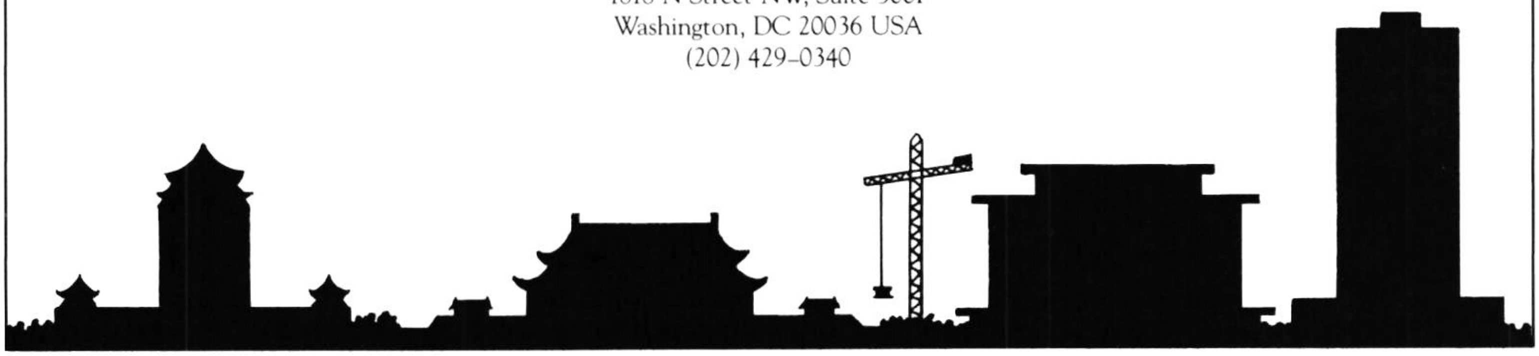
The China Business Review

THE MAGAZINE OF THE NATIONAL COUNCIL FOR US-CHINA TRADE
January–February 1988

Meat for the masses



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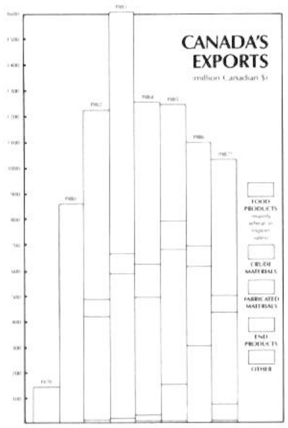
Cover: China is importing animals, embryos, and artificial insemination technology to modernize its animal husbandry sector. *Photo by Tom Nebbia.*



Canada–China trade: Canadian government support may help Canada boost it's two-way trade with China from the C$1.25 billion total registered in 1986. **Page 10.**

Lending to China: Whether the prospective borrower is a domestic or foreign-invested enterprise can make a big difference. **Page 40.**

Departments

WHAT PRICE, REFORM?

Back in January 1986, Vice Premier Tian Jiyun told a gathering of leading Party and government officials that, "The reform of China's price system represents a key to the success or failure of the nation's entire economic reform." Much has changed since then. Since last year, and especially in the aftermath of October's 13th Party Congress, price reform is no longer an urgent priority. Instead, enterprise reform has recaptured the number-one spot.

Have Chinese leaders lost their nerve, or have those in favor of more gradual price reform initiatives simply won the day? The answer seems to be: a little bit of both.

Chinese officials have been peering nervously over their shoulders at Eastern Europe, where price reform experiments have provoked protests and even rioting in the streets. Worried that bold experiments at home could prompt similar outcry, China's economic planners have called for a ceiling on spiraling vegetable prices and reimposed rationing in Beijing, Shanghai, and Tianjin to ensure that everyone gets at least some highly priced pork and sugar, currently in extremely short supply.

There are also a number of economic reasons, some sounder than others, for a go-slow policy on price reforms. Some economists argue that price decontrol measures introduced in 1985 have thus far failed to do the expected: eliminate the shoddy supplier and boost the supply of goods by encouraging intense competition in the marketplace. The main factor holding back progress, as these economists see it, is the continued lack of managerial autonomy.

As things now stand, the official plan is to curb inflation by dramatically increasing the supply of agricultural and light industrial products, cutting back still further on all but the most necessary capital construction projects, and tightening the money supply. Chinese officials say all this will keep inflation at or below 6 percent, but Western sources believe the actual inflation rate has been—and will continue to be—much higher.

When the next step in price reform takes place, it will probably affect products that Beijing is confident are already close to meeting demand. Decontrolling prices on the most essential raw materials and consumer goods may well remain more than a decade away.

Thus, in the current climate of fiscal conservatism, economists are likely to harp on the theme of managerial reform as a necessary prerequisite to price reform, even if they have their doubts. But sooner or later, the realization is likely to dawn once again that, to be most effective, enterprise reform and price reform must go hand in hand. —DDK

THE TRADE BILL'S ROCKY ROAD

The much ballyhooed US trade bill is sick and may be dying. Events ranging from the budget summit to holiday recesses have combined to keep Congress from getting a final version of the bill out of conference. The goal of passing the bill "by Thanksgiving" gave way to "by Christmas," and a vote does not now appear likely until March, if at all.

Popular support is dwindling as the bill looks more and more like a vehicle for partisan politics. The Democrats initially included protectionist provisions in an attempt to embarrass the Reagan administration for not doing more to help domestic industry, but as the 1988 elections loom closer this strategy is beginning to backfire. Protectionism sells well locally (witness the bill's parochial efforts to shield lamb and sugar industries) but is unpopular nationally, where efforts to shield American workers from foreign competition are perceived as making US industry lazy and less competitive, thereby indirectly contributing to the trade deficit.

Chinese officials are monitoring the progress of the bill with great interest and—fortunately—little hysteria. The past year has seen a vast improvement in China's ability to discern which pieces of legislation to take seriously, and which are merely political hype destined either never to reach a vote or to be vetoed by the president. They have thus not been sidetracked by provisions in the trade bill such as that on workers' rights, which is so riddled with loopholes as to be inconsequential. Instead they have focused on the practical matter of revising the trade bill's dumping provision, which dictates how the administration will determine whether foreign goods are being sold on the US market for less than fair market value. In November, for example, the Chinese embassy's Commercial Counselor Huang Wenjun made his first speech on the Hill, when he presented the Chinese perspective on the trade bill's dumping provisions to the Senate's China Trade Caucus. China is expected to continue pushing its views on this issue whether the trade bill becomes law or history later this year. —Karen Green

ATMOSPHERIC ISSUES

A new zone appears to have caught the attention of Chinese planners: the ozone. Concentrated in the upper part of the earth's atmosphere, the ozone layer is being slowly eaten away by the action of man-made chemicals. This process allows harmful ultraviolet rays to reach the earth's surface and also contributes to the greenhouse effect, a dangerous global warming trend that threatens to change the earth's climate.

Qu Geping, who directs China's National Environmental Protection Agency, told American scientists last fall that problems caused by atmospheric pollution, including ozone depletion, the greenhouse effect, and acid rain, are now a top priority on China's environmental agenda.

This came as welcome news, since until recently China has felt these problems should be left to the developed countries to solve.

On a per capita basis China is not yet a major user of chlorofluorocarbons, or CFCs, a family of industrial chemicals that is one of the major culprits in ozone depletion. These compounds are most commonly used in refrigerating and air conditioning systems, foam products for food packaging and furniture, and certain types of chemical solvents. According to Irving Mintzer of the World Resources Institute, while the US and the European Economic Community consume an average of about 1 kilogram of CFC's per capita each year, China uses less than one-tenth of this amount. But as China modernizes, its appetite for CFCs is expected to grow rapidly.

Fortunately there are ways to minimize the harm done by CFCs. As more and more Chinese families purchase small refrigerators, for example, the use of less harmful formulations of CFCs in the refrigerator coils could lessen the environmental damage considerably. American firms in this area hope that China will take advantage of the fact that these new technologies are particularly cost-effective when used in smaller refrigerators. And these new technologies may place less of a strain on China's energy supply, helping to offset their costs in the long run.

The greenhouse effect is a closely related problem. CFCs, and carbon dioxide released when fossil fuels are burned or biomass materials decay, trap infrared rays in the lower atmosphere, where they eventually warm the earth and threaten to alter climatic patterns. China is already making an important contribution to slowing the build up of greenhouse gases through its massive reforestation efforts, since young growing trees remove carbon dioxide from the air. If China were to minimize its use of coal by improving the efficiency of coal-burning stoves and rationalizing energy use in industry, it would have an even bigger impact.

While such changes will come only gradually, there are numerous signs that China is now taking these atmospheric problems seriously. Last September China ratified its first air pollution law, which goes into effect in June. Qu Geping also visited the United States last September and signed a cooperative agreement on environmental management issues, which is expected to include the study of ozone depletion and global warming. And while China did not send an official delegation to last fall's United Nations-sponsored conference in Montreal, at which 24 nations agreed in principle on steps to reduce the production of CFCs, scientists hope China will be persuaded to sign the treaty drawn up by the conferees. Developing countries like China are granted a major concession in the treaty, which exempts them from some of the controls on production and use of the cheaper—and more dangerous—CFCs for up to a decade. Thus, China could sign the treaty now but continue to increase its use of these compounds while safer substitutes are developed. In the long run, however, all signatories will be striving to lower their production of the most dangerous CFCs to half of 1986 levels by the turn of the century. —MCR

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I. Business Traveler on Tour

Karen Green

My colleagues were incredulous, my family puzzled, when I announced I was going on vacation in China. After all, I travel there often enough on business. Worse yet, I was planning a package tour which, to the seasoned traveler, may not seem the ideal vacation. Why choose to be shepherded around China in a nine-cities-in-eleven-days-type tour when you could be basking on the beaches of Hawaii in half the flight time?

Despite all the arguments against it, I spent three weeks last June on a package tour of China—and loved it. It was another China; convenient, comfortable, clean. Even better, it was unceasingly friendly. Let's face it, business always has an element of the adversarial, and if your patience with China is wearing thin, nothing restores it like a pleasure trip.

For the frequent business traveler, a China trip need not be expensive. My airfare was covered by accumulated free flight coupons. And I took advantage of one of the land-only packages many tour operators offer. The price of 22 days in China and Hong Kong came to roughly $100 per person per day, all-inclusive.

The package tour has gotten a bum rap, at least in China. The alternative—a "do it yourself" vacation—has some pluses but it's not easy (*see* p. 7). My prior attempts to travel independently in China resulted in seemingly endless hours in line at city branches of China International Travel Service (CITS) and the Civil Aviation Administration of China (CAAC), faced with the anxiety of not knowing how I would get to the next city or where I would stay when I got there. On this trip, I wanted to show my best friend as much of China as possible in three weeks. I quickly realized that given the busy itinerary we envisioned, going it alone would mean sitting in a costly taxi following a tour bus to the same destinations.

Hotel hassles minimized

When traveling to China for business, I can usually get a hotel reservation, although frequently not at centrally located, first-class hotels. While the situation for the individual traveler is improving as new and better hotels open, being part of a group has always carried more clout. Chinese hotels have been known to bump individual and business travelers when they overbook so as not to inconvenience a group and anger the tour wholesalers who bring numerous groups into their facilities.

On the group tour we were always housed in centrally located, good quality hotels. In fact, throughout the tour we had little trouble with accommodations, except at the Suzhou Hotel. There the group was given musty, old, and rather ill-furnished rooms—in short, the rooms one gets everywhere in China outside the major tourist cities. But it wasn't the rooms that upset the group as much as the scam the hotel perpetrated. Once we had carried our bags to the third floor (no elevator) and gone to lunch (in the modern new wing), the hotel staff informed our guide that, in fact, there were plenty of rooms available in the new wing and that, by paying an additional $10 per room, we could upgrade. We all did so, but not happily.

The only thefts also took place in Suzhou. Some $60 in cash disappeared from my hotel room, while in another room a bag of small trinkets such as pens and candy were stolen. Although nothing was taken in Xi'an, we were made to understand that the Tangcheng Hotel staff had quite a reputation for stealing. Clearly, China is no longer a place you can leave valuables strewn about your room without a second thought.

Flexible schedules, helpful guides

For me, package tours of China conjured up an image of a group leader charging up the Great Wall, flag in one hand, bullhorn in the other. Not so. Although package tours are carefully prearranged, they are by no means as restrictive as commonly imagined. Indeed, the only time we were required to travel with the group was between cities. Tour members sometimes chose to pursue specific interests on their own or simply to relax. All that was asked of us was to inform the guide in advance.

I had previously traveled to eight of the 10 cities on our itinerary on business and was looking forward to revisiting the sites from a new perspective. Much to my surprise, I was taken to places that I had not seen before in each city we toured.

On the way to each site, the tour director or local CITS guide provided an introduction to what we were about to see. Upon arrival we were turned loose to explore on our own. We had the best of both worlds—the hassle-free arrangements of a group tour and the freedom to pursue individual interests.

For those who preferred more of a structured tour at each site, guides were available to provide it. Indeed, the guide-to-tourist ratio on our trip was one to seven; three guides for a group of 21. The tour company furnishes a guide, and the Chinese provide both a national guide to accompany the group throughout China and a local guide in each city. The national guide is generally superflu-

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ous—the local guide takes care of arrangements in each city and the company guide stays with the group from start to finish. In our case, however, the national guide made himself welcome by helping the company guide negotiate better treatment from local establishments, escorting a group member to the dentist, and teaching us Chinese card games. With guides, as with hotels, groups often fare better than single travelers. On previous independent trips, the guides I retained varied enormously in their knowledge of Chinese history and English.

The business traveler who is already familiar with China and its culture will be appreciated for enriching the trip for his fellow travelers. Group members enjoy the anecdotes, fast facts, chopstick lessons, and shopping hints. But exercise restraint (and apply your knowledge of Chinese culture); don't cause the guides to lose face by contributing your version of history or economics unless expressly requested to do so. Furthermore, by acting too much the guide, you may be perceived as one—and find yourself asked to straighten out a bill, communicate with the laundry attendant, and do other tasks you took a tour to avoid!

Beyond the bus

The bird's eye view from the tour bus has merits of its own, but it does obscure some of the local color. To really appreciate the unique qualities of each city, group travelers should take advantage of free time to rent bikes. We spent one evening with Chinese friends from my expat days in their Beijing apartment, but unfortunately most group travelers have no such opportunity. The Chinese are aware that foreign guests enjoy visiting local homes, and it would not hurt to ask the tour company guide early on to try and arrange such a visit during your stay.

Some branches of CITS are more amenable to these special requests than others. Wuxi was a favorite among my group for providing visits to a traditional Chinese hospital and a pig farm. The special service provided by the Wuxi CITS has not gone unnoticed. The branch was rated number-one among local CITS offices in 1986.

Other drawbacks of China travel are not so easily overcome. On tour, just as in a banquet with Chinese business associates, you have no control over the menu. And while the food provided to group travelers has improved considerably in the last few years, it still suffers from a drab sameness. Since many foreigners are unaccustomed to Chinese food and dread the unfamiliar, the cuisine dished out to tour groups varies little: regional specialties are largely ignored as, unfortunately, are dietary restrictions. Despite repeated discussions with our guides, the handful of tour members who did not eat pork found themselves going hungry on occasion. Of course individual diners don't fare well either. Not only do they miss out on the variety inherent in Chinese group dining, but they also receive short shrift on service.

Despite the lackluster cuisine, I highly recommend group tours to business travelers who want to vacation in China with friends or family. Package travel left me free to enjoy China without serving as a full-time travel agent throughout the trip. In a country that does not provide round trip or ongoing flight reservations and where the majority of hotels will not confirm reservations, this is no small blessing. Try it, you'll like it!

II. Independent Traveler Goes Further Afield

Alan DeHarpport

China began slowly easing travel restrictions for foreign tourists in 1978, but in the last two years many more cities have become accessible to foreigners without a special "Alien Travel Permit" from the Public Security Bureau. In February 1985 the number of open cities jumped from 103 to 257, and in August 1987 the number nearly doubled again, reaching 452.

Alan DeHarpport is publications sales manager at the National Council for US–China Trade.

Some of the newly opened areas include the ancient silk road in Gansu Province, remote areas of Tibet and Xinjiang, and various autonomous counties with their minority populations. If you take a standard package tour, you are unlikely to get near any of these sites. To get there, you must venture off on your own, often into territory not even discussed in the most recent China guidebooks.

The pros and cons of independent travel

Seeing China on your own lets you enjoy the landscape at your own pace, go exactly where you want, choose your mode of transportation, and have more direct contact with friendly local residents. Individual travel can also cost significantly less than package tours.

Be forewarned, however, that the benefits do not always outweigh the frustrations. The language barrier, long ticket lines, overcrowded buses, spartan accommodations, and overly curious crowds can wear down even the most seasoned traveler.

Potentially even more frustrating is the conflicting information given by different Chinese organizations. Public Security Bureaus in different cities sometimes disagree on whether a certain area is open or closed to foreign travelers. And CITS has been known to tell independent travelers that, for example, public transportation is not available to their intended destination, and that they must take a more expensive taxi or tourist bus. A trip to the bus depot may sometimes prove otherwise, however.

Individual travel in China to places off the tour circuit is only for the adventurous. Individual travelers are stared at and touched (especially if they have light hair), while their possessions (such as cameras and Walkmans) are inspected by curious Chinese. At first, it may even be fun to be the center of attention. But as time passes, the novelty of being a walking one-man show wears off. And it's best not to be squeamish: you may also have to contend with open holes for toilets, previously used chopsticks, spitting, and intense overcrowding in almost every city.

Still, for the business traveler with a good bit of time to spare, independent travel is certainly worth considering. Those of you who have read this far without getting discouraged may well find it more rewarding than a package tour.

Getting underway

If you are not already in China on a business visa, you must first obtain an independent travel visa from the Chinese embassy or consulates. The main catch to getting this visa is the requirement that you provide written confirmation of hotel reservations in the major cities you plan to visit. Booking reservations weeks apart will give you time to travel away from the standard tourist spots. Another way to get around the reservation requirement is to pick up a visa in Hong Kong, where travel agencies are adept at getting independent visas due to the proximity to the Chinese border and the presence of a CTS office there.

Travelers who take comfort in knowing where they will spend the next night will be disappointed to learn that getting hotel reservations is not easy. Only certain travel agents or hotels can book rooms ahead of time. In most cases, a reservation requires full prepayment, but in major cities a credit card can usually reserve rooms at luxury hotels.

The prices for rooms vary greatly. Dormitory beds can go for as little as ¥6 per bed (less than $2). Cheap hotels and guest houses run from $10 to $50 per night. In smaller, less known cities, the most expensive accommodations will cost much less than the pricey Beijing or Shanghai luxury hotels, but they will not have all the amenities either.

The meiyou *problem*

CITS can provide great assistance by obtaining tickets for buses, trains, or boats that are usually the only way to get to smaller cities. And once you get there, the CITS office almost always has an English speaker on hand who can provide maps with bus routes, directions to hotels or places of interest, and tickets for the next leg of your trip. But like any bureaucratic organization, CITS can frustrate even the most unflappable tourist.

If the people helping you, for example, aren't sure of something, the answer is usually *meiyou* ("no" or "don't have"). This saves them the work of finding out the answer or being criticized for giving information about an unauthorized activity. And in most cases, this rids them of the problem—you.

One way to get around the *meiyou* problem is to ask to speak to a supervisor, who may reverse the decision immediately. Even if the supervisor gives a negative response, do not lose hope until you verify the answer with clerks at the bus station, airport, boat dock, or wherever your question applies. Doing these things on your own will take at least twice as long, so you will need to have a flexible schedule that can easily accommodate unexpected complications.

Finding your way

If you don't speak Chinese—and in some inland areas even if you do—pointing and gestures become, of necessity, the predominant means of communication. In outlying areas few Chinese can speak English, and those who do usually know only a few words. To cope, it may help to have someone write out a few key phrases in Chinese such as "Where is the CITS office?" or "Where is a good restaurant?"

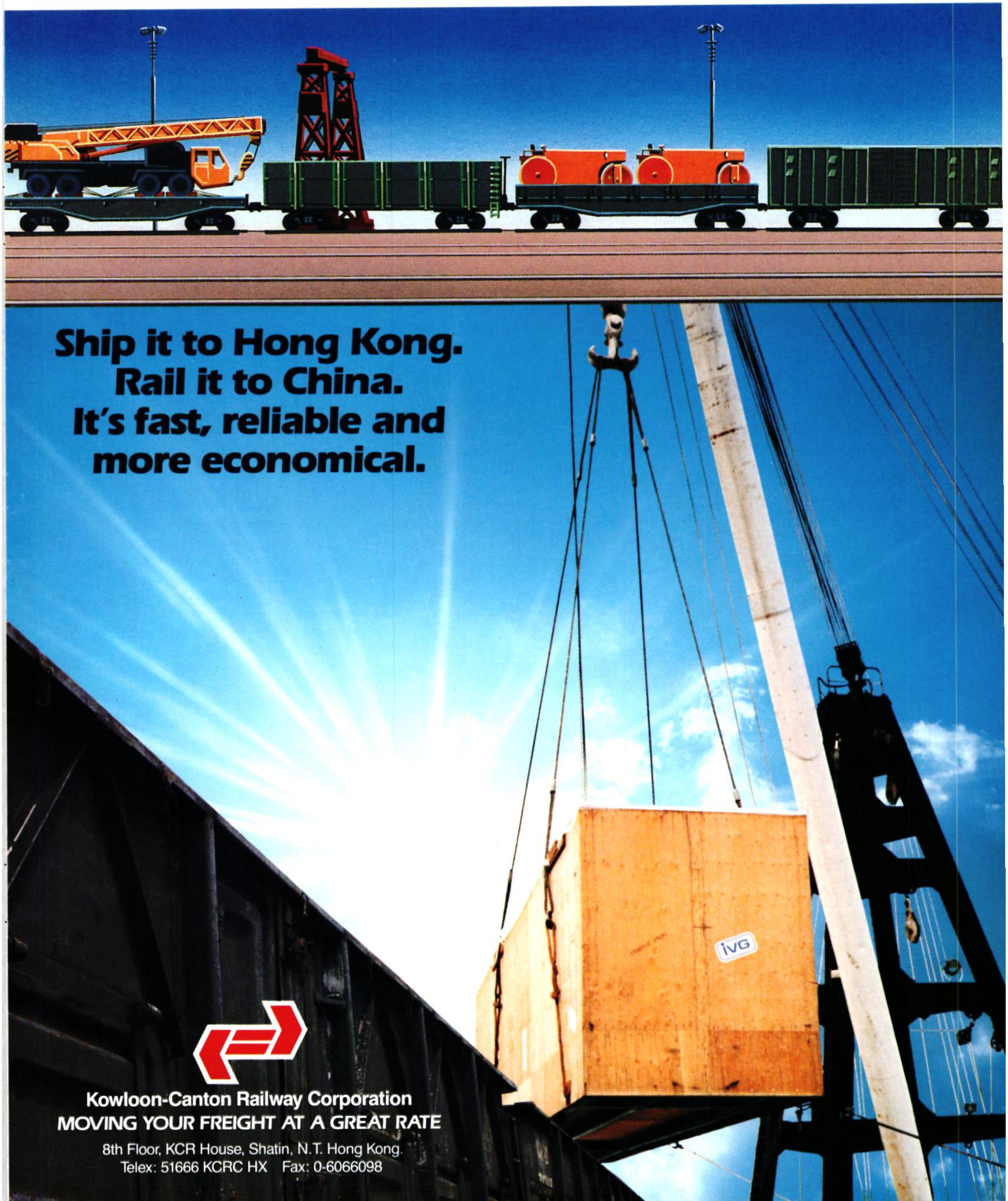
Navigating this huge country with its poor transportation system is never easy on your own. But the task is made somewhat easier—and certainly more enjoyable—by the Chinese people, who are generally very friendly and always willing to point an individual traveler in the right direction.

SUGGESTED GUIDE BOOKS FOR CHINA TRAVELERS

Buckley, Michael and Alan Samagalski, ***China: A Travel Survival Kit***. Berkeley, California: Lonely Planet Publications, 1984. 820 pages. Excellent practical advice, as well as accurate descriptions of points of interest in every province. The best source on hotels, with addresses, phone numbers, and prices for the most and least expensive accommodations in every major city. The only drawback is that the research was done in 1982–83, before many cities and additional hotels were opened to foreign travelers.

Destenay, Anne L., ***Nagel's Encyclopedia Guide, China***. Geneva, Switzerland: Nagel Publishers, 1984. 1,480 pages. Excellent coverage of history, climate, geography, religion, and art. Extremely detailed but somewhat dated descriptions of sights in cities ranging from major metropolises to tiny villages. The best source of information on sights older than 1984; includes maps but no information on hotels.

Kaplin, Fredric, Julian Sobel, and Arne de Keijzer, ***The China Guidebook***. Teaneck, New Jersey: Eurasia Press, 1986. 736 pages. Updated every year, this readable guide covers 120 major tourist cities and sites and provides lots of practical information.



Canada's China Trade

Exports are diversifying, but Canada's trade surplus is shrinking

John Cheh

Since Canada and China established diplomatic relations in 1970, their two-way trade has increased tenfold from (Canadian) $161 million in 1970 to C$1.67 billion (about US$1.25 billion) in 1986. China is now Canada's sixth-largest export market, after the United States, Japan, the United Kingdom, West Germany, and the Soviet Union.

Business between the two countries is expanding in other directions, too. Although relatively few Canadian firms have joint ventures in China to date, the investment projects now under way are significant. Canada–China joint ventures involve petrochemicals in Shanghai, aluminum extrusion in Shenzhen, and property development in Beijing. Moreover, the investment now flows both ways: in 1986 the China International Trust and Investment Corporation (CITIC) formed a joint venture with a Canadian company to buy a pulp mill in western Canada. CITIC and a Canadian bank have also formed a joint venture merchant bank located in Hong Kong.

The Canadian corporate presence in China remains relatively low, however. Less than 10 Canadian companies have offices in China, mainly because very few can justify the costs required to maintain a presence there. The number of offices is not expected to increase much in the near term. Some Canadian subsidiaries of foreign firms with offices in China can make use of these facilities, while others rely on frequent trips to China. Assistance from third parties such as Canadian government representatives, bankers (four Canadian banks have representative offices in Beijing), or the Canada–China Trade Council staff is also valuable to many Canadian firms.

More than a matter of luck

Although China's economy has made remarkable progress in the past decade, the country still faces severe bottlenecks in energy, transportation, and telecommunications, as well as shortages in trained managerial and technical personnel. Canada's demonstrated strength in the development of basic infrastructure projects matches China's needs well. The growth in Canadian sales of highly manufactured, technology-intensive industrial products to China is thus not merely luck, but a sign of complementarity in the Canada–China trade relationship.

Just as Canadians are increasing their efforts and fine-tuning their marketing strategies to compete in China, China has also intensified its efforts to penetrate the Canadian market. China sent a record six export commodities trade shows to Canada in 1987, displaying everything from food, handicrafts, and light industrial products to machinery and equipment. Guangdong Province sponsored two fairs, the provinces of Hebei and Hunan and the city of Shanghai one each, while the China Council for the Promotion of International Trade (CCPIT) and the Canadian National Exhibition in Toronto organized a large exhibition involving more than 60 Chinese foreign trade corporations during the summer of 1987. The CCPIT show, the largest of its kind ever held in Canada, reported over $40 million in sales contracts.

Canada's trade surplus: can it last?

The pattern of Canada–China trade is changing, but the trade total continues to rise. Unlike the United States, whose trade deficit with China keeps growing, Canada maintains a sizable—albeit shrinking—trade surplus with China.

CANADA'S EXPORTS: Canada's exports to China actually declined each year between 1983 and 1986. Figures for the first nine months of 1987 show, however, that this decline has been reversed. Trends in the following three product areas are particularly noteworthy:

- **Wheat**, which remains the largest single export item to China, still exerts the most influence on Canada's export total. It declined sharply for three consecutive years since 1983 and was the main culprit behind the drop in total Canadian exports to China. This drop can be traced to China's success in raising agricultural productivity, which reduced the need to import grain. Figures for 1987 show a rebound in Canada's wheat sales—and total Canadian exports—to China, suggesting that China is taking advantage of weak grain markets to build up its stockpiles.
- **Fabricated material** exports, such as metal concentrates, newsprint, and synthetic rubber, declined sharply in 1986. This drop was mainly attributable to the tighter import controls imposed by China in an effort to reduce the record trade deficit in 1985. A rebound is taking place in 1987, however.
- **Highly manufactured, technol-**

John Cheh served as Canada's commercial counselor to China from 1981 to 1984, and holds a Ph.D. in Economics from the Massachusetts Institute of Technology. He is now the executive director of the Canada–China Trade Council, a nonprofit service organization representing more than 120 member Canadian firms doing business in China. The Canada–China Trade Council maintains offices in Toronto and Beijing.

ogy-intensive industrial products are a major growth area for Canadian exports to China. Starting from a negligible base of only $13 million in 1983, sales of these products to China reached $305 million in 1986, a 23-fold increase in just three years (*see* table). Major sales contributing to this increase include boilers for thermal plants, mining trucks, drilling equipment, specialty and executive-jet aircraft, satellite earth stations, and telephone switching equipment. The partial 1987 figures show a return to a more modest level of sales, however. This may be due to the fact that the few large transactions that had previously accounted for a high proportion of Canadian exports in this category were completed in 1986. In addition, the slowdown in sales to China in 1985 and 1986 is reflected in the lower 1987 figures.

CANADA'S IMPORTS: China has been increasing its sales to Canada across the board, with total exports growing at an average annual rate in excess of 30 percent since 1983. This trend continued into 1987.

Manufactured products now make up about 75 percent of China's exports to Canada, including textiles and clothing which themselves account for about half of China's exports to Canada (*see* graph, p. 13). Although these products are subject to bilateral restraint agreements, they still show double-digit rates of increase each year. This reflects both volume increases allowed under the restraint agreements and the fact that Chinese products are gradually moving up-market in quality and value.

Recognizing the importance China places on exports, Canada extended General Preferential Tariffs treatment to China in 1980. This reduces the rate of duty on eligible Chinese exports to Canada by one-third or more, although sensitive items such as textiles and clothing are excluded. China's exports of unrestrained products, particularly food and beverages, toys, household goods, and light industrial wares, are increasing rapidly, and should continue to climb as China improves product quality, packaging, delivery, and marketing.

Chinese officials frequently cite the principle that trade is a two-way street. Thus the increasing foothold gained by Chinese products in the Canadian market augurs well for a corresponding increase in the supply of Canadian products to meet China's needs.

