The China Business Review

July–August 1980

Special Exhibitions Issue

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- Printed in the PRC
- 25,000 copies distributed by the CCPIT

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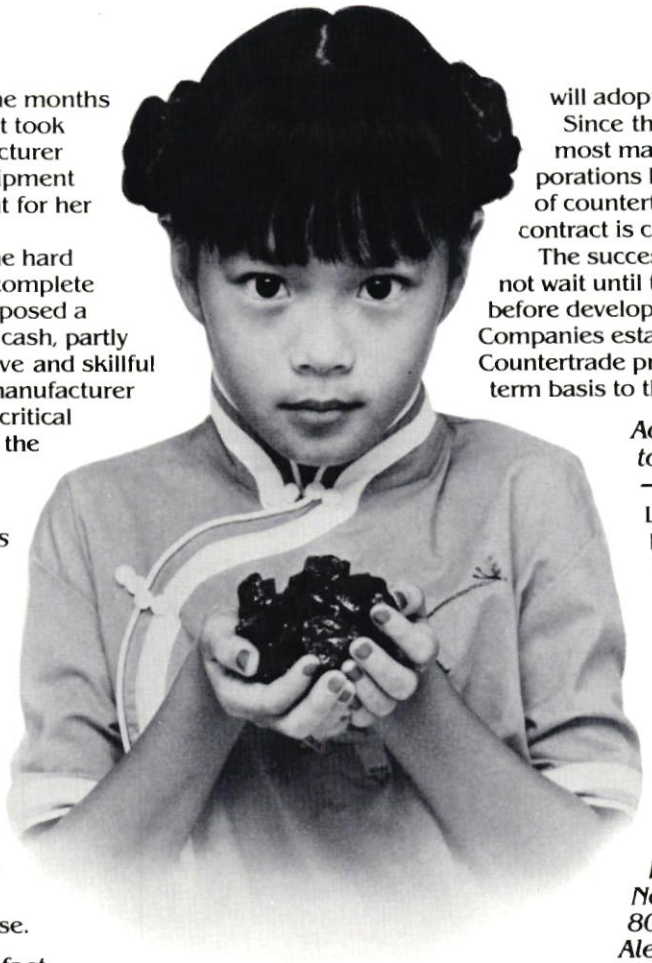
MEI LI DISCOVERS COUNTERTRADE



Mei Li may never realize the months of difficult negotiations it took for an American manufacturer to close the sale of mining equipment providing additional coal output for her province.

Mei Li's China did not have the hard currency it took to finance the complete purchase. So Mei Li's China proposed a Countertrade package of partly cash, partly Chinese products. It took creative and skillful negotiations by the American manufacturer to make that sale a reality. The critical element in closing the sale was the Countertrade agreement.

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Noble offers your company a unique service. They develop and administer a comprehensive Countertrade program tailor-made to suit your company's objective with China. From concept through purchase through point of sale through collection, Noble assumes all responsibility. Your company never has to handle actual Countertrade merchandise.

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Over a year ago the head of China's State Planning Commission, Yu Qiuli, stated flatly that "as for business sectors where we are in need of technology and equipment, we will adopt the method of countertrade."

Since this pronouncement was issued, most managers of China's Trade Corporations have insisted upon an element of countertrade as a condition before a contract is concluded.

The successful American company will not wait until the Chinese raise this issue before developing a Countertrade strategy. Companies establishing an on-going Countertrade program sell more on a long term basis to the Chinese.

Act before you are forced to react.

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If you're doing business with China, you should be doing business with Noble Trading.

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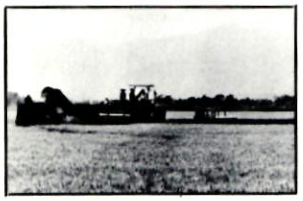
TRADING COMPANY

The China Business Review

The Magazine of the National Council for US-China Trade

July–August 1980 Volume 7, Number 4

CONTENTS



Front Cover: *One of the many pieces of art on display at the Chinese Exhibition held in the US. (Photo supplied by Gil Robinson of China Exhibition Corp.).*

DEPARTMENTS AND MORE

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. Controlled circulation postage paid at Washington, DC. The magazine is available for subscription in the US and Canada at $60 per year; elsewhere at $75 per 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 Wire

Straws in the East Wind. . .

How to combine the best of European, Japanese, and American management with China's socialist needs?

Seeds are being sown today in the PRC that could have an extraordinary impact on the rest of the world: important recent speeches and articles hint at intense debate going on in the PRC, which were highlighted by China's noted economist Xue Muqiao on June 10:

"We need to develop a good method of making government organizations 'release their grip' over enterprises.

"Now that means of production are recognized as commodities, we can regulate production through the marketing mechanism.

"We have adopted the current method of determining the profit-sharing ratio by the amounts of profits earned in order to reduce inequality in distribution. However, . . . this method has become a stumbling block to future price adjustments. Any price adjustment is bound to affect the amount of profits shared between the state and enterprises.

"Reforming the commodity circulation system seems to be more important than reforming the profits distribution system.

"It will not do if we develop the 29 provinces, municipalities, and autonomous regions into 29 independent units. The nine European countries of the EEC established transnational corporations. . .

"Many comrades suggested that we restore the historical economic centers (Shanghai, Tianjin, Guangzhou, Chongqing, Hangkou, and Xian). . ."

From other comments in China's media, it appears as though self-determination policies (in effect as of June 30, at 6600 enterprises representing only 16 percent of all factories in China but responsible for 65 percent of its output) are being pushed to new limits, namely: specialized companies and joint companies must be built on the basis of enterprise self-management rights (Lin Ling in *Renmin Ribao,* July 1).

Modern "feudalism" has also recently come under attack. On July 11, Beijing's *Renmin Ribao* featured a writer "deeply aware of the poisonous influence and danger of feudalism in our country." Writer Zhou Jizhi noted that it was considered natural in Chinese feudal society that "when a man gets to the top, all his friends and relatives get there with him." The extent to which *guanxi,* or personal relations, directly affects major business deals with the PRC continues to astonish foreign businessmen. The inherent problems of developing an economy that operates so much on "back door," rather than on professional principles must be resolved if China is to modernize effectively.

Input-Output Economic Planning Proposed

Proposals to start compiling a first-time national economic input-output table for 1981, to establish an input-output office, and to begin sample surveys in provinces and municipalities are now being studied by China's State Council, according to *Xinhua,* July 29. If adopted, the proposal (drawn up by six economists at the Chinese Academy of Science's Institute of Systems Science) will have a far-reaching impact that will tend to stabilize and balance development of China's economy.

National People's Congress— and the New Premier Is. . .?

Mid-August the National People's Congress meets in Beijing to review, among other things, major economic policies and priorities for the next five years, to put its stamp on new tax and foreign exchange regulations (*see* page 11), and to watch five of China's top vice-premiers step down in favor of younger leaders. The five are Deng Xiaoping, Chen Yun, Wang Zhen, Li Xiannian, and Xu Xiangqian. Decentralization, competition, self-determination, and recasting of ministry roles will be among the issues debated. Almost as tantalizing as the question of the next US president: Who will step into Hua Guofeng's shoes as premier? Will it be Deng Xiaoping, and will Deng become Head of State?

Meanwhile, pictures of Mao have been taken down from the Great Hall of the People.

September, Beijing Visits Washington, DC

Vice-Premier Bo Yibo, chairman of China's new Machine Building Commission, will lead a high-powered group on a month-long visit to the US hosted by the National Council for US-China Trade. Highlight of the trip will be the first meeting of the US-China Joint Economic Committee (JEC) which will review past economic relations, discuss problems, establish future direction for economic cooperation. Some agreements under discussion now may be signed: textile, OPIC, an Exim operating agreement, maritime, (aviation only maybe). Discussion, on September 16, 17, and 18, will include export controls, business facilitation, financial arrangements, investment, protectionism, and will involve all US government agencies involved in Sino-US economic relations such as the DOC, FDA, USDA, STR's office, and the State Department. Secretary of Treasury William Miller will co-chair the meeting on the US side, Bo on China's side, supported by China's Minister of Finance Wu Bo, in town for the World Bank annual meeting, and Wang Weicai, vice-chairman of the Bank of China, present for the IMF annual meeting. China will probably take executive director chairs at those organizations at this first-time official appearance at both organizations. The IMF and World Bank have both been supplied with all the data they require by the PRC.

Sino-US Trade — May Be $4 Billion This Year, Almost

China's trade with the US may reach almost $4 billion this year, and its world trade nearing $40 billion.

US exports to China are projected by the National Council to reach $3 billion in 1980, and $5.2 billion by 1981, and US imports from China are expected to reach $770 million in 1980 and $1 billion by 1981. Total two-way trade may thus reach $3.8 billion in 1980 and $6.2 billion in 1981. NHL 完

A MESSAGE FROM CHRISTOPHER H. PHILLIPS PRESIDENT OF THE NATIONAL COUNCIL FOR US-CHINA TRADE

Relie Huanying • 热烈欢迎 • Warm Welcome

Many of the 600 member companies of the National Council for US-China Trade have heard these words of warm hospitality while visiting the People's Republic of China over the last few years. Now we are proud to extend our welcome to the first Chinese national exhibition in the United States.

The brightness, color, and intricacy of Chinese artwork, handicrafts, rugs, and silk goods will leave a lasting impression of China on the minds of the thousands of Americans who will visit the exhibition in San Francisco, Chicago, and New York this fall.

Much of the focus of trade with China so far has been on what US companies can sell to China. But for the Chinese to buy agricultural and high technology products from the United States, they must be able to pay for them. So far, the Chinese have purchased far more from us than they have sold to us.

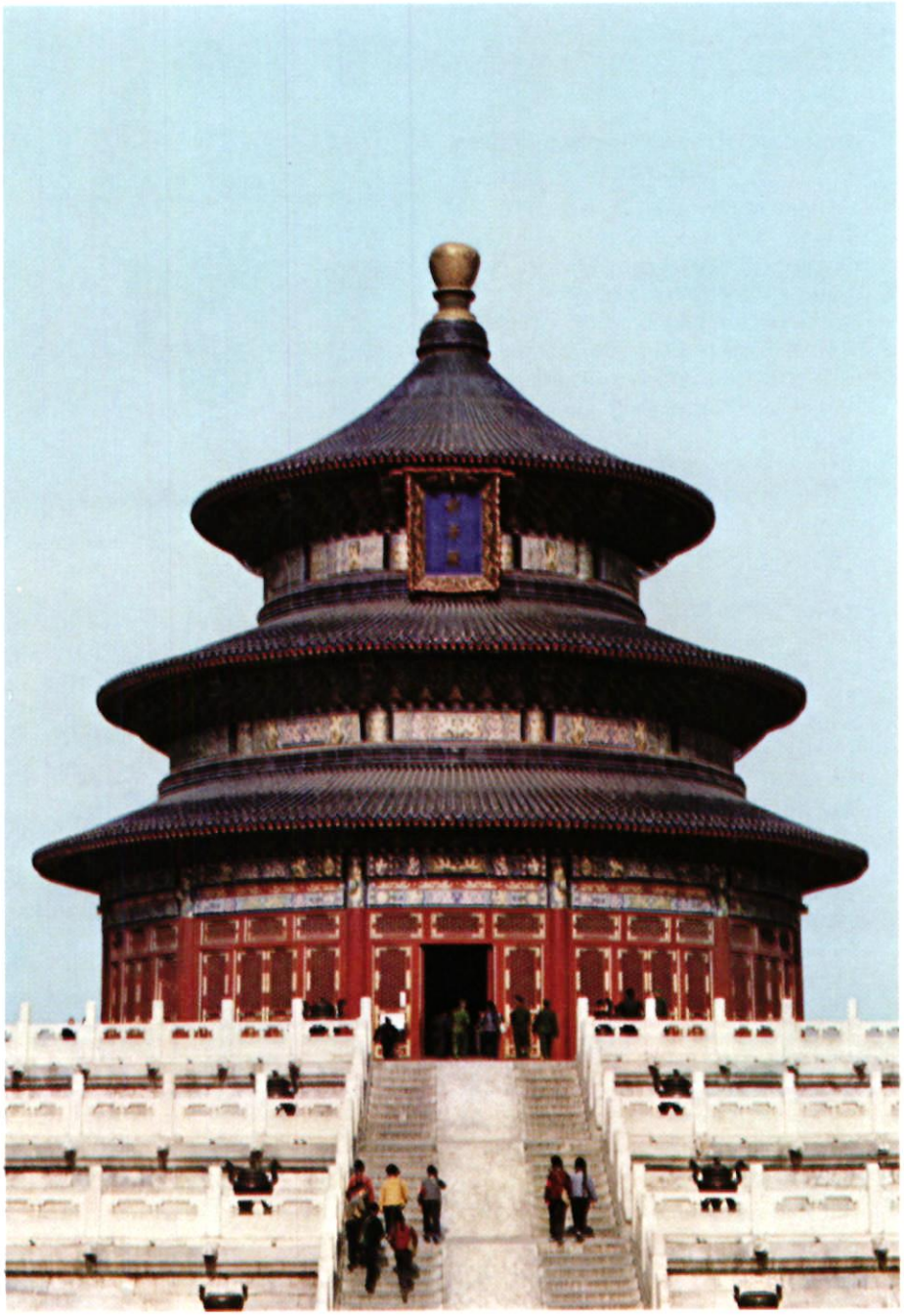
This year alone the National Council predicts a record two-way Sino-US trade of about $4 billion, of which $3 billion will be US exports to China, and almost $1 billion imports from the PRC. Agricultural commodities such as wheat, corn, raw cotton, and soybeans will represent about 55 percent of our exports to China in 1980.

The PRC export promotion effort here, if successful, will enable the Chinese to earn the dollars needed to place more orders with American manufacturers. This should prove beneficial both to the US economy and to China's ambitious program of modernization.

We at the National Council for US-China Trade in Washington have been working for seven years now to help promote trade between the United States and the People's Republic of China. Our member companies include both importers and exporters, small firms and Fortune 500 giants. American companies turn to us for advice on conducting business with China, for the organization of delegations to and from China, and for up-to-date-information on China's trade and economy, which we provide in our bimonthly magazine, the *China Business Review,* and in special reports.

The National Council for US-China Trade wishes every success to the Chinese on the occasion of their first national exhibition in our country. 完

Discover the opportunities in China without leaving home.



Export. Import. Joint venture.

Whatever your business interests, The Exhibition of the People's Republic of China is not to be missed.

We know from experience.

First Chicago was the first U.S. owned bank to have a full correspondent relationship with the Bank of China. Since this relationship was established, we have handled everything from documentary transactions to trade and investment financing to the location of markets and sources. Virtually every financial service necessary to trade with China.

Chicago's Bank was also the first U.S. bank to provide direct financing to China.

And just recently, First Chicago joined the Bank of China, The Industrial Bank of Japan, Ltd., and China Resources Company in a joint venture merchant bank, CCIC Finance Limited. This new company, headquartered in Hong Kong, will provide a full range of services to promote commerce and investment in the Pacific Basin and between the shareholders' countries.

For more information about business opportunities in the People's Republic of China, phone Gregory G. Tallas, Vice President, in Chicago, (312) 732-8513. Or contact the First Chicago regional office near you.

Ask Chicago's Bank.

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Council Activities

The National Council will host the first visit to the US of Chinese Vice-Premier Bo Yibo. Here to attend the US Treasury-sponsored US-China Joint Economic Committee meeting in Washington, DC, in mid-September, Vice-Premier Bo also will cut the ribbon opening the PRC's exhibition in San Francisco on September 13. Meanwhile, four National Council petroleum delegations are preparing to visit China this fall.

The chairman of China's newly established State Machine Building Industry Commission, Vice-Premier Bo Yibo, soon will be leading his 17-man delegation on a tour of select US companies in areas that closely match Beijing's list of industrial priorities: electronics, vehicles, construction equipment, agricultural and power generation equipment, and aircraft.

The delegation which includes vice-ministers from the first, third, and seventh ministries of Machine Building, hopes to learn the hows and whys behind US success stories. The six-month old State Machine Building Industry Commission's primary task is to map out and implement a unified plan for reorganizing China's civilian and military machine building industries.

The Delegations Department also will host a General Bureau of Materials and Equipment delegation arriving October 10 and led by Li Kaixin, bureau director and vice-chairman of the State Planning Commission. On the way to China in the fall are four petroleum-related delegations.

The Chinese Exhibition

The Council will open a small office at each of the Chinese exhibition sites in the US to assist firms interested in buying from or selling to the PRC.

Preparations are rolling along smoothly for the grand opening of the event to the American public on September 13. Mr. Lu Fengchun, leader of the CCPIT's Overseas Exhibition Department, and his staff are now in the US to supervise the handling of more than 300 tons of exhibits that began arriving in mid-August.

Importer Services Director to Advise Commerce

Importer Services Director Carolyn Brehm has been invited to become a member of the Department of Commerce's Importers Retailers' Textile Advisory Committee, which meets on a regular basis to help government officials in the formulation and administration of international agreements covering the trade of cotton, wool, and synthetic fibers.

The importers staff has been busy monitoring the outcome of cases filed with the International Trade Commission to restrict US imports of mushrooms from Asia and menthol from China and Japan. The mushroom case may not affect PRC exports to the US, but the commission voted four to one in favor of investigating Haarmann and Reimer Corporation's complaint that the below-market price of Chinese natural menthol is causing injury to the US industry.

Meanwhile, Ms. Brehm presented testimony to the trade subcommittee of the House Ways and Means Committee on June 10 in support of renewing the presidential waiver that provides MFN status for the PRC, Romania, and Hungary.

Exporters Meet Agricultural Minister

The Council's Exporter Services' Agricultural Committee hosted a July 8 luncheon in honor of China's minister of agriculture, Huo Shilian, who was accompanied by US secretary of agriculture, Bob Bergland. The Exporter's Department views this as a start to widening cooperation between its committees and agencies of the US government.

The guest speaker at the second meeting of the newly formed Engineering, Design, and Construction Committee on July 15 was Lu Kebai, head of the Council-sponsored State Capital Construction Commission delegation.

John R. Dewenter Becomes V.P.

John R. Dewenter, special assistant to President Phillips since December 1978, becomes the Council's new vice-president on September 1. He replaces Stanley Young, who is retiring. At the same time Kenneth I. Bowman, who was previously research associate in the Council's Publications Department, will become staff assistant to President Christopher H. Phillips.

In the past two years Mr. Dewenter has worked closely with several of the Council's export committees and has escorted delegations both to and from China. He has been directly involved in the US visits of China's three vice-premiers, having coordinated the Council's sponsorship of the Kennedy Center gala performance honoring Deng Xiaoping. Mr. Dewenter acted as principal escort for Kang Shien, chairman of the State Economic Commission, in June 1979, and will perform the same function for the visit of Bo Yibo. 完

China's First Exhibitions in the US When and Where

San Francisco, Fort Mason: September 13–28
Chicago, Navy Pier: October 25–November 9
New York City, New York City Coliseum: December 6–21

China Calendar

LOS ANGELES, California, August 6–7

A seminar on "Trade and Investment in China" was jointly sponsored by the UCLA Graduate School of Management and the Beijing Institute of Foreign Trade (BIFT). Topics included China's economic planning and priorities for imports and exports, financing trade, joint ventures, investment, and foreign exchange regulations. Guest speakers included Professor Liu Chaojin, director of the Trade Department of the BIFT; Associate Professor Liu Shunian, deputy head of the Faculty of International Finance of the BIFT; and David Hayden of Graham and Jones law firm. Write Susan Strommer, Office of Executive Education, Graduate School of Management, Suite 2381, University of California, Los Angeles, CA 90024 or telephone (213)825–2001.

COLUMBUS, Ohio, August 12–14

A Chinese exhibition of modern native products from Hubei Province will be held at the 1980 Ohio State Fair. Items on exhibit and for retail sale will include handcrafted piecework and jewelry, bamboo products, clothing and other textile products, and food samples. For more information write Susan Courtright, International Trade Division, State of Ohio, PO Box 1001, Columbus, OH 43216.

BOSTON, Massachusetts, August 29–September 1

The "US-China Friendship Exposition: Looking to the 80s," sponsored by the Seventh National Convention of the US-China Peoples Friendship Association, will provide a forum for the promotion of US-China cooperation in five major areas: business, science/technology, government, education, and the arts. Contact Susan Gamer (617) 492–0564.

WASHINGTON, DC, September 2–14

ICM Artists is sponsoring the Peking Opera's visit to the Kennedy Center. The tour opens August 12 in New York at the Metropolitan Opera for two weeks before moving to the Ambler Festival in Philadelphia, the Garden State Arts Center in New Jersey, and a week later at the Kennedy Center. Other cities on the tour are Boston; Chicago; Minneapolis; Louisville, Kentucky; Concord, California; and Los Angeles.

SAN FRANCISCO, California, September 13–28

An exhibition from China, organized by Gilbert A. Robinson, chairman of the US-China Business Development Corporation, and sponsored by the San Francisco Chamber of Commerce, will be held at Fort Mason. Exhibits will include heavy industry, light industry, technology, and arts and crafts. For more information write to Mike Schwager, China Exhibition Corporation, 591 Park Avenue, New York, NY 10021 or call (212)888–7800.

Continued on p. 66

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Why is the world's leading oil tool manufacturer nosing around in aerospace? Because Cameron is one oilfield company that takes its high technology higher.

Since 1920, as we've developed total internal resources for making energy equipment, we've also developed superior metallurgy and varied technologies which we've applied to aerospace, power generation and other industries.

We've melted and forged components for the space shuttle and Apollo programs. We make critical jet engine parts plus products like jumbo jet landing gear and missile domes.

The point is, exploring aerospace helps us to come up with better solutions for the world of energy. Solutions like pressure control equipment for drilling, production and pipelining, that perform in the increasingly harsh environments where oil and gas are found.

We'll keep on aiming at the stars. Because on Earth, that takes us to places where no oilfield equipment company has ever gone before.

Cameron

CAMERON, WHERE ONE GOOD THING ALWAYS LEADS TO ANOTHER.

Inside the Bank of China

Nicholas H. Ludlow and James B. Stepanek

The Bank of China's head office at 17 Xijiao, Minxiang, in Beijing is staffed by more than 500 personnel in nine departments. Under its chairman and president Bu Ming, are six vice-chairmen, nine general managers, more than ten deputy general managers, scores of managers and deputy managers. Its nine departments are:

1. International Department In charge of relations with the BOC's 948 correspondent banks in 142 countries and regions (with a total of 2,534 branches as of June 1980), this department has broad responsibilities for the conduct of banking relations with North America, Australia, Europe, Eastern Europe, and the Soviet Union. Individual staff responsibilities are not strictly compartmentalized; the emphasis is on establishing broad policies and rules, and not on routine banking business, which is the responsibility of at least 77 branch banks in China's principal ports and cities. Matters that concern the department include the performance of foreign banks which are entrusted to make collections and payments on behalf of the BOC, on solving problems arising from the interpretation of Letters of Credit, and on making arrangements for visits of correspondent banks to China. The latter task is performed by the country specialists. Expansion of staff is currently under consideration.

With regard to its policies toward correspondent banks, the department is charged with maintaining reciprocity in banking practices.

There has been some question concerning the right of US banks to negotiate documents and pay US companies for the exports to China without having to wait two to three weeks for approval from the BOC. In response an official noted that American banks have the same approval policy when it comes to imports, say, from European countries. The official emphasized, however, that the "Bank of China does not mind foreign banks issuing Letters of Credit with payment terms similar to those of the Bank of China under the same conditions." In other words, US banks are welcome to advise American importers to insist, if they wish, that Chinese exporters observe terms identical to those usually requested by the BOC for foreign exports to China.

The BOC'S Beijing headquarters.

The department also deals with foreign Exim Banks, such as ECGD, COFACE, and Japan's Exim Bank. Loans from foreign Exim banks are not disbursed by this department, which merely maintains the portfolio.

2. General Coordination (or Joint Operations) Department The department's main task is to coordinate the foreign exchange earnings retained by provinces, municipalities, and enterprises. It makes recommendations to the General Administration of Exchange Control (GAEC) with regard to the amount of foreign exchange available for use by local authorities.

3. Foreign Exchange (or Funds Operation) Department This is the clearinghouse of the bank, responsible for balancing the BOC's international accounts every day. The main duties are:

- To transfer funds from one foreign account to another, according to the needs of China's foreign trade;
- To raise funds from markets in any currency, including eurodollars

The Bank of China's assets increased by 52 percent last year, to $35 billion. The bank's net foreign exchange position also increased dramatically, to nearly $4.6 billion.

and eurocurrencies. Maturities of one-to-three years are the norm;

- To receive deposits, or lend short-term on various international markets for up to one year; most lending is short-term, sometimes 24 to 48 hours money;
- To buy and sell foreign exchange. Transactions are conducted on a spot basis. But in the future the bank may purchase forward. Foreign exchange rates against all major currencies are received from the GAEC prior to 9 A.M.

All major foreign exchange dealings in US dollars, yen, deutschmarks, or other eurofunds are undertaken by the BOC's London office on instructions from this department. Purchase of Australian or Hong Kong dollars usually are made via the BOC's Hong Kong branch. The department frequently authorizes direct dealings in yen with Japanese banks.

The department only gives instructions. Transactions, are actually processed in the banking department *(see box)*.

The balancing process involves two operations. First, the department receives information on foreign exchange priorities and the needs of provinces and municipalities from four other bank departments (international, credit, accounting, and banking) to which the regional authorities report. Secondly, it effects transfers between foreign banks. For example, if a Japanese bank sends funds to a Chinese province to pay for shipments from that province, the BOC then transfers funds between Japanese banks so that the BOC's accounts with Japanese banks as a whole are balanced by the end of each working day. The procedure is carried out with all countries.

The BOC has obtained excellent terms on foreign commercial bank loans. Most of these credit agreements have exempted the BOC from payment of any commitment, agent, or management fees. While many commercial credits charge 0.5 percent mark-ups over LIBOR for up to seven years, the BOC has obtained some credits with no mark ups at all. The BOC has been able to obtain loans at the actual average rates, which usually differ by 1/16 of a percent in the daily spread.

The bank's debt service policy for the present and medium-term future is to limit repayments on capital and interest to 20 percent of its hard currency exports, according to senior BOC officials in July 1980.

A study is underway as to the feasibility of issuing bonds. According to BOC officials in late June 1980, China will issue bonds in the future to raise funds, but is unlikely to do so in the near future. The legalities and commitments involved in issuing the bonds are the chief hindrances to quick action by the bank. The BOC must consider the necessary commitment, management, and legal fees, and agreements must be signed with underwriters, trust companies, paying and recording agencies, state of issuance (registration), and stock exchange. The BOC already has legal assistance, and at least five major New York-based investment firms have offered to provide bond services.

