the Bankruptcy Code. Now serving only the West Coast ports of Long Beach and Oakland, US Lines calls at Kobe and Hong Kong every two weeks. And in a joint venture with COSCO, the company also runs a weekly feeder service from Hong Kong to Shanghai, using a US Lines-owned Panamanian registered ship.

Lykes no longer offers scheduled service to Hong Kong or the PRC—in April 1986 Lykes Brothers pulled out of Pacific Basin trade. Waterman Steamship Corp., which filed for Chapter 11 status in 1983, still sails to some ports in southeast Asia, but no longer call on Hong Kong or more northern ports. —LM

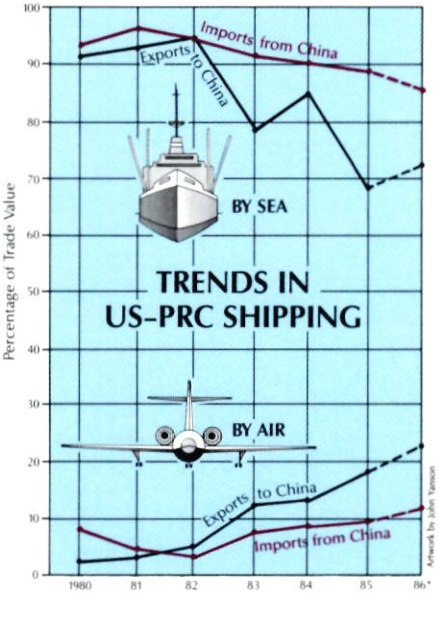
Importers and exporters learn to cope

US importers and exporters are not immune to the problems of US–China shipping. Their problems commonly begin once a shipment is in transit. The US importer or exporter faces the ordeal of tracking the goods. The shipper, or an agent, must know where and when to receive cargo from the PRC, and must be able to verify that goods sold to a Chinese buyer did indeed arrive. This aspect of US–China trade suffers severely from China's still poorly developed communications infrastructure. One US importer has spent over eight years developing a system for identifying the Chinese feeder service and tracking the shipment through the Chinese vendor or through FARENCO or China Merchants, SINOTRANS' agents in Hong Kong. Most feeder services routinely connect to the same transpacific carrier, but sometimes a new feeder ship will incite a frenzy of telexes between shippers and agents, trying to identify the transpacific carrier and its estimated date of arrival.

Although international shipping is governed by standard procedures, misunderstandings and differences over trade terms between US and Chinese traders are not uncommon. For instance, this difference of perceived responsibilities for an FOB shipment delayed a $1 million sale of oil equipment from Houston to a Chinese buyer because each side believed the other party would handle the $300 transport fee from the manufacturer to the waiting ship. The contract specified FOB–Houston: the Chinese buyer claimed the seller would deliver the goods to port, and the American seller thought the buyer would arrange transport of the shipment the few miles from the factory to port. Once the discrepancy was discovered, allocation of the small charge required a new round of negotiations.

Importers also complain about COSCO's rates and charges: an importer of straw tablemats reports that when "buying C&F from China, there are more charges than from any other country." Perhaps most vexing is the high cost of Chinese feeder services, and the lack of alternative services on the feeder route.

Importers also complain about COSCO's cargo handling procedures. Although SINOTRANS may book a shipment on COSCO, the State carrier has no contract with the buyer or seller and thus little interest in assuring efficient delivery. Problems can begin when the exporter delivers the ordered goods to the pier. Since Chinese sellers rarely have the proper facilities to pack their exports into containers at the manufacturing site, Chinese dock workers pack the cargo into containers for shipping, often disregarding importers' concern for proper handling and consolidated shipments. Lack of the necessary infrastructure makes it unlikely that the situation will improve much in the short term, except in a few isolated cases.



US importers are also frustrated by delayed and inaccurate shipping documents prepared by Chinese vendors and SINOTRANS, and what they see as excessive charges for cargo handling. To get around this problem, some department stores and other high volume importers buy CIF–Hong Kong from several Asian areas and then consolidate their cargoes in Hong Kong, after which the goods are sent from Hong Kong to the United States under a separate bill of lading. Delays involved in unloading and reloading the cargo in Hong Kong may add about a week to the overall 4–6 week transit time to the United States, but tracking a shipment that has been reloaded in Hong Kong is reportedly much easier than tracking a shipment left in care of SINOTRANS, and such consolidation reduces overall transportation costs.

By refusing to pay the rates and charges that international steamship lines publish in their tariffs, SINOTRANS' actions have, in the past, caused problems for US traders. For example when American carriers published eastbound rates higher than those rates charged by FARENCO (SINOTRANS' Hong Kong agent), SINOTRANS reportedly only

US-PRC SHIPPING BY VOLUME AND VALUE

By Sea	1980	1981	1982	1983	1984	1985	1986*
US Imports							
Volume (metric tonnes)	1,424,283	2,291,183	3,613,114	3,118,672	4,426,027	6,924,334	7,550,805
Value ($)	956,207,106	1,772,157,650	2,170,077,186	1,062,212,236	2,762,451,670	3,464,796,317	3,895,888,400
US Exports							
(tonnes)	11,265,063	11,395,820	12,753,667	8,738,009	10,458,745	8,130,043	5,081,921
($)	3,512,174,088	3,483,443,909	2,751,578,578	1,964,017,402	3,362,101,884	2,605,354,113	2,333,395,400
By Air							
Imports							
(tonnes)	3,053	3,819	4,619	8,799	14,419	15,859	19,156
($)	85,951,652	90,496,343	90,845,409	163,746,206	271,128,838	336,751,697	617,019,000
Exports							
(tonnes)	1,259	1,837	1,814	2,804	4,444	6,346	7,038
($)	89,557,095	113,994,017	145,142,603	264,588,585	384,568,216	670,415,587	670,730,000

*projection based on Jan-Aug 1986 data
SOURCE: US Bureau of the Census
Compiled by Lee Merkle

A difference of perceived responsibilities for an FOB shipment delayed a $1 million sale of oil equipment from Houston to a Chinese buyer because each side believed the other party would handle the $300 transport fee from the manufacturer to the waiting ship. Once the discrepancy was discovered, allocation of the small charge required a new round of negotiations.

paid the lower FARENCO fares in some cases—even if the goods went by US carrier. An importing firm in California describes how an American carrier charged a rate higher than SINOTRANS was willing to pay, and then passed the unpaid charge onto the US importer. Although the importer's contract included freight charges, the company had to pay the added freight charge in order to secure the bill of lading and claim the goods. The importer later tried to sue the carrier, to no avail.

More cooperation on the part of all involved has helped to reduce such instances in the past few years, however. Gene Milosh, president of the American Association of Exporters and Importers, remarked, "Usually we try to get lower rates from shipping lines, but on China issues we work together."

Some foreign buyers that have strong relations with PRC entities have been able to negotiate lower rates from COSCO. One US trader recounts that an Australian importer, the exclusive agent for Chinese porcelain and glass in Australia, convinced COSCO to lower their shipping rates for those goods. COSCO acted on the suggestion because Australians were able to buy the same Chinese products through a Hong Kong dealer at a lower rate, bypassing the exclusive arrangement. But COSCO would not be likely to make similar reductions for any but its largest customers.

To avoid the delays and uncertainties of ocean shipping, air cargo has captured an increasing share of US–China trade in the last two years (*see* graph). Shippers increasingly use air cargo for styled goods, perishables, high-tech items and other high value goods. According to one US freight forwarder, exports to China have a 90 percent chance of on-time delivery if sent by air, but only a 50 percent chance when sent by sea.

Prospects for change

At present the US shipping industry is less than optimistic about the prospects for a new government-negotiated agreement that would introduce more balance into the shipping situation. Importers and exporters would like to see operations become smoother and more predictable, but most have developed their own ways to manage their shipments to and from China. And although shipping lines complain about the small volume of US–PRC liner cargo made available to them, lack of access to feeder routes, and excessive port call fees, they appear content to seek more profitable business elsewhere for the time being. "The China trade is not exactly driving the Pacific," notes one US shipping industry spokesman.

COMING IN THE NEXT CBR:

The making of China's new Bankruptcy Law and Law and the Enterprise under China's Economic Reforms

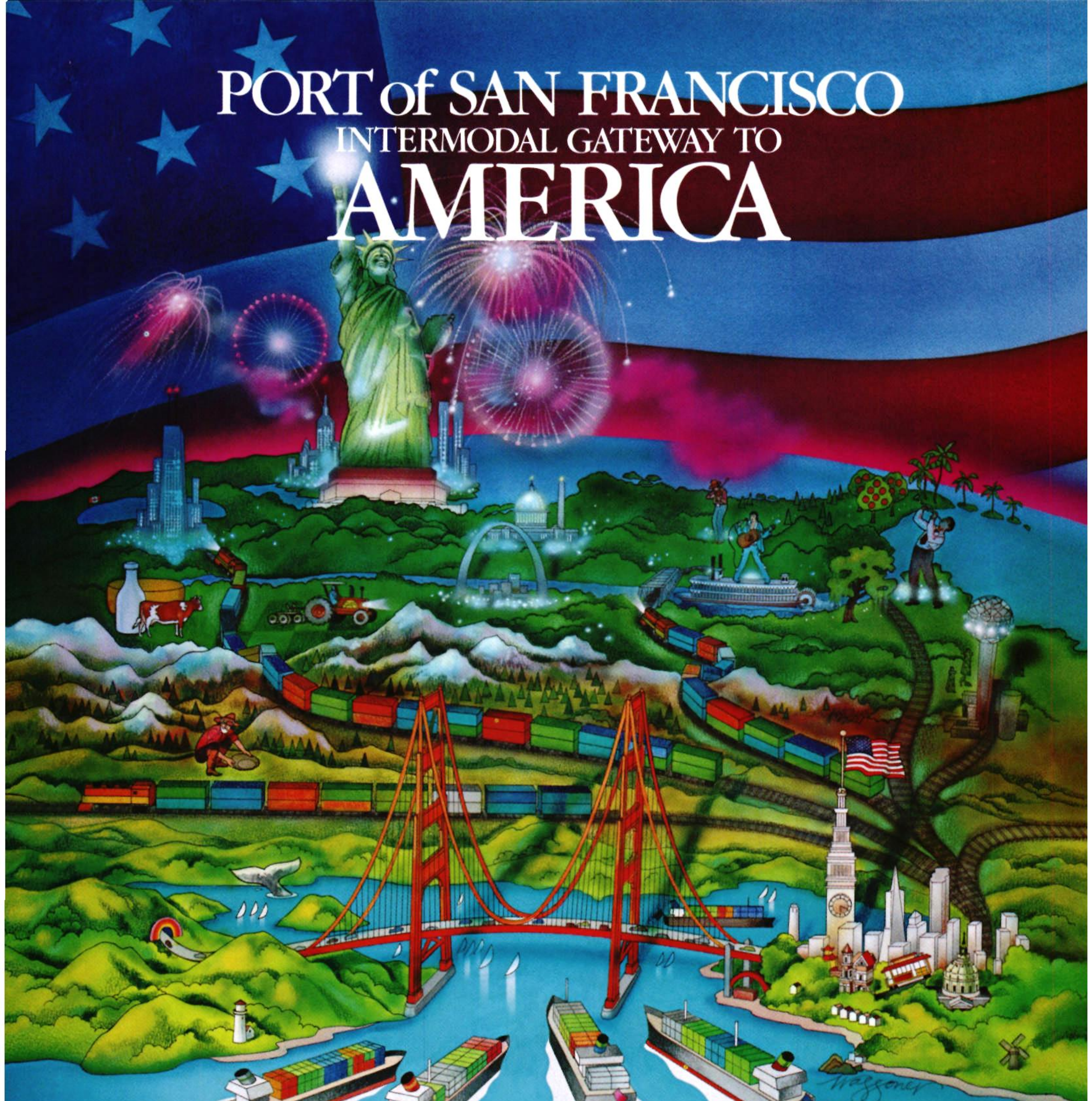
But the interest in more access to Chinese markets is still alive. If Chinese regulations and attitudes would allow carriers and freight forwarders to solicit cargo more freely and set up a support infrastructure for their services, including establishing their own Hong Kong–PRC feeder services, the carriers might look at the China market again with renewed enthusiasm.

Such structural reform of the system may become a more pressing issue as the prospect of Hong Kong's eventual unification with China looms larger, since it will probably mean China exercising more direct control over a vastly greater percentage of cargo crossing the Pacific. US carriers and freight forwarders will want to be in a better position for involvement in the China trade by that time, if not sooner.

Yet many US firms doubt Chinese willingness to change current shipping practices as long as China remains the major beneficiary of what has been described as the United States' "one-sided spirit of free trade" in the shipping arena. And with several major US carriers scaling back their worldwide operations at present, the involvement of US carriers in the China trade may decline even further before it picks up again.

As long as US interests are prepared to resign themselves to the current situation—and many involved have turned their attention to far bigger problems—there seems little likelihood of major changes in the balance of US–PRC shipping in the near future. 完

PORT of SAN FRANCISCO
INTERMODAL GATEWAY TO
AMERICA



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MEMBER SPOTLIGHT

会员动态

America's ports have a variety of China ties. Trade is, of course, their bread and butter, but more and more ports are also working with China on training and technical exchanges, often supported through sister port arrangements or port-to-port friendship associations. Thirty-seven American ports are active in China trade today, accounting for 6.9 million tonnes of imports from China and US exports of 8.1 million tonnes by sea in 1985. The six ports spotlighted here all joined the National Council for US-China Trade in the 1970s.

Port of Oakland: The volume of China's trade through the Port of Oakland made China the port's fifth-largest source of trade in 1985. Combined import and export trade with China grew 11 percent last year.

Exports were up 28 percent, led in tonnage by synthetic resins, leather, and man-made fibers. Oakland holds an enviable position as the No. 1 West Coast export port to China, sending 35 percent of West Coast shipments to China. Imports from China, led by canned vegetables, beer and ale, and baskets and woven goods, decreased slightly in 1985. But Bob Middleton of the port notes that trade with China has grown exponentially in the last 10 years, and believes the drop in imports is only temporary.

In 1985 Oakland signed a friendship agreement with Dalian, China's largest international port, and last fall took five Dalian port representatives on a tour of its port facilities, as well as those of New York and Houston. And Oakland has offered to provide training and technical help for what Middleton describes as Dalian's "energetic expansion program" to enlarge its container capability.

Port of Los Angeles: Los Angeles' diversified port facilities handle a variety of goods, and the port's access to 15 million consumers makes it a center for US–China trade. Most of its China business consists of transshipping cargo, although China Ocean Shipping Corporation (COSCO) does load cotton directly at the port. Ores and metals, synthetic resins and rubber, and leather products are the port's leading exports to China. In 1985 exports totaled 122,500 tonnes, up 40 percent from 1984. Imports from China, which declined 38 percent in 1985, were led by petroleum, explosives (pyrotechnics), and textile products.

