The China Business Review

July-August 1979

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The China Business Review

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The Magazine of the National Council for US-China Trade

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CHINA DATA

THE CHINA BUSINESS REVIEW is published bimonthly by the National Council for US-China Trade, 1050 17th Street, NW, Suite 350, Washington, DC 20036, USA. The National Council is a nonprofit organization incorporated under the laws of the District of Columbia. THE CHINA BUSINESS REVIEW is published principally for members of the National Council. Application to mail at controlled circulation rates is pending at Washington, DC. The magazine is available for subscription in the US and Canada at $60 per year; elsewhere at $75 a year including airmail postage.

The National Council for United States-China Trade is grateful to His Excellency Huang Zhen, Minister of Culture, The People's Republic of China, for the calligraphy on the front cover of THE CHINA BUSINESS REVIEW.

China Trade Events

STANFORD, CALIFORNIA, August 13–31
Stanford University will sponsor a three-week seminar on doing business with China. Professor Liu Chaojin and Professor Wang Linsheng from the Beijing Institute of Foreign Trade will lead many of the discussions. Contact Jean Mahoney, (415) 497-2521.

HILTON HEAD ISLAND, SOUTH CAROLINA, August 26–28
National Council Vice President Stanley Young will participate in the 50th Annual Meeting of the National Soybean Processors Association. Contact Barbara J. Harrelson, (202) 452-8040.

NEW YORK, NEW YORK, September 10
Stephanie R. Green, co-director of the Delegations Department at the National Council, will participate in the "Developing Marketing Strategies for Trade with China" conference, sponsored by McGraw-Hill (*American Industrial Report*.) Contact Mary Bleakley, (212) 997-2493.

NEW YORK, NEW YORK, September 13–14
Medical World News and *American Industrial Report* will cosponsor a conference on "How to Reach the China Health-Care Market." Stephanie R. Green will discuss "Perceptions and Attitudes: How We See One Another." Contact Mary Bleakley, (212) 997-2493.

LINCOLNSHIRE, ILLINOIS, October 3–5
A staff member from the National Council will discuss the China market at a conference sponsored by DATAQUEST. Contact Frank E. Manfredi, (408) 725-1200.

NEW YORK, NEW YORK, October 9–December 11
New York University will sponsor a ten-part series of lectures and discussions on foreign policy. A staff member from the National Council will discuss "China in the Future of American Business," on December 4. Contact Albert L. Weeks, (212) 598-2395.

HONG KONG, October 10–11
Business International will hold a conference on China trade. Write Business International Institute/ Asia, 301 Asian House, 1, Hennessy Road, Hong Kong, Att: Mrs. Lois Dougan Tretiak.

BIRMINGHAM, ALABAMA, September 18–19
Bill Clarke of DOC will speak on doing business with the PRC at the University of Alabama. Contact Anyan Gordon, (205) 348-6220.

NEW PUBLICATION

Pocket Guide to China's Foreign Trade Organizations, Domestic Corporations, and Ministries.

This booklet describes the names, addresses, telex numbers, and the scope of business operations of all known foreign trade organizations, FTCs and end-user corporations. It includes information on the internal organization of FTCs, how to advertise in China, details of 29 domestic corporations and officials, and cross-reference details of all import/export products. $5 plus $1 postage from NCUSCT.

CONFERENCE ON SELLING TECHNOLOGY TO CHINA

Sponsored by the National Council for US-China Trade, in cooperation with the Licensing Executive Society of America (LES)

Wednesday and Thursday, December 5 and 6, 1979.
L'Enfant Plaza Hotel, Washington, D.C.
Co-Chairmen: Walter Sterling Surrey (Surrey, Karasik and Morse)
Eugene Theroux (Baker & McKenzie)
Conference Organizer: Nicholas H. Ludlow
LES Coordinator: Dudley Smith

The conference will focus on the practical aspects of four related topics: licensing, joint ventures, cooperation agreements, and contracting. Case studies and features of various agreements will illustrate the managerial and technical problems involved.

A session on legal developments will include China's new commercial code, prospects for a tax treaty with the PRC, export controls, and patents, copyrights, and trademarks. Other sessions will deal with financial aspects of doing business with China and the organization of China's ministries, commissions, corporations, and other trade organizations. For details, write Conference: NCUSCT.

CHINA WIRE

NEW LAWS AND STATISTICS BURST FROM CHINA'S NPC LIKE FIREWORKS ON THE FOURTH OF JULY

The new laws, statistics, and organizations bursting from China's recent National People's Congress (NPC) represent the most fundamental legal and economic developments in the PRC's history, paving the way for solid and stable economic growth. Among the key innovations:

STATISTICS—A statistical outpouring, the first in twenty years, showing among other things that China has more than 50% more electric power than was thought (p. 42). The State Statistical Bureau may issue 30 years of figures in August.

—A national budget, first since 1959, projecting zero growth for 1979, fiscal restraint, and 18% for defense (p. 45).

LAWS—A comprehensive foreign investment law guaranteeing remittance of profits and investments, 2-3 year tax holidays, foreign participation of at least 25%—over 50%, even 100% according to Vice Premiers Li Xiannian and Deng Xiaoping (p. 46). But no accounting method for profits has been established yet.

—To come: a tax law, corporation law, regulations for foreign operations, law on protection of natural resources, and foreign exchange regulations. In addition, China will negotiate tax treaties with foreign countries.

—Six other laws were passed relating to local and national people's congresses and governments, people's courts, people's procuratorates, and criminal law and procedure. All serve to curb arbitrary government.

—New rules for "Encouraging Top-Quality Industrial Products" were issued by the State Economic Commission June 30, with gold and silver medals for award winners.

INSTITUTIONS—A supra-economic body to strengthen "unified leadership over financial and economic work" was established July 1 by the Standing Committee of the NPC, to be called the Financial and Economic Commission, with new Vice Premier Chen Yun as chairman, and the heads of the State Planning, Economic, Agriculture, Capital Construction, and Science and Technology Commissions as members, as well as the ministers of Finance and Food.

—A Foreign Investment Commission headed by Bu Ming, vice chairman of the Bank of China, will supervise China's new investment laws.

—The China International Trust and Investment Corporation (CITIC) headed by veteran Chinese industrialist Rong Yiren was established July 9 to "utilize foreign investment and introduce advanced technologies." Foreign bankers, confused as to whether there will be many Chinese borrowers or a single one, can expect a single agency (perhaps CITIC) that will borrow from abroad. China may soon issue bonds, perhaps even Yankee bonds. But joint ventures can borrow direct from abroad, guaranteed by the Bank of China.

MEANWHILE, EQUIPMENT CONTRACTS POSTPONED

The word from MACHIMPEX is that, following a first-half 1979 spurt in foreign trade of 43%, in which Chinese imports (cif) increased 60%, exports (fob) 27%, there will be no big equipment import contracts till next January because Beijing is over budget.

But, with petroleum getting priority in heavy industry, the schedule for US companies surveying offshore will continue as planned according to Ministry of Petroleum officials. Two substantial oil finds southeast of Hainan in the Inggohai area are reported by the PRC.

SINO-US FUTURES . . .

—Exporters stand to gain a great deal from passage of the now-signed Sino-US trade agreement (p. 24) including patent protection, facilities for mutual banking, and facilitation of export credits. More than this, the agreement opens the way for China to join the GATT, IMF, and the World Bank (p. 31). For importers the impact of the agreement will be considerable, paving the way—with MFN status for Chinese goods—for expanded exports of products relatively new to the US market and for GSP. See special section on impact of MFN (p. 20).

—The Chinese have told the US STR's office that they are ready to resume textile talks in August when negotiator Mike Smith visits China.

—The week before Minister of Finance Zhang walked the floor of the NY Stock Exchange, visited the NY Fed, and told a packed crowd of American executives hosted by David Rockefeller that China wanted US investment partners (July 13), the first Chinese check for a US claim was received—for $350,000 as down payment against a $618,000 postal claim. Meanwhile the BOC is not depositing dollars in US banks until the first payment is made, on October 1, under the Sino-US private claims settlement agreement.

—The BOC will establish a New York office "very soon." TECHIMPORT will open a five-man office in Washington, DC, soon, eventually to be staffed by 15-20 officials. XINHUA, China's news agency, will also open a ten-man bureau in DC.

—International express mail, bilateral parcel post services, and telex programs are in formative stages with China, but direct air and sea services will await Sino-US air and maritime accords, probably to be signed by Vice President Mondale in late August.

—US marketing executives should note China's recent adoption of Deutsche Industrie Norm (DIN) metric engineering standards which will not make it easier for US firms to sell to China.

—And finally, discos are back in style in Beijing, with Saturday Night Fever every Wednesday at the Nationalities Palace.

Cleaning Up in China

SmithKline Barnstorms PRC End-Users

Foreign companies wishing to introduce their products to end-users in China have rarely been able to use the Fuller Brush technique, knocking on doors of potential customers. Until last year, US firms have had to be content with marketing via China's Beijing-based foreign trade corporations. But times have changed and some American companies have been learning how to penetrate China's grass roots to show their wares to the people who want to know about them, as this story by Edith Terry clearly illustrates.

Guangzhou, October 1978

SmithKline Corporation (SKC) executive Margaret Hsu and Hong Kong colleague Ronnie Lo achieve the near-impossible: two days of simultaneous back-to-back seminars on SmithKline ultrasonic plastic assembly equipment, ultrasonic aqueous cleaning equipment and degreasers, and the company's new wonder drug, 'Tagamet'. The scene is the office building of the Guangdong Branch of the Scientific and Technical Association of the PRC (STAPRC); the audience—over 1,000 factory and research personnel the first day, rotating through lectures and demonstrations in groups of 250, and 450 Guangdong cardiologists and gastroenterologists the next. In one room a film runs, while, in the next, end-users line up to watch Hsu clean the dirtiest, most filth-encrusted products of Guangzhou's harbor and factories by ultrasound. It works.

Beijing–Shanghai–Hangzhou–Guangzhou, March 1979

The scientists of Beijing's Capital Hospital are less awestruck than their Guangdong counterparts by the capabilities of ultrasound for medical diagnosis. But they are delighted by the opportunity to meet Dr. Harvey Feigenbaum, US author of the standard textbook on echocardiography used in the PRC. As the word spreads, invitations pour in to the SmithKline delegation of which Feigenbaum is a member. Along with the company team travel several sets of 'Eko-Sector I' diagnostic instruments, on which PRC researchers will perform clinical evaluations after briefing on the ultrasonic technology they use.

Beijing, May 1979

This time with a National Council delegation, Margaret Hsu stages a week-long seminar on ultrasonic cleaning, thermoplastic assembly, and liquid-processing equipment for members of the Acoustics Department of Beijing University, the State Capital Construction Commission, and other end-users. With her are Marketing Director Robert Geckle of Branson Cleaning Equipment Division, and Edward Obeda, applications director for Branson Sonic Power (SmithKline companies). Rubbing shoulders with construction equipment firms such as Bucyrus-Erie, Caterpillar, and Clark Equipment Co., they provide the State Capital Construction Commission with an object lesson in the importance of ultrasound to a broad spectrum of industries in the manufacture of products. "We didn't realize the scope of your company's industrial products previously," one official tells Hsu.

The marketing campaign sketched above is the converse of a sales effort in the PRC that would have been typical a year ago—old-timers now find themselves in an Alice-in-Wonderland world where the rules of earlier China market conventions have been abandoned.

Where is the red tape? Where are the foreign trade corporation officials sanitizing all contact with PRC end-users? And where is the security of having buyers with clear-cut objectives—buyers who know what they want and how to pay for it?

If there is one lesson to be learned from the SmithKline experience, it is that Chinese buyers, like the proverbial housewife targeted by door-to-door sales campaigns, forget what they hear, understand what they see, and want to buy what they can touch, handle, and operate for themselves.

Neither Fire Nor Water . . .

"Bring me your dirties!" is the slogan Margaret Hsu has used in her technical seminars. For demonstrations of the Branson E-Module ultrasound cleaning machine, Hsu and Geckle instruct participants to bring in anything they can't wash or don't know how to wash. This has resulted in some "unusual" things passing through her handy Branson ultrasonic cleaning unit. Water meters, bicycle chains, and stopped clocks are standard fare, but some of her audiences go in for tricky items.

In Beijing, the head of clinical laboratories at Beijing Hospital on one occasion brought her a pipette, filled with blood. The innocuous tube refused to rinse in the usual 30 seconds required, more than a minute passing before the scabrous matter was freed. The technician had fired the blood on a Bunsen burner, nearly bonding it to the test-tube walls in an effort to see how much the cleaning unit could handle.

Neither fire nor water stops Hsu, however, and the demonstrations have proved enormously successful. The hands-on, try-me approach makes end-users think for themselves how the company's products might be used in their own working situations. And now, with barriers to direct correspondence with foreign companies removed, once they have been convinced they move.

The Aggressive End-User

Coping with eager, persistent, but not always knowledgeable Chinese end-users has become one of the new hazards of the trade.

How is the company to react to a request from the Banpu Machine Tool Plant asking for joint-venture proposals, or from the Beijing Municipal Development Corporation seeking investment offers? Today, the emergence of a number of new Chinese-language publications on US industry that provide names and addresses of foreign suppliers and the representative offices that many companies have opened in Beijing and Shanghai make it difficult to avoid these and other requests.

Margaret Hsu, based in the SmithKline office in Room 1624 at the Beijing Hotel, receives an average of 10 phone calls a day from end-users wanting more information about SmithKline products. "They come from all walks of life," says Hsu. "The Beijing hospitals, the Ministry of Public Health, the CCPIT . . . there's a whole barrage of people I talk to on a daily basis."

Ranged around the walls of Hsu's office in Beijing are SmithKline cleaners and welders, 'Sonifiers' (machines that ultrasonically disrupt all types of cells as well as disintegrate and homogenize fine debris and shale, with applications to both laboratories and archeology), and 'EkoSector' cardiac diagnostic units. These are there primarily for use on field trips, but "quite frequently" end-users visit the hotel for demonstrations as well.

Recent breakthroughs in Chinese-language publications on US industry have led to an increased flow of correspondence across Hsu's desk in Philadelphia, where SmithKline is headquartered, as well as Beijing. In the last five issues of *American Industrial Report*, SmithKline has sponsored two full-page ads, three double spreads, and a back cover, as well as three articles describing company achievements and technologies. These, Hsu believes, have had a concrete effect on company sales, which to date include "substantial" orders for pharmaceuticals and medical diagnostic equipment placed at the Guangzhou Fair in spring 1979, as well as earlier sales through a Hong Kong company that had contracted a processing arrangement, with the Shanghai Watch Factory, for Branson Ultrasonic Division cleaning equipment.

End-User Response—Laundry Lists

American Industrial Report and similar publications (see *CBR* 6:3, p. 39) provide reader-response cards which end-users fill out and return to a Beijing central office (in *AIR's* case, the China National Publications Import Corporation, or PUBLIM) which sends "laundry lists" of information requirements back to the publisher. From there the requests are sent on to the company. Many more of these responses from readers have appeared, according to Hsu, since the service began.

The typical letter from an end-user begins "You talked to us about your company's products at X University last month; now we would like to have a more penetrating introduction to your product lines."

This introduction can lead to a straight one-liner—What are your appropriate model numbers? How much do they cost? Or to questions that threaten the proprietary security of company product lines. The only option the company has is to reply to such requests with circumspection.

End-users can be as persistent and impatient in the PRC as customers in any other part of the world. Recently, one pharmacist in Guangzhou wrote to Hsu just as she was leaving for the US. After waiting a week, the pharmacist decided to contact the head office. "He chased me by letter all the way across Beijing to the US," sighs Hsu. Once settled in her Philadelphia office, she had the SmithKline & French laboratories medical director reply to the letter, asking for information about pharmacokinetics and clinical applications of 'Tagamet'. With this reply she sent a complete set of technical brochures, in Chinese, on SmithKline pharmaceutical products and clinical papers on the prize-winning ulcer-treatment drug 'Tagamet'. This she plans to pursue later with a personal visit or call when she returns to Guangzhou.

The Helpful End-User

One of the unique aspects of SmithKline's approach has been the use of local end-user organizations to facilitate technical demonstrations. Last October, the Guangdong Branch of STAPRC asked for a full-scale presentation on 'Tagamet' and industrial ultrasound products of SmithKline on only two days' notice. But they also provided the logistical back-up that made it possible for the company to accept the invitation.

SmithKline provided the film, STAPRC supplied projectors and other audiovisual equipment, and air-pumps, compressors, electrical wiring changes, and background information needed by SmithKline engineers to set up the ultrasound welding and cleaning equipment that would be used in the two-day presentation. STAPRC also provided a place of venue for the seminar in their own office building on the grounds of the old Guangzhou Fair.

Tried and True

Despite its daring ventures into the embryonic milieu of end-user salesmanship, SmithKline has not ignored traditional marketing options. For the presentations in Guangzhou, over 1,000 kilos of equipment and product literature were shipped into the city. Participation in industry-wide delegations, and mounting of SmithKline's own company missions, have continued on a selective basis.

Only the strategy has changed. SmithKline's objective now, according to Hsu, "is to educate the PRC end-user about the diverse applications of our products." This means a return to the scattershot methods employed by companies in the early days of US-China exchanges, but with a greatly expanded audience.

SmithKline has engineered its recent missions to maximize end-user exposure—in Guangzhou, by numbers alone and by giving participants a chance to sample ultrasound applications relevant to their own industries. The numbers game is less effective with a touring group; so for the February delegation SmithKline added a surefire attraction, Dr. Feigenbaum, to draw the attention of a specific kind of end-user—cardiologists with an interest in echocardiography—that it wanted to reach on that mission. In May 1979, by joining a delegation for technical exchange with an industry with which previous contacts had been minimal—construction contracting and equipment—the firm managed to throw a whole new light on its products in the eyes of some of China's planners.

What Next?

SmithKline's strategy represents one set of alternatives to the marketing conundrum during this period of rapid change in PRC foreign trading organizations and policy. Its successes may be duplicated by other companies which are ready to get in there and market at the grass-roots level. One of SmithKline's chief advantages, however, has been the enthusiasm and energy of the inimitable Ms. Hsu, SK's general manager for China. She will be keeping a wary eye on end-user developments from her vantage point in the Beijing Hotel for some time to come; before the end of the year, the company may be sending as many as seven more technical sales delegations.

One of the end-user organizations SmithKline will be courting is the State Pharmaceutical Administration. Still in the process of formation, this new (1979) body may eventually take over all import responsibilities for medical instruments from SINOCHEM. Officials of the State Pharmaceutical Administration met by Hsu and others appear to have transferred from the Ministry of Public Health for which the organization may serve as a procurement agency. 完

CEMA

China Starts Learning to Manage

Chinese interest in Western management techniques is expanding rapidly. A new magazine, Economic Management, *has been published in Beijing—one story illustrates General Electric's organizational structure. Several new Chinese organizations have been formed, of which the most important is CEMA, described here.*

The Chinese Enterprise Management Association (CEMA) was established in Beijing on March 5, 1979, reflecting current Chinese interest in Western efficiency techniques. American management organizations are discussing cooperation with the new body. Its president is Yuan Baohua, vice minister of the State Economic Commission (SEC).

The association is an autonomous, nongovernmental organization operating under the auspices of the SEC, founded by that organization in conjunction with its research institute and some social sciences colleges. It consists of scholars and experts from universities and industry as well as experienced managers, and as of early June had 84 permanent council members.

China's campaign to upgrade management was initially launched among the new set of national goals issued by China's leaders in May 1977 (see *CBR* 4:4). The broad initiative to tighten up all aspects of management practices was repeated in subsequent and more specific directives; in particular, the "30-Point Decision on Industry" of fall, 1978, designed as a guideline for China's future management.

In December 1978, two new management research societies were established. The China Technical Economic Research Society and the China Management Modernization Research Society, both associated with and members of the China Scientific and Technical Association, announced a talent hunt as their inaugural task. All those schooled, expert, or interested in modern management and technical economy, including specialties like computer software, systems analysis, systematic engineering, operations research, economic mathematics, departmental economy, and engineering economy, were urged to send their qualifications to either of the two societies at Sanliho, Beijing.

Later, CEMA, more policy/advisory-oriented, was established and has already begun training sessions. With the aid of foreign management firms, the fledgling association will conduct courses and workshops to train management cadres at all levels. Other activities were given in June 1979 as follows:

1. Training management cadres at every level
2. Organizing leaders of large- and medium-sized enterprises
3. Organizing researchers to help factories
4. Conducting management experiments
5. Studying the experience of other countries
6. Publishing two magazines on domestic and foreign management experiences
7. Conducting international exchange programs in management

A first course on enterprise management in March, attended by 107 people, featured lectures by experts and scholars on economic theories, as well as reports by Chinese study groups who have toured abroad, and talks by foreign specialists.

During recent business exchanges Chinese delegations frequently have expressed interest in computerized management systems. The International Executive Service Corps, which provides managerial and technical assistance to businesses in developing countries, has been in China discussing setting up one or two programs. An American company specializing in this field (SEED Inc.) organized at Chinese request a seminar that was conducted in Guangzhou during the first ten days in July.

The seminar was sponsored jointly by CEMA, the SEC, and the Science and Technology Association of China, which is associated with the governmental Science and Technology Commission much as CEMA is with the SEC. Participants learned about current American applications of computers to management in factories, enterprises, and scientific research. The seminar also featured sessions on national economic planning and forecasting.

Vice Premier Kang Shien attended the inauguration of the CEMA. Kang Shien is also minister in charge of the SEC, which includes technical management in the execution of annual industrial plans under its purview. Yuan Baohua, who has served as vice minister of Metallurgy and minister of the Ministry of Allocation of Materials, met with the National Council's Board of Directors delegation to China on June 4 of this year.

Also present at the meeting was Zhang Yanning, the new secretary-general of CEMA, who visited the US in September 1977 with a delegation from the CCPIT hosted by the National Council. Zhang, who has a technical background including expertise on the manufacture of oil drums, is concurrently the director of the Chinese Chemical Industry Society.

CEMA's address is:

The Chinese Enterprise Management Association
Sanliho, Beijing, People's Republic of China.

TV, Newspapers, Billboards, Magazines, Trains

Messages for the Masses

The spring has sprung for advertising in China. Never before has the foreign firm—or Chinese firm—had so many ways to make its products known, and to make 960 million Chinese consumers aware of the choices they have. This article, by Katy Ehrlich, sets out the new advertising scene in the PRC.

Splashes of color on billboards in Chinese cities, on placards in trains, on simplified character–printed pages, and now on prime time television, are or soon will be enticing Chinese citizens to buy—or at least to desire—foreign products. Every night since April 15, Guangdong television has been plugging Marlboro cigarettes to a weekday viewing audience of six million; ten million on weekends.

Starting August 1, when closed-circuit television installations are complete, air time on board the Hong Kong-Guangzhou Railway will also be available. Ad panels on the trains are sold out for the next three months starting June 1.

Billboards at thirteen prominent locations in the city of Guangzhou are going to foreign companies for three-month rental, as are Shanghai billboards and display case spaces at Shanghai department stores.

SPECIAL FOREIGN MAGAZINES FOR CHINA

As of May 1979, seventeen simplified-character Chinese versions of cross-industry magazines from the US, Britain, West Germany, France, Japan, Holland, and Hong Kong are circulating regularly in China, among readerships ranging from 3,000 to 30,000.

Black-and-white page rates run from $360 to $3,050, while four-color pages cost from $600 to $3,580. An additional seven simplified-character versions of foreign technical magazines reporting on specific industries such as petroleum and computers offer ad page prices ranging from $700 for black and white to $2,470 for four colors.

Altogether, seventy-four Chinese journals and magazines, five newspapers, numerous display cases and billboards, two radio stations, and two television stations are eager to show the wares of sellers who can pay.

Not beyond the dreams of the imaginative world of advertising, but certainly beyond most people's expectations, is the rate and scale at which advertising of foreign goods is taking hold in China. Just last January, newspaper ads for domestically produced goods made their first appearance since the Cultural Revolution freeze. By February *Wen Hui Bao* was soliciting foreign industrial advertisers, and other newspapers, radio, and television stations are following suit. Diamond Shamrock was the first US company to grasp the opportunity, running its full-page ad in the *Guangzhou Ribao* on April 14, 1979 (*CBR* 6:3).

Any product may be advertised, subject only to the approval of those running the particular facility involved. Some consumer goods ads may be rejected on the grounds that the products are available only to foreign tourists, a fate suffered by Coca-Cola, while the domestic product, Lucky Cola, was promoted in several media. Other foreign consumer products may be accepted provided their limited availability is stated in the ad, according to the Shanghai Advertising Corporation (SAC).

But foreign consumer goods, cigarettes in particular, are dominating the eight minutes of commercial time seen between 7 and 10 P.M. on Guangzhou television, when entertainment programs are broadcast. Marlboro was the first, and other early TV advertisers include the makers of Kent, 555, Winston King, Viceroy, Rothmans, and Dunhill International cigarettes, along with Rado and Octo watches, and the Dutch patent medicine for ulcers, Roter Tablet.

Guangzhou Television (GDTV), which began broadcasting foreign commercials in mid-April, has designated the Hong Kong independent variety show and commercial producer, Robert Chua Productions, as their overseas agent. Robert Chua Productions operates out of a subsidiary, Video Centre, and Conic Television Studio. (The three associated companies feature Hong Kong's best filming and videotaping equipment, helping make Robert Chua Hong Kong's number-one producer of commercials.)

Sixty seconds on the air costs advertisers $1,891 while an air time as short as 10 seconds goes for $539. Fifteen-, twenty-, and thirty-second slots are also available, and weekend rates add a 20 percent surcharge.

Corporation introductions, generalized versions of the technical seminars of pre-advertising days, may be a good advertising pitch. (For information on placing Shanghai ads, see *CBR* 6:3.)

Guangzhou's thirteen billboards open to foreign ads (see box), offering space at a cost of $77 per square foot for a three-month display, are also selling through Robert Chua, who receives a 10 percent commission.

Images in motion will be broadcast aboard the Hong Kong-Guangzhou Railway starting August 1, if new closed-circuit TV installations are completed as projected. Advertisements for this three-hour route, traveled by an estimated 200,000 to 250,000 per month, are being contracted through Robert Chua in cooperation with the Hong Kong *Wen Hui Bao.* Three- and six-month contracts are available at $393 per month, and a special package deal allows consignment sale on board of consumer products advertised.

In the printed media, the five Chinese newspapers offering foreign ad publicity are *Worker's Daily, Wen Hui Bao,* and *Jiefang Ribao* (primarily in Shanghai), which are nationwide, as well as Guangzhou's *Canton Daily,* and Tianjin's *Tientsin Daily.*

The three nationwide Chinese papers have circulations reaching 1,200,000 for *Worker's Daily* and *Wen Hui Bao;* 900,000 for *Jiefang Ribao. Canton Daily* and *Tientsin Daily* circulate to 450,000 and 500,000 respectively. Fees run from $16/col cm to $27/col cm, with 30 percent surcharges for color, available in the nationwide newspapers only.

Seventy-four Chinese scientific and technical journals with circulations up to 101,000, covering fields such as geophysics, archaeology, environmental science, shipbuilding, and numerous aspects of Chinese medicine, also welcome American ads. Details are given in a free publication, "Advertising and Selling to the

GUIDELINES FOR ADVERTISING IN CHINA

1. **Emphasize performance:** avoid a glamour appeal in favor of strong price-performance emphasis.
2. **Emphasize durability** rather than innovation; i.e., whether your product is the newest on the market or not is not pertinent unless it will last longest.
3. **Emphasize efficiency** rather than universality; whether or not everyone else has one, does it get more miles to the gallon?
4. **Emphasize versatility:** the broader the range of applications the better.
5. **Product illustration** is a key aspect of helping the end-user to visualize and form conclusions; cutaway views are sensational, especially in color.
6. **Tables and charts** speak louder than buxom blonde beauties; give performance statistics where applicable.
7. **Case studies** focus attention and demonstrate proven ability, but avoid basing them on experience in Taiwan, South Korea, the USSR, or other sensitive areas.
8. **Avoid double entendres** and plays on words unless you've checked in advance; they rarely translate into the proper Chinese context culturally or linguistically.
9. **Clean, hard-hitting design** functions well, especially in an atmosphere where there are few competing publications.
10. **The human interest angle** will get attention, but it will not be regarded as serious industrial advertising.
11. **Avoid maps** as illustrations since they are politically dangerous.
12. **A serious tone,** low key and straightforward, is most effective for industrial advertising in the PRC.