4. Credit Department Project finance is the responsibility of this department, which administers the ¥2 billion in foreign exchange available in 1980 to provinces and municipalities for the foreign component of construction projects. If Beijing municipality, for example, wants $10 million for a petroleum processing plant, the Credit Department of the BOC branch in Beijing reports the request to the BOC head office Credit Department, which authorizes use of the funds if the project has been approved by the State Economic Commission. In the case of a

THE SHANGHAI BRANCH OF THE BANK OF CHINA

Of the Bank of China's 77 domestic branches, the largest is the Shanghai branch, headed by General Manager Qi Ming. Its offices and staff of over 400 are located on East Zhong Shan Dong Road, overlooking the Whangpoo River next to the Peace Hotel. The bank's Wall-Street style entrance and foyer is filled with tellers and clerks using both abacuses and electronic desk calculators.

The branch has three main business departments for banking, credit, and accounting, in addition to an administrative section.

The Banking Department, headed by Shi Meiyao, has four sections with a staff of 154. The first section handles foreign currency deposits in US and Hong Kong dollars, and in sterling. The rates offered, as of July 1, 1980, are:

Currency	Checking	Current	Fixed 1-year
US dollar	0.0	2.16	10.5
HK dollar	0.0	2.16	10.25
Sterling	0.0	2.16	10.25

The checking accounts do not bear interest. Six and 24-month fixed deposit rates are also available. This section has a staff of 24.

The overseas Chinese service section handles remittances from abroad. Last year the 20 people in this department processed about US$ 30 million in remittances.

The Letter of Credit section receives and issues L/Cs. Its work occupies 40 workers and staff.

The largest section in the Banking Department negotiates documents, according to terms stipulated in L/Cs, and also processes D/As and D/Ps. Some of the 70 staff are concerned with export collection: others deal with imports.

The Credit Department has two sections, with a total staff of 60. The RMB loan section extends Chinese currency loans to import-export corporations and other exporters at 5 percent per annum. Formerly this section dealt primarily with the People's Bank of China.

The foreign currency loan section provides foreign exchange loans at market rates to import-export corporations and Chinese manufacturers. Loans of 1-, 2-, 3-, and 5-year terms are obtained through the BOC's head office (which borrows from foreign banks), and to a lesser extent from deposits lodged with the Banking Department. This section receives a foreign exchange quota from the head office.

The Accounting Department handles the main recording and processing work of the different accounts at the bank, and maintains a staff of 70.

project under the central government, such as one proposed by a ministry, the Credit Department normally sends representatives to attend the negotiations. For local projects, the Credit Department of the BOC's local branch sends officials to participate in the negotiations.

Provided that official authorization for a project is forthcoming, the Credit Department processes documents and payment. If financing is covered under the terms of an agreement with a foreign Exim Bank, the department sends an application, say to ECGD or COFACE, for the funds according to the terms of the relevant agreement.

5. Accounting Department This department handles all the accounts and records of the bank, aided by an IBM system tied-in with the bank's computers in London and Hong Kong.

The BOC's balance sheet, which is

CHINA'S UPCOMING FOREIGN EXCHANGE REGULATIONS

China probably will announce its new foreign exchange regulations, along with tax and joint venture regulations, at the August People's Congress. The new regulations do not add up to convertibility for the RMB. Full details are not available, but they probably will cover these areas:

- Establishment of a system governing foreign exchange transactions in China;
- Procedures for buying, selling, transferring, and owning foreign exchange;
- Guidelines for China's various industrial and trade corporations with regard to the possession and use of foreign exchange;
- Guidelines for travelers, both foreign and Chinese, for obtaining, using, and keeping foreign exchange;
- Conditions under which joint ventures and other foreign businesses in China can remit profits abroad, including restrictions on the proportion of profits that can be remitted in any one year.

Responsibility for drafting and implementing the regulations lies with the General Administration for Exchange Controls, whose director general is Bu Ming, chairman of the Bank of China. The GAEC has branches throughout China.

77 DOMESTIC BRANCHES OF THE BANK OF CHINA

(percentage of total branches located in each region and province is indicated in parentheses)

Coastal Provinces (64%)

Fujian (4%)
Fuzhou
Quanzhou
Xiamen

Guangdong (25%)
Dongguan
Foshan
Guangzhou
Haifeng
Haikou
Hanjiang
Huiyang
Jiangmen
Meixian
Panyu
Shantou
Shaoguan
Shenzhen
Shunde
Yangjiang
Zhangjiang
Zhaoqing
Zhuhai
Zhujiang

Guangxi (9%)
Beihai
Dongxing
Guilin
Jingxi
Nanning
Pingxiang
Wuzhou

Hebei (3%)
Qinhuangdao
Shijiazhuang

Jiangsu (9%)
Changzhou
Lianyunggang
Nanjing
Suzhou
Wuxi
Yangzhou
Zhenjiang

Liaoning (4%)
Dalian
Dandong
Shenyang

Shandong (4%)
Jinan
Qingdao
Yantai

Shanghai (1%)

Tianjin (1%)

Zhejiang (4%)
Hangzhou
Ningbou
Wenzhou

Inland Provinces (36%)

Anhui (3%)
Bengbu
Hefei

Beijing (1%)

Ganxu (1%)
Lanzhou

Guizhou (1%)
Guiyang

Heilongjiang (3%)
Harbin
Hailar

Henan (1%)
Zhengzhou

Hubei (1%)
Hankou

Hunan (1%)
Changsha

Inner Mongolia (3%)
Hohhot
Jining

Jiangxi (1%)
Nanchang

Jilin (3%)
Changchun
Jilin

Ningxia (1%)
Yinchuan

Qinghai (1%)
Xining

Shaanxi (1%)
Xian

Shanxi (3%)
Datong
Taiyuan

Sichuan (3%)
Chengdu
Chongqing

Tibet (1%)
Lhasa

Xinjiang (3%)
Huocheng
Urumqi

Yunnan (4%)
Hekou
Kaiyuan
Kunming

SOURCE: Letter from Bank of China, Beijing, received by National Council July 14, 1980.

ADDRESSES OF OVERSEAS BANK OF CHINA BRANCHES

BEIJING
17, Xijiao Minxiang, Beijing
People's Republic of China
Cable: HOCHUNGKUO Beijing
Telex: 22254, 22289, and 22321 BCHO CN
Main telephone lines:
Banking Department: 33–0452; 33–0887; 22–0709
International Department: 33–2590; 33–4685
Protocol Division: 33–6905
Switchboard: 33–8521

HONG KONG
2A De Voeux Road
Central Hong Kong
Telephone: 5–234191
Cable: CHUNGKUO HONG KONG
Telex: 73772 DKCH1 HX

LONDON
8–10 Mansion House Place
London EC4N 8BL
Telephone: 01–626 8301/9
Telegraphic address: CHUNGKUO LONDON EC4
International telex: 886935
Foreign exchange telex: 885452; 8812424

LUXEMBOURG
9–11 Grand Rue, Luxembourg
Telephone: 21791
Cable: CHUNGKUO LUXEMBOURG
Telex: 3546

SINGAPORE
PO Box 96, Singapore

TOKYO
Tokyo Representative
7–7, 2-chome, Shiroganedai
Minato-Ku, Tokyo
Japan

BANK OF CHINA BALANCE SHEET: ASSETS

(Current Million US dollars as of December 31, 1977–79*)

ASSETS	1977	Percent Change	1978	Percent Change	1979	Percent Change	1979 Subtotals as Percent of Total
Cash	26.4	19.0	31.8	20.1	39.6	24.8	0.1
Due from banks	6,260.1	14.9	7,547.2	20.6	11,659.8	54.5	33.3
Bills discounted and remittances bought	1,192.2	18.0	1,747.8	46.6	2,374.9	35.9	6.8
Loans and overdrafts	2,965.6	−0.3	4,254.1	43.5	7,035.1	65.4	20.1
Securities and investments	41.8	27.4	56.6	35.5	74.9	32.3	0.2
Land, buildings, furniture, and equipment	95.4	49.3	141.2	48.0	212.5	50.5	0.6
Sundry accounts receivable, including under forward contracts	474.2	20.1	608.9	28.4	823.1	35.2	2.4
Collections receivable for customers	230.7	6.4	388.2	68.3	679.7	75.1	1.9
Customers' liabilities under letters of credit and guarantee	4,582.8	15.9	7,533.5	64.4	11,273.2	49.6	32.2
Trust assets	153.8	−24.9	175.5	14.1	200.6	14.3	0.6
Other assets	440.5	784.6	527.8	19.8	631.6	19.7	1.8
TOTAL Assets	16,463.4	14.6	23,012.7	39.8	35,005.0	52.1	100.0
PROFIT AND LOSS STATEMENT							
General Expenses	81.9	33.8	127.5	55.6	389.8	205.8	61.0
Depreciation and amortization	49.7	30.5	69.4	39.6	99.8	43.8	15.6
Net profit	67.6	26.7	97.9	44.7	149.0	52.2	23.4
TOTAL Expenses	199.3	30.5	294.8	47.9	638.6	116.6	100.0
TOTAL Interest, Commissions, and Other Income	199.3	30.5	294.8	47.9	638.6	116.6	100.0

published every spring, is believed to be prepared by this department. In 1979, the bank's assets increased 52.1 percent, to $35 billion. Of this total, the item due from banks increased by 54.5 percent, to $11.7 billion, which represents China's deposits in banks worldwide. Despite the sharp rise in the due-to-banks category on the liabilities side of the balance sheet (from $4.2 billion in 1978 to $7.1 billion in 1979), China's net deposit position still increased by 36.5 percent, to $4.6 billion in 1979 *(see chart)*.

6. Banking Department At the heart of the BOC's business, this section is responsible for handling all banking transactions. It has a staff of about 150.

The department's nontrade or invisibles section handles all nontrade transactions, including the new scrip issued to tourists, remittances, taxes, insurance, shipping, communications, and diplomatic transactions.

7. Research Department The department divides its work by region and function. The regional divisions are:

- North and South America, Australia, and Japan.
- Europe, Africa, Eastern Europe, and the Soviet Union.

The functional sections are:

- a general research office assesses worldwide economic trends and problems such as the energy crisis, global inflation, etc. It monitors the activities of international financial organizations, and carries out other research tasks not covered by regional offices;
- a data library that compiles statistics and publishes daily bulletins and monthly reviews of current developments in international financial markets, including interest rates and key international economic indicators for the business department branches, and senior officials of the bank. The library's staff also distributes reference materials throughout the BOC.

8. Personnel Department This department is in charge of personnel.

9. Administrative The Administrative Department handles general administration and administrative policy, including the bank's secretariat, and convenes meetings. The department is also responsible for the bank's budget. 完

BOC Chairman, Bu Ming (center), addresses Council's Banking Committee, June 1980.

BANK OF CHINA BALANCE SHEET: LIABILITIES AND NET WORTH

(Current Million US dollars as of December 31, 1977–79*)

LIABILITIES	1977	Percent Change	1978	Percent Change	1979	Percent Change	1979 Subtotals as Percent of Total
Due to banks	3,588.1	−1.8	4,182.4	16.6	7,068.0	69.0	20.2
Deposits	6,868.9	25.9	9,375.5	36.5	13,906.1	48.3	39.7
Remittances and drafts outstanding	64.9	17.2	101.7	56.6	185.3	82.2	0.5
Sundry accounts payable, including under forward contracts	363.3	17.9	471.7	29.8	644.8	36.7	1.9
Collections for customers	230.7	6.4	388.2	68.3	679.7	75.1	1.9
Letters of credit and guarantee	4,582.8	15.9	7,533.5	64.4	11,273.2	49.6	32.2
Trust liabilities	153.8	−24.9	175.5	14.1	200.6	14.3	0.6
Other liabilities	84.6	13.3	115.7	36.7	152.1	31.5	0.4
TOTAL Liabilities	15,937.1	14.5	22,344.2	40.2	34,109.8	52.7	97.4
NET WORTH							
Capital**	215.8	4.4	237.8	10.2	258.2	8.6	0.7
Surplus	103.5	36.8	148.8	43.8	199.4	33.9	0.6
Reserves	139.5	24.5	184.0	31.8	288.6	56.9	0.8
Net profit current year	67.6	26.7	97.9	44.7	149.0	52.2	0.5
TOTAL Net Worth	526.4	17.6	668.5	27.0	895.2	33.9	2.6
TOTAL Liabilities and Net Worth	16,463.4	14.6	23,012.7	39.8	35,005.0	52.1	100.0

SOURCES: Bank of China, Beijing, April 2, 1980; and Hong Kong Registrar General's Department, *Company Registry, 1977-78*.

*Conversion factors based on period average yuan-dollar exchange rates of 1.854 in 1977, 1.682 in 1978, and 1.549 in 1979. Percentage increases are based on unrounded 1976–79 balance sheet figures.

**The Bank of China's capital increased substantially in 1975, but has remained fixed at ¥400 million during 1975–79; the apparent increase in recent years is due to the 16.9 percent depreciation of the dollar-yuan exchange rate during 1975–79.

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China's Financial Institutions

The dramatic increase in financial delegations between the US and China has offered a glimpse into the hitherto obscure operations and organization of China's monetary system. A People's Bank of China delegation led by President Li Baohua toured the US from April 27 to May 15 as the guest of the Federal Reserve, and a Bank of China delegation led by Chairman Bu Ming commenced a four-week visit to the US on June 5. Meanwhile, the World Bank established a new China Division on July 1 (and sent its first operational mission to China on July 14), while an IMF mission visited China in early June to study China's request for a quota increase from SDR 550 million to SDR 1.2 to 1.5 billion. These numerous exchanges have provided US bankers with the first substantive information about China's financial system, and offered CBR *staff the opportunity to conduct in-depth interviews for the record.*

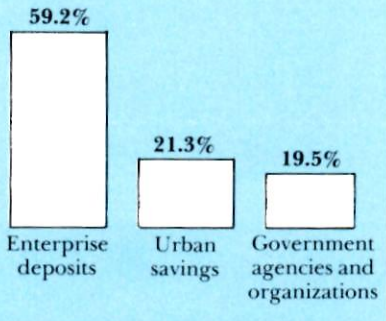
People's Bank of China

The People's Bank of China (PBOC) is directly under the State Council. Its president and chairman, Li Baohua, is a member of the State Council, which accords the PBOC a status enjoyed by only one other financial institution in China, the Ministry of Finance, whose head, Wu Bo, is also a member of the State Council. In May, President Li was designated China's governor to the International Monetary Fund. (Wang Weicai, vice-chairman of the Bank of China and deputy general director of the General Administration of Exchange Control, was concurrently named alternate governor to the IMF.)

The People's Bank handles all domestic banking, apart from financing of the agricultural sector. Unlike the Construction Bank, which is responsible for new investments *(see box)*, the People's Bank provides short-term loans to industrial and commercial enterprises as circulating funds and for capital replacement. It issues currency, accepts individual deposits, and balances RMB accounts with its provincial branches, which regularly transfer surplus funds between themselves and the PBOC's head office at an interbank rate of 0.27 percent per month, or 3.2 percent per year *(see chart)*. Moreover, the PBOC supervises the Bank of China, Agricultural Bank of China, and the General Administration of Exchange Control. Although these institutions are administratively under the direct control of the State Council, the PBOC informed the National Council on April 28, 1980, that it was directed by the State Council last spring to supervise and coordinate these subordinate institutions.

With 15,000 local branches, including 228 district and 2,220 county branches, the PBOC maintains a headquarters staff of 1,200 and total staff of 330,000. The staff assigned to the PBOC's provincial network, which includes 19,000 in Sichuan Province and 8,000 in Zhejiang Province, generally falls into three main categories. Approximately half are *chuan yuan* and *kuaiji yuan,* or cashiers and bookkeepers; a quarter are normally *xindai yuan,* or credit officers, and the remainder are officials, financial planners, and sundry workers and messengers.

DEPOSITS OF THE PEOPLE'S BANK OF CHINA
(percentage of total)



SOURCE: Planning Department of the People's Bank of China, *Financial Overview of the People's Republic of China,* June 1980, p. 9.

Credit officers make sure that financial requests conform with the plan; and they carry out their work by periodically visiting enterprises assigned to them. These may number three to ten medium-size plants, or only one to two large-scale enterprises.

The PBOC's main balance sheet items have not been released since 1957. However, individual deposits, including both urban and rural deposits and those in commune savings cooperatives, totaled ¥30 billion in 1979, the PBOC informed the *CBR* in April 1980. Other sources of funds include deposits by enterprises, state organs, and the People's Liberation Army, as well as allocations from the Ministry of Finance and revenues from seignorage (profits made from issuing currency at a higher face value than the costs incurred in its manufacture).

The bank's reporting system requires daily reports by subbranches to county-level PBOC branches. County branches report to district branches every five days, or every ten days in the case of branches located in national minority areas. District branches forward reports every ten days to provincial branches. They in turn, report to Beijing every ten days.

Report writing and the compilation of data are mainly conducted at the county level. In Zhejiang Province, for example, county-level branches reportedly have at least 50, and sometimes as many as 200, employees. Provincial branches, on the other hand, are instrumental in coordinating monetary policy and economic plans throughout the region, inasmuch as they are charged with calling emergency conferences of bankers and industrial bureau chiefs whenever the economy veers off course, as when cash in circulation exceeds available supplies causing inflationary pressure to build up. Under China's recent

policy of decentralization, the task of fighting inflation—which approached 6 percent in 1979 according to the official retail price index—lies even more heavily upon the shoulders of provincial People's Bank of China officials.

Agricultural Bank of China

Separated from the PBOC on April 1, 1979, the Agricultural Bank of China (ABOC) is directly under the State Council (although the latter authorized the People's Bank last spring to supervise its activities).

The ABOC has a staff of about 200,000 distributed among 23,000 branches, of which 20,000 are located in communes. These branches supervise peasant credit cooperatives, accept savings deposits from rural customers, and extend agricultural credit. Loans to communes in calendar year 1980 are expected to total ¥20.0 billion, compared with ¥17.0 billion in 1979, and ¥13.2 billion in 1978, according to a January 23, 1980, Xinhua report.

A May 11, 1980, letter from an ABOC official to the National Council said the Beijing headquarters of the ABOC has a staff of about 200, divided into the following departments:

1. Accounting and Planning Department
2. Business Credit Department
3. Commune Account Control Department
4. Commune Credit Department
5. Credit Cooperative Control Department
6. Fund Allocation Department
7. General Department
8. Personnel Department
9. Supervisory Department

The ABOC has a tenth department, but its name and function are currently unknown.

General Administration of Exchange Control

The General Administration of Exchange Control (GAEC) answers directly to the State Council, despite its curious position as an adjunct to the Bank of China, and its subordinate position to the PBOC with regard to exchange rate policy guidance.

The GAEC is headed by BOC chairman, Bu Ming, and presided over by all the vice-presidents of the BOC. Its headquarters are in the same building as the BOC, and its branches are in the same buildings as the BOC branches in all major cities. The GAEC's Beijing staff is divided into three departments.

The first department undertakes planning of China's foreign exchange control policies. The second drafts and implements China's foreign exchange rules and regulations, also with a staff of ten. The third department sets China's foreign exchange rates. Members of the foreign exchange staff notify the BOC's foreign exchange department and Xinhua News Agency of new foreign exchange rates every morning before 9 A.M. Rate changes must be authorized by the PBOC. Setting China's foreign exchange rate is not purely a technical matter since many factors are taken into consideration in addition to the mathematical calculations based on a simple currency basket formula.

Ministry of Finance

The Ministry of Finance (MOF) has the same rank as the People's Bank of China, inasmuch as the heads of both institutions are members of the State Council. Finance Minister Wu Bo recently was named China's governor to the World Bank, and Vice-Minister Li Peng was designated the alternate governor. The MOF authorizes capital construction spending, hence its relationship with the World Bank.

The MOF is in charge of fiscal management as well as annual and long-term planning of the state budget. Its specific responsibilities include (1) balancing the revenues and expenditures in China's annual budget, as well as carrying out long-term (five- and ten-year) budget and planning; (2) supervising provincial budgets and all intra-provincial transfers of funds from rich provinces to poorer regions which depend on state subsidies; and (3) drawing up China's capital construction budget. Actual disbursements, however, are made by subordinate MOF departments, and by the Construction Bank of China *(see box)*.

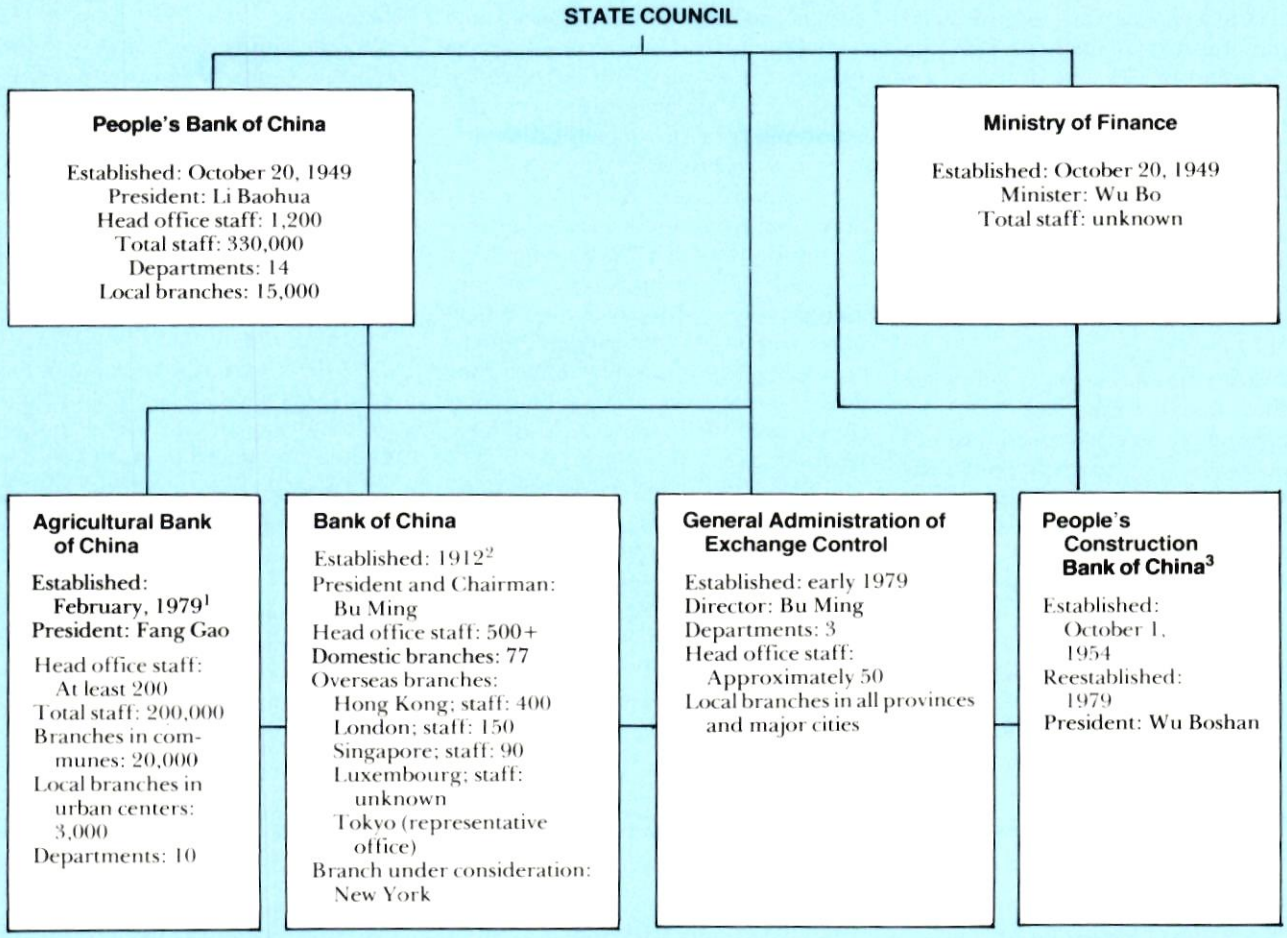
Efforts to streamline budgetary planning led to a major decision late last year, effective January 1, 1980, that all state bodies in the fields of administration, public health, education, and culture "may retain the year-end surpluses in their budget for use in the following year," according to a December 31, 1979, Xinhua announcement. The policy is designed to increase administrative efficiency in the government, by ensuring that savings resulting from

FOURTEEN DEPARTMENTS OF THE PEOPLE'S BANK OF CHINA

Department	Functions
1. Accounting and Currency Issue	Plans amount of currency issue; actual issuing of currency by PBOC branches, including county-level branches
2. Administration	Handles payroll, and operates kindergarten for worker's children
3. Advisors	NA
4. Bank Note Printing	Prints currency
5. China Financial Editorial	Publishes 28-page monthly *China Finance* (*Zhongguo Jinrong*)
6. Credits and Loans	Extends loans to industrial and commercial departments
7. Financial Research	Issues status reports on domestic and world financial situation. Sections: theory, finance, historical financial studies, and library
8. Insurance	NA
9. Personnel	In charge of promotions and technical education
10. Planning	Draws up national cash plan and credit plan, and plan of credit circulation; all in RMB, not foreign exchange
11. Savings Deposits	Maintains national savings deposit accounts
12. Science and Education	Maintains banking schools in all provinces, including Beijing, Shanghai, and Tianjin
13. Secretariat	Organizes banking meetings
14. Supervision	NA

SOURCE: People's Bank of China, April 28, 1980.

CHINA'S PRINCIPAL FINANCIAL INSTITUTIONS



[1]An Agricultural Cooperative Bank was established in 1951, but was replaced in 1955 by the short-lived Agricultural Bank. A third bank for agriculture opened in 1965, but closed in October of the same year.

[2]The Bank of China was founded in 1912 and became a specialized foreign trade bank in 1928 under the Guomindang government. In 1953 the State Council of the People's Republic of China empowered the Bank of China to monopolize all foreign exchange transactions.

[3]The People's Construction Bank is mainly under the control of the Ministry of Finance; however, before loans are disbursed a project must be approved by the State Capital Construction Commission (SCCC). The SCCC was reestablished on March 27, 1965, and was elevated to ministry rank in January 1975. Originally set up in November, 1958, the SCCC was abolished in January, 1961, when its work was taken over by the State Planning Commission, State Economic Commission, and the Ministry of Construction Engineering (now the General Administration of Construction Engineering, located in the same building as the SCCC).

SOURCES: People's Bank of China, Bank of China, and Agricultural Bank of China, May and June 1980; and National Foreign Assessment Center (CIA), *Directory of Officials of the People's Republic of China*, November 1978, pp. 49 and 56.

economy measures do not have to be turned over to the central government.

The Ministry of Finance has a large professional staff, divided into the following departments: accounting, administrative finance, agricultural finance, budget, defense finance, economic construction, education and cultural finance, personnel, inspectorate, and taxation. The MOF has a Financial Research Institute, a Financial and Economic Company, and a financial education college. There has been a rapid increase in finance students in the last two years.