CANADA'S EXPORTS OF END PRODUCTS TO CHINA

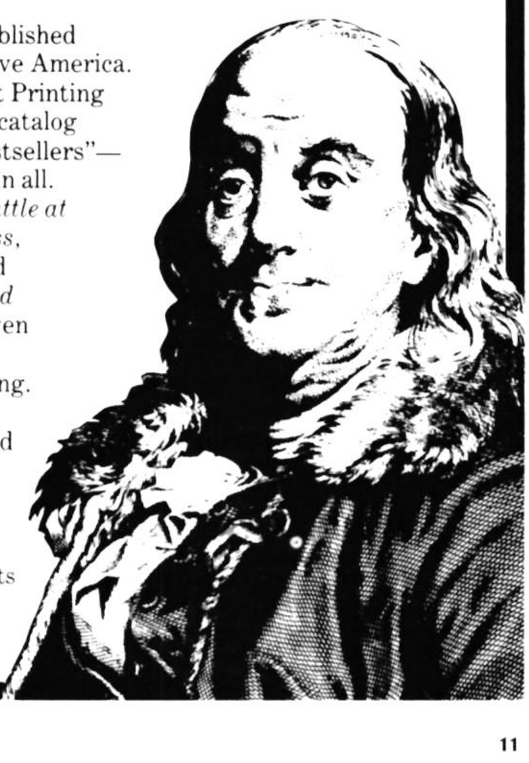
	1984	1985	1986	1987
		(millions of C$)		(Jan-Sept)
MAJOR PRODUCT CATEGORIES:				
Drilling, excavating, and mining equipment	7	26	125	6
Vehicles (including mining trucks and parts)	—	34	66	3
Aircraft and parts (including engines)	2	24	50	3
Telecommunications equipment	4	20	14	10
Industrial machinery	2	14	21	20
Special instruments	5	7	7	4
Office machines	4	5	6	1
Other	2	22	16	18
Total	**26**	**152**	**305**	**65**

SOURCE: Statistics Canada

The bilateral framework

The Canadian government strongly supports Canada's China trade. Key agreements that help set the framework for bilateral trade and economic cooperation between Canada and China are listed on page 13. An Economic Cooperation Protocol, signed by the two governments in 1979, targets specific sectors—particularly resource development, infrastructure, and high technology—that China needs to develop and in which Canada is a strong potential supplier.

In the area of government export financing, a Canadian $2 billion line of credit based on OECD consensus rates was established in 1984. And in 1986 Canada established—for the



MAJOR CANADIAN EQUIPMENT SALES TO CHINA 1984–87

Supplier/Purchaser	Details
Babcock & Wilcox Canada/Huaneng International Power Development Corporation	Boilers for 2 × 350 MW coal-thermal power stations ($200 million)
Wabco/Ministry of Coal Industry	Mining trucks for Pingshuo coal project (C$100 million)
Canadair/China Polytechnologies	Three Challenge CL-601 executive jet aircraft (C$60 million)
Husky Oil & Bow Valley Resources/Nanhai Oil Corporation	Used semisubmersible drilling rig (C$42 million)
Spar Aerospace/Ministries of Posts and Telecommunications, Petroleum Industry, and Electronics Industry	26 satellite earth stations (C$20 million)
de Havilland Aircraft/CAAC	Five Twin-Otter turboprop aircraft
Triad Engineering/Shanxi Province	Used oil refinery with 10,000 barrels per day capacity (C$20 million)
Northern Telecom/Various posts and telecommunications authorities and other enterprises	Digital phone switches for both central office and private-branch exchanges
Pratt and Whitney Canada/China Aerotechnology Import and Export Corporation	PT6 turboprop engines for Y12 aircraft
Dyer Equipment/Daqing Oilfield	Oil drilling equipment (C$17 million)
Dipix Systems/Various universities and research institutes	Digital image processing systems
Sherritt Gordon Mines/China National Technical Import Corp.	Production technology for nickel-bonded steel coin banks
Cegelec Industries/Ministry of Water Resources and Electric Power (MWREP)	Circuit breakers for 500 KV substation (C$4 million)
ASEA Inc. (Canada)/MWREP	Instrument transformers for 500 KV substation (C$10 million)
Timberland Equipment Ltd./MWREP	Steam turbine assemblies (C$7 million)
Westinghouse Canada/NA	Steam turbine assemblers (C$7 million)
Massey Ferguson Industries/Bureau of State Farms and Land Reclamation	90 grain harvestors
MacDon Industries/Bureau of State Farms and Land Reclamation	90 grain swathers
United Tire and Rubber/Tianjin Rubber Industrial Company	Used tire plant
Simon-Day Ltd./NA	Two seed cleaning plants and equipment
Nova Corp./China National Oil and Gas Exploration and Development Corp.	Various contracts for designing gas pipelines
CAE Electronics/Huaneng Intl. Power Development Corp.	Power station control systems
SR Telecom/Ministry of Posts and Telecommunications	Microwave subscriber radios
Novatel/City of Chongqing	Cellular-mobile radios
Gandalf Data/Nanjing Radio Factory	Data communications equipment
Phoenix Geophysics/Ministry of Geology	Geophysical prospecting equipment
International Geosystems Corp./NA	Geophysical software systems
Accugraph/Dalian	Two computer-aided design systems
G and B Automated Equipment/China National Machinery Import-Export Corp.	Grinding wheel manufacturing equipment and technology
Bata Engineering/Shoe factory in Heilongjiang Province	Shoe-making machinery and technology
Shaw Almex/Ministry of Coal Industry	Conveyor belt vulcanizing equipment for coal industry
Exeltor/NA	Manufacturing equipment and technology for knitting needles
Congas Engineering and Maple Leaf Plastics/Harbin Transmission and Distribution Engineering Corp.	Equipment and technology for gas distribution
Patton and Cooke/Anshan Iron and Steel Complex	Power distribution system

Compiled by the Canada–China Trade Council and the National Council for US–China Trade from press reports and industry sources. This list is not intended to be exhaustive.

NOTE: The current C$ exchange rate is approximately C$1 = US$.75

first time—a concessional tranche of $350 million within the $2 billion line of credit. In addition, Canada's program of development assistance to China, with funding of $200 million over the next five years, provides various types of assistance to China in the priority sectors of agriculture, forestry, energy, transportation, telecommunications, and human resource development. (For more information on Canadian government programs in China *see* pp. 14–16.)

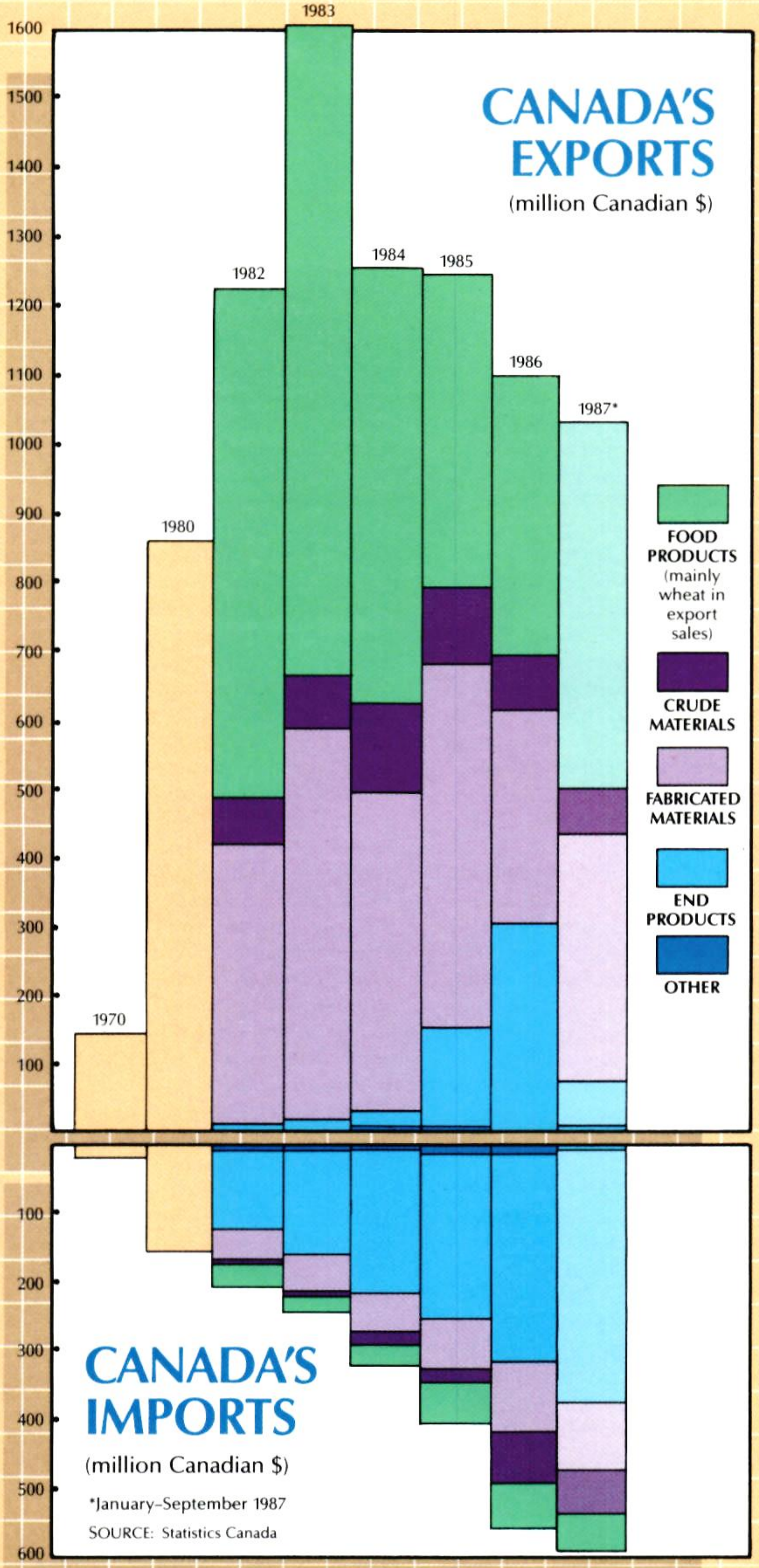
Contacts at all levels

The Canadian government has almost tripled the number of commercial representatives it has in China since 1984. At present, there are nine Canadian trade officers at the embassy in Beijing, one at the consulate general in Shanghai, and one at the commission in Hong Kong to cover southern China.

Several Canadian provinces have established offices in Hong Kong to facilitate trade with China, and Canadian provinces and cities have begun to form "twinning" agreements with counterparts in China that have similar economic and cultural interests (*see* p. 13). The provinces are also exploring new forms of cooperation. Ontario recently opened a Science and Technology Center in the city of Nanjing, capital of its sister province, Jiangsu. Co-directed and jointly staffed by Ontario and Jiangsu, the center facilitates information exchanges, arranges seminars, exhibitions, and other activities with the aim of promoting economic cooperation and trade between the two provinces.

Canada's interest in doing more business with China is extensive, involving active federal and provincial government support programs and firms from large to small. Canadian companies' efforts to actively pursue opportunities associated with the development of China's key infrastructure sectors are paying off with growing exports of capital equipment and technology. China's pace of purchases is beginning to pick up again after a lull in 1985 and 1986, and Canada's new soft loan financing for China should provide an additional boost to Canadian firms. Thus, the outlook for Canadian sales appears favorable over the next few years within the framework of the ongoing expansion of two-way trade. 完

Canada-China Trade



*January–September 1987

SOURCE: Statistics Canada

THE BILATERAL FRAMEWORK

Year	Agreement
1970	Diplomatic relations established
1973	Bilateral Trade Agreement signed granting Most Favored Nation status to China (extended every three years)
1979	Signing of Economic Cooperation Protocol
1980	Memorandum of Understanding on Agricultural Cooperation
1981	Commencement of Canadian International Development Agency's development assistance program in China
	Memorandum of Understanding on Forestry Sector Cooperation
1983	Development Cooperation Agreement
1984	Foreign Investment Insurance Agreement
	Export credit facility signed between the Export Development Corporation (Canada) and the Bank of China
1986	Double Taxation Agreement
	Plant Quarantine Cooperation Memorandum
	Memorandum of Understanding on Concessional Financing

SOURCE: The Canada–China Trade Council

REGIONAL COOPERATION AGREEMENTS

Canadian province	Chinese province
Alberta	Heilongjiang
Saskatchewan	Jilin
Ontario	Jiangsu
Canadian city	**Chinese city**
Vancouver	Guangzhou
Edmonton	Harbin
Calgary	Daqing
Toronto	Chongqing
Montreal	Shanghai
Victoria	Suzhou
Hamilton	Ma'anshan

SOURCE: Canada–China Trade Council

How the Canadian Government Promotes China Business

Ottawa's support is enough to attract the envy of many American companies

Perry Keller

In recent years, Canada's federal government has sought to boost trade with China through a major commitment to export promotion and business assistance. Until recently China has bought mainly wheat and bulk material exports from Canada, leading some observers to question whether government funds might be better spent elsewhere. But federal officials point to recent trade trends as an indication of the potential for more diversified trade with China and say they are confident that government efforts there are justified.

The Canadian federal government helps exporters through a wide array of services including the publication of trade journals and sector reports, financial assistance programs, and the negotiation of bilateral and multilateral trade agreements. Firms seeking business in China may also take advantage of special government assistance programs for developing countries—and now programs created specifically for the China market.

Export credits through the EDC

In terms of funding, export financing makes up the bulk of Canada's export promotion efforts in China. These export finance facilities are administered by the Export Development Corporation (EDC), an autonomous federal agency created to help Canadian exporters in need of longer term fixed-rate financing.

EDC financing is available for most types of Canadian exports to China, including turnkey projects, capital equipment sales, technology transfers, training programs, and management service contracts. Funds are usually provided in the form of supplier credits, in which EDC pays the exporter on the basis of promissory notes purchased from the buyer; or buyer credits, in which EDC funds a separate loan agreement between the exporter and buyer. EDC also encourages private lenders to get involved by providing them with loan guarantees if they finance purchases of Canadian goods or services.

EDC normally offers financing at "consensus rates"—i.e., those rates agreed to by the major OECD countries providing export credits. These rates are set at regular meetings of the countries participating in the OECD arrangement.

In 1984 EDC made this type of standard financing is widely available to Chinese purchasers by entering into an agreement with the Bank of China to establish a C$2 billion line of credit. Renewed in 1986, the line offers purchasers of Canadian goods and services the convenience of pre-established terms and rates and a settled disbursement procedure in which the Bank of China pays commitment and administration fees. Despite these advantages, between 1984 and 1987 only about $160 million of the line was drawn down. The majority of these funds were used to finance the purchase of Canadian thermal power equipment in 1987.

Lowering interest rates for China

The low percentage of funds being used led Canadian officials to look again at export financing policy toward China. Canada's official policy has been to offer concessionary (i.e., below consensus rate) financing only as a defensive measure in response to concessionary offers made by competing exporters from other nations.

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Previously this policy was carried out on a project-by-project basis. However, in 1986, the Canadian government concluded that so many other countries were providing concessionary financing to China that it justified the establishment of a special Canadian soft loan fund for China projects and transactions.

In establishing this fund, Canada joined the approximately 17 other nations that have concluded concessionary finance agreements with China, from Japan and France to Kuwait and Luxembourg.

Thus, in November 1986, the Canadian government signed an agreement with the Ministry of Foreign Economic Relations and Trade (MOFERT) to establish a C$350 million soft loan fund to provide extra help for Canadian exporters. These funds are included within Canada's previously established $2 billion line of credit with the Bank of China to improve the terms of Canadian export financing. Although administered by EDC, all projects considered for these funds must be nominated by MOFERT before receiving Canadian approval.

The first Canadian project in China to use this type of funding was approved in October 1987. Other projects are now being negotiated by MOFERT and EDC officials. Canadian officials are hopeful that agreement can be reached on these projects without the lengthy delays that have marred the initial phases of soft loan programs set up by other foreign governments in China. In some instances projects selected two or three years after the initiation of a soft loan program have been signed before the initial projects have gotten off the ground.

In recent years some OECD countries have become concerned by the use of development aid funds to promote exports through the blending of these funds with official export financing. As a result, there is now a movement within OECD to more clearly distinguish between aid and trade financing. In July 1987, as part of this effort, the countries that participate in the OECD consensus financing arrangement raised the grant and soft loan portion of blended official export financing to a minimum of 30 percent. This raises the cost to the lending countries of providing such financing. Not surprisingly, the change was well received in China, since it also reduces the cost of foreign borrowing.

Under EDC guidelines, to be eligible for export financing, projects must generally be at least 80 percent "Canadian content," defined as the proportion of the value of goods and services exported that is actually spent on production or otherwise retained in Canada, as opposed to being spent on items such as imported parts. However, in certain cases the EDC has accepted as little as 60 percent Canadian content, although such a reduction could affect EDC's willingness to offer favorable terms. EDC may also consider financing the Canadian component of a project being undertaken by an international consortium, provided that the rest of the project receives comparable financing from other sources. This type of split financing has yet to be approved for a project in China, although EDC is currently considering an application in the chemical sector.

General assistance from PEMD

Canada's Program for Export Market Development (PEMD) provides general export assistance to many Canadian firms seeking new markets in China and elsewhere. Jointly administered by the Department of External Affairs and the Department of Regional Industrial Expansion, PEMD programs help support market identification trips, participation in trade missions and fairs, preparation of project tender bids, and in some cases the establishment of representative offices.

PEMD programs are designed to encourage Canadian firms to enter or expand their business in foreign markets by allowing the government to share the high risk of financial losses inherent in trade promotion activities. This is typically accomplished through cost-sharing schemes in which the government pays a portion, usually about 50 percent, of the reasonable expenses of a promotional venture. Funding is limited, however, to vital commercial projects that demonstrate a capacity to promote Canadian exports. A firm becomes ineligible for further PEMD funds once it has made use of the program eight times without achieving successful results.

The PEMD Market Identification Trips program, which funds up to 50 percent of the expenses of initial business trips to China, is frequently used by smaller firms. In most cases a company is limited to one assisted trip per market region. However, in difficult markets such as China, funds for a follow-up visit are sometimes granted.

Many Canadian companies seeking business in China have also benefited from PEMD's Fairs and Missions program. This program subsidizes the costs companies incur when attending trade fairs that the Canadian government deems strategic for Canadian exports. For these fairs, such as the 1987 Agricultural Exhibition in Beijing, the government will staff an official Canadian information center, host receptions, and conduct other activities in conjunction with participating companies. Individual companies attending trade fairs are eligible for assistance with airfare, displays, promotional materials, and freight costs for goods and materials. Many Canadian firms take advantage of this program to support their China activities. This program also enables federal officials to organize trade missions to China, such as the 1987 Canadian air traffic control mission.

CIDA: The business of economic development

China has attracted considerable foreign development aid since it began accepting such aid in the late 1970s. Partly due to the importance that successive federal governments have attached to the relationship with China, Canada has emerged as one of China's major aid donors, offering an annual aid budget in excess of C$40 million. These funds are administered by the Canadian International Development Agency (CIDA), the federal agency principally responsible for Canada's development assistance.

Although the CIDA program's mandate is to further China's economic development rather than Canadian commercial interest, materials and services required for assistance projects are primarily sourced in Canada. A noteworthy example is the recent CIDA-funded feasibility study for the proposed massive Three Gorges hydroelectric dam. The study is being done by a consortium of Canadian hydroelectric and engineering companies.

In a departure from CIDA's traditional noncommercial focus, the agency established the Business Cooperation Branch in 1984 to promote Canadian business activity in developing country economies, principally through long-term cooperation with local partners. This policy is implemented by the branch's Industrial Cooperation Division (CIDA INC). To be eligible, projects must be shown to benefit Canadian business as well as meet CIDA's economic development criteria.

Forms of aid from CIDA INC include funds for feasibility studies done by potential investors, project support funds to resolve initial investment problems, and support for adaptation and testing required in technology transfer projects. Unlike PEMD, CIDA INC's programs are not intended to be cost sharing or cost recoverable. However, in practice, CIDA officials view the willingness of an applicant firm to invest its own funds in a project as a key indication of a project's viability.

One frequently used CIDA INC program in China is the Canadian Project Preparation Facility (CPPF), which funds Canadian prefeasibility studies for major projects such as a recent CPPF-funded study on the air traffic control requirements of a major Chinese airport. CPPF's goal is to increase the number of Canadian firms participating in bids for major development projects, especially those sponsored by international financial institutions such as the World Bank and the United Nations Development Program. Few Canadian companies have successfully bid on these types of projects in the past. To be eligible for CPPF funding, projects must demonstrate a likelihood of implementation, a good development impact, and the potential for major downstream purchases of Canadian goods and services.

China's policy of encouraging trade partners to consider joint ventures has led a number of Canadian companies to use CIDA INC assistance for feasibility studies in China. Few of these studies have generated investment opportunites, however. In many cases promising studies carried out in cooperation with local Chinese authorities came to naught due to a lack of Chinese central government support.

CIDA INC recently instituted a new program designed to increase the number of Canadian companies involved in the upgrading of Chinese enterprises. The Technology Cooperation Program (TCP), established in 1987 with a budget of C$5 million, is also designed to promote project implementation after the completion of feasibility studies. As a result all TCP project studies must be nominated by MOFERT prior to tendering in Canada, a process that CIDA INC hopes will ensure a greater degree of national support.

The delicate subsidies issue

As international trade conflicts deepen, the issue of export subsidization has become particularly sensitive for all governments. In Canada, the government defends its various export assistance programs as a realistic and unavoidable response to official export assistance programs and protectionism throughout the world. The Department of External Affairs maintains that, to the extent that there is a subsidy element in Canadian programs, it falls well within accepted international norms.

Officials also point out that the Program for Export Market Development, in particular, is designed to limit subsidization by requiring recipient firms to use the revenues from any sale directly attributable to a PEMD grant for its repayment. PEMD funds are therefore intended to reduce the financial costs of failure in export markets rather than to subsidize successful exports. Such forms of government assistance, it is argued, are especially important in Canada, which is highly dependent on international trade but—compared to other major trading countries—has relatively few multinational firms. Instead, Canada has many small companies that would have difficulty shouldering the costs of export development. In China, for example, many companies using PEMD programs are in fact quite small, often receiving grants of less than C$10,000.

Encouraging the right companies?

Although government assistance programs are widely used by Canadian firms in China, some business specialists are concerned that PEMD and CIDA INC programs encourage smaller firms to enter a difficult market that may be too costly to pursue after government funding is terminated. Most Canadian officials do not see this as a serious problem and claim that the cost-sharing aspects of these programs act as a serious deterrent to companies not otherwise capable of doing business in China. Moreover, the commercial section of the Canadian Embassy in Beijing regularly reviews company applications for government assistance, commenting on whether a company is suited to the China market. Nonetheless, embassy officials admit they are often reluctant to second-guess a company's export plans or reject an application as commercially unsuitable to China if there is even a small chance of success.

Unlike Canada's Export Development Corporation, the PEMD and CIDA INC programs do not set a required level of "Canadian content" in order for transactions to be funded. There need only be a "significant" amount of Canadian content, which in most cases is simply a question of whether an applicant firm employs Canadians or produces some goods in Canada. However, due to the many products processed or assembled in Canada using foreign components, it is sometimes difficult to assess what constitutes adequate Canadian content.

Any foreign-based firm that has established production in Canada may take advantage of Canadian export assistance programs. In fact, the Canadian subsidiaries of several US firms have made use of such Canadian government assistance in China. Official federal government policy encourages foreign manufacturers to use Canada as an export base—and thus to take advantage of Canadian government assistance programs to develop export markets.

Looking for results

Canada's large commercial representation and extensive promotion programs in China reflect the federal government's strong support for expanded trade with China. Federal officials and the private sector have high expectations for Canada–China trade and will no doubt be looking for early signs of export growth to justify the continuation of Canadian consensus-rate and soft loan export financing programs that come up for renewal later this year.

According to Robert Pedersen, Minister-Counselor, Commercial Section of the Canadian Embassy in Beijing, "Canada's increased trade promotion efforts in China stem not only from the government's evaluation of China's potential as a leading trade partner, but also from the demand of Canadian business for increased services there." Whether Canadian businesses can turn this support into sufficient opportunities in the China market remains to be seen. 完

Photo courtesy of the Canada-China Trade Council

A Babcock and Wilcox Canada boiler bound for China, May 1987.

The recent reintroduction of pork rationing is expected to be just a temporary setback in the drive to increase meat production

Putting Meat on Every Table

Roseanne Freese

Raising production of pork, beef, and lamb is a major goal of China's Seventh Five-Year Plan (1986–90). The plan calls for meat production to reach 22.75 million tonnes by 1990, up from the 1986 level of 19.18 million tonnes. Pork, which accounts for some 90 percent of the meat in the Chinese diet, will continue to dominate the picture.

Initial efforts have already proven quite successful (*see* graph, p. 18). Production of pork increased 58 percent and beef almost 118 percent between 1980 and 1986. As with much of the agricultural sector, gains in productivity have outstripped population growth since reforms were introduced in the late 1970s.

But such gains are becoming harder to sustain without substantial improvements in the quality of production inputs. As a result, China may be forced—sooner than expected—to rely less on individual farmers and turn increasingly to large new meat production companies that are already springing up near many urban centers. One advantage of these specialized companies is that they have the resources to take advantage of the latest technological advances in livestock breeding and rearing. Better embryo and artificial insemination techniques to develop more and higher quality breeds of swine, cattle, and chicken are needed to satisfy the rising expectations of China's increasingly affluent population.

Boosting production with new incentives

Much of the initial growth in meat production during the past eight years has come from individual rural households, where most of China's animals are raised. Once agricultural reforms were initiated and the government procurement price for pork was raised 25 percent in 1979, many households seized the chance to make extra money by raising a few more hogs on the side or moving into hog-raising full time.

The initial increases in production, however, were not enough to satisfy the rising demands of consumers with more money to spend on food. The government responded by announcing a variety of new incentives during 1980–85 to promote production of meat and dairy products. These included the right to trade animals privately and sell some meat at free-market prices. Grain-growing hog-raisers were rewarded with feed grain and fertilizer at reduced prices and were given expanded private and fodder plots. This encouraged more farmers to go into livestock raising full time. To assist in the breeding process and disseminate information about improving breeds, some 16 artificial insemination centers were established throughout the country. At the same time, the government announced plans to expand the feed industry.

Drawbacks of individual efforts

But China's animal husbandry planners are beginning to see that relying on individual initiative has drawbacks as well as benefits.

Developments in pork production illustrate the problem. Some 90 percent of China's hogs are raised by individual households, which are highly sensitive to market conditions. In 1985 China raised grain prices, leading to a decline in profitability and a subsequent sharp reduction in investment in swine operations. Early attempts to change this situation proved unsuccessful when subsidized feed and fertilizer programs were hit by shortages, graft, and theft by the legions of bureaucratic middlemen responsible for implementing the program, according to *The Farmers' Daily*, China's leading agricultural newspaper.

Climbing fodder and grain prices continue to reduce profits from hog raising. As a result, pork production in 10 provinces and municipalities dropped by 4–5 percent in the first half of 1987. The amount of meat per pig also declined as farmers sold animals before they were fully grown to avoid financial losses. Since demand for pork products continued to rise, shortages have resulted in some areas, and the price of pork in many free markets went up as much as 10 percent during the first half of 1987. Beijing, Shanghai, and Tianjin have been forced to revert to ration coupons to distribute pork in short supply.

Policies prove hard to implement

China's agriculture authorities are now realizing that many other serious problems stand in the way of achieving their goal of quadrupling total meat output between 1978 and 2000. Plans to stimulate animal husbandry may fall victim to the declining amount of central and provincial investment in the agricultural sector. Financial reforms have decreased direct financial grants to the agricultural sector and made the Agricultural Bank of China (ABC) responsible for providing funds to support rural projects. The ABC has chosen to loan a smaller portion of its

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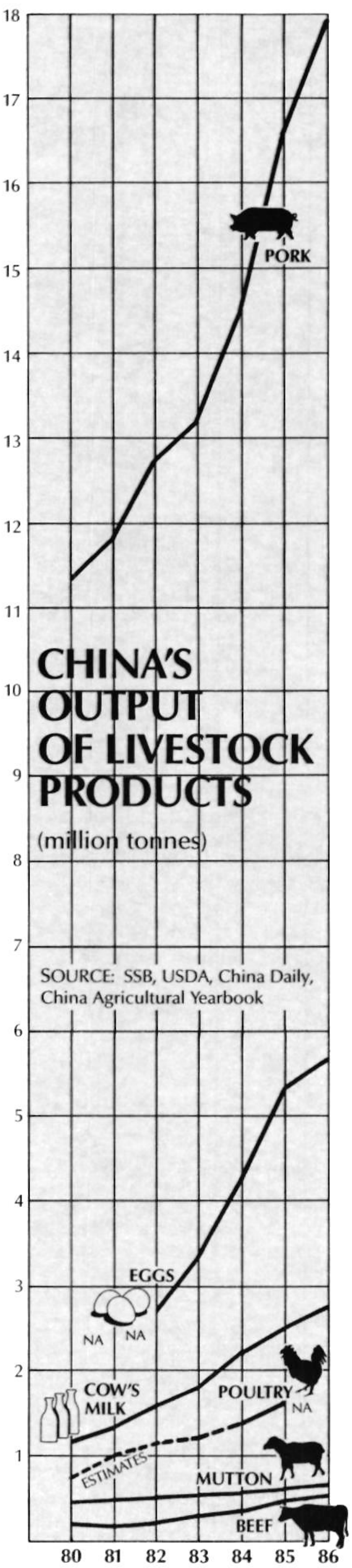


capital to agricultural enterprises, as an ever-growing share goes to township enterprises. In 1985 loans to agriculture were down ¥4 billion, while township enterprises got ¥2.3 billion more. In addition to deciding funding priorities, the ABC decides which sectors within agriculture should receive priority. Consequently, upstream fertilizer, farm machinery, and breeding technology industries must compete—often unsuccessfully—for scarce development funds with downstream road, transport, storage, refrigeration, marketing, and communications industries. And while the government claims to support investment in the animal husbandry sector "according to local conditions," investment still has an egalitarian bent and is not centered on the most productive provinces, such as Sichuan, Hunan, and Guangdong.

Other factors hinder the expansion of the livestock industry, including lack of roads and insufficient trucking services to transport meat to the consuming cities. In 1985, when farmers killed off many hogs to take advantage of higher government procurement prices, there were simply not enough holding pens for pigs or cold storage areas to preserve the freshly slaughtered meat. The central authorities are now trying to locate stockfarms, dairy farms, and slaughterhouses in the suburbs outside of major cities to cut down on both refrigeration and transportation costs.

The inefficient and unscientific management of existing livestock farms must also be improved. American exporters and specialists at the US Department of Agriculture (USDA) cite several major problems. Cows are seldom exercised, rarely given sufficient nutritional and mineral supplements, and often have little or no straw bedding to cover the concrete barn floors. Another common problem is poor stall design, in which all the animals are grouped together in the center of the building instead of along the better ventilated sides. And overbathing causes excess dampness in the animals' quarters, aggravating existing sores and making them more susceptible to infection and disease.

Problems with China's pigs

China's favorite meat, pork, accounts for approximately 90 percent of the average meat diet. China maintains swine herds of over 330 million head, compared to just 57 million swine in the United States. Yet according to USDA estimates, the Chinese produced 17.97 million tonnes of pork in 1986, only about twice the level of pork production in the United States.

China's lower slaughter rates are a major reason for this discrepancy. While US hogs are sent to market after six months, Chinese hogs take at least a year to reach slaughter weights.