Two years ago LA established a sister port relationship with Huangpu Port in Guangzhou. According to Marketing Director Steven Resnick, the port has offered to send engineers to Guangzhou to evaluate technology, and also to lend Guangzhou's port a CAD/CAM system. Training and technical exchanges are two other possible areas for future collaboration between the ports.

Port of San Francisco: As COSCO's base on the West Coast, the Port of San Francisco receives a COSCO ship about every 10 days. According to SF port representative Nancy Pitt, COSCO plans to increase this frequency to one ship every seven days. For the fiscal year ending June 30, 1986, total China-related tonnage was 30,100 tonnes. Major imports were hardware, brooms and brushes, and prepared vegetables, and exports were led by animal fats and oil, waste paper, and synthetic resins.

The San Francisco–Shanghai Friendship Committee sponsored two Chinese interns for a three-month training program at the port last year. But Shanghai is not the San Francisco port's only focus. Other ports of call for boats leaving San Francisco include Xingang (Tianjin), Dalian, Huangpu (Guangzhou), and Qingdao.

Port of New Orleans: The Port of New Orleans holds a sentimental spot in Sino–US trade history. The first US goods shipped to China after normalization of relations were sent from this port. Grain has been the port's major export to China during the 1980s, and reached a high of 2.9 million tonnes in 1982, making China the third-largest trading partner of New Orleans that year. In 1985 exports of Kraft linerboard for China's packaging industry surged, followed by iron. Crude minerals, the major imports through this port, are usually transferred to barges and shipped up the Mississippi River for distribution.

In its role as Shanghai's sister port (*see The CBR*, Jan–Feb 1985, p. 58), the Port of New Orleans has trained engineers from Shanghai and sent a delegation there. The port is now working to persuade COSCO to schedule regular liner service to New Orleans.

Port of Portland: Although ships leaving Portland don't make direct China calls, China still ranks as Portland's sixth-largest trading partner through transshipments, according to Nancy McMahan, marine information specialist at the port. Exports to China, led by logs, metal scrap, and lumber, reached 125,498 tonnes in 1985, an increase of 125 percent over 1984. Imports, led by coal tar pitch, gasoline, and canned vegetables, increased 600 percent over 1984 to 27,094 tonnes.

The Port of Portland has welcomed 17 delegations from China, and McMahan sees potential for increased trade in logs and finished wood products.

The Port Authority of New York and New Jersey: In 1985, 93,333 tonnes of cargo were exported to China through New York, led by miscellaneous commodities, nonferrous scrap, and iron and steel scrap. Imports from China totaled 312,069 tonnes, and included live zoo animals, minerals, and fuel oils. Exports posted a 32 percent increase over 1984, while imports declined by 8 percent. These figures, in addition to the 394,890 tonnes of China-related cargo passing through the port, made New York the 10th ranking US port for China trade.

The port plays host to a steady stream of visitors from China. Currently two Chinese engineers are serving one-year internships, learning port design and construction management. Port officials have also visited several Chinese ports and proposed to the Ministry of Communications a technical assistance program for China's large-scale port development efforts. —Priscilla Totten

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The China Business Review

Import Controls in China

Protectionism with Chinese characteristics

Prepared by the Fair Trade Subcommittee of the American Chamber of Commerce in Hong Kong

China employs a great many import controls, and the number and variety of these controls have proliferated in the last 18 months. In fact, China's protectionist measures rival, in deed, actions that US congressmen have so far only threatened in speeches. Although implemented mainly to correct China's growing trade deficit, these barriers will be extremely difficult to dismantle even after a trade balance is restored.

Protectionism flourishes in China partly because local authorities and ministries can often implement restrictive trade practices without State Council approval. A good example of a province setting up its own import controls occurred in October 1986 when Guangdong released a list of 28 items subject to import controls, including several—such as farm vehicles and heavy-duty trucks—that are not found on the import license list issued by the central government.

Another factor encouraging protectionism is the pervasive belief that, as a developing country, China has a right to protect its industries from foreign competition. The ideology of self-reliance—accepted by most of China's bureaucratic elite—embraces protection of local industry, conservation of foreign exchange, and import substitution as effective and politically safe roads to modernization.

The arbitrary nature of controls

Chinese import controls can be divided into two broad categories: administrative and market controls. Although market controls are playing a growing role in the overall import control apparatus, they are supplementing rather than replacing the administrative controls already in place. Meanwhile, some administrative controls are being strengthened. For instance, testing and certification of foreign products to ensure compliance with standards and specifications often unknown and unavailable to the exporter—an administrative method of limiting market access often used in Japan—is being employed in China more frequently and to more commodities than ever before.

Included under the ubiquitous system of administrative controls are the formulation and implementation of import plans; foreign trade enterprise licensing; import commodity licensing; foreign exchange controls; import contract supervision and approval; and inspection of product specifications and standards. Each of these controls is managed by a specialized bureaucracy whose *raison d'etre* is the protection of domestic industries and conservation of foreign exchange. With the strong anti-import drive now under way in China, zealous bureaucrats are rewarded for slowing or even shutting down certain trades.

Imagine the outcry if the United States issued a regulation providing that all textile imports must obtain a certificate of approval from the American Textile Manufacturers Association!

Market controls are embodied in the import commodity pricing system, and include exchange rate manipulation; customs tariffs; industrial and commercial taxes; and import regulatory taxes (a separate surcharge over and above the tariff). Introduced in July 1985, the import regulatory tax has been used to clamp down on imports of consumer goods, vehicles, and synthetic fiber.

Ends, not means, determine how these market controls are implemented. For example, if an import is cheaper than a domestic product even after all markups have been added to the price, China's 1980 Provisional Regulations on Import Commodity Pricing allow the "departments concerned" to unilaterally set a domestic price for the foreign import, to keep it from underselling domestic competitors.

China's import controls discriminate in favor of certain types of goods and countries of origin. When China operated a dual exchange rate (from 1981 to mid-1985), goods imported for the purpose of value-added reexport could be exempted from the high "internal" exchange rate on imports, while reexports were not similarly exempted—a practice that resulted in windfall profits for Chinese exporters. Machinery and equipment imports from nine socialist countries have benefited from special pricing mech-

This working paper was prepared for The CBR *by the Fair Trade Subcommittee of the American Chamber of Commerce in Hong Kong. The subcommittee was created earlier this year to focus on problems of unfair trade and protectionism in US–China trade.*

anisms. And from time to time, MOFERT issues internal directives to its foreign trade corporations (FTCs) advising them to limit purchases from particular countries with whom China is having trade problems. Such a directive was issued in April 1985 against Japanese products, as a means of correcting China's huge trade deficit with Japan. American exporters of cotton and chemical fibers were the targets of another such directive during the 1983 textile quota dispute.

ADMINISTRATIVE CONTROLS

• **Contract approval and supervision.** A rapidly developing method of restricting imports is contract approval and supervision. Foreign companies should be aware that import contracts concluded with Chinese enterprises can be invalidated if they are found to violate the "Procedures for Examination and Approval of Technology Import Contracts," enacted by the State Council in August 1985. Only after the local importer wins the go-ahead of the supervising ministry can it obtain an "Approval Certificate for Technology Import Contract." This certificate is then registered with MOFERT and takes on the characteristics of an import license.

In mid-1985 China's Ministry of Chemical Industry won its campaign to sharply reduce the target for fertilizer imports set by the State Planning Commission. As a result, Chinese purchases of American fertilizer in the January–June period of 1986 plummeted to $17.9 million from $127.7 million in the same period of 1985.

• **Certificates of approval.** Issued by ministries, these rank among the most unfair of China's many restrictive import controls. In 1981, to curb the import of motor vehicles, the State Planning Commission issued "Interim Provisions of the State Planning Commission and the Ministry of Machine-Building Industry for the Control of the Production and Import of Motor Vehicles." Article 4 states: "The import of motor vehicles shall strictly be controlled to protect the domestic auto industry. Each department or each area shall go through the formalities of examination and approval in accordance with Document No. 6 issued by the State Council in 1981 if it wishes to import motor vehicles. The import of cars will be strictly controlled and applications shall be made to the Ministry of Machine-Building Industry for examination and approval on the basis of special requirements. No motor supply certificates shall be issued without approval."

The practice was spelled out even more explicitly in a directive governing the agricultural chemicals trade. According to *China Economic News*, MOFERT and certain other government departments announced that beginning January 1, 1986, "the import of all foreign insecticides must go through approval and license by the departments concerned. All units that intend to import agrochemicals have to apply for an approval certificate from the Ministry of Chemical Industry." Imagine the outcry if the United States issued a regulation providing that all textile imports must obtain a certificate of approval from the American Textile Manufacturers Association! Just as textile imports would drop off sharply, so have agrochemicals imported into China declined. Imports this year are down 70 percent over 1985; in 1985, when other methods were used to reduce them, they were already down about 70 percent over 1984.

• **Controls on foreign trade enterprises.** Chinese enterprises may engage in foreign trade only if they are specially licensed to do so, and the approval process is tightly controlled. Until this year, provincial and county-level foreign trade corporations could receive licenses from the provincial foreign trade bureaus to engage in foreign trade. But Beijing has now revoked this privilege and decreed that all companies seeking to engage in import or export must obtain central government approval.

• **Accounting controls**. These are powerful State tools for controlling foreign trade corporations and monitoring imports. The first thing MOFERT and the Bank of China did when China clamped down on imports in June and July of 1985 was to notify all foreign trade corporations of an impending audit. Audits were done by the People's Bank, the Construction Bank, the Bank of China, or sometimes all three.

Now encouraged by the State to make a profit, the foreign trade corporations look carefully at the fixed domestic selling prices of different goods. If there is a fixed domestic price of, say, ¥3,000 (approximately $800) a tonne for a chemical, and a foreign trade corporation is able to import the same chemical for $400 a tonne, it could make a lot of money dealing in this item. On the other hand, if the domestic fixed selling price is cheaper, the corporations will be reluctant to import even if the import's quality is higher.

China still uses an arbitrary domestic process not based on supply or demand to price imports—in some cases the prices were fixed in the mid-1950s. A trading corporation's ability to play off that price for a profit determines whether or not it imports the item.

• **Import licensing procedures.** China's licensing control over imports consists of both an enterprise licensing system and a commodity licensing system. In 1957 Beijing promulgated the first comprehensive licensing regulations. Under these regulations, State foreign trade corporations (i.e., those with foreign trade licenses) were not required to obtain licenses for each import transaction. By the early 1980s, however, China's open door policy had created a multitude of enterprises with foreign trade rights and loosened MOFERT's control over imports. To regain a handle on trade, a new licensing regime went into effect in January 1984. The new regulations require import licenses for specific items regardless of the importer's identity. At the time the regulations came out, 26 items required a license. By the end of 1985, the list had grown to 43 items, affecting one-third of China's imports, or about $10 billion worth of goods.

The most recent list of goods needing an import license has climbed to 45 items (*see* box). Several reports suggest that China will gradually subject all imports to the licensing procedure. For this year and next, roughly half of China's imports will probably need a license.

The list of 45 items is only MOFERT's official list, however. Import licenses are actually not granted by MOFERT but by the local foreign trade bureaus. Although subject in theory to MOFERT supervision, these bureaus work with their own lists of products requiring licenses and some—like the foreign trade bureau in Guangdong Province—may add a number of items not included on MOFERT's list.

Several American exporters have found their activities sharply curtailed by these lists. One firm that markets machinery for the chemical industry has failed to win a single contract since its equipment and technology found their way onto the restricted list. It had made two sales, with several more on the verge of closing. Not only have new sales dried up, but the two existing contracts have suffered from high-level meddling by ministry bureaucrats unhappy that local chemical bureaus had not consulted them on the original deals.

• **Control targets.** There are limits to planning in any centrally planned economy and China is no exception. Unable to set a firm target for every commodity produced, the State focuses instead on commodities it considers critical to the economy, and then formulates "control targets." Recent Chinese documents identify some 50 products whose production and trade are set by control targets formulated by the State Planning Commission. The SPC, working through MOFERT, ensures that these targets are met. All other commodities are regulated by indicative targets that can be achieved "more or less."

A foreign company dealing in items subject to control targets can have its business shut down far more effectively than one that sells China items subject to indicative targets. Fertilizer is one example of an item governed by a control target. In mid-1985 China's Ministry of Chemical Industry won its campaign to sharply reduce the target for fertilizer imports set by the SPC. As a result, Chinese purchases of American fertilizer in the January–June period of 1986 plummeted to $17.9 million from $127.2 million in the same period of 1985, according to International Trade Commission statistics. Since fertilizer is purchased with centrally allocated foreign exchange concentrated in SINOCHEM's first import department, this sharp reduction in purchases could be implemented swiftly.

• **Inspection procedures.** Although there is little evidence that the commodity inspection system has been systematically abused to curb imports, a set of regulations issued in December 1985 gives foreign exporters cause for concern. Called the "Interim Procedures for the Inspection and Control of Household Electrical Appliances," these procedures require minute inspection of every appliance in every import shipment. This type of inspection is, of course, a time-honored Japanese means of restricting a foreign exporter's market access.

Last year the Customs Regulations banned the import of secondhand clothing on the grounds that the garments could be carriers of disease. Skeptics have noted that a vast trade in used clothing entering China via Macau was actually threatening China's textile industry in neighboring districts. On several occasions this year, the customs administration staged huge bonfires to incinerate seized clothing. There are few import curbs more effective than bonfires.