People's Construction Bank of China

The People's Construction Bank of China was placed directly under the State Council in early November, according to a November 26, 1979, Xinhua announcement, which explained that the bank "functions under the State Capital Construction Commission (SCCC) and the Ministry of Finance (MOF), but is mainly responsible to the Ministry of Finance." The People's Construction Bank's chief task is to invest funds provided by the MOF, in the form of either budgetary grants or loans in major state capital construction projects which have been approved by the State Capital Construction Commission. It also has begun to extend short-term loans for the renovation of equipment. While the bank's interest rate structure is not known, loans to Hubei Province in 1980 did carry an interest charge of 3.0 percent per annum.

The bank's 2,500 branches are located in all provinces, districts, and counties in China. For routine business matters these branches are directly subordinate to the local government where they operate, but are under the Con-

struction Bank's head office in Beijing on questions of policy.

Under the new "Trial Regulations for Granting Capital Construction Loans," drafted by the State Planning Commission, SCCC, and MOF, and approved by the State Council in November last year, the Construction Bank's loan activities gradually will increase in 1980 and 1981 and completely replace the previous practice of funding capital construction projects out of budgetary grants. According to various sources, the new regulations set forth the following loan policies:

- Loans may be extended only when a contract has been signed;
- In order to weed out poorly planned projects, the Construction Bank "will only lend to the best applicants," according to the vice-minister of the SCCC, Xie Beiyi;
- Loans carry an interest of around 3 percent per annum, and maturities range from 15 years for heavy industrial projects to only five years for smaller projects. The length of a loan is calculated from the date of contract signing to the last repayment date;
- When loans are repaid ahead of schedule, "the money accrued from profits and other sources, which would have been turned over to the state, can be kept by the enterprise for the rest of the period stipulated in the contract," according to a December 7, 1979, report in *Beijing Review*;
- Loans can be made only to "enterprises that have independent economic accounting systems," according to a November 16, 1979, Xinhua bulletin. This means that factories and enterprises run by government departments are ineligible for loans unless they detach themselves and assume complete responsibility for their own fiscal performance;
- Late repayment is penalized by doubling the interest rate on the remaining portion of outstanding loans;
- The Construction Bank may carry out any on-site investigations necessary to ascertain that the terms of the contract are being fulfilled.

The new policies are based on the results of experiments conducted in Shanghai, Jilin, and Henan last year, and are designed to stop uneconomical investment projects from getting off the ground.

In a demonstration of its new authority, the Construction Bank recently forced the large-scale Wuhan Iron and Steel Works and the Daye Nonferrous Metal Company, both in Hubei Province, to terminate the construction of their respective vehicle repair plants that were only ten miles apart. When the companies agreed to pool their efforts in one plant, a loan was granted.

By the end of the first quarter of 1980 the Construction Bank had extended loans totalling ¥1.56 billion to 150 major capital construction projects, Xinhua announced on April 14.

In the years ahead the Construction Bank intends to invest heavily in tourism, light industry, and textiles. Moreover, the MOF has directed it to extend loans to joint ventures and factories which are conducting compensation trade. Special help will be given to such factories in the cities of Shanghai and Beijing, and in Guangdong Province. ☆

People's Bank of China Interest Rates
(Percent per annum)
Rates Paid on Personal Demand and Time Deposits

Deposit maturity	Rate as of April 1, 1980
Current	2.8[1]
6 months	4.32
1 year	5.40
3 years	6.12
5 years	6.84

Rates Paid on Overseas Chinese RMB Deposits

1 year	5.76
3 years	6.48
5 years	7.20

Other Rates[2]

Deposits by state-owned industrial, commercial, and agricultural enterprises, collectively-owned enterprises, and communes	1.80
Deposits transferred to the People's Bank of China from credit cooperatives[3]	3.24
Loans to state-owned industrial, commercial, and agricultural enterprises, and collectively-owned urban enterprises	5.04
Loans for closing the accounts of industrial and commercial enterprises	5.04
Loans to food grain commercial enterprises	2.52
Loans to make deposits on the advance purchase of agricultural sideline commodities	4.32
Loans for the production expenditures of state farms and communes, as well as loans for the revolving expenditures of commune enterprises	4.32
Loans for commune production equipment, and minor items such as water and electricity	2.16
Loans to urban collectively-owned enterprises operated by intellectural youths (granted during the first two years of business[4])	4.32
Loans to banks and credit cooperatives	2.16
Personal loans to commune members	4.32

[1] Effective July 1, 1980

[2] Rates increase 20 percent for late payment. Rates also increase 30 percent "for loans which go over the stipulated circulation capital quota, and for those used for overstocking." Rates increase 50 percent "for overspending on capital construction and renewal and renovation, and other financial expenditures which squeeze and divert the bank's funds."

[3] PRC banking officials informed the National Council that these interbank loans include those between the People's Bank of China, Beijing, and its branch banks, April 29, 1980.

SOURCE: Planning Department of the People's Bank of China, *Financial Overview of the People's Republic of China*, June 1980, pp. 23–24.

Update

New appointments, and the creation of new state bodies, highlight the flurry of activity leading up to the third plenary session of China's National People's Congress, scheduled to convene in August. The latest administrative changes:

CENTRAL ORGANIZATIONS

IMF, World Bank: China has named Li Baohua, president of the People's Bank of China, as its governor in the IMF. Wang Weicai, deputy general director of the State General Administration of Exchange Control, and vice-president of the Bank of China, is Li's alternate. Wu Bo, minister of finance, will be China's representative to the International Bank for Reconstruction and Development, with Li Peng, vice-minister of finance, as his alternate.

Energy Commission: To be established before the end of the year, reportedly with China's chief economic planner, Yu Qiuli, as its head (*CBR,* Jan.–Feb., 1980, p. 86). This body will seek to coordinate the work of the petroleum, coal, and electric power ministries.

Import-Export Inspection Administration: On June 30 China established a "General Administration for Inspection of Import and Export Commodities," according to Xinhua, China's official news agency. The new body will "implement the government's policies, principles, and decrees on commodities." It will also "organize the inspection of import and export commodities, and work out and apply plans, rules, and regulations for such inspection." A technical research institute and a school for inspection personnel will also be established. As yet, it is not known how this new entity differs from the Commodity Inspection Bureau.

National People's Congress: The third plenary session of the NPC will be convened in August. The agenda will include a report on the work of the State Council, an examination of draft revisions of China's marriage law and citizenship law, and a proposal by the party Central Committee to delete from Article 45 of China's Constitution the provision that citizens have the right to "speak out freely, air their views fully, hold great debates, and write big character posters."

Wu De, who "resigned" from the Politburo of the 11th Chinese Communist Party Central Committee in February (*CBR,* Mar.–Apr., 1980, p. 42), also has been removed from his post of vice-chairman of the Standing Committee of the Fifth National People's Congress. Wu Xinyu was removed from his post as secretary general of the NPC Standing Committee's Legislative Affairs Commission, and replaced by Wang Hanbin, formerly a deputy secretary general of the Commission.

PROVINCIAL POLITICS

Some of the blank spaces in China's new provincial leadership lineup (see *CBR,* Mar.–Apr., 1980, pp. 44–46) are being filled in. Key changes:

Jilin: Yu Ke was named governor, and Li Youwen, chairman, of the Provincial People's Congress Standing Committee at the second session of the Fifth Jilin Provincial People's Congress in early April, which also made judicial and procuratorial appointments. In keeping with the policy of dividing administrative and party functions, neither Yu nor Li is a party secretary.

Guangxi Zhuang Autonomous Region: Huang Rong has become chairman of the Standing Committee of the Guangxi Regional People's Congress.

BEIJING EXHIBITIONS

This past March in Beijing, five of China's new trading corporations put on a series of exhibitions, organized by the New Era Company (see *CBR,* May–June, 1980, pp. 34–35 for details on the corporations). Represented were the China National Aeronautic Technological Import-Export Corporation, the China National Electronic Technology Import-Export Corporation, the North China (Beifang) Industrial Corporation, the Corporation of Shipbuilding Industry, and the China Precision Machinery Corporation.

More than 3,000 items were put on display, including motorcycles, refrigerators, washing machines, medical equipment, and machine tools. Many were for export.

Wang Hui, vice-president of the China New Era Company, said the exhibitions were held to broaden marketing opportunities, promote production, and meet the needs of China's people. Various items on display were for immediate sale; orders could be placed by domestic and foreign customers.

NEWLY IDENTIFIED TRADE ORGANIZATIONS

China National Scientific Instruments and Materials Corporation: The organization is under the aegis of the State Scientific and Technological Commission, according to *China Business Report.* It has recently signed an agreement with the Science and Industry Division of Philips, the Dutch multinational, for repair and maintenance of industrial equipment sold to the PRC. A number of service centers will be established throughout China by the corporation, and will be manned by Chinese technicians trained in Holland by Philips, which already operates a consumer-goods service center in Guangzhou.

Tianjin Computer and Scientific Instrument Corporation: Newly established, this organization has concluded an agreement with Unicom Automation Company of Tokyo to establish a technical exchange committee. The corporation's main interest: microcomputer technology. A coproduction arrangement or a joint venture may be in the offing.

China Harbor Engineering Company: This corporation is responsible to the Ministry of Communications, according to *Business China.* It will survey, design, and construct foreign harbors and shipyards, dredge navigational channels, and supply skilled labor and technical services. Current overseas contracts include a 300,000-ton-class dry dock and adjoining wharf in Malta and a cargo terminal with a 500,000-ton-per-year handling capacity in Mauritania. (These were contracted under terms of economic assistance agreements prior to the 1978 cutback in foreign aid.)

China Oriental Specimen Corporation: This organization "can supply customers with anything from a stuffed tiger to a bee," and "has aroused interest from concerned circles in China and abroad since it opened May 1," according to Xinhua. Based in Fuzhou, the capital of Fujian Province, the corporation offers specimens of 34 species of birds, 25 species of animals, nearly 200 species of insects, and about 5,000 spe-

cies of plants. A spokesman said the corporation's products enjoy a good market, and added, "we always feel pressed by the demand."

SOCIETIES AND ASSOCIATIONS

Societies, which horizontally link China's otherwise vertical command structures, continue to emerge:

• *China World Economics Society.* Established in Shanghai on April 28. Qian Junrui was elected chairman of the 77-member board. Gu Mu, vice-premier, spoke at the meeting;

• *Chinese Research Society for Research into the Economy of Oceania.* Established in mid-April, its president-elect is Lo Yuanzheng, deputy director of the World Economy Research Institute;

• *Chinese Railroad Society.* Founded late last year, the society is dedicated to the modernization of China's railroads, and the development of transportation and shipping. Topics discussed at the first representative assembly included railroad construction, tractive power, shipping and economics, rolling stock, electrification, and materials technology. Lin Jianzhang, vice-minister of railways, was elected chairman of the society's board of directors;

• *China Quality Control Society.* Formed earlier this year under the auspices of the Chinese Scientific and Technological Association and the State Economic Commission, the society recently dispatched a group of quality control experts on a road tour of Jilin Province;

• *CEMA Affiliate.* The Beijing Business Management Association, chaired by Zhang Peng, vice-mayor and head of the municipal economic commission, was recently established. Members are drawn from more than 100 key enterprises. They will study business and management techniques in China and overseas, and "organize exchange of experience among Chinese enterprises and with foreign corporations;"

• *Geological Committee.* A national committee for the dissemination of geological knowledge was set up in Beijing earlier this year. The committee, chaired by Gao Zhenxi, a member of the Geological Society of China, seeks to popularize geology through various activities, including the publishing of journals and reference materials;

• *Biomedical Engineering Group.* Established late last year by the State Scientific and Technological Commission, it will be headed by Huang Jiasi, president of the Chinese Academy of Medical Sciences;

• *Shanghai Society for the Study of Questions Relating to Young People.* Set up in May, the society elected as its first president Wang Minzhang, secretary of the Shanghai Communist Youth League. Similar groups are planned by other cities and provinces, according to the CYL Central Committee;

• *Family Planning Association of China.* Formed in May, the association will implement government population-control policies. The association's chairman is Wang Shoudao, deputy head of the birth planning leading group under the State Council;

• *Chinese Association for the Blind and Deaf-Mutes.* This association was reactivated in April following a hiatus during the Cultural Revolution. Minister of Civil Affairs Cheng Zihua is honorary chairman, and women's leader, sixty-three-year-old Wu Qian, is vice-chairman;

• *China Historical Science Society.* The society was restored in Beijing in April after several years of inactivity. The keynote speaker at its inaugural meeting was Hu Qiaomu, president of the Chinese Academy of Social Sciences.

—KIB 完

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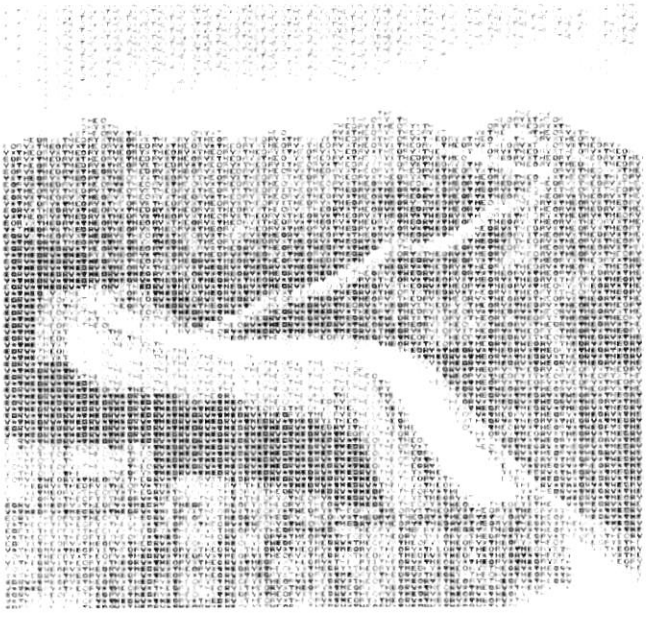

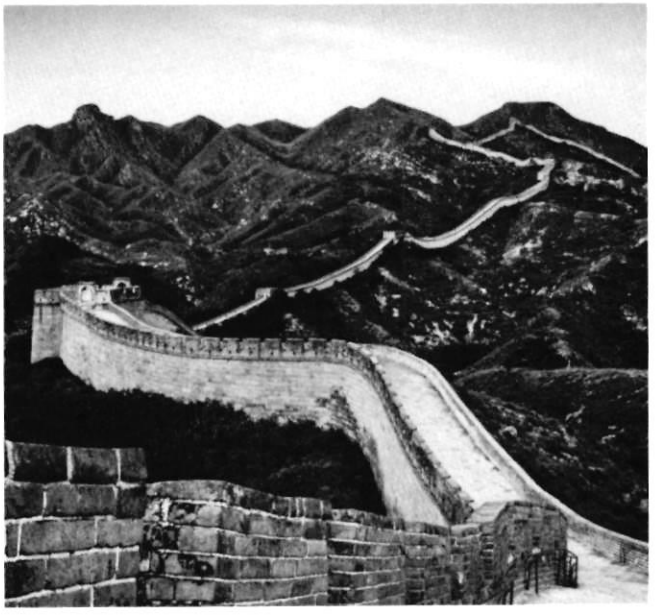

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Dual-Use Technology Sales

Karen Berney

Computers take the lead as US firms receive licenses to sell military support equipment and dual-use technology to China under "P" category export procedures.

Only six months ago, the Carter Administration's official position on technology transfer toward China hinged on the principle of evenhanded treatment for Moscow and Beijing. Then came the Soviet Union's invasion of Afghanistan, followed by Secretary of Defense Harold Brown's policy statement in January, which said the US would consider on a case-by-case basis sales of dual-use technology and military support equipment previously denied to China.

This policy shift recently led to the major transfer of the PRC from the Warsaw Pact Country Group "Y" to a new Country Group "P" in the Department of Commerce's export control regulations, which administer the sale of dual-use technology and products to the communist world (see *Export Administration Bulletin*, no. 205, dated June 9). The change marks the formal US abandonment of the principle of "evenhanded" treatment in conducting trade with China and the Soviet Union.

That the US is willing to act upon its new policy was further demonstrated at the conclusion of Vice-Premier Geng Biao's recent visit to the US, when the Pentagon issued a May 29 news release announcing that American companies had received official approval to open negotiations on specific military support articles covered in the six categories of the Munitions Control List made available to China in March (see *CBR*, Mar.–Apr., 1980, pp. 8–9, and *Munitions Control Newsletter*, no. 81).

The military support equipment could amount to contracts worth hundreds of millions of dollars, and includes air defense radar, radio and tropospheric communications equipment, transport helicopters, truck tractors, and electronic countermeasure devices. A sale of any item on the munitions list exceeding $35 million is subject to the provisions of a US Foreign Military Sale (FMS), whereby the executive branch of government becomes the transacting agent and notifies Congress, which then has 30 days to pass a concurrent resolution disapproving it. Currently there is a move underway in the House to lift the ceiling on commercial military sales to $75 million.

In their enthusiasm to make sales, some US companies have not adhered to the guidelines established in *Munitions Control Newsletter*, no. 81, which forbids Beijing from purchasing offensive military items from the US. The Office of Munitions Control recently was forced to turn down company requests to launch discussions on night-vision laser devices used on armored vehicles, inertial navigation systems, airborne radar, and fire control systems for jet fighters.

Despite official statements that the US has no intention of transferring lethal military technology and hardware to the PRC, the simultaneous visits by three high-level Chinese delegations to the largest US defense suppliers this spring suggest a more flexible and open-ended position. The Chinese groups, including one led by four star general and vice-chief of the general staff, Liu Huaqing, were given access to the Westinghouse TPS-43 radar facility in Baltimore; AM General Corporation's tactical wheeled vehicle plant in South Bend, Indiana; General Electric's military engine factory in Lynn, Massachusetts; and Honeywell and IBM computer manufacturing centers.

The Meaning Behind "P"

The P category designation means that the upper bounds on the technical criteria used to evaluate Group Y export applications no longer apply to China. Under the more liberal restrictions, the Pentagon announced on May 29 that it had approved several export license applications for the sale of dual-

use products on the Commerce Department's Commodity Control List. Among these was a license to Bell Helicopter, which was thought to have sewn up a deal to manufacture its civilian model 212 helicopters at the Harbin Aircraft Factory. *CBR* has learned that Bell has lost this deal to France's state-owned Société National Industrielle Aerospatiale, which apparently was able to offer more attractive terms across the board to the China Aero-Technology Import-Export Corporation. Other dual-use items cleared for export include computers with metal-refining and petrochemical applications, and security communications equipment, such as teletypewriters, for installation in the Chinese embassy and consulates in the US.

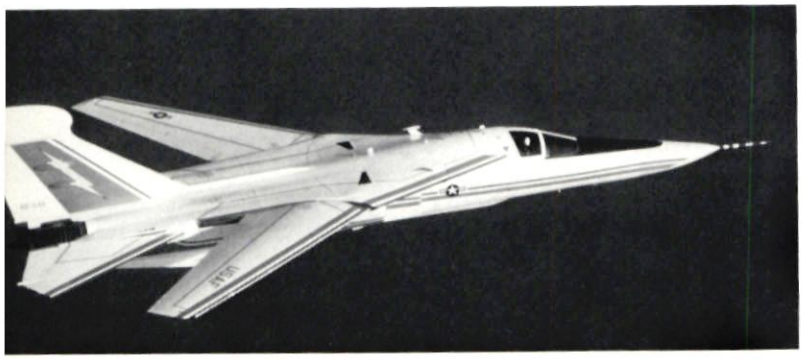
At the same time, China will not be treated as liberally as the ASEAN countries and Taiwan. Under the Taiwan Relations Act, passed after US-PRC normalization, Taiwan has been granted congressional approval to make arms and support equipment purchases totaling $699.6 million. This includes a $280 million FMS approved in January for 1,113 TOW antitank missiles, 284 CHAPARRAL low-level air defense missiles, and 280 HAWK surface-to-air missiles. These types of defensive weapons are not available for export to Beijing. A lower sales ceiling and stricter technical definition of the island's "defensive needs" may limit arms transfers in the future if Sino-American security relations improve.

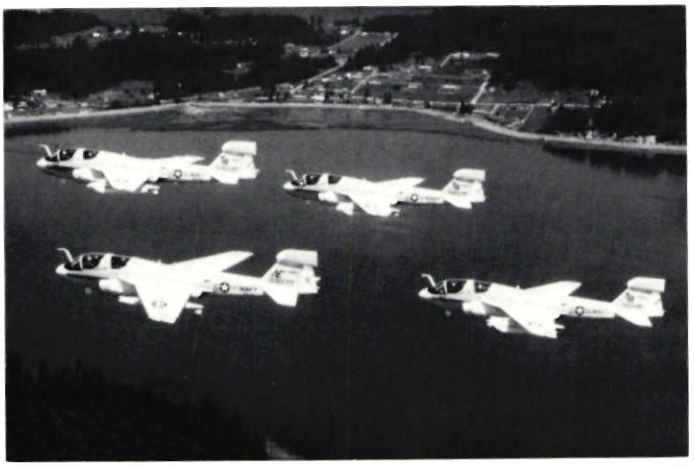
As US companies begin to submit applications to conclude dual-use contracts with the PRC, licensing officials will be spelling out new technical specifications and parameters on a case-by-case basis. This may slow down the process in the short run, but once new technical standards are set, the licensing process may speed up.

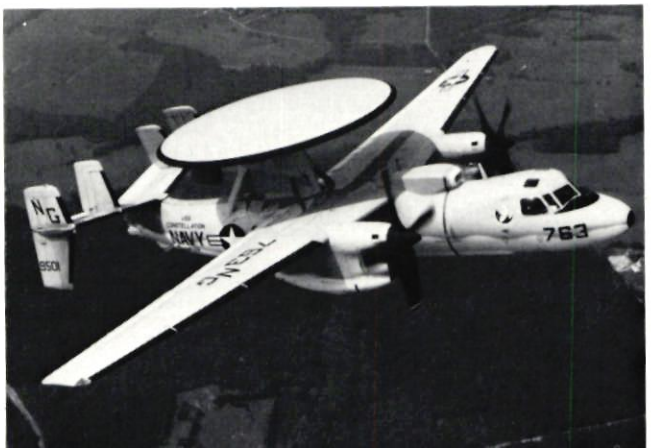
Opportunities Broaden: Computers

Computers appear to be the main dual-use item China currently is seeking to purchase. One US firm has just received official approval to assemble computer circuits in China, and at least three other precedent-setting computer cases are pending.

- **Prime Computer Co.** The Beijing Institute of Aeronautics and Astronautics (BIAA) recently ordered a Prime 650 digital computer whose performance and generation is comparable to a DEC VAX 11/780. Although the $400,000 machine has never been exported to a communist country, Prime does not anticipate a problem in securing an export license since the institute has shown extraordinary care in complying with an official end-use







Military aircraft recently seen by the delegation from the Chinese Society for Aeronautics and Astronautics, May 1980. Clockwise from upper left: EF-111A; EA-6B Prowlers; F-14 Tomcat; E2C Hawkeye; and Boeing 234 Chinook.

statement. According to the director of the BIAA, the computer is slated for educational training in aircraft design.

• **Burroughs** Since March, the company has been waiting for the approval of its application to export the B-6800 mainframe system, purchased by the UN Development Program for installation in Beijing. The case is unusual in that it is the first time a US computer manufacturer has requested a license for a system that will have multiple Chinese end-users. In addition, the PDR (processing data rate), the standard used by the Commerce Department and COCOM for refusing or approving a computer sale, is nearly twice as powerful as those of the few large US computers Beijing has been allowed to buy to date.

• **Honeywell Information Systems** Included on Vice-Chief of Staff Liu Huaqing's itinerary, Honeywell is hoping to conclude an agreement calling for the transfer of manufacturing, software, and training capabilities to a wire plant in Beijing specializing in telephone-switching gear and computers. Under licensed production, the plant would manufacture about sixty-six large-scale (50-level) digital computers and six (200-level) minicomputers a year. The proposal, worth about $100 million, will be presented in Beijing this fall if a technical data export license is approved.

CHINA REEQUIPS OLD JET FIGHTERS, PLANS MASS PRODUCTION OF F-8s

Since the Chinese border conflict with Vietnam a year-and-a-half ago, Soviet airforces in the Far East have been reinforced by new MiG jet fighters, while its Pacific fleet has been strengthened by new cruisers armed with surface-to-surface missiles. These developments have not gone unnoticed by the Chinese organization responsible for drawing up weapons production plans, the National Defense Industries Office, which is under the policymaking Military Affairs Commission.

The Shenyang aircraft factory of 11,000 employees, which turns out 300 F-6s (MiG-19s) per year, is now getting ready to halt production in order to phase in assembly of a new jet fighter, modeled on the conspicuously non-Soviet Mirage 2000. Powered by a Chinese turbofan engine and carrying air-to-air missiles, only two to four of these sophisticated jets exist. Flight stability and control are still problems, but if solved, the F-8 could be put into mass production by the end of the year.

In a related development, three leading British avionics firms, Ferranti, Marconi Space and Defense Systems, and Rediffusion Reditune, are known to be talking to Third Ministry about a service contract for reequipping China's aged fleet of F-7s (MiG-21s) with new flight controls, weapons delivery, and radar systems. The charge per plane is about $500,000.

The Eighth Ministry of Machine Building will be responsible for mounting China's R&D effort on cruise missiles, whose alternate modes of deployment include launching via ships, aircraft, and fixed or mobile land bases. It is also specializing in major tactical missiles except for air-to-air ones, which are under the domain of the Third Ministry.

Potential Military Trade: Support Equipment and Weapons Systems

China's successful launch of two ICBMs with a maximum range of 12,000 kilometers (the missiles were tested only at 9,000 km) into the South Pacific, and plans to build ten this year, suggest Beijing's reevaluation of its immediate defense requirements.

Current priorities in China put military modernization behind the development of agriculture, and light and heavy industry. But in the 1980s defense may receive a somewhat higher priority. Chairman Hua Guofeng hinted as much in Tokyo May 29 when he told Japanese reporters that China wants to "break the superpowers' monopoly on nuclear weapons," and is developing a small amount of strategic arms to cope with potential military threats.

China recently made its first weapons-related purchase, its first since the sale of Spey engine technology from the UK in 1975. The deal, worth $2.26 million for British Marconi Space and Defense Systems, is for the delivery of five FACE (field artillery control equipment) to the Fifth Ministry of Machine Building. The computerized control equipment is used in Land Rovers for aiming quickly and precisely, 24 guns at a time.

While Secretary of Defense Brown insists that security cooperation with Beijing will not be expanded to include US sales of lethal military gear, US allies are marching to the beat of a different drum. On a five-day visit to Beijing last March, British Defense Minister Francis Pym told his Chinese counterpart, Xu Xiangqian, that Britain wanted "to see a major expansion in Sino-British civilian trade," and also was prepared "to supply a range of military equipment," including the Harrier jump jets and antitank rockets.

But his willingness to negotiate the sale of Harriers did not result in an order, and talks ended on a discouraging note with the two parties reaching a mutual understanding that China must first establish an order of priorities for buying defense equipment.