China's native hogs produce large litters, but they also tend toward high fat content and slow growth rates. The central government has raised pork procurement prices for producers of lean hogs and established "lean pork counties" that receive special benefits, such as grain subsidies or extra chemical fertilizers. The Chinese Ministry of Agriculture, Animal Husbandry, and Fisheries (MAAF) is also in the process of setting up a demonstration breeding center to produce pigs with a high proportion of lean meat.

The problem is also being tackled through cross breeding. Hogs have been imported from Great Britain, the United States, and Eastern Europe, including such breeds as Duroc, Landrace, Berkshire, Hampshire, Yorkshire, and Chester Whites.

Beef and dairy cattle

Traditionally China has consumed very little beef and does not have a native high-yielding beef cow. China's native Yellow cow is a low beef producer, reaching a market weight of 500 pounds, which is far below the average market weight of 1,000 pounds for beef cattle in the United States. Through China's recent efforts to set up beef breeding stations, beef production has increased almost 15 percent a year since 1980, when production totaled 269,000 tonnes. By 1986, beef production had climbed to some 586,000 tonnes, although it still accounts for less than 1 percent of the average Chinese citizen's total meat diet. Several major joint ventures (*see* p. 24) hope to see this percentage rise when they begin supplying beef for the domestic market—while also aiming at export markets.

China uses primarily the "black and white" cow (Holstein) for dairy purposes. China's Holsteins produce

1985 SELECTED PER CAPITA MEAT CONSUMPTION
(pounds)

Pork		Beef		Poultry	
Hungary	175.7	Argentina	178.1	Israel	95.0
East Germany	137.6	United States	108.5	United States	69.7
West Germany	114.2	Canada	90.6	Hong Kong	64.8
Hong Kong	101.4	France	68.1	Canada	55.1
Taiwan	83.8	Soviet Union	61.1	Taiwan	39.2
France	76.9	West Germany	51.1	France	39.0
China	32.2	China	1.0	China	3.5

SOURCE: State Statistical Bureau, China Agricultural Yearbook, and Farmline

on average only 6,000 pounds of mi ` a year, compared to the 12,000–13,000 pounds produced per Holstein in the United States. And when other types of low-yielding cows throughout the country are included, the total is even lower. In 1986 China's 1.84 million head of dairy cattle produced 2.79 million tonnes of milk—an average of 3,336 pounds each. Central planners are calling for continued expansion of milk production with the size of dairy herds to increase 15 percent each year until 1990 and 10 percent a year for the following decade. The USDA estimates that increases in China's dairy cattle herds have averaged 13.2 percent per year since 1980, so these growth rates appear attainable.

Dairy stockfarms are still scarce, often poorly managed, and located in remote places such as Inner Mongolia or Hainan Island, which causes serious transport problems. Efforts are under way to improve milk production by importing high-yield cows from Canada, the United States, Scandinavia, and Western Europe. From 1983 through 1986, the imports reportedly included 10,000 Holstein cows, 400 stud bulls, and 40,000 ampules of frozen semen for artificial insemination. Heilongjiang is at the forefront of dairy cattle development efforts, but local animal husbandry offices under MAAF and branches of the China Dairy Cattle Association now assist dairy cattle farmers throughout the country with information on farm design, milk processing, marketing, and breeding techniques.

The food chain link

But before going too far in improving its herds, China must confront a very basic constraint. Expanding and improving the quality and size of hog, cattle, and sheep herds is dependent upon increases in grain production. Approximately six kilograms of grain are needed to produce every kilogram of beef, and about four are needed for one kilogram of pork.

Aided by good weather, yields of wheat and coarse grain grew rapidly in the early 1980s, but since 1984 yields have fluctuated. The exceptional weather and use of better fertilizers prior to 1985 produced excellent rates of return that are proving difficult to sustain. And total planted area has declined nearly 3 percent since 1980 as many farmers move out of the grain sector and into other more lucrative cash crops, such as cotton and vegetables, or leave agriculture completely to work in the rapidly expanding rural industrial, service, and transport sectors.

Current plans are to import equipment and use the byproducts of grain production to develop the fodder and mixed feed industries. When animals are fed more compound feed, the length of the feeding period declines. Fodder grain goals for 1990 are set at 100 million tonnes, of which 50 million tonnes is targeted to be processed into compound feed. These goals appear overly optimistic. China's compound feed production totaled only 18 million tonnes in 1986 and was generally of very low quality. More feed factories are being built to increase output, but not by the 177 percent needed to reach the target. To substantially improve the feed grain sector, China will have to import improved feed manufacturing equipment, improve formulations to raise nutritional levels, and guarantee a steady supply of feed ingredients (*see The CBR*, Mar–Apr 1986, p. 23).

Moreover, difficult trade-offs are involved. If fodder and feed targets are met, the amount of grain left for human consumption will decline dramatically to 300 million tonnes. Demand for grain for human consumption is not expected to decline from current levels of 365 kilograms per capita. The only way to fill the gap may be to import grain, but in 1987 a cap on politically sensitive grain imports was reportedly set at 10 million tonnes. Alternatively China could buy more feed from abroad, but the amount of foreign exchange available for this purpose will depend on animal husbandry export earnings.

International cooperation and trade

China has begun to draw upon foreign capital to help improve its livestock herds. Commercial or government loans from at least 15 countries, including Japan, Kuwait, Denmark, Australia, Switzerland, the Netherlands, and the United States, are helping to develop China's animal husbandry.

Even more important are the loans extended by international development agencies. Since 1982 the World Bank has lent China a total of $143 million for agricultural purposes. Three of these loans, the Xinjiang Agricultural Development Project, the Jiangxi and Fujian Red Earth Development Project, and the Pishihang–Chaohu Area (Anhui Province) Development Project earmarked $2 million, $6.7 million, and $1.7 million, respectively, for livestock development. The Anhui project also included $3.2 million for veterinary and artificial insemination stations.

Livestock rearing received another boost with the formation of the China Livestock Research Center in Luoyang, partially funded by a World Bank loan of $15 million. Likewise, the United Nations World Food Program will contribute $18.3 million to a feed development project in the Xinjiang Autonomous Region. The United Nations Development Program also has projects in the pipeline that would provide $585,000 for research and development of growth stimulants for livestock and $817,000 for building a national dairy products testing center in Harbin, Heilongjiang.

Another means China is using to raise the quality of its livestock is the importing of breeding stock. The amount spent on imports of breeding stock rose sharply from $1.17 million in 1982 and $18.56 in 1985 to $83.91 in 1986.

Imports of breeding stock and technology to improve the meat processing industries is paid for in part by export earnings from the animal husbandry sector. China is a major supplier of pork and dairy products to Hong Kong and Southeast Asia, and the Soviet Union. Total livestock exports in 1986 reached $347.4 million, and meat exports logged in at $323.68 million.

China's effort to coordinate livestock purchases from abroad by setting up the China National Animal Breeding Stock Import–Export Corporation (CABS) in Beijing in 1980 have run into some problems. CABS receives requests for cattle, hogs, and related livestock technology from stockfarms, research institutes, State farms, and joint ventures located throughout the nation. CABS then asks for bids from overseas exporters, reviews the bids, and decides on the supplier. While this structure ensures that the animal husbandry industry is coordinated in terms of quality of stock and prices paid, it raises new problems by preventing direct contact between the buyer and seller. Thus, the buyer's specific

COMMERCIALIZING POULTRY OPERATIONS

Consumer demand for eggs and broiler meat is propelling China's poultry industry forward. The United Nations reported that fowl made up only 9 percent of China's total meat consumption in 1985, compared to an average of 21 percent worldwide. But poultry is now China's fastest-growing livestock industry. Total production of broiler meat in China reached 1.6 million tonnes in 1985, more than double the level of production in 1981. Likewise, 5.73 million tonnes of eggs were produced in 1986, up 104 percent over 1982 levels.

Traditionally, most of China's chickens have been raised in the backyards of individual households, but these native poultry are not suitable for mass production. Thus backyard production is gradually being commercialized through the import of fine-breed chickens, the introduction of modern production methods (such as cage raising), and the use of mixed feed. Improved breeds and management technology are key to upgrading China's poultry operations.

Since 1980 the China National Animal Breeding Stock Import–Export Corporation (CABS) has imported more than 1 million fine-breed chickens and eggs from Canada, Great Britain, the Federal Republic of Germany, and the United States. China has even begun to experiment with importing and raising turkey, quail, and guinea fowl to satisfy the changing tastes of Chinese consumers.

Imported chickens and their descendants—now about 30 percent of China's total number of egg-laying hens—are becoming a feature of the modern chicken farms that are springing up in both urban and rural areas. Under intensive management, the chickens each lay more than 200 eggs a year, twice the average rate of most local breeds. In Beijing, for example, breeds such as the Star Cross 579 of Canada, Babcock 300 of the United States, and Hesix from the Netherlands were introduced to supplement the Beijing White Chicken, a fine breed crossbred from several outstanding foreign strains. Weighing an average of 62 grams, the brown eggs of Star Cross 579 have proven very popular and are often in short supply in Beijing—even though they are sold at slightly higher prices than other eggs.

Several years ago China's broiler chicken industry consisted mainly of chickens unfit for egg production. But foreign broiler breeds such as Ross, A.A., and Lohmann are being successfully imported to stock chicken farms. Modern broiler-production complexes, each with an annual capacity of several million birds, have been or are in the process of being built in many major Chinese cities.

Broiler chickens grow faster than other meat-producing animals and use grain more efficiently. Chickens consume about 2 kilograms of coarse grain for every kilogram of meat produced, approximately one-half the amount hogs consume and one-third the amount for cows. Chinese livestock experts are beginning to realize that broilers are a practical solution to China's formidable task of providing enough meat for a country with a huge population and very limited grain sources. —Kirsten Russell and Wang Bo (China Features) needs are easily ignored, and China does not take advantage of the advisory role the seller can play. Only farms in Guangdong are allowed to avoid this problem by dealing directly with foreign suppliers.

Successful producing regions

In the race to make more meat available to the population, some Chinese provinces are performing better than others. The major meat-producing regions are not located in the central and western grasslands, but in coastal areas or along the major waterways that supply the large cities of Tianjin, Beijing, and Shanghai. But the areas that have enjoyed the most rapid increases in meat output, with growth rates ranging from 32 percent to 10 percent in 1985 are the provinces of Sichuan, Hunan, Guangdong, Jiangsu, Shandong, Hubei, Zhejiang, Hebei, Guangxi, and Anhui. Their success stems from superior local breeds, high free-market prices, and convenient access to major urban or overseas markets. The average turnover rate (the number of hogs slaughtered divided by the total number of hogs) for these provinces in 1985 was 78 percent, six points higher than the national average. These superior turnover rates demonstrate that swine herds are being managed more efficiently, fed more grain, and better culled, with only the best hogs allowed to reproduce.

Further evidence of specialization comes from the growing value of animal husbandry as a percentage of the total Gross Value of Agricultural Output (GVAO). Not only did nine of the 10 provinces show a higher share for animal husbandry in GVAO in 1985, but eight of the 10 provinces also had 1985 animal husbandry GVAO growth rates equal to or greater than growth rates for the 1981–84 period.

More meat for the masses

Despite all the problems, concentrated support and stimulation of dairy farming, beef raising, and other related livestock industries will continue. Demand for imported livestock, semen, and farm management technology will continue to grow, but it will be many years before such imports have a major impact on trade.

Ultimately the expansion of China's animal husbandry industry is aimed at improving the domestic standard of living. More red meat will provide a tastier diet and better nutrition, in addition to clothing, shoes, and frozen food for export. China's improved eating patterns will help legitimize the economic reforms by putting more food on the table. But to gain this legitimacy, China is going to have to come up with a formula for rationalizing prices for pork and grain to make sure consumers don't feel the pinch in their pockets. 完

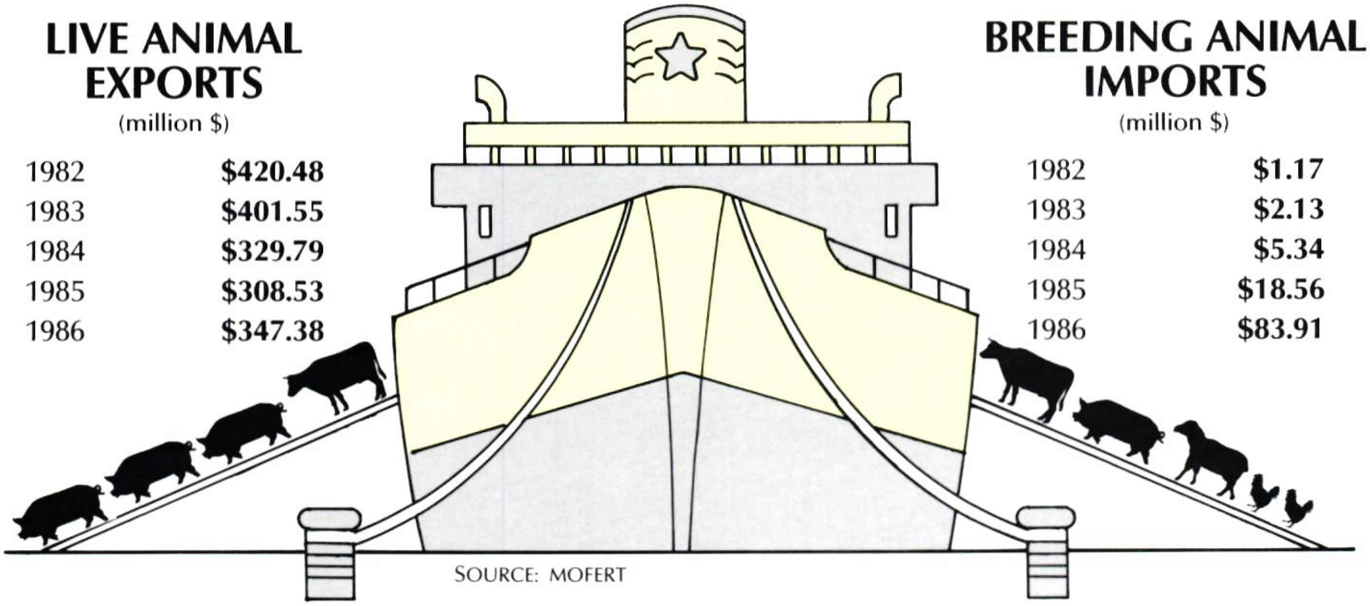
Selling animals to China can be a risky business

Restrictions on US–China Livestock Trade

Roseanne Freese

Even though the United States is the world's leading agricultural producer, it has captured only a small percentage of China's animal import trade. More than 200 swine were sold by US exporters to China in both 1981 and 1982, but no sales were made in either 1983 or 1984. The first US cattle sale—consisting of 339 beef cattle and 348 dairy cattle—were made in 1985. In 1986 the United States sold 3,291 swine and 613 dairy cattle.

The major reason for the low level of US participation is China's strin-



gent testing requirements for such cattle diseases as tuberculosis, brucellosis, bluetongue, and other infectious diseases. China also requires that the herds from which the cattle are exported be disease-free for the last two to three years. And requirements are often made on the animal's breeding lines for the past two to three generations. Swine diseases of major concern include swine dysentery, atrophic rhinitis, tuberculosis, and pneumonia.

The Chinese are particularly nervous about bluetongue disease, which often remains dormant in cattle but can devastate sheep flocks. China's sheep losses from 1981 to 1984 due to bluetongue disease were extensive, with some flocks dropping by as much as 13 percent in size.

American cattle, consequently, may be shipped only from bluetongue-free areas in the northeast and northern Midwest, putting West Coast and southern cattlemen at a disadvantage. Restraints on the shipping season, from November 1 to April 15 when the vector is least likely to appear in the United States, further restrict cattle sales. These requirements are limiting US breeds to the most superior quality and, thus, the most expensive cattle. These high costs, added to the long-distance transportation charges from the United States to China, makes it extremely difficult for US breeders to compete in sales of live animals.

China's required testing for bluetongue and other diseases is extremely expensive. Many potential US suppliers are wary of the high cost of veterinary documentation and quarantine expenses associated with the rules. According to Jim Stafford, export mananger of Holstein-Frisian Services (US), testing costs average $300 per cow. This is a hefty fee for the exporter, who paid somewhere between $2,300 and $2,700 for the cow on the auction block.

The cost of quarantine

While agricultural technology sales and exchanges have increased over the past two years, the shipment of live animals is still a highly treacherous undertaking.

Highlighting the benefits of trade as well as the difficulties to be avoided are the experiences of the Transamerica Corporation (US), Golden Genes (US), and Holstein-Frisian Services—companies that have all made recent sales to China. These firms do not own herds, but act as international cattle brokers, consultants, and animal freighters.

The first and largest US sale to date was made at the end of 1985 by Transamerica. The company negotiated for three-and-a-half years before delivering 698 Holstein-Frisian heifers and five bulls in early 1986. Transamerica received full payment for all 703 cattle, despite destruction of nine heifers Chinese officials believed to be diseased and the subsequent loss of another 100 cattle during and immediately after the quarantine period in China.

Golden Genes and Holstein-Frisian were not as lucky. The contract for these two exporters specified that they be paid only 80 percent of their fees up front, with the remaining 20 percent paid after the cattle were released from Chinese quarantine. It is normal for both the exporting and importing parties to quarantine animals before and after shipment, but the Chinese insist upon an exceptionally long quarantine period of 45–60 days in the United States followed by two to four months upon arrival in China. Golden Genes and Holstein-Frisian Services both lost cattle during the Chinese quarantine period and had these losses deducted from the remaining payment. Holstein-Frisian cattle, which make up 92 percent of US dairy herds, are excellent milk producers, but they are delicate animals that often do not adapt as well to varied climates. This has led to significant cattle losses in recent Chinese-American cattle deals.

Adding to the quarantine problems are Bank of China (BOC) procedures, which delay payments to foreign exporters. The Bank of China does not automatically open a letter of credit when the business deal is concluded. Instead, it waits until the necessary supporting documents from the exporter's bank are received. Upon receipt of these documents, which include the trade contract, delivery procedures, restrictions, and payment agreement, the BOC decides whether to release all the funds, a certain percentage of them, or none at all to the US bank. Not only are huge sums of money tied up for as long as two weeks (instead of the normal two days with the standard L/C procedure), but the American exporter is also subjected to a higher risk of animal loss during the bank clearing period.

The experience of foreign hog exporters also varies. The Pig Improvement Company (US) has flown several large shipments to China, including one Boeing 747 full of pigs that all survived. Yet one British deal in late 1986 was scuttled after the Chinese killed the whole first shipment, claiming they were all diseased.

Despite the problems, US animal exporters continue to aggressively pursue opportunities in China. Dairy cattle sellers may at least find the going somewhat easier. In November 1987 the USDA approved a program to offer China 3,000 head of dairy cattle under the Export Enhancement Program. This program, which provides subsidies to US farmers to make their agricultural products more competitive on the international market, may be what is needed to tip the balance in US animal husbandry exporters' favor. 完

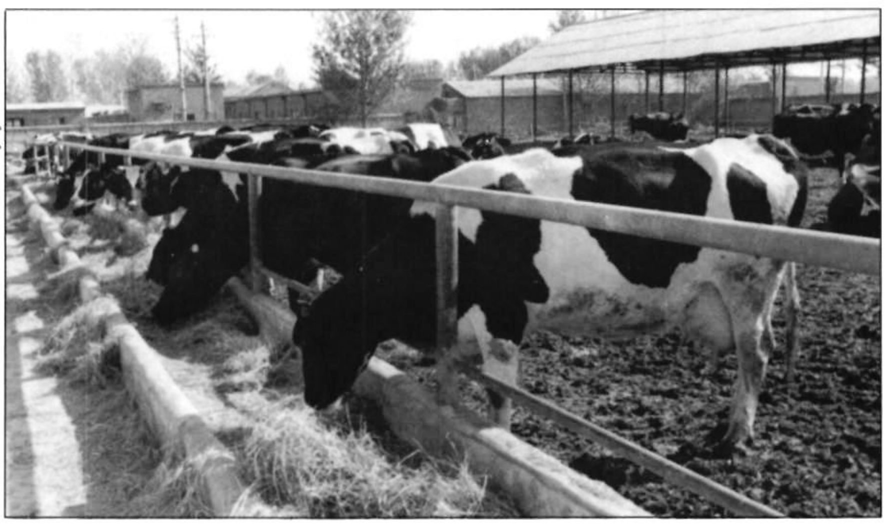


Photo courtesy of China Features

Imported Holsteins on a Beijing dairy farm.

Efforts to improve breeds hold the key to upgrading both the beef and dairy industries

Beefing Up China's Cows

Kirsten S. Russell

Prior to 1984, the majority of the beef eaten in China came from old or inefficient draught animals that had outlived their usefulness in the field. But this has changed over the past five years as increases in domestic income and rising imports of improved breeds and modern technology have promoted a wide-ranging effort to upgrade the beef and dairy cattle industries. Chinese officials are encouraging farmers to use a combination of stock imports, embryo transfer technology, artificial insemination technologies, and joint ventures to upgrade the quality of herds and fulfill market requirements more efficiently.

The previous structure of local, small-scale production is being transformed as large commercial cattle production bases spring up in plains areas in the central and northern regions of the country. These bases are being designed along the lines of highly productive large US farms, and will rely on advanced cattle raising techniques such as grain feeding using closely regulated formulas, keeping animals in pens, weaning calves, and separating cattle by age groups. The ability to raise a new, higher quality breed of cattle will be key to their success.

Problems with domestic beef cattle

China's beef production bases are largely populated with two breeds of domestic Chinese cattle, the Domestic Yellow and the Qin Chuan cows. According to the Chinese Academy of Animal Science, growth rates for the Qin Chuan breed are only 0.7 to 0.8 kg per day, even with proper feed rations. Due to the relatively high price of feed, only a small portion of Chinese cattle are being grain-fed. Cattle in grain-rich areas may be fed during their spring and fall work seasons, but cattle raised in the western part of the country graze throughout the year. Summer grazing, especially in the Inner Mongolian grasslands, is plentiful, but during the harsh winters cattle often suffer extreme weight loss and high death rates.

US Department of Agriculture (USDA) data on China's breeds show that an average calf weighs 20 kilograms at birth, reaches 100 kg after six months of grazing, but is back down to 70–80 kg by the next spring. After a four-year gain-and-loss cycle, the animal will weigh 300 kg and be ready for slaughter.

These figures may not be accurate, however. Trips to the field often reveal cattle that have more than four incisor teeth but are still underweight for profitable slaughter. (Cattle with four incisor teeth have reached full physical maturity and have stopped growing.) Official Chinese slaughter rates are well below the international average dressing rate of 60 percent. Yellow cattle weighing 400 kg dress at 180 kg carcass with 120 kg of meat, a 45 percent dressing rate.

The dairy dilemma

China's dairy industry relies primarily on Holstein cattle, raised mainly in State-run farms located in or near major cities where the demand for milk is greatest. Many of the cows were imported from the United States and the Netherlands beginning in 1980, but milk produc-

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tion of Holsteins in China averages only 3,000 kg per year, compared to about 6,500 kgs in the United States.

Holsteins are high-energy consumers and converters, requiring large amounts of feed to maintain a high level of milk production. Chinese dairy cattle are given some feed with added nutrients, but such feed is expensive, and they generally do not get as much as they need. Milk production is also extremely sensitive to outside factors such as climate, sharp changes in temperature, and housing conditions (cleanliness and amount of space). China's dairy farms tend to be wet and dirty, lacking cement floors that can be easily cleaned.

New breeding technology

A variety of methods are being tried to improve domestic cattle stock, including livestock breeding centers, animal research stations, veterinary centers, and agencies offering management advice. Funding comes from central and provincial governments, local organizations, and foreign loans.

The breeding goal is to cross-breed a larger, dual purpose cow that can supply both meat and milk. Attempts are varied, but at one farm or another Domestic Yellow and Qin Chuan breeds have been crossed with imported Simmental, Polled Herefords, and Indian and Pakistani cattle.

Farmers are attempting to increase production and quality quickly by the use of imported semen and high-quality embryos, so they are increasingly relying on advanced breeding methods. The country's first artificial insemination station was established in 1973 by the Ministry of Agriculture, Animal Husbandry, and Fisheries (MAAF), and since that time more than 25 additional stations have been set up nationwide. In evaluating foreign investment projects, central authorities have favored those that include embryo transfer technology, so local authorities have been eager to include this technology in their projects—even if it wasn't their primary goal. Many embryo transfer facilities have been established at existing artificial insemination stations. Training for technicians involved in these two processes is coordinated by MAAF through training centers in Beijing and Heilongjiang and trips of experts to the field. These services are provided free-of-charge to local farmers and provincial livestock farms in almost every part of the country.

In 1985 some 90 percent of China's dairy cows and heifers were bred artificially, mainly using semen in pellet form, according to USDA China Section Head Francis Tuan. This number rises to 100 percent for dairy cows on farms close to large cities. With the artificial insemination process, each bull is able to breed 2,000 to 3,000 cows per year, compared with only several hundred in 10 years if left to natural breeding.

One station near Beijing reports

In evaluating foreign investment projects, central authorities have favored those that include embryo transfer technology, so local authorities have been eager to include this technology in their projects—even if it wasn't their primary goal.

2.4 doses of semen are used to produce one calf. Another provincial-run station reports artificial insemination success rates of 95 percent on the third take, and 60 percent for embryo transfer.

These rates would be superior even in the United States, a world leader in breeding technology. Sam Washburn, president of the Animal Husbandry Division of Cyrus Eaton World Trade, says that the high rates China reports are expected only under more advanced conditions and with more experienced technicians than exist at present in China. China may be able to achieve such rates, but only on its most advanced State farms, according to Francis Tuan. Artificial insemination rates in the United States average 60 percent in the first take, 70–80 percent in the second, and 95 percent in the third take. Highly skilled technicians in the United States would be able to achieve average embryo transfer success rates of 45 percent for frozen embryos and 60 percent for fresh embryos.

Forming joint ventures

Joint ventures in the industry will also help raise the quality of cattle and improve meat production standards in China. At this point, several US companies have signed major deals, but most of the projects have yet to get off the ground.

One company planning to export beef to the Asian market is Cyrus Eaton World Trade, which has a 50–50 joint venture with the Industry and Commerce Corporation of Inner Mongolia. The 20-year, $30 million venture will set up a cattle feedlot and slaughter plant to produce high quality corn-fed beef products. Charolais and Simmental donor cows and bulls along with embryo transfer technology will be imported to improve the genetic makeup of Inner Mongolian cattle.

Cyrus Eaton World Trade signed a second major cattle project in late November 1987. This $21 million joint venture located in Xinjiang will produce beef and lamb for export.

Another example is a project agreed to last summer by CENI Corporation, a group of Nebraskan cattlemen who specialize in cattle breeding. The $53 million 15-year joint venture between CENI Corp. and four Chinese companies expects to cross-breed indigenous cattle with US fine breeds at cattle farms in Heilongjiang, Jilin, Liaoning, and Inner Mongolia, then send full grown cattle to Dalian for slaughter. From Dalian, 70 percent of the meat will be exported, primarily to Asian countries. The venture hopes to penetrate the Japanese market by selling cooked beef products until China is able to pass Japan's strict health codes for imported raw beef.

These joint ventures, and others such as Outreach International Ltd.'s dairy and beef cattle breeding project in Heilongjiang Province, are important to the overall development of the industry because they focus efforts on large farms in China's major cattle-producing regions to improve breed characteristics. By crossbreeding an export-quality nucleus herd and operating with the most modern cattle raising, slaughtering, and meat processing methods, these joint ventures will introduce Chinese cattle-producers to the breeds and methods necessary to make China's cattle an important industry. 完

Economic Crime in China

Despite strict definitions and harsh punishments for economic crime, many offenders are slipping through the net

Mitchell A. Silk

The proliferation of economic crime in China since the early 1980s should come as little surprise. Many factors—including decentralization of economic decisionmaking, greater availability of foreign exchange, changing values, the rapid growth of China's foreign and domestic commerce, and experimentation with price reforms—have greatly enhanced the opportunities to make money by both legal and illegal means.

But Chinese officials are not about to shrug off economic crime as an inevitable consequence of reform. To them, it poses a serious threat to national stability and economic growth. As Yang Yichen, chief procurator of the Supreme People's Procuratorate observed in 1986, "Criminal activities in the economy not only cause great economic loss to our nation . . . but also corrupt cadres and the masses, corrode the body of Party and nation, pollute the mood of society, and cause great harm politically." One recent poll conducted nationwide in China confirms this grave view of the problem, showing corruption among officials heading the list of popular grievances.

The depth of official concern has become apparent over the last few years. Judicial attention has shifted from crimes endangering public security—the focus of the 1983 Anticrime Campaign for example—to those disrupting the economy. Harsher penalties like imprisonment are being sought for economic offenders who once might have gotten off with a fine and a stern warning. Early in 1986 a high-powered anticorruption campaign headed by Qiao Shi (recently appointed member of the Politburo Standing Committee) was launched to crack down on the most serious economic crimes, especially those committed by senior Party officials.

Yet the role of the Party in cracking down on such crimes remains an ambiguous one. For one thing, the Party is usually too lenient with its own members. According to various reports, approximately one-third of the economic crimes being investigated and prosecuted in various Chinese cities are committed by Communist Party members. These Party members, many of whom hold important positions in government, are not easily challenged, and even when arrested, are treated more leniently than others. This may reflect an unanticipated side-effect of China's reform program: the ethical system is changing such that individual profits, wants, and needs are beginning to be valued at least as highly as the collective good.

For whatever reasons, the campaign against economic crime has fallen far short of the mark so far. After an initial flurry of highly publicized crackdowns, chiefly involving officials in the provinces and municipalities, Qiao Shi's campaign fizzled out. And despite the stiffer penalties and even public executions of some offenders, many forms of economic crimes are on the rise.

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Leading forms of economic crime

Generally speaking, any criminal behavior that violates an economic law or regulation, undermines the socialist economic order, or otherwise endangers socialist economic relations falls within the rubric of economic crime. Current efforts to curb economic crime in China are being focused on those acts thought to cause the greatest financial losses to the State, including smuggling, bribery, speculation, fraud, counterfeiting, and divulging State secrets pertaining to China's economy and trade. All of these crimes have thrived in the 1980s.

1. Smuggling refers to criminal acts in violation of customs laws and regulations. Such acts include false reporting, deceptive packaging, and the shipment or receipt of goods without valid import or export licenses. In 1985 there were 10,600 cases of smuggling, more than double the 1984 total. Some 90 percent of these cases involve State enterprises and organizations according to Chinese press reports.

Smuggling is heavily concentrated in the three southern coastal provinces of Guangdong, Fujian, and Zhejiang, which actively trade with Hong Kong. China's most heralded smuggling case involved officials on Hainan Island (formerly part of Guangdong Province), who resold $1.25 billion worth of imported automobiles, refrigerators, color televisions, and video and cassette recorders to inland provinces before being apprehended in 1985.

Smuggling ancient relics—obtained either by grave robbers, museum thieves, or individual Chinese collectors and entrepreneurs—has become big business with the development of China's foreign trade and tourism. So big in fact, that operations appear to be falling increasingly into the hands of organized smuggling rings with well-established connections in Hong Kong, Macau, and major cities throughout the world. To control the situation, the Chinese have imposed stiff monetary fines and criminal sanctions. In serious cases the lucky smuggler may escape with a fine in the hundreds of thousand yuan, while the more unfortunate have met with the death penalty.