Some Negative Examples:

1. **Chemical process equipment:** "JOIN THE INDUSTRIAL REVOLUTION." From the Chinese point of view the ad is politically loaded and would be completely unacceptable.
2. **Materials-handling equipment:** "BREAD 'N' BUTTER." The whole message is focused on the bread 'n' butter image which simply does not have the same connotation in Chinese. It would make no point at all.
3. **Electronics equipment:** "WELCOME ADDITION TO THE FAMILY." The stork image is inapplicable, being based on a traditional Western story having no meaning in the PRC.
4. **Tires:** "ON THE ROCKS." The martini glass does not exist in China, nor do cocktails. Furthermore, it might be regarded in the PRC as a decadent picture suggesting a connection between drunkenness and earthmoving equipment.

Source: *Advertising and Selling to the People's Republic of China,* May 1979, China Consultants International (Hong Kong) Ltd.

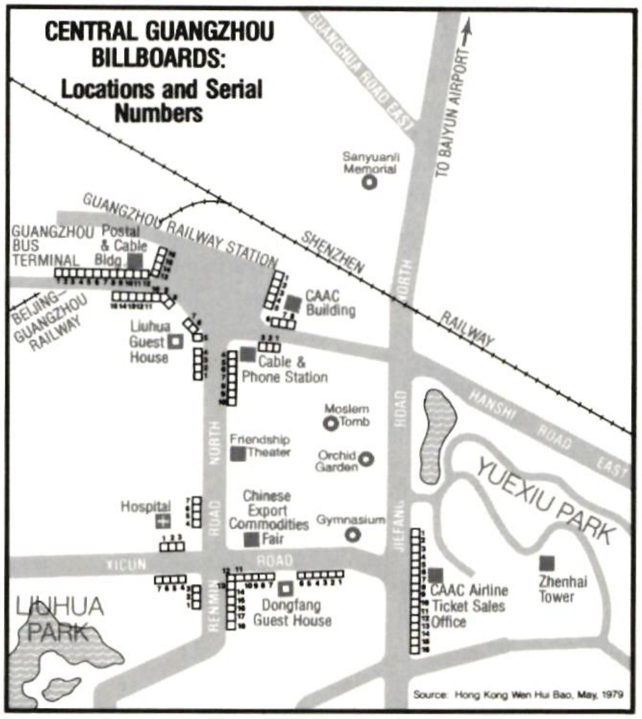
People's Republic of China," available from American Industrial Report/McGraw-Hill Magazines (call Janie Sharpe at 212-997-6920).

Western advertisers are not expecting immediate results. Rather, prospects of future benefits are the motivation, including brand-name familiarity, which, some cigarette producers hope, may help along proposals for joint ventures leading to sales of made-in-China cigarettes bearing Western labels further down the road.

Already foreign consumer goods are coveted status symbols, and dissemination of these products is being made easy. Hong Kong residents need only place an order and sign on the line at local branches of Chinese stores, paying in Hong Kong dollars. Their relatives in China just present the coupons sent from Hong Kong at their local collection centers, walking away with foreign-made goods.

Media images between Americans and Chinese have improved greatly since Vice Premier Deng Xiaoping's January tour here, parts of which were broadcast in China. Now Western affluence and glamour are tantalizing Guangdong and Shanghai television audiences daily, with the endorsement of Chinese leaders who choose to perceive educational content and entertainment rather than corruptive propaganda in the until recently taboo field. Friendly, informative images are expected to spur quality and productivity among workers, from the Chinese official point of view.

This attitude is reflected by the Chinese audience, which tends to consider ads as primarily a source of new information. Advertisers, however, should not expect simple audience credulousness; it is down-to-earth practical qualities, with some technical information, that appeals to industrial customers. 完



Walter S. Surrey meets Vice Premier Deng Xiaoping at the Great Hall of the People, June 5.

The National Council Meets with Vice Premier Deng Xiaoping

The process of readjustment will not affect the introduction of technology or funds.

—Vice Premier Deng Xiaoping
June 5, 1979

In a meeting at the Great Hall of the People on June 5, 1979, the National Council's Board of Directors delegation, led by Walter Sterling Surrey of Surrey, Karasik and Morse, met with China's Vice Premier Deng Xiaoping. During the discussion the Vice Premier made a number of interesting remarks about continuity and the readjustment of China's economic policy, trade with the United States, and on the present political situation in China. His remarks are reproduced here from extensive notes and quotations taken at the meeting. Mr. Surrey's remarks follow.

Economic Readjustment

Currently, the volume of China's foreign trade with foreign countries, including the United States, is not very large. For a poor country like China, it is not possible to have a big foreign trade. This must await the country's becoming bigger and richer.

Recently, there has been much speculation internationally regarding the question of the readjustment of the Chinese domestic economy. Questions have been raised as to whether or not this readjustment will affect the policy of increased international exchange and the policy of introducing capital and technology from abroad. I understand your delegation has also raised the question of whether or not we will speed up the acquisition of capital funds and technology only after the completion of the process of reevaluation.

I have often said, not only to US friends but also to European and Japanese friends, that the process of readjustment will not affect the introduction of technology and funds. The readjustment is purely a domestic affair, a matter of readjusting the relationships among the various sectors of the economy.

We have tentatively set the goal of completing the readjustment of the economy in three years. But if we wait three years to begin introducing foreign technology, equipment, and capital funds, this won't do. If the process of readjustment is to have an effect on the introduction of technology and funds from abroad, it is only in regard to the working out of a schedule of priorities; that is, which technologies should be introduced first, which later.

New Forms of Business

We can, however, give priority to new forms of trade, including compensation trade and joint ventures. A third form is direct investment by foreign companies. So long as none of these forms affects our ability to repay the foreign company, we can give them priority.

For instance, if we can work out a joint venture with General Motors, this project can be speeded up. Another example: in the South China Sea, US oil companies can help us survey and explore our oil resources on a compensatory basis; that is, we will repay their investment with exports of crude oil.

Of course, some technologies which we wish to introduce from abroad cannot be paid for with output, such as hydroelectric power stations, thermal power stations, and means of transport. For such technologies and equipment, we will have to make payment with foreign exchange derived from the sale of our export commodities abroad. In short, we must be able to sell our goods on the US market.

In this regard, I note the meetings with Mr. Strauss, who came to China in the capacity of Special Representative of President Carter for trade affairs. On this occasion, the two sides could not reach an agreement. This doesn't matter. We can continue the negotiations. Nevertheless, a very obvious point needs to be stressed: if Chinese commodities cannot be exported, then China's capacity to pay for her imports will not be large. I told Mr. Strauss that the question of quotas against Chinese textile products must be studied carefully. If the quotas are too small, this is no good.

Those here present are involved in the import of other goods (that is, non-textile goods) and if we can find ways to export more of these goods to you, that will be excellent.

Finally, I'd like to point out that China is running a big deficit in her trade with the US. We import quite a bit from you, including grain. Even in textile goods, the quotas for our products are not as large as our cotton imports from you. This situation should be changed.

There are many fields in both heavy and light industries in which we can cooperate. On the one hand, we hope to use your technology and equipment; on the other, you can help us to enter not only your own market but other markets as well.

On our part we have to strengthen and speed up our legislative work to enable foreign investment to take place. We will have to adopt a company law, a tax law, and an investment law. Because we were separated from the rest of the world for so long, we didn't have access to information about other systems. Now we can take the laws of other countries as references.

The Political Situation in China

Another question which some people are concerned with overseas is whether or not there will be more turbulence in the political situation in China. I would like to assure you that you need have no worries in this regard. We in China have suffered too much from political turbulence and we have gained a very deep impression from this experience; deeper than any similar experience you may have had. There is now a situation of political tranquility and stability.

There may still be some people affected by the ideological system of the Gang of Four who express themselves on Democracy Wall, but they cannot affect the overall situation. Our policies, including our open economic policy, will be firmly carried out. The fact is, we simply don't have enough experience, so some matters are not proceeding at a fast enough pace. Experience must be accumulated, and we must learn about things step by step.

I am very optimistic about future prospects.

BEER IS NOT ENOUGH

During the discussion, Deng Xiaoping acknowledged that trade is a two-way street, but that, while liquor may be quicker, it is not enough to affect the balance of payments.

Surrey: The National Council for US-China Trade recognizes that trade is a two-way street; that China must export in order to import. On our return to the US, we will investigate the beer idea, as I am sure that there will be companies interested in sharing their technology and cooperating with you in this area.

Deng: After all, we have taken your Coca-Cola, you should take our beer.

Surrey: We have no argument on this point, but I would express my personal preference for Chinese beer. (Laughter.)

Deng: We would like your ideas regarding the areas in which we can cooperate to settle our repayment problem. The beer idea is not enough, as the remunerative power of beer is not enough. Similarly, the Shanghai Coca-Cola plant won't be very big in terms of remunerative value.

Walter Surrey's Remarks to Deng Xiaoping

During the National Council's Board of Directors trip to China, the delegation had the opportunity to meet Vice Premier Deng Xiaoping and to express the views of the National Council and its members to the senior Chinese official. The following are excerpts, based on extensive notes taken at the meeting, of remarks by Walter Sterling Surrey, leader of the Council's delegation, to Deng, following the Vice Premier's own comments.

The National Council for US-China Trade is a group of approximately 600 companies in the United States, large, medium, and small. Of these, about 150 are solely engaged in importing from China, and among the balance, many both import and export. When the National Council was established in 1973, Mr. Michael Blumenthal, now Secretary of the Treasury, was among the original 20-member Board of Directors. He was then a businessman.

You just mentioned the visits of Secretary Blumenthal, Secretary Kreps, and Special Trade Representative Strauss. These were government-to-government visits, arranged by the two governments. The purpose of these visits was to eliminate the obstacles to trade between our two countries, to create the conditions necessary for trade . . .

All of these discussions have contributed to the building of a framework within which trade can take place, but under our system it is the private companies which actually do the trade. Within the framework of our legal system, we can engage in trade in various forms.

For example, you mentioned compensation trade. Such arrangements are not unusual in the oil industry nor in the extractive industries. Compensation trade is also possible in the field of consumer product manufacturing; US companies can buy up all of the output of the plant for worldwide marketing and distribution.

As for joint ventures, US companies have engaged in equity ventures all over the world. In this area, we await the promulgation of your rules and regulations—your company law, your tax law, your joint-venture law. And we await them impatiently, for we wish to go ahead with this type of business.

Mr. Vice Premier, you also mentioned textiles. I can't speak for my government. I'll leave this to Ambassador Woodcock. But I would like to mention that there is a domestic problem in the US where the US government has agreed with the US textile industry on the total amount of textiles to be imported each year.

How this pie is divided depends in large part on how each country presents its case. You are competing with other textile-producing countries. I am sure, however, that with the passage of time you will have many effective arguments to help your case.

Now I'd like to turn to your opening remarks. We understand that the process you are going through involves the readjustment of your priorities among various sectors of your economy. Of course, we have no say in this process, but we are glad to hear that it is taking place and that the process of importing capital equipment and funds will continue. And we thoroughly recognize that when you import those goods which do not automatically generate exports, you must find other exports to generate foreign exchange to pay for the imports.

The National Council for US-China Trade recognizes that trade is a two-way street, that China must export in order to import . . . I wish to stress again that whatever arrangements or agreements our two governments arrive at, on our side it is private business which does the trade. Sometimes we don't like our government's restrictions on imports and exports. But under our system—as with your system—we have the right to complain and try to change these restrictions.

Finally, may I assure you that the National Council—since its inception in 1973, following the Shanghai Communiqué, and especially now, following normalization—will do all we can to ensure the development of trade on a balanced basis.

Mr. Vice Premier, if you think back, we were once a developing country also, and the problems our parents and grandparents faced were similar to the problems you face now. We will try to make this experience available to you so that China may benefit. 完

DENG'S VIEWS ON LAWS

Deng: In terms of the number of laws, the US ranks first.

Surrey: Not only in the number of laws, but also in the number of lawyers. There is some relationship between the two.

Deng: On our part, we have too few laws, and it is imperative that we adopt some.

China's State Economic Commission (SEC)

During a meeting of the National Council's Board of Directors delegation to China in June, details of the responsibilities and organization of China's important State Economic Commission (SEC), headed by Vice Premier Kang Shien, were confirmed by Yuan Baohua, vice minister. A summary of Yuan's remarks is given here.

The SEC was founded last year following the first session of the Fifth National People's Congress. Originally, the SEC and the State Planning Commission (SPC) were one and the same, but, as mentioned, they were separated last year. The purpose of the SPC is to draw up long-term (23-year, 10-year, and 8-year) plans, medium-term (5-year) plans, and annual plans for the economy as a whole.

The SEC is responsible for executing the annual plans of the industrial and transport sectors, excluding agriculture, which is handled by the State Agricultural Commission. In the process of executing the annual plan for these sectors, adjustments are made by the SEC periodically.

Other responsibilities of the commission include: (1) standardization of production, technical management, and technical promotion in enterprises within industry and transport; (2) quality control; (3) political and ideological work ("How to learn from Dazai"); and (4) organization and specialization within each industry according to its special properties.

Although commissions are parallel to ministries and report to the State Council just as they do, the SEC is a "comprehensive, composite organization overseeing the work of several ministries."

The current reevaluation of the economic plan is a reevaluation of the eight-year plan and therefore falls within the responsibility of the SPC.

To illustrate the work of the SEC, take the example of tractor production. The annual plan is drawn up by the SPC and a specific annual target for tractors is passed to the SEC. This target is broken down into monthly and quarterly targets by the SEC, and these targets are passed to the Ministry of Agricultural Mechanization. The SEC monitors performance, and if there is a shortage in a key sector, such as steel, adjustments are made.

"We handle problems between the ministries," said Yuan, "through consultation and negotiations." The SEC also "negotiates" with local planning organs over the composition of targets in local plans.

For important (so-called "key") commodities, performance figures are available at 10:00 A.M. of the morning following the end of the monthly or quarterly period. Ministries report their figures for all products under their control within five days of the conclusion of the plan period. All data is collected by telephone, and is collated and analyzed without any assistance from computers.

In describing the drawing up of the long-term plan by the SPC, Yuan stated: "The SPC is in charge of adjusting the long-term plan. It collects all pertinent information and passes on its plan to the State Council for approval. There are no representatives from either ministries or localities on the SPC, and all work is done by a full-time professional staff. Because they are excluded, there is much complaining on the part of the ministries, which always claim that their opinions are not listened to."

If production figures reported by a key enterprise are consistently far below target, the SEC investigates to determine the causes ."After all, we may be at fault for setting unrealistic targets, and so on." If, however, the fault lies with the enterprise, "The SEC will criticize the enterprise and reduce their incentive funds. We may order them to take certain measures to upgrade quality and reduce waste. If the enterprise at fault is a locally run enterprise, we will put pressure on the local governments to halt malpractices."

In describing the relationship between foreign trade and the SEC, Yuan related that "Although domestic and foreign trade ministries are not within our sphere of responsibility, we have close relations with them. Every time we have a conference, representatives of these ministries are present to fight for their shares of products for either domestic consumption in retail outlets or in the FTCs' export markets."

Again, using the example of tractors, Mr. Yuan was asked to describe the role of the SEC in the following situation: The SPC sets annual targets as follows: domestic production—20,000 units, exports—1,000 units, imports—5,000 units. At the end of May, however, output figures reveal a 10 percent shortfall in domestic production.

In this case, "The SEC contacts the China Agricultural Machinery Corporation and orders it to release tractors from inventory to make up for the shortfall." What if there is a 20 percent or larger shortfall? "The SEC orders the factories to make up the difference in coming months, and, if this is not possible, we are responsible for revising the import and export targets." 完

COOPERATIVE PRODUCTION—MORE WITH LESS

Kang Shien Discusses China's New Economic Policies

On May 4, 1979, the National Council's Mining Equipment delegation, led by William J. Cherones of Harnischfeger International Corporation, was hosted at the Great Hall of the People by Vice Premier Kang Shien, head of China's State Economic Commission (SEC). Kang's comments on China's new policies—focusing on the PRC's need for cooperative production—will be of great interest to many companies involved in selling technology to China. The Vice Premier's remarks are reproduced here.

We would be very glad to learn from your experience with respect to how you renovated your equipment and technology of the forties and fifties to transform it into equipment and technology for the seventies.

There is one question I would like to discuss very much. One of your companies should select one particular factory in China and take that factory as a target. For example, help that factory's production and renovate the factory. Have "cooperative production." Help renovate outmoded machinery and introduce advanced technology, working together to increase production and improve technology. Concentrate on a few products at first, and later, with improved technology and equipment, have cooperative production.

Take that factory to cooperate with one of your factories. That factory can produce power shovels, using your technology or blueprints. By producing together—combining our factory with your factory—gradually production will be increased. Eventually, we will be able to make a whole set of equipment.

This method is good for both sides—cooperative production which is mutually beneficial. It is a way to introduce advanced technology from you. We must change the present way of doing things.

In the past, we bought whole plants—complete sets of equipment from the US and Japan. In that way, we did not learn the technology. Now, we are very interested in cooperative production.

We will take it a step further—establish joint ventures to absorb US capital. On this subject, many American friends say that we have no law, or that our law is not developed, not mature. This is true, but we are trying to draft such a law.

We are trying, studying how to develop this law. Prior to this, however, we will first take the step of "cooperative production." Then, when the law is completed, we will take the next step of joint ventures.

When we cooperate with you, we are trying to make progress, to bring about the four modernization programs. These four modernization programs will not be fulfilled in a short time. The plan is to fulfill them by the end of the century.

Even then we can only say that we will have achieved "Chinese-style modernization." Even then our modernization will not compare with yours. We certainly cannot reach your per capita income.

If we used as few people as you do in the factories, what would the other people do?—they would be out of work. So we will not necessarily take your road. Our road will be different.

We do want to learn from you in order to increase production and technology and learn skills. But this does not mean we will follow the same route to development as you.

Our policy will be a little different than in the past. To reach our objectives, we will make use of existing factories and mines. We will also build new factories. But these require more capital and more inventory. So we first must renovate the old factories. If we close the present ones and just build new ones, this would require a lot of capital.

Last year, for example, many of our foreign friends were worried. They said "If you buy so much, how will you pay for it?" This is a concern. So, we will first renovate old factories to see how much we can increase production in this way.

I want to again return to the subject of cooperative production. Again, this means that we save money. If we buy complete sets of new equipment, we would spend a lot. If we encourage cooperative production —we can do more things with less money. We will develop mining and the ferrous metals industry in a big way. If we do not have this as a basis, we cannot realize the four modernizations.

We want you to think of some way that we can save money—for our mutual benefit—so we can do more with less money.

Council Activities

In his keynote speech at the Council's Sixth Annual Meeting—the best attended of any annual meeting to date—former Secretary of the Treasury W. Michael Blumenthal predicted that Exim Bank credits would not be extended to China before the year's end. The National Council's Board of Directors, accompanied by President Christopher H. Phillips, concluded its China visit, highlighted by meetings with Vice Premiers Deng Xiaoping and Li Qiang, and frank discussions with the CCPIT. Details on China's high-ranking body, the State Economic Commission (SEC), were revealed to board members in a session with its vice minister, Yuan Baohua. Earlier China's minister in charge of the SEC, Vice Premier Kang Shien, shed light on cooperative production during a meeting with the National Council's surface mining delegation just a few weeks before arriving in the US with an energy mission arranged by the National Council and hosted by the Department of Energy. And the National Council has recently launched its fourth construction delegation of the year.

BLUMENTHAL URGES US BUSINESS TO CATCH UP IN THE RACE FOR CHINA TRADE

Secretary of the Treasury W. Michael Blumenthal told over 500 member-company representatives who attended the Council's Sixth Annual Meeting (May 17) that because of existing legislative and legal hurdles, Export-Import Bank credits are unlikely to be extended to China during the 1979 fiscal year ending in October. The Administration "acknowledges that a lack of Exim financing will place us at a disadvantage for the immediate future, for 1979 at least, but that should hopefully be minimized by private credits," he remarked.

Noting that our total share of two-way trade with China in 1978 was "a slim 6 percent," compared with 25 percent for Japan and 18 percent for the European community, he advised American businessmen to move quickly to bridge the sizable lead our competitors hold in China's import markets.

Expressing confidence in the determination of US companies to overcome competitive and financial obstacles, he called for a sense of realism and proportion on the part of eager American investors. He concluded: "American banks and businesses must be willing to invest a great deal of time and incur a substantial amount of risk in order to enter China and gain a share of the market. The process will be an arduous one. But the rewards will undoubtedly be great."

LI QIANG GREETS BOARD OF DIRECTORS

The National Council's Board of Directors, led by Walter Sterling Surrey, barely having had time to contemplate its morning visit with Vice Premier Deng Xiaoping (see p. 13), found itself treated to an afternoon session with China's Minister of Foreign Trade, Li Qiang. Mr. Li opened the meeting by noting the rapid growth in business contacts since the completion of normalization.

In particular, he pointed to compensation trade and joint-equity ventures as mechanisms for future US participation in China's development program as well as enhancing the PRC's ability to finance imports. Li mentioned China's new joint-venture law but cautioned that "everything must go through an experimental stage before being finalized."

The one-hour meeting drew to a close with Mr. Surrey expressing the Council's and the American business community's desire for more frequent information exchanges with the minister of Foreign Trade.

The Board of Directors' busy itinerary during their eleven days in China (June 2–13) included two meetings with CCPIT officials. The first, held with the CCPIT's chairman, Wang Yaoting, focused on specific issues that have arisen since the establishment of diplomatic relations. It was followed up by a substantive discussion with Li Chuan, vice chairman of the CCPIT.

Concerning the question of implementing the reciprocal exhibitions agreement signed during Secretary Kreps' trip to China, Mr. Surrey said that both the Commerce Department and the Council were planning to help the CCPIT stage its 1980 exhibition in the US.

Expanding cooperation between the CCPIT and the National Council was also a discussion priority. Christopher Phillips, NCUSCT president, singled out certain problems of organization and communication, to the import, export, re-export, or transit of products, including the rules, formalities, and procedures for collection of such duties and charges;

(b) Rules, formalities, and procedures concerning customs clearance, transit, warehousing, and transshipment of imported and exported products;

(c) Taxes and other internal charges levied directly or indirectly on imported or exported products or services;

(d) All laws, regulations and requirements affecting all aspects of internal sale, purchase, transportation, distribution or use of imported products; and

(e) Administrative formalities for the issuance of import and export licenses.

2. In the event either Contracting Party applies quantitative restrictions to certain products originating in or exported to any third country or region, it shall afford to all like products originating in or exported to the other country treatment which is equitable to that afforded to such third country or region.

3. The Contracting Parties note, and shall take into consideration in the handling of their bilateral trade relations, that, at its current state of economic development, China is a developing country.

4. The principles of Paragraph 1 of this Article will be applied by the Contracting Parties in the same way as they are applied under similar circumstances under any multilateral trade agreement to which either Contracting Party is a party on the date of entry into force of this Agreement.

5. The Contracting Parties agree to reciprocate satisfactorily concessions with regard to trade and services, particularly tariff and nontariff barriers to trade, during the term of this Agreement.

Article III

For the purpose of promoting economic and trade relations between their two countries, the Contracting Parties agree to:

A. Accord firms, companies and corporations, and trading organizations of the other Party treatment no less favorable than is afforded to any third country or region;

B. Promote visits by personnel, groups and delegations from economic, trade, and industrial circles; encourage commercial exchanges and contracts; and support the holding of fairs, exhibitions, and technical seminars in each other's country;

C. Permit and facilitate, subject to their respective laws and regulations and in accordance with physical possibilities, the stationing of representatives, or the establishment of business offices, by firms, companies and corporations, and trading organizations of the other Party in its own territory; and

D. Subject to their respective laws and regulations and physical possibilities, further support trade promotions and improve all conveniences, facilities, and related services for the favorable conduct of business activities by firms, companies and corporations, and trading organizations of the two countries, including various facilities in respect of office space and residential housing, telecommunications, visa issuance, internal business travel, customs formalities for entry and reexport of personal effects, office articles and commercial samples, and observance of contracts.

Article IV

The Contracting Parties affirm that government trade offices contribute importantly to the development of their trade and economic relations. They agree to encourage and support the trade promotion activities of these offices. Each Party undertakes to provide facilities as favorable as possible for the operation of these offices in accordance with their respective physical possibilities.

Article V

1. Payments for transactions between the United States of America and the People's Republic of China shall either be effected in freely convertible currencies mutually accepted by firms, companies and corporations, and trading organizations of the two countries, or made otherwise in accordance with agreements signed by and between the two parties to the transaction. Neither Contracting Party may impose restrictions on such payments except in time of declared national emergency.

2. The Contracting Parties agree, in accordance with their respective laws, regulations and procedures, to facilitate the availability of official export credits on the most favorable terms appropriate under the circumstances for transactions in support of economic and technological projects and products between firms, companies and corporations, and trading organizations of the two countries. Such credits will be the subject of separate arrangements by the concerned authorities of the two Contracting Parties.

3. Each Contracting Party shall provide, on the basis of most-favored-nation treatment, and subject to its respective laws and regulations, all necessary facilities for financial, currency, and banking transactions by nationals, firms, companies and corporations, and trading organizations of the other Contracting Party on terms as favorable as possible. Such facilities shall include all required authorizations for international payments, remittances and transfers, and uniform application of rates of exchange.

4. Each Contracting Party will look with favor towards participation by financial institutions of the other country in appropriate aspects of banking services related to international trade and financial relations. Each Contracting Party will permit those financial institutions of the other country established in its territory to provide such services on a basis no less favorable than that accorded to financial institutions of other countries.

Article VI

1. Both Contracting Parties in their trade relations recognize the importance of effective protection of patents, trademarks and copyrights.

2. Both Contracting Parties agree that on the basis of reciprocity legal or natural persons of either Party may apply for registration of trademarks and acquire exclusive rights thereto in the territory of the other Party in accordance with its laws and regulations.

3. Both Contracting Parties agree that each Party shall seek, under its laws and with due regard to international practice, to ensure to legal or natural persons of the other Party protection of patents and trademarks equivalent to the patent and trademark protection correspondingly accorded by the other Party.

4. Both Contracting Parties shall permit and facilitate enforcement of provisions concerning protection of industrial property in contracts between firms, companies and corporations, and trading organizations of their respective countries, and shall provide means, in accordance with their respective laws, to restrict unfair competition involving unauthorized use of such rights.

5. Both Contracting Parties agree that each Party shall take appropriate measures, under its laws and regulations and with due regard to international practice, to ensure to legal or natural persons of the other Party protection of copyrights equivalent to the copyright protection correspondingly accorded by the other Party.

Article VII

1. The Contracting Parties shall exchange information on any problems that may arise from their bilateral trade, and shall promptly hold friendly consultations to seek mutually satisfactory solutions to such problems. No action shall be taken by either Contracting Party before such consultations are held.

2. However, if consultations do not result in a mutually satisfactory solution within a reasonable period of time, either Contracting Party may take such measures as it deems appropriate. In an exceptional case where a situation does not admit any delay, either Contracting Party may take preventive or remedial action provisionally, on the condition that consultation shall be effected immediately after taking such action.

3. When either Contracting Party takes measures under this Article, it shall ensure that the general objectives of this Agreement are not prejudiced.

Article VIII

1. The Contracting Parties encourage the prompt and equitable settlement of any disputes arising from or in relation to contracts between their respective firms, companies and corporations, and trading organizations, through friendly consultations, conciliation or other mutually acceptable means.