Since then, it appears that those priorities have been set. And they do not bode well for America's competitors in Europe. After substantial exposure to Western arms and aerospace companies and consultations with numerous defense experts, Beijing apparently has decided to turn to the US for help in the task of modernizing its armed forces. The prime mover behind this decision is the Third Ministry of Machine Building, which after years of cooperation with Rolls Royce seems convinced that the world's most advanced aerospace technology resides in the US.

Grumman's $20.6 million F-14 fighter, A-6 all-weather attacker, and E2c early-warning radar plane, for instance, were found worthy of copious notetaking by PRC aeronautical specialists who toured the company's Bethpage and Calverton facilities on Long Island in May. Also on the itinerary of the ten-man team from the Chinese Society for Aeronautics and Astronautics was a stop at Lockheed's military–industrial complex in Marietta, Georgia, and the facilities in Philadelphia of Boeing Vertol, which has just received an invitation from the Third Ministry to stage a technical seminar in

Beijing on the international version of its Chinook-47 multipurpose helicopter.

Judging from reactions of the delegation to their observations and subsequent discussions with US officials connected with the parallel visits of Messrs. Biao and Liu, China is less interested in the Lockheed C-130, British Harriers, or the French Mirage 2000 interceptors. One high-ranking Chinese aviation expert, referring to China's defense needs in general, remarked "Our most urgent priority is for advanced jet fighters." He smiled and added, "but we are willing to be patient."

A State Department spokesman, who confirms that senior Chinese defense officials assign primary importance to acquiring modern combat aircraft, said antitank weapons are next in line. Also he casually noted that the US never begins a bilateral security relationship with a friend (e.g., Egypt) by supplying it with lethal weapons.

For the past year, Beijing has been considering either McDonnell Douglas or Boeing as a possible partner to develop the DC9 Super 80 or 737, respectively. A recent deal calling for McDonnell Douglas to buy up to 200 landing-gear doors for 100 Super 80s at a cost of $2 million from the Shanghai Aircraft Factory resembles GE's patient strategy of moving an inch to advance a foot. Moreover it suggests that Douglas has the inside track on a licensing and co-production arrangement. Another point in the firm's favor: it is the Pentagon's largest defense contractor, and has experience in producing its military planes abroad, including the F-15 now being built under license in Japan.

Thus, until the timing is right, China is focusing on the civilian side of its aviation industry not only in the air, but on the ground as well. Very near to being approved by Beijing and Washington is a deal between the CAAC, China's national airline, and International Aviation Systems, a consortium of seven US firms, to provide China with all of the equipment and technical services to install, operate, and maintain a state-of-the-art air traffic control at three major airports.

The Overall Outlook

President Carter's brief July 10 meeting with Premier Hua Guofeng in Tokyo underscores the interest of both countries in strengthening political and strategic cooperation. Already planned for September is the arrival of a delegation from the PLA's logistical services department to learn how the US armed forces make procurement decisions and keep track of maintaining and repairing their arsenal. A month later, a group from the PLA's military academy is scheduled to repay a visit from the US National War College. Still on the agenda is a trip to China this fall by Gerald P. Dinneen, undersecretary for research and engineering, who will further elaborate just how far the US will go in transferring dual-use technology. This will be followed by a NASA–hosted vice-ministerial delegation from the Third Ministry.

Where are we heading within this context of regular contact, dialogue, and exchange between the American and Chinese defense establishments? Perhaps in a year or two the US will be ready to provide Beijing with such defensive weapons as the FX fighter, a spin-off from the F-5 specifically designed for export. Neither a US nor a Chinese official disputed this observation. But for now, the US and China are friends, not allies, and the US neither sells arms to China, nor engages in joint military planning because, as stated by Assistant Secretary of State Richard Holbrooke: "the international situation does not justify our doing so." 完

GE'S PATIENT APPROACH

According to one communications specialist who just returned from Beijing, only those American companies that engage in a "long, slow, and steady flirtation with the Chinese in the 1980s will have the chance to crack its direct market for foreign goods in the 1990s."

One US company, General Electric, has the right idea. Its officials are now engaged in extensive meetings with representatives of the Shenyang Aero Engine Factory to spell out the details of an agreement whereby GE will pay cash for two basic engine parts to be produced at Shenyang.

Clearly, the deal is advantageous for China. The factory not only will earn foreign exchange, but will receive the necessary drawings and specifications for building high-quality engine parts.

What is GE's motivation? In the words of one company executive, "this is not an order that will make either you or us rich and successful, but rather is a step toward future cooperation."

For the latter half of the decade GE forecasts a growing demand for engines—a demand which it will be unable to satisfy unless GE acquires additional productive capacity. Hence, GE is looking for foreign partners with advanced manufacturing skills and access to financing and raw materials. China's Shenyang factory has been selected as a possible candidate for cooperative production of GE's commercial CFM56 engine which powers the DC-8, KC-135, 707, and potentially the Boeing Twin, DC-9, and European A300 B11.

Under the terms of one such agreement GE has furnished blueprints, industrial know-how, and training to an Alfa-Romeo plant which invested $12 million to produce a component of the CT7 turboprop helicopter engine. The one part represents 3 percent of the engine, so if the CT7 is marketed successfully, the Italian company will be entitled to 3 percent of all sales.

By forging a close business relationship with China today, GE hopes later to have the China Aero-Technology Import-Export Corporation ink its signature on a cooperative production contract. This not only will guarantee GE a source of additional engine output in a time of demand exceeding supply, but also will give it an edge in competing for a share of China's engine market.

For China, the incentive is one of money and technology. According to GE, it can cost up to $1 billion to design, develop, and put a new engine into production. If China can fit GE's technology into its existing assembly lines it will forego this initial cost. Moreover, it will need to invest only $5 million to acquire GE's advanced jet engine technology.

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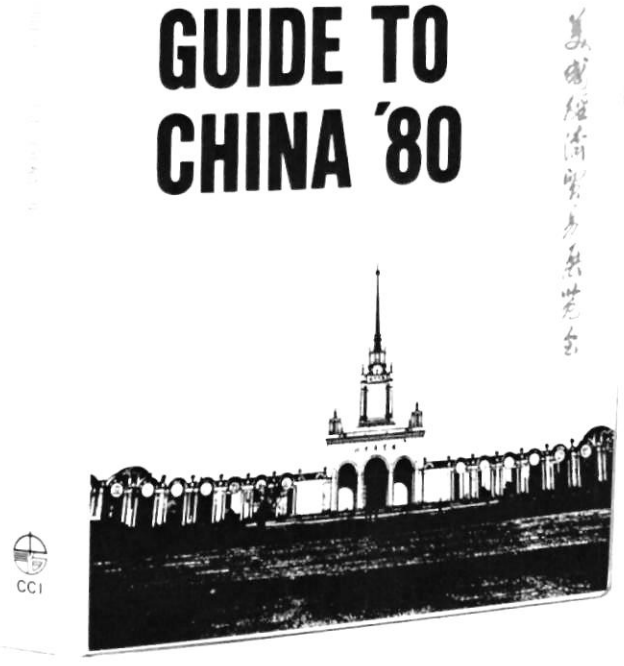

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June 1980

The Uncertain Winds of Countertrade

Carol S. Goldsmith

Two years after the term made its unwelcome entry into the language of US-China business, "countertrade" continues to spark much conversation—and confusion—among US companies.

A typical phone call on the subject goes something like this:

Company A: "Now first off, let's make sure what you're talking about when you say 'countertrade' ... Buying something back? No, we're not doing anything like that. The Chinese really don't have anything we know of we could use in our business. Of course if we could find something on down the road of high quality at a reasonable price, *maybe* we'd take another look.

"But wait a minute. I was talking to a guy just the other day who might have some kind of countertrade deal going on. Seems he's buying back hog bristles or something ..."

Company B: "Hog bristles? That's the first I ever heard of it. We *are* talking with the First Ministry of Machine Building about a deal—which I can't comment on right now—but it's strictly cash on the line. We're not about to get involved in any countertrade until we're sure of the Chinese's intent. However I do know of *one* company that's discussing a deal ..."

The truth of the matter is that few countertrade deals are actually in the works. Despite the fanfare over China's need to finance foreign purchases with compensation trade, and US firms' initial aim to make the China connection on almost any terms, countertrade fever has cooled. Only a few more countertrade deals are being made now than in the 1960s and early 1970s, when Fiat, for example, accepted hams, Volvo took tea, and Toyota agreed to take rugs as partial payment in their deals with China.

It appears US firms seldom have any use for the types of goods handled by the particular ministry or foreign trade corporation arranging the deal. And goods which might be acceptable in return often are handled by another ministry. Notwithstanding some strides toward decentralization and better local coordination, close bureaucratic cooperation between ministries and their local bureaus is rare.

Of late it has become painfully apparent that "the Chinese are not organized to do countertrade in any volume," one China trader remarks. And the not-so-farfetched thought of taking beads for blasthole drills, as an example, has frightened many US firms right out of the market.

Countertrade works best, when it works at all, if it combines some type of technology transfer with the buyback of made-to-order goods (and, if possible, overall financing on the Western end). Usually this involves a US firm building or updating an existing plant in China and taking partial payment in resultant products.

To date, the biggest such compensation trade deal between the US and China involves the buyback of goods worth $125 million. Container Transport International, Inc. (CTI) signed a three-party agreement in February 1979 with MACHIMPEX and Civet Investment Company, Ltd., a Hong Kong finance company, to establish China's first marine container factory at a shipyard outside Guangzhou. The plant should go on line in September. CTI, whose business is leasing cargo containers, agreed to handle all the details of putting the plant in operation in exchange for a fixed price on 50,000 containers for the first five years.* Everything for the factory came from outside China's borders—machinery, fixtures, tooling, handling equipment, employee training, steel for the containers—even the financing, which Civet arranged. If all goes as planned, CTI should profit handsomely from sending China a new facility and matching skills; the company has exclusive rights to purchase and market the containers where demand is soaring.

The CTI contract materialized in just a few months, although the company had been investigating leasing or buying Chinese containers for several years prior to consummating the MACHIMPEX deal. A far more typical case is the time-consuming experience of the Fuller O'Brien Corporation, whose recent signing of a countertrade deal took five full years of hard work.

"We'd been going over this since 1975," remarks Managing Director Jim Story. "We'd gone down a lot of wrong alleys. We went to the [Guangzhou] Trade Fair, we wrote a thousand letters. We were going through all the motions, but it seemed we never saw the proper people until we hosted a group of Chinese in our plant here."

As a result, Fuller O'Brien arranged an average-sized countertrade deal ("way under a million dollars," says the company president) to supply technology and equipment for a paint and coating operation near Beijing. The three-year interim agreement provides that Fuller O'Brien be paid in kind for its equipment and design/engineering services with a limited line of the resultant paint, which the company then will market under its own label in Southeast Asia. Additional payment, says Story, will come from a percentage fee tacked onto the sale price of China's paint at the international location. Fuller O'Brien arranged the financing for the plant, which should start up this fall.

Both Fuller O'Brien and CTI count themselves among the lucky companies who have some quality control over their buybacks. Design and durability rank as the top two concerns of any company marketing goods under its own name, and until recently the Chinese often balked at the idea of foreigners overseeing their work.

To avoid plunging into the management area too soon in the game, many companies are opting for smaller deals at a lesser risk. For example Unit Rig has just initialed a countertrade deal with the Ministry of Metallurgical Industry to supply off-the-road dump trucks for coal and iron mining, in return for a dollar volume of Chinese-made mining machinery parts. "Our philosophy is to keep it simple," says the company's Erast Borissoff, adding that long-term quality is an concern.

"You may have a piece of equipment that looks fine on the outside," he says, "but in time the casting wears out and you discover that inside it looks like Swiss cheese."

Quality control, labor concerns, financing, marketing problems, in-

creased competition—these are just a few of the worries that have checked many companies' movement toward countertrade. Robert Skibinski of the Thurman Scale Company adds pricing to the list. In discussing a technology transfer and purchase of auto dial heads with a group in Beijing, he says, "the biggest problem became the value of the equipment. You say it's worth so much, and they come back and claim they could get so much more for the same price somewhere else."

Negotiators may end up sitting for hours with their arms folded tight. Ron Alonso of Kohler fears having the company's trade secrets copied. "You could sell to them once or twice, and then you're out of the market," he complains (see *CBR*, May–June, 1980, pp. 58–59).

In the minds of most businesses, countertrade means little more than a show of good faith. "A necessary evil," one trader calls it. "Just a foot in the door," another man says. Recently Black & Decker offered China a slightly larger scoop of goodwill than most, by ordering some $350,000 worth of ball-bearings and drill bits from the Shanghai Tool Works, in the *hope* of receiving payment through countertrade. According to B&D's George Allen, the Chinese have promised to order an equivalent amount of power tools in return.

Despite the obstacles—and in part because of them—some US companies are finding it advantageous either to establish their own trading companies (McDonnell Douglas, Coca-Cola, Rockwell International, Ford, and General Motors, to name a few) or contract the services of an outside trader. Few companies have any compensation deals on paper right now. Most are testing the trade winds as China reassesses its needs and trade mechanisms, or else they're sitting back and waiting in the unlikely event the whole countertrade issue will blow over.

Most China traders, however, seem to think that countertrade is here to stay, at least on a modest scale. They point to China's continued reliance on cash or deferred payment for top-priority purchases, while saving countertrade for the remainder. 完

*According to CTI's Jerome Sullivan, his company has the right to purchase the first 50,000 containers produced by the plant, or to opt for 10,000 a year for five years. If the plant falls short of its quota CTI can take its purchase in the sixth year of operation; if it produces in excess, CTI may buy additional containers at the agreed-upon price.

A COUNTERTRADE GLOSSARY

China traders often speak in several tongues, even when they're trying to communicate on the same subject. Take countertrade for instance. Beneath its umbrella stands a host of interrelated trade terms—all with their own specific meanings—which more often than not become muddled and misused in the language mix.

Countertrade. This general term refers to any transaction that links capital imports to future deliveries of export goods. Under such a contract the Western company sells technology, services, plants, or equipment to China, and contracts for an agreed-upon percentage of Chinese products as part of the deal. Countertrade transactions normally take two forms: compensation and counterpurchase.

Compensation Transactions (or Buy-Back). Under this arrangement, the imported technology or equipment is paid for with goods resulting directly from that technology. For example an American tractor manufacturer may supply a factory to the Chinese and take payment in resultant tractors. Or, in the case of the skyscraper deal recently proposed to Guangzhou by the New York firm, Donaldson Lufkin & Jenrette Securities, Inc., partial payment for constructing the twin towers could come from the leasing rights to a number of the resulting rooms.

Within this category of compensation trade, the Chinese draw a distinction between *buchang maoyi,* or compensation trade narrowly defined, and *lailiao jiagong,* or "processing of imported (raw) materials."

The former involves a transfer of foreign equipment or technical services to a Chinese firm, to be paid in cash under some deferred payment format, or by future goods; but in all instances the form of payment for the equipment or services is explicitly discussed in the contract.

Lailiao jiagong theoretically commits the foreign vendor to supply only material for processing. In reality it may involve free equipment and know-how, contributed by the foreigner as a "sweetener." The Chinese may indirectly acknowledge the gift in reduced rates, but the contract normally makes no reference to any initial contribution.

Counterpurchase. More desirable but less available than compensation, a counterpurchase transaction allows the company selling the technology or equipment to secure a percentage of payment in unrelated Chinese goods. Separate yet linked contracts (signed concurrently in most countertrade deals) could allow the American firm to export textile equipment and take an amount of bauxite, for instance, in return. Obviously the lack of a direct linking mechanism between the various ministries and FTCs makes such deals difficult to arrange.

Co-production. To guarantee the Chinese some direct involvement in the production of goods being purchased, each party agrees to produce parts for the assembly of the end-product. Generally the particular components are matched with the skills and resources of each producer.

Joint Production. A step beyond the last arrangement, joint production more than likely involves technical cooperation and technological exchange. Often both partners produce parts, while one trains and supervises the other's work and oversees the overall assembly process. Under such an agreement an American construction company could cooperate with the Chinese on construction of a hotel, and also help train the workers in areas of operation and management. The US firm makes no equity investment, as in a joint venture.

In most of these transactions the parties sign two linked contracts and make the initial payments in cash. Such an arrangement differs from barter, which involves a direct exchange of goods, usually of equal value. Switch transactions, which frequently but incorrectly are lumped under countertrade, involve a much more complicated use of clearing currencies between three parties, one of which has a deficit in its clearing account with China. Through a middleman, such as a trading house, that surplus is used by China to settle an account with the US exporter.

Other terms constantly are creeping into the countertrade language, even though in China the trend tends toward simplifying the language. According to the Commerce Department's Pompiliu Versariu, who recently returned from discussions in China on countertrade, the Chinese have narrowed their vocabulary to two terms: *direct compensation,* involving partial payment in resultant goods; and *indirect compensation,* a less common arrangement, under which the Westerner receives partial payment in unrelated Chinese goods. —CG

Joint Ventures:

Why US Firms Are Cautious

James B. Stepanek

The initial enthusiasm of US companies for joint ventures in China has diminished considerably. As of late July only about ten US firms are involved in serious joint venture negotiations with Chinese entities, out of a total of 150 deals under discussion mainly with Japanese, Hong Kong, and West German companies, according to an official in China's Foreign Investment Control Commission (FICC). The ten US companies include Xerox, GM, SmithKline, and E-S Pacific, the official said.

To date six joint ventures have received final approval by FICC, which is required to approve all joint ventures according to Article 3 of China's Joint Venture Law promulgated last July 8. These are:

- the Changcheng ("great wall") Hotel, a 1000-room, $72 million hotel in Beijing's northeast Chao Yang district, a joint venture between the E-S Pacific Development and Construction Company and the Beijing branch of China International Travel Service. Since the parties do not own equity in the hotel, it is not a joint venture, nevertheless FICC continues to refer to it as such because the hotel is an independent legal entity involving joint management;
- the 528-room Jianguo ("national construction") Hotel, between the Zhong Mei Hotel Development Venture, Ltd., of Hong Kong (US owned), and the Beijing branch of China International Travel Service;
- the Beijing Air Catering Company, a joint venture between China Air Catering (set up by the Hong Kong Land subsidiary Dairy Farm, Bank of East Asia, and Jamestown Investments), and the Beijing Division of the General Administration of Civil Aviation of China (CAAC);

> "The poor lines of communication, the competition between ministries, and the lack of an experienced bureaucracy, is a millstone around the necks of China's negotiators."
> —vice-president of a West Coast manufacturing firm

- China-Schindler Elevator Company, Ltd., a $16 million venture between Schindler Holding AG of Switzerland, Jardine Schindler (Far East) Holdings SA of Hong Kong, and China Construction Machinery Corporation;
- a $13 million cashmere sweater manufacturing joint venture between Toyo Boshi Kogyo of Japan and its Hong Kong partners Rawcott International and Peninsula Knitters, and three knitting and woolen plants in Urumqi, the capital of Xinjiang Province; and
- a hotel joint venture between Yick Ho of Hong Kong and the China International Travel Service.

Holding up matters is the need for supplementary legislation dealing with the ambiguities of the July Joint Venture Law. Laws governing income tax, personal income tax, foreign exchange controls, patent and copyright guarantees, and company regulations—all originally set to be published in early 1980—are now unofficially scheduled to be released in August.

More basic than the unresolved legal questions, however, are problems of an economic nature. Chief among these is the difficulty of finding a suitable factory in China that would serve as a reliable, long-term business partner. Among the key problems mentioned by US executives:

Chinese enterprises seem to pay insufficient attention to consumer satisfaction. This is particularly troubling to US firms willing to set up joint export ventures, but who really desire to sell domestically. Since the Chinese partner in a joint venture would be mainly responsible for domestic marketing, US companies are concerned with the PRC managers' lack of emphasis on quality control, maintenance and the provision of spare parts, and promotions. All are essential ingredients for a successful long-term penetration of the Chinese market.

Factories selected by Beijing ministries for joint ventures often lack infrastructure. US companies naturally seek partners that enjoy adequate transportation, water, and electricity, among other services. But Chinese planners often pick sites with poor infrastructure facilities, in order to stimulate new investments. Although a sound development strategy in theory, the end result is often to drive the US company away, particularly if it is expected to pay for the improvements.

Chinese factories sometimes tolerate hazardous levels of pollution. The negotiator for a West Coast manufacturer said that his company would not consider forming a joint venture with a Guangdong factory selected for them because it was a pollution "timebomb."

Managers of Chinese enterprises have very little authority. For example, Chinese managers cannot deal directly with suppliers, except in a few experimental enterprises (*CBR*, Jan.–Feb., 1980, pp. 68–69). The managers deal with shortages, when they occur, by manufacturing in-

puts with their own auxiliary workshops. These produce essentials such as bolts, spare parts, and simple equipment. So the question becomes: will joint ventures have to set up similar workshops in order to ensure a constant and high level of plant utilization?

Factories in the PRC also maintain teams of purchasing agents, or *cai gou yuan*, who arrange (quasi-legal) barter deals that obtain materials desperately needed by plants, in exchange for goods or favors for other factories. Will joint ventures have to participate in this system? Can a partly foreign owned factory in China play the game as well?

Chinese factories are burdened with extraneous responsibilities. Large plants in particular are expected to function as units of urban administration, and provide housing and schooling for their employees and their dependents. On occasion they are asked to provide labor, equipment, and vehicles for civic projects as well.

In China all major management decisions must be cleared with a factory's communist party committee, and by the local industrial bureau responsible for drawing up and supervising the factory's annual plan. These industrial bureaus have grown in power due to the central government's recent policy of decentralization. As a result, factory managers reportedly have suffered a real loss of authority because their bosses now are close at hand—looking right over their shoulders—and not supervising from far-away ministries in Beijing.

The management ground rules under which Chinese enterprises operate are in a state of controversy and flux. Hence, US business people are reluctant to recommend that their companies set up joint ventures under such conditions.

A vivid description of the current policy free-for-all in China appears in a June 10 *People's Daily* article by the noted economist Xue Muqiao. The debate concerns prices, according to Xue. Should they be fixed by the government or by some future market mechanism? This debate originally took place among planners, since factories cannot set their own prices. Then management issues entered the debate, since under China's current pricing system the prices of state plan items are set by the State Council's Bureau of Prices, with the result that some enterprises are making huge profits—not because they are well managed—but because the planning authorities set their prices very high. This has brought the tax collectors into the debate. The reason: China's Ministry of Finance wants enterprises that make large profits to pay proportionately higher tax rates. With the issues of prices, profits, and taxes still up in the air, China's regulations on joint ventures can be issued in 1980 only if they are clearer and more specific than the available patchwork of decrees governing China's own domestic industry.

After taking a dispassionate look at the realities of factory management in China, many US companies are apprehensive about a joint venture's board of directors which, regardless of its powers on paper, may not have the independence necessary to function profitably and to guarantee a quality product.

Finding the Right Formula

But every pessimist generates a market opportunity for an optimist, and the China market is no exception. While some companies hold back, others keep looking for new approaches to joint ventures that bypass some of the aforementioned problems.

One approach has been to set aside the ambitious idea of building an integrated plant in China and to think instead in terms of setting up a single process. Advocates of this strategy say that the peculiarities of a company's technology and processes—when properly selected and applied—might yield a profit under Chinese conditions if the less suitable parts of the production process are kept in Japan, Hong Kong, or elsewhere. Deals under discussions of this type tend to be joint ventures that:

- are relatively small;
- are export oriented, or earn foreign exchange from tourism;
- can pay tax rates of about 35 percent, wages at least 50 percent above the average Chinese rate, and land rents of at least $1 per square foot per year (these are terms embodied in the joint ventures approved to date, and in preliminary contracts that have been published);
- can start production in two years or less, and amortize the original investment, plus make a profit, in less than ten years (the duration of the first three joint ventures to be approved was eight to ten years, although the China-Schindler elevator manufacturing deal is for 20 years);
- utilize the existing labor force and technical personnel;
- can operate at a substantially lower capital-labor ratio than would be profitable in the US;
- are prepared to make part of their equity contribution in cash;
- rely on inputs readily available locally, perhaps even in the same county; and
- have the wholehearted support of local officials.

A more common approach has been to go slow on joint ventures while exploring simpler, more immediate opportunities for sales and cooperation in the expectation that a joint venture will develop out of an existing arrangement. Fuller-O'Brien Corporation, for example, has signed two paint manufacturing deals—one a compensation trade agreement in Beijing, and the other a processing agreement in Guangzhou. Company officials point out that these may lay the groundwork for a joint venture, and in the meantime show good faith and continued interest.