*2. **Bribery*** is pervasive in Chinese society, where personal connections are an important means of cutting through bureaucratic obstacles of all kinds. It is punishable in three forms: offering to give a bribe, accepting a bribe, or introducing a bribe as a go-between. However, to be punished under the law, persons ultimately receiving the bribe must be "State personnel"—that is, personnel "entrusted by the State . . . to engage in public service."

China's law covering bribery is more sweeping than foreign laws governing corrupt practices, such as the US Foreign Corrupt Practices Act (*see* p. 31). Under Chinese law virtually all payments or benefits conferred in exchange for a State personnel's use of his or her official power—including "facilitating payments"—are considered bribes. This broad construction may help protect foreigners from extortion in China. In one case, a Chinese official received a stiff prison sentence after authorities learned that he had tried to extort a bribe from the foreign party in a Tianjin venture. But as Chinese press articles admit, the number of bribery cases uncovered each year represents only a miniscule proportion of all bribery committed—and covered up—by officials at all levels.

*3. **Speculation*** (or "profiteering") covers a wide range of offenses related to the administration and control of monetary affairs, foreign exchange, gold and silver, and industrial and commercial affairs perpetrated for the purpose of generating illegal profits. The crimes all share the trait of interfering with the effective administration of monetary affairs, pricing, and channeling and distribution of goods.

One of the most common forms of speculative criminal activity is the sale of State goods obtained at below-market prices on the open market—often at a great profit. Eventually, the State hopes to put an end to this form of economic crime by gradually reducing the number of goods sold and distributed under the central planning system. But for now, many enterprise managers and Party bosses continue to take advantage of the current confusion.

Other forms of speculation include: trading on the black market; the unauthorized sale of gold or silver, foreign currency, or precious gems or relics; illegal profit-making by selling documentation necessary to carry out a transaction (such as an approval certificate, contract, or receipt or use of a bank account). By late last year, gold smuggling had become such a serious problem that authorities had to outlaw the activities of individual gold miners and enact

ECONOMIC CRIME AND THE FOREIGNER

The increase in economic crimes in China requires foreign traders and investors to be wary in their business dealings. Foreign importers, for example, should request documentation from the seller and relevant agencies to certify that the Chinese manufacturer actually makes the goods to be delivered and has followed customs and other required procedures, including exporting within quota limits if there is one. Scores of US importers have already suffered immeasurable losses; in one case, an innocent US importer literally lost its shirt when US Customs seized and destroyed a shipment of cotton shirts. The Chinese supplier had not had a quota for the shirts for three years, and had not even manufactured them for two years. Along with the shirts went payment for the goods, miscellaneous fees, and much worse—a loss of the importer's market share.

Foreign exporters must also beware. Suppliers would be wise to check whether their Chinese customers (both the unit and the trading agent) have the authority to buy such items in the quantities to be sold, and whether the buyer legally possesses the foreign exchange to make the purchase (if the purchase calls for payment in foreign exchange). Certainly the foreigner unaware of illicit activity in a given transaction would not face criminal liability; however, the detection of such cases could very well leave the exporter without payment for goods already shipped, and, in some cases, suffering from a tarnished reputation.

Expatriate business executives in China have their own set of concerns. In conducting feasibility studies and other economic research, as well as protecting various business interests, they must remember that much of the statistics and information necessary to make prudent business decisions may be viewed as confidential to the Chinese.

In some cases foreigners have been called in for questioning by Chinese authorities. China has no right comparable to the US Fifth Amendment right against self-incrimination. Thus, questioning on any specific matter can leave the person or corporation under examination vulnerable to unlimited potential liability. This calls for carefully deliberated responses to questioning by any government authority, without seeming to be uncooperative. Those who are perceived as uncooperative run the risk of increased scrutiny and punishment, reflecting the Chinese principle of "leniency for those who confess and severity for those who resist."

Foreigners should also be aware of the tendency of even top-ranking, and presumably knowledgeable, Chinese officials to confuse illegal practices with those they happen to consider "illegitimate." For example, tax officials have been known to confuse wrongful evasion or fraud with legal avoidance of taxes.

Businesspeople in China should remember that surveillance is not just the work of the judicial and administrative agencies. Friendly elevator operators and floorboys normally report any seemingly deviant behavior to the authorities. One tax official wrote in an authoritative journal that hotel personnel are expected to cooperate with tax and other relevant authorities to report the number of days foreigners on extended visits stay in China, so as to effectively monitor which foreigners approach or exceed the number of days attaching tax liability, and thus detect tax evasion. Outside the hotels, the formidable informal network of control includes extrajudicial grassroots organizations like street offices, residents' committees, residents' groups, and security defense committees. Such groups supervise from as few as 20 to 50 households to as many as 100 to 600 households. —MAS strict new rules to ensure that all gold mined would be sold to the State. The State pays only about half the price on the international market that gold will bring.

*4. **Swindling*** occurs when a person defrauds a victim of property by falsely representing a material fact. Chinese authorities have responded harshly to the increase in the number and magnitude of swindling cases which, together with speculation, made up about 20 percent of the economic crimes investigated in 1986. The increased mobility of Chinese citizens brought on by economic reform has greatly enhanced the opportunities for swindling.

One offender in Beijing, who had impersonated a leading cadre, Party member, and engineer, was finally caught after defrauding enterprises of ¥6,632 in wages and entering into bogus contracts worth ¥210,000. One of the largest economic crimes reported thus far involved Du Guozhen, who illegally sold goods worth more than ¥100 million. Du was charged with profiteering, swindling, and bribery and was executed in late 1986. A Hong Kong businessman, Li Zhanyun, was sentenced to life in prison back in 1981 for defrauding a number of State-owned enterprises of over ¥1,300,000 by posing as the head of a Guangzhou branch of a Hong Kong trading company. The trading company in fact had not applied for or received approval to operate in Guangzhou, while Li used the proceeds from the contracts to purchase rabbit furs and smuggle them to Hong Kong.

*5. **Diverting foreign exchange*** most commonly takes the form of swaps on the black market, which can take any of a number of permutations (money for money, goods for money, and so on). One need only step outside any of China's major hotels, foreign exchange banks, or stores catering to foreigners to witness real-life examples of these exchanges. Most involve relatively small amounts of foreign exchange, but one transaction two years ago reportedly involved several million yuan. Another popular option is to divert foreign exchange before it even crosses China's borders. This is possible when foreign exchange proceeds of a sale made outside China are diverted to a foreign bank account and substituted with renminbi domestically.

*6. **Disclosure of State secrets*** relating to the economy and trade may be the most troubling crime on China's books because it is so difficult to define. "The Provisional Regulations on Guarding State Secrets" enumerate 15 specific types of State secrets but conclude with two catch-all categories: "all State affairs that have not been made public" and "all other State affairs that should be kept secret." Such general clauses have serious implications for foreigners and their Chinese associates since almost anything related to foreign economic relations—be it statistics, guidelines, or other infomation not announced publicly but deemed sensitive by the authorities—could be categorized as a State secret.

At least two published cases involving foreigners highlight this problem. In the early 1980s, Hanson Huang, an American lawyer trained at Harvard, was sentenced to 15 years imprisonment for divulging State secrets about China's energy resources to the United States. More recently, a deputy bureau chief for foreign trade under the State Economic Commission and another official leaked State secrets on China's automobile industry to foreign and Hong Kong businesspersons. The information was used in subsequent contract negotiations. One of the culprits was reportedly executed while the other received a 17-year prison sentence.

In another case, a Chinese newspaper received no more than a reprimand from the Ministry of Public Security when it reported the discovery of a major mineral mine. Because it identified the mine's exact location, type of deposits, and proximity to means of transportation, "everything about the new mine was known to foreign countries," according to the Ministry of Public Security.

*7. **Trademark counterfeiting*** has brought substantial economic losses to domestic, and even some foreign, manufacturers in China. To combat these losses, China codified the crime of trademark counterfeiting in 1979—long before many of its Asian neighbors and even the United States followed suit. Also, the State Administration of Industry and Commerce declared war on trademark counterfeits in early 1987 by stepping up enforcement efforts and staging an exhibition on the problem.

There is still room for progress, however. Resolving trademark disputes—and sometimes even obtaining initial protection by application—is a trying experience, owing in part to the difficulty of obtaining evidence to establish infringement in what may be an already hostile dispute setting. In addition, agents from the same trademark agencies may represent both parties to a dispute, thus creating a conflict of interest. Yet another problem is the inadequacy of the practical solutions available, such as a post facto licensing agreement between the rightful owner and the counterfeiter. These are either unworkable or unacceptable, and in most cases leave the rightful owner of the trademark worse off than he was before the counterfeiting took place.

*8. **Tax evasion*** has taken new forms in China due to the expanded role of taxation in the country's financial system. (Only since the early 1980s have enterprises and some individuals in China been required to pay income taxes; before the reform enterprises had to hand over all profits to the State, which would then allocate funds according to central plans.) Tax evasion refers to the intentional violation of laws and regulations through deceptive means in an effort to escape tax liability. This crime is distinguished from civil tax fraud, which results from mere negligence, and tax avoidance, which is the legal reduction of one's tax liability through various planning techniques.

Tax and other fiscal crimes present a problem for enforcement authorities because there are simply not enough trained personnel to cope with the enormity of the problem. In 1985, for example, audits conducted in seven provinces revealed that 70 percent of all factories paid no taxes, with the percentage of tax dodgers among individual traders nearing 100 percent in some areas. With the establishment of so many enterprises in recent years, especially loosely regulated collective and private enterprises in the retail sector, the problem will undoubtedly get worse without a substantial increase in the number of tax auditors.

But even with inadequate supervision of enterprises, tax, audit, and procuratorial officials have managed to uncover hundreds of millions of yuan in tax fraud each year. In 1986, for example, China's tax auditors uncovered $324 million in tax evasion

WHO MONITORS AND ENFORCES ECONOMIC CRIME?

China is equipped with a pervasive machinery for combatting economic crime that penetrates all layers of Chinese society. Each of the institutions described below (including those at the county level not shown here) is active in waging the war against economic crime whether in terms of detection, investigation, prosecution, or trial and sentencing.

The **court system** is responsible for the trial and sentencing of criminals. Reorganized and strengthened in 1979 with the promulgation of the new Organic Law of the People's Courts, the court network extends from the Supreme People's Procuratorate in Beijing to the several thousand Basic People's Courts at the county level. Within each People's Court there is a civil and criminal division. Administrative divisions to handle appeals from administrative agencies are the most recent additions to this scheme.

The structure of China's **procuratorate**—resurrected in 1978 and then revamped in 1983—mirrors that of the court system. The procuracy's role resembles that of prosecuting agencies in the United States, except that its functions are broader. Its main responsibility lies in investigating criminal cases, supervising and monitoring the police, initiating prosecutions, reviewing trial procedures, carrying out judgments, and operating correctional facilities.

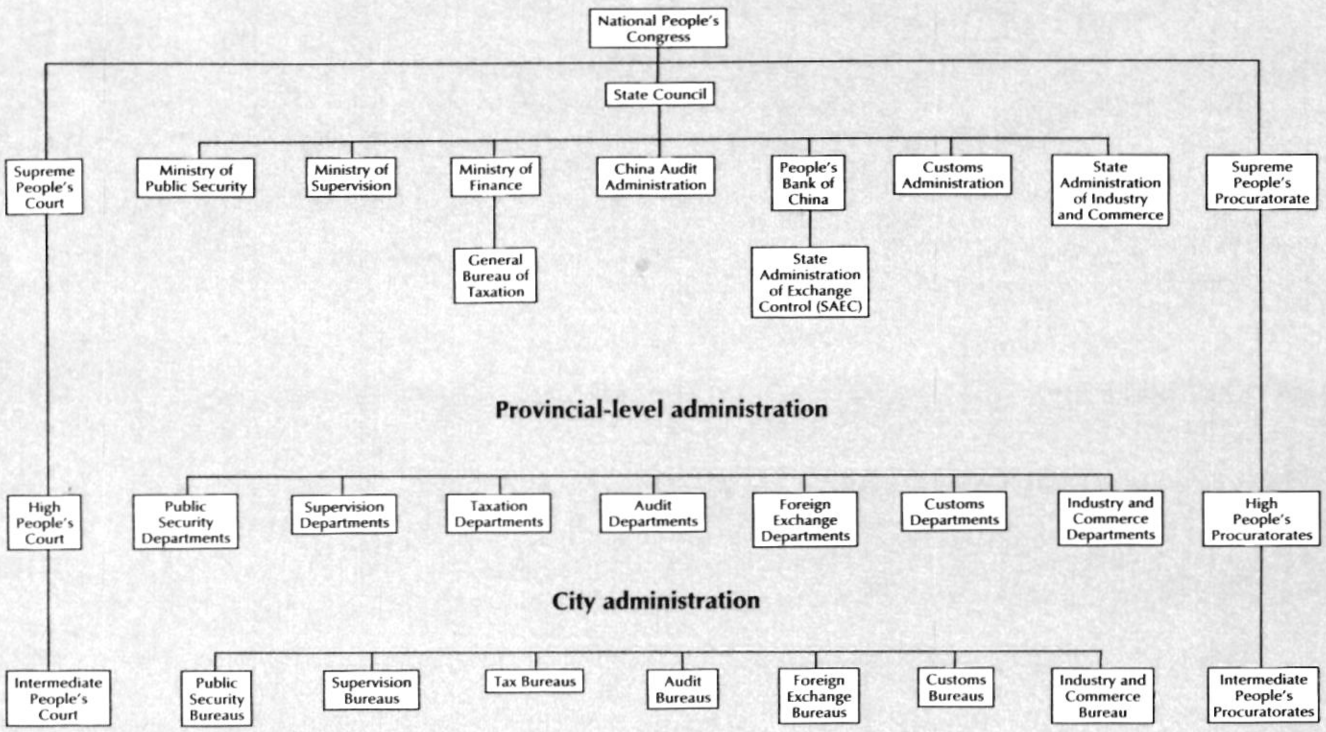
The **public security apparatus** focuses on detection and investigation. Aside from general powers to investigate and arrest, public security officers are also armed with an arsenal of administrative sanctions to assist in the maintenance of public order. These include the rights to issue warnings, impose fines, detain persons for up to 15 days (with the possibility of extending this period under certain circumstances), and to send offenders to labor camps for reeducation without formal trial procedures for a period of one to four years.

A growing number of ministerial-level agencies are also active in detection and enforcement aspects of economic crime. **The Customs Administration** uncovers smuggling cases in the course of monitoring imports and exports. **Tax bureaus** under the Ministry of Finance conduct investigations and refer cases to public security and procuratorial authorities for action on tax offenses. **The State Administration for Industry and Commerce** (SAIC) grants business licenses and concerns itself, among other things, with whether firms operate within their legal limits. SAIC helps uncover individuals and enterprises unlawfully engaging in business and earning illegal profits.

In 1983 the **China Audit Administration** (CAA) was established to monitor State tax and other economic affairs. The 26,000-person staff of the CAA engages primarily in auditing the finances of China's enterprises and units and their use of State funds. The CAA in conjunction with other agencies has begun a nationwide long-term inspection campaign on irregular financial practices, and to date has uncovered serious cases involving tax evasion, violations of State pricing laws, and the illicit bonus payments to employees.

The Ministry of Supervision, established in mid-1987, acts as watchdog over State organs. The new ministry is charged with supervising the performance of government departments, government workers, and government-employed factory managers. According to its minister, Wei Jianxing, however, the ministry in the near future will focus on supervising contracts signed with foreigners and deal with bribery, corruption, and malfeasance of government employees, including divulging State secrets by selling or otherwise revealing internal economic information to foreigners. Through October 1987 some 10,000 contracts had already been inspected.

Finally, the Party plays a substantial role. The Party Constitution effectively grants the Central Discipline Inspection Commission and its provincial and local branches priority over the judiciary in examining and dealing with Party members involved in criminal activity, including economic crime. Further, all organs mentioned below and other units within China have a Party branch that plays a key role in monitoring and reporting economic criminal activity.



cases among enterprises selling to the domestic market and an additional $290 million worth of tariff and tax evasion among enterprises involved in foreign trade.

Strengthening the judiciary

Much disagreement still exists in China about the causes of economic crime. For some, it is the product of corruption by foreign, "bourgeois" influences; for others, it is a manifestation of China's "feudal" legacy, in which family obligations take precedence over civic duties, leading to nepotism, patrimonialism, and the like. But most Chinese do agree on the solution: improving legal education and closing loopholes. Notwithstanding China's traditional confidence in the powers of education, much more fundamental changes will likely be needed before economic crime can be brought under control.

The first place to start is with the Communist Party. In theory, its impressive organization and ubiquitous reach would seem to suit it to the task of ferreting out economic crimes, especially where Party members are concerned. Yet even articles in the Chinese press and legal journals have begun to emphasize the ways in which the Party hinders rather than helps the legal process.

Despite Politburo member Hu Qili's call in early 1986 to "seize on the big cases, particularly those cases involving senior cadres and their sons and daughters," very few have actually been prosecuted. There were, for example, unconfirmed reports in the Hong Kong press that corruption charges against the son and daughter of Politburo members Hu Qiaomu and Peng Zhen, respectively, were dropped in 1986 despite considerable evidence of wrongdoing. Examples of high-ranking Party figures receiving anything more than expulsion from the Party and a light sentence for economic crime are hard to find.

One notable exception was the sentencing of former naval commander Ye Fei's daughter Ye Zhifeng in April 1986. Yet even in this case, the privileges enjoyed by high-ranking Party members and their families are quite apparent. Ye conspired as the principal offender to take bribes and divulge guarded economic information to foreigners through a colleague who lacked the powerful network of connections of the Ye family. The unfortunate accomplice was reportedly sentenced to death and executed, while Ye escaped with a 17-year prison sentence. The inefficacy of the Party discipline and inspection commissions indicates a need for the Party to defer to formal and harsher punishment by the judiciary.

Institutional reforms aimed at creating a professional judiciary free of Party interference are essential. And favoritism toward Party members found guilty of economic crimes must end if the judiciary is really to gain credibility. Chinese leaders may be on the right track when they call for special task forces to deal with major criminal cases, but these groups must be composed of professionals working full-time if they are not to disintegrate, as many before them have done. Training the much needed legions of qualified legal and judicial personnel to contain the growth of economic crime will take much longer. 完

COMMENTARY

评论

Corruption and the China Trade

Walter L. Keats

In China today, younger, better educated leaders are being promoted to key posts throughout the country. Lifetime job security, the ideal of the older generation, is gradually giving way to the dream of "getting rich." The Chinese people are being exposed to more and more foreign influences through personal contacts, the media, and travel abroad. And China's trade dealings with the outside world continue the dramatic expansion begun in the 1970s.

Nevertheless, after 10 years of work in the China trade, although the aggregate picture is improving, it seems to me that doing "business" in China (roughly defined as getting or giving the best quality and service for the best price) is getting harder rather than easier. As I see it, there are two great obstacles to normalizing the China business environment. The first is a highly entrenched bureaucracy, and the second is the ancient system of *guanxi* (relationships) that controls Chinese interpersonal activities. Both foster corruption and inefficiency and are legacies of China's feudal tradition.

Ironically, these feudal legacies are experiencing a renascence as China develops a freer, more market-oriented economy. China's bureaucracy still consists of layer on layer of officials in nonproductive jobs, all too often with the power of approval or disapproval over business decisions. This power leads directly to corruption and inefficiency in the form of bribes to officials who put their self-interest first. And the *guanxi* system of mutual favors helps inefficiency and corruption thrive amidst the temptations that Chinese officials face.

How does *guanxi* manifest itself today in China trade? It can be seen in high officials who pass the word to favor certain vendors with whom they have a special "relationship." It reveals itself in the way some overseas Chinese agents represent Chinese units that are perfectly capable of dealing with foreign companies on their own—simply because the agent has a "relationship" with one of the Chinese officials. It can be seen in the willingness of officials in Guangdong Province to permit the import of agricultural material in violation of Chinese quarantine restrictions because of their "relationship" with the vendor or vendor's agent.

Foreign companies hoping to sell to China are more likely to encounter such problems than those seeking to import the goods China is so eager to sell. A general rule of thumb is that the more China needs a foreign company's cash, product, service, or technology, the less likely *guanxi* is to enter the picture.

Sometimes the price asked in exchange for buying your product or service is sponsoring an official's child to attend college overseas. Or a foreign business partner may be asked not only to invite certain officials to his country, but expected to give them special favors including "gifts," such as stereos, TVs, washing machines, refrigerators, cars, and even money.

All too often, the abuses are even more blatant. A financial official may delay approval of a contract or letter-of-credit until he or she is invited to join a delegation going overseas. Or a visiting delegation may demand that each of its members receive a percentage of the value of a contract in US dollars. And worst of all for China, certain projects receive approval or foreign exchange allocations based on who knows whom, not the true merits of the project.

China still has a long way to go before it can completely free itself from the shackles of its feudal past. As long as anyone with any power of approval or disapproval over an economic transaction can, and does, use their position to exact personal benefit as the price of approval, corruption and inefficiency will be the result. Many of these practices are in violation of both Chinese regulations (*see* p. 24) and the US Foreign Corrupt Practices Act (*see* p. 31).

Those of us involved in China trade should take a vocal position on these abuses. Until we do, foreign companies will never be sure what they may be asked to do to close a deal.

What can China's leaders do to curb such corruption? Certainly greater openness in the economic sphere would make some abuses harder to conceal. The creation of a special trade investigator's office in China to whom foreign firms could turn when abuses occur would also be a good start.

My hope is that China's leaders will continue to speak out against corruption and take effective steps to halt such practices. They should remember, after all, that a significant factor in their successful rise to power in the 1940s was public dissatisfaction with corruption in the Nationalist (KMT) Party. In the end, they should recognize that the success of their open door policy depends on the willingness of foreign companies to do business with China. If the China market is widely regarded as a business gamble, many companies will decide to go elsewhere.

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The US Foreign Corrupt Practices Act

China poses a special set of problems

Thomas Peele

Years of experience have led many American citizens to conclude that small-scale bribery is an inescapable, if unpalatable, aspect of doing business in many Asian countries. In China, however, it is much more than that. Since most of the Chinese business partners of US companies are State enterprises, their employees may be considered government officials according to US law. And bribing foreign government officials to obtain business is prohibited by the US Foreign Corrupt Practices Act (FCPA).

To date, no one has been prosecuted under this law for corrupt business dealings in China, but this is no reason to take the Foreign Corrupt Practices Act lightly. Companies that fail to heed the sometimes vague provisions of this much-debated piece of legislation run the risk of prosecution in the United States. The wisest course is to know the FCPA and its ambiguities, adopt measures to protect your company, and if in doubt, consult with the US Department of Justice on the legality of activities your company is planning.

Confusing definitions . . .

The FCPA was enacted following a spate of disclosures made during the Watergate investigations that some corporations used secret slush funds to make questionable or illegal payments abroad. In response, the US Congress enacted the FCPA in 1977 as an amendment to the Securities Exchange Act of 1934.

The FCPA has never been popular with the US business community. Companies frequently complain that the FCPA puts them at an unfair disadvantage since their foreign competitors face no such restrictions on "gift-giving" from their governments.

Of course, US companies should also consider the advantages. The FCPA has occasionally shielded them from the extortionate demands of foreign enterprises. In a recent contract negotiation in Beijing, for instance, the final agreement was threatened with derailment at the last minute when a Chinese participant in the negotiations demanded a "fee." When representatives from the US company explained that making such a payment could subject the company to criminal prosecution in the United States, the demand was dropped.

But leaving aside the question of whether the FCPA is a "fair" law, it is, without question, a confusing one for US companies. A leading problem is the FCPA's failure so far to clarify precisely who is a "foreign official" in a socialist country—where the majority of businesses are run by the State, and where even most sales clerks are State employees. The FCPA now defines a "foreign official" as any person who "acts in an official capacity for or on behalf of a foreign government or any department, agency, or instrumentality thereof." But this definition presumably could cover almost any manager in a State enterprise, as well as consultants and technical advisers to Chinese State enterprises. By the same token, the FCPA's exemption allowing payments to employees of foreign governments "whose duties are essentially ministerial or clerical" can also apply very broadly, since the precise duties of many, if not most, State employees are difficult to define.

If the FCPA's definition of "agency or instrumentality" excluded State-owned enterprises that are commercial in nature, US companies would not have to be concerned about payments to persons in the majority of Chinese enterprises with which they deal. The FCPA is, however, silent on this question.

One congressional enactment that takes a clear position on this issue is the US Foreign Sovereign Immunities Act of 1976, which defines all foreign enterprises, including commercial enterprises, as "agencies or instrumentalities of a foreign government" if more that 50 percent of the equity of the enterprise is owned by a foreign government. If this definition were applied to FCPA cases, Chinese foreign trading corporations (FTCs) and even Chinese–foreign joint ventures could be considered instrumentalities of the Chinese government, and persons employed in such enterprises would be viewed as "foreign officials" for purposes of the FCPA.

. . . and a Reagan remedy

Aware that the vague provisions of the FCPA "have caused unnecessary concern among existing and potential exporters as to the scope of legitimate overseas business activities," the Reagan administration is trying another approach. A proposed amendment to the FCPA submitted to Congress by the president last February would clarify which types of payments are permitted, instead of attempting to more precisely define "foreign officials."

Many businesspeople welcome this approach. In particular, they approve of the fact that the amendment would, for the first time, specifically exclude from prohibited payments those payments made to facilitate or expedite a "routine governmental ac-

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tion." Payments that are specifically not prohibited include "any reasonable and bona fide expenditures, including travel and lodging expenses, incurred by or on behalf of a foreign official, which are associated with the selling or purchasing of goods or services or with the demonstration or explanation of products." For example, a payment made to a Customs official to permit goods to enter the country in order to fulfill a contract could be considered a payment made to retain business. Even a payment made to an official to order his agency to pay for goods or services already delivered—a problem often encountered in countries other than China—may be viewed as business related. These two types of payments could, however, also be viewed as facilitating payments—those relatively small payments made to lower-level officials "to assure or speed the proper performance of a foreign official's duties." Any decision by a foreign official to award new business or to continue doing business with a particular party will not, however, be considered a "routine governmental action."

Variants of the Reagan bill are now part of the pending omnibus trade legislation. As a result, their prospects for passage are tied to those of the overall trade bill. Given the number of controversial provisions in the omnibus bill, final action on the bill could be delayed until later this year.

Permitted business promotion

As tough as the FCPA may seem to US executives, it does attempt to distinguish between legitimate business promotion and bribery. This distinction is important to US corporations doing business in China, because making a sale often requires special efforts targeted at key officials.

Entertaining and business promotion in China typically entail inviting officials to visit company facilities in the United States or Hong Kong to promote sales or finalize contracts. During these visits, the officials are usually entertained, may be given samples or nominal gifts, and are often reimbursed for their out-of-pocket travel and living expenses. These activities violate the FCPA only if there is a corrupt purpose behind them. Legitimate promotional expenditures, such as travel and lodging expenses or equipment donations, undertaken in hopes of convincing a prospective customer of the quality of a company's products, do not violate current law. A US government statement explains: "While such activities are instrumental to obtaining business, in that they may persuade the official of the quality of a business's products or services, it is not expected that the official will give business to the concern in return for the incidental value of the travel and lodging provided. Given the absence of a *quid pro quo* understanding, these activities are not in violation of the current law."

Cartoon by T. K. Chang

"Welcome to the Great Wall of China, which is 3,700 miles long and stretches from the Gulf of Bohai to Gansu Province . . . *psst, can you sponsor me to study in America?* . . . .The Great Wall is the only man-made object visible from the moon and . . . "

Companies still unsure about the legality of transactions they are considering may contact the Justice Department, which has a program designed specifically to handle FCPA-related cases. The review program has seldom been used by US businesses, however; in the first five years of the FCPA, the Justice Department has issued only 15 review request summaries. Perhaps the chief deterrents to use of this program have been Justice requirements that the company's request be "specific and contain in detail all relevant and material information bearing on the conduct for which review is requested and on the circumstances of the proposed conduct," and that the company official signing the request certify that the request is "a true, correct, and complete disclosure with respect to the proposed conduct and the circumstances of the conduct."

THE FCPA ON BRIBERY:

Sections 103 and 104 of the FCPA prohibit: an "issuer" of publicly registered securities or a "domestic concern," or any officer, director, employee, or agent of either, or any stockholder acting on behalf of either, from using the mails or other means of interstate commerce in furtherance of an offer, payment, or authorization of payment of money or "anything of value" to a "foreign official," "corruptly" to obtain, retain, or direct business to any person. The FCPA also prohibits indirect payments or offers to pay any person where the payor knows or has "reason to know" that the corrupt payment or offer will be passed on to a foreign official.

Interpreting the FCPA

Particularly because of its vague definitions, the FCPA merits close scrutiny. What follows is an attempt to clarify some of the basic provisions of the existing legislation:

1. To whom does the FCPA apply? The FCPA's prohibitions apply to all "domestic concerns," a broad term that encompasses almost any US business entity. A "domestic concern" is defined as any individual who is a citizen, national, or resident of the United States or any corporation, partnership, association, joint stock company, business trust, unincorporated organization, or sole proprietorship that has its principal place of business in the United States or a territory, possession, or commonwealth of the United States. A US citizen, national, or resident is considered a "domestic concern" even if that person is acting for a foreign subsidiary or a foreign entity with no US ownership; if the other criteria in the FCPA are met, the FCPA applies to that person's acts.

The FCPA does not, however, apply directly to foreign subsidiaries of US companies—because they are not "domestic concerns." Thus, if a foreign subsidiary pays a bribe without the authorization or knowledge of the US parent, the subsidiary's activity is not technically covered by the FCPA. But if the US parent company participates in the act, looks the other way, or ignores obvious signals that a bribe is going to be offered, the FCPA may apply.

2. When does the FCPA apply? The FCPA applies only to transactions in which the mails or wire services or other means of interstate commerce have been used "in furtherance of" a foreign bribe. The courts lack jurisdiction unless this requirement is met. It is important to note that this jurisdictional provision does not require a questionable offer or payment to go through the mails before the FCPÅ is violated; it only requires that some means of interstate commerce, such as a wire transfer, telex, or telephone call, was used in connection with the offer or payment.

3. What sorts of bribes does the FCPA cover? Since the FCPA prohibits both payments and *offers* to pay, an offer to pay a bribe does not have to be accepted for the FCPA to be violated. Furthermore, the FCPA covers all "things of value," so either money or a nonmonetary *quid pro quo* offered to a government official can constitute a violation of the FCPA.

4. When is a company liable? Companies are considered to act through their employees or other agents. If a company employee pays a bribe to secure business, the company could be held liable for violating the FCPA. To avoid liability for unauthorized acts of employees, many companies caution employees against offering bribes and other pay-offs in policy statements and then follow up by monitoring employee conduct.

If a payment has been made indirectly through an agent or foreign subsidiary, a company is liable if one of the company's employees knew or had "reason to know" that the agent—for instance, an independent agent in Hong Kong—intended to pay a bribe. This has been a persistent source of concern for US companies. The "reason to know" standard has forced US companies that use foreign agents to inquire into the activities of such agents and to keep clear records of their working relationship with them.