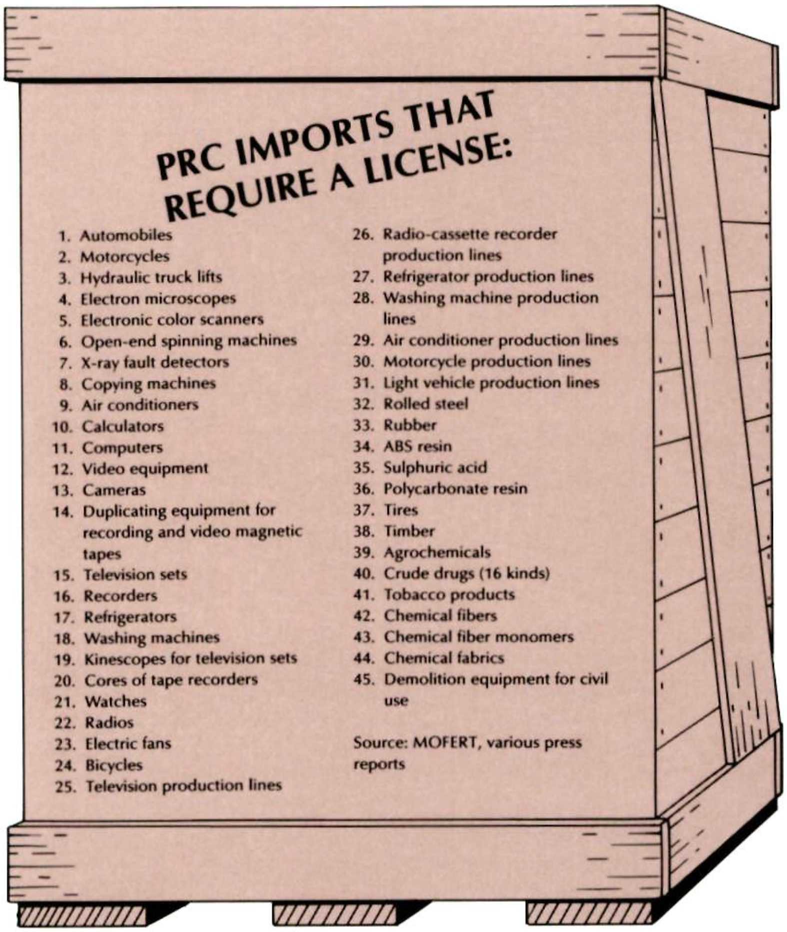
• **Import registration.** China has now put in place registration systems for agrochemicals and veterinary drugs: all such imported products must be registered before they can be sold on the domestic market, although the registration process is *not* uniformly required of Chinese domestic producers. The uneven application of the agrochemicals registration system is the subject of a trade complaint the National Council for US–China Trade and the National Agricultural Chemicals Association have filed with the State Department, the Commerce Department, and the office of the US Trade Representative. Foreign manufacturers of patented pesticides are required to follow time-consuming, expensive registration procedures. Factories in China that make copies of the same pesticides are not only selling the products freely in China's domestic market, they are exporting the products as well.

• **Transport certificates.** In the past year, Chinese sources have increasingly referred to "transport certificates for import goods"—required if goods imported into one province are subsequently transported to another. Although not as extreme, this transport certificate scheme is reminiscent of the "Li-Ken" system of the 19th century that so bedeviled foreign traders. Under that system provincial authorities levied tariffs on imports transported through their province. As a result, foreign goods crossing several provincial boundaries were priced sky-high by the time they reached their final destination.

Foreign exchange levers

Foreign exchange levers are a combination of administrative and market controls, although the allocation of foreign exchange is primarily an administrative operation.

• **Domestic lending procedures.** The old "iron rice bowl" system of foreign exchange allocation, whereby an enterprise received an allocation "number" as well as a



PRC IMPORTS THAT REQUIRE A LICENSE:

1. Automobiles
2. Motorcycles
3. Hydraulic truck lifts
4. Electron microscopes
5. Electronic color scanners
6. Open-end spinning machines
7. X-ray fault detectors
8. Copying machines
9. Air conditioners
10. Calculators
11. Computers
12. Video equipment
13. Cameras
14. Duplicating equipment for recording and video magnetic tapes
15. Television sets
16. Recorders
17. Refrigerators
18. Washing machines
19. Kinescopes for television sets
20. Cores of tape recorders
21. Watches
22. Radios
23. Electric fans
24. Bicycles
25. Television production lines
26. Radio-cassette recorder production lines
27. Refrigerator production lines
28. Washing machine production lines
29. Air conditioner production lines
30. Motorcycle production lines
31. Light vehicle production lines
32. Rolled steel
33. Rubber
34. ABS resin
35. Sulphuric acid
36. Polycarbonate resin
37. Tires
38. Timber
39. Agrochemicals
40. Crude drugs (16 kinds)
41. Tobacco products
42. Chemical fibers
43. Chemical fiber monomers
44. Chemical fabrics
45. Demolition equipment for civil use

Source: MOFERT, various press reports

budgetary grant of RMB to buy foreign exchange, is gradually being replaced by a system in which enterprises borrow—and pay interest on—the funds they use to buy foreign exchange. Since banks assess the economics of the proposed import transaction before granting the loan, they have become part of the import control process. Banks are much more willing to grant a loan for foreign exchange if it will promote exports. In some locales as much as 70 percent of foreign exchange spent on imports goes for items that will, in turn, help China increase exports.

For Chinese factories to qualify for foreign exchange, they must comply with a variety of internal regulations and targets not well understood by foreigners. Yet foreign firms need to determine from the outset if the factory they wish to do business with will be able to gain access to foreign exchange. Otherwise they risk trying to export to a customer with no funds to make a purchase.

China should either establish or strengthen a bureau in MOFERT to review trade practices adopted by various ministries and provinces that might hinder its reentry into GATT.

• **Letters of credit**. Provided by the Bank of China, letters of credit are another form of central foreign exchange controls. Over the last year and a half, BOC has tightened these controls. If a foreign company misspells a place name or misplaces a comma, for example, BOC will ask the firm to correct it before actually paying on the letter of credit. This is certainly a very effective means of slowing down imports. Delays of one or two months on letter of credit negotiations are not uncommon.

• **Financial disincentives.** Now in their infancy, financial disincentives are likely to become increasingly popular devices for restricting imports. One form of financial disincentive is exemplified by bank policies that discourage enterprises with an approved import plan from actually importing. Those that do will have to pay more interest on circulating capital loans than enterprises not carrying out their import plans.

The proactive side of Chinese protectionism is a well-developed system of import substitution. Research institutes and factories that develop substitutes (often copies) of foreign products are eligible to receive a portion of the foreign exchange that is being saved by not importing. The practice is referred to as *ke liu wai hui* (purposefully retained foreign exchange), and it is widespread. American specialty and agricultural chemical exporters are especially vulnerable to this practice insofar as China does not recognize or grant patents for chemical compounds, only chemical processes. One American chemicals company has found two of its products copied and the Chinese products advertised as their equivalents in China's domestic chemical industry newspaper.

MARKET CONTROLS

• **Import regulatory tax.** Administered by the Customs Administration as a separate surcharge over and above applicable tariffs, this tax now covers 17 types of goods. Some foreign businesspeople wonder why China does not simply increase the tariff on these goods. The answer appears to be that introducing a separate surcharge introduces a whole new administrative process to collect the charge. Given the nature of bureaucracy, this leads to longer—and sometimes seemingly deliberate—delays in completing import formalities.

• **Ministerial price markups.** Industrial ministries still exercise their right, granted in the 1980 Regulations on Import Commodity Pricing, to influence import prices if they threaten domestic industries. In July 1986, for example, the Ministry of Chemical Industries and MOFERT issued a joint notice on the pricing of imported chemicals. The notice states that imported chemicals whose renminbi (RMB) prices after all agency markups are still below prices of domestic equivalents are subject to a special markup, granted on application by the domestic producer to the ministries, which raises the import's price to a level above the domestically produced competitive product. This notice goes even beyond the 1980 Regulations in allowing the ministry to raise and lower prices in order to preserve market share.

• **Manipulation of exchange rates.** The State can, and has, manipulated demand by tampering with parts of the pricing equation. The official RMB to US dollar exchange rate is set unilaterally by the People's Bank of China, which has progressively devalued the RMB for more than one year. China has revised her tariff schedule as a whole on some 17 occasions, and much more frequently on a partial basis. In fact, a recent example occurred in early September 1986 when the Customs Administration raised tariffs on electrical instruments from 14 percent to 60 percent.

Not in China's long-term interest

China's import controls are spelled out in internal regulations generally not available to outsiders. One has no way of knowing what the different controls are when entering into a deal. The vaguely worded regulations are also subject to interpretation by lower-echelon cadres. Application is arbitrary and the potential for hanky-panky enormous.

The story of a Hong Kong trader who purchased import licenses from China's foreign trade corporations recently came to light. Clearly an illegal transaction, it has become a widespread practice in Hong Kong's trade with China. Furthermore, some practices, such as allowing the foreign suppliers' competitive ministry in China to issue approval certificates as well as unilaterally set the prices of the foreign goods, are unfair and need to be abolished.

Consistent trade practices can only be realized through greater administrative coordination. Discretionary and arbitrary powers exercised by local authorities to curb or control imports are especially evident in the licensing system. China should either establish or strengthen a bureau in MOFERT to review trade practices adopted by various ministries and provinces that might hinder its reentry into the General Agreement on Tariffs and Trade (GATT). Otherwise, China's negotiators may find themselves in for difficult negotiations when China's GATT application is considered in the not too distant future. 完

Reviving the Tea Trade

Reforms allow China to bag a niche in the world market

Richard Macdonald

China's tea trade is on the rebound. In 1949, after two decades of war and devastation, the country that gave tea to the world produced only 4,000 tonnes of it. But by 1985 China's production had jumped to 440,000 tonnes of processed tea, second only to India. China is also gradually regaining market share in the world tea trade. Just three years ago the country traded 14 percent of the world's tea, while 1985 exports of some 136,787 tonnes captured third place in the market, earning almost $300 million. Both domestic economic reforms and changes in the world tea market share some of the credit for this encouraging trend.

More tea for the masses

In the garden all tea looks similar, but tea comes in thousands of varieties by the time it reaches the store shelves. These varieties fall into three basic divisions according to how they are processed: black, green, and oolong. Tea leaves from any altitude can be processed into black tea, the variety most consumed in the West, but those from high altitudes make the richest black teas. Green tea, the favorite in tea-producing countries, is not fermented and thus lacks the bite of a strong black tea. Oolong tea is semifermented before firing.

China's different climates, from tropical to subtropical, and altitudes ranging from the low hills of Zhejiang to the high mountains of Yunnan, yield hundreds of varieties of black, green, and oolong teas. China's finest black teas come from elevations of 4,000 to 6,000 feet in the mountainous regions of Yunnan, Guangxi, Hainan Island, and Sichuan. And the hilly areas of Jiangsu and Zhejiang provinces are home to some of the most delicate and aromatic green teas in the world. China also produces many scented teas, including such favorites as jasmine, a green tea scented with flowers.

As agricultural reforms transfer decision-making power to the farmers, more land is being put into tea cultivation. The full impact on tea production may not be felt for three to four years, according to Ron Phipps, president of China Northwest, who has been involved in the China tea trade since the early 1970s. Phipps estimates that in 1983, 10 percent of China's tea-growing area of a million hectares was newly planted and would not begin producing for several years.

The Chinese are rediscovering the pleasures of tea for its own sake, not to mention its value as a foreign exchange earner. Domestic consumption has increased 30 percent since 1977. Recent articles in the Chinese press encourage this trend, stressing the cultural importance of China's 3,000-year-old national drink and encouraging tea drinkers to add more tea leaves when refilling their cups. (The Chinese tend to use the same leaves over and over throughout the day.) Per capita consumption, currently estimated at only .2–.425 kilograms per year, is likely to rise as China's venerable tea garden tradition stages a comeback in many cities and towns. This trend in China mirrors what is happening around the world: Tea producing nations are retaining more tea for domestic consumption. The percentage of tea sold in the countries where it is grown has reached 58 percent, up from 41 percent in 1971.

Most of the tea consumed in China is green. Only in Guangdong Province is black tea consumed with any regularity. More than 80 percent of China's total tea production in 1982 was green tea, accounting for a quarter of world tea production. Yet only 13 percent of this crop was exported. Conversely, close to 90 percent of the black tea China produced was exported. While China's green tea exports have increased 42 percent since 1982, most green tea is still consumed domestically.

A stronger trading position

Although it exports only a small amount of the green tea it produces, China has consistently been the world's top trading nation in green tea. In 1971 China supplied 56 percent of the world's traded green tea, and by 1985 this figure had climbed to 72 percent. In fact, green tea exports netted more foreign exchange than black tea for the first time in recent history in 1985, earning $129.5 million.

But green tea accounts for only 10 percent of the world tea trade, so growth potential for exports is limited, particularly considering China's successful penetration of new markets in recent years. Since black tea dominates world trade, it should offer China greater export potential in the long term.

China's success in boosting its tea exports, like its success in raising production, can be attributed in part to economic reforms. The process of freeing tea production from State controls has helped producers become more responsive to the market.

In the mid-1970s varieties of tea from all parts of the country were transported to either Shanghai or

Richard Macdonald now lives in Nanjing, where he is studying China's economic reforms at the Hopkins–Nanjing Center. He has also spent many hours sampling the teas of China.

Guangzhou for blending before export. International tea blenders, who generally buy each variety separately and then create their own blends, were not interested in these premixed teas. This practice probably earned China its reputation for poor quality tea. Tea growers now send their varieties to fairs where buyers sample the many kinds of tea available in China. Foreign buyers choose the teas most appropriate for their desired blend, forcing producers to match their production to the needs of the market.

The growing importance of the tea trade translated into the establishment of a separate company, the China National Tea Import and Export Corporation, under CHINATUHSU in April 1985. Exclusively responsible for Chinese tea exports and imports, this company is also involved in technology import for tea production and processing. The company counts as customers both Thomas J. Lipton, Inc. (US) and the London Export Co.

But reforms in the foreign trade structure are building pressures for even more changes in the tea market, including selling tea on the open market rather than through the State monopoly, granting licenses for buying and selling tea, and easing irrational pricing.

As part of the drive to raise exports, China is diligently working to meet international blending requirements, conducting research, and sending delegations overseas to tea-consuming nations such as Britain and the United States and to other producers such as Sri Lanka and India. These efforts have led to many new varieties of tea, says Ron Phipps. Efforts to break into new export markets are also helping to focus attention on the need to upgrade machinery used in black tea processing, and to improve factory management in such areas as fermentation and operation of the rolling, cutting, and pressing machinery.

China has also imported more than $1 million worth of machinery to process tea bags during the last five years. And the first production line for heat-sealed tea bag filter paper was purchased from a Japanese company and installed at a paper mill in Hangzhou in April 1986.

Targeting tea drinkers worldwide

Faced with competition from well-established quality teas of India and Sri Lanka, China has increased trade share by tapping the market for intermediate-priced teas of consistent but not necessarily top quality. China has now climbed into third place in world tea exports with 136,787 tonnes in 1985, behind India's 222,400 tonnes, and Sri Lanka's 198,017 tonnes.

The United States—the world's second-largest tea importing nation—has been a factor in this comeback. American consumers prefer black tea for use in tea bags or instant mixes where quality is less important. In the recession of the early 1980s, tea blenders capitalized on the desire for cheaper and plainer teas, and the Chinese stepped in as a major supplier of intermediate-grade teas. Now US consumers are developing more of a taste for green and oolong teas, providing another stimulus to China's sales. Chinese exports to the US doubled during the period 1978–83, reaching 12,574 tonnes in 1985. China now supplies 16 percent of US tea imports, up from 3 percent in 1977. Price comparisons reveal China's middle-grade market role: China held about 16 percent of the US market in 1985 and buyers spent $15 million on Chinese tea. In the same year they spent $24 million on Sri Lankan tea, which held 12.4 percent of the market.

The Chinese have made significant inroads into the world's largest tea market—Britain—which accounts for almost 25 percent of world tea imports. With exports to Great Britain of 16,780 tonnes in 1984, China provided 7.7 percent of Great Britain's tea, up from only 3 percent in 1977. The British, long-established tea connoisseurs, pay more for their higher quality blends of Chinese tea —on average almost $1.55 a kilo to our $1.20 in 1985.