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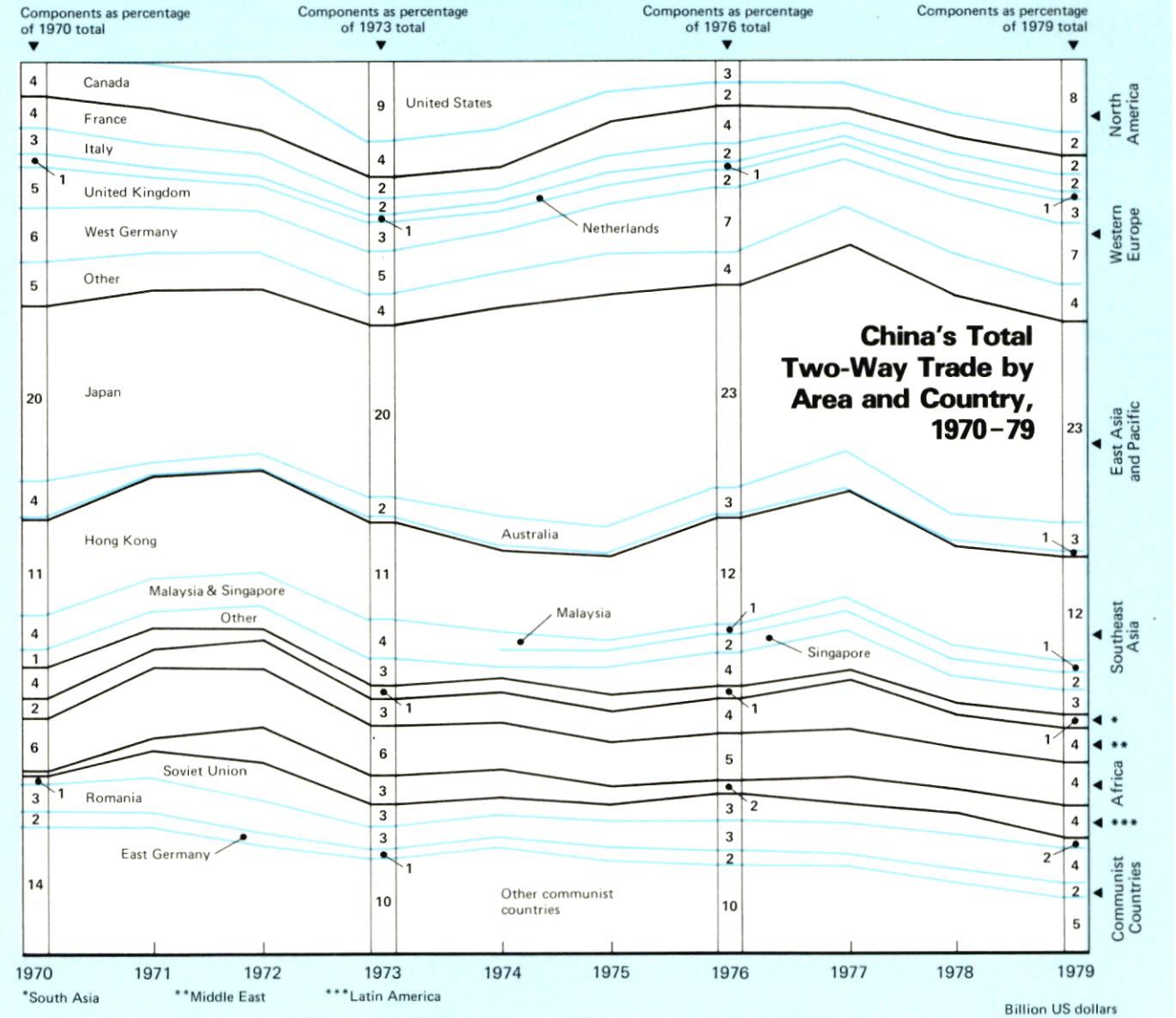
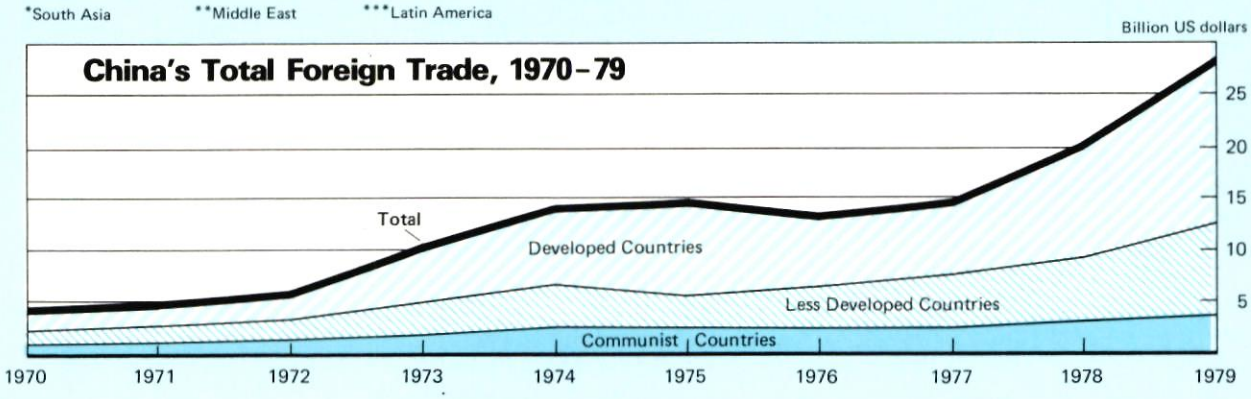
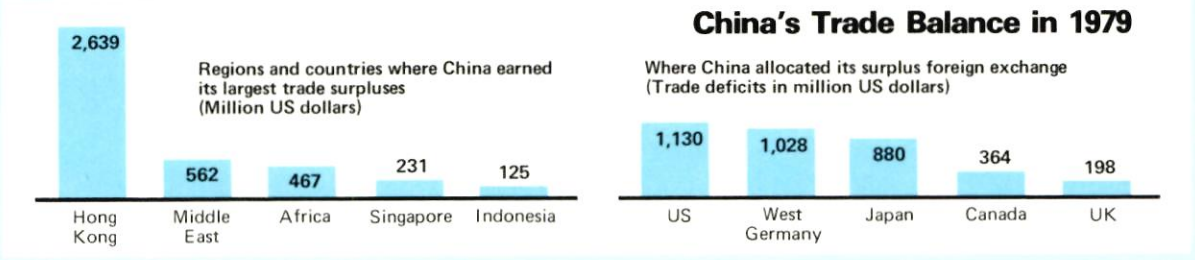
RMB: DOLLAR RATES AS OF JULY 8, 1980

	RMB/ US$	US¢/ RMB
May 13		
Bid	1.4944	66.9165
Offer	1.4870	67.2495
Median	1.4907	67.0826
May 23		
Bid	1.4855	67.3174
Offer	1.4781	67.6544
Median	1.4814	67.4855
May 24		
Bid	1.4766	67.7231
Offer	1.4692	68.0643
Median	1.4729	67.8933
May 30		
Bid	1.4825	67.4536
Offer	1.4751	67.7920
Median	1.4788	67.6224
June 6		
Bid	1.4751	67.7920
Offer	1.4677	68.1338
Median	1.4714	67.9625
June 14		
Bid	1.4589	68.5448
Offer	1.4517	68.8848
Median	1.4553	68.7144
June 17		
Bid	1.4648	68.2687
Offer	1.4574	68.6153
Median	1.4611	68.4416
July 8		
Bid	1.4516	68.8895
Offer	1.4444	69.2329
Median	1.4478	69.0703

SOURCE: Standard Chartered Bank, Ltd., New York.







SOURCES: Joint Economic Committee of Congress (ed.), *Chinese Economy Post-Mao*, 1978, pp. 734–735; and National Foreign Assessment Center (CIA), *China: International Trade Quarterly Review First Quarter*, 1980

China Business Review, July-August 1980

China's Foreign Trade by Area and Country, 1970–79
(Million current US dollars, exports f.o.b., *imports f.o.b.**)

Region/selected country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Africa	140 *120*	200 *185*	215 *185*	315 *250*	485 *250*	520 *210*	520 *165*	516.7 *251.8*	650.7 *310.3*	845.5 *378.4*
Egypt	13 *13*	15 *30*	22 *29*	22 *22*	16 *39*	50 *23*	39 *59*	45.3 *34.1*	52.0 *64.8*	29.9 *31.2*
Nigeria	18 *1*	26 *1*	24 *5*	33 *8*	44 *6*	63 *8*	108 *5*	133.5 *11.7*	152.4 *12.1*	211.6 *17.2*
Tanzania	33 *9*	76 *13*	64 *21*	88 *15*	79 *14*	71 *16*	38 *15*	18.8 *20.7*	23.9 *31.3*	33.2 *44.5*
Communist countries [1]	482 *380*	586 *500*	740 *535*	1,001 *710*	1,429 *1,010*	1,375 *1,010*	1,240 *1,105*	1,353.8 *1,066.8*	1,562.6 *1,523.5*	1,754.9 *1,878.4*
East Germany	36 *42*	39 *44*	50 *48*	59 *50*	78 *70*	103 *117*	96 *104*	110.0 *115.0*	138.0 *182.0*	191.7 *259.1*
Romania	62 *72*	89 *99*	96 *122*	136 *129*	182 *168*	215 *220*	201 *252*	273.2 *239.2*	415.3 *374.4*	577.0 *533.1*
USSR	22 *25*	76 *78*	134 *121*	136 *136*	139 *143*	150 *129*	178 *238*	177.8 *161.8*	7.3 *242.2*	240.7 *268.1*
East Asian and Pacific	300 *740*	365 *640*	530 *690*	1,025 *1,265*	1,390 *2,470*	1,565 *2,740*	1,420 *2,050*	1,631.1 *2,453.5*	2,107.1 *3,622.5*	2,993.2 *4,539.1*
Australia	40 *135*	42 *29*	55 *49*	86 *161*	121 *357*	86 *355*	102 *278*	124.2 *461.0*	139.5 *483.5*	166.3 *776.1*
Japan	255 *600*	322 *607*	468 *640*	918 *1,089*	1,241 *2,086*	1,459 *2,369*	1,306 *1,746*	1,485.7 *1,954.9*	1,947.5 *3,073.9*	2,793.3 *3,673.5*
Latin America	10 *5*	10 *55*	20 *210*	55 *270*	60 *390*	45 *250*	55 *150*	66.8 *387.9*	105.0 *557.3*	236.0 *828.5*
Argentina	1 *3*	1 *7*	2 *3*	2 *18*	0 *115*	1 *22*	2 *3*	.8 *87.1*	2.4 *61.6*	8.8 *195.4*
Brazil	0 *1*	1 *2*	1 *77*	2 *72*	1 *21*	1 *74*	2 *10*	.4 *162.7*	4.3 *126.6*	85.9 *150.5*
Middle East	75 *25*	75 *15*	90 *90*	180 *140*	351 *147*	371 *158*	364 *156*	606.4 *200.6*	583.6 *160.2*	766.4 *204.3*
North America	22 *155*	33 *215*	81 *375*	117 *1,220*	177 *1,462*	213 *770*	292 *368*	280.4 *517.8*	406.5 *1,306.7*	737.0 *2,230.5*
Canada	22 *155*	28 *215*	49 *296*	53 *358*	62 *513*	55 *436*	90 *219*	77.3 *346.5*	82.8 *442.1*	142.8 *506.7*
United States	z z	5 z	32 *79*	64 *862*	115 *949*	158 *334*	202 *149*	203.1 *171.3*	323.6 *864.6*	594.2 *1,723.8*
South Asia	70 *85*	60 *65*	40 *50*	80 *70*	134 *58*	159 *97*	91 *94*	107.1 *83.3*	147.7 *102.1*	225.4 *156.2*
Pakistan	26 *41*	33 *32*	23 *18*	46 *14*	52 *12*	51 *14*	62 *10*	51.7 *17.3*	79.4 *30.7*	63.1 *17.5*
Sri Lanka	46 *44*	26 *32*	15 *27*	31 *39*	65 *42*	89 *68*	6 *68*	29.6 *47.4*	17.0 *31.0*	63.6 *55.0*
Southeast Asia	645 *75*	760 *60*	960 *110*	1,620 *260*	1,785 *260*	2,080 *190*	2,290 *230*	2,517.7 *441.7*	3,219.9 *365.9*	4,272.4 *893.7*
Hong Kong	468 *11*	550 *10*	684 *18*	1,094 *53*	1,190 *59*	1,372 *33*	1,590 *30*	1,735.4 *44.4*	2,249.4 *62.9*	3,020.8 *382.2*
Malaysia	120 *23*	150 *19*	170 *28*	320 *85*	186 *91*	106 *55*	97 *49*	133.8 *119.9*	210.6 *110.3*	212.0 *181.9*
Singapore	n *24*	n *16*	n *21*	n *56*	225 *54*	252 *44*	254 *40*	261.8 *59.4*	325.8 *57.9*	395.2 *164.0*
Western Europe	355 *660*	410 *575*	475 *605*	685 *1,040*	850 *1,370*	840 *1,970*	985 *1,690*	1,027.8 *1,194.7*	1,262.3 *2,339.5*	1,911.8 *3,398.0*
France	57 *97*	67 *125*	91 *67*	128 *103*	160 *189*	150 *434*	169 *402*	168.6 *95.3*	196.3 *199.2*	284.3 *339.2*
United Kingdom	69 *143*	69 *92*	77 *90*	102 *238*	136 *192*	112 *204*	136 *141*	159.4 *108.9*	185.7 *175.6*	255.0 *453.0*
West Germany	70 *200*	89 *160*	92 *190*	130 *356*	168 *484*	195 *601*	236 *716*	250.4 *500.7*	318.7 *995.2*	464.2 *1,492.5*
TOTAL Exports (f.o.b.)	2,095	2,500	3,150	5,075	6,660	7,180	7,250	8,107.8	10,045.4	13,742.6
Imports (f.o.b.)*	*2,245*	*2,310*	*2,850*	*5,225*	*7,420*	*7,395*	*6,005*	*6,598.1*	*10,288.0*	*14,507.1*
TOTAL [2]	4,340	4,810	6,000	10,300	14,075	14,575	13,255	14,705.9	20,333.4	28,249.7
Trade balance	−150	190	300	−150	−760	−215	1,245	1,509.7	−242.6	−764.5

Table compiled by Kathryn Dewenter

*Exports f.o.b., imports c.i.f. during 1970–76

1 In addition to countries listed, total also includes Yugoslavia, Albania, Cuba, North Korea, and Vietnam from 1970–76, and includes Kampuchea, Mongolian Republic, Laos, Cuba, North Korea, Vietnam, and Yugoslavia from 1977–79.

2 Components may not add to totals shown because of rounding. Since the above US government trade figures differ from trade data recently released by China's State Statistical Bureau, the reader should be aware that the official PRC trade total was ¥ 35.54 ($21.13), and ¥ 45.5 ($29.4) in 1979.

z = Sum is greater than zero, but too small to appear in rounded numbers.

n = Singapore and Malaysia export figures are combined for 1970–73.

SOURCES: Richard E. Batsavage and John L. Davie, "China's International Trade and Finance," in Joint Economic Committee of Congress (ed.), *Chinese Economy Post-Mao, 1978*, Tables A-2 and A-3, pp. 734–35; and National Foreign Assessment Center (CIA), *China: International Trade Quarterly Review*, 1:1980.

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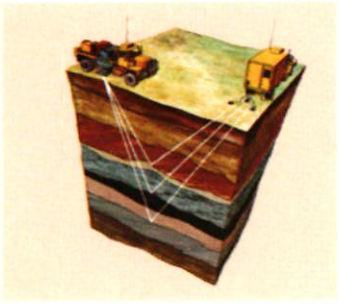

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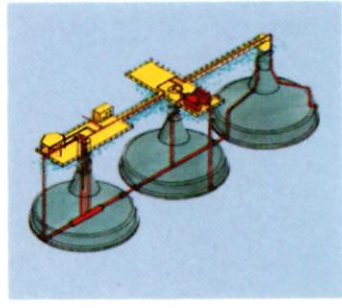
The graphite industry uses needle coke to make electrodes for the steel industry's electric arc furnaces, where iron ore and scrap are reduced to high quality carbon steel.

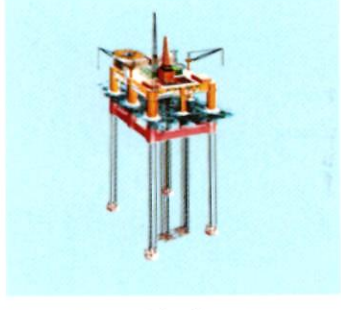
Through its four plants, Conoco supplies over three-fourths of the world's needle coke.

科技



Offshore Storage

Utilizing the principle that oil floats on water, Conoco pioneered the submersible steel 500,000-barrel offshore storage tank. When oil is pumped in, water is forced out at the bottomless base; the reverse occurs when oil is pumped out into the holds of tankers. So it eliminates the need for pipelines to shore, as well as onshore docking facilities and storage tanks.



Tension Leg Platform

Conoco has solved many of the problems associated with deepwater production platforms through the development of the tension leg platform (TLP). A floating structure moored to the sea bottom by steel pipe tethers, the TLP is designed to remain on location in all weather conditions.

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Material Incentives Take Root in the Countryside

Beijing's quest for higher peasant productivity has led to management experiments the government hitherto extended only to industry. Now the performance of rural cadres will be measured by the individuals' cost-effectiveness.

Karen Berney

Paralleling Beijing's experiments with new labor incentives on the industrial front, a new tide of reform is inundating rural China. Three measures launched this spring all emphasize motivation by material incentives rather than by ideology. Aimed at unleashing the productive energy of China's agricultural workforce, these measures already have been implemented nationwide on a trial basis. They involve:

- A new system for organizing rural production teams, which allows much smaller work units to determine wages;
- Revised work performance criteria to encourage agricultural cadres to pursue cost effectiveness, rather than emphasizing the fulfillment of output quotas;
- The promulgation of regulations to assign professional titles to agro-technical cadres, thereby raising the status and attractiveness of employment in agricultural fields.

The basic thrust of these reforms is to force peasants and cadres to take more responsibility for their profits and losses.

More than 80 percent of China's rural production teams are now organized according to a new "production responsibility system," under which a team is divided into smaller work groups of

China's Major Agricultural Imports, 1979–80
(1,000 metric tons, value in million US$)

Crop	Worldwide 1979	Worldwide 1980*	US share 1979	US share 1980*
Wheat	7,976	9,000	1,604 ($221.4)	5,000 ($782.5)
Corn	2,519	2,000	2,390 ($268.5)	2,000 ($250.9)
Soybeans	547	850	412 ($106.7)	650 ($169.0)
Soybean oil	112	120	59 ($35.8)	76 ($43.8)
Cotton	760	760	250 ($357.0)	400–500 ($625–870)
Approximate Total Value	$2,360	—	$989.4	($1,800–2,000)

SOURCE: Volume and value figures for 1979, in addition to other useful agricultural statistics, are reported in *PRC Agricultural Situation: Review of 1979 and Outlook for 1980*, available from the USDA.

*Trade projections are based on numerous discussions with US agricultural trade specialists. Value estimates for US agricultural exports in 1980 are based on the per-ton prices for these commodities as of July 24, 1980, and do not include handling and transportation costs.

20 to 25 laborers who carry out production or service contracts signed with the team. The terms of the contract include fixed production quotas, as well as penalties and rewards for the work groups.

Workers receive remuneration on the basis of workpoints, which are assigned a monetary value by dividing the net income of the group by its total number of workpoints. Upon the conclusion of a contract, the team leadership allocates workpoints to each work group while the group itself sets the standards for distributing points among its members.

Although in the past a peasant's yearly income was paid on the basis of workpoints, he had little material incentive

MAJOR PRC AGRICULTURAL OUTPUT STATISTICS, 1950-80*
(million metric tons unless otherwise indicated)

Year	Total Grain[1] Output	Total Grain[1] Metric tons per hectare	Total Grain[1] Imports	Wheat Output	Wheat Metric tons per hectare	Wheat Imports	Rice Output	Rice Metric tons per hectare	Rice Exports	Coarse Grain[2] Output	Coarse Grain[2] Metric tons per hectare	Coarse Grain[2] Imports	Sugar[3] Imports (1,000 m.tons)
1950	104.8	1.19	z	14.5	.63	—	55.1	2.1	—	36.2	.94	—	—
1960	119.0	1.26	4.7	21.0	.78	—	73.0	2.31	1.73	30.4	.79	z	203
1965	122.6	1.63	5.25	25.0	.98	5.25	90.0	3.02	1.30	51.2	1.29	.192	419
1970	129.8	1.85	4.6	31.0	1.21	—	110.0	3.49	—	64.5	1.62	—	530
1971	131.3	1.87	3.12	31.0	1.20	—	117.0	3.55	.924	64.3	1.61	—	464
1972	131.5	1.82	4.64	36.0	1.37	4.25	112.0	3.33	1.55	59.5	1.50	.39	749
1973	132.6	1.88	7.64	35.0	1.32	5.98	118.0	3.43	2.59	63.7	1.60	1.65	563
1974	134.7	1.97	6.79	38.0	1.39	5.34	127.5	3.63	2.55	66.4	1.65	1.44	411
1975	136.5	1.99	3.45	41.0	1.48	3.33	126.5	3.56	1.96	68.9	1.69	.95	313
1976	137.5	1.99	2.06	45.0	1.58	1.92	125.5	3.49	1.44	69.3	1.66	z	635
1977	282.8	—	6.83	41.0	1.49	6.83	129.0	3.56	1.02	74.5	1.96	z	1,743
1978	304.8	—	9.30	54.0	1.96	7.98	137.0	3.81	1.21	76.5	1.99	1.32	1,366
1979[5]	332.1	—	10.51	60.5	2.15	7.97	140.5	3.99	1.20	77.5	2.0	2.51	1,048
1980[6]	335.4	—	11.0–13.0	57.5	—	9.0	144.0	—	—	80.0	—	2.0	—

Year	Soybeans Output	Soybeans Metric tons per hectare	Soybeans Exports (1,000 m.tons)	Soybeans Imports (1,000 m.tons)	Cotton Output	Cotton Metric tons per hectare	Cotton Imports (1,000 m.tons)	Value of China's total agriculture trade[4] (In all major and minor commodities) (million US$) Exports	US share (%)	Imports	US share (%)
1950	8.1	.86	NA	—	.69	.18	z	96	—	—	0.0
1960	8.2	.88	1,694	—	.90	.17	80	756	—	268	0.0
1965	6.8	.84	700	0	1.65	.34	168	762	—	630	0.0
1970	6.9	.86	NA	0	2.0	.41	—	980	—	600	0.0
1971	7.9	.95	460	0	2.2	.45	122	1,160	0.3	535	0.0
1972	8.7	.96	370	2	2.1	.43	425	1,470	1.1	825	7.4
1973	10.0	1.09	310	255	2.55	.52	378	2,175	0.9	1,750	35.7
1974	9.5	1.07	340	619	2.50	.51	143	2,585	1.0	2,345	28.3
1975	10.0	1.09	330	36	2.33	.48	193	2,855	0.9	1,355	5.8
1976	9.0	1.0	178	25	2.18	.46	124	2,670	2.0	950	2
1977	7.3	1.04	120	364	2.04	.43	350	2,735	2.4	2,110	3.1
1978	8.3	1.13	101	109	2.16	.46	480	3,190	2.6	2,535	24.2
1979[5]	8.3	1.13	300	547	2.20	.49	760	4,000	2.1	3,400	29.3
1980[6]	8.4	—	—	850	2.33	—	760	—	—	—	—

NOTES

*Output statistics are obtained from the recent USDA report, *PRC Agricultural Situation: Review of 1979 and Outlook for 1980*, available from the Asia Branch of the International Economics Division. USDA figures are not necessarily consistent with those issued by the Chinese State Statistical Bureau. Trade statistics prior to 1970 can be found in *Agricultural Trade of the PRC, 1935–69*, USDA Foreign Agricultural Economic Report no. 83.

[1] As reported by the PRC, total grains include wheat, rice, coarse grains, other miscellaneous grains and pulses, and some part of soybean production. Grain exports to the PRC consist of wheat and coarse grains (primarily corn).

[2] Coarse grains include corn, barley, oats, rye, sorghum, and millet, of which corn is the primary crop.

[3] A consistent data series on sugar production is not yet available.

[4] With regard to the value of China's agricultural exports, rice heads the list followed by live animal, and meat and fish exports to Hong Kong and the rest of Asia. Grain is the PRC's largest import item; it accounted for 40 percent of the value of all agricultural imports in 1979. Sugar, oilseeds, and natural fibers are also substantial items with the latter being the fastest growing category.

[5] China's final grain figure of 332.1 million tons was released by the SSB on April 30. USDA estimates for various grains do not incorporate this figure and are based on an earlier figure of 315 million tons. USDA believes that the reported increase occurred in coarse grain and rice production. These figures are being revised.

[6] Based on preliminary USDA estimates, or USDA projections of a 1 percent growth in total grain output over the 1979 level.

—Insufficient data.

z = None or negligible amounts.

to devote more energy in the field than his fellow worker. Because work groups were so large—sometimes comprising an entire village—the quality and quantity of his labor were barely reflected in the value of a workpoint. Furthermore, the formula for workpoint distribution among team members included an assessment of one's general political attitude. Hence, two workers of equal ability performing a similar job for the same number of hours could be allotted a different number of workpoints.

According to a Xinhua commentary dated April 2, the major appeal of the production responsibility system is that it has overcome the "egalitarian trend in calculating labor remuneration," by more closely matching income to the value of one's labor contribution.

Beijing's quest for higher levels of worker productivity is not confined to the peasantry. Under the guiding principle of "achieving the maximum results with a minimum of labor consumption," the major yardstick for measuring the performance of rural political cadres will be their cost-effectiveness.

By offering managers cash bonuses for cutting production costs and making the most efficient use of fixed inputs, Beijing hopes to break them of the habit of stressing the fulfillment of state procurement and production quotas at all costs. Preoccupation with physical plan targets is now under fire for contributing to the wasteful and irrational use of resources and causing such systemic problems as the countryside's defoliation.

These new incentive policies also are expected to help put an end to the recently publicized practice of falsifying agricultural statistics, such as inflating figures for bonuses and underreporting them to obtain reduced quotas and government aid.

China's leadership is pushing hard to gain management's support for these reforms.

On May 24 the State Council issued a circular calling on all local departments to implement "provisional regulations on technical titles for agrotechnical cadres." The message to current and future agricultural cadres is clear; namely, that they will be accorded the same social and income status as other scientific and technical personnel, but only those meeting rigorous professional standards will qualify for promotion.

Accompanying this nationwide program to appraise the achievements and qualifications of agrotechnicians is a move to update their training in specialized fields. Since last year, five Chinese ministries (agriculture, forestry, agricultural machinery, state farm and land reclamation, and water conservancy) in cooperation with the State Bureau of Marine Products and the Central Meteorological Bureau, have provided more than 200,000 cadres with four months of training in *ad hoc* schools set up to teach crop and soil cultivation, veterinary science, genetic breeding, and how to use farm machinery and fertilizer.

Although Beijing has not disclosed its long run agricultural development strategy, these incentive-oriented measures do provide a strong hint as to how Beijing intends to carry out the modernization of China's countryside. 完

China's 1st Technology Transfer to the US: Planting the Seeds of Trade

China is on the threshold of making a major contribution to feeding the world's hungry millions. With the help of Ring Around Products, Inc., the seed division of Occidental Petroleum Corporation, Chinese scientists are now developing techniques for the eventual mass production and distribution of Chinese hybrid rice seeds—with a per hectare yield reportedly 20 percent higher than that currently achieved by any other seed varieties.

Ring Around's 17-year licensing agreement grants it exclusive rights to market Chinese hybrid rice in five countries: the US, Brazil, Italy, Spain, and Portugal. The deal evolved unexpectedly out of a journey to Beijing last May to brief Chinese agricultural specialists on seed genetics. After learning about China's perfection of rice hybridization—a scientific innovation unknown to the rest of the world—Ring Around's financial analysts began to calculate the impact of cornering the market for a superior rice seed. The company returned to the US ready to plant the contents of a two-pound bag containing three varieties of Chinese rice hybrids.

The results of the tiny harvest in El Centro, California, made Ring Around rush back to China to sign a protocol covering technology exchange in three segments of plant genetics, including hybrid rice and hybrid cotton. Work had just begun on finalizing this three-in-one proposal at company headquarters in Prattsville, Alabama, when a cable from Beijing informed Ring Around that each area of technology exchange would comprise a separate contract, with negotiations on the rice contract scheduled to begin in January. After the equivalent of three one-week sessions of nonstop negotiations the parties signed "a most amicable" contract in late March.