Reason to know is not defined in the FCPA and eliminating this vagueness has been a principal focus of efforts to amend the FCPA since its enactment in 1977. The bill sent to Congress by the administration removes the provision on "knowing or reason to know" and replaces it with a prohibition on directing or authorizing a third party "expressly or by course of conduct" to make a payment that would be barred if made by the US company directly.

Certain aspects of proposed transactions may be tip-offs that would give a company "reason to know" that a questionable payment is intended, or that should at least cause the company to make an inquiry. In China, this might include an abnormally large commission or fee; payment outside of China, possibly in violation of China's foreign exchange control regulations that require any foreign exchange to be paid to the Bank of China; employment of an agent who lacks proper qualifications but who has a personal relationship with officials responsible for awarding a contract; or a proposal to carry out a transaction of dubious legality under local law.

Some companies try to protect themselves by inserting FCPA-relevant provisions into their contracts with agents. An agreement with a marketing representative, for example, can stipulate that the representative will not offer anything of value to any official on behalf of the US company and that the agreement will be void from the beginning if the foreign concern violates this representation. The contract might further stipulate that the marketing representative assign no portion of its fees without the written consent of the US firm.

5. How does the FCPA define corruption? The term "corruptly" in the FCPA is taken from the US domestic bribery statute, which defines the term as an "evil" intent to "induce the recipient to misuse his official position" in order to wrongfully "direct legislation or regulation . . ." This suggests that a company must have had an "evil" intent before it could be considered to have violated the FCPA. But because the statutory language is imprecise, companies should be aware that the US government could bring a civil injunction even against a company that merely allowed a bribe to occur out of carelessness, rather than by design. 完

Zhao and the reformers win an important victory but the debate over actual reform measures will go on

The 13th Party Congress

Martin Weil

The recently concluded 13th Chinese Communist Party Congress represents a clear, but by no means complete, victory for China's policy of reform and opening up to the outside world. The Congress dealt a decisive, and probably final, defeat to the attempts of several old-time Marxist-Leninists to roll back the reform program in the name of ideological purity. This was accomplished by forcing the major conservatives to retire from prominent Party posts and publishing a comprehensive Party platform that gives the reform program a stronger theoretical legitimacy than ever before.

Not coincidentally, the Party also took its strongest step to date in handing power over to a new generation of pragmatic leaders who reached political maturity after the Communist revolution in 1949. Newly confirmed Party General Secretary Zhao Ziyang leads a team of top officials who are largely in their 50s and 60s, as opposed to the people in their 70s and 80s who occupied the highest positions previously.

Zhao's base is far from weak in the key executive organs—in order of importance, the five-member Politburo Standing Committee (*see* p. 36), the 17-person Politburo, and the four-member Secretariat. But he still must deal with differing points of view and bases of power—leaders such as Li Peng, the new premier of the State Council, and Qiao Shi, chairman of the Party's Central Discipline Inspection Commission, not to mention leaders of the People's Liberation Army. And it is taken for granted in China that the 82-year old Deng Xiaoping, rather than Zhao, still holds ultimate power.

A justification for reforms

The major actions of the 13th Party Congress were to approve Zhao Ziyang's work report and select personnel for the Party's leadership organs. The report, amounting to a Communist Party platform for the next five years, included a ringing affirmation of both economic and political reform. In the economic sphere, the emphasis was on increasing both the role of market forces and the decisionmaking autonomy of enterprises. In the political realm, the major points included eliminating Communist Party interference in the routine governmental work of economic administration, democratizing procedures within the Party itself, and streamlining the government bureaucracy. Like Party platforms in many countries, these proposals should be viewed as statements of intent, rather than a concrete program. Although the Party appears poised to move quickly on noncontroversial issues such as bureaucratic streamlining, progress in other areas—particularly removing the Communist Party from routine work—will undoubtedly be very slow.

The most significant part of the report was the presentation, for the first time, of a detailed theoretical argument to defend reforms against charges that they represent an abandonment of Marxism-Leninism and a return to capitalism. The "Theory of the Primary Stage of Socialism" states in essence that as long as China remains a poor developing country, any measure conducive to developing production can be considered socialist. And, the report indicates, China will remain in this primary stage of socialism for the next 70 years.

The previous lack of theoretical justification for the reforms gave opponents the opportunity to attack them as anti-socialist, a charge that proponents were, until now, unable to effectively refute. Now that the "Primary Stage of Socialism" is enshrined as the official Party line, it will be much more difficult for opponents of reform to mount a direct attack. This does not signal the end of debates over concrete reform measures, but it definitely weakens the impact of voices calling for a rollback of some of the reforms initiated in the last three to four years.

The leadership role

The most striking feature of the personnel changes at the Congress was the decision of Deng Xiaoping and his senior colleagues Chen Yun and Li Xiannian to step down from the Standing Committee of the Politburo, along with the forced retirement of the backbone elements of the conservative group in the Politburo and Secretariat—Peng Zhen, Hu Qiaomu, Deng Liqun, and Yu Qiuli—who spearheaded the successful attack on Deng's hand-picked successor Hu Yaobang in January 1987. Hu Yaobang, however, retained his Politburo seat, a symbolic conclusion to his struggle with these men.

Zhao Ziyang heads a five-member Politburo Standing Committee that also includes, in rank order, Acting Premier Li Peng, security apparatus czar Qiao Shi, new propaganda strongman Hu Qili, and veteran economic planner Yao Yilin. This group appears to have been deliberately chosen to preserve factional and institutional balance.

Zhao and Hu Qili are proponents of relatively rapid reform, while Li Peng and Yao Yilin are generally believed to favor a slower, more controlled approach. It should not be as-

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sumed, however, that Li Peng and Yao Yilin's views are identical to those of their conservative sponsors. As representatives of a younger generation that came of age in the 1950s, they almost certainly have a less ideological view of the world than the older generation, whose views were forged by two decades of civil war. The differences between Zhao and Li or Yao are therefore not likely to be as acute as those between Zhao and some of the retired conservatives.

Institutional experiences help explain the differences between Zhao and the more cautious approach of Li Peng and Yao Yilin. Prior to 1980, Zhao worked exclusively as a provincial administrator, experience that appears to have made him acutely sensitive to the need for loosening controls to improve rural living standards. Li and Yao, on the other hand, have spent their whole careers in central economic planning and administration, making them more sensitive to the danger of releasing central control over the industrial sector.

Qiao Shi, whose current portfolio covers the sensitive issues of internal security and personnel allocation, appears to hold the swing vote. Although he is likely to be an authoritarian voice on internal security matters, this is not necessarily inconsistent with support for many elements of economic reform.

Organizational readjustments

While the Standing Committee is considered the primary policymaking organ, it is likely to act in consultation with the Politburo and Secretariat. Factional compromise is also evident in the composition of these organs, though Zhao's position is stronger than anybody else's.

The eight Politburo members that appear to fall, broadly speaking, in Zhao's camp either through professional association or on issues, include Wan Li, Yang Rudai, Hu Qili, Tian Jiyun, Hu Yaobang, Wu Xueqian, Li Tieying, and Li Ruihuan. In addition to Li Peng and Yao Yilin, Song Ping appears tied through his work experience as an economic planner to Chen Yun. Li Ximing served as vice minister of power under Li Peng, and Jiang Zemin shares an engineering background with Li Peng. The other two Politburo members, Yang Shangkun and Qin Jiwei, represent military interests, and are, at the same time believed to have very strong loyalties to Deng Xiaoping. The importance of career association and family ties to political advancement are obvious from this lineup, as well as from the large number of relatives or friends of older leaders in lower-level organs.

The Secretariat has been cut drastically in size, a move designed to keep it subordinate to the Politburo and prevent it from becoming the kind of independent kingdom it was when arch-conservative Deng Liqun headed its research office.

Beneath these two executive organs lies the 176-member Party Central Committee, a kind of parliament representing a cross-section of interests. The Central Committee has been meeting only once a year, but as part of the movement to democratize the Party it will meet more often and play a more active supervisory role in the future. It is in the Central Committee that the new generation of engineers and apparatchiks who came of age in the 1950s or later is most evident. In addition to provincial leaders and the leaders of the functional organs of the Communist Party, 29 military representatives and virtually all of the ministries of the State Council are represented.

The succession question

As the dust settles, China finds itself in interesting times. Zhao has assumed power with a mandate from both the Party and the populace for continued reform based on the undeniable success of the reform program over the past nine years. But the factional balance in the top leadership ensures continued lively debate over which reform measures will be adopted. And while the elders have officially retired, they are still present behind the scenes.

Deng retains the decisive power, based first on his prestige, his experience, and his network of supporters, and second on his position as head of the Party's Military Affairs Commission. One of the keys to whether Zhao will be able to take over in fact as well as name will be whether Deng can pass the top military job to him. Zhao's appointment as first vice chairman of the Military Affairs Commission at the congress was an important step forward, and in the weeks since the congress, younger leaders in their 50s have been appointed to key military positions, including chief of staff, head of the political affairs department, and head of the logistics department.

Zhao is believed to want Deng to stay active as long as possible to help smooth his path in the military. Should Deng die soon, the political representatives of the military—and in particular Yang Shangkun, permanent vice chairman of the Military Affairs Commission and, significantly, the only Long March veteran still in the front lines of leadership—are likely to have the decisive say as to who assumes Deng's mantle.

In Zhao's favor is his political style, which appears to be conciliatory rather than confrontational. He presents a calm public image. The fact that he does not appear to have a deep-based, longstanding factional support network like Hu Yaobang may actually work in his favor by making him appear less threatening to the retiring Party elders. Although they no longer participate in day-to-day decisionmaking after the congress, they still have the power, if aroused, to make life very uncomfortable for the younger leaders.

Zhao would appear to be an ideal head for what seems to be an emerging collective leadership. It is unrealistic to expect any single successor to fill the gigantic role that Deng Xiaoping has played for the last 10 years. And, with the ideologues largely retired, the debates within the leadership are likely to be less rancorous than in the past, another factor conducive to collective leadership.

The true obstacles to reform are now more practical than ideological. The main questions facing the leadership are how to dismantle the network of entrenched bureaucratic industrial interests on the one hand, and how to maneuver such sensitive issues as price reform without arousing popular discontent on the other. Regardless of who is general secretary of the Party, the difficulties of handling these issues argue for a gradual approach to reform.

The Congress by no means completely settles the question of the political succession to Deng. Nor does it come close to resolving the debates over the reform program. What the Congress does appear to have accomplished, however, is ensuring that the succession struggle and the policy debates will take place within parameters that ensure continuity in the gradual reformist progress of the Deng Xiaoping era. 完

The men at the top and how they got there

The New Standing Committee Lineup

Deborah Diamond-Kim

ZHAO ZIYANG

Age: 68. Place of birth: Huaxian County, Henan. Current posts: general secretary; first vice chairman of the Military Affairs Commission. Communist Party member since 1938. Main area of expertise: rural reform.

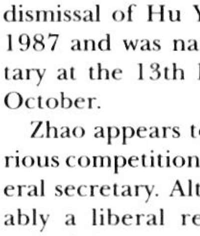
Zhao has developed a reputation as an exceptionally able administrator—practical, resourceful, and open-minded. As general secretary, however, Zhao appears to be aiming for something more. Like his counterpart Mikhail Gorbachev in the Soviet Union, Zhao is striving to become a popular figure: approachable, concerned about public opinion, and dynamic. One sign of his desire to break out of the conventional mold has been his unusual activities as covered on television. Audiences have been stunned to see Zhao chatting with people in the streets and discussing their concerns the way a Western politician might.

His career as first Party secretary of Guangdong Province was cut short by the Cultural Revolution in 1967. Zhao reemerged in 1971, first as Party secretary in Inner Mongolia and then as Party secretary of Guangdong. During his tenure in Guangdong, Zhao reportedly protected a group of non-Party intellectuals who put up wall posters calling for greater democracy.

But it was as first Party secretary of Sichuan from 1975–77 that Zhao came to national attention. His implementation of market reforms was immensely popular, later serving as a model for the national rural reforms that began in 1978. Greatly impressed, Deng Xiaoping called him to Beijing, where Zhao was elected a member of the Politburo and appointed premier in 1980. He was appointed acting general secretary of the Communist Party following the dismissal of Hu Yaobang in January 1987 and was named general secretary at the 13th Party Congress last October.

Zhao appears to have had little serious competition for the post of general secretary. Although unquestionably a liberal reformer, Zhao has gained the trust of conservatives. In manner, he is regarded as more circumspect and dignified than the controversial Hu Yaobang, and conservatives appreciate his reputation for consulting his opponents. Conservatives may also perceive Zhao as less of a political threat than Hu Yaobang because Zhao has not yet cultivated a formidable network of proteges. To an unusual degree, his coterie consists of influential, but politically powerless scholarly advisers rather than Party hacks.

Photos courtesy of Xinhua News Agency



LI PENG

Age: 59. Place of birth: Chengdu, Sichuan. Current posts: acting premier; minister of the State Education Commission. Communist Party member since 1945. Main area of expertise: power industry.

The adopted son of Zhou Enlai and Deng Yingchao, Li Peng became a capable technocrat in the power industry following six years of advanced study at the Moscow Power Institute (1948–54). His relation to Zhou undoubtedly spared him personal and professional setbacks during the Cultural Revolution, when he served in leading posts at the Beijing Power Supply Bureau. He has been promoted rapidly over the past six years to minister of the power industry in 1981, vice premier in 1983, and full member of the Politburo in 1985.

Li's expertise lies in areas requiring extensive central planning, and he has little hands-on experience managing market-related reforms. In fact, some of China's market advocates believe that Li's prolonged education in the Soviet Union has left him too inclined to central planning. Li has done little to dispel this notion in his speeches, which generally do not dwell on the role of market forces. Li has also been prominent among those calling for improved economic relations with the socialist bloc. And as minister of the State Education Commission, his rebuke of student protesters in late 1986 and his efforts to tighten up rules on study abroad have not earned him many points with intellectuals.

Li also has long-standing connections with many top conservative leaders and is considered a favorite of Chen Yun. In fact, credible unofficial reports indicate that Li's accession to the post of premier and membership on the Standing Committee was the quid pro quo Chen Yun demanded in return for retiring.

On the other hand, while Li's image is distinctly conservative, he is softer around the edges than elderly conservatives. Like others in the third echelon group (Hu Qili, Tian Jiyun, and Qiao Shi), Li emphasizes practical achievements over empty talk. Li also seems to strongly favor introducing Western management skills into Chinese factories, partly owing, perhaps, to the favorable impressions left by a tour of several American factories in July 1985.

By virtue of his position as head of several important State Council "leading groups" Li appears to have had greater opportunities than most of his peers to benefit from representing powerful bureaucratic interests. And foreign observers cite numerous cases in which Li has promoted his colleagues—mainly in the heavy industry sector—to leading positions in various ministries. As a result, Li seems fairly well positioned to begin his duties as premier, to which post he is expected to be formally confirmed this spring.

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QIAO SHI

Age: 63. Place of birth: Dinghai, Zhejiang Province. Current posts: vice premier; first secretary of the Central Discipline Inspection Commission; member of the Secretariat; secretary of the Commission for Politics and Law. Communist Party member since 1940. Main area of expertise: Party and security affairs.

Relatively little is known about Qiao Shi—undoubtedly because he has spent much of his career in security work. Qiao appears to have begun his career in the 1940s as a leading Communist organizer of student protests against the Nationalist government. He remained active in internal Party affairs until 1954; thereafter he assumed posts with various iron and steel enterprises, presumably as an agent of Party control.

In 1963 he joined the Central Committee's International Liaison Department (ILD), which, among other things, administers China's espionage/counterespionage network. According to one unconfirmed report, Marshal Nie Rongzhen handpicked him to handle the international security aspects of China's missile program in the 1960s.

Qiao rose to the top of the ILD by 1981. At the 12th Party Congress in 1982 he began his steady ascent into the highest political circles with his election to the Central Committee and to the position of alternate in the Secretariat. In 1985, he was made a full member of both Secretariat and Politburo, and in 1986 became vice premier of the State Council.

The sensitive posts he was given in the 1982–85 period suggests that Qiao must have been well trusted by both Hu and Deng. During this period, Qiao first ran the General Office of the Central Committee which supervises the flow of documents to Party leaders, and then the Organization Department, which handles personnel assignments in Party and government.

In 1986 Qiao was appointed head of the Party Commission for Politics and Law as well as the Party's leading group for intra-Party rectification. His appointment at the 13th Party Congress as head of the Party's Central Discipline Inspection Commission further strengthens his involvement in security and organizational matters. He now appears to be the undisputed Party leader in this sphere.

Qiao is said to be shrewd and decisive, but politically cautious. He rarely makes speeches, and then nearly always in his field of expertise. Qiao has been known to emphasize the role of Party control over legal work in a manner virtually indistinguishable from Peng Zhen, the old conservative with whom Qiao is believed to have worked closely in recent years.

His seeming ability to work with people as different as Hu Yaobang and Peng Zhen suggests an ability on Qiao's part to avoid factional entanglement. This, combined with the fact that he must have access to everybody's dossier, makes him a political force to be reckoned with.

HU QILI

Age: 58. Place of birth: Yulin County, Shaanxi. Current post: secretary of the Secretariat. Communist Party member since 1948. Main area of expertise: Party affairs.

Active in the Communist Youth League since the early 1950s, Hu is said to have attracted the attention of Hu Yaobang (no relation) while the latter was first secretary of the Communist Youth League in the late 1950s. During the Cultural Revolution he was expelled from the Youth League and sent into remote rural areas.

With his subsequent experience as secretary of the Communist Youth League (1978), a popular mayor of Tianjin (1980–82), member of the Secretariat (since 1982), and member of the Politburo (since 1985), Hu was considered likely to succeed his mentor Hu Yaobang as general secretary until the latter was dismissed in January 1987. Affable and well read, Hu championed intellectual causes while serving under Hu Yaobang, speaking out courageously against Party interference in artistic and academic affairs.

Hu enjoys the confidence of both Deng Xiaoping and Zhao Ziyang. During Zhao's three-week European tour last June, Hu was named acting general secretary in charge of the Secretariat (the organ responsible for handling day-to-day Party affairs) and was appointed to help formulate the 13th Party Congress agenda. But to conservative leaders Hu is too outspokenly liberal to be an acceptable choice for general secretary, and he is considered too inexperienced in economic matters to become premier. For now, Hu is probably content to be in full control of propaganda affairs in the newly streamlined Secretariat, which has finally been purged of his longtime rival, archconservative Deng Liqun. With Deng Liqun gone, Hu is likely to work hard for a revival of a more relaxed atmosphere in literature and art circles.

YAO YILIN

Age: 70. Place of birth: Guichi County, Anhui. Current post: vice premier; minister of the State Planning Commission. Communist Party member since 1935. Main areas of expertise: trade and finance.

Unlike most of the elderly inner circle of Party officials, Yao Yilin is college-educated (Qinghua University). After a pre-1949 career in Party and propaganda affairs, Yao was transferred to financial and commercial work, serving successively as vice minister of Commerce, minister of Commerce, and director of the political department in the Department of Finance and Commerce. His career was interrupted from 1967 to 1973, when he was implicated as a counterrevolutionary follower of Peng Zhen.

As secretary general of the State Finance and Economic Commission (1979), Yao was instrumental in pushing for greater decentralization of decisionmaking powers at the enterprise level and invigorating the banking sector. Yao was recently transferred back to his job as minister of the State Planning Commission, a post he held from 1980–83.

Having served under Peng Zhen, Bo Yibo, and Chen Yun during his long career as an economic planner, Yao is associated with the conservative wing of reformers. But Yao appears reluctant to join the ideological fray over the course of reforms. Instead, he limits his public remarks largely to practical economic concerns such as inflation. 完

Reflections of a Quality Inspector

Or how I learned that raising caviar production standards in China is harder than it sounds

Katharyne Mitchell

When I was hired as a quality control engineer for a caviar factory in northern Heilongjiang, I envisioned myself dining on sturgeon meat by night and sampling fresh caviar by day. Even more alluring was the prospect of seeing a remote area of China that few foreigners will ever have the opportunity to visit. To top it all off, the factory where I was to work was based on a small processing boat near the tiny village of Baca, which boasted long, sandy beaches covered with agates and wolf tracks. Unfortunately, my delusions of the good life proved to be quite short-lived.

"Manchurian Caviar," as its promoters call it, is processed from the roe of Osetra and Keluga sturgeon found in the Heilongjiang River (also known as the Amur), that forms the border between Heilongjiang Province and Soviet Siberia. Baca, which is located on this river, is one of seven fishing villages whose small caviar factories have formed a limited partnership with the larger United Marine Products Company of Jiamusi, Heilongjiang.

The Heilongjiang River was one of the few places in the world where the rare sturgeon had not yet been fished to supply the lucrative international caviar market. The company that employed me, California Sunshine Fine Foods Inc., became interested in developing this source in order to supplement its current caviar supply and eventually compete with Soviet and Iranian caviars. Through a deal with China Aerotechnology Import–Export Corp. (CATIC) in 1986, they arranged to work with the small United Marine Products Company to produce high-quality caviar for export. California Sunshine Fine Foods insisted that a Westerner trained in elementary bacteriology and food preparation be present to monitor production at the Chinese factories during the six-week caviar season each year. This set in motion my move to Baca last summer.

As quality control supervisor for a fragile foodstuff, my main responsibilities were to ensure that the Chinese factory followed the American company's required procedures, met international hygiene standards, and carefully avoided fluctuations in the storage temperature of the caviar. These tasks might seem simple in most regions of the world, but at the factory in Baca they kept me busy almost 24 hours a day.

Starting off on the wrong foot

Just getting to the factory was difficult enough. I was delayed for two days due to flooding and for several more days waiting for special permission to travel to Baca, which is in a military strategic zone closed to foreigners. Since my company had not arranged for my stay ahead of time, I spent five days in Tongjiang waiting for a temporary residence permit to be issued so I could have access to the river.

As a result of these delays, I arrived at Baca more than one week after the sturgeon fishing season had begun. Since California Sunshine Fine Foods was unwilling to buy any caviar processed without a quality control supervisor present, I was forced to reject every kilo of caviar made prior to my arrival. This infuriated the factory's Chinese manager who was forced to sell the caviar on the domestic market for a lower price. He was particularly annoyed because it was apparent that the foreign company did not trust the ability of local quality control personnel to guarantee that international standards had been met.

My first day at work further demonstrated how difficult my job as a quality control engineer would be. Prior to my arrival, I had been told that two cleaning procedures were essential in order to prepare the plant for processing caviar to international standards: the installation of a water purifier and the sanitation of the water storage tank with a mild chlorine solution. When I asked that the tank be emptied so that I could scrub it, however, the Chinese manager assured me that this was not necessary because the tank had recently been cleaned. A quick inspection proved otherwise. In addition, I was told that the water pressure from the well was not strong enough to allow for installation of the water purifier that I had carried from Beijing.

My incipient relations with the manager, which started on this negative note, remained strained throughout my six-week stay. Since California Sunshine Fine Foods was operating in China only as buyers, without any joint venture or processing agreement, my position as quality control engineer held little authority as far as the Chinese were concerned. Without the backing of my Chinese manager, I was completely impotent as a supervisor.

Winning the manager over

I soon realized that because the Chinese manager resented the changes requested by the foreign buyers, he was determined to undermine my efforts to implement reform. As the caviar factory was sev-

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Katharyne Mitchell can no longer afford to eat caviar because she is now pursuing a Ph.D. in architecture and urban planning at the University of California at Berkeley.

eral miles (by boat) from the nearest telephone and hundreds of miles from the nearest major city, it became apparent that some kind of compromise had to be reached or the entire caviar season would be lost.

Deciding to adopt the Chinese business practice of developing personal relationships (*guanxi*), I set out to befriend the manager and see the situation from his point of view. We never became good friends, but after some time we were able to develop a working relationship based on mutual compromise and a degree of understanding. It was helpful to point out that we were both workers following the orders of our superiors, whether we concurred with the logic of those orders or not. When he objected to one of my reforms, I was able to shake my head in agreement and express dismay at the over-zealous pursuit of hygiene required by my American boss. At the same time, I was allowed to continue with my reforms because everyone at the factory understood and commiserated with the necessity of following orders.

This rather tenuous working relationship was successful only as long as I was willing to compromise on issues that were important to the manager. When we came to an impasse, I often tried to work around the manager by calling on my friends, the factory workers, for help.

Once when I discovered that over 100 of the rubber bands used to hold the two halves of the cans in place were loose (allowing air to get in and eventually mold to grow), I was unable to convince the manager that these rubber bands should be changed. Since the affected caviar cans were at the back of the cold storage refrigerator, and with hundreds of shelves loaded with cans directly in front, it would have been a herculean task to correct this problem by myself. At the end of the day, however, I enlisted my two closest friends among the workers, and during the manager's rest period we replaced the rubber bands without his knowledge.

Coping with poor work habits

Despite the occasional assistance from workers, they were sometimes the root of the problem. Refrigeration was one of the greatest difficulties. I had been given specific instructions to maintain the cold storage temperature at -2⁰ to -4⁰ celsius. This was inherently difficult because the factory's generator often failed. But the situation was rendered doubly precarious due to an uncooperative worker. When the man in charge of the temperature controls wanted to play mahjong or take a nap, he would turn the setting to -8⁰ for two to three hours in order to be able to turn off the generator while he was gone for the afternoon. Despite my repeated warnings that the caviar would freeze if the temperature went below -5⁰ for any length of time, there were several instances in which I found the temperature graph showing a dangerously sharp decline.

Hygiene control was another constant battle that still gives me occasional nightmares. To increase the shelf life of the caviar, strict sanitation measures must be enforced at every stage of the processing. Trying to instill a passion for cleanliness in three tired and poorly paid workers, however, took all my persuasive powers.

In the beginning I often did the sanitation myself rather than plead for the hundredth time that there actually was such a thing as bacteria, and that, although it couldn't be seen now, it would ruin the caviar in the future. In the end, I came to rely mainly on my good relationship with the workers, who would sanitize because the friendly—albeit crazy—foreign supervisor wanted the drying screens to be extra clean. In this case, as in many others, the fact that I spoke Chinese saved the day.

Photo courtesy of Katharyne Mitchell

A freshly caught sturgeon ready for processing.

Help from headquarters proves a hindrance

At the beginning of my time in Baca I must have wished at least 100 times that my American boss could be summoned to arbitrate disputes. But his arrival on the scene midway through the caviar season actually created many more problems than it solved.

The delicate working relationship I had established at the factory was upset by the entrance of an outside figure. When my boss began demanding additional changes in the direct, no-nonsense style of the West, the Chinese manager's bitterness and pride returned in full force. From that time forward, it was more difficult than ever to implement reforms.

An unpolished translator compounded the problems. Several times I caught him making major translation errors because he was unfamiliar with the terms but did not want to appear ignorant by asking. In addition, he would translate so literally that not only was the meaning often lost but the words also proved offensive to Chinese listeners. If a translator is necessary in business dealings, it is imperative that the person understand the problems related to the industry, as well as have some general knowledge of Western business practices.

My experience in the Baca caviar factory taught me some basic business lessons. First, the cosmopolitan ways of Beijing or Guangzhou are not representative of the country as a whole. The level of business sophistication diminishes in direct relation to the distance from such metropolises; business practices that are routine in the capital may still be viewed with suspicion at the periphery by entrenched and elderly local bureaucrats.

I also learned that when a foreign company sends only one representative to a remote area, it is essential to give that person absolute authority to represent the company. It is equally important for the foreign company to demand a well-defined measure of authority for the foreign employee. And if a supervisor visits, he or she should defer to the resident employee's judgment, since ultimately that person best understands the problems at hand and is the one ultimately responsible for implementing changes. 完

Commercial Lending to China

Jamie P. Horsley

China is known for being cautious in its use of foreign commercial loans to finance development. China's foreign borrowing in 1986 is estimated at $5–$7 billion, double that of 1985 and quadruple that of 1984. According to Chen Muhua, governor of the People's Bank of China, China's current debt service obligation amounts to 15 to 20 percent of the country's annual foreign exchange export earnings, a level considered respectable by foreign financiers. Yet in early 1987 Finance Minister Wang Bingqian announced that China would reduce borrowing in 1987 to some $3.95 billion, and controls over foreign borrowing have been tightened due to concern over rising debt. Many foreign lenders feel that this fiscal conservatism makes China a relatively creditworthy borrower, and they would welcome a chance to increase their loan portfolio in China.

However, China also presents problems for foreign lenders. Many of these stem from the decentralization of the authority to borrow from abroad. Although this has meant increased opportunities for foreign lenders, it also presents them with a sometimes confusing array of potential borrowers, not all of whom enjoy the direct backing of the central or even of local governments. According to the State Administration of Exchange Control (SAEC), more than 1,700 Chinese entities, including factories, international trust and investment corporations, other State corporations and financial institutions, had taken out foreign loans by yearend 1986. Given the increasing number and variety of potential Chinese borrowers, determining whether the organization has the authority to borrow and carry on the financed activity has become as important in China as it is in other countries. Other problems stem from China's still-developing legal system and relative lack of experience in international commercial borrowing.

Who may borrow from abroad?

The more than 8,500 enterprises with foreign investment in China (Chinese–foreign equity and cooperative joint ventures and wholly foreign-owned enterprises) make up an important segment of the pool of potential Chinese borrowers. Foreign-invested enterprises do not need Chinese governmental approval to borrow from abroad. They need only report borrowings for the record to the SAEC or its local bureaus.

Lending to domestic Chinese entities is more cumbersome. Chinese entities that want foreign loans must receive prior approval from the State Council or relevant local government departments in order to ensure that such loans are consistent with the State's overall borrowing plans. If Chinese borrowers take out foreign loans without such approval, they may be accused of "disrupting financial stability" under the 1985 Penal Provisions for Violating Exchange Control Regulations.

The requirement for government approval, however, does not mean that most Chinese borrowings are backed by the full faith and credit of the Chinese government. Thus, the creditworthiness and authority of each borrower still needs to be assessed.

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Keeping track of borrowed funds

All borrowers, whether wholly Chinese or foreign-invested, must register foreign borrowings with the SAEC pursuant to the Interim Provisions for the Monitoring of Statistics on Foreign Debt, issued by the SAEC in August 1987, and applicable to all existing foreign debt. The provisions define "foreign debt" to include loans from international financial organizations, foreign governments, foreign banks and other financial institutions, and foreign enterprises, as well as buyers' credits, cross-border financial leasing, deferred payments, and compensation trade debt repaid directly in cash.

The Bank of China and other approved Chinese banks and financial institutions need register and report on their borrowings only periodically. Other domestic Chinese borrowers and foreign-invested enterprises must register each borrowing with the local exchange control bureau within 15 days of signing the relevant loan contract. When registration is complete, the borrower receives a Foreign Debt Registration Certificate.

Borrowed foreign exchange funds must be kept in special foreign cash accounts in the Bank of China or other approved banks, unless the SAEC grants permission for the funds to be deposited overseas. Borrowers must produce a Foreign Debt Registration Certificate to open such special accounts and to request payments of principal and interest overseas to the foreign lender.