2. If such disputes cannot be settled promptly by any one of the above-mentioned means, the parties to the dispute may have recourse to arbitration for settlement in accordance with provisions specified in their contracts or other agreements to submit to arbitration. Such arbitration may be conducted by an arbitration institution in the People's Republic of China, the United States of America, or a third country. The arbitration rules of procedure of the relevant arbitration institution are applicable, and the arbitration rules of the United Nations Commission on International Trade Law recommended by the United Nations, or other international arbitration rules, may also be used where acceptable to the parties to the dispute and to the arbitration institution.

3. Each Contracting Party shall seek to ensure that arbitration awards are recognized and enforced by their competent authorities where enforcement is sought, in accordance with applicable laws and regulations.

Article IX

The provisions of this Agreement shall not limit the right of either Contracting Party to take any action for the protection of its security interests.

Article X

1. This Agreement shall come into force on the date on which the Contracting Parties have exchanged notifications that each has completed the legal procedures necessary for this purpose, and shall remain in force for three years.

2. This Agreement shall be extended for successive terms of three years if neither Contracting Party notifies the other of its intent to terminate this Agreement at least 30 days before the end of a term.

3. If either Contracting Party does not have domestic legal authority to carry out its obligations under this Agreement, either Contracting Party may suspend application of this Agreement, or, with the agreement of the other Contracting Party, any part of this Agreement. In that event, the Parties will seek, to the fullest extent practicable in accordance with domestic law, to minimize unfavorable effects on existing trade relations between the two countries.

4. The Contracting Parties agree to consult at the request of either Contracting Party to review the operation of this Agreement and other relevant aspects of the relations between the two Parties.

In witness whereof, the authorized representatives of the Contracting Parties have signed this Agreement.

Done at Beijing in two original copies this 7th day of July, 1979, in English and Chinese, both texts being equally authentic. 完

Subject to approval by Congress.

A new publication in Chinese for the People's Republic of China

现代工程技术

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China's MFN

What's in it for US Exporters

When the US-China trade agreement goes into effect, the Chinese will not be the only ones to get most-favored-nation (MFN) tariff status. The agreement calls for mutual granting of MFN treatment, which means that US exports to China will also be subject to a lower import duty than they are now.

But will it make a difference? Since the PRC is a non-market economy where all import and export decisions (until recently) are made by state trading corporations, do tariff differentials have any major impact on import decisions? Many Americans think not.

The PRC, like the US, has a two-tiered import tariff system, with "minimum" rates of duty for imports from countries which have concluded reciprocal trade treaties with China and higher "normal" rates for goods from those countries which have not. These fees do get implemented, the National Council learned from senior Chinese trade officials. The money is transferred from the foreign trade corporation (FTC) to the Customs Administration Bureau, which transfers it to the Ministry of Finance.

Most US observers discount the effects of the two-tiered tariff system in the PRC because the tariffs are an inter-governmental transfer, rather than a cost that private businesses must bear, as in the West. But if foreign trade corporations must pay the duty out of their own budgets, then they would probably prefer to buy a good from a low-tariff country rather than from a high-tariff (non-MFN) country in order to avoid paying higher tariffs to the Customs Bureau.

Impact on the End-User: Will It Change Under the New System?

No foreigners are certain about how China's tariff system works, so it is unclear whether the cost of a tariff is passed on to the end-user enterprises or not. If it is, the extra cost may be deducted from their profit remittances to the state so that they are not really affected by the tariff differential. Also, when equipment is to be used for construction or modernization of a plant, the government in the past has normally paid the extra expenses, so the end-users would probably not be concerned about prices or tariffs. Until recently it has been the foreign trade corporations, not the end-users, that make major decisions about purchases of foreign products.

But recently the picture has begun to change somewhat, and it is possible that the tariff system will begin to have a greater effect. First of all, the PRC is experimenting with the idea of having enterprises finance their capital expenditures through bank loans. Under this new system, enterprises would be held more accountable for their expenditures and would also be able to retain some profits to reinvest in their factories. Another change is that some end-users are now able to contact foreign companies directly and negotiate with them. The impact of China's MFN may be felt more strongly if this new system becomes widespread and if end-users become more directly affected by duties.

Other Countries' Experiences

As of April, the PRC had signed government-to-government trade agreements or protocols with 80 countries or regions, including provisions for mutual granting of MFN. Among those that already receive MFN treatment from China are Japan, the European Economic Community, Canada, Australia, and Switzerland. Most of these countries saw great increases in trade with China after signing trade agreements, but this may be attributable also to improved political relations and to other (non-MFN) benefits of a trade accord.

France, which was one of the first Western countries to normalize relations with the PRC—in 1964—was promised a sort of "super-MFN" in which the Chinese, when faced with equal prices and equal quality for a given item, said they would choose the French version. But many French business people have grumbled that even that special status has not improved their trade with China substantially.

Many American observers of the China trade also believe that whether a country had MFN status or not seems to have little effect on China's import decisions. "It has never been evident in any of their decision-making," one Commerce Department official said.

Will China's granting MFN to the US have any effect on American exports to China?

"I don't think it's going to have a measurable effect," commented a lawyer experienced in China trade. "It's very different than here in the US. Their whole structure is very different from ours." Among business people polled, none could recall a deal where the Chinese end-users or FTCs even mentioned their tariffs in the negotiating phase.

Smaller Tariff Differentials

Given the fact that the Chinese tariffs are levied, why do so many Americans and other foreigners doubt that the Chinese tariff system has a big effect on China's import decisions? There are several reasons.

- The differentials between "minimum" and "normal" rates in China's duties are not very large by American standards. Among China's tariffs for the items China already buys from the US—as well as many other US products with large sales potential in China—it is clear that on most nonluxury goods, the Column II (non-MFN) figures are only about 15 percent to 67 percent higher than the Column I (MFN) figures.

Items least taxed tend to be capital equipment, industrial raw materials, grain, fertilizer, and other goods China produces in limited quantities. Among those with low tariff differentials are cotton, wheat, diesel engines, bulldozers, and televisions. The highest rates are for such items as soybean oil, copper, and knitting machines, but even so, Column II rates for these items are seldom even twice as high as Column I rates.

In contrast, with the exception of some zero-tariff items, US Column II tariff rates (for countries without MFN) are very seldom less than twice the rate for Column I goods, and they are quite commonly as much as four to seven times larger than Column I rates. Of course, a major reason for this is that US Column I rates have been gradually falling with each round of Multilateral Trade Negotiations, while Column II rates have stayed fixed. But even so, in absolute percentages of the product price, US Column II tariff rates are commonly over 50 percent, while very few Chinese imports are subject to Column II rates of over 50 percent.

• A second explanation of why China's tariff system seems to have so little effect on import decisions lies in the fact that the most heavily taxed goods are consumer goods. When Hong Kong Chinese mail or carry goods into China as gifts for their relatives, the relatives must pay the duty out of their personal savings. On machinery or industrial raw materials, though, not only is the tariff substantially lower than on consumer goods, but also payment for the imported items comes out of the budget for the enterprise and is thus more easily absorbed.

Tariff Exemptions?

• Although there is certainly no proof of it, some US observers suspect that Chinese enterprises that wish to import foreign equipment may be granted exemptions or special provisions for payment of the tariffs. This seems particularly likely in key sectors of the economy, where foreign equipment could speed up the whole modernization program.

• Political considerations also often have entered into China's import decisions. An illustration of this is China's discrimination against US goods before normalization.

But the Chinese have proved themselves to be shrewd international bargainers, and in recent months most of their purchases have appeared to be mainly on commercial, not political, grounds. In the US-China trade accord, signed on July 7, the Chinese agreed to make each purchase on the basis of international business standards, such as price, quality, delivery dates, and terms of payment.

• The structure of the Chinese economy, of course, is at the root of the difference between the effect of the granting of MFN status in the US and in China. In the PRC, there is no competition among FTC import agencies as to who can offer end-users the lowest price for a given foreign product. Because all tariff payments are internal transfers between various branches of the government, it is hard to gauge how strictly the tariffs are enforced and how strong an impact the tariff differential has on trade.

Benefits for US Exporters

It appears that the mutual granting of MFN will affect Chinese exporters far more than it will affect US exporters. But the US-China trade agreement does not leave American exporters out in the cold. In addition to the removal of the political handicap they had in dealing with China before normalization, the trade agreement also sets up a framework for financial transactions and an arrangement for the resolution of trade disputes.

Another benefit for exporters is the protection of US proprietary technology through Chinese acceptance of international standards on patents, trademarks, and copyrights. US businesses may also benefit from government-sponsored trade exhibitions and from a government trade office in Beijing. Thus, although the specific provision of Chinese MFN status to US goods is not likely to have a large effect in increasing US exports to China, other aspects of the trade agreement will make selling to China easier than before and will probably help increase sales of American goods to China. 完

CHINA'S IMPORT TARIFFS

Product	Minimum (Percent of cif value)	Normal
Leading US Exports to China:		
Wheat	17½	20
Cotton	0	0
Corn	25	35
Oil-drilling machinery	7½	10
Soybean oil	80	120
Phosphate fertilizer	7½	10
Soybeans	50	70
Urea	7½	10
Tallow	80	120
Diesel engines	10	12
Copper	5	7½
Other Exports of Interest:		
Agricultural machinery	7½	12½
Mining machinery	12½	15
Metallurgical machinery	15	18
Spinning and weaving machinery	12½	15
Knitting machinery	50	70
Dredging machinery	7½	10
Cranes	12	15
Pile drivers	12½	15
Bulldozers	7½	10
Sewing machines, electric	25	30
Machine tools	10	12
Electric machinery	7½–10	10–12½
Locomotives	5	7½
Consumer Goods:		
Cigarettes	200	400
Alcoholic beverages	200	400
Office machines	25–60	30–90
Radio sets	50	70
TVs	10	12½
Bills chiefly for the propaganda of revolution, and teaching of the meaning of achieving revolution	0	0

Source: "Import and Export Customs Duties Regulations," in *Handbook of Trade with China*, Nihon University, July 1973. These tariff rates were promulgated by the State Council in May 1951, and subsequent changes in tariff rates were noted by the Japanese publishers. However, recent changes or changes now under consideration may have altered these rates.

China's New Economic Priorities

One step backward in preparation for a leap forward.

—Xinhua, April 4, 1979

China's Ten Year Plan for the Development of the National Economy (1976–85), launched last March with fanfare and high expectations on the part of Chinese and foreigners alike, may prove to be China's plan of shortest duration. The new plan replacing it is essentially a scaled-down version of the old, inasmuch as most targets have been postponed until 1987 and beyond. But agriculture and light industry now occupy the first priority spot formerly held by steel. In this report by finance editor James Stepanek, CBR analyzes and assesses China's new plan—and the astonishing welter of hard data that have been released along with it; the first solid figures China has published since 1959.

THREE-YEAR READJUSTMENT PLAN SETS MODEST TARGETS FOR 1979

"The targets in the [ten-year] plan will not be abandoned. The readjustments are being made precisely to help us achieve them in a more sure way."

—*China Reconstructs,* July 1979

To overcome past planning errors, a three-year plan for 1979–81 designed to "readjust, restructure, consolidate, and improve the national economy" was announced by Premier Hua Guofeng at the second session of the Fifth National People's Congress on June 18.

Although the government's original objectives may not have been abandoned officially, a deliberate slowdown is clearly underway. Agriculture's production target calls for 4 percent growth in 1979, while the target is 8 percent for industry, 8.3 percent for light industry, and 7.6 percent for heavy industry. The target for agriculture is the same as under the ten-year plan, but the growth rate of industry under the new plan is lower.

Modest 1979 output targets have also been set for steel (32 million tons), coal (620 million tons), and electric power (275 billion kilowatt hours). The 1979 output figures for steel and coal represent an increase of less than 1 percent over 1978. At these levels, steel output must increase 11 percent per year, and coal output by 6 percent, to achieve the government's targets under the old plan of 60 million tons of steel by 1985 and 1 billion tons of coal production by 1987.

These figures were released as part of an unprecedented statistical unveiling. On June 27 the State Statistical Bureau released 1977 and 1978 production figures, the first comprehensive survey of economic trends since 1959 (see chart). More hard data on the Chinese economy appeared in two speeches to the National People's Congress on June 21 by Finance Minister Zhang Jingfu and Vice Premier Yu Qiuli. Most of the figures correspond closely to US government estimates that have been the stock-in-trade of China watchers for over two decades. The notable exceptions are figures on electric power, timber, and cargo tonnage carried by various means of transport, which are much higher by official reckoning than US government analysts believe is feasible.

Tight 1979 Budget Favors Agriculture

Newly released data on China's budget for 1977 through the current year also underscores significant changes in China's investment priorities. State investment in 1979 is to be ¥36 billion ($22.8 billion), according to Vice Premier Yu Qiuli. The total allocation for capital construction, including "foreign exchange loans" and reserve funds, is ¥40 billion ($25.3 billion), or 36 percent of state expenditures in 1979 of ¥112 billion ($70.9 billion). These figures are comparable to 1978 levels. However, the government's stricter supervision of investment projects may mean better results in terms of additional production in years to come.

Yu Qiuli also announced that investment in agriculture will increase from 10.7 percent last year to

14 percent of the total in 1979, and investment in light industry will increase from 5.4 percent to 5.8 percent. But investment in heavy industry will decrease from 54.7 percent to 46.8 percent, he said.

Industry Falters, Rendering Plan Infeasible

The sudden demise of China's Ten Year Plan was mainly due to failure on the industrial front. Industrial output in the PRC reportedly fell sharply during the last three quarters of 1978. Shanghai's industrial output fell during this period, finally recovering in the first quarter of 1979 after a 15-month slump, Xinhua reports. Nationwide, a comeback of 5.6 percent growth in industrial production in the first quarter of 1979 was recorded after a twelve-month period of virtual stagnation. Industrial output grew by 14.1 percent and 13.5 percent in 1977 and 1978, Xinhua reports, but apparently most of this growth was achieved in the latter part of 1977 and early 1978, just when the government's ambitious growth targets were under final preparation.

Power shortages and transport bottlenecks which paralyzed key industries are cited as the main cause of the industrial slowdown. But the huge shift of resources away from production to capital construction, seen in the unprecedented 122 percent rise in investment in 1978, suggests that China's unrealistic targets in heavy industry, and particularly in steel, were ultimately to blame for the economy's lopsided development and the ensuing crisis.

Consumer goods industries suffered most from the shortage of raw materials and transport, at a time when 42 percent of China's urban workers were enjoying the first pay raise in a decade. The resulting inflation—20 percent price increases were reported in Beijing in 1978 by one source—was aggravated by the stagnant agricultural situation in 1976 and 1977, which placed a constraint on food processing and other light manufactures using agricultural inputs. Ironically, the program to stimulate the peasantry to produce more foodstuffs by offering higher agricultural procurement prices in 1978 acted as a disincentive to urban workers, who saw their wages further eroded by higher food prices.

To offset the shortfall in consumer goods production, the authorities encouraged overseas Chinese to provide their mainland relatives with foodstuffs, watches, bicycles, and Sony TV sets. Money that could not be spent on consumer goods also found its way into personal savings deposits, which rose a record 165 percent during January–March 1979 over the first quarter of 1978.

By the time the People's Bank of China raised interest rates on personal time deposits by 1 to 4 percentage points in April 1979, in order to mop up excess purchasing power, inflation had already become a serious problem. The fact that the crisis was allowed to escalate—with wage levels rising at a time of increasing consumer good shortages—indicates a lack of coordination between China's production planners and banking authorities.

Poor coordination between financial and commercial planners was also evident in the foreign trade sector, where China's foreign exchange bank, the Bank of China, belatedly clamped down on imports in February 1979—freezing $2.6 billion in Japanese export contracts—once the buying spree undertaken

CHINA'S 1979 TARGETS
(Dollar equivalents indicated in boldface)

Key Indicators (billion yuan)	1979 Year-end Target	Percent Increase over 1978
Gross value industrial output *	¥456.9	8.0
	$ 289.2	**15.0**
[January–June GVIO **]	—	[4.1]
Gross value agricultural output *	¥151.7	4.0
	$ 96.0	**10.7**
State revenues	¥112.0	−0.1
	$ 70.9	**6.4**
State expenditures	¥112.0	0.8
	$ 70.9	**7.3**
Total foreign trade (exports	¥ 44.0	23.9
fob, imports, cif)	**$ 27.8**	**31.8**
[January–June actual]	[¥ 21.3]	[43.2]
Industrial Production (million metric tons unless otherwise indicated)		
Steel	32.0	0.7
Coal	620.0	0.3
Crude oil	110.0	5.7
Electricity (billion kwh)	275.0	7.2
Chemical fibers (thousand tons)	299.68	5.3
Chemical fertilizer	46.8	11.0
[January–June actual]	—	[17.4]
Bicycles (million units)	9.46	10.8
Sewing machines (million units)	5.283	8.6
Wristwatches (million units)	15.32	12.7
Agricultural Production (million metric tons)		
Grain	312.5	2.5
Cotton	2.4	10.8
Education and Health		
New enrollment in institutions of higher education (thousands)	270–300	−25 to −33
New enrollment in secondary technical schools (thousands)	520.0	—
New hospital beds (millions)	1.93	4.3

* Probably in 1970 constant yuan. Dollar values based on monthly average exchange rate of Y1.58 per US dollar.
** Compared with same period in 1978.
Source: *Beijing Review*, June 29, 1979.

by China's foreign trade ministry threatened to wipe out the country's modest foreign exchange reserves of around $2 to 4 billion.

December Plenum Sounds Alarm

The first revisions to the Ten Year Plan came in December 1978, at the Third Plenum of the CCP Central Committee, where agriculture and light industry were restored to the position of first and second priority, followed by heavy industry. This was the priority hierarchy as originally envisaged by former Premier Zhou Enlai in 1975 when the Ten Year Plan was conceived as a means to carry out the "four modernizations" of agriculture, industry, science and technology, and defense by 1985. The new priorities put forward by the Third Plenum include "textiles and other sectors of light industry, housing, public utilities, as well as facilities for tourism and factories producing for export," according to an April 17 Xinhua bulletin.

Within the heavy industry sector, the new priorities during the 1979–81 period of consolidation include power, coal mining, oil production, telecommunications, and building materials. Investment in the power industry is now the single largest investment category in the national economy, Xinhua announced on April 14. More hydroelectric power stations will be built, according to China's minister of power industry, Lin Lanbo, who said in a May 19 *People's Daily* article that only 2.5 percent of the country's 580 million kilowatts of hydroelectric power potential was being utilized.

Capital Construction Conference Cuts Grandiose Investment Schemes

> *The scale of basic construction planned earlier has surpassed the feasibility of available manpower, materials, and finance.*—Ma Yi, Vice Chairman of the State Economic Commission, AFP, 5/30/79

The Ten Year Plan's coup de grâce came in March 1979, one year after ratification by the Fifth National People's Congress on March 5, 1978, when a National Capital Construction Conference meeting in Beijing carried out the Third Plenum's decision to postpone many of the central government's 120 projects announced by Premier Hua Guofeng the year before. China's provinces and municipalities immediately followed suit by postponing or canceling local projects that were no longer feasible. In April, Guangdong Province issued a list of projects to be scrapped, Guangxi Zhuang Autonomous Region slowed 62 projects, while Shanghai suspended or postponed a "first group" of 114 large- and medium-scale projects. Looking in detail at the causes of these cancelations, several factors stand out:

• **Insufficient Funds:** China's state budget is sensitive to fluctuations in industrial activity, and the Ten Year Plan underestimated the importance of light industry in financing investment in heavy industry. Ninety percent of the state's revenues come from profit remittances from state enterprises, turnover taxes based on the Industrial and Commercial Consolidated Tax, and income taxes on profits of collectively owned enterprises. Less than 10 percent comes from agricultural taxes, customs duties, taxes on slaughterhouses, salt production and urban real estate, and in sundry licensing fees on vehicles and ships, according to *Beijing Review*.

Within the industrial sector, textile industries contribute roughly 10 percent of the state's total revenues. Light industry as a whole contributes much more, owing to the policy of setting high prices on consumer durables; hence, profit and turnover taxes paid to the state tend to be a larger proportion of gross sales than those paid by other branches of industry. For example, Shanghai brand wristwatches cost ¥10 ($6.3) to make, and sell for ¥120 ($75.9), the windfall being reaped by tax collectors. By contrast, the state profit margin on coal is slim, amounting to 3 fen ($.02) on each ton of coal produced, according to a report in the *Asian Wall Street Journal*.

The taxable profits of the average Chinese industry in 1978 fell to 16.4 percent from a level of 24.3 percent in 1966, according to US government estimates. The slump in light industrial production in 1978, and consequent loss of state revenues, undoubtedly prompted the decision to restore the 1:8 ratio between new investment in light and heavy industry which had prevailed during the First Five Year Plan (1953–57). Henceforth, the 30-year average of light industrial investment to total state investment of 2.04 percent will be increased, the *People's Daily* said.

These measures may increase the popularity of the new plan when it is announced, inasmuch as the poor showing of light industry and consumer goods output aroused popular dissatisfaction against the old plan. Popular acceptance of the plan is critical in view of the finding by US government analysts that China's industrial labor productivity has apparently experienced zero growth for the past twenty years, 1958–77.

• **Financial Mismanagement:** Another fiscal problem contributing to the slowdown was the practice by central and local authorities of making illegal investments with funds originally earmarked for depreciation—replacement of old and outmoded equipment. As a result, factories not only suffered shortages of inputs needed to maintain current production levels, owing to the voracious appetite of the state's huge construction program, but factories were denied funds necessary to buy new equipment for expansion. Frequently, enterprises could not meet the higher targets assigned to them, much less remit larger profits to the state.

Chinese enterprises reportedly set aside for depreciation about 4 percent of total fixed assets (as opposed to over 10 percent in most Western countries). In recent years this 4 percent was diminished by government departments that dipped into these funds for extraneous pet projects. In 1978, ¥2.6 billion ($1.55 billion) was taken from depreciation funds in this fashion, Xinhua reports, of which ¥2.2 billion went for construction projects unrelated to the renovation of existing facilities.

The cause of such financial mismanagement is attributed to China's consolidated budgetary system. Most revenues enter a common pot, the *People's Daily* recently pointed out, in which the accounts of various levels of government are not clearly demarcated: "The provinces, municipalities, and autonomous regions are not financially independent because all income and expenditures are centrally handled.

This management system is not conducive to developing the initiative of various areas, departments, and enterprises. On the contrary, this encourages the mentality of 'sharing a big pot of rice'." Misappropriating funds was apparently commonplace during the Cultural Revolution, when individuals were afraid to uphold fiscal regulations. The problem is still prevalent, the article noted.

A higher ratio of depreciation funds to fixed assets of industrial enterprises is under consideration: "Over half of the funds should be allocated to various industrial enterprises for their own disposal. The remainder, taken away by the central authorities and various localities, should also be used for renovation and transformation of industrial enterprises and must not be used for other purposes," Xinhua announced May 10.

To enforce observance of financial regulations, the government has begun to make loans for new projects, instead of giving units interest-free appropriations that do not have to be paid back. "Economic legislation and a judiciary for dealing with the economic matters," is also under study. An April 10 *People's Daily* adds that from now on, "Any breach of economic regulations and laws, such as conducting projects outside officially planned categories, must be subjected to economic and legal sanctions." Moreover, small engineering and construction units that were formerly subunits within amorphous administrative bodies must become independent accounting units that sign performance contracts subject to financial examination by the People's Bank.

• **Construction Delays:** Over half of the projects completed in 1974–78 went into operation behind schedule, while the average duration of major capital construction projects in China is now well over 6 years. Today coal mine shafts yielding 600,000–900,000 tons per year require 4–7 years to complete instead of 2–4 years as before. A recent *People's Daily* also said that a five-story dormitory of reinforced concrete with 3,000 square meters of floor space now takes 8–9 months instead of 4–4.5 months to build. These delays are attributed to a decline of 15 percent in labor productivity on capital construction sites between 1965 and 1977. Only in 1978 did productivity reportedly surpass the 1965 norm.

Lower labor productivity means that more Chinese workers are required to get the same job done as was done before with fewer workmen; hence a smaller proportion of each yuan of investment may be allocated to plant and machinery, and more goes to pay workmen to install the machinery. The government's objective, Xinhua announced in March, is to restore the 84 percent ratio of fixed assets to total investment outlays achieved during the First Five Year Plan.

Another cause of construction delays is soaring costs. Eighty percent more investment was required to produce one ton of steel during China's recently completed Fourth Five Year Plan (1971–75) as compared with the First Five Year Plan. Over the same period, the average investment for excavating a ton of coal doubled, an April 10 *People's Daily* also revealed. However, it is not clear from the text if these cost comparisons are relevant, since the higher costs may simply reflect superior production methods.

The lack of building materials also contributed to the building slowdown. The output of construction materials increased by 37.0 percent in 1978, rising from ¥26.0 billion (US $14.0 billion) to ¥35.6 billion ($21.2 billion). This was only one-third the rate of increase of the government's investment budget, which soared 121.5 percent in 1978. The resulting gap between available investment funds, on the one hand, and available building supplies, on the other, probably accounts for the intense competition and evident lack of coordination which existed between construction departments in 1978.

Cement, brick, tile, and glass panes were the building materials in shortest supply in 1978. Increased production of these materials is now the first priority of the new Ministry of Construction Materials Industry, established in April 1979 under Minister Song Yangchu. Raising cement output presents the greatest difficulty, since 60 percent of the country's cement supplies come from small-scale enterprises which are constrained technologically to high cost, low quality manufacturing techniques.

To concentrate the available building material supplies on as few construction sites as possible, the government has called a halt to all projects that fail to meet any one of the following four standards: adequate construction materials are available to complete the project; the supply of fuel, water, raw materials, and transport facilities are adequate to run the enterprise once completed; the design is technologically advanced, but also cost efficient in terms of China's domestic deployment of resources and cost structure; and fourthly, all foreseeable pollution problems have been solved. The last point is particularly stressed in recent government news reports. ⚘

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Official PRC Statistics 1977-1978

On June 27, 1979, the newly reemerged State Statistical Bureau issued statistics on China's economic performance in 1977 and 1978. This is the first time since 1959 that China has released comprehensive economic data in tabular form. Numbers in italics under the official figures are previous US Government estimates. Values in yuan are accompanied by dollar equivalents in boldface type based on twelve-month average exchange rates of 1.852 yuan per US dollar in 1977, and 1.682 in 1978.