But traditional Western tea importers are declining in relative importance as developing nations buy an increasing share of the world's tea. In 1971 developing nations bought 28 percent of world tea exports; by 1982 this figure had grown to more than 42 percent. Middle Eastern nations are now the world's heaviest tea drinkers: Qatar's average per capita consumption of 6.5 kilos bests even the British average of 3.5–4.5 kilos per year.

In the future, developing countries will continue to provide new markets for tea producers. China is

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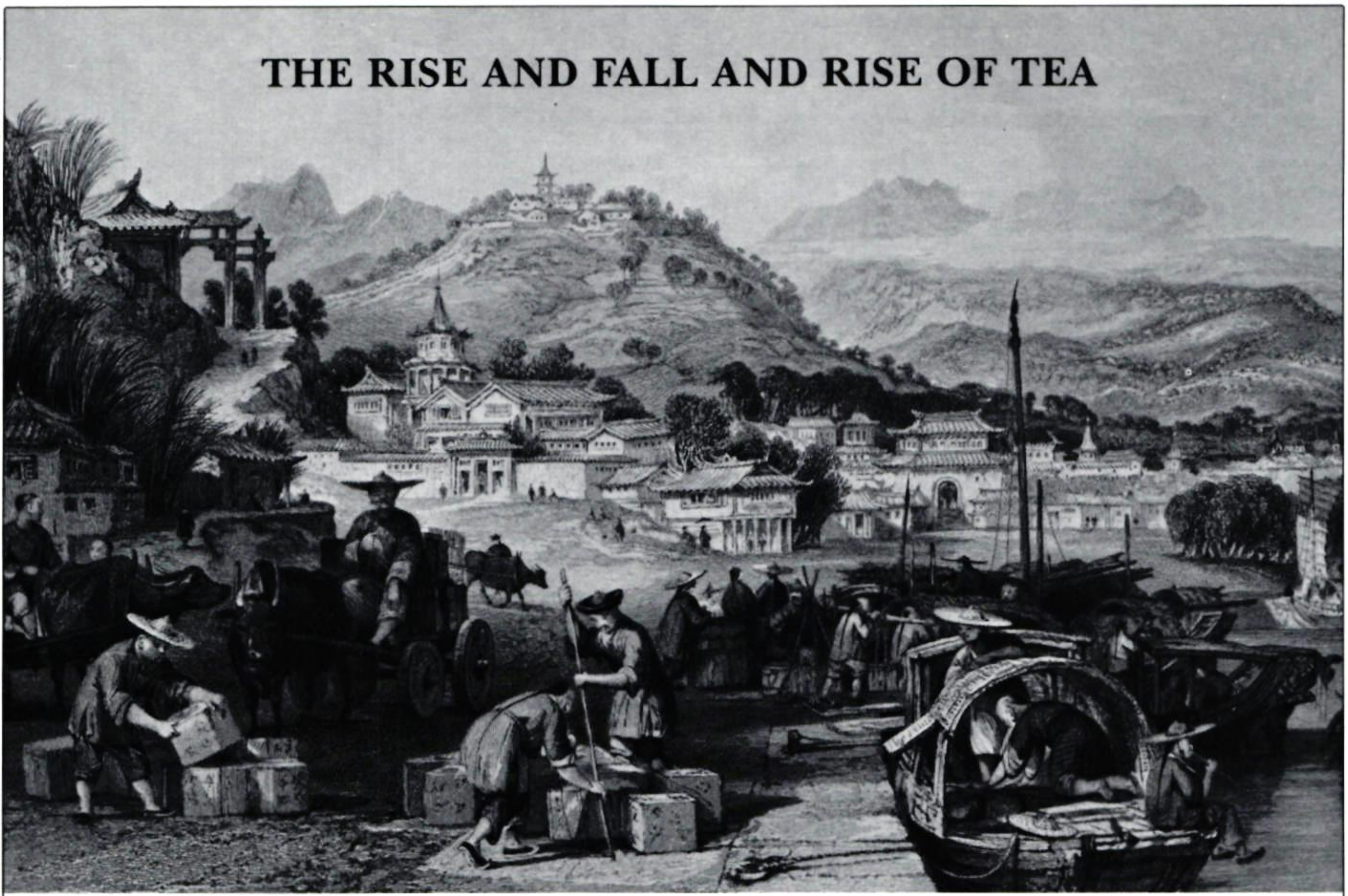
THE RISE AND FALL AND RISE OF TEA



Traditional engraving of Chinese loading tea junks in the early 19th century

Photo courtesy of the Peabody Museum of Salem

According to a legend of the third millenium BC, China's Emperor Shen Nong discovered the light fragrance of tea wafting from a pot of boiling water that some tea leaves had fallen into. He was even more pleased by the flavor, which he found superior to the fragrance. Since then—so the legend goes—the Chinese have enjoyed and cultivated the company of tea.

The legend does not reveal where Emperor Shen quaffed his first cup, but Chinese scientists have found tea plants over 800 years old in Yunnan Province. In fact, so many relatives of the tea species Camellia Sinensis have been found in this province that Yunnan seems a likely candidate for the hometown of tea.

Lu Yu, a Chinese man of the arts, wrote the *Cha Jing*, or Tea Classic, in the middle Tang Dynasty (780 AD)—a treatise that specifies how to cultivate, process, and enjoy the pleasures of tea. In Yu Lu's time tea drinking had already evolved into an elaborate ritual; rules stipulated the arrangement of cups, the number of servings from each batch of leaves, and even the manner of imbibing. Tea was a proper habit for the scholar who sought moderation in life, and was also widely recognized as a healthy and refreshing stimulant.

The earliest reference to tea in Europe appeared in 1559. Only the wealthy and aristocratic could afford to drink tea at first because of high taxes, but increasing supplies finally brought prices within reach of the common people. In the West, tea garnered lofty praises in literature for its medicinal value, although some doctors charged that excessive consumption would cause Europeans to develop Oriental features.

All common names for tea originate in China. The Dutch first brought tea to the West from their contacts with southern Chinese speaking the Amoy dialect where it was pronounced *te'*. Tea that traveled an overland route from China to such countries as Russia and India came with the Cantonese traders' pronunciation, *cha*.

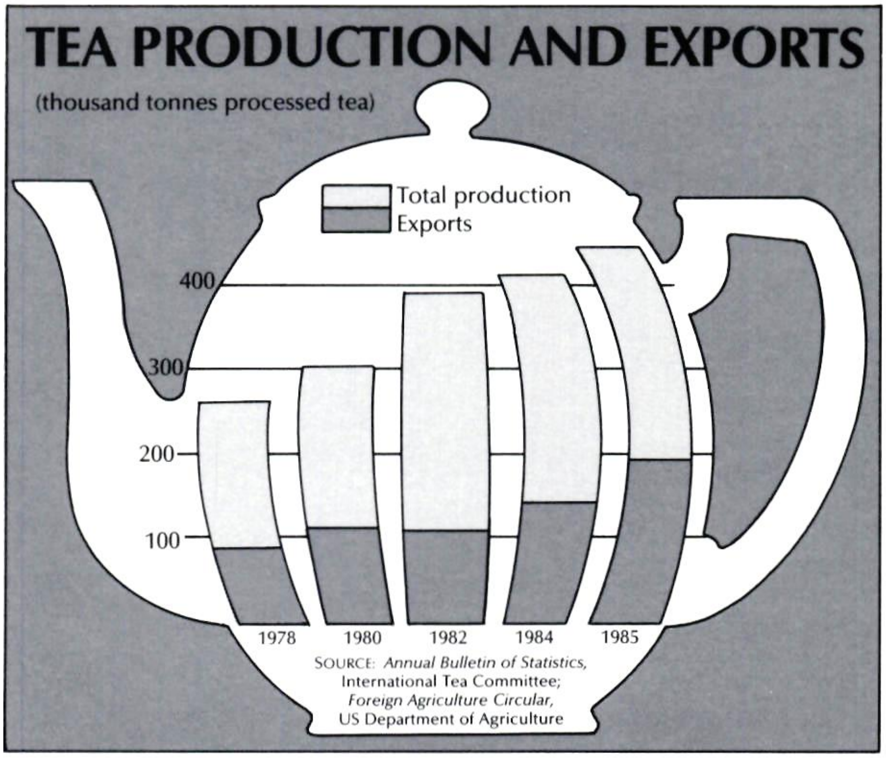
Fashionable for awhile in Germany and France, where the custom of mixing milk with black tea originated, tea fell from favor during the 17th century as a result of greater interest in local drinks. At the same time tea was becoming enormously popular in England's newly fashionable coffeehouses, but here again locally brewed spirits provided tea's main competition. By the middle of the 18th century, falling prices and duties had helped make tea drinking a daily habit for much of the British populace. Tea had finally achieved the important place in a Western nation that it had long enjoyed in China.

Americans were also great tea drinkers before the revolution, with tea figuring prominently in colonial folklore. Everyone knows how colonists suffering from high taxes on British tea staged the Boston Tea Party, but few people know that the new American government slapped a steep duty on tea after the Revolution, from which American tea-consuming habits never recovered. Even so, the first ship flying the new American flag to set sail for China went to trade pelts for tea.

It was only in 1823 that a source of tea outside China was discovered—in the mountains of northern India. India and other nations rapidly became large producers and exporters of tea in the 19th century. In fact, by the end of the century, India had surpassed China as the world's largest exporter of tea, although China continued to rank first in production until the 1930s.

The successive wars fought in China in the 1930s and 1940s devastated tea production, and by the end of 1949, China exported virtually no tea. Slowly in the 1950s and 1960s, and more aggressively since economic reforms in the late 1970s, the Chinese have been reasserting their presence in the world market. And once again tea drinkers are enjoying tea from the country that gave the drink to the world. —RM well positioned to reach this growing market: in 1985, 35 percent of China's tea exports went to developing nations. Northern and western African countries are becoming important customers. Leading the way was Morocco, whose imports of 18,668 tonnes of Chinese green tea in 1985 allowed it to remain China's largest tea trading partner, a spot it grabbed from Great Britain in 1984. Tunisia was also among the top five tea importers with 11,800 tonnes.

Meanwhile, China has not been forgotten by its traditional tea-drinking neighbor to the east. In an experimental joint venture with two Chinese enterprises, Sanmei Tea Co., Ltd. (Japan) is providing the machinery to refine tea leaves to produce the steamed green tea favored by Japanese drinkers. And two other Japanese companies have entered a joint venture in Fujian Province to develop concentrated oolong tea.



TEA PRODUCTION AND EXPORTS

(thousand tonnes processed tea)

SOURCE: *Annual Bulletin of Statistics,* International Tea Committee; *Foreign Agriculture Circular,* US Department of Agriculture

Leaving a good impression

The drive to increase market share is changing perceptions of China's role in the international tea market. Other producers fear that, with 45 percent of the world's tea estates, China is a potentially aggressive trader ready to flood world markets with inferior tea. But the Chinese claim they are orderly traders, and have begun to participate in producer meetings aimed at controlling prices and promoting quality production. China hosted an international tea standards meeting for the first time in 1986. Participants from nine countries, including the US, Great Britain, Sri Lanka, and Indonesia, discussed water content and caffeine standards. China also imports small amounts of tea from Bangladesh, Sri Lanka, and India to promote its image as an orderly trader.

At the same time, China is trying to enhance its reputation with foreign buyers. Most impressive are China's determined efforts to improve quality and marketing, and the country's success in gaining acceptance for all kinds of traditional Chinese teas. China is also getting good marks for field management.

Problems in other tea-exporting nations have also led buyers back to China. India restricted supplies in 1983 by setting an elaborate export tariff structure to ensure that tea would be available domestically at reasonable prices. And Sri Lanka's nationalization of tea estates in the mid-1970s raised persistent doubts about the stability of that country's tea supply.

The explosion of tea varieties, China's efforts to become a steady and reliable supplier, and continued improvements in quality and marketing should help ensure that tea continues to be an important Chinese trading commodity, as it has for much of the last 3,000 years. 完

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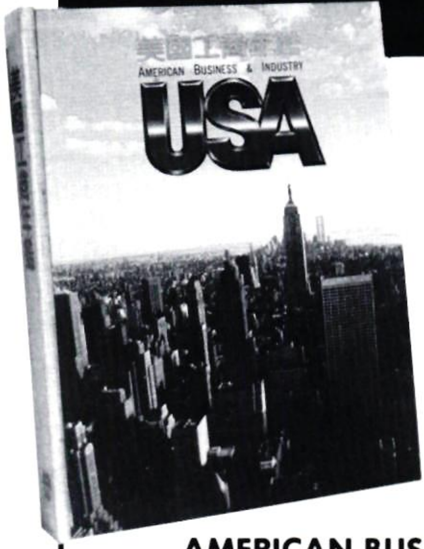

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BOOKSHELF

书刊介绍

The China Business Handbook, by Arne J. de Keijzer. Weston, CT: Asia Business Communications, Ltd., 1986. 240 pp. $16.95. Available from China Books and Periodicals, 2929 24th St., San Francisco, CA 94110.

The *China Business Handbook* is an updated version of the same work published in 1985. Like the previous edition, this is an affordable, pocket-sized introduction to China's economic, political, and foreign trade policy. Especially handy for foreign businesspeople are tips on negotiations and etiquette, directory listings for Chinese trade-related organizations, and advice on hotels, dining, and shopping in Beijing, Shanghai, and Guangzhou. Brief descriptions of the special economic zones and open port cities are also included.

—JLL

Joint Ventures in China, by Carl-Olof Schlyter and Andre Sebelius. Gothenburg, Sweden: Sebelius & Schlyter HB, 1986. 172 pp. $900. Available from Sebelius & Schlyter, Box 19041, 400 12 Gothenburg, Sweden.

Joint Ventures in China takes an in-depth look at 10 joint ventures currently operating in China. The case studies cover a broad range of ventures from heavy to light industry, pharmaceuticals, publishing, and a ship servicing company. The joint ventures are located in Beijing, Shanghai, Shenzhen, and Guangzhou, and involve investors from the United States, Australia, Switzerland, Sweden, and Singapore.

Profiles of each of the ventures were obtained through interviews held in early 1986 and form the most useful part of this book. The survey also analyzes the areas of greatest concern to investors: currency convertibility, materials and equipment supply, profitability, the negotiating process, and labor and management issues. An appendix contains the basic joint venture and related investment laws.

—JLL

Technology Transfer to China: A Comprehensive Guide, edited by the Ministry of Foreign Economic Relations and Trade's Policy Research Dept., Technology Import and Export Dept., and International Business. Hong Kong: Economic Information & Agency (342 Hennessy Road), 1986. 338 pp. $40 including airmail postage.