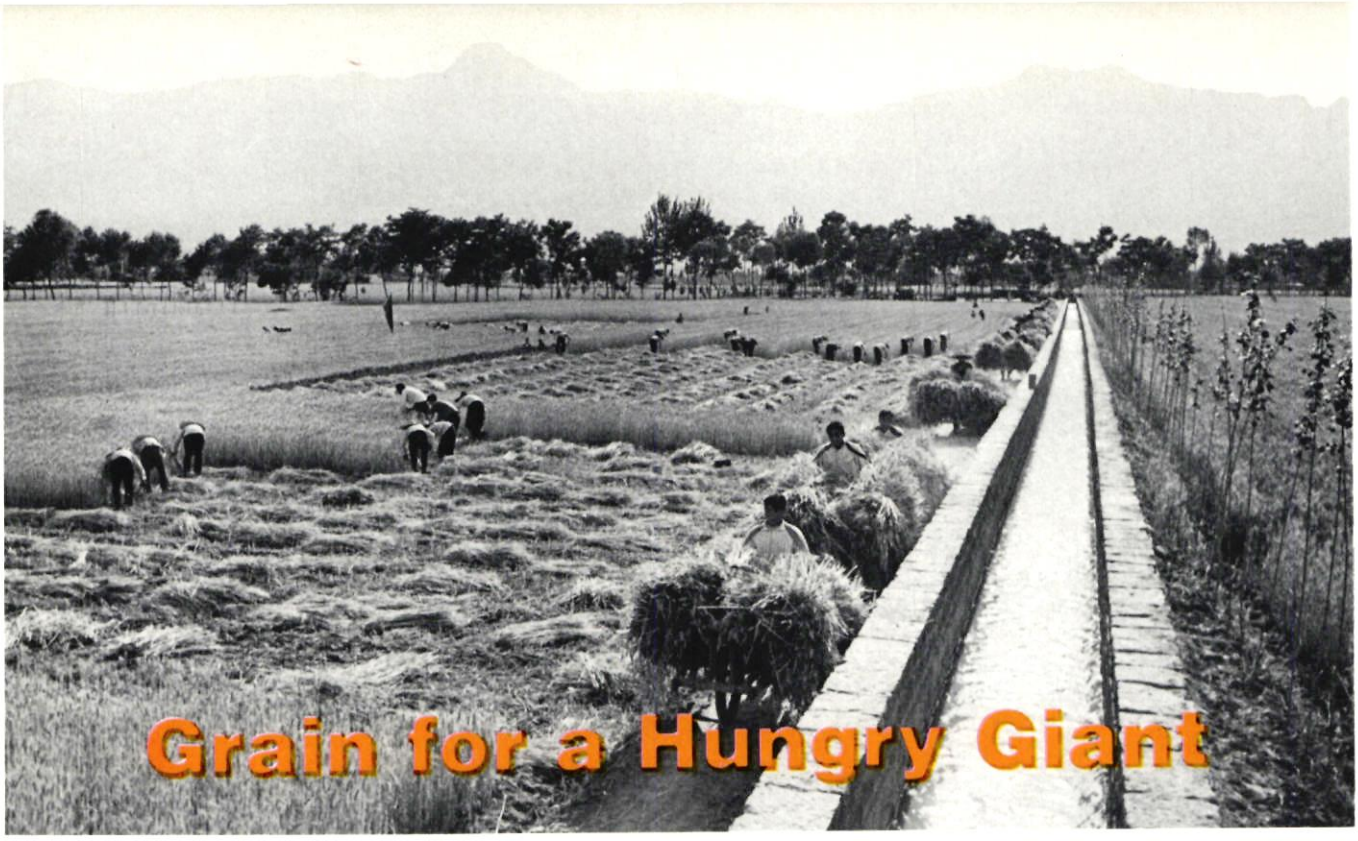
In addition to determining the licensing fee and method of royalty payments, the most difficult question concerned the precise wording of the contract. The Chinese had opened a new patent office (although a patent law is still pending) whose representatives were on hand to guarantee that at every turn, "the nationality of China is totally recognized." The rice hybrid technology is not covered by a patent, so Ring Around may apply for one in the US and issue it to the Chinese inventor who then will assign it back to Ring Around, according to a company spokesman.

Ring Around has not disclosed the potential worth of the agreement, but has compared the Chinese invention to the effect of corn hybrid technology on its output and commercial value over the last 25 years. "The company must envision a tremendous payoff," claims one agricultural economist, "otherwise, it could not justify the investment that will be needed to transplant China's highly labor-intensive rice hybrid in five different environments."

Ring Around hopes to be supplying Brazilian and European farmers with seed stock by 1982, though it may take up to five years to perfect a high-yield, quality seed suitable for the US domestic market.

The conclusion of a second agreement to introduce Ring Around's recently developed hybrid cotton to textile-conscious China is just around the corner as well as a third one covering seed genetics. And if Chinese and American scientists are successful in their present endeavors, Ring Around executives see the firm to making perhaps billions of dollars in global profits, and taking credit for an even stronger US position in the world's grain trade.

—KAB



Grain for a Hungry Giant

US is becoming China's number one wheat supplier

In spite of the PRC's more than seven percent average annual growth rate in grain output in 1978 and 1979, its appetite for foreign grain shows no sign of subsiding. Last year's imports of 10.5 million tons of grain (37 percent of that from the US), represented a 13 percent increase over the previous record in 1978 and a near doubling of the 1973–77 average.

With 1980's early harvest of winter wheat* estimated at 57.5 million tons, 3 million tons below the 1979 level, agricultural traders predict that China will need at least 9 million tons of foreign wheat this year. That amounts to 1.03 million tons more than in 1979. China's total grain imports for the year are expected to range between 11–13 million tons.

Indeed, China wasted no time in compensating for its anticipated wheat shortfall. During the early spring when trans-Atlantic grain rates dropped by 14 percent to the May low of about $148 a metric ton because of the US export ban on 17 million tons of grain to the Soviet Union, China snapped up 3.5 million tons of US wheat—double the amount purchased last year.

On the basis of private discussions between USDA and Chinese agricultural officials, American grain companies have learned that the PRC's wheat orders will total 5 million tons by the end of the calendar year. With US farmers supplying about 55 percent of China's demand for foreign wheat, its traditional suppliers of Australia, Canada, and Argentina are expected to export about 1.5, 1.4, and 0.5 million tons of wheat respectively.

The outcome of China's late harvest will of course determine the country's coarse grain requirements and its exact position as a world buyer and seller of agricultural products.

New Demand Pressures

Even if China's output of food products and natural fibers increases substantially in coming years, the increase in supply still could be offset by new demand pressures stemming from Beijing's commitment to higher living standards and agricultural exports.

Beijing's willingness to respond to upward demand pressures is shifting the commodity composition of China's agricultural imports. The PRC's effort to develop livestock production led to near record soybean imports in 1979, while rapidly rising fiber demand produced a 60 percent increase in cotton imports above the 1978 high of 480,000 tons.

Beijing's tilt toward consumer needs also is beginning to show up in its imports of US agricultural products. Cotton is now the leading US agricultural export to the PRC; the value of exports in 1980 is likely to grow by an estimated 75 percent over 1979. Current PRC purchases of both US cotton and soybeans already exceed the amounts contracted for last year.

Predicting the composition and direction of China's agricultural trade is hazardous business. But experts agree that as long as Beijing places the highest priority on improving China's quality of life, there should be no overall reduction in its agricultural imports below current levels. At the same time, there is no certainty as to what Beijing would do in the face of future supply constraints and spiraling world food prices. KAB 完

*The winter harvest constitutes 85 percent of China's total yearly wheat production.

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Sister-State Relations

Carol S. Goldsmith

After four days on the Eastern Shore's fertile banks, a quick trip past the I-270 computer corridor, and a drive back through the greening pastures and farms of rural Maryland, the Chinese looked with wonder at their beaming hosts. Cried they: "Yours is *truly* a blessed state."

All over America the Chinese are discovering and lauding the riches of these United States. Down in Kentucky they marvel at the massive machines unearthing kilotons of coal in one fell scoop. In Michigan they scan the long, automotive assembly lines that stretch nearly as far as the farmlands. Out in Washington they admire the full, stately forests that could furnish the lumber and paper goods China still needs.

And all during these visits the Chinese spend their time copying down notes and complimenting their hosts in an effort to learn more from their American friends.

The past 18 months have seen a tremendous surge in state-to-province relations. Ever since President Carter asked attendees at a National Governors' Association meeting in late 1978 to pay court to the Chinese, letters of intent and invitations have been crossing the Pacific at a furious rate. None of this would have been possible had it not been for China's decision early last year to decentralize foreign trade, thereby giving local officials—and particularly the

State-To-Province Relations

State	Missions	Areas of Interest
Ohio	Four delegations to Hubei (July 1979; Nov. 1979; Jan. 1980; May 1980) one planned to Hubei and Shanxi (fall 1980) two from Hubei (Aug. 1979; April 1980)	Exports of heavy industry machinery; agricultural technology
Kansas	One delegation to China (Aug. 1979) one from Henan (May 1980)	Exports of light agricultural equipment; pharmaceuticals and biological products; imports of electronics and raw energy
Maryland	One delegation to Anhui (June 1980) one from Anhui (Sept. 1979)	Exports of agricultural technology and poultry breeding/slaughtering techniques
Kentucky	One delegation to China (July–Aug. 1979); two from Ministry of Coal Industry (1978, Feb. 1978)	Exports of mining technology; coal handling and transportation systems; electrical generation equipment; imports of raw metals for drill bit manufacturing
North Carolina	One delegation to China (Nov. 1979)	Exports of tobacco growing, processing, and manufacturing technology; imports of some Chinese tobacco for blending
Pennsylvania	One delegation to China (Mar. 1980)	Exports of metals industry technology; braking and signal systems for rail transport; electrical generation technology; pharmaceuticals; agricultural chemicals
Massachusetts	One delegation to China (May 1980)	Exports of air and water pollution control technology; machinery for paper and abrasives manufacturing; technical consulting
Connecticut	One delegation to China (May 1980)	Exports of machine tools; transportation equipment; control instrumentation

State-To-Province Relations

State	Missions	Areas of Interest
Washington	Three delegations to China (May 1978; Sept. 1979; May 1980) one from China (Feb. 1979); one planned from the Bank of China (July 1980)	Exports of lumber and logging equipment; reforestation technology; imports of textiles, arts, and crafts
Delaware	One delegation to China (Feb. 1979); one oil industry delegation from China (1978)	Exports of agricultural and communications technology; construction materials; fertilizer and other chemicals
Virginia	One delegation to China (June 1979)	Exports of agricultural products and technology
Alaska	One delegation to China (Feb. 79) one oil industry delegation from China (1978)	Exports of agricultural goods, primarily grains
Mississippi	One delegation to China (Sept. 1979) two from the Ministry of Forestry (July 1979; May 1980)	Exports of forestry technology and equipment, paper, and lumber products
Michigan	Two delegations to China: one state trade mission and one protocol mission accompanying state reps on the National Governor's Association (NGA)-National Council on US-China Relations Delegation (both Oct. 1979) one from Henan Province (April 1980)	Exports of machine tools related to agriculture and automotives
Illinois	One delegation accompanying the NGA-National Council (Oct. 1979)	Exports of agricultural products and manufacturing goods
Colorado	Two delegations to China: one state trade mission (June 1980) and one protocol mission accompanying the NGA-National Council (Oct. 1979) two agricultural and mining delegations from China (1979)	Exports of mining and metallurgy technology, equipment, and related manufacturing
Hawaii	One delegation accompanying NGA-National Council (Oct. 1979) two agriculture delegations from China (1979)	Exports of agricultural products and technology; imports of Chinaware; arts and crafts; mutual exchange of acquaculture technology and foodstuffs
Vermont	One delegation accompanying NGA-National Council (Oct. 1979) another state delegation in the works	Exports of machine tools; electronics; vehicles; energy-related equipment and generators (such as windmill generators)
Iowa	One delegation accompanying NGA-National Council (Oct. 1979) another state delegation scheduled to visit CCPIT this year	Exports of food processing and packaging technology; farm implements; agricultural technology
Montana	One delegation accompanying NGA-National Council (Oct. 1979)	Exports of grain, particularly wheat
Minnesota	One delegation accompanying NGA-National Council (Oct. 1979)	Exports of agricultural technology and products; computer technology

NOTE: These trade missions, composed primarily of business executives and/or technical experts, include only those delegations organized by or in cooperation with state government. Other trade missions may have been organized by firms or associations within the state.

new Import-Export Commissions set up by provinces and major cities (*CBR*, Mar.–Apr., 1980, pp. 12–14)—the right to deal directly with foreign companies.

Twenty-two states already have visited the PRC. Some have initialed exchange agreements and a few others have signed actual business deals *(see chart)*. The pace and prospects of these relations vary in each situation, some skeptics say according to how hard the Americans push for business and how much knowledge the Chinese can get free.

Certainly the trade leader so far has been the Buckeye State. Ohio Governor James Rhodes, not known for his shyness in business affairs, has been ushering more delegations and overseeing more deals than any other state leader. Just one month after Rhodes' door-opening trip to China in July 1979, a delegation from Hubei Province visited the Ohio State Fair. (Hubei is displaying a whole line of goods at this August's state fair—the first such exhibit from any province in this country.) Three months later the two sides initialed a general trade agreement in China, and in April a Hubei delegation, followed closely by another Ohio trade mission, met to discuss more deals. This fall Governor Rhodes plans to visit Hubei again, and swing by Shanxi Province.

To date the Ohioans have signed contracts worth $2 million to supply chemicals, electronics, hardware, and welding equipment. Negotiations are underway for $600 million worth of sales, joint ventures, compensation trade, engineering services, and licensing between Ohio and Hubei. Naturally, some may lead nowhere, but a few negotiations already have borne fruit.

"We've done just about everything you can do in the business world with China," a state government spokesman boasts.

The key to the Ohio-Hubei affair combines fortuitous timing with a precision match. By arranging the first trips just before China's rethinking of its modernization plans, Ohio and the CCPIT had time to find and firm-up relations with a compatible sister province. Both areas have agricultural regions and concentrated industrial centers, with the main difference being their divergent development levels.

Other states likewise are searching out provinces they might call their own.

Maryland, whose delegation returned in June from its first trip to China, recently signed a sister-state agreement

Individual companies are gaining access to China since many states have paved the way.

with Anhui Province, outlining the parties' business and cultural interests. Last September the state impressed guests from Anhui with its farm fertilization techniques and poultry breeding. Meanwhile Kansas continues wooing Henan Province, whose late-spring delegation toured Kansas' wheat fields and light agricultural equipment plants to follow-up Governor John Carlin's trip last August. The two regions share their roles as leading wheat producers and holders of some coal, natural gas, and petroleum deposits.

Kentucky, Michigan, and Illinois* also have singled out provinces for possible sister-state agreements. But the Chinese haven't been nearly as responsive as originally hoped. According to Paula Duffy, who accompanied a Massachusetts high-technology delegation to China in May, the Chinese now "want to do their homework [before] committing themselves to a sister state."

Caution and cash-flow problems have characterized recent state relations with the PRC. Instead of setting up meetings right away between a province and state, the Chinese organizing party (often a ministry, foreign trade corporation, or the CCPIT), first invites a technical delegation in to show its wares. Then, if the presentations are impressive enough, the Chinese may journey to the states for additional on-site information.

Pennsylvania's recent delegation serves as a model of the type of mission China likes most. Nine companies representing industrial processes, agricultural chemicals, and electrical generation sent two delegates apiece to China —the CEO to make protocol visits, and a technical advisor to conduct seminars for the Chinese end-users. During this trip the technicians found themselves lecturing and answering questions from 8:30 A.M. to 4:30 P.M. for five full days. The schedule was exhausting—at least for the Americans. One state spokesman said that despite the crowded, uncomfortable conditions, 400 Chinese engineers and plant managers "literally sat on the edge of their chairs the whole time."

Great door-openers though these sessions may be, they nonetheless hold out some business risks. Complains one state official: "We show them our technology, maybe sell them some parts or new equipment, and we know they'll go home and copy it for themselves." Partly for this reason the Delaware mission declined to conduct a technical show. After all, said one businessman, "We're after shorter-range trade, not a technical softsell."

Anyone serious about the China game, however, soon learns there are few quick moves. And the rules are set by PRC hosts. Generally the Chinese organizer specifies what types of industries the end-users would like to see and discuss. Thus, many state-to-province delegations are quite narrowly defined. (Connecticut for machine tools and transportation equipment; Iowa for food processing and packaging; Washington and Mississippi for forestry, etc.)

At times the Chinese even state what types of importers they wish to see. Several state officials said that during their visits the Chinese repeatedly emphasized their well-known need to sell in order to buy from the US. Two Massachusetts companies took the message to heart in the state's May delegation, and promptly ordered some $325,000 worth of glassware and jewels.

This push for a two-way exchange has dampened a few states' hopes, and caused others to postpone their visits to the PRC. But on the whole most states still are clamoring for entry into the provinces. One reason: businesses traveling to China frequently wish to knock on as many doors as possible, and a sales pitch from a state delegation to provincial audiences may follow the most direct route to China's end-users.

Last October eight states joined the National Governors' Association and National Committee on US-China Relations for a door-opening visit to China; NGA's executive director says, "It's likely there will be more delegations in the future." Various Chambers of Commerce and state associations are joining the trend. And individual companies are finding it easier to gain access to China since so many states have paved the way.

In fact, many US companies are beginning to steal the states' thunder. When Pennsylvania's commerce director decided to give a Pittsburgh firm its big chance to join the state's China delegation, he said, "I had to make ten calls before I could find a company that's not already there." 完

*Illinois' relations with Guangdong Province have faltered temporarily since *CBR* reported the imminence of a sister-state agreement last fall. The reason: Illinois' Hong Kong representative left his job. (See *CBR*, Sept.–Oct., 1979, p. 23.)

The Cities of Sisterly Love

Not to be outdone by the various states, at least ten US cities are speeding ahead with diplomatic relationships in the PRC.

St. Louis and Nanjing, the first pair to sign a sister-city agreement in November 1979, set the stage for three more city-to-city exchanges in recent months: New York and Beijing (February); San Francisco and Shanghai (February); and Los Angeles and Guangzhou (May). Also the City of Brotherly Love is expected to take a sister at any time. The mayors of Philadelphia and Tianjin need only initial the agreement to make the adoption complete.

Meanwhile, Chattanooga and Hangzhou, and Tacoma, Washington, and Luda, a major port in Liaoning Province, are developing relations, while three other cities—Boston, Virginia Beach, and Portland, Oregon—continue seeking possible sisters.

The agent behind all these familial ties is a Washington, DC, group called Sister Cities International. Organized in 1956 as part of the State Department, and later moved over to the League of Cities, the group ten years ago spun itself off as a private, nonprofit organization to link sister cities all over the world. Margaret Saunders explains that her group, working with the China Friendship Association, orchestrates the relations, and also offers special technical, educational, and youth leadership programs to the pairs of cities involved.

The relationships follow the general lines and logic of the state-to-province sisterhoods. The mayors sign agreements pledging long and peaceful relations, and often send cultural and educational groups abroad. All isn't purely social, of course. Says Saunders: "Many of these affiliations open the door to more commercial enterprises." —CG

"Fairly rapid progress has been made since construction of the Baoshan Iron and Steel complex first started about one and one-half years ago. Since an important policy decision on building the Baoshan Iron and Steel complex was made by the party Central Committee, negotiations with foreign countries have been accelerated, most of the contracts have been signed, and all construction projects have been carried out smoothly. All construction sites are now bustling with activity."

—Shanghai Radio, June 15, 1980

The Baoshan Contracts

Dori Jones

Steel may be at the bottom of the heap as far as China's present priorities go, but the Chinese are not letting that policy stop progress on the giant Baoshan General Iron and Steel Works near Shanghai.

China recently committed a huge chunk of foreign exchange—$1.5 billion—for steel finishing mills and other facilities for the $5 billion Baoshan complex. *(See accompanying table.)* Among the seven contracts signed for Baoshan between March and June 1980 are some of the largest since the Chinese began their "eight character" readjustment plan over a year ago.

The largest contract includes Wean United, Inc., of Pittsburgh, which won an $80 million share of a half-billion-dollar contract for a cold-rolling mill at Baoshan. This contract was the first to be backed by financing from the US Export-Import Bank. President Carter had authorized the Exim Bank to lend to China on April 1, and later that month the bank made a preliminary commitment to finance 75 percent of Wean United's portion of the contract at a rate of 8.75 percent per annum. Wean will finance 10 percent of its portion and has agreed to draw upon its own resources to subsidize the Exim credits so the Chinese can effectively borrow at 8.25 percent. The Chinese buyers will pay cash for the other 15 percent of the US portion, as required by Exim.

"Without the Exim financing, we probably wouldn't have been able to participate" in the project, noted Jeremy C. T. Thomas, senior vice-president of Wean United.

Wean was part of a 17-company consortium headed by the German firm Schloemann-Siemag, which won the overall contract for the 2.1 million ton-per-year cold-rolling mill.

As one of the largest participants with 16 percent of the contract value, Wean was one of the three companies that signed the contract with the China National Technical Import Corporation (TECHIMPORT). Schloemann-Siemag signed on behalf of the entire consortium, which consisted of German, Austrian, Japanese, and US firms. Wean signed for the American portion, and Nippon Steel Corporation signed for the Japanese portion. Wean is the only American company in the group, although other US companies will be involved as subcontractors to Wean.

Siemens AG of West Germany also has a large share of the project: a $70 million order for electrical equipment.

Of the total $500 million contract price, half is to be paid in US dollars, with the rest in German marks, yen, and French francs, according to Thomas. None of the companies involved is French, although some of the equipment will be manufactured in France.

Government-backed lending institutions in Germany and Japan will provide financing for the non-US portions of the contract at interest rates which, when blended with the 8.25 percent offered by Wean, come to 7.5 percent. The overall loan agreement to finance the cold-rolling mill was arranged by the Bank of China, Kreditanstalt Fur Wiederaufbau and the Dresdner Bank of West Germany, and the Banque de Paris et des Pays Bas.

Schloemann-Siemag announced the value of the contract as DM 1.3 billion (about $730 million), but this figure includes the equivalent of approximately DM 300 million in Chinese-made equipment.

Wean joined the German-led consortium in January 1979, a month after the ground-breaking for the Baoshan steel complex and the signing of the basic contracts for the blast furnace, coke oven, and oxygen furnace by Nippon Steel Corporation.

The consortium negotiated for 17 months on the cold-rolling mill contract. Wean's Senior Vice-President Jeremy C. T. Thomas spent 12 weeks in China in 1980 alone. He said that at one point, up to 80 people from various companies in the consortium were in China at once. The group won out over competition from German, Japanese, and American groups.

Fifty Americans will be in China to work on construction, which should begin immediately. The cold-rolling mill will produce 2.1 million tons of 2030-mm wide cold-rolled steel strip in coils and sheets. It is scheduled to be completed by 1983–84 and to come on stream in 1985 after a year of tests. Wean also is negotiating on other potential projects in China.

Lummus Gets A Share. . .

C-E Lummus of Bloomfield, New Jersey, also won a Baoshan-related contract recently. Lummus will provide its proprietary coking process for a coker to be built by Toyo Engineering Corporation at the Baoshan complex. In addition Lummus will provide basic engineering for the process, which produces coke from coal tar pitch. The plant will produce 215 tons of green coke per day.

. . .But Hot Strip Mill Goes to Japanese

US Steel and other American firms were sorely disappointed with the outcome of competition for another major Baoshan facility, a hot strip mill. A Mitsubishi group won the contract for $342 million in March, beating out not only US Steel but also a Mannesmann-Demag–led consortium, a Schloemann-Siemag group, and Ishikawajima-Harima Heavy Industries of Japan.

The hot strip mill will have a maximum design capacity of 4 million tons per year of 2,050-mm wide strip. The contract calls for delivery in early 1981 of the mill and related equipment, including a reheating furnace, a water treatment plant, cranes, a process computer, precision adjustment lines, and a computer system for production and inventory control. The mill is to be

completed before the summer of 1985. Payment is on a five-year deferred basis, half in yen, half in dollars.

Chugai Ro Kogyo Ltd., a Japanese affiliate of Midland Ross Corporation, will supply three walking-beam reheat furnaces for the hot strip mill at a cost of some $20 million. Each furnace can handle 350 tons of steel ingots per hour. Other participating companies are not yet known.

Another Mitsubishi group, including Mitsubishi Heavy Industries, Mitsubishi Corporation, and Trinity Development Company, Ltd., will construct 18 maintenance shops and four warehouses at Baoshan for $35.7 million. Construction, to begin in June 1981, should be completed by April 1983.

Another major mill at Baoshan, a continuous tubing mill to produce seamless steel pipes, is to be built by Mannesmann Demag-Maer AG of Germany. The plant, valued at DM 440 million ($250 million) is designed to produce 500,000 tons of steel tubing per year by the end of 1982. Funded by a credit arranged through a private German export promotion agency, Ausfuhrkredit-Gesellschaft. The loan may be guaranteed by the state-run Hermes Insurance Company. China has been importing large quantities of seamless steel tubing needed for oil pipeline from Japan, Germany, and Argentina.

Baoshan's iron ore sintering plant will be built by Hitachi Shipbuilding and Engineering, which signed a $77 million contract for the facility in early May. Deliveries for the 4.5 million-ton-per-year plant are to begin in spring 1982, completion is scheduled for 1983.

Also in early May, Nippon Steel won a $300 million contract for construction of six facilities, including a chemical plant, an energy center, and power distribution pipings, all for the Baoshan complex.

This recent rash of orders for the Baoshan complex will nearly complete phase one of the project, bringing it to a design capacity of 3 million tons per year. The only item for which the Chinese have not yet placed an order, according to Thomas, is a continuous casting plant. The bidders are Sumitomo (involving a license from Concast of Switzerland), and Hitachi (with a license from Demag).