KEY INDICATORS	**1977**	**1978**	**Percent Increase**
Total industrial and agricultural output value (billion yuan)[1]	¥506.7	¥569.0[2]	12.3
	$273.6	**$338.3**	**23.6**
Total industrial output value (billion yuan)[1]	¥372.8	¥423.1[3]	13.5
	$201.3	**$251.5**	**24.9**
Total agricultural output value (billion yuan)[1]	¥134.0	¥149.9[4]	8.9
	$72.4	**$86.7**	**19.8**
Population (year-end, million)	946.87	958.23	1.2
	983	*1,004*	*2.1*
State Budget (billion yuan)[5]			
State revenues	¥87.45	¥112.111	28.2
	$47.25	**$66.65**	**41.1**
State expenditures	¥84.35	¥111.093	31.7
	$45.55	**$66.05**	**45.0**
Budget surplus	¥3.1	¥1.018	−67.2
	$1.7	**$0.605**	**−64.4**
Foreign Trade (billion yuan)			
Exports (fob)	¥13.97	¥16.76	20.0
	$7.54	**$9.96**	**32.1**
	$8.0	*$10.2*	*27.5*
Imports (cif)	¥13.28	¥18.74	41.1
	$7.17	**$11.14**	**55.4**
	$7.1	*$10.6*	*49.3*
Total trade (fob/cif)	¥27.25	¥35.5	30.3
	$14.71	**$21.1**	**43.4**
	$15.1	*$20.8*	*37.7*
Trade balance (Exports–Imports)	¥0.69	−¥1.98	—
	$0.37	**− $1.18**	**—**
	$0.9	*− $0.4*	*—*
Non-trade balance[6]	—	*¥2.1*	—
	—	**$1.25**	**—**
Current account balance (trade and invisibles)	—	¥0.12	—
	—	**$0.07**	**—**

INDUSTRIAL PRODUCTION (million metric tons unless otherwise indicated)			
Steel	23.74	31.78	33.9
	24.0	*31.7*	*32.1*
Rolled steel	*16.33*	*22.08*	*35.2*
	16.0	*—*	*—*
Pig iron	25.05	34.79	38.9
	32.4	*—*	*—*
Coal	550.00	618.00	12.4
	546.6	*600.0*	*9.8*
Crude oil	93.64	104.05	11.1
	90.3	*100.3*	*11.1*
Electricity (billion kwh)	223.40	256.55	14.8
	141.0	*162.0*	*14.9*
Timber (million cubic meters)	49.67	51.62	3.9
	37.2	*39.2*	*5.4*
Cement	55.65	65.24	17.2
	56.2	*67.8*	*20.6*
Sulfuric acid	5.375	6.61	23.0
Soda ash	1.077	1.329	23.4
Caustic soda	1.386	1.64	18.3
Ethylene (thousand MT)	302.7	380.3	25.6
Plastics (thousand MT)	524.00	679.00	29.6
Chemical medicine (thousand MT)	35.2	40.7	15.6
Equipment			
Power generating equipment (million kw)	3.181	4.838	52.1
Machine tools (thousand units)	199.00	183.00	−8.0
Motor vehicles (thousand units)	125.40	149.10	18.9
	150.0[7]	*181.0[7]*	*20.7*
Internal combustion engines (million hp)	27.41	28.18	2.8
Locomotives (units)	293.00	521.00	77.8
	555.0[8]	*—*	*—*
Freight wagons (thousand units)	6.396	16.95	165.0
	21.00	*—*	*—*
Steel ships (thousand tons, probably dwt)	634.30	865.90	36.5
Consumer Goods			
Chemical fibers (thousand tons)	189.80	284.60	49.9
Cotton yarn	2.203	2.38	8.0
Cotton cloth (billion linear meters)	10.151	11.029[9]	8.6
	10.00	*11.10*	*11.0*
Machine-made paper and paperboard	3.77	4.39	16.4
	7.10[10]	*—*	*—*
Sugar	1.816	2.267	24.8
Salt	17.10	19.53	14.2
Detergents (thousand MT)	257.00	324.00	26.1
Bicycles (million units)	7.43	8.54	14.9
Sewing machines (million units)	4.242	4.865	14.7
Wristwatches (million units)	11.04	13.51	22.4

AGRICULTURAL PRODUCTION (million metric tons unless otherwise indicated)			
Grain	282.75	304.75	7.8[11]
	286.00	*295.00*	*3.1*
Cotton	2.049	2.167	5.8
	2.05	*2.15*	*4.9*
Oil-bearing crops	4.015	5.218	30.0
Sugar cane	17.753	21.117	18.9
Beet root	2.456	2.702	10.0
Jute, ambari hemp	0.861	1.088	26.4

Silk cocoons (thousand MT)	216.00	228.00	5.6
Tea (thousand MT)	252.00	268.00	6.3
Hogs (million head)	291.78	301.29	3.3
Sheep (million head)	161.36	169.94	5.3
	96.00	—	—
Large animals (million head)	93.75	93.89	0.1
	96.00[12]	—	—
Aquatic products	4.70	4.66	−0.9
Reforestation (million hectares)	4.794	4.497	−6.2
Agricultural Inputs			
Chemical fertilizer (calculated on the basis of 100 percent effectiveness)	7.238	8.693	20.1
	38.00[13]	—	—
Application of chemical fertilizer per hectare of farm land (kilos, calculated on the basis of 100 percent effectiveness)	64.00	89.00	39.1
Insecticides (thousand MT)	457.00	533.00	16.6
Tractors (thousand units)	99.30	113.50[14]	14.3
Hand tractors (thousand units)	320.50	324.20[15]	1.2
Total stock of power-driven drainage and irrigation machines for rural use (million hp)	60.05	65.58	9.2
CAPITAL CONSTRUCTION			
Total investment in capital construction (billion yuan)	¥36.48	¥47.9	31.3
	$19.70	**$28.48**	**44.6**
Of which:			
State budget	¥29.48	¥39.5	34.0
	$15.9	**$23.48**	**47.7**
Local budget	¥7.0	¥8.4	20.0
	$3.78	**$4.99**	**32.0**
Total value of fixed assets made available by capital construction departments (billion yuan)	¥25.99	¥35.60	37.0
	$14.03	**$21.17**	**50.9**
Number of large- and medium-size projects completed and put into operation	—	99.00	—
Resulting increased capacity:			
Coal (million MT)	—	11.51	—
Crude oil (million MT)	—	9.996	—
Power generating capacity (million kw)	—	5.05	—
Steel (million MT)	—	1.12	—
Cement (million MT)	—	1.89	—
Sugar (thousand MT)	—	120.00	—
Railway lines (km)	—	806.00	—
Residential building[16] (million square meters)	27.8	37.00	33.1
Discoveries of new reserves			
Iron ore (billion MT)	—	2.2	—
Coal (billion MT)	—	8.8	—

TRANSPORTATION AND COMMUNICATIONS

Railway lines completed (km)	—	806–900	—
Total length of railway network (thousand km)[17]	—	50.00	—
New highways completed (thousand km)	—	35.00	—
Total length of highway network (thousand km)	—	890.00	—
	—	*855.00*	—
New civil aviation routes (thousand km)	—	17.00	—
Total length of civil aviation routes (thousand km)	—	149.00	—
Total length of navigable inland waterways (thousand km)	—	136.00	—
	170.00	—	—
Total value of posts and telecommunications (billion yuan)	¥1.12	¥1.17	4.5
	$0.60	**$0.70**	**16.7**
Cargo Traffic (billion metric ton-kilometers unless otherwise indicated)			
Railways	455.80	533.30	17.0
	516.00	—	—
Highways	25.10	27.40	9.2
	18.30	—	—
Waterways	276.20	377.90	36.8
	165.00	—	—
Air (million ton-kilometers)	75.90	97.00	27.8
Major seaports (million ton-kilometers)	160.00	200.00	25.0
Domestic Trade			
Total value of commodities purchased by commercial departments (billion yuan)	¥156.60	¥174.00	11.1
	$84.56	**$103.45**	**22.3**
Of which:			
Manufactured goods	¥115.30	¥128.00	11.0
	$62.26	**$76.10**	**22.2**
Farm and sideline produce	¥41.30	¥46.00	11.3
	$22.30	**$27.35**	**22.6**
Total value of retail sales (billion yuan)	¥141.04	¥152.75	8.3
	$76.16	**$90.81**	**19.2**
Of which:			
Pork	—	—	15.0
Sugar	—	—	19.0
Cotton cloth	—	—	4.3
Machine-made paper	—	—	20.5
Synthetic cloth	—	—	13.9
EMPLOYMENT AND WAGES			
Workers and staff (year-end national total, million persons)	91.12	94.99	4.2
Of which:			
Workers and staff in state-owned units	71.96	74.51	3.5
Workers and staff in urban collectively owned units	19.16	20.48	6.9

Total wage bill (billion yuan)	¥51.50	¥56.90	10.5
	$27.81	**$33.83**	**21.6**
Of which:			
Total wages of workers and staff in state-owned units	¥42.60	¥46.90	10.1
	$23.00	**$27.88**	**21.2**
Total wages of workers and staff in urban collectively owned units	¥8.90	¥10.00	12.4
	$4.81	**$5.95**	**23.7**
Average wage of workers and staff in state-owned units (yuan) [18]	¥602.00	¥644.00	7.0
	$325.00	**$383.00**	**17.8**
Average wage of workers and staff in collectively owned units	¥464.51	¥488.28	5.1
	$250.82	**$290.30**	**15.7**
Labor productivity of total work force in state-owned industrial enterprises	—	—	12.3
EDUCATION			
Institutions of higher learning	398.00	598.00	50.3
Students in institutions of higher learning (thousand)	620.00	850.00	37.1
New enrollment in institutions of higher education (thousand)	270	400	48.1
Graduates from universities and colleges (thousand)	—	165.00	—
Students in secondary technical schools (thousand)	680.00	880.00	29.4
Middle school students (million)	—	65.48	—
Primary school pupils (million)	—	146.24	—
Kindergarten children (million)	—	7.87	—
People studying in factory-run colleges and spare-time universities (thousand)	—	550.00	—
Students receiving spare-time secondary and elementary school training (million)	—	68.00	—
CULTURE			
Film projecting units (thousand)	—	110.00	—
Art troupes (thousand)	—	3.10	—
Cultural centers (thousand)	—	2.70	—
Public libraries (thousand)	—	1.256	—
Radio stations	—	93.00	—
TV stations	—	32.00	—
Proportion of rural households with loud-speakers connected to radio rediffusion system	—	63.00%	—
Circulation of national and provincial newspapers (billion copies annually)	10.54	10.94	3.8
Magazine circulation (million copies annually)	557.60	760.00	36.3
Books published (billion copies)	3.30	4.26	28.9
HEALTH			
Hospital beds (million)	1.77	1.85	4.5
Professional medical workers (million)	2.34	2.46	5.3
Of which (thousands):			
Doctors of the Chinese school of medicine	—	250.00	—
Senior doctors of the Western school of medicine	—	350.00	—
Junior doctors of the Western school of medicine	—	420.00	—
Proportion of rural production brigades with cooperative medical services		*around 80%*	
Barefoot doctors attached to rural production brigades (million)	—	1.60	—

Notes:

1 Probably in 1970 constant yuan.
2 Above 1978 plan target by 1.9 percent.
3 1.6 percent above plan.
4 2.7 percent above plan.
5 China's budget figures were issued separately in a speech by Minister of Finance Zhang Jingfu to the second session of the Fifth National People's Congress on June 21. (Xinhua 6/29/79). Values are believed to be in current yuan.
6 Includes overseas Chinese remittances, tourist revenues, interest on loans and eurocurrency bank deposits, post and telecommunication fees, and book exports, according to Ministry of Finance sources. Remittances constitute almost 50 percent of the non-trade balance.
7 Includes truck output only.
8 Includes 300 diesel, 250 steam, and 5 electric locomotives.
9 Equal to 10,286 billion square meters of cotton cloth.
10 Includes paper only.
11 Below 1978 plan target.
12 Includes draft animals only.
13 Based on standard unit of 20 percent nitrogen, 18.7 percent phosphoric acid, and 40 percent potassium oxide.
14 The State Statistical Bureau also reported that the stock of large- and medium-size tractors in 1978 was 557,000 units.
15 The stock of hand tractors in 1978 was 1.37 million units.
16 Includes housing construction completed with central and local government investment funds. Home construction by communes and other collective units are presumably excluded.
17 Excludes double tracking, sidings, and railroad yards.
18 If the total wage bill of workers and staff in state-owned units in 1978 (¥46.9 billion) is divided by the total number of workers and staff in state-owned sector (74.51 million), one obtains an average wage of ¥629.4. No explanation is given for the discrepancy between this derived figure and the official figures provided above.

Sources: State Statistical Bureau, *Communiqué of the State Statistical Bureau of the People's Republic of China on Fulfillment of China's 1978 National Economic Plan*, Xinhua, June 27, 1979; and National Foreign Assessment Center, *China: Economic Indicators*, A Reference Aid (ER 78-10750), Washington, DC, December, 1978.

Legend:

MT = metric tons
km = kilometers
hp = horsepower
kw = kilowatt
kwh = kilowatt hour
dwt = deadweight ton

CHINA'S 1977–78 STATE BUDGET AND 1979 DRAFT BUDGET
(in billion yuan, dollars*)

China's 1977–79 budget, the first published in twenty years, is presented below as outlined in Finance Minister Zhang Jingfu's June 21 speech to the National People's Congress. The budget categories do not appear to conform to Western accounting practices, since local government appropriations may be included in some items, nor do the figures sum to the totals indicated. Dollar values are indicated in boldface.

Item (As announced)	1977	1978	Percent Increase	1979	Percent Increase	1979 Subtotals as percent of total
Total Revenues	¥87.5	¥112.111	28.2	¥112.0[1]	−0.1	100.0
	$ 47.25	**$ 66.65**	**41.1**	**$ 70.9**	**6.4**	—
Main revenue items:						
Industrial and commercial revenues	¥40.05	¥ 45.1	12.6	—	—	—
	$ 21.6	**$ 26.8**	**24.1**	—	—	—
Income from state-owned industrial enterprises	¥32.59	¥ 44.0	35.0	—	—	—
	$ 17.6	**$ 26.2**	**48.9**	—	—	—
Total revenues minus subtotals	¥14.86	¥ 23.01	54.8	—	—	—
	$ 8.02	**$ 13.68**	**70.6**	—	—	—
Total Expenditures	¥84.35	¥111.093	31.7	¥112.0[1]	1.0	100.0
	$ 45.55	**$ 66.05**	**45.0**	**$ 70.9**	**7.3**	—
Main expenditure items:						
Investment	¥29.48	¥ 39.5	34.0	¥ 36.0	−1.3	32.1
	$ 15.9	**$ 23.48**	**47.7**	**$ 22.8**	**−2.9**	—
Reserve fund for capital construction	—	—	—	¥ 3.0	—	2.7
				$ 1.9	—	—
Renovation of state-owned enterprises[2]	¥13.69[2]	¥ 16.778	22.6	¥ 18.9[3]	12.6	16.9
	$ 7.39	**$ 9.98**	**35.0**	**$ 11.96**	**19.8**	—
Subsidies for trial manufacture of new products	—	—	—	¥ 2.7	—	2.4
	—	—	—	**$ 1.71**	—	—
Aid to communes[4]	¥ 5.07	¥ 7.695	51.8	¥ 7.05	−8.4	6.3
	$ 2.74	**$ 4.57**	**66.8**	**$ 4.46**	**−2.4**	—
Culture, education, public health, and science	¥ 9.02	¥ 11.266	24.9	¥ 12.08[5]	7.2	10.8
	$ 4.87	**$ 6.70**	**37.6**	**$ 7.65**	**14.2**	—
Defense	¥14.906	¥ 16.784	12.6	¥ 20.23	20.5	18.1
	$ 8.05	**$ 9.98**	**24.0**	**$ 12.80**	**28.3**	—
Foreign aid	—	—	—	¥ 1.0	—	0.9
	—	—	—	**$ 0.63**	—	—
Administrative expenses	¥ 4.33	¥ 4.908	13.3	—	—	—
	$ 2.34	**$ 2.92**	**24.8**	—	—	—
Purchases by government offices[6]	¥13.69	¥ 14.3	4.4	—	—	—
	$ 7.39	**$ 8.50**	**15.0**	—	—	—
Reserve fund, purpose unspecified	—	—	—	¥ 1.6	—	1.4
	—	—	—	**$ 1.01**	—	—
Remittances to localities under revenue sharing	—	—	—	¥ 2.96	—	2.6
	—	—	—	**$ 1.87**	—	—
Total expenditures minus subtotals	¥ 5.84	¥ 0.14	—	¥ 6.48	—	5.8
	$ 3.15	**$ 0.08**	—	**$ 4.10**	—	—

* Based on monthly average exchange rates of 1.852 yuan per US dollar in 1977, 1.682 in 1978, and 1.58 in 1979.
[1] Budget totals of ¥112.0 billion excludes ¥16.6 billion ($10.51 billion) attributed to "higher purchase prices for farm and sideline products, the upward readjusted wages for part of the workers and the reduced or exempted taxes for some rural areas." Including these items, revenues are reportedly ¥128.6 billion ($81.4 billion), an increase of 14.7 percent over 1978. [2] Appropriations include capital replacement and ". . . circulating funds and outlays for geological surveys and for undertakings in industry, communications, and commerce." [3] Includes depreciation fund of ¥16 billion ($10.13 billion) held by state-owned enterprises, mainly earmarked for renovation of fixed assets, and ¥2.9 billion ($1.84 billion) central government appropriations for renovation. Excludes enterprise circulating funds of ¥4.3 billion ($2.72 billion). [4] Appropriations to people's communes, brigades, and production teams, "and other operating expenses for agriculture." [5] "The expenditure of ¥619 million ($392 million) of science listed in the budget covers only the operating expenses for the Chinese Academy of Sciences, the State Science and Technology Commission, and their affiliated organizations. With the addition of the investments in capital construction allocated to them, and of the expenses and investments earmarked for scientific research by other departments, total expenditures on science will amount to some ¥5,870 million ($3,715 million), an increase of some 10 percent over that of 1978." [6] Expenditures defined as ". . . purchases made on the market for public use by the nation's government departments, mass organizations, army units, enterprises, and establishments."
Source: Xinhua, June 29, 1979

China's New Joint Venture Law

Xinhua, Beijing, July 8, 1979

Following is the Xinhua translation of the full text of the law of the People's Republic of China on joint ventures using Chinese and foreign investment, which was adopted on July 1 at the second session of the Fifth National People's Congress and became effective today on the order of Ye Jianying, chairman of the Standing Committee of the National People's Congress.

Article 1

With a view to expanding international economic co-operation and technological exchange, the People's Republic of China permits foreign companies, enterprises, other economic entities or individuals (hereinafter referred to as foreign participants) to incorporate themselves, within the territory of the People's Republic of China, into joint ventures with Chinese companies, enterprises, or other economic entities (hereinafter referred to as Chinese participants) on the principle of equality and mutual benefit and subject to authorization by the Chinese government.

Article 2

The Chinese government protects, by the legislation in force, the resources invested by a foreign participant in a joint venture and the profits due him pursuant to the agreements, contracts, and articles of association authorized by the Chinese government as well as his other lawful rights and interests.

All the activities of a joint venture shall be governed by the laws, decrees, and pertinent rules and regulations of the People's Republic of China.

Article 3

A joint venture shall apply to the Foreign Investment Commission of the People's Republic of China for authorization of the agreements and contracts concluded between the parties to the venture and the articles of association of the venture formulated by them, and the commission shall authorize or reject these documents within three months. When authorized, the joint venture shall register with the General Administration for Industry and Commerce of the People's Republic of China and start operations under license.

Article 4

A joint venture shall take the form of a limited liability company.

In the registered capital of a joint venture, the proportion of the investment contributed by the foreign participant(s) shall in general not be less than 25 percent.

The profits, risks, and losses of a joint venture shall be shared by the parties to the venture in proportion to their contributions to the registered capital.

The transfer of one party's share in the registered capital shall be effected only with the consent of the other parties to the venture.

Article 5

Each party to a joint venture may contribute cash, capital goods, industrial property rights, etc., as its investment in the venture.

The technology or equipment contributed by any foreign participant as investment shall be truly advanced and appropriate to China's needs. In cases of losses caused by deception through the intentional provision of outdated equipment or technology, compensation shall be paid for the losses.

The investment contributed by a Chinese participant may include the right to use of a site provided for the joint venture during the period of its operation. In case such a contribution does not constitute a part of the investment from the Chinese participant, the joint venture shall pay the Chinese government for its use.

The various contributions referred to in the present article shall be specified in the contracts concerning the joint venture or in its articles of association, and the value of each contribution (excluding that of the site) shall be ascertained by the parties to the venture through joint assessment.

Article 6

A joint venture shall have a board of directors with a composition stipulated in the contracts and the articles of association after consultation between the parties to the venture, and each director shall be appointed or removed by his own side. The board of directors shall have a chairman appointed by the Chinese participant and one or two vice chairmen appointed by the foreign participant(s). In handling an important problem, the board of directors shall reach decsion through consultation by the participants on the principle of equality and mutual benefit.

The board of directors is empowered to discuss and take action on, pursuant to the provisions of the articles of association of the joint venture, all fundamental issues concern- the venture; namely, expansion projects, production and business programs, the budget, distribution of profits, plans concerning manpower and pay scales, the termination of business, the appointment or hiring of the president, the vice president(s), the chief engineer, the treasurer, and the auditors, as well as their functions and powers and their remuneration, etc. The president and vice president(s) (or the general manager(s) in a factory) shall be chosen from the various parties to the joint venture.

Procedures covering the employment and discharge of the workers and staff members of a joint venture shall be stipulated according to law in the agreement or contract concluded between the parties to the venture.

Article 7

The net profit of a joint venture shall be distributed between the parties to the venture in proportion to their respective shares in the registered capital after the payment of a joint venture income tax on its gross profit pursuant to the tax laws of the People's Republic of China and after the deductions therefrom as stipulated in the articles of association of the venture for the reserve funds, the bonus and welfare funds for the workers and staff members, and the expansion funds of the venture.

A joint venture equipped with up-to-date technology by world standards may apply for a reduction of, or exemption from, income tax for the first two to three profit-making years.

A foreign participant who reinvests any part of his share of the net profit within Chinese territory may apply for the restitution of a part of the income taxes paid.

Article 8

A joint venture shall open an account with the Bank of China or a bank approved by the Bank of China.

A joint venture shall conduct its foreign exchange transactions in accordance with the foreign exchange regulations of the People's Republic of China.

A joint venture may, in its business operations, obtain funds from foreign banks directly.

The insurances appropriate to a joint venture shall be furnished by Chinese insurance companies.

Article 9

The production and business programs of a joint venture shall be filed with the authorities concerned and shall be implemented through business contracts.

In its purchase of required raw and semiprocessed materials, fuels, auxiliary equipment, etc., a joint venture should give first priority to Chinese sources. It may also acquire them directly from the world market with its own foreign-exchange funds.

A joint venture is encouraged to market its products outside China. It may distribute its export products in foreign markets through direct channels or its associated agencies or China's foreign trade establishments. Its products may also be distributed on the Chinese market.

Wherever necessary, a joint venture may set up affiliated agencies outside China.

Article 10

The net profit which a foreign participant receives as his share after executing his obligations under the pertinent laws and agreements and contracts, the funds he receives at the time when the joint venture terminates or winds up its operations, and his other funds, may be remitted abroad through the Bank of China in accordance with the foreign-exchange regulations and in the currency or currencies specified in the contracts concerning the joint venture.

A foreign participant shall receive encouragements for depositing in the Bank of China any part of the foreign exchange which he is entitled to remit abroad.

Article 11

The wages, salaries, or other legitimate income earned by a foreign worker or staff member of a joint venture, after payment of the personal income tax under the tax laws of the People's Republic of China, may be remitted abroad through the Bank of China in accordance with the foreign exchange regulations.

Article 12

The contract period of a joint venture may be agreed upon between the parties to the venture according to its particular line of business and circumstances. The period may be extended upon expiration through agreement between the parties, subject to authorization by the foreign investment commission of the People's Republic of China. Any applicaion for such extension shall be made six months before the expiration of the contract.

Article 13

In cases of heavy losses, the failure of any party to a joint venture to execute its obligations under the contracts or the articles of association of the venture, force majeure, etc., prior to the expiration of the contract period of a joint venture, the contract may be terminated before the date of expiration by consultation and agreement between the parties and through authorization by the foreign investment commission of the People's Republic of China and registration with the General Administration for Industry and Commerce. In cases of losses caused by breach of the contracts by a party to the venture, the financial responsibility shall be borne by the said party.

Article 14

Disputes arising between the parties to a joint venture, which the board of directors fails to settle through consultation, may be settled through conciliation or arbitration by an arbitral body of China or through arbitration by an arbitral body agreed upon by the parties.

Article 15

The present law comes into force on the date of its promulgation. The power of amendment is vested in the National People's Congress. 完

Finance

Fujian Province, Beijing, Sell Shares, Seek Joint Venture Partners

China's provinces, as well as Beijing, have recently devised their own means to attract foreign capital. In May the Fujian Provincial Investment Enterprise Company was established to channel money from overseas Chinese and Western investors into export processing, power plants, mines, building-material factories, and other local ventures. The company's president, Zhang Wei, is reportedly vice chairman of the provincial government, while the vice president is Chao Congxin, concurrently vice chairman of the Fuzhou Municipal Revolutionary Committee.

Hong Kong businessmen have already agreed to set up small-scale apparel factories in Fujian. US and Japanese companies have initiated talks and investigated possible project sites. The creation of the investment company may soon be followed by others in Guangdong Province and Tianjin.

Only weeks after its establishment, the Fujian investment company signed an $8 million short-term loan with the First National Bank of Chicago for the purchase of coastal vessels, the first loan of any type from a US bank to China. The Bank of China guaranteed the loan, which reportedly pays one-half percent over the London Interbank Offer Rate (LIBOR); otherwise the central government does not appear to be directly involved in the investment company's activities.

Apart from loans, the company's capital will be raised mainly by issuing shares value at ¥500 (US $321.5 at current exchange rates), paying dividends of 8 percent per annum over 12 years, at which time the shares may be redeemed. The price per share in foreign currency has not been set, but interest and capital remittances in foreign currency are guaranteed. Investments are likely to be concentrated in designated export-processing zones within the province, including one at Xiamen (Amoy).

According to a June *Beijing Review* report, the company also engages in compensatory trade and joint ventures. Foreigners may hold 100% ownership.

On June 1 the Fujian investment company also announced plans to expand the scope of its activities to include overseas contracting on highway and construction projects, either by itself or jointly with Hong Kong businessmen or foreign firms. Two other overseas construction companies were set up by the central government in March, one specialized in highways and bridges and the other a general contractor (*CBR* 6:2, p. 67). Central ministries have also entered the competition by offering Chinese labor for future international projects in the Middle East, Africa, and the developing world. The Ministry of Metallurgical Industry has contacted Japanese and US companies, as well as Italy's giant international construction and manufacturing company, IRI.

Provincial officials are not newcomers to the international trade arena. Eleven provinces and municipalities operated investment companies in 1963, according to Sinologist Audrey Donnithorne. Operating under a 1957 statute, they sold shares paying 8 percent annual dividends. Capital could be withdrawn after 12 years or reinvested. Only one-half of the dividends and capital could be repatriated in foreign currency, however. The rest had to be kept in yuan-denominated accounts that could be used by relatives.

Over 100 foreign-owned plantations, sugar refineries, textile and paper mills, rubber factories, and hydroelectric plants operated under these arrangements prior to the Cultural Revolution (1966–68). The factories were exempt from Chinese taxes, and from the rule that working capital could only come from the People's Bank. These early investment companies acted as investment banks, but also participated in management, procurement, and sales.

Invest in Beijing City

In February the Beijing Economic Development Corporation (BEDC) was established to coordinate foreign loans, joint ventures, and compensation trade arrangements between foreign countries and the city of Beijing. (See *CBR* 6:3, p. 3.) A letter sent on May 23 to the National Council introduced the corporation as "an economic enterprise under the direct supervision of the Beijing Revolutionary Committee." According to the letter, written by Liaison Assistant Zhang Daye, the corporation's main duties are to:

- "Negotiate the absorption and utilization of foreign funds, foreign exchange, and overseas remittances.
- "Develop compensation trade with foreign countries by contracting with foreign firms to establish processing factories (using materials from abroad) and assembly plants.
- "Discuss, negotiate, and coordinate trade exports and new, technical imports.
- "Negotiate with foreign countries on joint ventures.
- "Handle other foreign trade–related activities for the city of Beijing."

In May members of the National Council's Surface Mining Delegation met with Mr. Yu Xiaosong, deputy managing director of the corporation, and learned that the new corporation's main task is to "bridge the gap between the Ministry of Foreign Trade and local industry." Import and export corporations under the Ministry of Foreign Trade will continue to negotiate and sign contracts, but the BEDC informs the trading corporations as to the city's available exports and its import requirements.

American firms should work through the BEDC on business ventures that are located in Beijing municipality, according to Mr. Yu. Companies with projects in Beijing that now conduct their business affairs with another government department or ministry are also urged to contact the BEDC by writing to: Mr. Xiao Yang, Managing Director, Beijing Economic Development Corporation, 3, Tai Ji Chang, Beijing China. Telephone number: 55–1071.