Introduced by officials from MOFERT and the State Economic Commission, this is an authoritative guide to China's technology transfer policy. Laws for foreign technology trade—patents, trademarks, contracts, and others—are included, as are descriptions of the organizations that administer China's technology imports: the State Planning Commission, the State Economic Commission, and MOFERT. Especially useful are the lists of 53 organizations that examine and approve technology contracts and the 36 corporations authorized to import technology. The major corporations (TECHIMPORT, MACHIMPEX, INSTRIMPEX, EQUIMPEX, and CEIEC) are described in detail.

This volume also contains several short case studies of foreign technology transfer, statistical and organizational charts, and a glossary of pertinent terms. Despite its abundant typographical errors, *Technology Transfer to China* is a valuable resource of hitherto unpublished information about China's technology trade.

—JLL

China Laws for Foreign Business, published by CCH Australia Ltd. in conjunction with China Prospect Publishing House. Four looseleaf volumes, with update service. Available in the US from CCH, 4025 W. Peterson Ave., Chicago, IL 60646. One year, $1,165; two years, $1,065 payable for first year and $995 for second year.

This is a looseleaf law reporting service that publishes law texts in both Chinese and English. CCH has a cooperative arrangement with a Chinese organization that assists in obtaining and verifying translations. The new service provides four binders in which updates are filed: business regulation, taxation, special economic zones, and customs. Updates are promised four times per year, although 11 have already been distributed as of November 1986.

The main advantages of the CCH service over its competitor, the Oceana Press Service (see Bookshelf, *The CBR*, Jan–Feb 1986), are its greater timeliness and inclusion of an index. But unlike Oceana, CCH does not provide any commentary on the laws it publishes.

—JLL

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.*

China's Legal Development, edited by John R. Oldham for the Columbia Journal of Transnational Law. New York: M.E. Sharpe, Inc, 1986. 315 pp. $50.

The seven articles in this book touch on a variety of legal issues in China and in US–China relations: from China's view of the Taiwan issue to the teaching of international law in China to a summary of Western scholarship on Chinese law. A few articles are aimed more at practitioners, such as "Tax Aspects of Doing Business With the PRC," but the focus of the book is more theoretical than practical.

The varied articles in this volume are loosely tied together by a bibliography at the back of the book listing articles and books on everything from 'Agricultural Law' to 'Tibet' (roughly from 1949 through January 1985)—an ambitious undertaking that should prove of long-term value to those doing research on Chinese law.

China's Legal Development reads like a Law Review issue in hardback form, which is not surprising since it consists mainly of material originally published in two volumes of The Columbia Journal of Transnational Law in 1983 and 1984. The editor of the 1983 issue, Columbia University law student John Oldham, hoped to further Western understanding of legal issues in China through a volume that focused on articles by Chinese legal scholars and practitioners. The present volume, which includes several new articles, remains an important contribution to this goal and is dedicated to Oldham, who perished on Korean Airlines Flight 007 on his way to teach and study law at Beijing University. The current book contains four articles by Chinese legal experts, two by American experts on Chinese law, and two "comments" by Columbia University law students, as well as the aforementioned bibliography.

Although much of the material is several years old, the book is still of value in that it focuses on the view from China, and deals with many issues of international and Chinese law that remain unresolved today.

—MCR

China Takes Off: Technology Transfer and Modernization, by E.E. Bauer. Seattle, WA: University of Washington Press, 1986. 260 pp. $20.00.

China Takes Off is an entertaining account of China's post-Mao economic modernization, written by a Boeing Commercial Aircraft Company representative who was an active participant in the modernization process from 1980–84.

Boeing, through its sales of some 49 commercial aircraft since the early 1970s, has played an influential role in upgrading China's air transportation. As Boeing's customer service representative in Beijing, Bauer witnessed CAAC's metamorphosis from a small, inefficient, and overly bureaucratic organization into a relatively modern international airline. From this vantage point, the author recounts the aviation sector's problems in absorbing foreign ideas and technology—from Western concepts of engineering and data processing to raising worker enthusiasm and productivity, coping with political intrusion, and revolutionizing management and production techniques. These problems are not unique to aviation, and Bauer's work—which also discusses the changing China scene—is an interesting firsthand account for other firms doing business in China. —Richard E. Gillespie

ORGANIZATIONS AND GROWTH IN RURAL CHINA

Organizations and Growth in Rural China, by Marsh Marshall. New York: St. Martin's Press, 1985. 220 pp. $27.50.

This book discusses the relationship between organizational structure and economic growth using the collectivization and development of China's countryside as a test case. Marshall hypothesizes that as China's rural cooperative production organizations became more decentralized and democratic, their members were more willing to defer individual interests in favor of long-term projects beneficial to the whole collective. The resulting higher investment level and ratio of accumulation to distribution promoted rapid growth and equitable income distribution. The book examines the evolution of Chinese communes/collectives and the general growth trend in Chinese agriculture since liberation to support this hypothesis.

While developing some interesting theories, the author seriously underestimates the level of political coercion on communes. He naively assumes that commune members participate fully in decision-making based on the constitution for communes—the '60 Articles,' passed by the CCP Central Committee in 1962.

Marshall does uncover some interesting statistics for the period before 1979, but offers little data to document changes taking place since then. He also misses the chance to analyze how the responsibility system—which places decision-making on an individual level—and the rapid growth of rural industry have affected rural development trends since 1979.

Discussion of the dramatic decline in land reconstruction projects (considered a major reason for the droughts and flooding that greatly reduced output in 1985) and the widening of income differentials in the countryside would have strengthened the author's argument and provided a more useful analysis. —JSS

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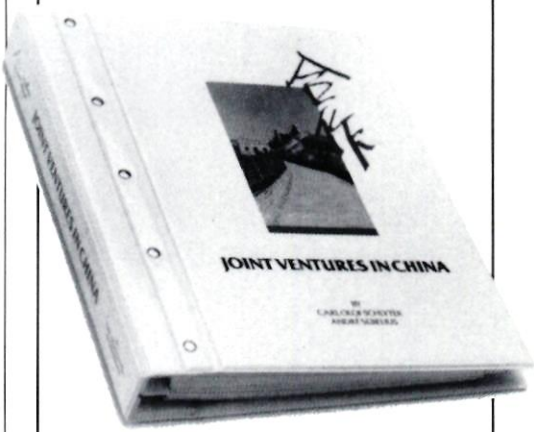

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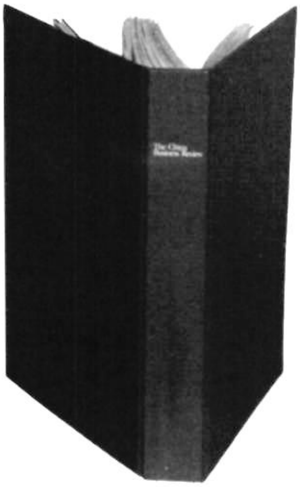

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Compiled by Maren Richter and Betsy Saik

CHINA BUSINESS

中外貿易

Betsy Saik

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 Betsy Saik.

CHINA'S IMPORTS THROUGH NOVEMBER 30

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agricultural Commodities	
Finncell (Finland)	Signed contract to supply pulp. $4.1 million (FM20 million). 9/86.
Simon Engineering (UK)/ Shanghai Grain Bureau	Signed cooperation agreement. 9/86.
(US)/Zhejiang	Will supply 30,000 tonnes of corn. $2.6 million. 10/86.
Agricultural Technology	
Buchi Laboratory Techniques Ltd. (Switzerland)/ Reclamation Department of Ministry of Agriculture, Animal Husbandry, and Fisheries	Signed contract to supply equipment for World Bank-supported Seeds Project. $60,655 (SF100,239). 9/86.
International Seeds, Inc. and Asian Marketing Consultants (US)/Ministry of Agriculture, Animal Husbandry, and Fisheries	Signed two-year contract to supply and cultivate forage grass seed varieties for trial use in five provinces. 9/86.
Tokyo Bussan Co. Ltd. (Japan)/Reclamation Department of Ministry of Agriculture, Animal Husbandry, and Fisheries	Signed contract to supply 4 sets of recording spectro-photometer equipment for World Bank-supported Seeds Project. $478,283 (J¥7.4 million). 9/86.
Chemicals and Chemical and Petrochemical Plants and Equipment	
NA (Czechoslovakia)/ Lanzhou, Gansu	Signed contract to supply coal gasification technology and equipment. 6/86.
Fisher Controls Pte Ltd. (Singapore)/China Resources Artland Co. and Panjing Refinery, Liaoning	Awarded contract to supply control system for refinery's hydrocracker plant. 7/86.
Columbus Plastics (UK)/ Weihai, Shandong	Reached agreement to pursue contracts. 8/86.
NA (US)/Beijing Fire-Fighting Apparatus Factory	Supplied line to produce 1 million liters of light water foam, a fire extinguishing chemical, annually. 9/86.
Allied Plating Supplies, Inc., subs. of Chromadyne Corp. (US)/ Shanghai	Awarded contract to design and manufacture electrolytic color anodizing system. $1 million. 9/86.
Combustion Engineering Simcon Inc. (US)/Qianjin Chemical Works of Beijing Yanshan Petrochemical Corp.	Will supply control system for cracking heaters and acetylene converters as part of Lummus Crest contract to modernize Yanshan ethylene plant. 9/86.
Cosden Technology, Inc., subs. of American Petrofina, Inc. (US)/China Petrochemical International Co. and Fushun Petrochemical Corp., Liaoning	LIC: Granted license for 10,000 TPY continuous mass polystyrene plant. 9/86.
Himont Inc. (US) and Mitsui Petrochemical Industries Ltd. (Japan)/ CNTIC and China Petrochemical Corp. of Zibo, Shandong	LIC: Granted "Spheripol" process license for 70,000 TPY polypropylene plant. 9/86.
Himont Inc. (US) and Mitsui Petrochemical Industries Ltd. (Japan)/ Yanshan Beijing Petrochemical Corp.	LIC: Granted license for 115,000 TPY polypropylene plant. 9/86.
Himont Inc. (US) and Mitsui Petrochemical Industries Ltd. (Japan)/ Nanjing	LIC: Granted license for 140,000 TPY polypropylene plant. 9/86.
Magadi Soda Co. (Kenya)/SINOCHEM	Signed agreement to supply 10,000 tonnes of natural soda ash in 1986 and 40,000 TPY from 1987 to 1989. 9/86.
Mitsui Engineering & Shipbuilding Co. Ltd., Nippon Zeon Co. Ltd., and Nissho Iwai Corp. (Japan)/Zhuzhou, Hunan	Awarded contract to built 25,000 TPY polyvinyl chloride resin manufacturing plant. $6.5 million (J¥1 billion). 9/86.
Haldor Topsoe A/S (Denmark), subs. of Ente Nazionale Idrocarburi (Italy)/Nanjing	Received order to rebuild ammonia plant. $3.9 million (DK30 million). 10/86.
Chemicals (Agricultural)	
(Philippines)	Signed contract to supply 30,000 tonnes of fertilizer. $5 million. 6/86.
Mitsubishi Petrochemical Co. Ltd., Sumitomo Chemical Co. Ltd., Sekisui Chemical, and 12 other firms (Japan)/ SINOPEC; Ministry of Light Industry; and Ministry of Agriculture, Animal Husbandry, and Fisheries	Will establish test plant and provide polyethylene film technology and quality control know-how for agricultural use. 6/86.

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.

Kemira Oy (Finland)/ Hubei Phosphoric Acid Plant	Conducting feasibility study for compound fertilizer plant. $20.4 million (FM100 million). 9/86.
Sino-Chem International Oil Hong Kong and PhosChem Co. (US)/The Means of Agricultural Production Corp.	Signed contract to supply 12,000 tonnes of phosphatidic and NH2 fertilizer for World Bank-supported North China Plain Development Project. $2.6 million. 9/86.
Shamprogetti USA Inc., subs. of ENI (Italy)/CNTIC	Signed contract to build 1,760 TPD urea plant. 9/86.

Construction Materials and Equipment

Bian Hin Co. (Singapore)/ Anhui Provincial Government, Hefei	Signed contract to supply wire rods for World Bank-supported Pishihang-Chaohu Area Development Project. $5.8 million. 7/86.
Alstoglass Ltd. (UK)/Weihai, Shandong	Signed contract to manufacture mirrors. 8/86.
Bison-Werke Baehre & Greten GmbH & Co. KG (FRG) and Nichimen Corp. (Japan)/CNTIC	Received order for board manufacturing plant, laminate plant, and glue factory. $10.5 million (DM21.5 million). 9/86.
Komatsu Ltd. (Japan)/East China Products Management of China National Electrical Machinery Equipment Corp. and Changzhou Forest Machinery Plant, Jiangsu	Supplied wheel-loading machinery parts and manufacturing technology and data. 9/86.
Laminated Profiles Developments (UK)/Wuxi Resin Factory, Jiangsu	Received order for corrugated sheet production plant. $441,840 (£300,000). 9/86.
Nippon Steel Corp. (Japan)/Beijing Jingguang Hotel Co.	Received order for 15,000 tonnes of steel frames for Beijing Jingguang Center. $16.2 million (J¥2.5 billion). 9/86.
Peter Lisec GmbH (Austria)/Yaohua Glass Works, Qinhuangdao	Signed contract to supply hollow glass production line. 9/86.

Consumer Goods

(Japan)/China Light Industrial Foreign Economic and Technical Cooperation Co. and Qingdao Gas Stove Factory	Signed agreement to supply punching, automatic welding, and die-casting machines; digital-controlled machine tools; and assembly equipment to produce gas stoves. 9/86.
(Yugoslavia)/Beijing Xijiao Furniture Factory	Supplied line to produce 5,000 sets of furniture annually. $2.1 million (¥7.65 million). 10/86.

Electronics and Electrical Equipment

Mitsui & Co. Ltd. (Japan)/ Si-Tong Corp., Beijing	Will produce Chinese-language word-processors. 6/86.
Nippon Electronics Co. Ltd. (Japan)/CCEC, Northwest Design Institute (Xi'an), and Northeast Design Institute (Shenyang)	Will supply CAD/CAM systems. 6/86.
Cambridge Computer Graphics (UK)	Received order for 50 graphic display units. $147,280 (£100,000). 7/86.
Computasia Ltd., subs. of Hongkong Telephone Co. Ltd. (HK)/Shenda Telephone Co., Shenzhen	Signed 5-year contract to provide Sperry Mapper computer system. 7/86.
Burroughs Corp. (US)/ Guangdong	Will supply mainframes for banking operations. $1 million. 9/86.
Canary (US)	Signed contract to supply mixing consoles. 9/86.
Concurrent Computer Corp. (US) and Hai Feng Marine (Pte) Ltd. (Singapore)/Ministry of Petroleum Industry and CNTIC	Signed agreement to supply 32-bit minicomputer systems and spare parts to six oilfields. $10 million. 9/86.
Oce Nederland BV (Netherlands)	Concluded technology transfer contract to manufacture copying machines. 10/86.