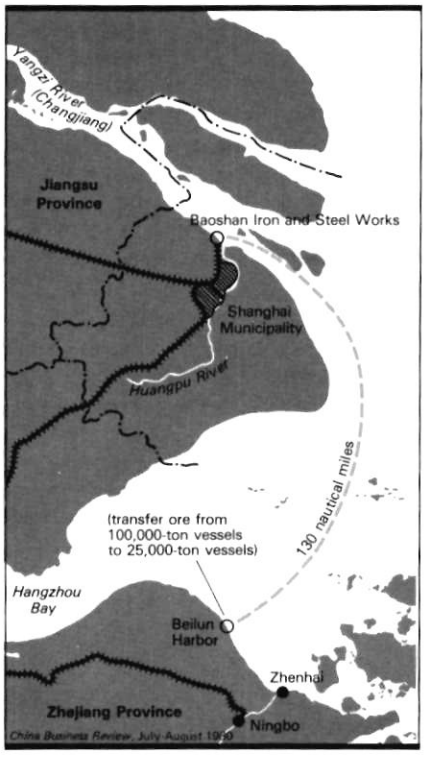
Baoshan's transportation system apparently will be provided by Nippon Sharyo Seizo Kaisha Ltd., of Japan. As

CONTRACTS SIGNED FOR BAOSHAN STEEL COMPLEX, MARCH–JUNE 1980

Company	Facility	Value	Annual capacity (tons)	Delivery	Start-up	Date (announced) or signed*	Financing
17-company consortium led by Schloemann-Siemag, including Wean United, Nippon Steel Corp., Siemens AG	Cold-rolling mill	$500m (Total cost, $730 m including Chinese portions)	2.1m	NA	1985	6/5/80*	Payment: half in dollars, remainder in marks, yen, and French francs; to be paid back 5 years after completion; US portion of $80 million financed possibly 75% by US Exim Bank
Mitsubishi Heavy Industries, Mitsubishi Corp.	Hot strip mill	$342m (¥ 18b)	4m	early 1981	summer 1985	(3/25/80)	Payment on 5-year deferred basis, half in yen, half in dollars; 10% advance, 10% on shipment, 80% over 5 years.
Nippon Steel	6 packages, including chemical plant, power center & power distribution pipings	$300m	—	NA	NA	5/9/80*	NA
Mannesmann Demag-Maer AG	Continuous tubing mill for seamless steel pipes	$260m (DM440m)	500,000	NA	late 1982	(3/11/80)	85 percent financing by 5-year credit agreement between Ausfuhrkredit Gesellschaft and Bank of of China; to be repaid in 10 half-yearly installments; possible Hermes Insurance Co. guarantee.
Hitachi Shipbuilding and Engineering Co.	Iron ore sintering plant	$77m (¥ 18b)	4.5m	spring 1982	spring 1983	5/9/80*	Payment: half in yen, half in dollars over 5 years
Toyo Engineering, C-E Lummus	Engineering and construction of coker; Lummus proprietary coking process	NA	215 tons/day	NA	NA	(3/25/80)	NA
Mitsubishi Heavy Industries, Mitsubishi Corp., Trinity Development Co., Ltd.	Construction of 18 maintenance shops, 4 warehouses	$35.7m	—	June 1981	April 1983	(4/16/80)	Payment: half in yen, half in dollars, 5-year deferred basis
TOTAL		**$1,514.7m**					

m = million
b = billion
NA = Information not available

Beilun: Baoshan's Distant Harbor



Construction is nearly complete on a new harbor to be used for transshipping iron ore to the Baoshan General Iron and Steel Works. The harbor, called Beilun, is 130 nautical miles south of Baoshan, near the city of Ningbo in Zhejiang Province *(see map)*.

Due to be commissioned in March 1981, Beilun will be China's first port capable of handling ships of 100,000 deadweight tons. Iron ore imported from Australia, and in the future perhaps from Brazil, will be unloaded at Beilun and transferred to smaller ships of about 20,000 to 25,000 tons. These smaller vessles then will carry the ore to a smaller wharf at the site of the Baoshan steel complex. Other large cargo vessels also may unload part of their cargo at Beilun before sailing up the Yangzi estuary to Shanghai and other harbors.

This convoluted method of delivery is necessary because the mouth of the Yangzi River (Changjiang), where Baoshan is situated, is not deep enough to handle deep-draft ships. After the Yangzi estuary has been dredged, large ore carriers may be able to call directly at Baoshan, but this work will take many years. The existing wharves at Baoshan itself were completed in 1979 and have been used for unloading large equipment and building materials for the construction of the iron and steel complex.

Beilun Harbor will be able to handle 20 million tons of ore per year—about a quarter of the cargo volume handled by Shanghai, China's busiest port, and twice the volume handled by Huangpu, near Guangzhou. It will have one berth to handle 100,000-ton carriers, and two to handle 25,000-ton carriers. Its pier is about 1,000 meters long and 13 meters wide, and the harbor is about 50 meters deep.

Hitachi Ltd. of Japan has supplied modern computer-controlled port facilities, worth some $36 million, including:

- Two large unloaders, each capable of handling 2,100 tons per hour, or about 10 million tons per year;
- Two shiploaders, each capable of handling 4,200 tons per hour;
- Computer-controlled conveyor belts;
- Electric transformer equipment.

Hitachi also provided consulting services for the construction of the piers and of a 70,000-square-meter yard for storing half a million tons of ore. The port will be equipped with bucketwheel stacker-reclaimers with a capacity of 4,200 tons per hour.

The Japanese also supplied 50-meter steel tube piles, the first of which were driven in January 1979. Most of the port's construction is now finished, and all equipment is to be installed by September 1980.

All planning and design work for Beilun Harbor was done by the Institute for Water Planning of the Ministry of Communications. Construction and implementation was carried out by the ministry's Number 3 Bureau of Port Construction. After completion, Beilun Harbor's operations will be handled by the Port of Ningbo, which includes three port districts: Beilun, Ningbo, and Zhenhai—all in Zhejiang Province. —DJ

of mid-April, the firm "expected" to receive a $63.5 million order for the entire system for transporting base materials and finished products inside the steel complex. Included in this contract would be 73 diesel locomotives and railway freight cars and 220 tractors and dump trucks, as well as trailers and tank cars. Nippon Sharyo also has conducted discussions with regard to supplying Baoshan with steel-scrap stockyards, electric equipment, roadway engineering, and technical assistance.

Construction Delays

China's economic readjustment and on-site construction problems slowed up Baoshan's construction schedule by at least eight months, a Nippon Steel spokesman told Kyodo news agency in January. Nippon Steel estimates that the first phase of the steel-works probably will go into operation in July or August 1982, rather than at the initial target date of October 1981.

When the first phase is completed, Baoshan will have one of the world's largest blast furnaces, with annual pig iron production capacity of about 3 million tons. The complex also will have a basic oxygen furnace, a semifinished steel mill, and a coking plant. When phase two is completed, Baoshan will have an annual capacity of 6 million tons.

After building the first blast furnace system with extensive technical assistance from Nippon Steel, the Chinese plan to use large amounts of home-made equipment to build a second blast furnace at Baoshan as part of phase two. China informed Nippon Steel in January 1980 that it wishes to produce 25 percent of the facilities domestically for phase two of the Baoshan complex. The Chinese hope that such a strategy will save several hundred million dollars and at the same time provide China with the indigenous capacity and experience needed to build other modern industrial projects. —DJ 完

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China's Offshore Oil Development

Japanese and French contracts offer some insights, some confusion

Dori Jones

It's secrecy for some companies and perplexity for others when it comes to China's plans for offshore oil development. The Chinese, as usual, are holding their cards close to their chests.

The long-awaited first exploration, development, and production contracts have been signed—with the Japanese and the French. Details are sketchy, but a new, uniquely Chinese approach to oil development contracts has emerged.

The contracts call for the Chinese and foreign contractors to share the eventual output of oil; yet these are not the usual production-sharing contracts. The Chinese call them "risk contracts," but unlike in other risk contracts, where the foreign company bears the entire risk, the risks of exploration and development are to be shared by the Chinese and foreign partners.

Obviously, US oil companies are ana-

Onshore oil drilling in North China.

lyzing every available detail of the Japanese and French contracts they can get their hands on. Their hope is to gain insight into the type of contract the Chinese will propose for oil exploration and development in the South China and Yellow seas, where US and other foreign oil companies have just completed seismic surveys.

But in several important ways, the contracts signed with the Japanese and the French are different from those US companies are likely to land.

Previous Investments by Chinese

First of all, in the offshore areas covered by the contracts, the Chinese already have carried out exploratory drilling and even commercial production. The Japan National Oil Corporation (JNOC) contract is for exploration and development of oil and gas resources in a 25,500-square kilometer area in the central and southern part of Bohai Bay. Société Nationale Elf Aquitaine signed a contract for 9,400 square kilometers in the Shijiutuo area in the northern part of Bohai Bay, while Compagnie Française des Pétroles (Total) agreed to work in 10,190 square kilometers in the northeastern part of Beibu Wan (also known as the Gulf of Tonkin). Total's area is north of the site of Amoco's seismic surveying, and closer to the shoreline of the Liuzhou peninsula. (The waters in all three areas are shallower than in the South China and Yellow seas.)

The Chinese have drilled at least seven exploratory wells in Total's area, at least 16 in Elf's area (Shijiutuo), and more than 60 in other parts of Bohai Bay. One of these rigs, the Japanese-built Bohai II, sank during a storm last November while being moved. Both the French and the Japanese contracts specify that investments the Chinese already have made in the areas will be counted as an unspecified part of China's share of the investment in exploration and production.

In the South China Sea, on the other hand, the Chinese have done very little exploratory work, although the Ministry of Geology has drilled some exploratory wells. Seismic surveys were carried out entirely by foreign firms. Thus, if the Chinese were to share in the exploration investments for these areas, they would have to come up with large amounts of hard cash instead of relying on previous work. Also, the costs of development in deepwater areas are very high, so the Chinese might prefer to let the foreign companies shoulder more of the risk for both exploration and development. In return, the foreign companies would request a larger share of the eventual output.

Another important difference lies in the fact that US oil companies, unlike those in France and Japan, are private commercial enterprises. The French government owns 70 percent of Elf Aquitaine, though it recently announced a desire to reduce its holding to 51 percent. Total is also partly state-owned, and JNOC is completely government-owned. Total and Elf each have reportedly acquired 30 percent participation in the other's exploration agreement with China. This means that each one will be chief operator in its own zone, but the other will share the investment and the eventual output.

Sharing the Risks

The Japanese and French contracts are remarkably similar. Both are "shared risk" contracts, with provisions for dividing the eventual output of oil between the Chinese and their foreign partners. The contracts call for a sharing of the costs of investment in exploration and production—51 percent to be borne by the Chinese, 49 percent by the foreign contractors.

In effect, though, the Chinese are counting on the foreigners to foot the bill for most new exploration. "The cost of the operations China has conducted so far in the designated areas will be counted as the Chinese share in the exploration investment," Xinhua reported May 29, the day the final contracts were signed. "The French firms are to make up the rest in the agreed ratio." But how can one put a dollar value on the labor and Chinese-built machinery the Chinese have already invested in offshore areas? This was clearly a central issue in the negotiations—which, for the Japanese, lasted more than two years.

Japan's share of investment for initial exploration is expected to reach $210 million over five years. This sum is to come from the combined capital of two companies formed in April: Japan-China Oil Development Corporation,

"FENGSHUI" VERSUS OIL

For thousands of years Chinese people have analyzed the wind, the water, and the lay of the land before choosing a site for a building, to ensure harmony with the elements. Men have been drilling for oil a mere 150 years.

Modernity is disturbing parts of traditional China, and we in the West seldom hear about it. Recently on Hainan Island, some tradition-minded people lashed out against progress, only to be reprimanded and promised a stronger "ideological education." Here are some excerpts from a reporter's letter and an editor's note, both of which appeared in *Hainan Daily* on June 4, 1980.

". . . beginning this year, certain unhealthy phenomena in some places have seriously affected the progress of the [petroleum] survey [on Hainan Island]. The following are specific things that the people have done:

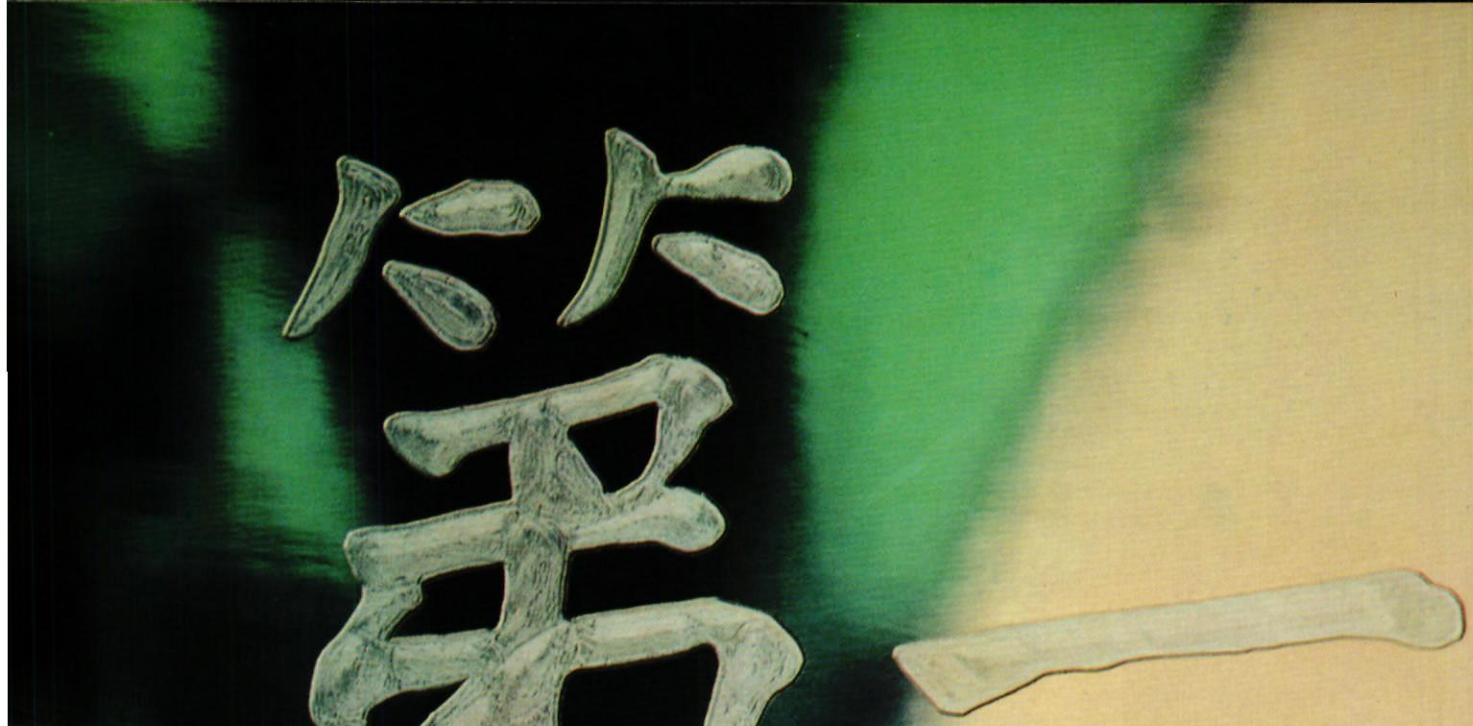
1. "They have instigated feudal superstitious ideas to interfere with the launching of drilling. Some people have said that the petroleum drilling teams had destroyed the local geomantic aspects and some women have been stirring up trouble at the petroleum drilling work sites. A drilling team was recently obliged to stop working.

2. "They have stolen the core casings and dumped the drilled mud cuttings. . . . The geological materials that the No. 2 drilling team had obtained through the efforts of the survey team members for over a month and an expenditure of 441,500 yuan [about $300,000] were all destroyed, causing great losses to the state.

3. "They have looted state materials and stolen drilling and survey instruments.

4. "They have threatened, attacked, and menaced the personal safety of the survey personnel.

"Editor's note: It makes us sick at heart and angry when we read this letter. . . . We hope that local party government organs and units concerned will strengthen the ideological education of the masses to immediately stop all wrong deeds of interfering with and sabotaging petroleum survey works. We must punish and deal according to the law with individuals with ulterior motives who make use of feudal superstitious ideas to instigate the masses to stir up trouble and carry out sabotage. We simply cannot be indulgent with them."



the first

The year was 1959. The place was the Taching field in China. Taching means "great celebration"... quite appropriate since there was a great celebration when the field produced China's first crude oil.

The year was 1979. The place was The Coastal Corporation's Hercules refinery near San Francisco. A tanker slipped into its berth with 750,000 barrels of Chinese crude oil. As the oil was pumped ashore, Coastal became the first U.S. company to import and refine crude oil from the People's Republic of China.

The Chinese character for first is also a symbol well suited to describe Coastal's track record as an independent leader in an industry dominated by multi-national giants.

Coastal is proud to have been the first to import Chinese crude and it has been our rewarding experience to negotiate with such astute trading partners who have earned a well deserved reputation for business integrity.

We believe that some of our future energy needs can be met by this alliance of the People's Republic of China and the United States; trading partners working together to meet the challenges of the future.

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1980
OUR 25TH YEAR

and Chengbei Oil Development Corporation. (Chengbei is an area in the central part of Bohai Bay.) The Japan National Oil Corporation put up 60 percent of the capital for these two ventures; the remainder came from 47 private Japanese enterprises, including oil developers, oil refiners, power utilities, and steel manufacturers.

The Japanese have estimated that by the time the exploration period is completed, possibly by 1986, the total development costs will be approximately $1 billion, to be split 51-49 percent by the Chinese and Japanese over a period of 15 years. The Japanese Export-Import Bank has offered China low-interest credits to cover the Chinese portion of the investment in production.

The French have been far more closemouthed about the value of their expected investment in exploration and development. One unconfirmed report says each company has agreed to spend $100 million, including rental of rigs and other equipment from China, plus a signature bonus of $10 million. Another report estimated French exploration costs at $80 million for each company. Given that the two regions the French will be drilling are each half the size of the zone awarded to the Japanese, and given that the French contracts call for an exploration period of four instead of five years (as in the Japanese contract), these estimates seem realistic.

Sharing the Wealth

The most vital—and still somewhat vague—terms of the contract are those dealing with the sharing of oil output as repayment. The "Bohai formula" used in the Japanese agreements calls for a 15 percent-42.5 percent-42.5 percent split of eventual output over 15 years, beginning with the start of commercial production. It is believed that the terms of the French contracts are similar, calling for:

- 15 percent to go to the operators to cover the day-to-day expenses of operation, possibly marketed with the help of the foreign partner. Since the investments in production will be split 51-49 percent, it seems reasonable to assume that this 15 percent portion will be split along these lines as well.
- 42.5 percent to be retained by the Chinese government; and
- the final 42.5 percent to be split: the first part to remunerate the foreign contractor for the risks of exploration; the second part to compensate both Chinese and foreign parties for their investment in exploration and development. If any oil remains from this third part, the foreign firms have the right to purchase it from the Chinese at international market prices.

If oil is not found in commercially exploitable quantities, the foreign firms will have no claims on China.

The Japanese agreed to begin trial drilling in the southern Bohai zone in October 1980, shortly after the results of geophysical surveying become available in August. Originally, they planned to begin in January 1981, but the Chinese convinced them to speed up the schedule. China will supply 70 to 80

The Bits Add Up

HUGHES SELLS $200 MILLION WORTH OF TECHNOLOGY TO BUILD DRILL-BIT FACTORY IN SICHUAN

It's deals like Hughes Tool Company's that make other companies set aside their reservations and decide the China market might be lucrative after all.

Hughes Tool signed a solid contract May 2 for a drill-bit technology transfer arrangement that will bring the company some $200 million (a "conservative estimate") in cash sales of bits, bit parts, and royalties over the next ten years. The Chinese also will purchase some $50 million worth of machine tools and other equipment for the drill-bit plant, of which a large portion may go to American manufacturers.

Hughes' arrangement, subject to US government export approval, is a licensing venture to build a drill-bit factory in Sichuan Province in several phases. As a first step, the China National Machinery Import/Export Corporation (MACHIMPEX) ordered approximately $25 million worth of Hughes drill bits and will continue buying completed bits for two years while the factory is being built. For the next two and one-half years, the Chinese will buy bit parts for assembly at the plant. Gradually the Chinese will be able to produce the head section of the drill bit, then the cone. Four and one-half years after the start of construction, the factory should be able to produce at least 20,000 oilfield bits per year, and possibly 4,000 mining bits per year as well. For the next five years, the Chinese reportedly will pay Hughes a minimum of $22.5 million per year in running royalties based on production. After the present contract expires, the two sides can extend the arrangement by mutual consent.

Transfer of Technology "Without Reservations"

Hughes has promised to keep the Chinese informed of all improvements made in new bit design or manufacturing technology, although there is no grant-back provision requiring the Chinese to inform Hughes of improvements they discover. Hughes is required to inspect the plant and the product for quality. The company will train 30 to 60 Chinese engineers in Houston and will send a similar number of Americans to the Chinese plant during its construction.

The contract does not restrict the Chinese from exporting drill bits produced at the plant. But with 500 to 600 working drill rigs in the country and an expanding oil and gas development program both onshore and offshore, the Chinese are likely to need all the bits they can produce.

The new plant will be built approximately seven miles from an existing rock bit plant in Chengdu, the capital of Sichuan Province. Sichuan, in southwestern China, is China's largest natural gas-producing region.

"This agreement is the most significant transfer of petroleum equipment technology made by a US firm to the People's Republic of China to this date," noted James R. Lesch, president of Hughes. The company has been negotiating this deal with the Chinese for more than a year, beginning after Deng Xiaoping, China's senior vice-premier, visited a Hughes plant in Houston in January 1979. The final negotiations took only six weeks this spring. The Chinese side included representatives from MACHIMPEX, China National Oil and Gas Exploration and Development Corporation, and the southwest branch of China Petroleum Corporation.

China has been buying American drill bits for several years from Hughes, Dresser Manufacturing Company, Baker International, and Smith Tool Company. Hughes has made $75 million worth of sales to China in the last six years. —DJ

percent of the materials needed for drilling, according to Japanese industry sources. The rest will be supplied by Japan or through international bidding. An advance base for prospecting was to open in Tianjin in late July.

The French plan to begin drilling immediately. Total already has begun advertising job openings in the Hong Kong press and expects to station about 25 people in the port town of Zhanjiang. The company also is negotiating with the Chinese about building office space and accommodations.

A Model for the South China Sea?

Will the Chinese use the French and Japanese contracts as a model for the exploration-development contracts in the Yellow and South China seas? They aren't saying yet. But a spokesman for China Petroleum Corporation told Xinhua news agency on June 24 that "different approaches will be adopted toward different regions and circumstances, and various types of customary cooperation practices may be discussed."

Some industry observers found the terms of the Japanese and French contracts too tough for private foreign oil companies, saying that the French and Japanese, both state-owned, "must have been desperate."

"It doesn't all tie together; there seems to be no provision for profit oil," said one US oil company representative about the French agreements. "We're not going to sign anything like that, but there may be some advantage to the French politically."

But others found the terms reasonable.

"If one could be assured of being able to secure almost half the crude, it would be a contract that might have some appeal to people who need crude oil," said another oil company official. He added that some Chinese have told him, "These contracts are too good; don't expect the same terms."

Other Questions

Aside from the central question of what form the contracts will take, other questions remain about China's plans for oil exploration and development in the South China and Yellow seas. When will the Chinese open bidding on blocks in these areas? Which tracts will they allow foreign companies to develop and which will they reserve for their own Ministry of Geology? And finally, what arrangements have the Chinese made with Arco for the block south of Hainan Island, and will other companies be allowed to bid on areas in that block?

Wintertime drilling at the Daqing oilfield.

The Chinese Petroleum Corporation is planning to invite bids for exploration and development of potential oilfields in the Yellow and the South China seas late this year or in the first half of 1981. But most US industry observers are skeptical that this rushed schedule can be kept. More sober estimates range from late 1981 to mid 1982.

The field work of seismic surveying has been completed in all eight blocks of the Yellow and South China seas (*see map, CBR*, July–Aug., 1979, p. 62), although rough weather slowed it down in the Phillips and British Petroleum (BP) blocks. So far, Xinhua reported in July, "indications are that in certain zones there are good prospects for striking oil."

The next step—interpretation of the data—is well underway. Sixteen oil companies signed agreements with China for geophysical surveying; an additional 30 corporations from nine countries "participated" in the surveys by helping to underwrite the costs. These additional companies are entitled to the resultant data, on which they will base their own interpretation. The first data analysis is due in October 1980, but it may be the first quarter of 1981 or later before all companies have fed the data through their computers and submitted their analyses to China.

Once the Chinese have received each company's interpretation, they must digest the information and select the acreage that they will offer for bidding. According to at least some geophysical surveying agreements signed last year, the Chinese have promised to offer at least one-third of the areas in the South China Sea to the 46 "approved" foreign companies for exploration bidding. They also reportedly promised to offer areas with good, medium, and poor prospects in equal quantities, although the Ministry of Geology is eager to start drilling in the areas with the best prospects.

A big question many oil companies are asking is: what of the other two-thirds of the South China Sea blocks? The Chinese are likely to keep one-third of the area to develop by themselves. The final third they may offer to foreign oil firms that propose special arrangements, such as training programs or technical assistance in refining or petrochemical manufacturing. Speculation that the Chinese might do this has sharpened competition among the major oil companies.

The Chinese are unabashed in their push for terms that promise short exploration periods as well. A key factor in the bidding in the South China Sea, noted Tang Chongmei of the Ministry of Petroleum, "will be the extent to which foreign companies are willing to accelerate production."

A Secret and a Controversy

Arco and Santa Fe International, the first US firms to sign agreements with

the Chinese for seismic surveying in March 1979, have remained the most secretive about their arrangements with the Chinese. Unlike the other blocks, where up to 30 other oil companies became early or late participants in order to receive survey data, no other oil companies have had access to data obtained in the Arco-Santa Fe block. One exception to this has been a single well drilled by the Chinese, from which the Ministry of Geology offered data to participants in the neighboring Amoco block.

Since geophysical work began in the Arco block so much sooner than in the other blocks in the South China Sea, it is possible that the Chinese will offer areas in the Arco block for exploration bidding much sooner—perhaps later this year. Arco and the Chinese reportedly have been negotiating hard over the arrangements.

Another controversial arrangement has been BP's decision to drill stratigraphic test wells in the Yellow Sea block where it conducted seismic surveys. At an acrimonious meeting in London, the 30-odd participants in BP's "group shoot" voted down the idea, but BP is going ahead with the drilling this fall, possibly with one or two participants.

Stratigraphic testing is a method used to gain a better understanding of the geological sequence and make-up of the rock; it is sometimes, but not often, used in the search for oil and gas.

Some oil companies objected to BP's decision saying that it was inappropriate to include stratigraphic drilling in an arrangement that was originally a geophysical survey, which involves no drilling. Others objected that there was no clear need for stratigraphic testing since some subsurface material is available already, charging that BP would then have an edge on its competitors in the analysis of data. The drilling reportedly will be done under a separate arrangement between BP and the Chinese, with BP bearing the cost. The Chinese reportedly will do the drilling under BP's direction.

Prospects in the East China Sea

Perhaps because of harsh weather conditions and political jurisdiction disputes, exploration for oil in the East China Sea has lagged behind that in the South China Sea and Yellow Sea. Private oil companies have not yet become involved in exploration of this area, but preliminary prospecting work will begin soon under the auspices of a Sino-German government-to-government cooperation agreement signed last November.

In September, West German and Chinese geologists will begin a geochemical study of the seafloor, looking for signs of oil in a 200,000 square kilometer area off Wenzhou, Zhejiang Province, in the East China Sea. The Germans will provide laboratory equipment, and the Chinese will supply the vessel and the laboratory building in Shanghai.

The prospecting will be one of two projects conducted under the Sino-German agreement. A protocol on financing the first two cooperation projects was signed April 15, enabling the projects to get started. Once the geochemical study has been completed, the Chinese will probably sign a contract with a foreign oil firm for seismic surveying. Production in the East China Sea is not likely to begin until the 1990s.