Finance

China's New Budget

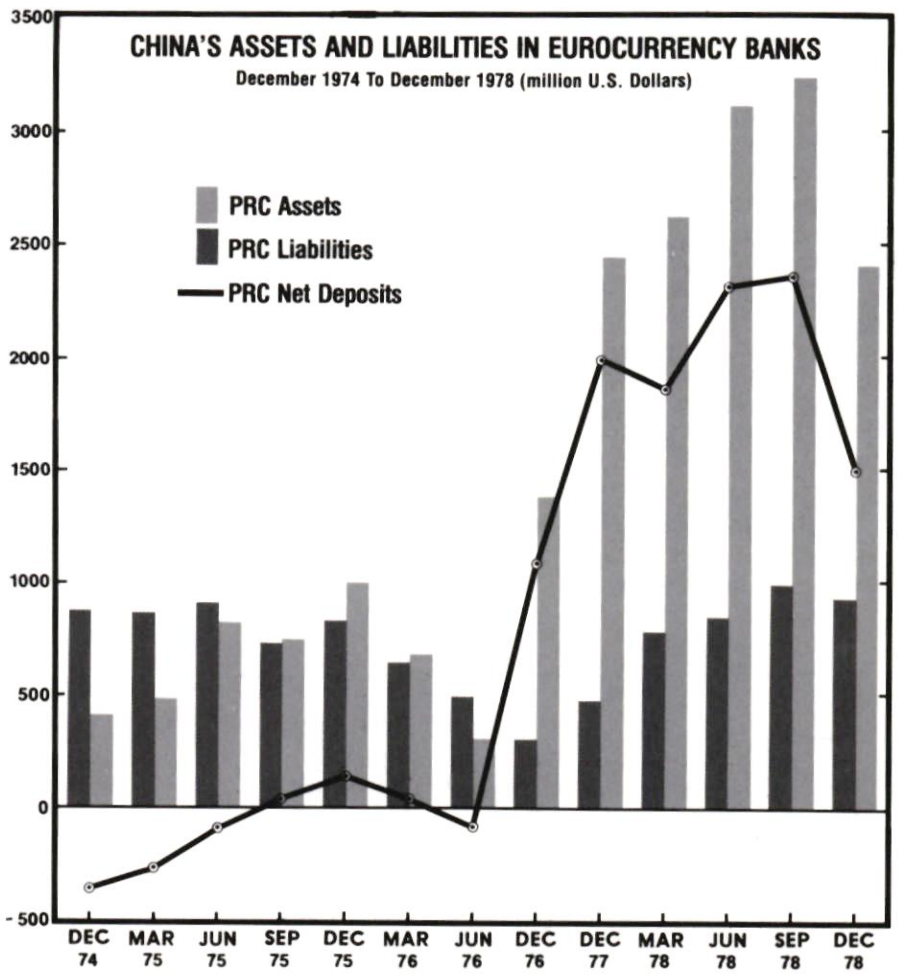
For the first time in twenty years China has released details of its budget. At the equivalent of $66.6 billion, Beijing had a small budget surplus last year. But BIS statistics indicate that China's net foreign exchange position has been declining.

With regard to China's trade accounts, two-way trade in 1978 was ¥35.5 billion ($21.1 billion), an increase of 30.3 percent over 1977, assuming that exports are calculated fob and imports cif, as appears to be the case. China's 1978 exports were valued at ¥16.76 billion ($9.96 billion), and imports at ¥18.74 billion ($11.14 billion). Invisible items showed a surplus of ¥2.1 billion ($1.2 billion), covering the trade imbalance of ¥1.98 billion ($1.18 billion), according to the State Statistical Bureau figures. The overall current account balance was therefore in the black by ¥120 million ($71.3 million).

However, most observers believe that China experienced a balance of payments deficit last year, due mainly to the large cash down payments on Western technology imports which appear as debit items in the capital account.

This is corroborated by recent Bank of International Settlement statistics which show that China's net foreign exchange position in Eurocurrency banks of 11 major Western countries fell from $1.95 billion at the end of 1977 to $1.49 billion at the end of 1978 (see chart). The figures are the best estimates available of China's foreign exchange reserves, since statistical coverage by the BIS covers over 90 percent of China's foreign currency holdings abroad.

* Conversion factors used are the monthly average exchange rates of 1.682 yuan per dollar in 1978, and 1.58 in 1979.



SOURCE: Bank for International Settlements. China's assets and liabilities for the entire period are tabulated from reporting banks in Belgium, France, Germany, Italy, Luxembourg, Sweden and the United Kingdom. Netherlands eurocurrency banks are included since March, 1975, and US banks in the Bahamas, Cayman Islands, Panama, Hong Kong and Singapore are included since October, 1975. Banks in Austria, Canada and foreign affiliates of US banks worldwide were included in 1978. Assets and liabilities are measured at period ends.

Finance

US Companies Can Benefit from China's New Borrowings

The magnitude of China's recent loan signings—over $22 billion as of mid-July—suggests that large US bank loans are now unlikely. The First National Bank of Chicago's $8 million loan to the Fujian Provincial Investment Enterprise Company is the only US credit to China to date:

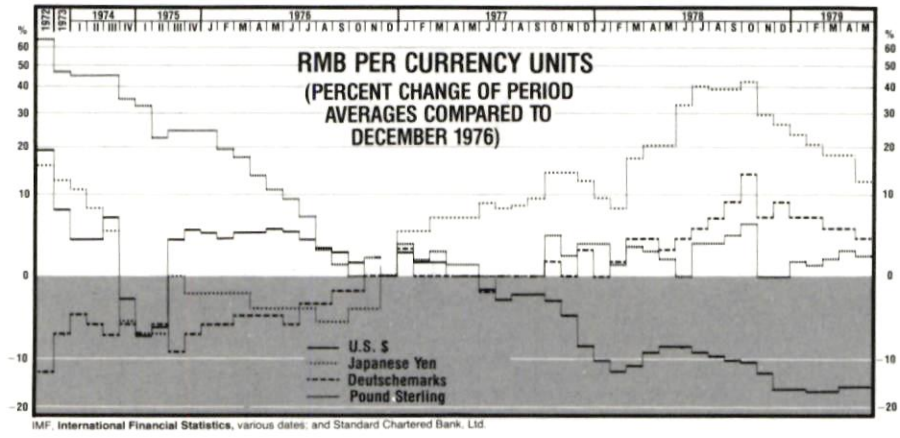
GOVERNMENT-GUARANTEED EXPORT CREDITS TO THE PRC

Country	Date	Amount (million US $)
France	12/78	$ 6,850
UK	12/78	$ 1,200
Italy	4/79	$ 1,000
Australia	4/79	57
Japan	5/79	$ 2,000
Canada	6/79	$ 1,730
	Subtotal	$12,837
Commercial Bank Credits to the PRC		
UK	3/79–4/79	$ 575
France	4/79	$ 500
Canada	4/79	$ 100
Hong Kong	4/79	$ 12
Japan	5/79	$ 8,004.6
US	5/79	$ 8
	Subtotal	$ 9,199.6
	TOTAL	$22,036.6

Nearly half of the above total came in the form of three Japanese loans announced in mid-May. The largest was a 31-bank syndication led by the Bank of Tokyo for $6 billion with an interest rate margin of 0.25 percentage points above the London Interbank Offer Rate (LIBOR). The second was a $2 billion 22-bank syndication for 4½ years also led by the Bank of Tokyo. It offered the same favorable 0.5 percent over LIBOR rates offered to China by European bank syndicates in March and April.

The third was a $2 billion loan from the Japan Exim Bank. Commerce Secretary Juanita Kreps protested the loan's 6.25 percent interest rate during her stop in Tokyo following her recent trip to China. Japan's Prime Minister Masayoshi Ohira defended the 15-year "resource development loan" on the grounds that China may use the loan to import goods from countries other than Japan, including the US, at the direction of the Bank of China—hence it did not violate OECD rules which stipulate that long-term credits to developing countries used to promote a country's own exports must carry a minimum interest rate of 7.5 percent. Japan's distinction between credits for plant exports and aid for resource development is not recognized by other governments.

None of the $12.8 billion in Exim Bank credits that China has received thus far has been drawn down, according to US and European bankers contacted by the National Council. One reason is that Exim Bank credits to developing countries are seldom uti-



IMF, International Financial Statistics, various dates; and Standard Chartered Bank, Ltd.

lized immediately since the detailed planning of capital goods imports frequently begins after the financing is in order. China's economic slowdown has further reduced imports. Moreover, some of the loans China signed may have been initiated by large exporting companies that were trying to enhance sales prospects to China by arranging financial packages and government loan guarantees through their banks. More loans may have been signed than China intended.

Another reason may be that government-guaranteed export credits are normally denominated in the currency of the lending country. As a result, currencies that tend to appreciate over time, such as the Japanese yen, increase the exchange rate risks involved in loans from these countries.

Memories of the 1974 loan for the Wuhan Iron and Steel Company may have made China postpone the recent $2 billion Japan Exim Bank credit until the yen showed signs of weakening vis-a-vis the dollar. The yen loan for the Wuhan project was initially worth $200 million in terms of the 1974 dollar-yen exchange rate. By repayment time the loan cost China $300 million to retire due to the appreciation of the yen. Since Japan Exim Bank authorities refused to extend the loan in dollars as China wanted, final agreement came only in May after the value of the yen began to fall. At that time the Chinese yuan had appreciated 20.9 percent against the yen as compared with October 1978. (See chart.)

To bring finances under tighter control, two new supra-planning bodies were created in July. A Financial and Economic Commission under Chen Yun includes the heads of China's four planning commissions, Food Ministry, S & T Commission, and Ministry of Finance. A China International Trust and Investment Corporation to oversee all foreign investment in China was established July 9.

Economic Planning

State Fairs, Village Fairs–China's Free Market System Expands

but Small-Scale Industry is under Attack

Among the revolutions taking place in China's economy is the expansion of the PRC's free market system, traditionally permitted by authorities as a safety valve for inflationary pressures. Now a fundamental restructuring of this important part of China's consumer sector is underway as part of a general review of economic planning which may eventually open new opportunities for foreign companies. At the same time, outmoded and inefficient small-scale industry, including a million commune factories and 17 million workers, is under attack, suggesting that China's technology-development program may be soon directed at this important economic sector.

Small-scale industries run by China's communes and production brigades are now permitted to sell their products in free markets if they are not listed in the state plan, Tianjin Radio announced on April 21. The decision to broaden the range of commodities allowed to enter free markets, according to Beijing Radio, was made five months ago by the December plenum of the Eleventh CCP Central Committee.

Two other recent radio bulletins, from Harbin and Shenyang, may signal the beginning of a series of new rulings on free markets that could revolutionize the way China's economy works. One was a circular from

Agriculture is China's first priority, had 14 percent of investment in 1979.

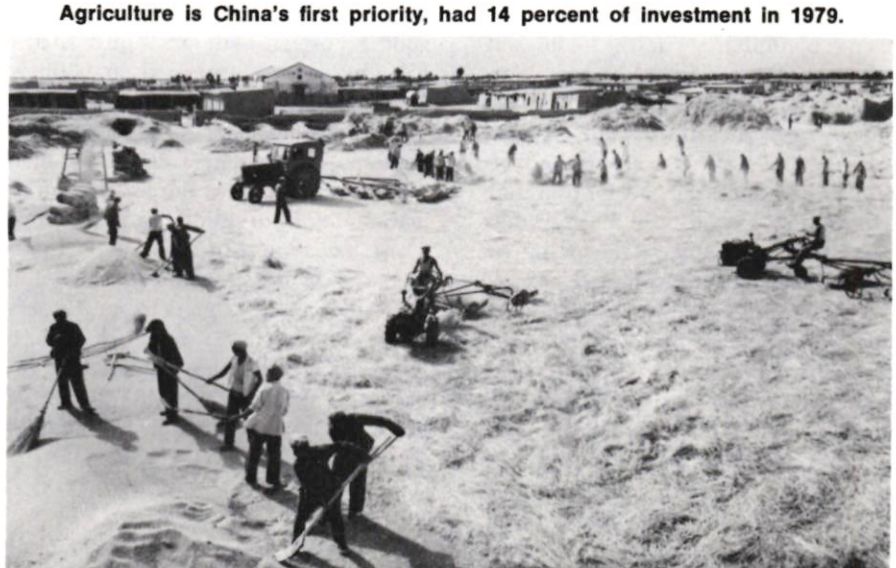


Photo: Xinhua

the Heilongjiang Provincial Revolutionary Committee to all state-run stores in the province, instructing them to make their prices competitive with those in free markets, thereby freeing the stores from the obligation of setting their prices solely according to Ministry of Commerce regulations and price lists.

The second announcement was that more free markets should be established in cities. Liaoning Province has already established 71 free markets in 10 municipalities, while Tianjin has opened 18, and Changsha, Hengyang, Zhuzhou, Xiangtan, and Shaoyang are among the 34 commercial centers in Hunan Province that have opened free markets since April. Some of these markets were open prior to the Cultural Revolution, but only the output of family endeavors such as handicrafts and produce from private plots could be sold.

Now industrial commodities which are not in the state plan are permitted to enter free markets for the first time. State plan items refer to the 80 major categories of industrial commodities allocated by the State Economic Commission and industrial ministries. These commodities tend to be produced by large-scale enterprises under direct ministerial control, and include steel, motor vehicles, tractors, and important industrial chemicals (*CBR* 6.3, p. 52).

The first hint that reforms were imminent appeared in a March 17 *Guang Ming Daily* article. It summarized the views of government cadres and planners who recently convened in Chengdu, Sichuan Province, to thrash out possible ways to loosen up China's cumbersome and error-prone planning apparatus. The consensus of the meeting was that planning reforms should begin at the bottom, and that small- and medium-size enterprises that are under the jurisdiction of provincial and local authorities, most of which do not produce state plan items, should be permitted to sell their output on the free market. No change in status was contemplated for factories that produced items for the state plan, however.

In theory, such a new arrangement would allow planners to focus on just a few strategic industrial centers such as Shenyang, Anshan, and Shanghai, where large-scale enterprises tend to be concentrated. Central planners now handle so many enterprises that error is commonplace; an example is the recent failure to increase power capacity by 120 megawatts to run the new facilities added to the Wuhan Iron and Steel Works, now forced to operate 30 percent below its 4-million-ton capacity, US industry sources report.

FREE MARKETS A MIXED BLESSING

Despite the increasing role of free markets in China, the government regards them as a mixed blessing. On the one hand, they promise to add flexibility to China's overly centralized planning system as their role in the economy expands. Moreover, in rural areas where village fairs have had an almost uninterrupted existence since the 1949 revolution, free markets have given peasants a motive to produce poultry, pigs, and fruit, in addition to surplus grain and vegetable oil in excess of state procurement quotas. All of these items may now be sold for profit in China's 33,000 village fairs, *Beijing Review* reports.

Free markets also provide the country with badly needed commercial outlets. The number of state-run stores and supply and marketing cooperatives are still too few in the countryside and cities. Even in Shanghai, there was only one store per 450 individuals in 1975, Xinhua reports, as opposed to one store per 140 persons in Hong Kong and the New Territories in 1975, according to Hong Kong government statistics. The lack of retail outlets and consumer goods is aggravating inflation, reported to be around 20–40 percent in Beijing in 1978, forcing the government to consider larger imports of grain and possibly consumer goods. Foreign-made consumer items have not as yet appeared in China's free markets.

On the other hand, the government deplores the profiteering and other "capitalistic" opportunities that free markets afford to peddlers and unscrupulous merchants. In Shenqiu County, Henan Province, a peddler sold almost 1,000 thermos jugs marked up 70 percent over the state store price of 1.41 yuan ($0.90) per jug, Beijing Radio reports. The peddler's profits of nearly 900 yuan ($570) was roughly equivalent to a year-and-a-half's income for the average Chinese.

Merchants have reportedly set up stalls at village fairs to sell filter cigarettes, drugs, consumer goods, merchandise purloined from state warehouses, oxen and other draft animals, as well as superstitious relics used in divination and fortune-telling. Black-market restaurants have also appeared. The report added that in Liaoning Province there was a market for 10-year-old trousers made in Shanghai that sell for 5 yuan ($3.20) profit per pair. Sunflower seeds which sell for about 1.1 yuan ($0.70) per kilo in Heilongjiang are also illegally shipped to Liaoning Province where they get double the price, the report said.

The existence of black markets for meat and food rationing coupons tallies with a secret report by Vice Premier Li Xiannian published recently in the pro-PRC *Ming Pao* in Hong Kong saying that "Food grain is so insufficient that 100 million people in the country have not got enough food."

STATE FAIRS—$28 MILLION BUSINESS

Controls over free markets at the present time seem to rely on economic measures, rather than on decrees and other administrative devices to protect state commerce from the growing influence of private entrepreneurs. State stores and supply and marketing cooperatives have been urged to participate in free markets, and even to compete with them both in terms of price and merchandising techniques.

For example, outdoor fairs have been organized by municipal commerce bureaus with stalls and restaurants to attract crowds. Beijing Radio reports that the value of sales at a local state-organized fair during April 5–15 was 45 million yuan ($28.6 million). The People's Bank of China has taken the same relaxed approach to the private economy. Xinhua reports that in May the bank's branch in Jingxian County, Anhui Province, set up a special ¥100,000 fund for low-interest loans "to help develop household sideline production."

Such strong official support of private enterprise and free markets is unprecedented. During the near-famine years following the Great Leap Forward in the early 1960s, free markets were permitted to reopen, but as soon as they began to encroach upon the state supply system the government curtailed their activities.

However, the view that free markets endanger state planning is still voiced in the Chinese media, which raises questions about the government's ability to carry out its announced intention to expand free markets in cities, or its long-range objective of relying more on the market place as an important adjunct to central planning.

A call for tighter restrictions over free markets appeared in a March 2 Harbin Radio broadcast, which said that "participants in fairs must primarily be rural people's commune members. They can sell what they produce and buy what they need at fairs in line with regulations stipulated in policy, but cannot act as businessmen reselling their purchases." More recently, Beijing Radio complained that while illegal merchants were on the rise, "leading organs have made no arrests." Even worse, "market management departments have shown an indifferent attitude toward these activities." The April 27 broadcast warned that "we cannot afford to relax control over village fair trade at any time."

CHINA'S SMALL-SCALE INDUSTRY UNDER ATTACK

Following the ill-fated experiment with backyard iron and steel furnaces during the Great Leap Forward, small-scale industries have managed to cast off some of their early notoriety, and now occupy an important position in the Chinese industrial landscape.

Small plants produced roughly 21 percent of the country's pig iron during the Fourth Five Year Plan (1971–75), in addition to 58 percent of its nitrogenous fertilizer, 15 percent of its crude steel, and about 5 percent of its total hydroelectric power output, according to scattered Chinese press reports and US government estimates. In 1977 small plants produced 90 million metric tons of coal, or 15 percent of the country's total, plus 60 percent of its cement, 7.3 percent of its iron ore, and 80 percent of its bricks, tiles, and other building materials, Xinhua reports.

Small-scale industries remain controversial, however, inasmuch as they continue to be associated with the Maoist bootstrap approach to economic development and often lack the minimal equipment necessary to turn a profit. Low productivity still hampers these industries, despite the introduction in recent years of modern technology modified to suit small-batch production.

Beijing Radio has bluntly announced that "enterprises with enormous waste that have failed to do a good job in economizing will have to step aside and let those enterprises with low consumption get ahead." The threat to shut down inefficient enterprises was made in reference to small plants, and was of course directed at communes, urban districts, and neighborhood committees that own and operate most small-scale enterprises in China. In February 1979 the State Council tried to assist marginal small-scale industries by exempting many categories of rural small plants from the standard 20 percent tax rate, but official patience appears to be wearing thin.

Last year coal consumption by small synthetic ammonia plants was apparently twice the level of large plants, Xinhua reports. The fact is particularly serious in view of a recent statement to the Hong Kong *Economic Reporter* by Ma Yi, China's vice chairman of the State Economic Commission, to the effect that China wastes over 70 percent of its coal output due to outmoded technology. As a result, only about 180 million metric tons of China's total 1978 production of 605 million tons of coal was effectively converted into thermal energy, the vice chairman said.

A study of the relative efficiency of large and small chemical fertilizer plants in Beijing further shows that it costs 500 yuan to expand synthetic ammonia output by one ton in a large plant, but costs over 1,500 yuan in a small plant. Another Beijing Radio report indicates that at present few small-scale nitrogenous fertilizer plants are able to realize a profit, given the state's uniform price of 150 yuan (US $95) per ton of chemical fertilizer. In general, small-scale industries with the most backward technology reportedly include fertilizer, cement, and building material plants.

The government's renewed stress on agricultural development may offer a reprieve to some plants, at least to those in isolated localities that are the only source of building supplies and agricultural tools and equipment in the region. But in suburban areas where large plants offer peasants a competitive alternative due to low transport costs, steps are underway to reorganize small factories. Beijing recently transferred 446 small plants under the authority of its eight urban and rural districts to municipal industrial bureaus, which are jointly under ministerial and municipal control, in an effort to raise their efficiency and enforce output standards.

There are currently 17 million full-time and part-time peasant laborers in 1 million commune factories, Xinhua reports. In cities, small-scale plants are usually affiliated with large factories and specialize in pharmaceuticals, electronic components, and embroidery. Averaging around 70 workers per plant in the early 1970s, these industries employ 9–15 million urban workers, roughly 80 percent of whom are women. A rising proportion of this labor force is today engaged in export processing under countertrade agreements. 完

China's communes now offer consumer services like this chicken restaurant on Hengmian commune near Shanghai.

Photo: Xinhua

Faster Process Ahead for China Sales?

In October 1976, Digital Resources Corporation filed an application for a validated export license in the Office of Export Administration of the US Department of Commerce for the sale of seismic exploration equipment to the PRC. Some thirty months later, after the company had redesigned its computer to comply with stringent US export-controls criteria, Digital received a green light for the technology transfer comprising six prospector seismic data processing systems worth $5.5 million.

Digital's experience highlights how long a China export contract can be in the making: by the time an export license is approved a company may have already lost its sale to a foreign competitor. This is particularly troublesome to US firms seeking to export high-technology items to the PRC. They face increasingly stiff competition from West European and Japanese technology producers, whose governments tend to exercise a more lenient export-controls policy and actively encourage overseas sales. US companies lament that they are losing out in the race for Chinese markets; they must tailor their product to simultaneously meet commercial, export-control, and Chinese market requirements.

Against this backdrop of charged emotions and controversy, the US Senate and House of Representatives are currently considering two different, but generally similar, sets of legislative proposals to amend and extend for four years the Export Administration Act of 1969, due to expire on September 30, 1979.

After holding extensive hearings on US export-control policy, the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Foreign Affairs reported favorably on H.R. 4034 (May 15) and S. 737 (May 7) which, in their present form, include revisions and recommendations adopted by each committee during markup sessions.

H.R. 4034, entitled Export Administration Act Amendments 1979, reflects and incorporates provisions similar to the ones proposed in H.R. 3216, introduced on March 1 by the Hon. Jonathan B. Bingham, chairman of the subcommittee on International Economic Policy and Trade, while S. 737 was originally submitted by Senator Adlai E. Stevenson on March 22. The accompanying reports, H. No. 96-200 and S. No. 96-169, contain detailed descriptions of the objectives of each bill's provisions.

The continuing point of contention centers on the problem of rationalizing export-control procedures and criteria with the need for US exporters to maintain a competitive edge in world markets. As US trade with China, the Soviet Union, and other Communist nations has expanded, so has Congressional pressure for speedier processing of export license requests and a clearer, more discrete definition on the level of technology that should be permitted to be transferred to "potential adversaries."

Recognizing that economic benefits might accrue to the US as a result of more liberal trade policies toward the Communist countries, the trend in both the Senate and the House is to streamline the licensing system and bring export controls into closer conformity with US economic interests. Among the important policy issues addressed in the legislative proposals and forming the current focus of Congressional debate are the following:

Reduction in Administrative Delay

Although most US companies differ over the question of what criteria should underlie export decisions, all tend to agree that the most serious export-licensing problem is the delay in processing applications.

The number of export licenses processed by the Department of Commerce has been increasing at an annual rate of nearly 20 percent: from 54,000 in 1977, to 65,000 in 1978, to between an estimated 70,000–80,000 for 1979. Meanwhile, those cases requiring more than 90 days for completion, because of national-security questions, have been growing even faster: from 1,032 in 1977 to 1,988 in 1978; nearly a 100 percent increase.

Within the legislative packages being considered by the House and the Senate is a provision setting a 90-day statutory deadline on all licensing decisions not requiring interagency review. If referral to other agencies is necessary, the time limit is extended to 180 days. In addition, the House bill states that COCOM review, if necessary, must be completed within 60 days. Cases not processed within that time would be sent to Congress for oversight.

In anticipation of mandated time frames, the Commerce Department is preparing its own set of deadlines for administrative purposes. The new procedures would not set final deadlines but give exporters a new option in cases exceeding 90 days for completion. As of the 75th day of review, the license applicant could choose to have the application returned without action or have Commerce continue its review for an unspecified period beyond 90 days.

Commerce Secretary Juanita Kreps has warned that under mandatory deadlines "export licensing officers who have not been able to resolve such problems will have no choice but to issue a denial." The Commerce Department proposal will not ensure that applications are processed within certain time periods but will "help to reduce to a minimum the time it takes to reach a decision."

Money Buys Speed

While Congress has repeatedly attacked the delay problem, this is the first time it has provided for the enforcement of deadlines. However, this medicine may not produce the needed cure. If Congress genuinely intends to expedite the processing of licenses to facilitate export growth, the relevant offices of the Commerce, State, and Defense Departments must have staff and resources commensurate with their responsibilities; in other words, their staffs and budgets should be increased.

On the whole, the number of complex cases requiring more time commitment on the part of individual qualified staff has raced far ahead of the growth in manpower. The best solution may lie in legislating built-in budgetary increases for these offices along with time frames.

Dual-Use Technologies: Crux of the Matter

The relatively small proportion of total license applications requiring over 90 days to process (16 percent of all license requests for China fell into this category in 1978), involve sensitive issues of national security or foreign policy. The case of "dual-use" technologies, those having both civilian and military applications, has thrown a monkey wrench into the dilemma of trying to strike a balance between domestic economic and political-military objectives. The two-sided nature of the issue has served as a springboard for both supporters and opponents of national security export controls.

The "critical technologies" approach seeks a way out of this Catch-22 through the elaboration of a list of "revolutionary" (versus evolutionary) technologies considered "critical" for current or projected US defense systems or representing a major advance for the military sector of a controlled country.[1] Supposedly, such a list would be sufficiently narrow and precise to guide the evaluation decisions of licensing officers.

The Department of Defense has been working on this list for the past three years, but until the effort is completed, and the results certain, it cannot be written into the new Export Administration Act. The House bill includes a mandate for continued study of a critical technologies approach to export controls.

COCOM OPENS THE GATE FOR INTEGRATED CIRCUITS

The Paris-based, 15-nation Coordinating Committee for Communist Trade (COCOM), seeking to spur Western exports of high technology, has for the first time approved the sale of an integrated-circuit plant to the PRC. The $45 million deal for an assembly plant to produce 900,000 color-TV sets a year was jointly signed last August by Toshiba Corp. and Hitachi Ltd. The approval coincides with current COCOM negotiating sessions aimed at revising and narrowing the scope of the commodity control list.

CHINA RECOGNIZES FORM 629: PERMITS MONITORING OF SENSITIVE EQUIPMENT

During the first quarter of 1979, over $29.5 million worth of exports of American high technology were approved for export to China. The export-approval process flowed more smoothly than before and exporters have been breathing more easily.

Since normalization, Beijing has taken a 180-degree turn. Now, Chinese end-users fill out, sign, and deliver Form 629—the end-use statement they never used to touch—to the US seller.

More than that, they now also recognize and accept the required safeguard clause for an export license, providing for US company personnel to periodically inspect the site of installation to insure civil end-use. Digital's contract with the PRC specified the company's right to oversee end-use.