Electronics (Consumer)

Alps Electric Co. Ltd. (Japan)/Zhenjiang City and Zhenjiang Radio and Television Parts Factory, Jiangsu	Will supply plant to manufacture color TV components. $7.8-$8.4 million (J¥1.2-J¥1.3 billion). 6/86.
Mitsubishi Heavy Industrial Co. Ltd., Ohira Co. Ltd., and Iwada Co. Ltd. (Japan)/Dalian Cassette Tape Recorder Factory	Supplied plastic injection, painting, and decoration equipment to produce stereo double-cassette recorders. 8/86.
Sony Corp. (Japan)/ Dalian Cassette Tape Recorder Factory	Supplied equipment to produce 400,000 stereo double-cassette recorders annually. 8/86.
Sony Corp. (Japan)/ Zhanjiang TV Factory, Guangdong	Supplied color TV production line to produce 150,000 sets annually. 8/86.
(Japan)/Jinguang Instrument Factory and Mingguang Instrument Factory, both under Ministry of Ordnance Industry	Supplied automatic 135 mm camera technology and equipment to produce 200,000 cameras annually. 9/86.
Matsushita Electric Industrial Co. Ltd. (Japan)/ Shenyang, Liaoning	Put into operation steam iron line to produce 30,000 irons annually. $1.7 million (¥6.2 million). 10/86.

Engineering and Construction

Nippon Koki Co. Ltd. and INA Civil Engineering Consultants (Japan)	Received order for feasibility study to construct Feilai Gorge dam. $1 million (J¥160 million). 10/86.

Finance, Leasing, and Insurance

CCIC Finance Ltd. (HK) and Banco Di Roma (Italy)/Qingdao Hongqi Chemical Factory.	Will arrange 7-year loan to finance equipment imports needed to produce bleaching powder. $6 million. 8/86.
Sanyo Securities Co. Ltd. (Japan)/Jiangsu ITIC	Will manage loan contract to procure foreign funds and help establish Sino-Japanese joint ventures. 9/86.
Si Ibail International, subs. of Credit Lyonnais (France)/China Foreign Trade Leasing Co.	Signed cooperation agreement. 9/86.
Commerzbank AG (FRG)/ ICBC	Signed cooperation agreement. 10/86.

Food Processing and Food Service

NA (US)/Meiyi Foodstuffs Factory in Yantai, Shandong	Put into operation beverage production line. 3/86.
(France)/Xingang, Jiangxi	Put into operation 6,000 TPY orange juice, wine, and chocolate drink production line. 5/86.
Asahi Breweries Ltd. (Japan)/China-Xinjiang Reclamation Agro-Industrial-Commercial Combine	Will supply technology to improve barley quality for beer and other uses. 6/86.
Coca-Cola Pacific (US)/ Shanghai	Negotiating to set up Coca-Cola concentrate manufacturing plant. 6/86.
NA (Japan)/Xinjiang	Supplied salad oil production line. 9/86.
Albadoro (Italy)	Awarded contract to supply pasta. $1.1 million (£1.6 billion). 9/86.
Albadoro (Italy)	Negotiating construction of pasta factory. 9/86.
General Brewing Co. (US)/Guangzhou	Will dismantle and ship Vancouver plant. $26 million. 9/86.
Suntory Ltd. (Japan)/ CITIC	Signed contract for Chinese/Western restaurant, cold drink stand, cafe, and snack bar in renovated Capital Airport terminal building. 9/86.

Machine Tools and Machinery

Harsco Corp. (US)	Will dismantle and ship used gas cylinder production equipment. 7/86.

Vacuum Industries (US)	Received contract to supply vacuum sintering furnaces for carbide tool plant. $1.8 million. 7/86.
NA (Finland)/ Mudanjiang, Heilongjiang	Signed preliminary contract to supply heating system. 9/86.
Imatran Voima Oy (Finland)	CT: Signed agreement to supply district heating technology and import test batch of coal. 9/86.
Logan Co., div. of Figgie International Inc. and Universal Industries Ltd. (US)/Beijing Postal Ltd.	Signed memorandum of understanding to supply system to sort parcels. 9/86.

Metals, Minerals, and Processing Technology

(Philippines)	Signed contract to supply 10,000 tonnes of copper concentrates. $3 million. 6/86.
AEG, subs. of Daimler-Benz AG, and a consortium (FRG)/MACHIMPEX	Awarded contract to modernize Benxi coal handling system. 9/86.
Cockerill-Sambre SA (Belgium)/MMI and Capital Iron and Steel Co., Beijing	Will supply equipment for air-blown converter workshop for new 3 million TPY steel plant. 9/86.
KHD Humboldt Wedag AG (FRG)/China Metallurgical Import/Export Corp., Beijing, and Baotou Iron and Steel Complex	Received order for pilot iron ore processing plant. 9/86.
Mitsui & Co. Ltd. and Tokyo Kohtetsu Co. Ltd. (Japan)/Supply Department of the Ministry of Railroads	Signed contract to supply 3,000 tonnes of steel for World Bank-supported Second Railway Development Project. $900,000 (J¥139.2 million). 9/86.
NA (UK)/Ningbo Beilun Port	Signed letter of intent for 3 million TPY iron and steel complex. $4 billion. 10/86.
Concost Co. (Sweden) and Sering Factory (Belgium)/MMI and Capital Iron and Steel Co., Beijing	Supplied two 210-tonne converters, two 8-tonne billet casters, and 2-strand slabs for 1,700 mm steel sheet rolling machines. $67.4 million (¥250 million). 10/86.
Hutchison China Trade Holdings Ltd., subs. of Hutchison Whampoa Ltd. and Green Island Cement Co., subs. of Hutchison China Trade Holdings Ltd. (HK)/China National Coal Import/Export Corp., and MINMETALS	CT: Will supply 40,000 tonnes of cement in exchange for 50,000 tonnes of steam coal. 10/86.
International Geosystems Corp. (Canada)/Jiangyou Power Station, Sichuan	Will supply coal and ash-handling systems, contingent upon obtaining export credit financing. $29.5 million. 10/86.

Packaging Equipment

Davy McKee (Poole) Ltd. (UK)/Shanghai	Received order for aluminum foil plant machinery. $23 million. 8/86.
Baker Perkins (HK) Ltd./ Wuxi Food Industry Corp.	Signed letter of agreement to supply two automatic production and packaging lines, process technology, and recipes to produce canned baby food. 9/86.
Packaging Services Inc. (UK)	Received order for reconditioned bottling equipment. $1 million. 9/86.
Windmoeller Hoelscher Co. (FRG)/Shenyang No. 8 Plastic Factory, Liaoning	Put into operation colored packing material production line. 9/86.

Petroleum, Natural Gas, and Related Equipment

Offshore Marine Engineering (UK)/CNOOC	Installed diving system to support drilling and oil exploration operations in South China Sea. $1.5 million (£1 million). 8/86.
Bow Valley Husky Offshore Drilling Ltd. (Canada)/Nanhai West Oil Corp., Zhanjiang	Received order for semisubmersible rig. 9/86.
Cooper Valve Co. (US)/ Lanzhou High Pressure Valve Factory, Gansu	Signed 10-year contract to produce high-pressure ball and glove valves. $20 million. 9/86.

Pharmaceuticals

Diamalt AG, subs. of Schering AG (FRG)/China National Medicines & Health Products Import/ Export Corp.	Signed agreement to supply intermediate pharmaceutical products in return for raw materials used to manufacture amino acids. 9/86.

Power Plants and Equipment

Mitsubishi Corp. (Japan)/ CNTIC	Signed contract to supply power transformers for World Bank-supported Second Power Project. $3.7 million. 12/85.
Bechtel China, Inc., subs. of Bechtel Group Inc., and North America Power Corp. (US)/ Guangdong General Power Co.	Will provide engineering, procurement, and construction management for 60-mile, 500-kilovolt transmission line across Pearl River linking new Shajiao power plant with Jiangmen main power grid. $20 million. 5/86.
Societa Anonima Electtrificazione SpA (Italy)	Will design and supply steel towers and related materials and provide technical supervision for Bechtel project (see above entry). 5/86.
GIE (Italy)/CNTIC and Tianjin	Awarded contract to build coal-fired power plant. $180 million. 6/86.
Ansaldo SpA, Franco Tosi SpA, and Riva Calzoni SpA (Italy)/CNTIC and Tianjin	Will supply turbines and generators, boilers, and circulating pumps respectively for GIE power plant (see above entry). 6/86.
Italian Engineering and Construction Co. (Italy)/ CNTIC and Tianjin	Will provide plant design, equipment, and building and start-up supervision for GIE power plant above. 6/86.
Farr Europe (UK)/ Nanjiang Oilfield	Received order for air cleaners for power generating gas turbines. 8/86.
NA (UK)/MWREP and East China Power Administration	Signed memorandum of understanding for preliminary study of electricity distribution in Shanghai. 9/86.
Campenon Bernard, subs. of Compagnie Generale des Eaux, Cie., SA (France)	Signed preliminary agreement to construct nuclear power station at Daya Bay including supplying materials and preparing building site. $50 million. 9/86.
Dunkerque Port and Electricite De France (EDF) (France)/ Guangdong	Will provide marine construction expertise for new Daya Bay power station. 9/86.
Electricite de France/ Guangdong Nuclear Power Joint Venture Co.	Signed contract to provide overall engineering design for Daya Bay Plant. $143 million. 9/86.
Energoinvest, COVL Co. (Yugoslavia)/East China Electric Power Administration	Signed contract to supply computer-controlled systems for Shanghai 500-kilovolt power transmission project. 9/86.
Framatome SA (France)/ Guangdong Nuclear Power Joint Venture Co.	Signed contract to provide two 1,000 megawatt reactors for Daya Bay Plant. $857 million. 9/86.
The General Electric Co. Plc (UK)/Guangdong Nuclear Power Joint Venture Co.	Will provide turbines for Daya Bay plant. $375 million. 9/86.
(USSR)/CNTIC	Will supply 10 sets of 210-megawatt generating units to four power plants in Zhangze (Shanxi), Huangdao (Shandong), and Mudanjiang and Shuangyashan (Heilongjiang) between 1987 and 1990. 10/86.
Canada-China Electric Power Consultants (Canada)	Will provide technical assistance in planning systems for hydroelectric production in South China. $3.6 million (C$5 million). 10/86.
China Light & Power Co. Ltd. (HK)/Guangdong Power Industry Corp. and China Coal Import/Export Corp.	CT: Will supply 1 billion KWH of electricity (2 million per day) in exchange for 1.2 million tonnes of coal. 10/86.
National Technical Industrial Export Corp. (USSR)/ CNTIC	Signed contract to supply 500-kilovolt power transmission lines and transforming substations. 10/86.

Soken Chemical Engineering Co. (Japan)/ Changzhou Works Producing Equipment for Energy Resources	LIC: Will license production of small boilers. 10/86.
Stone Boilers (UK)	Received order for boilers. 10/86.

Printing Equipment, Publishing, and Broadcasting

ChinaLink Publishing (Canada)	Signed agreement to publish foreign ad supplements in Chinese journals (*Process Automation Instrumentation, Machinery, Electrical World, Electronic Technology*, and *Communications Today*) with ChinaLink functioning as North American and West European agent. 9/86.
Television Nishinippon Corp. (Japan)/Dalian TV Station	Signed friendship agreement to exchange programs and promote business exchanges. 10/86.
Walt Disney Co. (US)/ CCTV	Will televise weekly half-hour Mickey Mouse and Donald Duck cartoon series. 10/86.
Interavia (Switzerland)/ China Defence Science and Technology Information Center	LIC: Published Chinese-language edition of *International Defense Review*. 11/86.

Property Development

Holiday Inn Inc. (US) and Lum Chang Investments Ltd. (HK)/Canton Cultural Development Corp. of Canton Cultural Bureau	Holiday Inn will manage Holiday Inn-Canton/City Center Hotel, which will be built and owned by Lum Chang and Chinese partner. 7/86.
Kumagai Gumi Co. Ltd. (Japan/Beijing Jingguang Hotel Co.	Awarded contract to build hotel/apartment/office building "Beijing Jingguang Center." 9/86.
Societe Auxiliaire D'Entreprises (SAE) (France)	Signed contract to build World Trade Center in Beijing. $1.6 billion. 9/86.

Scientific Instruments

Laser Precision (US)/ Beijing Second Optical Co.	Signed contract to supply spectroscopic and related equipment and to transfer technology and training. $1.1 million. 4/86.
Marax (UK)/State Oceanic Administration	Signed contract to supply databuoys. $589,120 (£400,000). 7/86.
DEA Co. (Italy)/China Aeronautical Precision Machinery Research Institute	Supplied technology to produce surveying instruments. 9/86.

Shipping

British Shipbuilders (UK)/ COSCO	Received orders for 2,000 TEU container ships. 7/86.
Canada Steamship Lines/ CITIC	Signed technology agreement to use self-discharging bulk carriers along underdeveloped coastline. 7/86.
Aquamaster Inc. (US)/ Changjiang (Yangtze) Shipping Administration	Received order for propulsion units for coastal and harbor tugs. 9/86.
The Peninsular and Oriental Steam Navigation Co. (P&O) (UK)	Sold bulk carrier. $6 million. 9/86.
Siemens AG (FRG)	Received order for electrical marine equipment. $5.9 million (DM12 million). 9/86.

Telecommunications

Quasar Microwave Technology (UK)	Awarded contract to supply test equipment that directs microwave communications signal between transmitters. 7/86.
AT&T International East Asia, Inc., subs. of AT&T (US)/China Electronic Equipment Systems Engineering Corp., Beijing	Signed contract to supply 52,000-line digital program-controlled exchanges. 8/86.
AT&T International East Asia, Inc., subs. of AT&T (US)/Guangdong Provincial Posts and Telecommunications Administration Bureau and Zhuhai Municipal Government	Signed contract to supply optical fiber communications equipment. 8/86.
Plessey Network and Office Systems Ltd. (UK)/ Shanghai Factory No. 519	Signed agreement to manufacture electronic light emitting devices, effect transistor lasers, and transistors for fiber optic telecommunications. 9/86.
STC Telecommunications, Ltd., subs. of Standard Telephone & Cables Plc (UK)/Shanghai Telecommunications Equipment Factory	Signed 5-year agreement to supply technology to manufacture telecommunications transmissions equipment and to establish telecommunications training program in UK for Chinese personnel. 9/86.
Western Union Telegraph Co. (US)/Great Wall Industry Corp.	Signed reservation agreement to launch satellite before March 1988. 9/86.
(Japan)/Tianjin	Will supply 40,000-line telephone exchange. 10/86.
British Telecommunications Plc (UK)/Zhejiang Province Posts and Telecommunications Administration	Signed letter of intent to help develop telecommunications in Zhejiang and Ningbo, including supplying optical fiber and microwave systems. 10/86.
Cable and Wireless Plc (UK)/Ministry of Posts and Telecommunications	Signed first phase agreement to provide 1,000 km of digital trunk microwave and five long distance toll exchanges linking 27 cities and towns in Jiangsu and Zhejiang. $15-$20 million. 10/86.