Establishing a borrower's qualifications

There are an increasing number of ways for a lender to verify that a prospective customer is qualified to borrow funds and use them as intended.

• **Determining financial status:** It is possible, though difficult, for a lender to obtain copies of tax returns and the accompanying year-end accounts that most Chinese enterprises are required to file with the tax authorities. And credit reports can be obtained from the bank with which the enterprise maintains its accounts. Such reports vary in content and detail but have been known to include such information as bank balances, the existence of other loans, and a list of major business contracts. Another source of financial assurance is the SAEC, which may issue letters certifying that a given enterprise has the necessary foreign exchange to repay the contemplated loan. Local Chinese law firms, accounting firms, and consulting companies can also help obtain such information. In the case of foreign-invested enterprises, a lender must also check that the contemplated loan falls within the debt-equity limits established by the State Administration for Industry and Commerce (SAIC) in March 1987. (For a description of these limits, *see The CBR*, Jul–Aug 1987, p. 55.)

• **Checking corporate existence and authorization:** If the Chinese borrower is not one of the well-known government agencies or corporations active in international financial markets, a lender will want to know with whom it is dealing. Most Chinese industrial and service enterprises are now considered Chinese legal persons and independent accounting units responsible for their own profits and losses. These enterprises are required by law to register with the SAIC to obtain business licenses.

Lenders that ask to see these licenses may be presented with a business certificate (*yingye zhengshu*) instead of the requested business license (*yingye zhizhao*). (*See* p. 41.) The latter is the official document that attests to an enterprise's legal existence. Only one license is issued by the SAIC. It is valid, in the case of a foreign-invested enterprise, for the approved term of the enterprise; in the case of a domestic enterprise, it is normally valid for five years. In contrast, the business certificate is more like a detailed 'good standing certificate' in the United States. It describes the enterprise and its scope of business as of the date of its issuance and may be issued in any number. In general, a business certificate provides sufficient evidence of the existence and authorized scope of business of a Chinese enterprise. These documents can be requested from the local branch of the SAIC and, in the case of large enterprises, may be found in the *Annals of China's Enterprise Register* published by the SAIC. The corporate existence and scope of business of the borrower can also be certified by a local Chinese law firm.

Enterprises that are authorized to deal with foreigners are further required to file articles of association with the SAIC. These documents should be examined to determine if the enterprise has the general authority to borrow and what the relevant corporate procedures are. Well-known entities like the Bank of China, the People's Insurance Company of China, and the China International Trust and Investment Corporation (CITIC) have published their articles of association. Others, such as the China National Offshore Oil Corporation (CNOOC), have yet to produce them. Since China does not yet have a general companies law, if a prospective borrower cannot produce articles of association, lenders normally have to rely on representations made by the borrower in the loan agreement and a Chinese legal opinion for assurance as to the borrower's borrowing authority.

With regard to the authority to enter into specific loan agreements, lenders generally rely on a Chinese law firm to evaluate whether a domestic enterprise has taken the necessary steps to authorize a loan and its repayment. This is the most practical course, since most Chinese enterprises still do not have a board of directors or keep formal minutes of management meetings. In the case of a foreign-invested enterprise with a board of directors or management committee, the lender should obtain a copy of the pertinent borrowing resolution.

• **Confirming governmental approval:** Since foreign exchange borrowings by domestic enterprises must normally be approved and included in the State plan, lenders should ask for a letter from the SAEC or a Chinese law firm opinion confirming that this has been done. Some lenders have even been given copies of foreign exchange loan approval documents. These are normally issued under the letterhead of the People's Bank of China, although short-term loans of less than one year may be under SAEC letterhead.

Reportedly, only five regions—Guangdong and Fujian provinces and the cities of Shanghai, Tianjin, and Dalian—and four financial institutions—the Bank of China, the Bank of Communications, China Everbright Holdings Co., and CITIC—are authorized to raise funds from abroad without specific approvals for each transaction.

Documentation issues

Chinese borrowers typically drive a hard bargain. While Chinese law does not expressly require approval of the text of a loan agreement, Chinese entities often cite the internal policies of their supervising authorities as requiring certain provisions or practices. Indeed, the Bank of China is known to require internal confirmation from its branches that loan agreements they guarantee do not contain any "harmful provisions," a concept that could be broadly interpreted. Some of the issues that often arise in loan negotiations are:

• **Governing law:** Lenders usually insist on having their own country's law, or the law of an international commercial center such as New York, the United Kingdom, or Hong Kong, govern their loan contracts with Chinese borrowers. This is permitted under China's Foreign Economic Contracts Law and widely accepted—although often only after lengthy discussion—by Chinese borrowers.

• **Dispute settlement and sovereign immunity:** Although the Chinese prefer arbitration, Chinese borrowers will usually agree to submit to the jurisdiction of the courts of the lender's country or a neutral third country to resolve disputes under loan agreements. While in practice China asserts that State enterprises are not entitled to claim sovereign immunity, there is as yet no Chinese law or court decision to that effect. Chinese borrowers are reluctant to expressly waive any right to sovereign immunity, although many will give a representation to the effect that they are not entitled to claim sovereign immunity in respect of foreign borrowings, and that such borrowings constitute private and commercial rather than public and governmental acts.

As for enforcement of foreign decisions under the trial Chinese Civil

Procedure Code, foreign arbitral awards and court judgments will be enforced upon judicial request by a people's court in China, based on treaties or reciprocity, as long as the award or judgment does not violate fundamental Chinese laws or the national interest. China has entered into a mutual judicial assistance treaty with France and is negotiating others. China also joined the 1958 UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards in April 1987.

• **Language:** Although most investment contracts are required by Chinese law to be written in Chinese, the law does not require loan agreements to be in Chinese. Thus, loan agreements are often signed in English. However, the Chinese borrower may well prepare a working Chinese translation of the agreement, in which case the foreign lender should request a copy to ensure that there are no misunderstandings.

Loan security

• **Asset charges:** China does not yet have a developed body of law providing for the pledging of assets to secure repayment of debts. However, Article 89 of the 1986 General Principles of Civil Law provides that debtors may pledge property to guarantee the discharge of a liability and, if the debtor defaults on its obligation, the creditor can sell the property and will have a prior claim on the proceeds for repayment of the debt. Moreover, the Trial Enterprise Bankruptcy Law (still awaiting the promulgation of a State Enterprise Law before it can to go into effect) recognizes the concept of a secured creditor and provides that property pledged in payment of a debt is not to be treated as part of the bankrupt's estate but should be turned over to the secured creditor. Therefore, foreign lenders are increasingly asking for asset pledges to secure their loans to Chinese borrowers.

When the Bank of China lends to foreign-invested enterprises, it can demand security in the form of irrevocable guaranties or a pledge of assets and interests therein. The types of assets that may be used as security include buildings, machinery and equipment, marketable goods, foreign currency deposits, and securities. Although some sources indicate that the right to use a site in China is not to be encumbered, pledges of this right have also been made. The borrower must sign a security document, presumably a type of pledge agreement, that is left with the Bank of China. These documents must be notarized, and insurance covering the pledged property must be obtained from the People's Insurance Company of China. While these provisions do not apply directly to foreign lenders, they indicate how Chinese law in this area is developing.

Some loan agreements between foreign lenders and Chinese borrowers require that certain bank accounts into which loan proceeds on operating revenue are to be deposited be established and pledged to the lender. If such accounts are to be established outside of China, prior approval of the SAEC is required.

While China has no national mortgage law or system for registering the rights of secured creditors, the Shenzhen Special Economic Zone set up such a system locally in 1986. Loans to foreign-invested enterprises in the zone can be secured by buildings and materials, negotiable securities, payment receipts, and other rights including (subject to board approval) interests in equity and cooperative joint ventures. This is to be accomplished by use of a mortgage loan contract, registered with the Shenzhen Administrative Bureau for Industry and Commerce in the case of property other than buildings. Mortgages on buildings are to be registered at the Shenzhen Administrative Bureau for Real Estate.

In the absence of clear and nationally applicable Chinese laws in this area, most foreign lenders to Chinese borrowers opt for asset charge documents governed by foreign law. But the enforceability of these documents is still open to question, especially when they have not been approved by any relevant Chinese government agencies. And given the novelty of these documents in China, most government agencies are reluctant to approve them.

• **Assignments:** Another form of loan security typically used for loans to foreign-invested enterprises is the assignment. Assignments of contract rights (such as rights in joint venture contracts and construction contracts), cash and insurance proceeds, and bank accounts have been given. Although Article 53 of the implementing regulations under the 1979 Equity Joint Venture Law prohibits the assignment of site-use rights, even the Bank of China has requested such assignments, and an inability to assign those rights might affect the value of a transfer of other rights in the foreign-invested enterprise.

Such assignments should be made automatic in the event of a default (or else after serving of notice). In addition, evidence that any relevant approvals have been obtained (through acknowledgment of the assignment document or otherwise) should be requested since certain assignments, such as those of contract rights, may require the approval of the government agency that originally approved the contract(s) involved. Advance approval of such contingent assignments are difficult to obtain. As in the case of asset charges, these assignment documents are typically governed by foreign law and, without advance official approval in cases involving assignments of assets located in China, their enforceability is open to question.

• **Guaranties:** The People's Bank of China regulates commercial guaranties through the SAEC, pursuant to its February 1987 Interim Measures for Administration of the Provision of Foreign Exchange Guaranties by Domestic Institutions. (For more information on foreign exchange guaranties, *see The CBR*, Jul–Aug 1987, p. 54.) These Guaranty Measures apply to commercial guaranties provided by Chinese institutions that are not backed by the Chinese government. More than 100 such financial institutions currently have SAEC approval to provide such foreign exchange guaranties. Other guarantors must be approved on a case-by-case basis. It is important to ascertain the creditworthiness of any proposed guarantor since, in the event of a default by the guarantor, neither the SAEC nor the People's Bank of China is legally obligated to honor the guaranty, even though they authorize and supervise guarantors in general.

The amount of funds that can be guaranteed and the types of borrowers eligible to receive such guaranties are also regulated by the Guaranty Measures. While the measures do not mandate approval of the actual guaranty text, they do require that guaranties be filed with the local branch of the SAEC within 10 days after signing the relevant contract. Lenders should ask for evidence that the guaranty has been so filed to ensure that it is enforceable.

In principle, guaranties, like the other security documents discussed above, can be governed by foreign law. Since the Guaranty Measures have certain potentially adverse stipulations, such as automatic rescission if the creditor fails to perform its obligations under the loan agreement, foreign lenders would be well advised to request a foreign governing law for such guaranties.

Enforcement

The remedies under Chinese law in the event of a default under a loan agreement include acceleration of the repayment schedule for the loan, charging penalty interest, enforcing any guaranties, and attaching and/or selling any pledged assets. Even if the loan agreement is governed by a foreign law, the availability of these remedies becomes relevant when contemplating the enforcement of lenders rights within China.

In the event that a borrower or guarantor is having "difficulty," the General Principles of Civil Law authorize debt repayments in installments, either with the creditor's consent or else by court order.

China does not permit any enforcement action deemed to violate Chinese law or the national or social interest. Enforcing a security interest in assets located in China would be fraught with legal uncertainties, in terms of what approvals might be needed and what procedures should be followed. Under the Shenzhen mortgage rules, for example, mortgaged buildings and materials can be sold only by auction conducted by a designated agency and the net proceeds (after payment of the auctioneer's fees and taxes) will be paid to the lender; other assets can be disposed of only in accordance with unspecified regulations. Obviously, practical difficulties such as finding a buyer willing to purchase the pledged assets—in foreign exchange—also have to be surmounted.

Experience to date with enforcement of loan agreements and guaranties has not been much publicized. Two notable exceptions involve a 1984 loan to the foreign party in a cooperative joint venture to build the Nanhai Oil Center guaranteed by the China Nanhai Oil Joint Service Company, a company formed by CNOOC and Guangdong Province, and a 1983 loan to the foreign party in a

SINOPEC, like many Chinese enterprises, has both a business license and a business certificate. In general, a foreign lender may use either document to check a prospective borrower's corporate status.

cooperative venture to build and operate the Haibin Hotel in Zhanjiang guaranteed by the Chinese party. In both cases, the projects and the foreign partners encountered financial problems. And in both cases, even though the Chinese guarantors apparently had not been authorized by the SAEC, they honored their obligations. In the Nanhai case, the project was reportedly terminated. In the second case, involving construction of the Haibin Hotel, the dispute was resolved only after the foreign bank syndicate filed a writ in a Hong Kong court. The project was scaled back and the guarantor sought a new foreign partner to replace the original one, which went bankrupt. Other informal reports indicate that guaranties have been called on successfully, but the recent Guaranty Measures and the Debt Registration Procedures seem to put foreign lenders on notice that the Chinese government will not be legally bound to honor debts taken out and guaranteed by entities that do not have government backing.

Tax issues

Interest paid by Chinese borrowers to foreign lenders that do not have a taxable business establishment in China will be subject to a withholding tax. This is mandated by Article 11 of China's Foreign Enterprise Income Tax Law (FEITL), which was later modified by the Ministry of Finance to reduce the original 20 percent withholding tax rate to 10 percent through 1990. Various bilateral tax agreements concluded by China also reduce the statutory 20 percent rate of withholding on China-source interest income to 10 percent and extend this reduction beyond the 1990 cut-off date set by the Ministry of Finance.

Interest income can sometimes be exempted from taxation. In some cases, loans to qualified borrowers may be made tax-free and then subsequently lent to other Chinese entities. Circumstances for exemption include the following:

—Under FEITL, interest on loans to Chinese State banks calculated at a "preferential" rate may be exempted from income tax upon application to the tax authorities. The implementing regulations under FEITL define "preferential" as a rate at least 10 percent lower than the average rate on international financial markets (normally interpreted to mean LIBOR). China's State banks are defined to include the Bank of China, the People's Bank of China, the Investment Bank of China, and authorized trust and investment corporations, such as CITIC.

—Unpublished internal guidelines exempt certain select borrowers from tax on interest at rates that are slightly higher than LIBOR. To be exempt, the rates must be not greater than .25 percent over LIBOR for one-year loans; not greater than .375 percent over LIBOR for two-year loans; and not greater than .50 percent over LIBOR for three-year loans.

—Negotiated tax reductions have also been possible in certain special circumstances. One US bank reported in 1985 that it obtained preferential treatment for key project loans whereby interest was taxed (at 10 percent) only on the spread *over* LIBOR. And lenders to certain foreign-invested enterprises have reportedly been able to obtain reduced withholding tax rates.

Another means to avoid the withholding tax is to book a loan to a Chinese borrower through a branch of a foreign bank in Shenzhen, which is basically the only place in China in which foreign banks may establish branches that conduct actual banking business, as opposed to the liaison work done by representative offices. According to private rulings made by the Beijing and Shenzhen tax authorities, and confirmed verbally by officials from the Ministry of Finance, interest on loans made by Shenzhen bank branches to borrowers anywhere in China will not be subject to withholding tax. Instead, the lending banks have to pay income tax at progressive rates on any overall net income, including interest income, earned by their Shenzhen branches. These banks are exempted, however, from paying consolidated industrial and commercial tax on the branches' gross income through 1995, pursuant to tax provisions issued by Shenzhen in May 1986.

Since the above potential reductions of and exemptions from the withholding tax are not always available, foreign lenders typically request a so-called "gross-up clause." Such clauses provide that, if interest payments are subject to tax, the Chinese borrower must increase the payment so that the lender receives, on an after-tax basis, the full amount of interest that it bargained for. Such clauses, however, run afoul of a Ministry of Finance policy that prohibits the shifting of the tax burden from foreign taxpayers to Chinese entities. According to the Ministry of Finance, such clauses are a type of *baoshui* or "tax indemnity" clause that is unenforceable. In some cases, the approval agency has required such clauses to be deleted and in other cases, local tax authorities have prohibited Chinese borrowers from making grossed-up interest payments to foreign lenders as required by their loan agreements.

Loans to certain borrowers apparently can be exempted from this policy. For example, the Bank of China regularly includes standard gross-up clauses in documentation relating to its international syndicated borrowings and public note issues.

The regulation of Chinese borrowing and guaranty practices is still evolving. As China enters the international commercial loan market, it is gradually adapting to international financial practices. In many instances, however, the practices of Chinese borrowers depart from those preferred by foreign lenders, although such practices are not necessarily uncommon among other developing countries. Most foreign lenders conclude that Chinese borrowers are generally still a good credit risk despite these problems and the incompleteness of China's legal infrastructure. 完

The Antaibao case

Project Financing in China

Jimmy Wenhu Hsu

In recent years, project financing has begun to catch on in China. One of the most important examples involves the world's largest coal mine, which began start-up operations in September 1987 in Shanxi Province. Negotiations on final documentation issues for the widely publicized Antaibao (also called Pingshuo) coal mine project finally concluded in June 1987 after some eight years of negotiations.

The mine is being developed through a contractual joint venture between Occidental Petroleum Corporation and the China National Coal Development Corporation. Occidental's equity stake in the project is worth about $175 million, the largest capital commitment ever made by a US concern in China. Another $475 million will be raised on international capital markets, bringing the total project value to approximately $650 million.

Though renowned for dealing with the Soviet Union, until he began negotiating the Antaibao project in 1979, Occidental Petroleum Chairman Armand Hammer had not undertaken a major project in China since selling a pencil factory there in 1930. Not surprisingly, Occidental wanted to minimize its risks when taking its first equity position in Communist China.

Originally Occidental had agreed to share half its Pingshuo investment with Peter Kiewit and Sons, a Nebraska-based construction company. But the agreement between Occidental and Peter Kiewit was terminated for financial reasons in 1984 when Kiewit acquired the US-based Continental Group.

After a year of looking, Occidental found another partner. The Bank of China (BOC) was persuaded to come on board, and a Bermudan corporation—Island Creek of China Coal Ltd.—was formed to act as the project financing entity. Island Creek is a 50–50 financial partnership between the Bank of China Trust and Consultancy Company (a wholly BOC-owned subsidiary) and Occidental. Island Creek, on the financial strength of the BOC and Occidental, secured the $475 million in multimarket and limited recourse financing from outside sources for the Antaibao surface mine.

Thus, by 1985, the project had evolved into a contractual joint venture between Island Creek and the Pingshuo First Coal Company Ltd., an affiliate of the China National Coal Development Corporation. This structure increases Beijing's share of the ownership from 50 percent (under the original scheme in which Occidental and Kiewit would have split the remaining 50 percent) to 75 percent.

China's first ventures into project financing

The financial negotiations began after the main partners in the project were finalized, and lasted another two years. The result of these negotiations turned out to be a classic case of project financing involving 39 banks.

In project financing, a separate project entity is usually created to raise funds and hold the project assets. Because the new entity has no operating history and no nonproject assets, funds are raised solely on the strength of the expected cash flow and assets of the particular project. This contrasts with more conventional finance methods, where funds are raised on the basis of the general creditworthiness and past and expected financial strength of the project sponsor(s) and/or partners. In China, foreign banks usually turn to sovereign guarantees issued by the Bank of China or other authorized agencies as their loan security.

The few project financings that have taken place in China are usually complex hybrids of co-financing and government credit schemes, with credit risk assessment not based solely on the project itself. Chase Manhattan Bank, for example, arranged and acted as one of the lead managers for a complex loan involving an Italian export credit agency and more than 10 commercial banks to finance the $211 million purchase of power plants by the Huaneng International Power Development Corporation in 1985. Because this loan was guaranteed by the Bank of China, the deal was not project financing in the strictest sense.

The 1986 loan to the Shajiao coal-fired power station in Guangdong Province is structured more like a conventional project financing deal. In this case more than 40 banks agreed to extend HK$3.3 billion ($423 million) to the project based on the projected cash flow. Banks were reassured by the fact that much of the electric power to be generated by this project would go to Hong Kong—or be sold to Shenzhen for hard currency.

And then, of course, there's Antaibao—the first limited recourse project financing deal in China. As one financial adviser to Occidental said, "This was not the typical China credit with a Bank of China or CITIC guarantee that attracts every bank."

Advantages of limited recourse financing

Limited recourse financing is a recent development in project financing, and the Antaibao project marks its first use in China. In limited recourse financing, the project risks are shared by the project participants, and the lenders must abide by certain guidelines in seeking repayment of their project loans. In this case, the lenders may make claims against Island Creek of China Coal

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Ltd. (i.e., Occidental and the Bank of China) only during the start-up years of the project (1987–89), or in the event that the price of coal falls below $47 per tonne thereafter. Otherwise, they do not have recourse to the project sponsors and must rely on the project itself to generate enough cash to payback their principal and interest. The project sponsors are providing guarantees for a limited period only, hence the term limited recourse financing.

There are several distinct advantages to this arrangement. The essential feature of limited recourse financing—sharing the project risks—represents a great advantage to project sponsors, lenders, and other participants such as contractors and equipment suppliers. Project sponsors, for example, do not have to put up guarantees for the project, and contractors and equipment suppliers are ensured payment from the project loans instead of having to wait to be paid back from the resultant product. Lenders are protected as well because the project entity (in this case Island Creek) must pledge its assets and output, as well as the cash flow of the project itself, to paying back the loan.

Second, in a project involving the Chinese government or a major industrial company, the debt incurred is supported by the project entity. It does not depend on the government's borrowing capacity or appear on the sponsor's balance sheet as debt. This is particularly helpful for sponsors with balance sheet limitations or for countries with foreign exchange borrowing constraints.

Third, this method can provide financing for joint venture projects where partners have varying financial strengths. An increasing number of projects in China are sponsored by a combination of partners, or by government agencies. In these circumstances, raising money on a project risk basis can be the safest and most convenient mechanism.

In China's Antaibao coal mine project, the limited recourse method is perhaps one of the most attractive elements in the financing package.

Fourth, limited recourse financing calls for lenders to supervise the project. The rigorous appraisal process and the continuous monitoring by the lenders can provide partners not directly involved in the day-to-day running of the project with reassurance that it is being subjected to necessary commercial and financial disciplines.

Fifth, limited recourse financing can be of great value to the Chinese government because it helps limit debt burdens on the State while bringing in foreign funds to finance national development projects. In China's Antaibao coal mine project, the limited recourse method is perhaps one of the most attractive elements in the financing package.

Financing in four tranches

Occidental and the Bank of China signed the $475 million financing agreement for Island Creek's investment in December 1986. The First Boston Corporation, retained by Island Creek as financial adviser, worked out a financing plan for Island Creek consisting of four tranches of production loans and letters of credit, or production credits.

The tranches will be advanced sequentially and consist of the following: 1) a $190 million production loan; 2) a $110 million production credit to support export credit facilities from the Export Development Corporation in Canada and the US Export Import Bank and issuance of various securities and money market instruments; 3) a $100 million coal price-sensitive production loan; and 4) a $75 million standby facility. The tranches are governed by a master production loan and credit arrangement and are repayable over a maximum of 12 years, primarily from Island Creek's share of the project cash flow. The first tranche was advanced in June 1987, and the first semi-annual interest payment came due at the end of that year.

Interest rates will vary. They will be set at 0.5 percent over LIBOR until the end of the start-up period in 1989, 0.75 percent until the end of 1993, and 1 percent thereafter.

Arranging the syndication for this financing plan was no easy task. The Bank of America and the Royal Bank of Canada signed on as lead managers, but they found other North American banks hesitant to join them. One problem was that the four tranches would extend for 12 years, while American banks prefer to limit project financing to a period of 10 years. Canadian banks were also worried by recent technical problems encountered at two Canadian coal mines. All the banks were reluctant to assume the many risks related to this project, including not only sovereign China risk, but also Occidental risk, Bank of China risk, and the commercial risk of the project itself. The lead managers therefore turned to other banks, mostly European and Asian, for loan syndication. Although many of the banks were initially reluctant, they were reassured when several difficult issues, described below, were resolved.

Tackling difficult issues

Among the difficulties Occidental encountered was the fact that the Chinese held out for US union rates for the 17,000 workers at the mine. These would have been $14 an hour, more than 50 times the local wage rate. The Chinese practice in such arrangements is to pay workers the local rate, with the government keeping the difference. But the wages the Chinese side was asking for would have cost the joint venture $45 million. Finally it was agreed that the miners would not receive a fixed rate, but would be paid substantially lower wages than those originally proposed on the basis of each tonne of coal mined.

Occidental also won important concessions on coal sales. The China National Coal Import and Export Corporation (CNIEC) and Phillip Brothers (US) will both act as the sales agents for the 15.3 million tonnes of coal expected to be produced annually at Antaibao. Each will try to sell as much coal as possible to their different markets. Phillip Brothers will focus on sales to Europe, North America, and South Korea, while CNIEC will sell to Japan (the main market for Antaibao coal), Hong Kong, and the Shajiao power station. Phillip Brothers can sell coal at a discount based on world coal prices, although CNIEC cannot sell coal at prices lower than those fixed under China's long-term supply agreements with Japan. The coal assigned to Phillip Brothers will be marketed on a priority basis, and China will buy any unsold coal for domestic consumption.

The volatility of coal prices also played an important role in the negotiations, since world coal prices fell more than $10 per tonne during the lengthy negotiations from their 1982 high of more than $50. Thus, triggers in the financing structure will switch the support of the mine from the sponsors to the project itself as the price of coal rises. Below $39 per tonne, revenue from the mine will not be great enough to repay the loans, so the project sponsors will have to make up the difference. As the price rises from $39 to $47 per tonne, lenders and sponsors will share the risk. When the price hits $47 per tonne and above, however, all the risk will be borne by the lenders and only the revenue generated from the project will be used to repay the project loans.

A model for other projects?

The Antaibao mine is located about 180 miles west of Beijing. This rather remote location, combined with unstable world coal prices, transportation problems, and political and economic uncertainties, would have deterred all but the most intrepid investor. But Occidental hung on despite numerous problems, and in doing so has achieved more than a few firsts in China.

Although the banks involved have registered some concern about whether or not commercial production will begin on time, the financing of the Antaibao coal mining venture is generally considered a showpiece of project financing in China. It is certainly one that the Chinese government would like to see more of, since unlike direct commercial borrowing, China doesn't have to issue guarantees for this type of financing. Such limited recourse financing is considered especially appropriate for other large infrastructure projects such as natural resource development, oil refining, and port upgrading. Already other major projects are being negotiated along these lines, although if the Antaibao case is typical, it may be some time before the negotiations conclude. 完

Insuring Investment Projects

PICC's monopoly has not prevented foreign insurance companies from finding ways to lend a hand

Sara Friedman

Foreign companies going into investment projects in China are often confused about how to insure their projects. The logical solution would be for a company to use its worldwide insurance policy to cover its enterprises in China, but unfortunately this may not be possible. For one thing, Chinese law prohibits foreign insurance companies from doing business in China. Foreign insurance policies are considered "nonadmitted" insurance and are not recognized by the Chinese government, causing problems in filing claims, investigating sites, or receiving adequate compensation. In addition, China's joint venture and wholly foreign-owned enterprise laws both require that ventures take out certain types of coverages with a Chinese insurance company. And, to complete the circle, China only has one insurance company that can provide policies to foreign enterprises in China—the rapidly expanding People's Insurance Company of China (PICC), which is directly responsible to the State Council.

For the majority of companies planning to make a long-term commitment in China, buying local insurance is therefore a sound choice that increases their chances of fully recovering any losses they may suffer and minimizes settlement problems. But each investment project has its own insurance requirements, dictated by the type of project, industry sector, and concerns of the various parties involved. Most "nonmoving" forms of investment and all auto insurance must be purchased from PICC. But if the foreign partner wants a certain type of coverage that cannot be provided by PICC and specifies this in the project contract, policies offered by foreign insurance companies can be used. These nonadmitted coverages most commonly include expatriate benefits, "all-risk" forms of coverage, and political risk insurance.

The role of foreign insurers

Few US companies deal directly with PICC because they do not know how to get in touch or who to talk to, allowing US insurance companies to play an important liaison role. To do this more effectively and get a piece of China's insurance business through reinsurance, several US insurance firms maintain close business relations with PICC. While each firm has a somewhat different relationship with PICC, they generally advise clients on insurance coverage, act as intermediaries in dealing with PICC, and help PICC improve standards.

In 1980 the American International Group (AIG) formed the first joint venture with PICC called the China American Insurance Company (CAIC). This 50–50 venture is based in Bermuda with a branch in Hong Kong. A recent proposal to open up a branch in the Shenzhen Special Economic Zone still awaits local government approval.

CAIC helps set up a company's policies with PICC and with special permission can provide policies. Although the premiums go directly to the Chinese insurer, CAIC often becomes involved in reinsuring a portion of the risk. The joint venture provides PICC with a connection to the international insurance network through an established and respected company. And AIG is placed in the enviable position of being the only US insurance company with a direct link to the insurance market in China and a full-time PICC employee in their New York office.

But AIG is not the only US insurance company working with PICC. Chubb & Son Inc., a New Jersey-based company, also has a history of involvement in China dating back to 1980. Managing Director Henry Parker characterizes Chubb's relationship with PICC as one in which "each group assists the other in their home country." When a company approaches Chubb for China coverage, they help determine how much and what types of local coverage is necessary and then arrange the policies with PICC. PICC then has the option to reinsure a portion of the risk with Chubb, but is not required to do so. Chubb can also provide certain types of coverage directly if the circumstances allow.

Along with other US insurance companies, Chubb is helping PICC upgrade product quality insurance and become familiar with the range of policies offered in the United States and the US legal environment. PICC employees travel to the United States to study Chubb's safety and loss control programs in order to learn how to minimize export liability and claim frequency. At the same time, Chubb sends its own personnel to inspect manufacturing plants in China to suggest ways to upgrade quality control, loss control, and working conditions. This interaction helps PICC better understand the complexities of export product liability and product safety regulations.

Cooperation between foreign firms and PICC manifests itself most clearly in this realm of product liability insurance. According to Henry

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Parker, "PICC has always stood ready to follow export products overseas with product liability insurance." But since PICC is not licensed to do business in most countries, it must contract through a foreign insurance company to provide export product liability insurance for joint ventures or other foreign enterprises. In the United States, Chubb and AIG are two of the main insurers through which PICC guarantees its clients export liability coverage. Chubb will offer its own insurance coverage for the product in the United States with the option to reinsure a portion of the risk with PICC. In this manner, Chubb performs a service for PICC in the United States similar to that which PICC performs for Chubb in China.

Both Continental Corporation and CIGNA Worldwide also enjoy high visibility in the China market. Continental refers its China clients to PICC for proper coverage while also engaging in reinsurance agreements. CIGNA basically does the same, but it also has a Hong Kong office that serves Macau and Taiwan, in addition to China. According to Executive Vice President James Morone, CIGNA is "very close to PICC at the present time." CIGNA can provide necessary services for its clients through its ties with PICC, work with PICC on larger risks through reinsurance, and assist in PICC employee training. CIGNA also works on reinsurance cases with the Hong Kong-based, Chinese-owned Ming An Insurance Company.

Options for joint ventures

Since it began offering foreign insurance in 1979, PICC has branched out considerably in the scope of its policies; it now offers more than 70 different forms of insurance coverage for joint ventures and wholly foreign-owned enterprises through its foreign insurance departments. These include various types of property insurance such as fire, contractor's "all risk," erection "all risk," and machinery breakdown. PICC provides automobile insurance covering named-perils property damage, collision, and third-party bodily injury and property damage. Other coverages include loss of profit insurance, employer's liability insurance, marine cargo transportation insurance, and political risk insurance.