Thus, the so-called "China differential" no longer applies. This differential was the distinction between the way the Soviets previously complied with US export regulations and the lack of strict adherence by the Chinese.

According to one businessman just returned from Beijing, Chinese officials are really gung ho on complying with US standards to facilitate the delivery of foreign technology purchases. Before normalization, one Chinese buyer had provided detailed end-use information in letterhead form, but in the aftermath of Sino-US diplomatic relations the letter was scratched and replaced by a completed and signed Form 629.

The first 629 filled out by the PRC is believed to have been received in February 1979 for the sale of scientific instruments to a research institute.

Implications for US-China Trade

Observers point out that while a relaxation of US export controls will not significantly increase the total volume of US-China trade, it should help to erode a serious barrier for US exporters of strategic technology, such as computers, aircraft, and energy-related equipment, to the PRC.

In seeking to reduce the sheer number of export license applications, the proposed legislation sets "foreign availability" as the key determinant underlying the decision-making process. Specifically, the bill requires that the availability of an item from other free-world countries be constantly monitored and verified by the Secretary of Commerce with the involvement of industry through Technical Advisory Committees. Validated license controls would be removed for items determined to be readily available from foreign sources. Currently, foreign availability is only investigated on a case-by-case basis at the request of the licensor.

One of the most controversial high-technology transfers to the PRC involved the famous sale of British Rolls-Royce Spey engines (December 1976), in which US companies claimed unfair competition due to laxer British export controls. Under the new Act, an item

Union Calendar No. 122

96TH CONGRESS
1ST SESSION

H. R. 4034

[Report No. 96–200]

To provide for continuation of authority to regulate exports, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 10, 1979

Mr. BINGHAM (for himself, Mr. ZABLOCKI, Mr. FASCELL, Mr. DIGGS, Mr. ROSENTHAL, Mr. YATRON, Mrs. COLLINS of Illinois, Mr. SOLARZ, Mr. BONKER, Mr. PEASE, Mr. MICA, Mr. BARNES, Mr. WOLPE, Mr. BOWEN, Mr. FITHIAN, Mr. FINDLEY, Mr. BUCHANAN, Mr. WINN, Mr. GILMAN, Mr. LAGOMARSINO, and Mrs. FENWICK) introduced the following bill; which was referred to the Committee on Foreign Affairs

MAY 15, 1979

Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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H.R. 4034.

would be removed from the US commodity-control list before foreign competitors entirely penetrated or captured a market.

Another provision, designed to make the US commodity-control list less sweeping, more precise, and shorter, stipulates an annual adjustment process, referred to as "indexing." This is intended to facilitate the removal from the list of any goods or technologies that become obsolete with respect to US national security or no longer meet the performance level established by the state-of-the-art in a particular industry.

In effect, this means that the US would lift controls on those items no longer at the forefront of US technology. However, such decontrolled items could conceivably represent the top of the technological scale for a less-developed country like China, which must skip at least a generation of science and technology developments to bring itself abreast of the rest of the world.

US export controls have been a prime factor in discouraging US computer manufacturers from entering the Chinese market, seen as worth a potential $500 million by 1989, according to a recent study on Chinese and Russian computer markets.[2] The indexing approach, if adopted, would open up opportunities for US firms seeking to export small-scale minicomputers and peripheral devices to the PRC. But even if existing control barriers are relaxed, increases in US high-technology exports to the PRC may be offset by China's growing food import requirements.

Moreover, industry representatives point out that export controls are only one of the many impediments to expanding computer sales to China. Equally as constraining is the PRC's scarcity of hard-currency reserves and its lack of a well-developed infrastructure for implementing computer-based systems. In allocating limited resources, Beijing's planners will probably show preference to computers having applications in specific areas such as oil, finance, and transportation. But this should not discourage American manufacturers from devising strategies to gain entry to the China market. China has already expressed an interest in acquiring 100 ground stations for communications by satellite, and is forging ahead with a planned extension of its communication facilities and improvement of its information-gathering and processing capacity.

The Road Ahead

As Congress approaches the final deadline for reauthorizing the Export Administration Act, most observers agree that the political climate favors streamlining the licensing system and liberalizing US export policy toward the Communist world. According to one Hill insider, however, under the backdrop of SALT II, debate on the bill "could become a vehicle for thrashing out our entire trade policy toward the Soviet Union," risking the chances for a backlash against freer export controls.

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[1] For a detailed analysis of the critical technologies approach, see the 1976 report of the Defense Science Board entitled, "An Analysis of Export Control of US Technology—A DOD Perspective" (commonly known as the Bucy report).

[2] For information on this study, contact International Resource Development Inc., New Canaan, Conn.

CONGRESS PREPARING TO MODIFY US EXPORT CONTROL POLICY

As Congress has progressed toward enacting the legislation necessary to extend existing authority to control exports, the following issues have crystalized into the prime targets for Congressional action and debate.

- Streamline and shorten the export-licensing process. For the first time Congress is seeking to impose a 180-day statutory deadline on all licensing decisions.
- Prune the list of goods and technologies subject to export control through:

  "Critical technologies" approach—focus and limit controls to prevent exports of militarily critical goods and technologies.

  "Indexing"—remove from the control list those items no longer representing the forefront of American technology in a particular field.
- Make foreign availability the key determinant in license decision-making. Free from control those goods or technologies determined to be available without restriction from foreign sources.

Will the picturesque Yangzi Gorge remain unspoiled?

Hydropower

Smaller Hydro Projects May Get Priority Over Huge Yangzi Gorge Plan

The mammoth Yangzi Gorge hydroelectric project—scheduled to be four to five times more powerful than the most powerful existing dam on earth—may be delayed yet again as part of China's readjustment of economic priorities.

The huge project, also known as the Three Gorges or Sanxia, located some 130 kilometers upstream from Yichang in Hubei Province near the Sichuan Province border, would have an installed capacity of 25,000–30,000 megawatts (Mw) and would produce 120 billion kilowatt/hours of electricity a year—nearly half the electricity produced in China in 1978. The project has been in the planning stages for more than 30 years, but last November when Secretary of Energy James Schlesinger visited China, it seemed to be a top priority. Now it may fall victim to China's current readjustment, which may favor the construction of smaller, but still substantial, dams further upstream on the Yangzi (Changjiang) or Yellow (Huang He) Rivers or their tributaries.

During the May-June tour of the US by Vice Premier Kang Shien (see Council Activities), a hydropower subgroup of his delegation talked with US experts and visited several hydroelectric projects in the US. Among the sites visited was the Grand Coulee dam, which has a rated capacity of 2,160 Mw now, but which will have a capacity of over 6,600 Mw soon, when its powerful third powerhouse is completed. This will put it in the same class as the largest existing dam in the world, Krasnoyarsk in the Soviet Union.

China's largest dam, Liujiaxia on the upper Yellow River, has a capacity of 1,225 Mw, with five turbogenerator units. That project was designed and built entirely by Chinese workers and technicians.

China has a hydroelectric potential of 580,000 Mw, of which only about 2.5 percent is used. Of the total potential, about 40 percent, or 230,000 Mw, is on the Yangzi and its tributaries, while a potential of nearly 100,000 Mw is on the Yarlung Zangbo (Brahmaputra) River in Tibet, far from any industrialized areas. The Chinese are now building hydro additions with a capacity of about 10,000 Mw (see map). They hope to complete these by 1985, but may fall short of that target. In 1980, China proposes to speed up construction of dams and to start construction of additional large hydropower stations.

The Chinese energy delegation to the US, including Vice Premier Kang, was greatly impressed with the six generators of Grand Coulee's third powerhouse, three rated at 600 Mw and three at 700 Mw. For the huge Yangzi Gorge project, the Chinese would need 1,000-Mw generators. Allis-Chalmers, maker of the third powerhouse's 700-Mw turbines said that, given the present state-of-the-art, it would be possible to build 1,000-Mw turbines. Companies in Japan, Canada, France, Germany, and Switzerland can also produce large turbine-generators, and these countries are interested in helping the Chinese with the Yangzi project.

Two Schools of Thought

But the Chinese hydro experts indicated that their ministry, the Ministry of Electric Power Industry, preferred giving priority not to the Yangzi Gorge project but to somewhat smaller, but still large-scale hydro projects. In talks with the US Bureau of Reclamation in Denver, they said that there were "two schools of thought" on the question. It is believed that the Ministry of Water Conservancy, from which the Ministry of Electric Power Industry split off in February, favors going ahead with the Yangzi Gorge project.

The two ministries were formerly the Ministry of Water Conservancy and Power, under Minister Qian Zhengying, an official whose experience in the water conservancy ministry dates back to 1952. The new Minister of Electric Power Industry is Liu Lanbo, who headed the former Ministry of Electric Power from 1955 until 1958, when it merged with the water conservancy ministry and Liu became a vice minister. Liu was purged in 1967 during the furor of the Cultural Revolution, and only recently returned to power. Qian now heads only the Ministry of Water Conservancy.

Problems with the Yangzi Gorge Project

The Electric Power Industry ministry prefers to defer the Yangzi Gorge project for several reasons:

• The project would require a very high investment—at least $6.2 billion, nearly one-fifth of the total amount invested in all capital construction in China in 1978.

• It would take over ten years to build.

• It would flood more than 150,000 hectares of land, much of it needed farmland.

• It would displace well over one million people, who would need to be relocated elsewhere.

• It would disrupt river transportation until a series of temporary, then permanent, ship locks could be built.

On the other hand, the power that could be generated by the project is sorely needed to overcome shortages in central China. Also, after the locks are built, the 700-kilometer-long reservoir will eliminate shoals and rapids that have made the passage through the gorges treacherous for ages and will create a relatively safe navigation channel all the way to Chongqing (Chungking).

The proposed dam will also help in flood control by regulating the water flow to one million square kilometers of land, much of which has been seriously harmed in the past by major floods.

Construction has already begun on a regulating dam for the Yangzi Gorge project. This smaller dam—at Gezhou, downstream from the Three Gorges site—is designed to have a 2,700-Mw capacity, twice as large as that of China's largest existing dam.

Other Proposed Hydro Projects

Given the enormity of the Yangzi Gorge project in terms of time and money, the Ministry of Electric Power Industry prefers to promote several other proposed projects with lower investment cost, less construction time, and thus earlier availability of power. Two such projects were discussed during the recent visit to the US:

1. Longtai project, on the Hongshui (Red River) in Guangxi Zhuang Autonomous Region, a 200-meter-high dam with a power potential of 3,000 Mw. The Chinese said this proposed project is located near some newly discovered bauxite deposits, which they would like to develop and process with foreign, possibly US, help. They have also discussed the power project with Swiss and German concerns, and probably others as well.

2. Jinbing project on the Yalong River in Sichuan Province. This would involve, in its first stage, boring a 16-kilometer pressure tunnel or tunnels between two sections of the river, which forms a large, tight loop about 150 kilometers long. (See map.) The tunnels would provide a head of 300 meters at the outlet side, and a powerhouse would be built to tap this potential. Together with a dam downstream of the inlet, as a second stage, the project could develop a generating capacity of up to 6,000 Mw. A small 20-Mw steam plant has already been built to provide power for construction of the large project, and a nearby steelworks can utilize the extra power supply, so this project, though difficult, is likely to proceed.

During their visit to the US, the Chinese showed an intense interest in the Buckskin Tunnel in central Arizona and in the Robbins Corp., which made the machine that bored that tunnel. Other companies, both in the US and abroad, design and build similar large-scale moles.

Other hydroelectric power projects discussed with US officials during Secretary Schlesinger's visit to China last November include:

1. Longmen, or Dragon Gate, project on the middle reaches of the Yellow River. (See map.) Longmen would have an installed capacity of 1,500 Mw and would also provide irrigation, flood control, ice prevention, and sedimentation control. Sedimentation, or silting, has been a major problem on the Yellow River for centuries, giving the river its name and its reputation for flooding. At Longmen, the Yellow River carries about 37 kilograms of sediment per cubic meter, whereas the Yangzi carries only about 1 kilogram per cubic meter at the Three Gorges site. A large dam at Sanmenxia, 270 kilometers downstream from the Dragon Gate site, was designed to have a capacity of 1,100 Mw, but can only use about 250 Mw now because of the silting problem.

2. Xiaolongdi, about 130 kilometers downstream from Sanmenxia (see map), with about 1,600-Mw rated capacity. The Yellow River carries about half again as much sediment here as at the Dragon Gate site, so the reservoir will have to be especially large here, too, with about two-thirds of it destined for sediment collection.

3. Xiangjiaba, on the Yangzi (called Jinsha in the section), in Sichuan Province upstream from Yibin, with a capacity of 5,000–6,000 Mw.

4. Two other sites on the upper reaches of the Yangzi, with installed capacities of 3,000 Mw and 9,000–10,000 Mw.

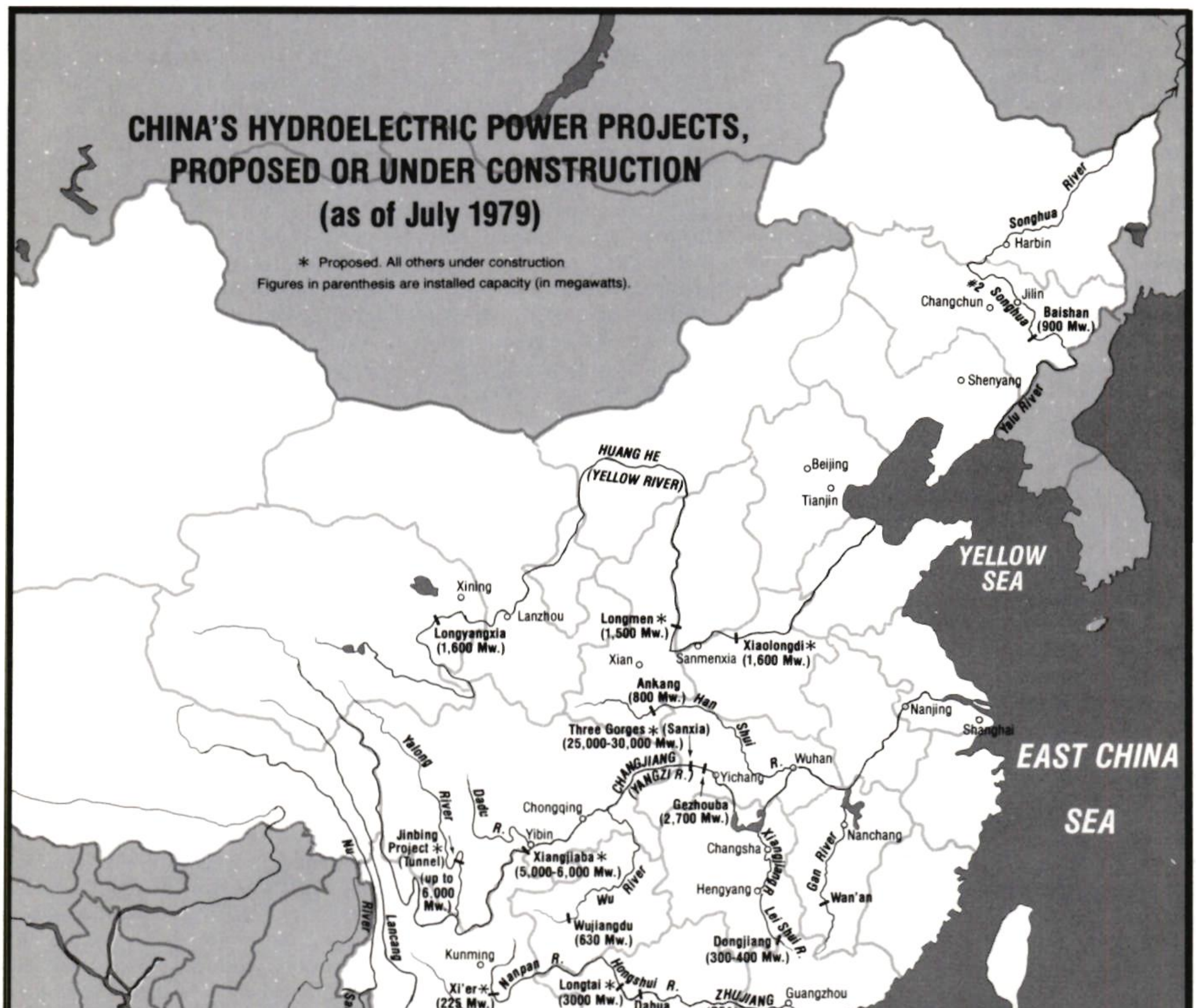
5. Possibly other sites on the Lancang (Mekong) and Yarlung Zangbo (Brahmaputra) Rivers, as well as on Yangzi tributaries such as the Dadu, Wu, and Yuan Rivers.

US Cooperation

Faced with numerous problems, among them geological exploration/evaluation and rock mechanics, the Chinese have asked for US technical assistance in these projects. In response, the US government has offered to send advisors to China to examine project sites and advise on geological surveys and evaluation techniques, construction engineering, and dam design. The Chinese are also interested in sending engineers and geologists to the US for specialized training, as available through the Bureau of Reclamation, the US Army Corps of Engineers, the Tennessee Valley Authority, and the Bonneville Power Administration of the Department of Energy.

The Japanese have also offered to assist on several Chinese hydro projects, and a mission from the Ministry of International Trade and Industry (MITI) went to China in February to tour proposed dam sites. MITI revealed in early February that the Japanese government and private industry would aid in the construction of four large-scale hydropower stations: the Yangzi Gorge project, Xiangjiaba, Longmen (Dragon Gate), and Taliushu on the upper reaches of the Yellow River (not on map).

Last year, the British and French both sent delegations to China and had preliminary discussions on helping the Chinese in hydroelectric power development. It seems that the Chinese are now discussing their hydro needs with a wide spectrum of foreign countries and asking for as much advice as they can get before making commitments on specific projects. 完



Aviation

Beijing's International Flights Taxiing for Take-off

As Beijing upgrades its airport facilities to international standards, airlines from all over the world have been hastening to complete air service agreements with the PRC and to schedule air routes to and from Beijing and other Chinese cities. The capital's airport now handles only 35 international and about 42 domestic flights a week, for a total of about 4,000 flights a year. In contrast, New York's JFK airport handles over 275,000 landings of air carriers a year and Chicago's O'Hare airport handles nearly 600,000.

The Chinese hope to finish installing a runway by the fall that will handle wide-bodied jets such as the three Boeing 747SPs China bought last December. They also plan to equip a new control tower with modern electronic air-traffic-control facilities, which a consortium of seven US companies, as well as individual French and Japanese concerns, have bid on.

The new terminal building under construction at the Beijing airport will have offices for 30 foreign aviation companies, but so far only nine foreign airlines fly to China regularly, in addition to China's own airline, CAAC (Civil Aviation Administration of China). They are Aeroflot, Air France, Ethiopian Airlines, Iran National Airlines, Japan Air Lines, Pakistan International, Swissair, Tarom of Romania, and Yugoslav Airlines. Philippine Air Lines and Lufthansa are scheduled to begin flights soon, and eight other foreign airlines are negotiating.

Japan Airlines expands China service.

In this race, US air carriers have their feet somewhat bound until the US and the PRC sign an air agreement. During Secretary Kreps' visit to China in May, the two sides agreed to begin negotiations, but, with wide differences of opinion left to be resolved, that process may take a while. The PRC wants to limit US service to one carrier, possibly Pan Am, and the US government wants to encourage competition by allowing several airlines to be official carriers.

The Carter administration wants to work out an air agreement with China which would allow US airlines to serve both Taiwan and the mainland. Philippine Air Lines (PAL) recently concluded such an air accord with the PRC, which allowed it to continue regular service to Taiwan as a "commercial accommodation." PAL considers its agreement with the PRC to be a "government-to-government" agreement, while its service to Taiwan is a "regional and people-to-people air link." Thai International also recently announced that it planned to begin flights to China without disrupting service to Taibei.

Pan Am, TWA, United, Seaboard World, Trans International, Braniff International, and Continental have all filed applications with the US Civil Aeronautics Board for permission to fly to China. Of these, Pan Am has been in China negotiating on several possibilities, including overflight rights to fly across China on the route from India to Hong Kong. In addition to Beijing, Pan Am also reportedly wants to land at an alternate airport in China, such as Shanghai or Guangzhou, in case of bad weather.

The following are the foreign airlines that have announced negotiations with the Chinese recently.

1. British Airways reached an agreement in principle on a London–Beijing air service to begin in early 1980, probably via Hong Kong. London and Beijing initialed a tentative air agreement in 1973 but it was never signed. The British returned to Beijing in June to negotiate a new air agreement. Last December, the British government granted CAAC temporary rights to a scheduled service between Hong Kong and Guangzhou despite the absence of a bilateral air agreement.

2. Canadian Pacific Air is continuing talks with CAAC about starting service on the Vancouver–Shanghai–Beijing route with a technical stop in Tokyo (no passenger changes). CP Air was granted rights to begin service on this route in May 1974, but the plans were never implemented.

3. Japan Air Lines (JAL) held talks with CAAC in mid-May to increase weekly flights to China from six to seven. JAL will begin a Tokyo–

Nagasaki–Shanghai flight on September 4, and CAAC agreed to allow JAL to stop in Hangzhou, although that flight has not been scheduled yet. The two airlines tentatively decided to begin using wide-bodied jets by the end of the year. JAL again requested rights to fly over China's far west on direct flights to the Mideast, but so far China has not agreed.

4. KLM-Royal Dutch Airlines has been granted landing rights for an Amsterdam–Beijing service, which will begin sometime in 1980, using DC-8 aircraft. China and the Netherlands reached an air agreement last November.

5. Lufthansa plans to begin weekly flights to Beijing in November 1979, when Beijing airport will be equipped to handle wide-bodied jets. CAAC announced it would begin weekly flights to Frankfurt on May 3, 1979, by extending flights 941 and 942 to Frankfurt from Bucharest. China and West Germany reached a civil air agreement on February 2, 1979.

6. Philippine Air Lines planned to begin a twice-weekly DC-8 service to Beijing via Guangzhou on August 1 from Manila. China and the Philippines signed a civil aviation agreement in early July. CAAC retained the option to fly to the Philippines at some future time.

7. Royal Nepal Airlines Corp. planned to begin twice-weekly flights from Katmandu to Shanghai and Tokyo, dependent on the signing of an agreement with Japan. As of mid-July, the flights were not yet scheduled, however. CAAC was also granted rights to land in Katmandu in a Sino-Nepalese air agreement signed last fall.

8. Sabena of Belgium asked for landing rights for a nonstop Brussels–Beijing route. The airline has since 1975 had rights for a weekly flight to Beijing via Moscow, but it has never used them because of Soviet objections.

9. Scandinavian Airlines System (SAS) was granted traffic rights to land in Beijing for a regularly scheduled flight via Bangkok as part of a Sino-Swedish trade agreement signed in early May. A spokeswoman said that an SAS delegation will go to China this summer to negotiate, but that no definite flight has been scheduled. SAS hopes to fly to Beijing by this winter.

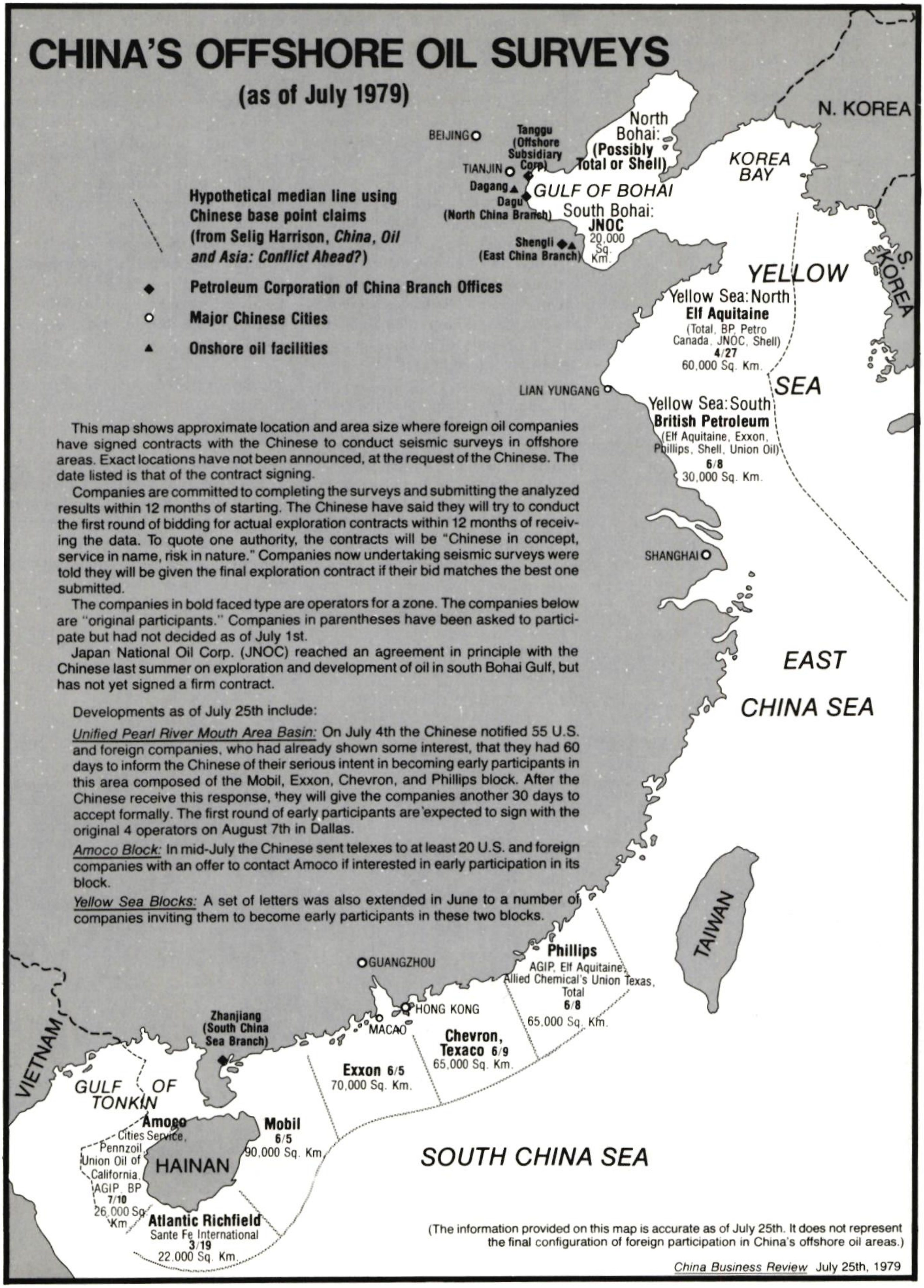
10. Singapore Airlines, which has been negotiating an air agreement with the PRC, announced that the Chinese approved a flight to China, to land in either Beijing, Shanghai, or Guangzhou. The schedule, routing, and number of flights per week have not been set. The agreement would also probably grant CAAC rights to land in Singapore.

11. Spain signed a civil air agreement with China in June 1978, but at that time had no plans for air links.

12. Thai International announced that China agreed in January to allow it to start a direct Bangkok–Beijing route on April 5. However, as of mid-July, the flight had not been scheduled. The two airlines were also reportedly discussing a stop in Guangzhou. 究

CHINA'S OFFSHORE OIL SURVEYS

(as of July 1979)



This map shows approximate location and area size where foreign oil companies have signed contracts with the Chinese to conduct seismic surveys in offshore areas. Exact locations have not been announced, at the request of the Chinese. The date listed is that of the contract signing.

Companies are committed to completing the surveys and submitting the analyzed results within 12 months of starting. The Chinese have said they will try to conduct the first round of bidding for actual exploration contracts within 12 months of receiving the data. To quote one authority, the contracts will be "Chinese in concept, service in name, risk in nature." Companies now undertaking seismic surveys were told they will be given the final exploration contract if their bid matches the best one submitted.

The companies in bold faced type are operators for a zone. The companies below are "original participants." Companies in parentheses have been asked to participate but had not decided as of July 1st.