Textiles and Textile Plants and Equipment

NA (US)/Zhenhua Weaving Mill in Binhai, Jiangsu	Installed 32 rapier looms. 2/86.
Tsudakoma Industrial Co. Ltd. (Japan)/Zhenhua Weaving Mill in Binhai, Jiangsu	Installed 26 water jet looms. 2/86.
NA (Japan)/Shangrao Woolen Mill, Jiangxi	Put into operation 200 TPY rabbit hair yarn production line. $1.8 million (¥6.7 million). 3/86.
Atsugi Nylon Industrial Co. Ltd. (Japan)/Shanghai Petroleum and Petrochemicals Corp.	Will provide manufacturing facilities and technology to produce pantyhose. 6/86.
Sumitomo Corp., The Sumitomo Bank Ltd., and Naigai Apparel KK (Japan)/Shandong Province and Qingdao Spun and Woven Products Joint Export Corp.	Will supply men's underwear. 6/86.
Tokyo Joki Industrial Co. Ltd. (Japan)/Beijing Clothing Corp.	Will act as consultant for clothing factories. 6/86.
Gemmill & Dunsmore Ltd. (UK)	Supplied yarn machine. 9/86.
Karl Mayer Textilmaschinenfabrik GmbH (FRG)/Changde, Hunan and Wujin, Jiangsu	LIC: Signed agreement to supply two models for tricot and lace machines to be manufactured and sold in China. 9/86.

Transportation and Transportation Equipment

Gerber Scientific Instrument Co. (US)/Changchun Automotive Research Institute and No. 1 Automotive Works in Changchun, Jilin	Will supply drafting and video digitizing system to develop designs for automotive parts and bodies. $450,000. 3/86.
Parkfield Foundries and The General Electric Co. Plc (UK)	Awarded contract to build train engine frames. $1.5 million (£1 million). 4/86.
British Motor Industry Research Association (UK)/No. 2 Automotive Works in Shiyan, Hubei	Will build vehicle testing ground. 6/86.
Nisshin Air Cargo (Japan)/SINOTRANS	Will establish transport business. 6/86.
Rediffusion Simulation (UK) and McDonnell Douglas Corp. (US)/ Shanghai Aviation Industrial Corp.	Awarded contract to supply jet airliner flight simulator as part of Douglas assembly contract to supply 25 jets. 6/86.

London Transport Executive (UK)	Negotiating sale of 1,000 buses. 7/86.
Raba Wagon & Machine Factory (Hungary)	Signed contract to supply 780 26-tonne trucks. 7/86.
General Motors Corp. (US)/Civil Aviation Supply Corp., div. of CAAC, and CAAC Shanghai Administration Bureau	Signed agreement to supply five airplane turbofan engines for Airbus Industrie planes. 8/86.
Polar Trucks (UK)	Received order for cargo truck. 8/86.
A. E. Bearings and Wogen Technology (UK)/China Automobile Parts and Accessories Corp. and Nantong Bearing Factory (NBF)	Signed memorandum of understanding to establish facility at NBF to manufacture plain bearing components and materials. 9/86.
Applied Power Inc. (US)/CATIC	LIC: Negotiating agreement to supply automotive collision repair equipment. 9/86.
Broken Hill Proprietary Ltd. International Group (Australia)/Ministry of Railroads	Received order for 10,000 tonnes of steel rails. 9/86.
ECGD and Dunlop International Projects (UK)	Awarded contract to supply tire factory. $26.5 million (£18 million). 9/86.
METROTEC (UK)/Shanghai Metro Corp.	Reached agreement to produce technical specifications for electromechanical systems for first phase of Shanghai metro system. 9/86.
Mitsukura Boekio Kaisha and Meiji Steel Wire and Rope Co. Ltd. (Japan)/Ministry of Railroads	Signed contract to supply 315 tonnes of steel wire and rope for World Bank-supported Second Railway Project. 9/86.
Qantas Airways (Australia)/CAAC	Awarded contract to provide engineering for CAAC Boeing jets. $12.4 million (A$20 million). 9/86.
(Hungary)/Dalian Bus Plant	Put into operation bus plant production line to produce 3,000 buses annually. 10/86.
(Yugoslavia)	Will supply 500 tourist buses. $23 million. 10/86.
Foreign Trade Rail Vehicle Import/Export Corp. (GDR)/MACHIMPEX and Ministry of Railroads	Signed contract to supply 300 train coaches. $100 million. 10/86.
Nissan Diesel Motor Co. Ltd. (Japan)/No. 2 Automotive Works in Shiyan, Hubei	Will provide expertise in management and quality control for truck production. 10/86.

Miscellaneous

College of Business Administration of Texas A&M University (US)/CNOOC and University of International Business and Economics, Beijing	Signed agreements to foster economic trade and understanding between Texas and China including joint research, management development, and faculty and student exchanges. 10/86.
Flick Pest Control (HK)/Beijing Municipal Patriotic Health Campaign Committee	Signed 3-year technical cooperation agreement to provide know-how and training to control rats and other pests. 10/86.
Oce Nederland BV (Netherlands)	Concluded technology transfer contract to improve quality of Chinese paper. 10/86.

JOINT VENTURES AND DIRECT INVESTMENT THROUGH NOVEMBER 30

Agricultural Commodities

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported
International Trader Co. (US)/Shanghai Municipal Bureau of Aquatic Products	Signed contract establishing Shangxi Co. Ltd. to fish in Alaskan Sea and process fish products. 8/86.

Agricultural Technology

Deutsche Genossenschaftsbank (FRG)/Agricultural Bank of China	Negotiating establishment of agro-technical consulting company. 10/86.

Chemicals and Chemical and Petrochemical Plants and Equipment

M. W. Kellogg Co. (US)/Lanzhou Petrochemical Design Institute, Gansu, subs. of SINOPEC	Established Huakai Engineering Co. to undertake petrochemical, natural gas, light industry, and electric power projects. 4/86.
SCM Corp. and International Enertech (US)/Sichuan Nonferrous Metals Industrial Corp.	Established venture to produce 120,000 TPY of synthetic rutile. 4/86.
Chronar Corp. (US)/Harbin	Will construct and operate silane gas manufacturing facility. 5/86.
Sun Refining and Marketing Co., subs. of Sun Co. Inc. (US)/SINOPEC and Shenzhen	Established China Sun Oil Co. 50,000 TPY blending and packaging plant to produce lubricating oils for vehicle, industrial, and processing uses. $6.5 million. (US:45%-PRC:55%). 6/86.
Invest SpA (Italy)/China Northwestern Paint Co. and Shenzhen SEZ Development Co.	Signed joint-venture contract to build two factories, one at Lanzhou and one at Shenzhen, to produce anticorrosive industrial paints and emulsion paints used in construction. $9 million. 9/86.
Petro-Chem Development Co. (US)/China International Petrochemical Co.	Signed agreement to jointly produce heating styrene equipment for Yanshan and Qilu Petrochemical Corps. 9/86.

Construction Materials and Equipment

NA (Australia) and NA (HK)/Industrial Development Corp. of Guangzhou Economic and Technological Development Zone	Established Guangzhou Baili Industrial Co. Ltd. to handle steel and plastics building and packaging materials. 5/86.
Ka Wah Quarry Co. Ltd. (HK)/Guangdong Zhenxing Agriculture-Industry-Commerce Associated Enterprises Co. and Zhuhai Dangan District Haidao Economic Development Co.	Reached 15-year agreement to jointly manage Zhuhai Dangan Wailingding Quarry. $2.3 million (HK$18 million-HK investment). 8/86.
Seribo Corp. (France)/Hejiang Forestry Administration of Heilongjiang	Signed 15-year agreement to jointly manage Helin Furniture Co. Ltd. to produce shaving boards. $20.2 million (¥75 million). (F:71%-PRC:29%). 8/86.

Consumer Goods

NA (HK)/Changzheng Leather Factory	Established Lianfa Shoes Co. Ltd. to produce leather shoes. $1 million. (50-50). 7/86.
Tambrands Inc. (US)/Liaoning	Established Shenyang Tambrands Co. Ltd. to produce tampons. (US:60%-PRC:40%). 8/86.
NA (US)/Gushan Indoor Decoration Factory in Jiangyin, Jiangsu	Signed technological cooperation contract to jointly produce bedding and bedspreads. 9/86.
Dalian International Development Co. Ltd. (HK)/Dalian Pulan Rubber Plant and China National Light Industrial Products Import/Export Corp., Dalian Branch	Signed joint venture contract to build rubber shoes factory. 10/86.

Electronics and Electrical Equipment

Kexi Co. Ltd. (Japan)/Tianjin Economic and Technological Development Zone Co.	Signed contract to jointly finance and operate Tianjin (Kexi) Co. Ltd. to produce and develop computer peripherals and accessories and plasma cutting and welding devices. 1/86.
B&F Co. (US)/Guangdong Foshan Science and Technology Development Co. and Gas Turbine Research Institute of Ministry of Aeronautics Industry	Put into operation Fofei Data Collecting and Controlling Co. Ltd. to provide data service system services. 5/86.

Intec Inc. (Japan)/Academy of Sciences Computer Center	Concluded basic agreement to train Chinese computer experts and to jointly develop software. 6/86.
Wa Fong Co. (HK)/Tianjin Boda Development Co.	Put into operation Boda Mini-Bulbs Factory joint venture. 6/86.
NA (HK)/Hai Yi Trading Co., Hainan, subs. of Rich Island Enterprises Ltd.	Put into operation joint venture plant to produce electronic components. (HK:20%-PRC:80%). 8/86.
Applied Materials, Inc. (US)/MEI and China National Electronics Import/Export Corp.	Opened Applied Materials-China Service Center in Beijing to install and service Applied Materials semiconductor production systems. 9/86.
Printronics China Ltd. (Australia)/Shanghai No. 20 Radio Factory	Signed contract establishing Shanghai-Printronics Circuit Boards Co. to produce 30,000 sq. meters of double-sided circuit and multi-layer boards annually. 9/86.
Total Technical Services Inc. (US)/Beijing ITIC and Beijing Institute of Aeronautics and Astronautics	Signed final agreement establishing Total Technical Services Eastern Inc. to provide computer services including installation, maintenance, reconfiguration, spare parts, software, consulting, and technical training. (50-50). 9/86.
Wang Computer China Ltd., subs. of Wang Laboratories (US)/Shanghai Computer Industry Co.	Signed 15-year contract establishing Shanghai Computer Corp. to produce VS minicomputers and workstation product lines. $6 million. (US:60%-PRC:40%). 10/86.

Electronics (Consumer)

Corning Glass Works (US)/MEI, China National Electronics Development Corp., China Electronics Engineering Development Corp., and Shaanxi Color Picture Tube Complex	Signed agreement establishing Sino-American Glass Engineering Co. to produce glassware for TV picture tubes at three plants: two in Shijiazhuang, Hebei and the other in Xi'an. (50-50). 10/86.

Engineering and Construction

CCI Co. (Japan)/Beijing Tourist Co. and Beijing No. 1 Construction Engineering Co.	Constructing Chang Fu Gong Center joint venture designed by Beijing Construction Designing Institute, Takenaka Komuten Co. Ltd., and Ohbayashi Gumi Ltd. 8/86.
Turner Group (Australia)/China International Engineering Consulting Corp.	Signed agreement to jointly provide consultation for construction projects. 9/86.

Finance, Leasing, and Insurance

Taiyo Kobe Bank Ltd., Kanematsu-Gosho ltd., and Orient Leasing Co. (Japan) and Gatx Leasing Corp. (US)/Tianjin ITIC and four other Chinese government organizations	Signed agreement establishing Tianjin International Leasing Co. to lease machines and equipment. $5 million. (50-50). 7/86.
Wah Kwong and Amex Asia (HK)/CITIC	Signed joint venture agreement. 9/86.

Food Processing and Food Service

NA (US)/Dongnan Prefecture Cereals and Edible Oil Corp., Guizhou	Signed letter of intent to jointly develop edible oil resources. 3/86.
NA (Japan)/Zhigu Brewery of Tianjin Tobacco and Liquor Corp.	Began producing "Weilin" cooking wine under 10-year cooperation agreement with two Japanese companies. 4/86.
People's Trade Co. (US)/Guiyang Yangguan Winery, Guizhou	Reached agreement to jointly operate Guiyang Yangguang Deng Winery. 4/86.
Shimizu Aquatic Products Corp. (Japan)/Dalian Sea Fishery Co.	Opened 15-year venture Dalian-Shimizu Co. Ltd. Restaurant to provide sea products. 4/86.
NA (FRG)/Wuhan General Brewery	Signed 15-year contract establishing Wuhan Changjiang (Yangtze) Beer Co. Ltd. to produce 100,000 TPY of beer. 5/86.
The Coca-Cola Co. (US)/Ministry of Light Industry	Planning to set up joint-venture factory in Tianjin to produce ingredients for two soft drinks. 7/86.
Hong Kong Dairy Farm Co. Ltd./Guangzhou People's Foodstuffs Factory and Guangdong International Foodstuffs Co. Ltd.	Signed contract establishing Guangzhou Cold Foods Co. Ltd. to produce 5,000 tonnes of ice cream annually. $10.8 million (HK$84 million). (HK:30%-GPFF:50%-GIFCL:20%). 7/86.
Sanmei Tea Co. Ltd. (Japan)/Zhejiang Tea Co. Ltd. and Hangzhou Tea Experimentation Center	Opened Zhejiang Sanming Tea Co. Ltd. to produce and sell steamed green tea. Registered Capital: $800,000. 7/86.
Baker Perkins Holdings Plc and United Biscuits (Holdings) Plc (UK)/Shanghai Food Research Institute	Signed memorandum of understanding for joint research and development in technology and recipes to produce canned baby foods and sources of protein, minerals, and vitamins. 9/86.
Pacific-Atlantic Trading Co. Inc. (US)/Zhaoqing Brewery	Established joint venture to own and operate reconstructed Pabst breweries. 9/86.
Sanyo Electric Co. Ltd. (Japan)/Yingkou, Liaoning	Put into operation refrigerator production line to produce 100,000 units annually. $4.1 million (¥15.2 million). 9/86.
Tokyo-Maruichi Shoji Co. Ltd. and Itoh Gardening Corp. (Japan)/Fujian Provincial Tea Import/Export Branch Co. and Fuzhou Pharmaceutical Plant	Jointly developed concentrated Wulong tea. 9/86.
Xingjing Co. and Hong Kong Ruilan Co. (HK)/Longyingwei Prawn Breeding Farm in Lianjiang County, Guangdong	Put into operation Longxing Aquatic Products Enterprise Co. Ltd. prawn farm. $1.9 million. 9/86.
(NA) Japan	Opened Tianshan Pharmaceutical Industrial Co. Ltd. joint venture to produce sweeteners. 10/86.
Daily Tour Co. (Singapore) and Hong Kong Champion Beer/Huangdao Economic Development Zone, Qingdao	Constructing brewery to produce Tsingtao Beer. $50 million. 10/86.
Eleester Oy (Finland)/Hangu Farm, Hebei	Reached agreement in principle establishing 25-year joint venture to produce equipment to process and bag sterilized milk including producing electric ultra-temperature sterilizers. $1 million. (FIN:51%-PRC:49%). 10/86.