Foreign companies involved in investment projects generally buy as much insurance from PICC as is necessary to cover any potential losses. But to make sure they get the right package, many firms rely on a foreign insurance company or broker familiar with both US and Chinese insurance practices to guide them through the process. This helps them balance their company's umbrella policies with China's requirements for foreign invested enterprises and the specifications of the investment contract. The following examples illustrate how this pragmatic balance is achieved.

W. R. Grace's Shanghai-based wholly foreign-owned subsidiary, which manufactures compounds to seal cans containing food and beverages, is a good example of a company that "will be buying all the coverage they can locally," according to Les Scher, W. R. Grace risk manager. Scher stresses that if a company is making a long-term commitment to China, it is important to be able to recoup losses locally in order to more completely replace the damaged goods or equipment. He adds, however, that any exclusions or gaps in local policies have to be filled by an outside source like Grace's worldwide insurance policy.

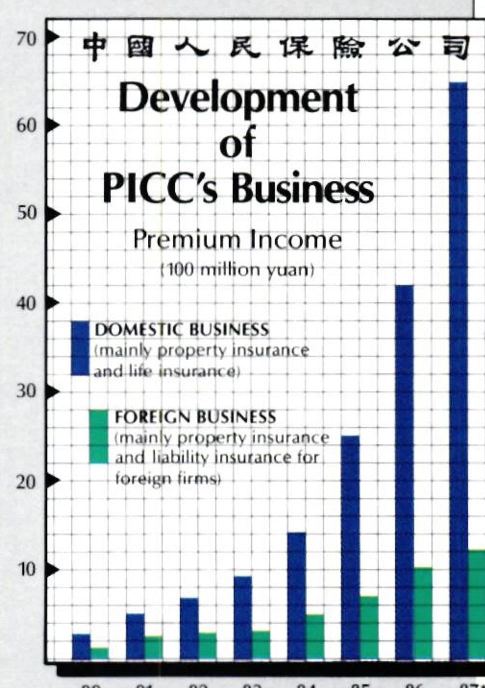
Scher stresses that companies should examine their international coverage carefully. While Grace's own international umbrella policy covers employees who make periodic trips to China, an employee transferred to China for a long-term stay may no longer be covered. In that case, it would be necessary to take out additional PICC coverage for expatriates.

The conglomerate HJ Heinz Co., which manufactures baby food and other nutritional products at its joint venture in Guangzhou, took out 100 percent of its project insurance with PICC. The coverage includes property damage, machinery breakdown, automobile liability, physical damage, employer liability, and public liability. Through the insurance broker Marsh and McLennan, the

PICC'S EXPANDING BUSINESS

PICC's operations have grown rapidly since its founding in 1979. From 1979 to 1984, China's outward reinsurance business more than tripled. As of August 1987, PICC boasted more than 2,000 domestic branches, 90 of which provide insurance to foreign firms. The Beijing office alone insures approximately 200 Sino–foreign joint ventures. Sino–foreign joint ventures can seek insurance from the provincial branch in their area, but the main office of PICC reserves the right to oversee the activities of its branches. PICC also maintains reinsurance ties with over 1,000 insurance companies and brokerage firms in more than 150 nations and regions.

In the first quarter of 1987 alone, PICC received $75.47 million in premiums from foreign insurance and paid out $12.74 million in claims. The 1987 premiums represent an 11.46 percent increase over the same period in 1986, evidence of PICC's growing activity in the field. PICC obtains the highest premiums in its foreign insurance business from cargo transportation insurance, but that category also has the highest claim frequency. Another $14.86 million in premium receipts came from Sino–foreign joint ventures and Chinese firms based overseas or providing labor services abroad. Claims paid out to these operations are much smaller, amounting to only $2.58 million in the first quarter 1987. —SF



*Year-end projections based on Jan–Oct 1987.
SOURCE: People's Insurance Co. of China

venture is currently negotiating with PICC for product liability and business interruption coverage. The parent company took out political risk insurance with the Overseas Private Investment Corporation (OPIC), a US federal agency that insures American investments in developing nations against certain political risks.

Another US company with considerable PICC coverage is the Gillette Co., whose joint venture in Shenyang has been producing plastic razors and blades for domestic and overseas markets since 1981. As of 1986, its locally purchased insurance policies included $1.5 million worth of property and machinery breakdown insurance with yearly premiums of $4,400. The venture also had $300,000 in ocean cargo insurance and automobile insurance for its three vehicles. The yearly premiums in 1986 were $1,700 for cargo insurance and $400–$500 per automobile. While these property and machinery insurance rates are slightly higher than coverage in other parts of the world, the cargo and automobile rates are comparable.

The venture did not take out local product liability insurance because Gillette's worldwide policy covers both domestic and export sales. In addition, it does not have worker's compensation for expatriates or Chinese labor beyond normal labor insurance requirements. Gillette also holds OPIC's political risk insurance for protection against losses due to war, revolution, or insurrection.

Little choice on labor policies

Like Gillette, many foreign companies involved in investment projects do not elect to purchase the worker's compensation insurance offered by PICC, finding it superfluous in light of the general labor insurance that the government requires them to pay. Ventures are required to conform to national labor insurance regulations specified in Article 45 of China's constitution, which requires them to make payments to several insurance funds on workers' behalf.

According to a 1980 Chubb publication titled *Insurance in China*, the required labor insurance involves both direct payments to the State labor fund and a 3 percent tax on the monthly payroll. Of this tax, 30 percent goes to the general national labor insurance fund and 70 percent to the local labor insurance fund. Coverage for work-related injury includes all hospital costs and medical benefits and full wages during hospitalization. The insurance also covers nonwork-related injury, illness, and miscellaneous benefits such as funeral expenses or partial medical coverage for dependents.

Enterprises with foreign investment are also subject to government regulations concerning retirement and unemployment funds for their Chinese employees. In the November 1986 "Regulations on Employment, Wages, and Welfare in Foreign Investment Enterprises," the Ministry of Labor stipulated that "an enterprise with foreign investment shall make payments to the retirement and pension fund and unemployment insurance fund for staff workers from the Chinese party in accordance with the stipulations of the People's Government in the locality."

Foreign companies involved in investment projects generally buy as much insurance from PICC as is necessary to cover any potential losses. But to make sure they get the right package, many firms rely on a foreign insurance company or broker familiar with both US and Chinese insurance practices to guide them through the process.

Local regulations vary somewhat, but usually 25–30 percent of a worker's income must be paid to a pension fund. A June 1986 regulation promulgated by Shanghai Municipality, for example, requires all Sino–foreign joint ventures, cooperative enterprises, and wholly foreign-owned enterprises to take out old-age pension insurance for their Chinese employees as soon as they obtain approval to begin operations. Ventures must pay 30 percent of each employee's monthly income to the Shanghai branch of PICC for the old-age fund, which covers pension-period medical expenses, funeral costs, and a family pension when the employee retires. These requirements are designed to protect Chinese workers at foreign-invested enterprises, who could otherwise be left without unemployment protection or retirement benefits after the joint venture's operating term ceases.

Room to grow

US insurance companies and investors continue to hope that China will let foreign insurance companies enter the China market. But most see little possibility of this happening anytime soon. According to James Morone of CIGNA, "An insurance company has to take a long-term view in China." US companies like CIGNA, Chubb, and AIG are trying to get their foot in the door and establish a base in China so that if the market does open up, they will have an advantage over other firms.

Given this rather pessimistic outlook for future changes within China's insurance market, US investors will find that their best policy is to stick with PICC insurance whenever possible backed-up by or reinsured with those US international insurers that have China connections. When interviewed, the US companies with investment projects professed few, if any, complaints about dealing with PICC. And neither US insurance companies nor US investors have found PICC's coverage inadequate or encountered problems in settling claims.

PICC has come a long way since it began insuring foreign investment projects in 1979, and the future looks promising. The company is willing to listen to Western underwriters and has made a concerted attempt to continue adopting Western methods of doing business. But with an expanding clientele and widening range of policies, PICC will have to expand computerization in order to keep up. And only when PICC is able to establish broad insurance programs that measure up to international standards for both domestic enterprises and those with foreign investment will PICC's coverage be comparable to that of the large Western insurance companies. 完

BOOKSHELF

书刊介绍

Statutes and Regulations of the People's Republic of China, 2 volumes and index. Published by the University of East Asia and the Institute of Chinese Law (Publishers) Ltd. in cooperation with the China Law Society, 1987. Available in the United States from REO Publications, 460 Carson Plaza Dr., Carson, CA 90746. First edition $1,200. In 1988 a third volume will be available with supplements and a new index at an additional cost of $400.

A third loose-leaf service tracking China's legal regulations has hit the market. This news service joins *Commercial, Business and Trade Laws: People's Republic of China* (first published in 1983 and reviewed in the Jan–Feb 1986 *CBR*) and *China's Laws for Foreign Business* (first released in 1986 and reviewed in the Jan–Feb 1987 *CBR*).

Wider coverage is the primary advantage of this latest service. In addition to reporting foreign trade and investment-related legislation as the other two publications do, this new loose-leaf service covers domestic economic legislation, civil law, public health regulations, and public security laws. It does not, however, include the analysis provided by *Commercial Business and Trade Laws* or the Chinese-language law texts contained in *China's Laws for Foreign Business*.

The two volumes already published include 410 major statutes arranged in chronological order from 1950 to 1986. They focus on laws dealing with foreign trade and investment, constitutional law, and significant criminal legislation. A separate volume indexes these laws by topic and lists the laws in the first two volumes chronologically.

Five to eight supplements, consisting of new laws and some older laws that were not included in the original two volumes, will be mailed to subscribers each year. By November 1987, this reviewer had received four supplements, each of which included 10 to 30 laws, the most recent promulgated in June 1987. New binders will be released in the future—one is slated for 1988—and the index volume will be updated and revised annually. —JLL

China Briefing, 1987, edited by John S. Major and Anthony J. Kane. Boulder, CO: Westview Press in cooperation with the China Council of The Asia Society, 1987. 197 pp. $29.85 hardcover; $13.85 softcover.

This annual review provides a concise overview of economic, political, and social developments in China during the preceding year. The latest volume covers events in 1986. The scope of this volume is similar to previous editions, although there is a new chapter on foreign investment and technology transfer written by Denis Simon. Other contributed chapters include: "China in 1986: Domestic Politics," by Lowell Dittmer; "Economy," by Thomas R. Gottschang; "Foreign Relations," by Samuel S. Kim; "Chinese Military Affairs in 1986," by Harlan W. Jencks; and "Culture," by Richard Kraus. The final chapter, "Taiwan in 1986: Reforms Under Adversity," by Hung-Mao Tien, discusses Taiwan's economy and political reforms. A chronology outlines major events in 1986, and appendices contain important Chinese policy statements on disarmament, intellectual ideology, and the guiding principles for building a socialist society. —JLL

Shopping in China: Arts, Crafts, & the Unusual, by Roberta Helmer Stalberg. San Francisco: China Books & Periodicals, 1986. 230 pp. $9.95.

Where is the best place to find the ultimate Chinese souvenir? This guidebook lays it all out for the shopper with a yen to spend. From baskets to wood-block prints, the book describes well-known and out-of-the-way outlets that sell Chinese arts and crafts in 12 major cities. The book focuses on stores carrying good quality or unusual merchandise and does not attempt to cover general hotel gift shops or Friendship stores.

For each store, the book provides an address and phone number, a survey of inventory, information on accepted methods of payment, and whether or not English is spoken. A useful review of craft terms and techniques is included in the last chapter. Maps for each city clearly mark the location of each store reviewed in the book, making this a handy guide for the business traveler and tourist alike. —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.*

BOOKS RECEIVED

Trade Unions in China 1949 to the Present: The Organization and Leadership of the All-China Federation of Trade Unions, by Lee Lai To. Kent Ridge, Singapore: Singapore University Press, 1986. 206 pp. $11.60 softcover.

Management and Industry in China, by C. Carl Pegels. New York: Praeger, 1986. 282 pp. $45 hardcover.

Technological Development in China, India and Japan: Cross-Cultural Perspectives, edited by Erik Baark and Andrew Jamison. New York: St. Martin's Press, 1986. 264 pp. $32.50 hardcover.

Institutional Reform and Economic Development in the Chinese Countryside, edited by Keith Griffin. Armonk, NY: M.E. Sharpe. 1984. 336 pp. $37.50 hardcover, $18.50 softcover.

MEMBER SPOTLIGHT

会员动态

COMBUSTION ENGINEERING

During 1987 Combustion Engineering Inc.'s subsidiaries signed six major deals in China, demonstrating the company's diverse business interests in the China market. Combustion Engineering cites long-term commitment and competitive pricing as the principle reasons for its success in China. This strategy paid off on the World Bank-financed Beilungang Thermal Power Plant project. Facing stiff competition from European and Japanese companies, Combustion Engineering nevertheless won the contract through aggressive bidding. And the company bolstered its position in China by winning a second World Bank-supported project for the Shidongkou Power Plant later in the year.

In January the Power Systems Group signed a $53 million agreement to sell a 600 MW boiler island to the Beilungang Thermal Power Plant in Zhejiang Province. Subsequently, C-E Utility and Industrial Controls contracted to supply instrumentation and controls worth $8.5 million for the Beilungang project. In February, Lummus Crest Inc. was awarded a contract for the Panjing Ethylene Project by Liaoning Province to provide basic design and ethylene technology and detailed engineering for Lummus Crest's proprietary SRT-4 ethylene cracker. Exceeding $80 million in total value, the contract requires financing and product buyback for payment. C-E Natco followed with a $2 million sale of oil processing equipment to MACHIMPEX in May, and Sprout-Bauer signed a $1 million contract in June to provide food processing equipment. The most recent deal came in October, when Combustion Engineering signed a $115 million contract to provide two 600 MW boilers for China's first supercritical fossil power station, the Shidongkou Power Station outside of Shanghai. The total value of Combustion Engineering's China business in 1987 should reach well over $200 million.

Combustion Engineering made its first deals in China in 1980—a $12 million technology licensing agreement for fossil utility boilers and a $35 million contract for boiler verification units. In 1985 Lummus Crest formed a joint venture with SINOPEC International to undertake new construction projects and modernize petroleum projects. The joint venture is currently engineering two styrene plants and working on an ethylene expansion project in Shanghai. Also under way is construction of a two-unit 300 MW power plant located in Shandong Province. Other Combustion Engineering subsidiaries doing business with China include Taylor Instruments, C-E Simcon, C-E Minerals, C-E Refractories, C-E Cast Equipment, C-E Raymond, C-E Air Pre Heater, Jamesbury, and C-E Tyler.

Combustion Engineering is currently working with the China Industrial and Commercial Development Corporation (Incomic) to identify other potential joint venture partners in China. Since C-E's diverse business interests fall under the authority of several Chinese ministries, the company is particularly eager to see China take steps to allow countertrade credits to be transferred between business sectors, thereby alleviating the foreign exchange constraints on any one project.

MINE SAFETY APPLIANCES COMPANY

The cost of industrial accidents in China is high, both in terms of lost production and the toll on workers. Some 500 lives were lost in construction accidents in China during the first half of 1987. And for every million tonnes of coal produced, an average of five miners die in China's State-run mines. Two recent steps China took to improve safety on the job were implementing tougher mine safety regulations in 1986 and setting new standards to regulate the booming rural industrial sector in October 1987. Another is the continuing import of industrial safety equipment from abroad.

Mine Safety Appliances Co. (MSA) has been supplying hazardous gas monitors and personal protective equipment to Chinese industry for several years. In 1987 its growing reputation in China culminated in the establishment of the Wuxi MSA Safety Equipment Co. Ltd., a 50/50 equity joint venture with the Wuxi Chemical Instruments Factory of Jiangsu Province. The venture's new factory, expected to go on line in about two years, will produce portable and permanent instruments used to detect hazardous gases in industry and mining. MSA hopes the venture will aid in its efforts to introduce other products to the China market, such as respiratory protection devices.

Headquartered in Pittsburgh and with operations in 21 countries, MSA provides safety equipment for a broad spectrum of industries worldwide. The company's first exposure to China, a meeting with representatives of the Coal Ministry in Beijing in 1980, led to the 1984 sale of two large computer-based, mine-wide monitoring systems that came on line in 1986. Since that time MSA has sold several million dollars worth of high-technology equipment to China, including two high-expansion foam fire protection systems to the steel industry.

MSA, a member of the National Council since 1984, believes that its joint venture in Wuxi is proof of China's commitment to improving industrial safety and productivity. Through the Wuxi MSA Safety Equipment Co., which has already been awarded technologically advanced status by Chinese authorities, MSA has demonstrated its own long-term commitment to helping China achieve this goal. MSA sees its primary contribution as "the further development of technologies and products essential to economic modernization and safety in Chinese industry."

PERGAMON GED INTERNATIONAL

Great Eastern Development International, a Greenwich, Connecticut-based consulting and investment firm focusing on business in China, has helped American and West

European companies develop 12 joint ventures in China since 1978 and negotiated the first agreements to import Chinese bicycles and sports rifles into the United States. Now the company is taking a great leap in a new direction.

In January 1987 Great Eastern formed a joint venture with Pergamon Media Trust of the United Kingdom. The resulting company, Pergamon GED International, has entered into an unusual three-year cooperation agreement with China Central Television (CCTV) and China International Trust and Investment Corporation (CITIC) to produce "What's New," a weekly television program that first aired on prime-time Chinese television in January.

Each program will highlight one or two Western firms' contributions to the development of science, technology, industry, commerce, education, medicine, or agriculture. In the first show, for instance, British Telecom discussed the development, manufacture, and use of optical fibers. In another early show Daimler Benz will show off the technology that goes into their automobiles by demonstrating how aerodynamics affects fuel consumption. Manuel Menendez, managing director of Pergamon GED, believes that the shows provide both "an educational tool for China's modernization and a business service for companies that want to introduce their technologies, products, and services to the China market."

Under the cooperative agreement, Pergamon GED takes the lead, handling marketing and sales of the program, assembling film and video footage provided by the sponsor, and introducing the sponsor to Chinese organizations that might be interested in the product or technology featured on each show. CCTV, China's national television network, dubs the films into Chinese and is responsible for the final production and nationwide transmission of "What's New." CITIC, a technical adviser (and partner) to the project, will provide translation services and then take over in the follow-up phase by introducing foreign companies featured on the television programs to interested Chinese end-users and evaluating potential partners. The price for sponsorship includes these business development services. "We are paving a short road that will penetrate the bureaucracy by directly linking the foreign company to Chinese customers," says Menendez. —John Lewis

The China Business Review
1987 Index

Compiled by Jennifer Koch

CHINA BUSINESS

中外贸易

Jennifer Koch

The following tables contain recent press reports of business contracts and negotiations exclusive of those listed in previous issues. For the most part, the accuracy of these reports is not independently confirmed by *The CBR*. Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in the IMF's *International Financial Statistics*.

National Council member firms can contact the Business Information Center to obtain a copy of news sources and other available background information concerning the business arrangements appearing below. 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 the Business Information Center at the National Council for US–China Trade.

中外贸易

SALES AND INVESTMENT THROUGH OCTOBER 31

Foreign Party/ Chinese Party	**Arrangement/Value/ Date Reported**
Agricultural Commodities	
Investments in China	
Tokyo Maruithi Corp. (Japan)/Qingdao	Established Qingdao Aquatics Co. Ltd. to export shellfish, cuttlefish, flat fish, and kelp to US, Japan, and FRG. (50-50). 7/87.
Mee Hwa Industries Inc. (US)/Huachuan Peat Co., Heilongjiang	Established Huamei Peat Corp. 15-year joint venture to produce peat for export. $1.2 million. 8/87.
Deshun Co. Ltd. (Thailand)/Changchun branch of International Economic and Technological Development Co., Jilin	Established the Thailand-Jilin Rubber Co. Ltd. 9/87.
Other	
(USSR)/Heilongjiang	Will establish a barter trade agreement in which the USSR will provide funds and equipment for a vegetable center in exchange for resulting produce. 8/87.
Unalaska, Alaska (US)/ Tianjin Aquaculture Co.	Signed agreement to explore joint prawn aquaculture. 9/87.
State of Alaska (US)/Heilongjiang	Signed agreement to study prospects of Alaskan timber sales. 9/87.
Agricultural Technology	
China's Imports	
(Yugoslavia)/Beijing Machinery Import and Export Co.	Signed contract to build poultry butchery. $1.2 million. 7/87.
Simon-Barron Ltd., of Simon Engineering Group (UK)/Everbright Industrial Co.	Will supply laboratory animal feed plant. $715,000. 8/87.
Funki AS (Denmark)/ Shanghai	Will provide a complete duck hatchery. 8/87.
United Milling System A/S (Denmark)	Will supply five sets of seed cleaning equipment for World Bank-financed project. $36,000 (DKr 250,000). 10/87.
Sprout Waldron Australia Pty Ltd. (Australia)	Will supply feed processing line for World Bank-financed project. $999,500. 10/87.
Chemicals and Chemical and Petrochemical Plants and Equipment	
China's Imports	
Nuovo Pignone (Italy)/ CNCCC	Will provide synthetic gas compressor modification for World Bank-supported Fertilizer Rehabilitation Project. $1.3 million. 5/87.
NA (Japan)	Signed licensing contract to produce carbon film technology and equipment. 7/87.
Sino Fluor, joint venture of Fluor Corp. (US) and Sinopec International (PRC)/Shandong branch of CNTIC	Signed contract to provide basic and detail engineering for a 70,000 TPY polypropylene plant to be built at Qilu Petrochemical Complex in Shandong. 7/87.
HPM Corp. (US)/SINOPEC International	Extrusion equipment. 7/87.
Nikki Marubeni (Japan)/ CNTIC	Will supply ethylene plant. $80 million (J¥12 billion). 7/87.
TEC Electronics (Japan)/ SINOPEC and Shanghai Petrochemical Factory	Ethylene oxide/ethylene glycol plant. $40 million (J¥6 billion). 7/87.
Asahi Glass Co., Asahi Electrochemical Industry Co., and Niki (Japan)/ Qilu Petrochemical Industry Corp., Shandong	Production equipment to manufacture synthetic glycerol. $66.6 million (J¥10 billion). 8/87.
Mitsubishi Heavy Industries Ltd. (Japan)	Signed contract to modernize a petrochemical plant by expanding capacity and improving energy conservation. $3.3 million (J¥500 million). 8/87.
Linde AG TVT Munich (FRG)/Xianyang TV Tube Factory, Shaanxi	Will supply an oxygen plant valued at more than $1 million. 8/87.
NA (Mexico)/Shanghai Gaoqiao Petrochemical Plant	Signed contract to supply oil catalytic equipment and technology. 9/87.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Industry Import-Export Corp.; CASS: Chinese Academy of Social Sciences; CATIC: China National Aero Technology Import-Export Co.; CCTV: China Central Television; CEIEC: China Electronics Import-Export Corp.; CEROILFOODS: China National Cereals, Oil, and Foodstuffs Import-Export Corp.; CHINATEX: China National Textiles Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNCCC: China National Chemical Construction Co.; CNOOC: China National Offshore Oil Corp.; CNTIC: China National Technical Import Corp.; COSCO: China Ocean Shipping Co.; CPIC: China National Corporation of Pharmaceutical Economic and Technical International Cooperation; ICBC: Industrial and Commercial Bank of China; ICBC: Industrial and Commercial Bank of China; INSTRIMPEX: China National Instruments Import-Export Corp.; ITIC: International Trust and Investment Corp.; MACHIMPEX: China National Machinery Import-Export Corp.; MAI: Ministry of Aviation Industry; MEI: Ministry of Electronics Industry; MINMETALS: China National Metals and Minerals Import and Export Corp.; MLI: Ministry of Light Industry; MOCI: Ministry of Coal Industry; MOPI: Ministry of Petroleum Industry; MPT: Ministry of Posts and Telecommunications; MWREP: Ministry of Water Resources and Electric Power; NA: Not Available; NDSTIC: National Defense, Science, Technology, and Industry Commission; NORINCO: China North Industries Corp.; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SITCO: Shanghai Investment and Trust Corp.; SPC: State Planning Commission

NA (Italy)/CNTIC and Fushun Ethylene Plant, Liaoning	Will supply polypropylene equipment to come on stream in 1991. 9/87.
E.I. Du Pont de Nemours & Co. (US)/CNCCC	Will transfer three synthetic rubber production lines to plants in Shandong, Shanxi, and Sichuan. $10.2 million. 9/87.

Investments in China

NA (Italy)/Shanghai Chemical Co.	Will establish joint venture to build polypropylene factory with 70,000 TPY capacity. $45 million. 7/87.
K.T. International Corp. (UK)/Shenzhen	Will jointly construct petrochemical complex consisting of refinery, an ethylene plant, and other petrochemical plants. $1.5-$2 billion. 7/87.
NA (Singapore)/China National Packaging Import and Export Corp.	Established the China-Asia Co. Ltd. 15-year joint venture to produce 1,000 TPY of plastic coloring agents. $330,000. 7/87.
Showa Denko K.K. (Japan)/Chemical Research Center under CASS	Will assist in developing high-speed liquid chromatography. 7/87.
Asahi Glass Co., Mitsubishi Corp. and Asahi IM Engineering Inc. (Japan)/Jinsha Associated Trading Corp.	Established joint venture to build 150,000 TPY caustic soda plant outside of Shanghai and jointly build electrolytic cells. 8/87.
Hong Kong International Investment Corp. (HK)/ Anda Chemical Co.	Established the Anxin Chemical Co. joint venture to produce 20,000 TPY of polymethyl methacrylate, 40% of which will be exported. $43 million (¥159 million). 8/87.
PPG Industries (US)/Nanchang Chemical Industrial Material Factory, Jiangxi	Established the PPG-Nanchang Chemical Technology Development Corp. joint venture for development of applications for silicas. (50-50). 10/87.

Construction Materials and Equipment

China's Imports

Angelo Cremona E Figlio, S.P.A. (Italy)/Ministry of Forestry	Will provide plywood plant for World Bank-financed Forestry Development Project. $3.2 million. 4/87.
Karl Fischer Industrieanlagen and Siempelkamp (FRG)/Hunan Wood-based Panel Plant, Changsha, Hunan	Supplied resin plants and production technology to manufacture plywood and particleboard. 6/87.
NA (Sweden)/Sanming Plywood Factory, Fujian	Production line to turn out 30,000 cubic meters of shaving board annually. 8/87.
High Frequency Melting Co. (Japan)/CNTIC and a Shanghai factory	Will supply equipment to produce 5,000 TPM of concrete piles (including reel opener, cutting machine, forging press and automatic moving equipment). $4.7 million (J¥700 million). 8/87.
Vicwood Development Ltd. (HK)	Will supply 5,200 tonnes of mild steel rods. $1.3 million. 9/87.
Vetroresina Co. (Italy)/ Jixian Co., Hebei	Reinforced fiberglass pipe and storage tank production line. 9/87.

Investments in China

Ingersoll-Rand (US)/ Shanghai Compressor Factory	Established Shanghai/Ingersoll-Rand Compressor Ltd. 20-year joint venture to manufacture portable and stationary rotary air compressors for industrial and construction uses. Registered Capital: $3.2 million. (50:50). 6/87.
Glaverbel (Belgium)	Will establish the China National Building Materials Import and Export Corp. joint venture to build glass works in developing countries. 7/87.
Two HK firms/China International Steel and Iron Products Co. and Fujian	Established the Mawei High-Speed Wire and Rod Steel Mill to produce 150,000 TPY Morgan wire rods, 80,000 of which will be exported. $8 million. 8/87.
Eternit Co. (Belgium)/ Guangzhou No. 2 Building Materials Plant and Guangzhou branch of ITIC	Established China Guangzhou Eternit Co. Ltd. joint venture to produce 36,500 TPY of building materials. $10.3 million. (50:50). 9/87.
Nisso Master Builders Co. (Japan)/Shanghai Waterproof Building Materials Factory	Established joint venture to produce concrete admixture and chemical building materials. Registered capital: $750,000 (J¥110 million). (Japan:60%-PRC:40%). 9/87.

Other

(Thailand)	Will supply cement for Chinese coal in countertrade agreement. 8/87.

Consumer Goods

China's Imports

Zanussi Engineering (US)/ Suzhou	Will build refrigerator manufacturing plant with annual output of 40,000 units. $12 million. 7/87.
Fujitsu General (Japan)/ Chongqing Foreign Trade Import-Export Corp., Sichuan	Signed refrigerator assembly contract to build 50,000 units in first year, of which first 25,000 units will be exported. 9/87.

Investments in China

Dexiang Industrial Co. (HK)/Dufang Leather Products Factory, Shanghai	Established the Shanghai Dexiang Leather Products Factory 10-year joint venture to produce leather bags, purses, suitcases, and canvas products. $200,000. 7/87.
Two Japanese companies/Chongming County, Shanghai	Established the Shanghai Shenhe Mat Making Co. Ltd. 15-year joint venture to manufacture straw mats and straw products. 7/87.
C. Itoh & Co. (Japan)/ China National Light Industrial Products Import/ Export Corp.	Will assist in development of shoe manufacturing in exchange for shoe exports. 7/87.
Golden Fields Enterprise Ltd. (HK)/Shanghai Foreign Trade Corp. and Tahui Industry Co.	Established the Huijin Ornamental Co. Ltd. joint venture to produce polyester fabric flowers and plants for export. $600,000. (HK:30%-PRC:70%). 8/87.
Liming Arts & Handicrafts (HK)/Industrial Investment Corp. of Tianjin Economic and Technological Development Zone	Established the Tianjin Flying Dragon Peculiar Handicrafts Co. Ltd. joint venture to produce traditional Chinese kites and handicrafts. 9/87.

Electronics and Electrical Equipment (*see also* Electronics—Consumer)

China's Imports

Unisys Corp. (US)/People's Construction Bank of China	Mainframe system. $1.3 million. 6/87.
Unisys Corp. (US)	Computer system for 1990 Asian games. $4 million. 7/87.
Krupp Atlas Elektronik (FRG)	Will supply and fit radars on 15 major new ships and equip 11 with echo sounders and Doppler speed logs. $2 million. 7/87.
Tyree Holdings Proprietary Ltd. (Australia)/ Tianjin Economic and Technological Development Zone	Signed letter of intent to supply solenoid-operated water valves. 8/87.
ISC Systems (US)/ICBC	Will automate 30 branch offices of ICBC in Nanjing and 100 additional offices in Beijing. 8/87.
IBM Corp. (US)/Hudong Shipyard, Shanghai	Provided computer system and software for ship design and enterprise management. 8/87.
GeoVision Corp. (Canada)/A Tianjin institute	Will provide mapping systems. 8/87.
NCR Corp. (US)	Will supply a mainframe and 45 automated teller machines. 8/87.
Onflo Computer Co. Ltd. (HK)/Shenzhen University	Will provide computerized library system for the university library. 9/87.
Wang Pacific Ltd., subs. of Wang Laboratories, Inc. (US)/Guangdong Float Glass Co. Ltd.	Will provide and install a VS65 32-bit minicomputer, including 15 Chinese-language work stations and four printers. $300,000. 9/87.
Hewlett-Packard Co. (US)/Jianguo Hotel, Beijing	Will supply a HP 3000 supermini system. 9/87.