Japan National Oil Corp. (JNOC) reached an agreement in principle with the Chinese last summer on exploration and development of oil in south Bohai Gulf, but has not yet signed a firm contract.

Developments as of July 25th include:

Unified Pearl River Mouth Area Basin: On July 4th the Chinese notified 55 U.S. and foreign companies, who had already shown some interest, that they had 60 days to inform the Chinese of their serious intent in becoming early participants in this area composed of the Mobil, Exxon, Chevron, and Phillips block. After the Chinese receive this response, they will give the companies another 30 days to accept formally. The first round of early participants are expected to sign with the original 4 operators on August 7th in Dallas.

Amoco Block: In mid-July the Chinese sent telexes to at least 20 U.S. and foreign companies with an offer to contact Amoco if interested in early participation in its block.

Yellow Sea Blocks: A set of letters was also extended in June to a number of companies inviting them to become early participants in these two blocks.

(The information provided on this map is accurate as of July 25th. It does not represent the final configuration of foreign participation in China's offshore oil areas.)

China Business Review July 25th, 1979

China Pledges $1 Million to United Nations Commodities Program

Joins First Commodity Stabilization Plan

In an effort to reap the benefits of international arrangements designed to iron out price fluctuations in the world's commodity markets, China has agreed to contribute $1 million for the creation of a common fund under UNCTAD's integrated program for commodities. At the last negotiating conference in March in Geneva, Chinese representative Li Zhimin proclaimed, "The Chinese delegation holds that the common fund should be an effective and viable entity and should have necessary and adequate resources from direct government contributions." He added that China would pledge the $1 million minimal assessment fee required of all members.

The agreement reached in Geneva provides a loose, working framework for further discussions on the functional and operational aspects of the fund. According to the tentative plan, the fund will comprise two windows.

The first window will pool cash and capital resources for each International Commodity Agreement (e.g., tin, cocoa, rubber) that decides to join the fund. In addition to these pooled resources, $400 million will be derived from government contributions; $80 million will come from the entry fee and the balance—$320 million—from proportional assessments. It was agreed that the industrial countries will contribute 68 percent, socialist countries 17 percent, and China 5 percent of the latter amount.

The objective of Window One is to boost the amount of financial assets available to each separate commodity agreement, thereby enhancing its effectiveness. If the price of tin, for example, is volatile, while sugar's is stable, the tin agreement will be able to use the fund as a banker for its buffer stock operation. China has expressed its hope that the international natural rubber agreement of which it is about to become a member (see below) will join the common fund.

China shows interest in commodity plans but shuns international food cooperation.

Photo: Xinhua

Window Two will consist of voluntary financial contributions for granting low-interest loans to the fund's members. With a financial base targeted at $350 million, Window Two will only allocate money for commodity-related projects, such as the diversification of a country's raw material processing activities.

Many complex issues regarding commodity price bands, the devices to be employed to protect those bands, voting arrangements, and the physical size of buffer stocks, have yet to be resolved. With the industrialized West and Third World countries clashing over these points, observers expect negotiations to continue well into the 1980s. China's decision to join this effort to help stabilize world markets indicates the shedding of Beijing's past reluctance to participate fully and constructively in major cooperative efforts to deal with global economic problems.

CHINA JOINS FIRST COMMODITY STABILIZATION PLAN

China is at the forefront of those nations shaping the terms of an international rubber agreement nearing completion and likely to be signed by year's end. This is the first international commodity agreement in which China has been an active participant, signaling Beijing's willingness to join multilateral cooperative efforts aimed at structural changes in world trade patterns.

China's natural rubber imports, estimated at 220,000 metric tons for 1978, accounts for seven percent of total world rubber trade and three percent of the PRC's yearly imports. As a rubber producer, China contributes less than one percent to world production, with an estimated annual output of 35,000 metric tons. Nearly 100 percent of China's natural rubber is supplied by Sri Lanka in exchange for rice.

China's unprecedented activity at the past two rubber negotiating sessions in Geneva may be motivated more by political than economic interest; the meetings provide a forum for China to display its support for Southeast Asia, particularly Malaysia, Indonesia, and Thailand, which are not only the world's three largest rubber producers, but also the current focus of Sino-Soviet rivalry for influence in the area.

Natural rubber is, on the other hand, critically important to China's automobile and aviation industries and guaranteed access to sources of reasonably priced rubber is clearly a significant factor in the success of the regime's modernization plans. Natural rubber is also less costly and energy intensive than synthetic rubber and is a necessary ingredient for the manufacture of aircraft tires. In the long run, the PRC's economic objectives will be well served by the rubber agreement, shielding it from unpredictable price fluctuations creating uncertainty and making planning difficult.

In practice, the international rubber agreement will set a "price band" between US $0.68 and $1.22 per kg. with a "reference point" of $0.95. A potential buffer stock of about 550,000 metric tons (one-seventh of world output), costing members between $500 and $700 million, will be created to facilitate the buying or selling of natural rubber when its price exceeds the "inter-stabilization band."

Individual member contributions to the buffer stock will be split equally between producing and consuming nations according to each country's percentage share of the world rubber trade. The US, for example, consumes 25 percent of the world's natural rubber and will be obligated to assume one-eighth of the buffer stock's cost. Likewise, China with seven percent of the market will be on call to commit between $17.5 and $24.5 million, depending on market conditions.

The final articles of agreement of the rubber stabilization plan are still pending but consensus is considered highly likely at the next November–December negotiating session in Geneva. At that time, China will tell the world that it is ready to defend its interests—and those of the less developed countries—with more than just rhetoric. 克

NEW BOOK ON CHINA IN WORLD FOOD SYSTEM

A new monograph, "China and the World Food System," by A. Doak Barnett, argues that future efforts to stabilize world grain supplies and enhance global food security must include China.* Presently, the PRC imports between 8 and 10 percent of the world's yearly wheat crop and accounts for 10 percent of global rice exports. Generally, Beijing has thus far followed the path of nonparticipation in intergovernmental forums and private organizations dealing with world food problems. For example, China has shown little interest in an international food reserve system, with a minimum of 60 million tons of grain. According to Barnett, China's noninvolvement is an unquestionable liability, which could seriously complicate decisions on needed international solutions to certain food problems.

China's impact on the dependability and stability of world grain supplies is likely to increase with the size of its international purchases, which Barnett sees as climbing to the level of 10–20 million tons a year.

China's links to the world system relative to its need to boost agricultural output are also discussed by Barnett. Given China's serious resource constraints and pent-up pressures for greater, more varied food consumption contributing to its demand for grain, Barnett believes that "China will be doing well in the period immediately ahead if it achieves a rate of increase in grain output of 2–3 percent, a rate roughly comparable to the one achieved in the recent past." In the short run, Barnett believes that China's grain production will only marginally exceed its population growth rate, which is estimated at 1.7 percent by the US and given as 1.2 percent by the Chinese.

Despite China's poor record in international food cooperation, the study concludes on an optimistic note: "Over time, experience should help to convince China's leaders that necessity argues for greater involvement by them in international programs. Conceivably, the present pragmatic trends in China's policy will lead to a greater Chinese willingness to participate actively in multilateral cooperative efforts."

* A. Doak Barnett, "China and the World Food System," Overseas Development Council, Monograph No. 12, Washington, DC. (April 1979.)

Agricultural Outlook

China's Harvest Hangs in Balance

It is still too early to predict the outcome of China's summer and fall harvests, but mixed signals radiating from Beijing cast doubt on the prospects for achieving this year's grain target of 312.5 MT, a 2.5 percent increase over last year, as announced by Vice Premier Yu Qiuli at the National People's Congress on June 21. Some provinces are already the scene of early bumper harvests while the more critical late harvest (accounting for 60 percent of total grain production) has been threatened by a cold wave (mid-April to mid-May) followed by a lingering drought in northeast China.

Amidst this foreboding news, Vice Premier Li Xiannian recently outlined to members of the Chinese Politburo the details of a financial and economic crisis. In the long report delivered at a central work conference in Beijing (April 5–29), he stated that China faces a budget deficit of \$6 billion and an unemployment level of 20 million with 10 percent of the population—100 million people—suffering from an inadequate diet.

Noting that all of China's consumer industries produce too little, he particularly emphasized China's food problems, revealing that the current monthly grain ration of 14.5 kgs. per worker is insufficient for people engaged in heavy labor, with few nonstaples like meat and vegetables. "People are not satisfied and our party members are more dissatisfied," he charged (*Ming Pao* [Hong Kong], June 14, p. 4).

China's leadership has set a goal of more than tripling average yearly grain consumption per head to 600 kgs., with one-third to be used as livestock fodder so that each person can consume more than 50 kgs. of meat and over 200 eggs a year. To reach this goal, China's grain output must climb to 650–700 million MT by the end of the century, representing more than a twofold increase from the all-time high of 304.75 million MT in 1978.

Record Level Grain Imports

With pressures mounting to increase food consumption, and less than favorable crop conditions, China is shopping for a lot of foreign grain with the US as a major supplier. The US is already expected to provided China with between 5.5 and 6 million MT of grain, or close to 50 percent of its estimated foreign grain for the 1979–1980 marketing year. About one-half of the wheat, 1.5 million MT, has already been contracted for.

While record PRC purchases of American grain may be in the offing, the share of US agricultural products making up total US exports to China is slowly shrinking: from about 68 percent in 1978 to only 50 percent of a projected \$1.4–1.6 billion worth of US exports to the PRC in 1979.

Some analysts, pointing to the PRC's recent cancelation for a total of 506,626 tons of US wheat and its long-term wheat agreements with Canada, Australia, and Argentina, guaranteeing half of China's foreign grain needs through 1981, see the US as a "residual" supplier for China, with quantities fluctuating according to domestic production. This is despite Chinese assurances to US Secretary of Agriculture Bob Bergland that China would purchase 5–6 million tons of grain from the US over the next few years. But even in the absence of a grain pact and Beijing's reliance on its traditional grain partners, China's pattern of unpredictable harvests should continue to assure US farmers of a sizable chunk of Beijing's food markets.

Back to the Harvest

Meanwhile, the official Xinhua news agency reported (5/22/79) the late spring cold wave, coupled with the effects of dry weather, delayed spring planting for up to two weeks in some areas, including China's grain belt of Shandong, Hubei, and Shanxi Provinces. Xinhua added that the planting of early rice in the south had also been put off by a week, while poor seedling quality had caused slow greening and growing, adversely affecting the scheduled planting of double-crop rice.

The report explained that late spring sowing could push back the dates for the fall harvest, threatening to expose the crops to early frost and extensive damage.

On the other hand, good summer harvests of wheat and other overwintering crops, comprising 40 percent of China's yearly grain output, have been reported and could compensate for autumn production losses due to bad weather. And a week of warmer weather could even introduce the possibility of a late grain surplus.

While Beijing sends distress signals, the PRC government often issues chilling agricultural statements to drum up enthusiasm among the masses for harder work. Xinhua did not hesitate to conclude its gloomy dispatch with a note that the people were already overcoming the possible calamity by expanding planted acreage to early ripening crops and mobilizing animals and farm tools for swift action once the weather improves.

China's New Agriculture Mechanization Guidelines

Renovate Rather than Invest in New Facilities

New guidelines for China's agricultural machinery industry stress the renovation of existing farm equipment over investment in new farm machinery plants. The goal of 70 percent mechanization by 1980 has been selectively applied to "zoned out" areas to match the new temper.

This message was delivered to the directors of China's provincial and municipal agricultural machinery bureaus by Wang Renzhong, vice premier of the State Council and minister in charge of the State Agricultural Commission, at a Beijing work conference held in mid-May. Seeking to adopt the least costly methods for achieving additional agricultural output, the conferees expressed support for a model of specialization and interdependence rather than self-sufficiency.

At the conference the representatives focused on the problems besetting China's agricultural machinery industry:

• **Management** China has an insufficient number of rural agricultural machine management organizations—only 30 percent of the communes have established such bodies so far.

• **Personnel** A shortage of skilled machine operators—in 1977 China reported a contingent of over 10 million drivers and operators but only two-thirds of them had received training. One machine operator for every 75 peasants is hardly enough labor to meet peak harvest seasons.

• **Production** An emphasis on self-reliance at the expense of specialization—while China has over 1,900 agricultural machinery enterprises in 53,000 communes there is virtually no production coordination among them. China has more than ten types of 10 h.p. diesel engines and nine models of walking tractors. Parts are neither interchangeable nor supplied on a regular basis.

• **Low Utilization Rate** Too much emphasis on, and an oversupply of, main machinery units at the expense of maintenance and repair—with only 2,000 county-level agricultural machinery repair plants, China's serviceability rate for farm power machinery is between 58–70 percent, leaving idle 30 percent of China's total horsepower of 170 million.

• **Transport** Between 1966–1978 the total number of tractors in China increased from 154,000 to 1.4 million but plowed acreage increased only twofold. While the state distributes 8,000 motor vehicles (including walking tractors) a year for agricultural use, some communes are using nearly 70 percent of their tractors for transportation and other services. In the words of one Chinese official, "It is time we stopped blaming the communes and production brigades for using tractors for transportation . . . and began to manufacture diesel motor vehicles with some of the materials used for the manufacture of tractors."

Solutions Proposed: Greater Specialization

China's current mechanization policy reflects the concerted effort of the leadership to rationalize the allocation and distribution of resources; the model of small-scale and self-sufficient production is under criticism. The Ministry of Agricultural Machinery has been restored to direct planning and coordination within the industry. The principle of profit maximization is being implemented in factories to impose quality and price control in tandem with product standardization, serialization, and generalization.

As for the shortage of trained machine operators, the most critical short-run constraint, China hopes to educate 100,000 agrotechnicians and teachers a year in its 2,000 units in agricultural science, including 38 institutes of higher learning. Another partial solution may come through the consolidation of rural small-scale industries facilitating the release of several million skilled machine operators into the work force. Finally, the extent to which this proposed strategy can increase the level of efficiency in the production and management of farm machinery hinges on the development of transportation and communication links, a necessary condition for promoting specialization and interdependence. 完

Chinese farmhands learn to operate Deere & Co.'s machinery on Friendship State Farm.

International Harvester Sells a Mechanization System to a Chinese Commune

China's state farms and urban communes are now being emphasized as targets for the PRC's new agricultural development program. Part of the program has involved foreign technology as this story describes.

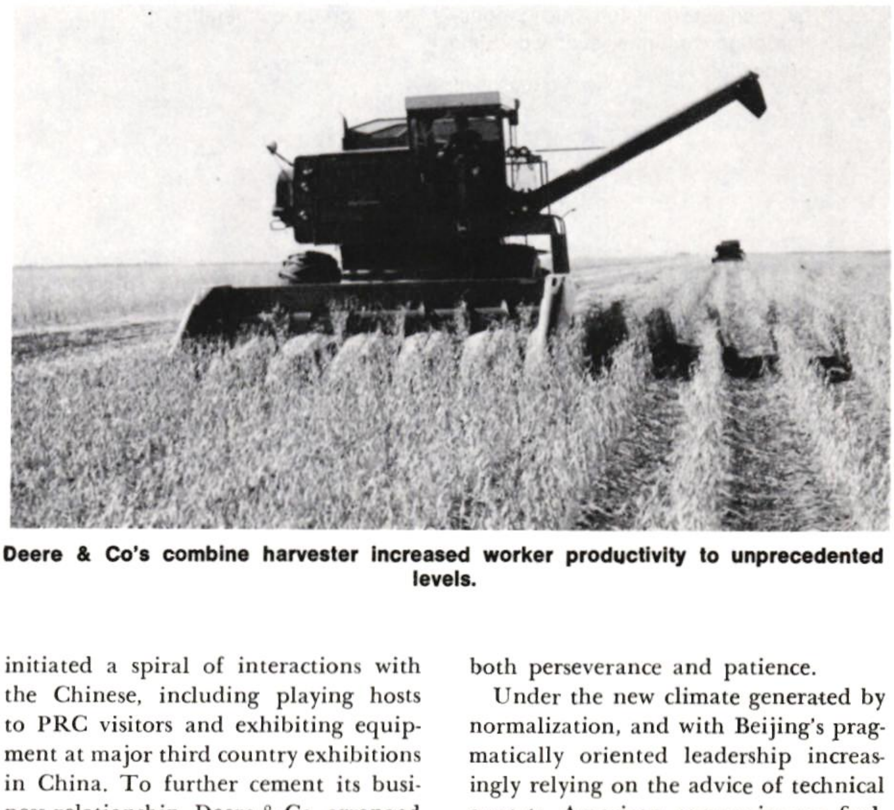


Photo: Xinhua

Deere & Co's combine harvester increased worker productivity to unprecedented levels.

Impressed with the performance and results of $1 million or so worth of Deere & Co.'s agricultural machinery on 1,000 hectares of a 1,500 hectare state compound called Friendship Farm in Heilongjiang Province, China has placed a similar order with International Harvester (IH) for the supply of enough tractors, plows, planters, and harvesting equipment to mechanize 700 hectares of a suburban commune, with a population of 60,000, south of Beijing.

The sale represents further progress toward the mechanization of government-owned state farms and provincial city communes, now slated as the chief targets for state capital investment in agriculture. Like state farms, suburban communes maintain a well-developed infrastructure and fields large enough to accommodate long sweeps with big machines. As a result, they have been singled out as the most suitable areas for introducing Western agricultural technology.

Harvester concluded the mechanization contract, its sixth PRC sale, one month after a Chinese agricultural delegation was in the US in February 1979, to obtain a crossview of American farming operations, including a two-week stopover at IH. But as with Deere & Co., Harvester began cultivating business ties with the Chinese shortly after the signing of the Shanghai Communiqué in early 1972. Thus was initiated a spiral of interactions with the Chinese, including playing hosts to PRC visitors and exhibiting equipment at major third country exhibitions in China. To further cement its business relationship, Deere & Co. arranged to be represented by the Danish trading house, the East Asiatic Development Company. Similarly, Harvester sought aid through the representative services of C. J. Wang of the International Corporation of America.

Each firm regards its successes in China—IH just completed delivery of a $2.5 million order for transportation vehicles to move oil rigs, while Deere has made additional sales totaling $1.25 million since the Friendship Farm contract was signed—as the culmination of building responsible and principled relationships with the Chinese, requiring both perseverance and patience.

Under the new climate generated by normalization, and with Beijing's pragmatically oriented leadership increasingly relying on the advice of technical experts, American companies are finding it necessary to conceive new strategies for gaining access to Chinese markets. According to a Harvester spokesman, cost was not the primary factor in winning its latest contract. The firm made use of its Pro-Ag computerized program to provide Chinese representatives from MACHIMPEX with a comprehensive and clearly understood proposal designed to meet the particular needs of China's urban commune agriculture. IH had used this approach two years earlier, in May 1977, when it sold China a system of oil rig moving equipment. 完

THE STRUCTURE OF CHINA'S AGRICULTURE, MID-1979

Administrative Unit	Functions	New Plans
State Farms: [1] Located in northeast, northwest, and south China. A total of 2,000, staffed by 5 million workers on more than 4 million hectares (3.7 percent of total arable land) of reclaimed land.	State-owned and operated enterprises where workers earn a fixed wage rather than workpoints and maintain only marginal decision-making responsibilities. Larger in scale and more mechanized than communes. 402 commended as advanced units in 1979 and cited for high production level of 10 tons of grain a year per worker.	1. Aim is to build state farms into diversified, agricultural, commercial, and industrial centers. 2. Selected as chief base areas for producing marketable grain, cash crops, and developing animal husbandry. 3. Zoned as suitable for Western technology and earmarked for state investment and assistance in mechanization.
People's Communes [2] About 53,000 reported throughout the rural sector in 1979. Average population 14,500, cultivating 1,945 hectares of land. Collectively owned by members divided into production brigades further subdivided into production teams.	The lowest level of government in the rural areas. Coordinates and supervises brigades and teams, makes state purchases, undertakes capital construction projects. Manages commune credit cooperative.	1. Merge commune and brigade enterprises for planning so that ⅓ of communes achieve Dazhai standards by 1980. Replace revolutionary committees with personnel elected or appointed by each tier of the commune. 2. Distribute production quotas to communes. 3. Financial: increase procurement prices by 20%; reduce compulsory sale of surplus grain from 90% to 70%; raise nontaxable commune income from minimum of 600 to 3,000 yuan; lower total rural tax to 3.35% of total 1977 value of industrial-agricultural output (about $318.5 billion).
Suburban Communes [3] Located near large urban centers with an average population of 40,000. Arable land ranges from 2,000–6,000+ hectares. Individuals earn considerably more than rural counterparts, ranging from 27% more in the south to 107% in the north.	Same organizational structure as communes but more amenable to central government control. Primarily service major cities with nonstaples such as dairy and meat products.	1. Along with state farms, the focus of specialization and mechanization drive and the introduction of imported technology.
Production Brigades: [4] 677,000 in 1979; 12.7 brigades per commune with about 1,140 people each, cultivating 152 hectares per brigade.	Organization for exercising commune leadership. Provides social services, operates small industry, and undertakes projects beyond the team's ability or scope.	1. To eventually become the basic accounting unit.
Production Teams: 5.1 million in 1979; 7.6 teams per brigade, with about 150 people each, cultivating 20 hectares per team.	The basic accounting, production, and decision-making unit; owns over ½ of commune's assets and accounts for over ½ of its income. Assigns workpoints. Managed by elected slate of team leaders.	1. No expropriation of team assets without just compensation. 2. Exempt low-yield-grain production teams from taxes.
Individual Households: Average 4.4 persons with a private plot about 300 square meters or 57 feet square, which together account for 5% of team's arable land.	Engage in limited sideline production; major source of China's vegetables, rabbits, poultry, and hogs. Private activities account for 5–10% of household's income.	1. Reaffirmation of government support for private plots, sideline production, and local trade fairs.

[1] Beijing Review, No. 20 (May 18, 1979) pp. 5-6.
[2] These are average figures based on the most recent commune data and 1979 population figures; the size of each unit in terms of population and arable land varies widely from one commune to another.
[3] Frederick W. Crook, "The Commune System in the PRC, 1963-74," in *China: A Reassessment of the Economy*, (JEC, July 1975), pp. 366–410.
[4] Beijing Review, No. 20, p. 30.

Agricultural Notes

China's Grain Storage System

Labor Intensive, Cost Efficient

Although Beijing has always expressed concern over maintaining an adequate level of food reserves by including grain storage in its calculation of national priorities, little is known about the size of China's current stocks. In late 1970 Premier Zhou Enlai announced that China's grain reserves, held at all levels, totaled 40 million tons. Today's estimates run as high as 50 million tons. The US, which does not maintain grain reserves for food security purposes, can store up to 430 million MT of grain in its own farm and commercial facilities.

To meet its current food needs in the event of a crop shortfall, China would require a reserve the equivalent of 40–60 million tons or two to three months' supply. Given the PRC's past fluctuations in grain output and its scarcity of modern grain-storage facilities, it is unlikely that China can build up or replenish substantial stocks of grain in the immediate future.

In addition to the impact of demand and supply, China's existing grain-storage capacity constitutes an important determinant in its efforts to achieve food security. Following Chairman Mao's instruction to "dig tunnels deep and store grain everywhere," the Chinese have been building food reserves through "public grain" stocks procured by the state by means of the agricultural tax and compulsory sales. Supplementing this method has been the collective efforts of production teams and brigades, which maintain separate stocks in storage facilities owned and operated by the communes.

Grain acquired at the collective level is housed in open-air facilities or granaries. According to a January 1979 CIA report entitled, "China: Demand for Foreign Grain," open-air facilities, in which grain is packed in bags or bins, provide the most common form of storage at the production level. Granaries hold grain in piled-up bags and have distinct quality control and capacity advantages over less frequently used loose storage methods.

Most of the government-owned stocks are held in small, round, temperature-controlled silos made of clay, straw, and bricks with a capacity ranging from 10 to 250 tons. Grain can be kept in these silos for five to seven years at a much lower cost than the mechanized silos employed in the West.

The CIA estimates that, at its ports, China's silo and warehouse capacity exceeds 500,000 tons and can accommodate 26 million tons of imported grain a year, assuming evenly spaced deliveries and a seven-day storage period. (Total grain throughput capability at US ports averages 125 million MT a year.)

China's major grain trading ports, however, presently handle only 17 million tons annually because of a lack of modern unloading equipment, such as berths and conveyor systems. Two of China's ports, Shanghai and Luda (on the tip of Liaoning Province), with an annual capacity of 8 million and 2.5 million tons respectively, are equipped with modern facilities and the most frequently used receiving lines for foreign grain.

After passing through one of China's ten major trading ports, grain reaches its various inland destinations by trucks (carrying 38 percent) and rail and water freight (31 percent each), by US government estimates.

Foreign visitors are seldom treated to a visit to a Chinese grain-storage installation, but during June 1978, a 17-member agricultural machinery delegation sponsored by the National Council was the first American group to receive an invitation to tour the operations of a grain warehouse in Beijing. The following eyewitness report, by escort officer John Thomas Kamm, offers a further clue to the progress of China's efforts to enhance its food security.

Beijing West Suburbs Grain Storage Warehouse

The Beijing West Suburbs Grain Storage Warehouse is one of seven grain storage facilities in Beijing Municipality. Originally constructed with Soviet assistance in the mid-1950s, the facility covers an area of 160,000 square meters, most of which is taken up by flat-storage warehouses.

The West Suburbs Warehouse is both a storage facility and a grain processing center; a flour mill with a daily capacity of 14,000 25-kg. bags is located on site. The total work force of the warehouses and flour mill, including staff members in the administrative offices and personnel in the testing laboratory, numbers more than 800.

The facility underwent expansion in 1969 when the first clay storage bins (round bins) were erected to supplement flat storage. Mr. Wang revealed that another phase of capital investment is about to be launched. Round bins made of brick are to eventually replace the clay bins, which have not proved adequate as they need constant repair. More grain conveyors with higher capacities will also be acquired. The flat-storage houses, designed by the Soviets, are to have their roofs raised, as the present height—estimated, at the wall, as 14 feet—is considered too low.

Total capacity of existing bins was put at 65,000 metric tons. On the day of the visit, May 27, 1978, 50,000 MT were in storage. The facility was described as a "rapid turnover" warehouse. Each month, grain intake equals output distributed. In 1977, it was claimed, 700,000 MT of grain were distributed from this facility.

Grain is moved from the railway cars into storage and from storage into trucks by means of conveyor belts (including portable models designed and built by workers at the warehouse), portable bag fillers and electric power shovels. Distribution to shops throughout Beijing's west suburbs is arranged between the Beijing Cereals and Oils Industrial Corporation (BCOIC) and representatives of "groups of shops, sometimes numbering 200–300."

The facility stores wheat, milled rice, and soybeans. Some of the grain is imported but officials claimed that they were unaware of percentages or other indicators of import volume as the grain is brought in by rail from elevators in Xingang and Qinhuangdao and arrives at the same time as grain from elevators in the interior.

The grain-storage warehouses will not accept grain unless moisture content is below 14 percent. Upon arrival probe samples are taken from each railway car. The samples are put through dividers, which cuts them down to workable sizes, and brought to the facility's laboratory. Each sample is put through a set of sieves and hand picked to assess the amount of foreign material, broken and cracked kernels, etc. At the same time a moisture test is run to confirm that the grain's moisture content is below 14 percent.

According to officials, grain is segregated into different bins according to "four separations:"

1. Separation of coarse, broken grain and foreign materials from clean grain;
2. Separation of insect-infested grain from noninfested grain;
3. Separation of grain according to different grades; and
4. Separation of grains according to different moisture contents.

Once stored, the emphasis is put on prevention of spoilage. The site is kept clean through whitewashing the facility in lime immediately before winter, the season in which most grain comes in. Thereafter, "routine" cleaning is carried out every day; special cleaning periods are organized according to seasonal requirements.

To prevent insect infestation, grain is fumigated (about 10 percent of incoming grain is fumigated). Rat prevention measures—including erection of rat barriers and traps—have been adopted. No dirt or foreign materials are allowed on site, and the smoking prohibition is strictly enforced.