Machine Tools and Machinery

APV (Asia) Ltd., subs. of APV Holdings Plc (UK)/Shanghai No. 2 Chemical Machinery Works and Shanghai Chemical Equipment Industries Corp.	Signed feasibility study agreement to establish joint venture company to manufacture plate-type heat exchangers. 9/86.
Foseco International Ltd., subs. of Foseco Minisep Plc (UK)/Shanghai Machine Building Institute of Technology	LIC: Opened Shanghai Service Center to produce foundry products. 9/86.
Morgan Crucible Group (UK)/Dalian Refractory Co.	Signed joint venture contract to produce 50,000 tonnes of castable and mouldable refractory materials annually. 9/86.
My Co. (US)/Shenyang Wood-Working Machinery Plant	Will jointly manufacture wood-working machine tools. 9/86.

Medical Equipment and Supplies

Macao Wufu Import/Export Co. Ltd./Zhuhai City Import/Export Corp.	Put into operation Xingfu Syringe Factory joint venture to produce 30 million plastic syringes annually. $2.5 million. 6/86.
NA (Japan)/Shanghai Export/Commodity Base Construction Co. and Nanhui Zhuqiao Industrial Co., Shanghai	Put into operation Huge Tooth Material Co. Ltd. joint venture to produce plastic teeth. 7/86.
Medica Corp. (US)/Shanghai Medical Factory	Signed 7-year joint venture agreement to produce sodium/potassium analyzers. 9/86.

Metals, Minerals, and Processing Technology

NA (US)/Zhejiang Ningbo Metals Valve Factory and MINMETALS	Signed 15-year agreement establishing Ningbo Valve Co. Ltd. to produce alloy copper valves and pipe components. $4.7 million (US:30%-PRC:70%). 3/86.
Nippon Light Metal Co. Ltd. (Japan) and Alcan Aluminum Ltd. (Canada)/ China National Nonferrous Metals Industry	Signed agreement establishing Nonfemet International Aluminum Co. Ltd. in Shenzhen to produce 5,000 TPY aluminum extrusions. (NLMCL & AAL:45%-PRC:55%). 8/86.
Daishio Corp. (Japan)/ Shenyang Enamelware Factory and Shenyang ITIC	Established Shenzhou Stainless Steel Products Co. Ltd. to produce 80,000 sets of stainless steel kitchen utensils annually. $7.9 million. (50-50). 9/86.
Shichester Diamond Services Ltd., subs. of De Beers Consolidated Mines Ltd. (South Africa)/ Shandong	Established joint venture to prospect for diamonds. 9/86.

Packaging Equipment

NA (Australia) and NA (HK)/Industrial Development Corp. of Guangzhou Economic and Technological Development Zone	Established Guangzhou Baili Industrial Co. Ltd. to handle steel and plastics building and packaging materials. 5/86.
W. R. Grace & Co. (US)/ Minhang Economic and Technical Development Zone, Shanghai	Will set up wholly foreign-owned enterprise, Grace China Ltd., to produce 1,600 TPY of sealant for Chinese canned food producers. Registered Capital: $650,000. 10/86.

Petroleum, Natural Gas, and Related Equipment

Submersible Television Surveys Ltd. (UK)/Jia Feng Ltd., Shekou	Formed STS Jia Feng Ltd. (50-50). 7/86.
Amoco Orient Petroleum Co., subs. of Amoco Production Co. (US)/CNOOC	Signed contract to explore and develop petroleum resources in South China Sea. 9/86.
Huanan Oil Development Co. Ltd. and Japex Nanhai Ltd. (Japan)/ CNOOC	Signed contract to carry out geophysical surveys in Kaiping area of Pearl River Mouth Basin in South China Sea. 10/86.
Pipeline Engineering GmbH, subs. of Ruhrgas AG (FRG)/China Offshore Oil Development Engineering Corp. of CNOOC and Pipeline Survey & Design Institute of Ministry of Petroleum Industry	Signed contract to provide basic engineering for natural gas pipeline linking Yacheng field in South China Sea with mainland coast. 10/86.

Pharmaceuticals

Master Builders Association of Malaysia/Fujian Petrochemical Industry Co.	Signed letter of intent to establish jont venture to extract barium products. 10/86.

Printing Equipment, Publishing, and Broadcasting

Japan Printing Ink Co. Ltd./Shenzhen Light Industry Co.	Began construction of Shenzhen-Japan Printing Ink Co. Ltd. to produce printing ink, viscose, and other products. $4.5 million (50-50). 3/86.
Jardine Printing (China) Co. Ltd. (HK)/China Cultural Relics Publishing House and China Foreign Economic and Trade Consultation Co.	Established 11-year venture Wen-Jardines Printing Co. Ltd. 7/86.
(Singapore)	Signed memorandum to jointly introduce China and Singapore to other countries through joint media development and exchange. $200,000 (50-50). 10/86.

Property Development

Scan Dev A/S (Norway)/ Hua Yuan Economic Development Co.	Signed joint venture agreement to build and operate a commercial center in Beijing. $54.5 million (NK400 million). 5/86.
NA (Singapore)/Shanghai Xincheng Real Estate Co. and Zhonghua Enterprise Co.	Began construction of Mahua Mansion commercial housing project. 6/86.
Liu Yuming Industrial Co. Ltd. (HK)/Aijian Co. in Wuxi, Jiangsu	Signed contract to jointly build Huangdu Hotel. 6/86.
NA (HK)/Yunnan	Began construction of Yunnan Tower Co. Ltd. joint venture in Shenzhen. $8.1 million (¥30 million). 9/86.
Qinhuangdao Development Co. Ltd. (HK)/ Beidaihe Tourism Construction and Development Corp., Qinhuangdao	Constructing Bohai Villas. $13 million. 9/86.
Societe de realisation et d'etudes pour le developpement industriel et commercial (France)/ Beidaihe Tourism Construction and Development Corp., Qinhuangdao	Constructing joint hotel. $5 million. 9/86.
Solid Co. (US) and NA (Japan)/Beijing Yanjing Economic Development Co. and Beijing Trust and Consultant Co.	Agreed to jointly build Beijing Jingdu Hotel. $50 million. 9/86.
Taishan Trading Co. (HK)/Shanxi Provincial Tourist Bureau	Began 12-year venture to construct Shanxi Hotel. $8 million. (HK:20%-PRC:80%). 9/86.
NA (US)/NA (Shanghai, Xuhui District)	Will jointly construct hotel/office/apartment building. $60 million. 10/86.
Axiom International Development Corp. (US)/ Tian Lun Service Corp. and Beijing ITIC	Signed 18-and-a-half year contract establishing Beijing Tian Lun Hotel Co. to build hotel near Tiananmen Square in Beijing. $47.6 million. (US:40%-TLSC:50%-BITIC:10%). 10/86.
Sheraton Corp. (US)/ Fiteng Enterprise Ltd. of Xi'an, CITIC, and Shortridge Ltd., subs. of CITIC	Signed preliminary agreement to jointly develop 500-room hotel. $30 million. 10/86.

Scientific Instruments

Yokoga Electrical Machinery Co. Ltd. (Japan)/ Xi'an Instrument Factory	Put into operation 30-year joint venture Xi'an Instrument and Yokoga Control System Co. Ltd. to produce automatic instruments. $4 million. (50-50). 7/86.

Shipping

Duisburg Chinatrans Gesellschaft fur Schiffahrt und Handel GmbH (FRG)/Changjiang (Yangtze) Shipping Administration	Established Yangtze-Rhine Economic and Technical Cooperation Co. Ltd. in Wuhan, Hubei to promote exchanges of information on inland shipping technology. 6/86.
Kaukomarkkinat and Hollming Oy (Finland)	Negotiating joint venture propeller factory. 9/86.

Telecommunications

Philips Telecommunications and Data Systems, div. of Philips Hong Kong Ltd.	Finalizing two joint ventures to establish private automatic branch exchange (PABX) factory and optical cables and related components factory. $72.2 million. (50-50). 3/86.
Dadong Telegraph Bureau (HK)/Guangdong Provincial Posts and Telecommunications Administrative Bureau	Will jointly construct Guangdong-Hong Kong optical fiber cable. 7/86.
Plessey Network and Office Systems Ltd. (UK)/ Shanghai Posts and Telecommunications Factory No. 520	Signed agreement to establish service, maintenance, and technical development center for Plessey equipment. 9/86.
Wing Kuen Holdings (Canada)/Guangzhou Provincial Posts and Telecommunications Administrative Bureau and Guangzhou Advertising Corp.	Will install 300 computerized telephone sets and public telephone boxes. $1.2 million. 9/86.

Cable & Wireless Plc (UK)/Shanghai	Signed agreement to conduct joint feasibility studies to identify telecommunications infrastructure projects for Yangtze delta area. 10/86.
Siemens AG (FRG)/ Nantong Computer Industry Corp. (Jiangsu) and China National Electronics Import/Export Corp., Shanghai Branch	Signed initial 10-year agreement to coproduce exchanges and telephones. 10/86.

Textiles and Textile Plants and Equipment

Gong Peilan (HK citizen)/ Yantai	Put into operation Huarong Garment Factory to produce "Baiyang" shirts and blouses. $215,831 (¥800,000). (HK:25%-PRC:75%). 5/86.
McQuarry Woolen Textile Group Ltd. (Australia)/Zhangzhou Ramie Textile Mill	Put into operation Zhangzhou International Woolen Textile Co. Ltd. $2.8 million. 5/86.
Ande Co. Ltd. (HK)/ Huashan Leather Products Factory in Kunming, Yunnan	Put into operation Kunan Co. Zipper Factory to produce 3 million sq. meters of nylon zippers annually. (HK:35%-PRC:65%). 6/86.
Global Textile Co. Ltd. (US)/Xinjiang Uygur Autonomous Region	Signed agreement to build textile mill in Urumqi to produce 5.2 million meters of grey and printed cloth and 260 tonnes of fine cotton yarn annually. $40 million. (US:40%-PRC:60%). 7/86.
Junko Koshino Designing Corp. (Japan)/Beijing Clothing Industrial Co.	Signed 1-year agreement establishing Beijing Junko Koshino Shop to exhibit and sell foreign clothes. $161,873 (¥600,000). (50-50). 7/86.
NA (HK)/Dalian International Development Co. Ltd., China National Textiles Import/Export Corp., Economic and Technical Cooperation Co. of the Development District, Dalian Branch, and Jinzhou Textiles Factory	Signed contract to construct woolen garment factory. $9.9 million. (HK:30%-DIDCL:25%-Other:45%). 8/86.
OS International Co. (US)/Yunnan Textiles Import/Export Corp.	Will provide equipment to jointly produce organdy socks. 9/86.
HM Transworld Textiles (JV of Transworld) (US) and Hanae Mori (Japan)/ Beijing Wool and Knitwear Corp. of Beijing ITIC	Signed contract establishing MTEX to produce cashmere, rabbit-hair, and camel-hair sweaters. (Yarn and sweater parts produced in China, then shipped to MTEX of Puerto Rico for completion.) $5 million. (US:30%-PRC:70%). 10/86.

Transportation and Transportation Equipment

Dah Chong (China) Motor Service Center Ltd. (HK)/Beijing Industrial Mapping Corp. and CITIC	Opened Beijing-Dah Chong Joint Venture Motor Service Ltd. to repair automobiles. $3 million. 6/86.
Suzuki Motor Co. Ltd. and Okayakoki Corp. (Japan)/Supply-Market Co. Northwest Branch of Ministry of Aeronautics Industry and CATIC	Jointly established Xi'an Zhonghang Suzuki Automobile and Motorcycle Servicing and Testing Center. 7/86.
NA (HK)/Rich Island Enterprises Ltd., Hainan	Signed joint venture agreement for plant to produce ignition coils for cars. $600,000. 8/86.
Abex Corp., subs. of IC Industries Inc. (US)/ Shanghai Crane and Transport Machinery Plant	Put into operation jointly produced boarding bridge at Xiamen International Airport. 8/86.
OS International Co. (US)/Yunnan	Will cooperate in producing special purpose motor vehicles, fire engines, engineering trucks, and military vehicles. 9/86.
Zung Fu Co. Ltd., subs. of Jardine Matheson & Co. Ltd. (HK)/China National Automotive Industry Corp. (CNAIC) and People's Insurance Co. of China	Opened San Lian Automotive Services Technical Co. Ltd. joint venture to maintain, renovate, and offer technical advice on imported vehicles from Western Europe, Japan, and US. $809,367 (¥3 million). (33.3-33.3-33.3). 10/86.

Miscellaneous

Daya Trading Co., Yasuda Fire & Marine Insurance Co. Ltd., and Industrial Bank of Japan (Japan)/CITIC	Established Daya International Industry Co. to provide industrial plants in exchange for products. $13.5 million (¥50 million). (DTC: 36%-YFMICL:10%-IBJ:5%-CITIC:49%). 9/86.
Great Wall Trains Ltd. (HK)/Beijing Travel and Tourism Corp. and Tourism Service Co. of Huairou County	Constructing cableway at Mutianyu Section of Great Wall. $6.2 million (¥23 million). 10/86.
World Trading and Shipping (UK)/China International Center and Kang Hua Industrial Co., Beijing	Formed joint venture trading company. (50-50). 10/86.

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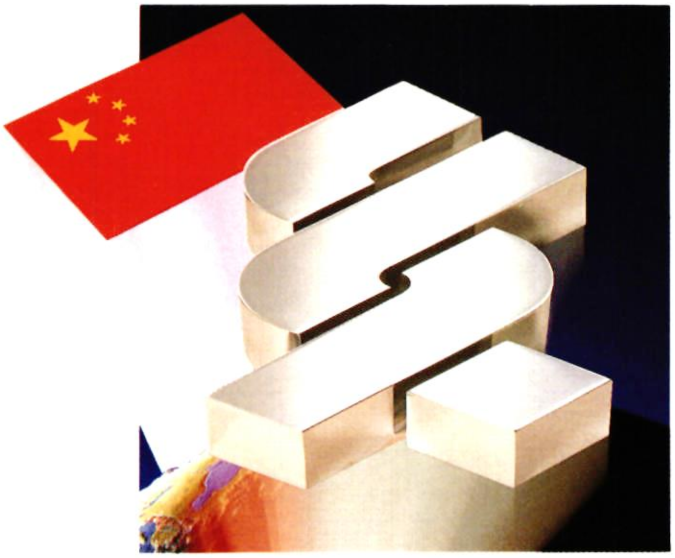

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