Hewlett-Packard Co. (US)/MOFERT	Will provide 10 HP 3000 systems. $2 million. 9/87.
Printronics Pty. Ltd. (Australia)/Huangpu New Port, Shanghai	Will build a personal computer board plant to make multi-layered boards at previously established joint venture factory. $10 million. 9/87.
Cable and Wireless Ltd. (HK)	Will supply and commission two 10 Hiross ECOS 2 air conditioning systems. $230,000 (HK$1.8 million). 9/87.
Unisys (US)/Karamay Oil Field, Xinjiang	Two 1100/72 large-scale computers, one 5000/50C small-scale computer, and 60 FORTRAN equipped terminals. $4.6 million. 9/87.
Dataprep Ltd. (HK)/Hainan Financial Center and Furama Hotel, Dalian	Two EECO hotel management systems. 9/87.
Apollo Computer Ltd. (US)/Fujian Electronic Computer Corp. and Changjiang Computer Group Corp.	Will supply two DN 3000 workstations and accept payment in renminbi. 9/87.

Investments in China

Siemens Communication and Data Processing Systems Division, subs. of Siemens AG (FRG)/Spare Parts and Components Co., subs. of CNTIC	Established joint venture to run a spare parts, training, and service center in Beijing. 5/87.
Pinkinton Co. (US)/Shanghai Meters and Computers Development Co.	Established the Shanghai Datong Electric Circuit Co. Ltd. 15-year joint venture to produce multi-layer, high density double-face printed circuits, and corrosion-resistant printing inks. $9.8 million. 7/87.
Utilux Proprietary Ltd. (Australia)/Tianjin Economic-Technological Development Area	Established joint venture to produce electrical connectors. 8/87.
Yoshimura Plastics Co. (Japan)/Federation of Supply and Marketing Cooperatives of Yangzhong County, Jiangsu	Established the Jiangsu Jiyang Electronic Co. Ltd. to produce eraser heads. $260,000. (50:50). 8/87.
Xerox Corp. (US)/Shanghai Movie and Photo Industrial Co. and Bank of Communications	Signed 30-year renewable contract establishing a joint venture to build three factories to produce copying machines. $30 million. (US:51%-PRC:49%). 9/87.
Electronic Data Systems (US)/Commission for Science and Technology, Beijing and the Beijing Asian Games Organization Committee	Established the Beijing International Information Processing Co. to design and produce an integrated system for the 1990 Asian Games. 10/87.

China's Investments Abroad

Semi-Tech Microelectronics Corp. (Canada)/Shenzhen Electronic Group, Guangdong	Shenzhen Electronic Group will invest in the Canadian firm for a 10% holding. $5 million. 9/87.

Other

Altos Computer Systems (Far East) Ltd. (US)/CASS, Software Research Institute	Signed technical cooperation agreement to provide latest computer technology. 9/87.
Apollo Computer Ltd. (US)/INSTRIMPEX	Will open a service center including a duty-free warehouse for spare parts. 8/87.

Electronics—Consumer

China's Imports

The Television Technology Corp. (US)/Anshan Broadcasting Electronics Plant, Liaoning	Will supply component kits for television transmitters and an audio amplifier. $1.45 million. 7/87.
TDK Corp. (Japan)/CNTIC	Magnetic tape manufacturing plant. 7/87.
Toshiba Corp. (Japan)/TV set factory in Tianjin	Two color television set production lines. 9/87.

Investments in China

Crown Corp. (Japan)/Shenzhen Meizhi Electrical Equipment Corp.	Will build plant to manufacture television sets and audio components. $50 million. 8/87.
Jin Xing Magnetics Co. (HK)/Three companies in Zhuhai, Guangdong	Established the Zhong Xing Magnetics Co. Ltd. joint venture to produce video tape cassettes for export to the US. $9 million. (HK:70%-PRC:30%). 8/87.
Chronar Corp. (US) and Novel Technology Development Ltd. (HK)/Shen Han Electronics Electrical Corp., Shenzhen SEZ Development Corp., and Beijing Xing Mao Enterprises Co.	Established a joint venture to produce 1.2 megawatt photovoltaic panels. $10 million. (US:30%-HK:30%-SHEEC:20%-SEZ:10%-BJXM:10%). 10/87.

Engineering and Construction

China's Imports

United Planning Co., a joint venture between Houle & Associates, Unison International, and C.K. Consultants (US)/Tianjin Economic-Technological Development Area (TEDA)	Will conduct feasibility study funded by the US government Trade and Development Program to assist TEDA in a land use planning-marketing study. $467,000. 8/87.

Investments in China

Normandy Industrial and Economic Group (France)/Ministry of Railways and Henan	Will establish joint venture to build the Zhengzhou-Shaolin Temple railway. 7/87.
Nippon Hodo Co., Kumagi Gumi Co., Nishimatsu Construction Co., (Japan), and Beugnet Co. (France)/CNTIC, International Tendering Co., and Beijing-Tianjin-Tanggu Expressway Corp.	Signed multiple contracts to provide equipment and construction for World Bank-financed expressway project. 10/87.

Finance

Bank Brussels Lambert S.A. (Belgium)/SINOPEC	Agreed to 7-year $25 million loan with two-tranche structuring of five and two years. 8/87.
Bank Brussels Lambert S.A. (Belgium)/Everbright Finance Co.	Signed cooperation agreement to set up medium- and long-term loans, and develop trade. 8/87.
United Overseas Bank and Overseas Union Bank (Singapore)/Jiangsu branch of CITIC	Signed letter of intent to create financial facilities for economic and trade cooperation. 8/87.
Banco di Roma, HK branch (Italy) and Mitsubishi Bank, HK branch (Japan)/Nanyang Commercial Bank and Hangzhou branch of BOC	Signed a nine-year $12.5 million syndicated loan to finance the Dragon Hotel in Hangzhou. 8/87.
Imperial Bank of Commerce (Canada)/ICBC	Signed correspondent banking agreement for foreign exchange and international capital market cooperation. 9/87.
James Capel (Far East) Ltd., securities unit of Hong Kong & Shanghai Banking Corp. (HK)/Nanyang Commercial Bank, Xin Hua Trust, Savings & Commercial Bank, and Ming An Insurance Co., all members of BOC	Established NCB Investment Management Ltd. to open two unit trusts in Hong Kong to invest in bonds and equities. 10/87.
(Japan)	Prime Minister Nakasone pledged $700 million loan during a visit to China; will be used to increase China's export capabilities. 10/87.
Industrialization Fund for Developing Countries (Denmark) and East Asiatic Co. (HK)/Shoudu Iron and Steel Works Hotel Development Co.	Established joint venture to finance contract between the Jiangsu Construction Engineering Corp. and the Beijing Dongzhimen International Apartment Hotel Co., Ltd. to build a hotel in Beijing. $30 million. 10/87.

Asian Development Bank	Approved 15-year, $100 million loan to finance machinery and equipment imports. 10/87.
IBJ Schroder Bank and Trust Co. (US) and 28 other banks from 12 regions and countries/BOC	Signed $200 million syndicated-term loan agreement. 10/87.
Mitsubishi Trust Bank and Mitsubishi Trading Co. (Japan)/China Everbright Holdings	Jointly established Guangling Lease Holdings Ltd. to lease agricultural machinery, construction equipment, and energy-related equipment. $10 million. (50-50). 10/87.
Visa (US)/BOC	Became a Visa member allowing the issuance of Great Wall Visa cards. 10/87.
Bank of America (US)/ ICBC	Signed cooperation agreement. 10/87.

China's Investments Abroad

Royal Bank of Canada and Celgar Pulp Mill (Canada)/CITIC	Completed a finance package for $46.8 million enabling CITIC to purchase a 50% share of the Canadian mill. 6/87.

Food Processing and Food Service (*see also* Packaging Equipment)

China's Imports

Gea Till Gmbh Hoan Co. (FRG)	Will supply license and transfer technology for process to clean beer-kegs. 5/87
FMC Corp. (Italy)/China Carrie Enterprises, Ltd., Sichuan	Provided a TASTE evaporator and other machinery to citrus concentrate factory. $1.1 million. 7/87.
Australian Wheat Board/ Tianjin Grain Bureau	Will supply baking equipment. 8/87.
De Danske Sukker Fabrikker (Denmark)	Will provide equipment for sugar refinery. $19.3 million (DK135 million). 8/87.
Redler, affiliate of the Evered Group (UK)/China United International Leasing Co. and Doumen Wine Factory, Guangdong	Will design and supply complete set of malting machinery. $6.4 million (£4 million). 9/87.

Investments in China

NA (US)/Tianjin	Established Tianjin Xinlu Foodstuff Co. Ltd. joint venture to produce foodstuffs for export. $1 million. (50-50). 7/87.
Bally Engineering Structures, Inc. (US)/NA	Established the Bally Sanshui Insulated Panel Co. joint venture to produce walk-in freezers and refrigerated display cases. 7/87.
China Air Catering Co., joint venture between Dairy Farm Co., Jamestown Investments and Bank of East Asia (HK)/ Beijing branch of CAAC	Renewed for 12 years the Beijing Air Catering Co. joint venture, which supplies in-flight meals on CAAC flights and other catering services. 7/87.
Takasago International Corp. (Japan)/Shanghai branch of China National Native Produce and Animal By-Products Import-Export Corp.	Established joint venture to produce compounded flavorings and Oolong tea concentrate. 7/87.
Martine Specialites (France)/Foshan, Guangdong	Will establish joint venture to produce 1,000-1,200 tonnes of frozen French pastries. $2.4 million (FFr15 million). 9/87.
(Colombia)	Will invest in a coffee factory. 10/87.
Suntory Co. (Japan)/Beijing	Will build a joint venture brewery. 10/87.

Other

State of Alaska (US)/Ministry of Agriculture, Animal Husbandry, and Fishery	Will establish joint panel to oversee marketing of Alaskan seafood and to exchange technical information. 9/87.

Machine Tools and Machinery

China's Imports

Acme Manufacturing Co. (US)/Shanghai Aluminum Products Plant	Will supply two custom-made automated finishing machines for finishing and polishing tea kettles. $300,000. 5/87.
Solo Kleinmotoren (FRG) and NA (France)	Signed contract to transfer chain saw and engine technology. 5/87.
G & B Automated Equipment Ltd. (Canada)/ MACHIMPEX	Signed three contracts to supply computerized technology to produce grinding wheels. $21.5 million. 8/87.
National Diecasting Machinery (US)	Will supply a fully automatic die-casting machine, with tooling and peripheral accessories. 8/87.
Piantti Co. (Italy)/Seamless steel tube engineering factory in Tianjin	Equipment and technology to produce 250-mm limited mandrel rolled tube. 9/87.
Molins Plc (UK)	Will supply heavy-duty corrugated board production line. $2.7 million. 9/87.

Medical Equipment and Devices

Investments in China

NA (HK)/Huashan Health Co. and Huashan Cultural and Recreational Service Co.	Will establish the Shanghai Modern International Health Care Co. Ltd. 20-year joint venture to set up computerized physical check center and physical therapy center that will include a 220-280 room hotel. 7/87.
Fairline Optical Co. (HK)/ Shanghai AJ Corp.	Established the AJ Optical Manufacturing Co. Ltd. to produce 360,000 frames annually, with 10% for export. 8/87.
The Kendall Co. (US)/ Two companies in Yantai, Shandong	Established joint venture to produce gauze and adhesive plaster. $4.4 million. (US:70%-PRC:30%). 9/87.
World Optical Co. Ltd. (Singapore)/Beijing Arts and Crafts Corp.	Established the Beijing World Optical Co. Ltd. to produce, process, and repair lenses and optical instruments. $326,000. 10/87.

Other

(UK)/China Welfare Fund for the Handicapped	Donated 25,000 hearing aids and earphones, 75,000 connecting cords, and earmold manufacturing equipment. 9/87.

Metals, Minerals, and Processing Technology

China's Imports

Metathermg. B.H. (Austria)	Will supply horizontal continuous casting equipment. 5/87.
Kaiser Engineering and Constructors Inc., subs. of Kaiser Engineers Inc. (US)/MMI, China International Iron and Steel Investment Corp., Shanghai Meishan Metallurgical Co.	Signed contract to conduct seven-month feasibility study for proposed upgrading of Meishan Metallurgical Co.'s iron plant in Nanjing to a fully integrated steel complex. Under $5 million. 8/87.
Elkem (Norway)	Will provide engineering technical know-how and equipment for several smelting plants. 9/87.

Investments in China

Alpha Metals Inc. (US)/ Yunnan Tin Corp.	Established the Yun Tin-Alpha Solder Inc. joint venture to produce 2,000 TPY solder and 1 million liters of flux. $1.2 million (¥4.2 million). (50:50). 8/87.
Strategic Metals International Ltd. and Sunshine International Inc. (US)/ CNTIC and China National Nonferrous Metals Corp.	Reached verbal agreement for feasibility study to establish joint venture to process rare earth and nonferrous metals. 9/87.

China's Investments Abroad

Hamersley Iron Pty. Ltd. (Australia)/China National Metallurgical Import and Export Corp.	Established an unincorporated joint venture to develop Channar iron ore mine in Australia with initial production rate of 3 million TPY to be gradually increased to 10 million TPY. $180 million (A$250 million). (AUST:60%-CMIEC:40%). 6/87.
Denison Resources NL (Australia)/China Geology Import and Export Corp.	Established a 12-year joint venture to explore and process Australian gold. $4.3 million. (50-50). 7/87.

Other

Metal Mining Agency of Japan and Japan International Cooperation Agency/China National Non-Ferrous Metals Industry Corp.	Japanese agencies will conduct exploratory boring and sampling of rare metals in exchange for a stable supply of metal exports. $13.3-$16.6 million (J¥2-J¥2.5 billion). 7/87.

Paul Wurth SA (Luxemburg)/China National Metallurgical Import-Export Corp. and Anshan Iron and Steel Complex	Agreed to assist in renovating a blast furnace. 8/87.

Military Equipment

China's Imports

Grumman Corp. and the US Air Force	Will supply technology and electronic equipment to upgrade F-8 fighter, including initial and spare parts, support systems, and a development program for plane's fire control system. $245 million. 8/87.
Racal Corp. (UK)/China Aviation Suppliers Corp.	Will supply 11 Doppler VOR ground navigation systems and train Chinese personnel in installation and maintenance. 8/87.
Racal Corp. (UK)/China State Shipbuilding Corp.	Will supply electronic equipment, including a weapon and electronic outfit for a warship. 9/87.

Other

(France)	Signed cooperative agreement for reconditioning of Chinese arms and joint development of new equipment. 8/87.
Aeritalia (Italy)/China Nanchang Aircraft Manufacturing Co., Jiangxi	Developed the A5-M attack aircraft, built in the PRC and equipped in Italy. 10/87.

Mining Equipment

China's Imports

Asea AB and Weserhuette (Sweden)/ Changcun, Shaanxi	Supplied and installed complete shaft hoisting system with one twin-cage hoist and one single-cage passenger hoist in Changcun coal mine. $8 million. 6/87.
Goodyear Co., Industrial Products division (US)/ CNTIC, China National Nonferrous Metals Import and Export Corp. and Dexing Copper Mine, Jiangxi	Will provide steel-cord reinforced conveyor belt system. 10/87.

Packaging Equipment

China's Imports

Lile International Packing Co. (Sweden)/Beijing Pulp Paper Factory	Supplied production line to make liquid food packaging cartons. $14.5 million (¥54 million). 8/87.
Process Evaluation & Development Corp. (US)/ Puqi Paper Mill, Hubei	Will provide technology for 100 TPD bleached bamboo pulping line. 10/87.

Petroleum, Natural Gas, and Related Equipment

China's Imports

Perta Oil (HK) and NA (Singapore)	Supplied 500,000 barrels of crude oil from Indonesia. 6/87.
(Iran)	Will supply one million tonnes of oil annually. 8/87.
Linde AG TVT Munich (FRG)/CNTIC and Zhongyuan Oil Field	Will supply gas liquification plant with capacity to process 1.2 million cubic meters of natural gas daily, as well as producing thane, butane, and dry natural gas. $21.6 million (¥80 million). 8/87.
Wormald Engineering Services Ltd. (HK)/Bohai Oil Corp.	Will supply fire alarms, protections systems and fire-fighting equipment for two oil platforms and a floating storage vessel. $640,000 (HK$5 million). 8/87.
Energy Industries (US)	Will provide a seven-unit natural gas compressor with capacity of 100,000 TPD. 9/87.

Investments in China

Mohanned Al Otaiba Group East (UAR)/Shenzhen	Will independently build a refinery expected to process 21 million barrels of crude oil annually. $324 million. 9/87.

Other

C. Itoh & Co. (Japan)/ China National Petroleum Technology and Development Corp.	Signed an agreement to provide technology, consultancy, and equipment to increase the output of the Shengli oil field; C. Itoh will purchase $1.4 billion worth of oil and oil products over a ten-year period. 8/87.
British Petroleum Development Ltd. (UK)/ CNOOC and Nanhai East Oil Corp.	Signed a production sharing contract to drill wildcat well, but contract only binding if oil is discovered. 8/87.
Amoco Co. (US)/Bohai Oil Field	Will join exploration of 8,900 sq. mile area in Bohai Sea. 9/87.

Pharmaceuticals

China's Imports

Programmable Controller Systems (US)	Will supply fermentation control system, including supervisory computer, for large pharmaceutical plant. $800,000. 7/87.

Investments in China

Union Chemicals Import and Export Co. (Thailand)/Shanghai Foreign Economic and Technological Cooperation Co., China Construction Engineering Co., and Hangzhou Minsheng Pharmaceutical Factory	Established a 15-year joint venture to set up a pharmaceutical factory. (Thailand:49%-PRC:51%). 7/87.

Ports

China's Imports

Three Japanese companies/Ministry of Communications and No.1 Navigation Engineering Co.	Will construct container dock able to berth nine 20,000-ton-class container ships. $23 million (¥85.9 million). 7/87.
Krupp Hafen Technik GmbH (FRG)	Will supply container wharf crane for World Bank-financed project. $750,000. 10/87.

Other

World Bank and affiliate International Development Fund/Huangpu Port	Will provide $88 million to relieve congestion at the port. 10/87.

Power Plants and Equipment

China's Imports

Carman Industries Inc. (US)	Supplied 23 vibrating bin dischargers used to move coal out of storage silos into an electricity-generating plant. $400,000. 6/87.
Kongsberg Dresser Power, joint venture between Kongsberg Vaapenfabrikk (Norway) and Dresser Rand (US)/ CITIC Real Estate Corp. and Capital Mansion Building	Will supply gas turbine power generator produced in Norway. 7/87.
General Electric Co. (UK)/Foshan Power Bureau, Guangdong	Will supply vacuum switch gear to assist in power distribution. $512,000 (HK$4 million). 7/87.
Normandy Industrial and Economic Group (France)/Two iron and steel plants in China	Will supply complete thermal power generating units. 7/87.
Combustion Engineering Inc. and Sargent and Lundy (US) and Brown Boveri and Sulzer Brothers Ltd. (Switzerland)/ Huaneng International Power Development Corp. and Shidongkou Power Plant, Shanghai	Will supply full range of power plant equipment, including some technology transfer. 10/87.

Investments in China

Campenon Bernard Co. (France) and Maeda Construction Co. (Japan)/ Huaxing Co., No. 2 Engineering Bureau of China Construction, and Guangdong Nuclear Power Joint Venture Co.	Established the HCCM joint venture to provide civil construction, quality assurance, and transmission lines to link Daya Bay Nuclear Power Plant to HK. 6/87.

Normandy Industrial and Economic Group (France)/Shandong	Will supply thermal power station. 7/87.
Maita Construction Industrial Co. (Japan)/ MWREP, Min Jiang Engineering Bureau, and Shuikou Power Plant, Fujian	Established the Huatian Joint Management Engineering Company to construct power plant. 9/87.

Other

(Finland)	Signed agreement to exchange technology on peaceful uses of nuclear power through academic and research institutions. 8/87.

Printing Equipment, Publishing, and Broadcasting

China's Imports

Fuller-O'Brien Co. (US)	Signed contract to transfer printing factory technology. 8/87.

Other

News Agency of Nigeria/ Xinhua News Agency	Reached news cooperation agreement. 7/87.
(Senegal)	Reached agreement to cooperate on television and broadcasting. 8/87.
Cahners Publishing Co. (US)/Ministry of Electronics Industry, Technology Information Research Institute	Will publish Chinese-language pilot issue of *Electronic Business* magazine and will consider quarterly publication. 8/87.
Radio Australia/Radio Beijing	Signed two agreements to exchange programs and personnel in the area of news and current affairs as well as to publish cassettes and printed materials for an English-language program. 9/87.
CDN Group (US)/China Enterprise Management Association	Will publish *World Business Management News for Chinese Enterprises*, a business journal in Chinese. 10/87.
BBC World Service (UK)/ Shanghai People's Broadcasting Station	Signed cooperative broadcasting agreement, including exchange of personnel. 10/87.

Property Development and Property Management

China's Imports

Takenata Komuten Co. (Japan)/Beijing	Will construct Japan-China Youth Friendship Center. 6/87.
Nendels Corp. (US)	Will open and manage the 350-room Tianjin Victory Hotel and 28,000 sq. ft. office building. $30 million. 7/87.
Holiday Inns Hotel Group (US)	Agreed to manage a 400-room hotel in Chongqing. 7/87.

Investments in China

Nomura Securities Co., Ltd. (Japan)/Beijing Urban Foreign Investment and Construction Corp.	Will assist in constructing the 20-story Beijing Development Building. $60.3 million (J¥9.5 billion). 7/87.
Paulton Investment Co. (HK)/Xiamen SEZ Construction Development Co. and Xiamen Real Estate Co.	Established a joint venture to construct the 24-story Xiamen Seaside Commercial Building. $10.62 million (HK$80 million). (HK:60%-XCDC:20%-XREC:20%). 8/87.
Earntravel Ltd. (HK)/ Sanlian Co. Ltd., subs. of Gezhouba Construction Bureau	Established joint venture to build 13-story Pinghu Hotel in Yichang, Ningxia. $4.5 million (¥16.5 million). (HK:49%-SLCL:51%). 8/87.
Chi (Sightmate) International Ltd. (HK)/NA, Beijing	Established joint venture to construct the 10-story Taiwan Hotel in Beijing. 8/87.
(France)	Signed agreement to turn an island in the Pearl River into a cultural center. $80.6 million (¥300 million). 9/87.
NA (US)/Import and Export Co. of Shanghai Port	Will open waterside club on the Huangpu River, constructed from an old ship. $10 million. 9/87.
C. Itoh & Co. and Mizuno Corp. (Japan)/ Beijing	Will build an international tennis center. $4.7 million (J¥700 million). 10/87.

Other

Construction Research Institute (France)/Home Maintenance Science and Technology Institute, Shanghai	Conducting two-year research project to renovate a Shanghai neighborhood housing 3,500 families. 8/87.

Scientific Instruments

China's Imports

Shimadzu Corp. (Japan)/ China National Meters Import-Export Corp.	Signed technology transfer contract to produce a florescence spectrophotometer and a mass spectrometer for gas chromatography. 6/87.
Nissho Iwai Corp. (Japan)/MACHIMPEX	Will supply beaker and flask production line. $4 million (J¥600 million). 7/87.
Kanex-Krohne Anlagen Export GmbH (FRG)	Two electronic scales. $16,800 (DM31,078). 9/87.
EESCO Inc. (Japan)	Will supply two area measurement systems and two digital PH meters. $8,400 (£13,508). 9/87.

Investments in China

Toledo Scale Corp. (US)/ Changzhou branch of Jiangsu Electronic Scale Co.	Established the Changzhou Toledo Electronic Scale Co. Ltd. 10-year joint venture to produce electronic scales. Registered capital: $4.95 million. (US:60%-PRC:40%). 8/87.
NA (Italy)/Lianyungang Water Meter Factory, Jiangsu	Will establish 20-year joint venture to produce 500,000 water meters annually. $3.7 million (¥13.72 million). (Italy:30%-PRC:70%). 9/87.

Other

Racal Electronics Co. (UK)/Jiangsu	Presented gift of 30 electronic measuring instrument sets including digital portable multimeters and accompanying bench supplies to technical training centers in Nanjing and Changzhou. 8/87.

Shipping

China's Imports

Teraoka Shipyard (Japan)	Will build 100-passenger luxury ship for tourism use. 7/87.
NA (Japan), NA (HK)/ CNTIC	Purchased 38 Japanese and three Hong Kong working and maintenance ships for use in inland ports. 8/87.

Investments in China

NA (US)/Nanjing Port	Will establish international container firm with annual handling capacity of 50,000 standard containers. 7/87.

Telecommunications

China's Imports

Telecom Pacific Ltd. (Canada)/Shoudu Iron and Steel Co., Beijing	Supplied program-controlled telephone switching system. 5/87.
AT&T International Inc. (US)	Supplied 5ESS telephone switching system. 5/87.
Elin, subs. of OIAG (Austria)	Will provide communications system for Chinese railroad system. $4.6 million (AS60 million). 7/87.
Messerschmitt-Bolkow-Blohm (FRG)/Ministry of Astronautics	Will provide satellite components to be integrated into the DFH-3 communications satellite. 7/87.
Siemens Aktiengesellschaft (FRG)/ Changsha, Hunan	Supplied digital program-controlled telephone exchange system with 10,000 lines. 7/87.
GTE Telecommunicazioni S.P.A. (Italy)/Guilin, Guangxi	Will provide digital microwave radio link system. 7/87.
Spar Communications Group, subs. of Spar Aerospace (Canada)/ Shanxi	Supplied ground station to the Pingshuo Joint Venture Coal Mine. $1 million. 7/87.
Ericsson LM Telephone Co. (Sweden)/Guangdong Branch of MACHIMPEX and Guangdong Provincial Posts and Telecommunications Administration	Will supply 100,000 units of program-controlled telephone exchanges and program-controlled switchboards handling 1,600 lines. $31.5 million (SK200 million). 8/87.

Teradyne Inc. (UK), Telecommunication Division (US)/Shanghai Bell Telephone Equipment Manufacturing Co. Ltd.	Agreed that Shanghai Bell will market the 4Tel telephone system in the PRC. 8/87.
Lyon Cable (France)/ Huaneng International Power Development Corp. and Fuzhou Thermal Power Plant	Will supply marine and land cable, cable accessory equipment and microwave communication equipment to be used in the thermal power project. $7.5 million. 8/87.
Cable and Wireless Ltd. (HK)/Several electric power plants	Will supply, commission, and maintain four Dictaphone multi-channel voice recorders to transmit communications on power distribution. 9/87.
CASE Communications (US)/Beijing branch of BOC	Will upgrade Beeline switching system to a dual system and extend message switching capabilities. $120,000. 9/87.
Northern Telecom Pacific Ltd. (Canada)/Ministry of Petroleum Industry	Will supply 24 Meridian SL-1s Integrated Services Networks for use in oilfields. $3 million. 9/87.
Northern Telecom Pacific Ltd. (Canada)/CNTIC and Jiangxi Provincial Post and Telecommunications Administration	Will supply four DMS-100 digital switching systems and two DMS-10 digital switching systems. $6 million. 9/87.
Nokia Telecommunications (Finland)/Liaohe Oil Field	Will supply network switching and transmission equipment including seven DX 200 switches. 9/87.

Investments in China

Farmstead Telephone Group Inc. (US)/Weihai No. 1 Radio Factory, Shandong	Established three-year joint venture to install second-hand AT&T telephone systems and train Chinese personnel to service and maintain the systems. 9/87.

Other

Deutsche Bundespost (FRG)	Signed provisional cooperative agreement involving Teletext. 8/87.

Textiles and Textile Plants and Equipment

China's Imports

Singer Nikko Co. (Japan)/ Sewing machine factory in Guangzhou	10-year technical cooperation agreement on high-speed industrial sewing machines. 9/87.

Investments in China

Benetton Group (Italy)/ CNTIC	Signed letter of intent to set up knitting plant joint venture in Beijing with annual capacity of 300,000 pieces. 7/87.
NA (US)/Qingdao	Established the Huamei Machine-Embroidering Co. joint venture to produce lace. 8/87.
H.H.K. Finance Corp. (HK)/Jiamusi Flax Factory, Heilongjiang	Established the Jiamusi Flax Corp. joint venture to produce 9 million meters of linen annually. $19 million. 8/87.
Novel Enterprises Ltd. (HK)/Nanhai Oil Shenzhen Exploration Services	Signed contract to construct joint venture spinning plant to annually produce 300-500 tonnes of yarn. Registered capital: $30 million. 8/87.
GFT (Italy); CITIC, HK branch and NA (HK)/ Tianjin No. 13 Garment Factory and Tianjin Corp. For Economic and Technological Cooperation	Established the Jinda Clothing Co. Ltd. 15-year joint venture to produce 20,000 pieces annually. $2 million. (GFT:20%-CITIC:15%-HK:15%-PRC:50%). 9/87.

China's Investments Abroad

Lifeng Co. Ltd. (HK)/Harbin, Heilongjiang, and CHINATEX	Established a garment company joint venture on US-administered Saipan Island. $2.24 million. (HK:35%-PRC:65%). 9/87.

Transportation and Transportation Equipment

China's Imports

Sumitomo Metal Industries, Ltd. (Japan)/ MACHIMPEX	Will provide a tractor factory with technical assistance in forging. 6/87.
Japan Leasing Corp./ Tianjin International Trust and Consultancy Corp., subs. of BOC	Will lease six underground railway vehicles to be used in Tianjin. $1.5 million. 7/87.
Motokov (Czechoslovakia)	Will transfer technology for the Tatra 815 heavy-duty vehicle. 7/87.
Nissho Iwai Co. and Toshiba Co. (Japan)	Supplying airport radars for use in Wuhan, Xi'an, Chengdu, and Kunming airports. 7/87.
Lockheed-Georgia, subs.of Lockheed Co. (US)/China Air Cargo, subs. of CAAC	Will provide two Lockheed L-100-30 Super Hercules air cargo planes. 8/87.
Laser Lab, Ltd. (Australia)/Zhuzhou Electrical Locomotives Works, Hunan	Provided laser machine for cutting sheet metal used to produce locomotives. 8/87.
(USSR)	Twenty Tu-154M passenger aircraft. 9/87.
Pratt and Whitney (US)/ China National Aero-Technology Import-Export Corp.	Will jointly develop and produce a new FT-8 steam turbine engine. 9/87.
Nichimen Corp. (Japan)	Will supply 10 sets of automotive service equipment. $36,000 (J¥5.45 million). 9/87.
McDonnell Douglas Corp. (US)/China Great Wall Industries Co.	Signed technical assistance agreement concerning possible use of the McDonnell Douglas Payload Assist Module on Chinese Long March rockets. 10/87.

Investments in China

Daimler-Benz AG (FRG)/ MACHIMPEX	Established joint venture service center to repair, service, and sell spare parts for Mercedes-Benz automobiles. 7/87.

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