There are three types of inspection. Each day, the bin keeper carries out an inspection. Every ten days, bin keepers rotate and inspect each other's bins. Finally, monthly inspections are carried out by the warehouse director.

On tours of selected flat-storage sheds where the grain is stored in piles held together by straw matting, handfuls of rice and wheat were examined. While the wheat looked good, the rice contained a lot of breakage as well as evidence of heat damage (stack burn).

CHINA'S NEW AGRICULTURAL ORGANIZATIONS

Beijing's readjustment program, making agriculture the basis of the economy and calling for an increase in state investment to 14 percent, compared with 10.7 percent in 1978, has been coupled with the creation of an extensive organizational structure to formulate and implement agricultural policy. Over the past few months, six new ministries have been established to keep China's food production ahead of its growing population.

In addition, a new scientific society, the Chinese Atomic Energy Agricultural Society, has been added (June) to China's long list of academic organizations. It will be chaired by an expert in radiation genetic breeding, Xu Guanren. The society's charter calls for the promotion of atomic energy science and technology in the specialized fields of agriculture.

The State Agricultural Commission, a high-ranking body under the State Council, and headed by Vice Premier Wang Renzhong, was established in February to draw up agricultural plans in conjunction with the State Planning Commission and monitor the performance of the new ministries of:

Ministry	Minister
Agriculture [1]	Hou Shilian
Forestry [1]	Lo Yuchuan
Agricultural Machinery [2]	Yang Ligong
Water Conservancy [3]	Qian Zhengying
State Farms and Land Reclamation	Gao Yangmin
Ministry of Food	Chen Guodong [4]

Other cabinet level changes include:

- Reinstitution of the State Agricultural Bank (March).
- Establishment of a "national commission to survey natural resources and for agricultural zoning" (April), also chaired by Wang Renzhong. This is probably an ad hoc agency formed to complete land surveys, investigate resource utilization, and map out zones for specialized production and agricultural mechanization.
- Inauguration of a Scientific and Technical Committee (May), chaired by Jin Shanbao and responsible to the Ministry of Agriculture. Composed of more than 70 members, it will review agricultural policy in terms of its science and technology implications.

[1] Formerly part of the Ministry of Agriculture and Forestry.

[2] Formerly part of the First Ministry of Machine Building.

[3] Recently divided from the Ministry of Water Conservancy and Power Industry. The new Ministry of Power Industry is under Liu Lanbo.

[4] Transferred in June from the All-China Federation of Supply Marketing Cooperatives, now under a new director, Niu Yinguan.

CHINA: 1979 SALES AND NEGOTIATIONS TO JULY 1

The following chart contains recent reports of sales and negotiations exclusive of those listed in previous issues. The format for this table and ones in future issues of *CBR* is slightly different from that used previously. In the past, contracts were simply divided into sales or negotiations. Henceforth, the status of deals will be listed more precisely. Some examples are contract signed, Letter of Intent, proposal, or order received.

The total value figure for sales will include only those deals which are listed as contracts or deals signed/won/secured/concluded. All others will be counted as negotiations. In previous tables, orders for plant/equipment/technology were also included in the total sales figure. Orders will now be counted as negotiations. This distinction is important to keep in mind when examining the cumulative total figures at the end of the chart, since they incorporate both formats; i.e., previous ones which included orders as sales and the following chart, which does not.

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Agricultural Commodities			
Canadian Cellulose Co. (Canada)	Long-term supply of pulp to paper mills	NVG	Contract signed 3/79
(US)	Southern pine seeds (6,000 lbs.)	NVG	Sold 3/79
(US)	Soybean oil (40,000 tons)	NVG	Sold 3/79
Ayrshire Cattle Breed Society (Ireland)	Ayrshire cattle for breeding with Chinese bulls	NVG	Negotiation 3/19/79
(Burma)	Rice (50,000 tons)	NVG	Agreement signed 3/24/79
(Nepal)	Tobacco (1,150 tons)	$1.5 (£757,105)	Sold 4/2/79
An Bord Bainne (Ireland)	Full-cream milk powder (500 tons)	$1.25 (£625,000)	Sold 4/26/79
(US)	Cotton (7,500 running bales)	NVG	Sold 5/6/79
(US)	Soybean oil (20,000 MT for delivery through 9/30/79)	NVG	Sold 6/2/79
MacMillan Bloedel (Canada)	Long-term contract to supply wood pulp	NVG	Contract signed 6/13/79
Agricultural Machinery			
Allied Products Corp. (US)	Cotton gins	NVG	Negotiation 4/30/79
Satoh Agricultural Machine Mfg. Co. (Japan)	6 40-horsepower tractors, 4 rice-seedling transplanting machines, 5 combines, 1 harvester, seedling breeding and drying equipment	$0.54 (¥ 120 million) (settled in yuan on cash payment basis)	Deal signed 5/8/79
International Harvester (US)	Farm machinery to equip commune near Beijing (includes high horsepower tractors, tillage implements, planters, big-roll hay balers, combines, workshop tools and service parts)	NVG	Order received 5/8/79
Chemical Plants & Equipment			
Francis Shaw Ltd. (UK)	Rubber-processing machinery	$4.5 (£2.3 million)	Contract won 3/79
Dainippon Ink & Chemicals, Kanegafuchi Chemical Industry Co., Mitsubishi Gas Chemical Co. (Japan)	Technology and hardware on production of single-cell protein (SCP) for livestock feeds	NVG	Inquiry 4/17/79

CHINA: 1979 SALES AND NEGOTIATIONS TO JULY 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
TBA Industrial Products (UK)	High-quality compressed asbestos fiber jointing for the manufacture of high-pressure polymer bonded gaskets	NVG	Contract won 4/20/79
Farrel Bridge (UK)	Plastic-processing machinery for petrochemical complex	$2.5+	Order received 4/26/79
Construction Equipment			
Fiat-Allis Ltd. (UK)	43 articulated wheel loaders	$1.5 (£0.75 million)	Order won 3/30/79
Consumer Goods			
Toshiba Corp. (Japan)	5,000 air conditioners	NVG	Order 3/13/79
Japan Tobacco and Salt Public Corp. (Japan)	7 million Seven Stars–brand cigarettes	NVG	Sold 3/28/79
R.J. Reynolds Tobacco International (US)	Winston and More cigarettes	NVG	Sold 4/25/79
Novum (overseas) Ltd. (Ireland)	Joint venture for the manufacture of domestic appliances	NVG	Negotiation 5/4/79
(France)	Martell Cognac	NVG	Negotiation 5/12/79
Suntory (Japan)	6,000 bottles of whisky to be sold in hotels and restaurants	$0.02	Sold 5/15/79
(France)	Frank Pourcel records	NVG	Will be sold 5/18/79
Nikka Whisky Distilling (Japan)	1,000 cases Super Nikka whiskies	NVG	Will be sold 5/22/79
Coal Mining Development and Technology			
Newco Engineering, Snyder Drilling & Well Service, D.H. Emling, Michael Baker (US)	Development of coal reserves	NVG	Negotiation 3/19/79
(Japan)	Joint project for development of Kuchiao coking coal mine	NVG	Negotiation 4/11/79
Occidental Petroleum (US)	Joint venture to develop and export coal	NVG	Letter of Intent 5/24/79
Electronics			
Hitachi (Singapore)	130,000 black-and-white TV sets	$9.09 (S$20 million)	Order 3/22/79
Comark (UK)	Digital thermometers, thermocouples, accessories, to form part of test system	$0.072 (£36,000)	Order won 4/17/79
Crown Windley (UK)	Three-dimensional inspection machines (Crown triax types)	$0.14 (£70,000)	Order 4/18/79
Sharp Co. (Japan)	200,000 12-inch monochrome TV sets	NVG	Contract concluded 4/20/79
Philips (Netherlands)	130,000 black-and-white and 25,000 color TV sets	$26 (£13 million)	Negotiation 4/26/79
McGraw-Edison (US)	Electrical products for electric utilities and industry	NVG	Letter of understanding 4/27/79
LK Group (UK, US)	4 coordinate measuring machines (1 CNC model and 3 computer-assisted models)	$0.5 (£.25 million)	Order 4/27/79

CHINA: 1979 SALES AND NEGOTIATIONS TO JULY 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Tellurometer (UK)	CA 1000 microwave distance measurement systems	NVG	Order received 5/1/79
Pye Electronics (New Zealand)	Technical aid and components or kits for manufacture of TV sets	NVG	Negotiation 5/12/79
Matsushita (Japan)	Construction of TV plant to produce 1.6 million tubes per year for 12-inch and 14-inch black-and-white receivers	NVG	Contract signed 6/27/79
Food Processing and Packaging			
McCain Foods (Canada)	Processing plants for french-fried potatoes	NVG	Planning 3/79
Iron Ore and Pig Iron Products			
Minerals and Metals Trading Corp. (UK)	Iron ore (100,000 tons)	NVG	Order received 3/23/79
Companhia Vale do Rio Doce (Brazil)	Iron ore (4 million tons, 2-year order)	NVG	Order placed 3/29/79
Hammersley Holding (Australia)	Iron ore	NVG	Negotiation 4/7/79
AMAX (US)	Iron ore (1.5 million tons)	NVG	Plans to sell 5/11/79
Machinery			
Twyford Moors Aircraft and Engineering (UK)	Thread-rolling machine with spares back-up	NVG	Initial contract completed 3/21/79
Filtration and Transfer (of Poole) (UK)	Brown Fin Double Pipe heat exchangers	NVG	Order 3/21/79
DeVilbiss (UK)	Automatic, high voltage, electrostatic spray plant	NVG	Sold 4/79
Armstrong (Leeds) Ltd. (UK)	3 36-inch double wheel lap honing machines	$0.14 (£70,000)	Order received 5/9/79
Machine Tools			
Wickman Group (UK)	Webster & Bennett vertical turning and boring mills	$1.3 (£650,000)	Order won 3/21/79
Alfred Herbert (UK)	Herbert deVlieg Jigmils machine tool	$0.54 (£270,000)	Order 3/21/79
Cone-Blanchard (UK)	5 Blanchard vertical spindle grinding machines	$0.5 (£250,000)	Order won 3/28/79
Lapointe (UK)	5 broaching machine tools	$3 (£1.5 million)	Contract signed 4/5/79
Epic Precision Tools (UK)	Injection machines	$1 (£500,000)	Contract won 4/27/79
Metal Mining and Processing			
Alfred Wirth (W. Germany)	4 L40 rigs to drill shaft for new copper mine	$14 (£7 million)	Order won 3/22/79
Petroleum and Natural Gas Development and Refining			
Amoco International Oil, Citco International Petroleum, Pennzoil, Union Oil of California (US)	Offshore geophysical survey	NVG	Will supply 4/24/79

CHINA: 1979 SALES AND NEGOTIATIONS TO JULY 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Reynolds Metals (US)	Aluminum drill pipe (43,000 ft.)	NVG	Will supply 4/79
Elf-Aquitaine, Cie Francaise de Petroles (France)	Geophysical studies in Yellow Sea	NVG	Accord signed 5/4/79
Esso Exploration (US)	Survey for oil and gas in South China Sea	NVG	Pact signed 6/6/79
Mobil Oil Corporation (US)	Geophysical survey in South China Sea	NVG	Contract signed 6/7/79
Chevron Overseas Petroleum, Texaco International Petroleum (US)	Offshore exploration in South China Sea	NVG	Agreement signed 6/12/79
Phillips Petroleum International (US), AGIP (overseas) Ltd. of Italy, Total Exploration and Société Nationale Elf Aquitaine (France), Union Texas Offshore (unit of Allied Chemical) (US)	Geophysical survey in South China Sea	NVG	Agreement signed 6/13/79
Power			
Sarajevo Energoinvest (Yugoslavia)	5-year cooperation agreement for research, improvement, production of high-voltage switch on Energoinvest model ST-6	NVG	NA 5/30/79
Scientific Instruments			
Messerschmidt-Boelkow-Blohm (W. Germany)	Surgical scalpels based on neodymium-yag lasers	NVG	Order received 4/79
Shipping			
PR Fjordaas (Norway)	Fjordaas (bulk carrier, 76,537 dwt, built 1967)	$5.4	Sold 3/9/79
Apostolos Andreas Shipping (Cyprus)	Aftadelfos (shelterdecker, 10,687 dwt, built 1956)	NVG	Sold 3/16/79
Universal Seaways (Liberia)	Aristodikos (motorship, 18,856 dwt, 11,364 grt, built Osaka 1977)	NVG	Sold 3/22/79
Pacific Sealanes (Liberia)	Aristoxenos (motorship, 18,889 dwt, 11,363 grt, built Toyama 1977)	NVG	Sold 3/22/79
Bentsen Lines A/S (NA)	Calabar (motorship, 4,150 dwt, 1,599 grt, built Busum 1975)	NVG	Sold 3/22/79
Eldorado Shipping (Liberia)	Dorado (bulk carrier, 42,300 dwt, built 1964)	$2.99	Sold 4/6/79
Lepta Shipping (Liberia)	Grace River (motor bulk carrier, 29,318 dwt, 11,663 grt, built Hakodate 1972)	NVG	Sold 5/3/79
Steel Plants and Equipment			
Kawasho Corp., Kawasaki Steel (Japan)	Steel sheet shearing machinery	$5.74 (¥1,200 million)	Order won 3/27/79
BHP (UK)	Modernization of steel mill at Meishan	NVG	Invitation to submit proposal 3/29/79

CHINA: 1979 SALES AND NEGOTIATIONS TO JULY 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Broken Hill Proprietary Co. (Australia)	Technical assistance for modernization of steelworks in Wushan, Meishan, Shanghai	NVG	Agreement reached 4/18/79
Nisshin Steel Co. (Japan)	Production equipment for Taiyuan steel complex	$27.9	Negotiation 5/14/79
Steel and Steel Products			
Steel Cords Ltd. (UK)	Fine wire (300 tons) for reinforcing high-pressure hose	NVG	Order received 4/13/79
Wheeling-Pittsburgh (US)	Tubular goods (12,000 tons)	$12.5	Contract signed 4/30/79
Telecommunications			
Northern Telecom (Canada)	Development of telecommunications	NVG	Negotiation 4/28/79
Essco Collins (Ireland)	10 radomes	$1.6 (£800,000)	Contract won 4/30/79
Textile Plants and Equipment			
King (Japan)	Production of blouses	Cooperation agreement	Contract signed 1/79*
American Style (Japan)	Production of blouses	Cooperation agreement	Contract signed 1/79*
(Japan)	Production of silk scarves	Joint venture	Contract signed 3/26/79
Sanyo Knitting and Beading Factory (Hong Kong)	Joint-venture knitwear factory in Fujian Province	NVG	NA 4/79
Fukusuke Corp. (Japan)	Production of cotton underwear	Cooperation agreement	Agreement completed 4/25/79
Asics Corp. (Japan)	Technical know-how on production of sporting goods and financial aid for construction of sporting-goods factory	NVG	Basic agreement signed 5/29/79
Tourism			
Neil & Spencer (UK)	Equip laundry of hotel	NVG	Negotiation 4/6/79
Tokyo Maruichi Soji Co. (Japan)	Joint venture to develop restaurant chain in Japan specializing in Beijing-style cuisine	NVG	Negotiation 4/7/79
Eastman Kodak (US)	Amateur color film for tourists	$0.6	Sold 4/79*
National House Industrial Co., Tioman & Co. (Japan)	Construction of approximately 100 2-story motels in Beijing, Shanghai, Tianjin	NVG	Negotiation 5/30/79
Four Modernizations Development Co., Financial & Investment Services for Asia Ltd. (Hong Kong)	800-room hotel in Beijing	NVG	Negotiation 6/2/79

CHINA: 1979 SALES AND NEGOTIATIONS TO JULY 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local currency if known**)	Status Date Announced
Transportation Equipment			
Western Thomson (UK)	Thermostats for new range of trucks	NVG	Has been offered contract 4/3/79
Miscellaneous			
Comex Industries (US)	2 manned submersibles (SM-359 and SM-360)	$2.4	Sold 4/79
Chugai Ro Kogyo Kaisha (Japan)	10 industrial furnaces for integrated color TV picture tube plant	$4.3 (¥900 million)	Sold 5/1/79
Wellman Incandescent (UK)	Furnaces for use in producing parts of aircraft engines	$1 (£500,000)	Order won 5/3/79
Torvac Ltd. (UK)	7 high-vacuum furnaces for use in production and metallurgical research institutes	$80.5 (£250,000)	Order won 5/17/79

Total Value of 1979 Sales Listed: **$41.6 million**
Total Value of 1979 Negotiations Listed **$171.42 million+**
Cumulative Total Values of 1979 Sales through July 1: **$5.34 billion+**
Cumulative Total Values of 1979 Negotiations through July 1: **$2.2 billion+**

NVG = No Value Given

NA = Not Available

* Date contract signed. All other dates are when sale or negotiation was announced.

** Dollar conversion at month-end rates quoted in IFS (IMF).

"The cuff links and the tie clasps all have the company logo, and there's a set here for each of you."

CARTOONS: A New Media Message

"Laugh and the world laughs with you," according to the famous poem by Ella Wheeler Wilcox more than fifty years ago. That was long before the Gang of Four's sobriety squelched humor from China's public media, over which they presided. Now cartoon art is back on the PRC's printed page, illustrating China's political thaw in graphics requiring little translation.

Chinese appreciation of human foibles is evident in these May 1979 cartoons. The idea that art must serve the people is as valid as it was under the Gang of Four, as is the understanding that politics pervades all aspects of life. The difference now, according to recent Chinese statements, is that self-criticism and the hindrances to building socialism may be expressed more lightly in satirical cartoons. Satirical cartoons in China, however, carry a message quite different from the cynical barbs of a Doonesbury comic strip.

These cartoons were published in a May issue of the newspaper, *Chinese Youth,* and appeared May 24 in the English-language *Ta Kung Pao.*

The first example pokes fun at a counterproductively aggressive shopkeeper, who scowls "Don't pick and choose! They're all the same!"

The second frame illustrates that lounging around brings only dreams of modernization. The youth dreams, "Wait till the country's modernized, and all will be fine," while he sees others dynamically pursuing the Four Modernizations: industry, agriculture, national defense, and science and technology.

The third pair of frames contrasts a modern couple's doting on their child to the less than filial attentions Grandmother receives: "Daughter, here's for you; Mother, here's for you." 完

Letter from Beijing...

Perhaps the most important thing in a person's life in China is his unit. Every man, woman, and child here is assigned to a unit and this unit determines the person's place in Chinese society and serves as his point of contact with all the other myriad units here. What is a unit? It is more than simply a place of work. A person's unit, for example, a factory, a research institute, or a university, contains not only one's work place, but also housing, social services, even schools. In short, the unit embraces nearly all aspects of a person's life.

This totalistic nature of the unit is largely a product of the past ten years of social disruption. The Cultural Revolution and the reign of the "Gang of Four" produced such instability that factories, for example, were forced to become self-reliant in nearly all aspects of the production process. This inability to depend on other units produced what Chinese writers now call the "big and complete, small and complete" phenomenon wherein each unit has become a "small society" unto itself.

The point here is that, although each unit is subordinate to some ministry, there are almost no horizontal links between units. Herein lies the problem of writing about China. For what may be true of one's own unit need not necessarily hold for any other unit.

This fact makes it extremely difficult to generalize about China. It also makes it extremely difficult to know what is going on here at any given time.

This fragmented character of Chinese society has given rise to a great many half-truths, and even untruths, in recent Western reporting on events in China. Not too long ago it was reported that foreign students here at Beijing University, where I am a foreign student, had been told that they could no longer have Chinese roommates. One might wonder, then, who the other person is in my room at this moment? This is an excellent case in point: it is true that since January no Chinese roommates have been allowed for students at the Beijing Language Institute, the major language school here for foreigners. The situation at BLI was taken by reporters and blown up into a general directive of sorts, and this distortion was presented in the press as fact. To my knowledge no attempt was made by the reporters concerned to verify this "fact." All they had to do was come to Beijing University or any other educational institution with foreign students and ask. As a result, reports that Chinese authorities are "clamping down" on Chinese contacts with foreigners passes into common knowledge.

This is the first in a series of letters from China. Mr. Walter is an American student at the economics department of Beijing University.

Another, and perhaps more serious, instance of this is the recent report in the West that a general order has gone out in Beijing forbidding Chinese to eat out in restaurants together with foreigners, to ask foreign friends to buy them goods in the foreigners-only Friendship Store, and to have sexual relationships with foreigners. I have made every possible attempt to verify this report by speaking with my Chinese friends and acquaintances, including classmates, professors, and my relatives.

Many of these people I trust implicitly—they have been too frank in the past to bother to lie to me now. The unanimous answer I have gotten is that there is no such directive. My own personal experience in the past week has confirmed this. For example, I had lunch Sunday with a Chinese in a restaurant downtown.

There are, on the other hand, similar sorts of directives at particular institutions; for example, Qinghua University. Last February there was a particularly ugly incident there involving a foreign student and his Chinese roommate. One night the foreign student brought his Chinese girlfriend back to his room and forcibly removed his roommate. The Chinese roommate reported this to the school authorities, who came the next day to talk with the foreigner.

After they left, the foreign student severely beat his Chinese roommate. The consequence for the foreigner was that he was sent back home. But the greater consequence was that the school authorities acted to restrict contacts between Chinese students and foreign students.

The recent "general directive" is yet another example of a particular situation pertaining to one institution being blown up out of proportion. The restrictions which Qinghua enacted do not apply here at Beijing University.

These two examples serve to illustrate a very serious problem for those of us studying in China: the actions of a small number of students can affect the greater majority in a very negative fashion. Thus, at the Language Institute foreigners may no longer have Chinese roommates for reasons very similar to the problems at Qinghua.

When we first came to China and asked to have Chinese roommates, the authorities at the Language Institute said that it would be unfair to the rest of the students if only the American had Chinese roommates. As a result, those of us at the Institute are deprived of what is perhaps the best condition in which to study spoken Chinese.

—Carl Walter, June 22, 1979.

Changes

HOW THE MOFT ALLOCATES FOREIGN EXCHANGE

It has recently become known that two Ministry of Foreign Trade (MOFT) bureaus, formed through division of the former Export Sources Bureau, have been established as the major organs responsible for development and administration of China's export expansion program. Their authority extends to formation of plans, setting of priorities, establishment of incentives, and creation of production facilities.

The Export Commodity Production Base Bureau (ECPBB) is headed by Yang Wei. Yang headed the China National Cereals, Oils, and Foodstuffs Import and Export Corporation (CEROILS) for ten years (1965–1975). In 1975 he left that post to become head of the Export Sources Bureau of the MOFT. In 1977, because of the heavy workload, that entity was divided into the ECPBB, with Yang as director, and the Export Bureau.

The ECPBB is responsible for setting up export production facilities throughout China in coordination with the State Planning Commission, the Ministry of Finance, and other relevant ministries. It selects suitable production areas and initiates production planning for exportable commodities.

Important in this process is the ECPBB's role as an allocator of foreign exchange. According to officials interviewed in April 1979, Bank of China interest-bearing loans are distributed to the ECPBB by the State Planning Commission for reallocation to regional authorities and export production units. The ECPBB thus exercises strong administrative and fiscal control over foreign exchange.

The Export Bureau (EB), headed by Zou Siyi, is the MOFT arm charged with supervising Foreign Trade Corporations (FTCs). But because FTCs—like the ECPBB and the MOFT itself—can receive loans directly for investments related to export expansion and the earning of foreign exchange, and have some control over the foreign exchange they generate, the EB apparently lacks the ECPBB's budgetary muscle.

It does, however, wield considerable power through approval and administration of compensation trade agreements made by the FTCs. Such agreements, a subcategory of supplier credits, can be entered into by an FTC after consultation with the EB without further reference to the State Planning Commission or other parts of the MOFT.

The recently established General Administration of Exchange Control (CBR 6:2, p. 3; 6:3, pp. 56–57) has not yet spelled out its responsibilities in detail, but its major task will likely be to supervise the use of foreign exchange by FTCs. It may also oversee operation of companies set up to attract foreign investment funds for local development, such as the Fujian Provincial Investment Enterprise Company (CBR 6:3, p. 3), since such monies would fall outside the purview of the ECPBB. Guangdong is preparing to launch a similar organization, and Tianjin may be considering the possibility.

Minister of Finance Zhang Jingfu confers with David Rockefeller at Chase Manhattan Plaza, July 13.

ORGANIZATION CHANGES

Xinhua, the offical Chinese news agency, announced restoration of the Ministry of State Farms and Land Reclamation on June 12, with Gao Yangmin as minister. Formation of a "Ministry of Land Reclamation" had been reported in late March, but no minister was named at that time. Also disclosed on June 12 was creation of a new Food Ministry, with Chen Guodong, formerly director of the All-China Federation of Supply and Marketing Cooperatives, as minister. The Food Ministry, which is believed to be under the aegis of the State Agricultural Commission (see p. 70), will probably have responsibility for state purchasing and marketing of major commodities.

On April 22, Song Yangchu was identified by Xinhua as head of the Ministry of Construction Materials Industry, creation of which was announced in late March. Song was previously a vice minister of the State Capital Construction Commission.

Beijing Radio announced on April 14 a "national commission for making natural agricultural resource surveys and for zoning of agricultural areas." And on May 28, formation of a Scientific and Technical Committee under the Ministry of Agriculture was disclosed. (See p. 70 for details.)

In addition to the new Agricultural Bank (CBR 6:2, p. 67), a Chinese People's Construction Bank has been established to supervise various funds appropriated by the government for construction of new buildings, hotels, and offices.

A new civil engineering company has been set up to do business with foreign countries, Xinhua announced on May 19. It will build bridges, tunnels, factories, housing, and other projects. Many of the company's designers and engineers took part in construction of the 1,800-km. Tanzania-Zambia Railway.

Formation of the Chinese Atomic Energy Agricultural Society was announced in Guangming Daily on June 2.

A lawyers' association was recently established in Beijing, with Chen Shouyi as chairman. Chen is head of Beijing University's law department, and a member of the Legal Commission of the Standing Committee of the National People's Congress. The association's main task will be to supervise legal advisory offices which will represent foreign interests in maritime accidents or trade disputes.

The All China Association for Traditional Chinese Medicine was established on May 24, with Vice Minister of Public Health Cui Yueli elected president. An acupuncture society affiliated with the new association was formed at the same time.

On April 24 the establishment of the Chinese Education Society was announced. Vice Minister of Education Dong Chuncai was elected president. The society will organize educational research and the study and popularization of new methods of education.

MORE INDUSTRIAL CORPORATIONS IDENTIFIED

In addition to the listings presented in CBR 5:5 and 6:3, the following corporations have been identified:

- China Bridge and Highway Corporation*
- China General Construction Company*
- China National Medical Equipment Industrial Corporation*
- China National Petroleum and Chemical Construction Corporation
- China Space Technology Corporation
- Uranium Mining and Metallurgy Corporation

*tentative

CORRECTIONS

In the March-April *CBR*, a table on the Ministries and Commissions of the State Council on page 62 should have included the Ministry of Metallurgical Industry headed by Tang Ke after the Seventh Ministry of Machine Building. The Ministry of Land Reclamation is now called the Ministry of State Farms and Land Reclamation.

An incorrect photo caption in the International Notes section of CBR 6:3 stated that RCA built China's first ground station. RCA's ground station was a prebuilt, portable unit which the company brought into the PRC especially for Nixon's 1972 visit; WUI was responsible for the first foreign ground station built from the ground up in China.

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The new Pinyin romanization system is used throughout this issue as widely as possible. The old system of Wade-Giles, however, has been used in some cases where the Pinyin style could not be ascertained.

Front Cover:

The Japanese Challenge-Mitsubishi displays product lines on a huge billboard along Nanjing Street, Shanghai, one of the first foreign advertisers to do so since the Cultural Revolution. Photo—Walter L. Keats, Middle West Consultants, Ltd. (See p. 10.)