—DJ 宪

Letter from Chongqing

I paid the penalty for arriving late. The hall was full and extra chairs had been set up outside. As I stood admiring the white Easter lilies and red roses in the huge mural behind the pulpit, an usher handed me a mimeographed hymn sheet. Though I can't read Chinese, I could easily recognize the tune as that of the old Protestant hymn 'Holy, Holy, Holy." Struggling to recall the English words I hadn't sung for nearly thirty years, I added my dissonant voice to those of the more than 300 members of the congregation.

In the fall of 1966, the Revolutionary Committee of Chongqing ordered the closing of all places of worship in this city. The church that I was in, the Methodist, and four other Protestant churches were the first to be shut up. A few weeks later, the doors of St. Joseph's Roman Catholic church were locked tight.

On the morning of November 3, 1966, a group of Red Guards broke into St. Joseph's. While some of them began to rip down and disfigure religious paintings and images, others rounded up the priests. Dragged outside, the ten men were forced to remain in a kneeling position for the next twenty-four hours while their swaggering tormentors reviled them. They were cursed as running dogs of imperialism and accused of infecting the minds of the masses with superstitious lies. During the public exhibition, other Red Guards ransacked their quarters, confiscating their books and papers and destroying their belongings.

After closing the churches, the authorities finally decided to find jobs for clergymen and lay officials. For the next thirteen years, Catholic nuns, Protestant ministers, and even a few Buddhist priests worked together in a glove factory. Almost all were middle-aged persons whose hands and brains had not been trained for such work. Many found the working conditions intolerable. Poor lighting affected their eyesight and dampness led to arthritic stiffening of their fingers. Eventually the authorities refused to accept the badly made products they were turning out.

Their private lives were no less dreadful. Cut off from books, they also lost almost all contact with their parishioners except for a brave few willing to take the risk of associating with them. Theirs was a lonely, empty existence.

Christianity in Chongqing traces its origin back into the nineteenth century. St. Joseph's had been founded in 1893, thirty-five years before the Methodist church opened its doors. Following the savage Japanese bombing of Chongqing during World War II, both buildings were destroyed and then rebuilt by their congregations. By the late 1940s, there were upwards of 100,000 Christians in this city.

Even after 1949 when the Communists came to power and all religion was put under state supervision, the churches remained open. On Christmas Day, 1957, the priests of St. Joseph's performed more than 1,000 ceremonies of baptism.

Then came the Cultural Revolution.

The revival of hope following the fall of the Jiang Qing clique in 1976 proved justified when the Central Committee of the Communist party announced a new policy the following year. The state would guarantee religious freedom.

In Chongqing, under the auspices of the United Front Committee, religious leaders and state officials began negotiations for the restoration and refurbishing of church properties. After the seizure of the churches in 1966, St. Joseph's had been converted into a small factory and several offices, the Methodist church into a department store.

Financed by state subsidies granted as partial compensation for former losses, reconstruction began early last year. At the same time, clergymen and lay officials were put back on the state payroll at the rate they had been paid at the outset of the Cultural Revolution. It was also decided to merge all Protestants in a single congregation which would hold services in the Methodist church. In December, the United Front Committee sent invitations to all known Christians in Chongqing to attend the reopenings.

At those first services held on Christmas Day, 400 people showed up at St. Joseph's and more than 250 at the Methodist church. For most, it was a blessed event, the symbolic termination of thirteen years of degradation and fear, and the hopeful beginning of a new era.

The less optimisitic remain cautiously apprehensive today. They find it difficult to blot out the memory of personal humiliation or the sight of fanatical Red Guards seizing and burning religious literature. Some, such as the old professor who vainly pleaded with the young hoodlums to spare a single copy of the Bible from the pile of books they tore from his hands, can never forget. They have decided to ignore the call to worship. Their overt religious affiliation is a thing of the past which brought only sorrow. If the wheel turned once . . .!

The effect of the Cultural Revolution on both congregations is obvious. Nearly 90 percent are men and women over fifty. Will the faith die when they pass away?

Perhaps not. Among the aging worshipers in each church is a sprinkling of young people in their twenties and thirties. Though most are the sons and daughters of elderly parishioners, a very few are the curious who have come to investigate for themselves.

There are other indications that some of the youth in the post–Cultural Revolution generation are anxious to learn more about this once taboo doctrine. One of my teaching duties requires me to give a series of lectures on various aspects of contemporary Western culture. The repeated request for the inclusion of Christianity on my list of topics has surprised me. And I have also frequently been asked for copies of the Bible.

If the current regime does not alter its policy as it did with the Xidan Democracy Wall, the faint but tangible evidence revealed here indicates that organized Christianity will gradually be resurrected in Chongqing.

—Roderick Stewart 完

China Bookshelf

General

China Facts and Figures Annual, vol. 2, 1979. Gulf Breeze, FL: Academic International Press (Box 555, 32561). 243 pages, standing order cost $34. The compilation of statistics and lists updates volume 1. Most recent information is for 1978. Names throughout appear in Wade-Giles transliteration, although lists of party leaders and place names in Pinyin are also provided.

An Introduction to Education in the People's Republic of China and US-China Educational Exchanges. Washington, DC: US-China Education Clearinghouse (1860 10th Street, NW 20009), 1980. 85 pages. Postage and handling will be billed. Features background information useful to American educators and educational administrators in managing exchange relationships with the PRC.

Economy and Defense

China's Four Modernizations: The New Technological Revolution, edited by Richard Baum. Boulder, CO: Westview Press, 1979. 307 pages. $18.75; $9.50 paperback. A compilation of seven of the 18 papers presented at the January 1979 Bermuda workshop on the post-Maoist modernization drive, including three new essays. The collection addresses China's program for acquiring and assimilating foreign technology; trends in agricultural, energy, and industrial modernization; and national defense policy.

Economic Growth and Employment in China, by Thomas Rawski. New York: Oxford University, 1979. 194 pages. $12.50; $4.95 paperback. This World Bank study examines China's labor force and the various determinants of industrial employment. An empirical analysis shows how the PRC's agricultural sector absorbed 150 million new workers between 1957 and 1975.

China: The Continuing Search for a Modernization Strategy. National Foreign Assessment Center, ER 80–10248 (NTIS PB80928204), April 1980. 21 pages. $8.50[1] An analysis of Chinese modernization efforts, primarily since 1979, which sets forth that economic policies pursued in the next few years are likely to stress agricultural development, while later in the eighties more emphasis will probably be given to heavy industry.

Technology, Defense, and External Relations in China, 1975–1978, by Henry G. Gelber. Boulder, CO. Westview Press, 1979. 236 pages. $22.50. The formulation of post-Mao modernization policy is analyzed in the context of China's overall foreign policy strategy and its military and economic constraints.

The Chinese Armed Forces Today: The US Defense Intelligence Agency Handbook of China's Army, Navy, and Air Force. Englewood Cliffs, NJ: Prentice-Hall, 1979. 240 pages. $15. A detailed description of the organization, offensive and defensive capabilities, logistics, and personnel characteristics of the Chinese military system, including a qualitative and quantitative evaluation of equipment and weapons.

Asian Security in the 1980s: Problems and Policies for a Time of Transition, edited by Richard H. Solomon, Santa Monica, CA: Rand, 1979. Rand Report R–2492–ISA, November 1979. 305 pages. $10. A collection of 12 essays on American security policy alternatives toward Asia in light of the lingering Vietnam war experience and the shifting balance of power between the US, USSR, and PRC.

Industry

Electric Power for China's Modernization: The Hydroelectric Option. NFAC ER 80–10089U. (NTIS PB80928207), May 1980. 24 pages. $8.50[1] The report suggests that the Chinese are considering a massive program to construct hydroelectric power stations. Included are lists of existing and proposed hydroelectric power plants, and a color fold-out map of plant locations.

China's Petroleum Organization and Manpower, Including Dissemination of Technology in China. Washington, DC: National Council for US-China Trade, 1980. 108 pages. $200 ($125 to members).* Guide to China's petroleum organization, manpower, oil fields, technology dissemination, and offshore prospects. Includes a petroleum organization wall-chart.

Science and Technology

Astronomy in China: A Trip Report of the American Astronomy Delegation. CSCPRC Report no. 7. Washington, DC: National Academy of Sciences, 1979. 109 pages. $6.25. A 1977 delegation of astronomers reports on the organization of astronomy in China and the facilities and instruments in use.

Earthquake Engineering and Hazards Reduction in China: A Trip Report of the American Earthquake Engineering and Hazards Reduction Delegation. CSCPRC Report no. 8. Washington, DC: National Academy of Sciences, 1980. 189 pages. $11.50. The report of the 1978 delegation covers the organization of earthquake engineering in China, research and practice, the effect of the Tangshan earthquake, and prediction of the Sungpan-Pingwu earthquakes. Included are illustrations of Chinese construction, and a discussion of the Chinese building code.

Oceanography in China: A Trip Report of the American Oceanography Delegation. CSCPRC Report no. 9. Washington, DC: National Academy of Sciences, 1980. 106 pages. $7. The report surveys biological, chemical, geophysical, and physical oceanography, shore process, and marine archaeology in China. Research institutes visited by the 1978 delegation are described.

China Trade

Taxes and Investment in Asia and the Pacific: Preliminary Chapter on the People's Republic of China, 2nd enlarged edition. Amsterdam: International Bureau of Fiscal Documentation (PO Box 20237, 1000 HE Amsterdam, The Netherlands), winter 1979. 108 pages plus ap-

pendices. Dfl. 95. This preliminary survey describes forms of doing business, exchange controls, banking and credit facilities, licensing, taxes, and investment laws in China. Details of the various types of taxes and tax rates are included.

Countertrade Practice in East Europe, the Soviet Union, and China: An Introductory Guide to Business, by Pompiliu Verzariu. Washington, DC: Office of East-West Trade Development, US Department of Commerce, April 1980. 102 pages. $3.75[2]. Provides a useful set of definitions of countertrade and a detailed description of countertrade as it is usually practiced. Sample contracts and examples of countertrade agreements are included.

Sino-US Trade Statistics, 1979. Washington, DC, National Council for US-China Trade, 1980. 70 pages, $10 (free to members).* Total US-China trade figures and the 15 top imports and exports are given; statistics are reported for commodities by Schedule B and E numbers and by TSUSA and Schedule A numbers.

Market Study

Business Opportunities in China for Pharmaceuticals and Hospital Supplies, a multiclient study from FIND/SVP and Delta International Company, September 1979. 399 pages. $2,500. The study is designed as a basic reference on healthcare trade with China, containing current material for both strategic planning and marketing. Analysis of disease incidence and the status of health care in China is presented along with details of China's pharmaceutical and hospital supply industries. Prime product candidates for export and import are cited, and essential financial and legal considerations based upon recent trade developments are covered.

Specific types of products considered to have high potential for export to China include medical electronics, prosthetic heart valves, defibrillators, and consumables such as basic diagnostic reagents and medical papers. Among pharmaceuticals, vaccines, and other biologicals, antineoplastics, antihypertensives, and opthalmic products are prime candidates. Certain bulk pharmaceuticals, such as steroid intermediates, also show strong potential for import to the US. These and other products are discussed in the study.

On the technology side, the study concludes that production technology in the PRC is very weak. Accordingly, producers of medical products manufacturing equipment as well as producers of high-technology medical devices may find a market in China.

Inquiries regarding the study should be addressed to Mr. Andrew P. Garvin, President, FIND/SVP, 500 Fifth Avenue, New York, NY 10036. Telephone: (213) 354–2424. Telex: 148358.

Travel

The China Guidebook, 1980–81, by Arne J. de Keijzer and Fredric M. Kaplan. New York: Eurasia Press (55 W. 42nd St., Suite 1314, 10036), 1980. 446 pages. $10.95. The new and expanded edition of the guidebook increases its coverage of cities, includes a section on doing business in China, and provides a guide to travel for overseas Chinese.

Wall Chart

Ministries of China's State Council. April 1980. Washington, DC: National Council for US-China Trade. $5 (free to members).* Lists China's ministries with dates of establishment and names of ministers and vice-ministers. — MG 宪

CHINA'S TWO NEW VICE-PREMIERS

Zhao Ziyang and Wan Li, both protégés of Vice-Premier Deng Xiaoping, were named vice-premiers at an April 16 session of the Standing Committee of the Fifth National People's Congress (*CBR*, Mar.–Apr., 1980, p. 42).

Zhao Ziyang, born 61 years ago in Henan Province, has had a long and varied career as a government administrator and party cadre, having joined the party at the age of 20. In 1964 he was appointed political commissar of the Guangzhou military district, and in 1965 was named first secretary of the Guangzhou Provincial Party Committee. Criticized by the Red Guards and purged during the Cultural Revolution, he reemerged in 1971 as a secretary of the Nei Monggol Autonomous Region Party Committee.

In 1972 Zhao returned to Guangzhou and climbed to the province's top party and administrative posts within two years. In December 1975, following Deng Xiaoping's return to power, Zhao was named first secretary of the Sichuan Provincial Party Committee and head of the provincial government, positions in which he gained national visibility as a proponent of flexible economic policies and economic reform.

Zhao was elected to membership in the Politburo of the party's Central Committee at its Fourth Plenary Session in 1979, and was elected a member of the Politburo's Standing Committee at the Central Committee's Fifth Plenary Session in February of this year. His appointment as a vice-premier in April confirms him as an important leader in the Chinese government as well as a key party official, and furthers speculation that Deng Xiaoping is grooming him as a successor—and perhaps a replacement—for Hua Guofeng.

Wan Li, 64, a native of Shangdong, concerned himself primarily with city planning and construction as Beijing's vice-mayor before the Cultural Revolution. Closely identified with Zhou Enlai and Deng Xiaoping, he was out of public view for two years during the height of the Cultural Revolution. In 1975, when Deng became a vice-premier, Wan was named minister of railways, a position in which he proved an able administrator. Following Zhou Enlai's death and Deng's second fall from power, Wan again disappeared from view. In 1977, with Deng's fortunes once more on the rise, Wan became first party secretary of Anhui Province and head of the provincial revolutionary committee. Although elected a member of the Secretariat of the party's 11th Central Committee in February 1980, Wan continues to serve as first party secretary in Anhui. Administration of the province is in the hands of the governor, former finance minister and former deputy chairman of the State Economic Commission. —KIB

*Prices shown for National Council for US-China Trade publications *do not* include postage and handling. For prepaid orders, please add $1 to cover those costs.

[1]National Foreign Assessment Center publications can be ordered from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161. NTIS Order Desk (703)557–4650. *Prepayment is required.*

[2]Available from the Superintendent of Documents, US Government Printing Office, Washington, DC 20402. *Prepayment is required.*

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China Calendar

Continued from p. 6

Asia Society Cassettes on China

The China Council for the Asia Society has produced a two-part slide/cassette presentation on Chinese and American images of each other.

The programs were originated by Donald Gillin of Vassar College, and produced by Terrill E. Lautz of the Asia Society, and utilize newspaper cartoons, magazines, movie posters, and other sources.

Part I ("Looking For China: American Images") features American images of China and its people, from Fu Manchu and Charlie Chan to Mao and Deng Xiaoping.

Part II ("Looking For America: Chinese Images") features Chinese images of the US from the first Yankee traders to normalization of relations.

The programs are designed for use by adult, college, and advanced secondary school audiences, and are available at $10 for each part.

For further information write China Council Slide/Tape, The Asia Society, 112 East 64th St., New York, NY 10021 or call (212)751–3210.

FOREIGN ADVANCED TECHNOLOGY FAIR, BEIJING, 1980

An exhibition at the Beijing Technology Exchange Center, between August 23 and September 12 will display the following foreign technology:

- Audio-video equipment
- Electronic systems and computers
- Industrial-production equipment
- Mining equipment
- Oil drilling equipment
- Scientific instruments

120,000 visitors, including many PRC scientists, technicians, and other senior officials, are expected to attend.

For more information contact:

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HONG KONG CONSULATE GENERAL OF THE UNITED STATES

Economic Section

The National Council reminds its members that the US Consulate General in Hong Kong offers extensive advisory services to US firms seeking information on China's economy and trade practices.

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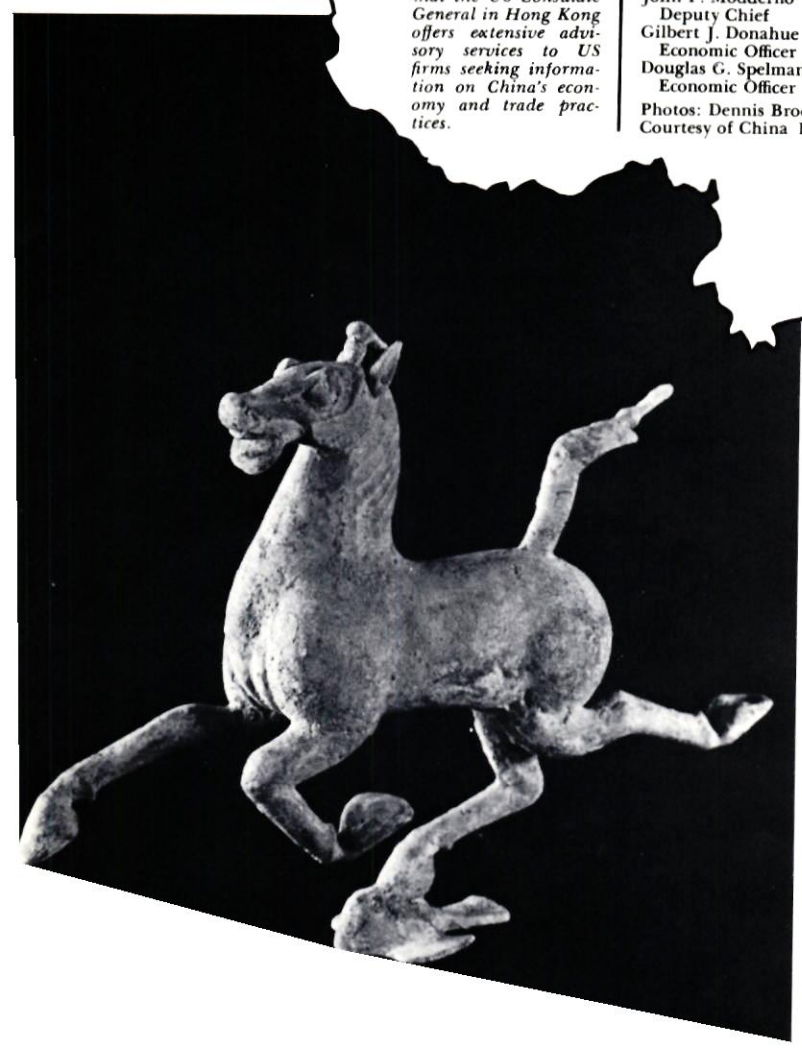

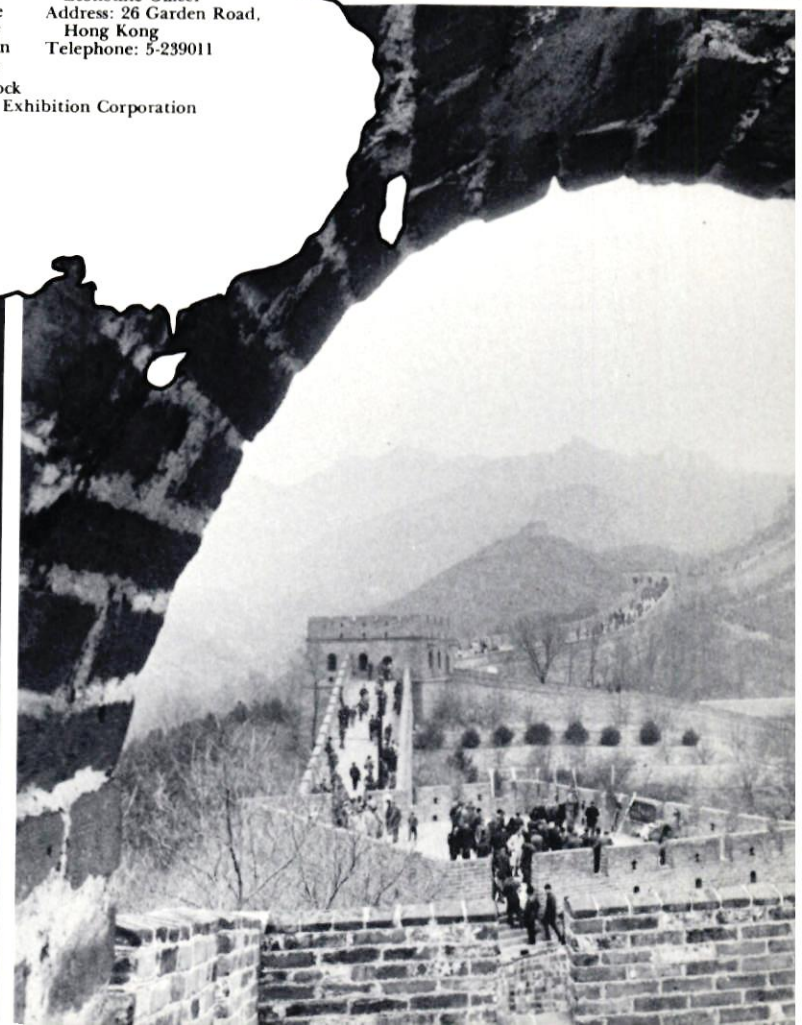

CHINA: 1980 SALES AND NEGOTIATIONS THROUGH JULY 1

The following chart contains recent reports of sales and negotiations exclusive of those listed in previous issues. The total value figure for sales includes only those deals which are listed as contracts or deals signed/won/secured/concluded. All others are counted as negotiations.

Company/Country	Product/Plant/Technology	Value (US dollars and local currency if known)	Status Date Announced
Agricultural Commodities			
(US)	2.22 m bales of cotton (478,260 metric tons)	$600 million	Contract announced 1/25/80
Nichimen (Japan)	Joint venture to grow soybeans, corn, wheat, kaoliang, and alfalfa in Heilongjiang	NVG	Contract announced 4/80
CSR Ltd. (Australia)	Raw sugar (150,000 metric tons for delivery between May and September)	Approximately $80 million	Sale announced 5/9/80
Agricultural Technology			
(Australia)	Establishment of model beef cattle farm on Hainan Island in Guangdong	NVG	Agreement signed 4/12/80
Chemicals			
Agricultural and Industrial Chemicals Inc. (US)	US-produced fertilizers to be produced by AIC's production affiliate, Fertilizer Co.	$3 million	Sale concluded 5/5/80
Chemical Plants and Equipment			
Pennwalt, Camberley (UK)	Subcontract for the supply of six Sharples Super D-Canter P6100 vertical centrifuges	$2.77 million (£1.25 million)	Contract announced 3/15/80
(UK)	Fume extraction fans	NVG	Contract won 4/15/80
Coal, Other Mineral Mining Development, and Technology			
Cokerill (Belgium) Ateliers de Constructions Electriques de Charleroi (Belgium) Traction et Electricité (Belgium) Alsthom Atlantique (France)	Construction of two 300 Mw coalfired power stations	$217 million	Contract signed 2/80
Construction Materials and Equipment			
(Romania)	One whole cement plant with annual production capacity of 1 million tons	NVG	Sale announced 4/10/80
(Japan)	Two whole cement plants each unit with annual production capacity of 1.5 million tons	NVG	Sale announced 4/10/80
Electronics			
Xytel Corp. (US)	16 computer-controlled Xytel ARC pilot plant systems	$1.7 million	Contract announced 3/80
Nihon Jakudenki Kogyo Co. (Japan)	Technical cooperation and processing contract to begin production of micromotors (monthly production 20 million units)	NVG	Contract announced 4/80
Marantz Japan Inc. (Japan)	Parts for 25,000 cassette radios	NVG	Contract concluded 4/2/80
Automated Systems (Hong Kong)	Multi-mini computer system	$1 million	Shipped 4/3/80
Toho Denki (Japan)	Joint venture for two million tape recorders	NVG	Agreement announced 4/16/80

Company/Country	Product/Plant/Technology	Value	Status Date Announced
Hitachi Ltd. (Japan)	Supply of more than 300,000 television sets	Approximately $37.5 million	Negotiations announced 4/18/80
Wang Laboratories (US)	Installation of 15 medium-sized computers	$4–5 million	Sale announced 5/80
Aydin Corp. (US)	Two color display computers	$275,000	Order announced 5/12/80
AEG-Telefunken (W. Germany)	Complete color television plant	NVG	Contract won 5/26/80
Iron Ore and Pig Iron Products			
Hitachi Shipbuilding and Engineering Co. (Japan)	Iron ore sintering plant (yearly output 4.5 metric tons)	$77.5 million	Order announced 5/9/80
Machinery			
Edward Pryor and Son (UK)	Five machines (Pryor-mark type 34A roll marking) for marking turbine and compressor blades for aeroengines	$498,420 (£225,000)	Order announced 4/16/80
Metal Mining and Processing			
(W. Germany)	Agreement financing German and Chinese geologists to investigate raw material potential	NVG	Agreement signed 4/15/80
Petroleum and Natural Gas Development and Refining			
Mitsubishi (Japan)	Methanol import contract with Beijing Chemical Trade Corp. (1500 tons to be shipped in December)	NVG	Contract signed 2/80
Atlantic Richfield (US)	Geophysical search program off China	NVG	Contract announced 4/80
(Japan)	Joint search for oil in northwest China's desert regions	NVG	Agreement announced 4/30/80
National Iranian Oil Co. (Iran)	"Large quantity" of Iranian crude oil	NVG	Contract signed 5/15/80
Societé Nationale Elf-Aquitaine, Compagnie Française des Pétroles (Total Oil Group) (France)	Agreement for the exploration and production of oil and gas in the Yellow Sea	NVG	Agreement signed 5/30/80
Parker Drilling Co. (US)	Agreement to supply China's national oil company with specialized drilling services and well-control techniques	NVG	Agreement signed 6/5/80
Ports and Related Equipment			
Ishikawajima-Harima Heavy Industries (Japan)	Floating crane (slewing capacity of 500 metric tons, 100 meters length, and 38 meters wide, with a maximum hoisting capacity of 2,500 tons)	$20 million	Delivery announced 5/15/80
Power			
Nuclear Services International Corp. (US)	Economic feasibility study of a 1,000 to 2,000-Mw commercial nuclear power plant	NVG	Contract signed 5/15/80
General Motors (US)	6 front-end loaders to be used to build a hydroelectric and water-control project on the Yangzi river	$1.5 million	Sale announced 6/12/80

Company/Country	Product/Plant/Technology	Value	Status Date Announced
Scientific Instruments			
Pfizer Medical Systems Inc. (US)	2 computerized tomography scanners	NVG	Sent 2/10/80
Penlon Ltd. (UK)	Anaesthetic, resuscitation, and intensive care equipment	NVG	Negotiations started 4/8/80
Shipping			
Pacific Press & Shear (US)	Hydraulic press to be used in China's first marine container factory	NVG	Delivered 4/7/80
Prompt Shipping Corp. (Hong Kong)	Joint shipping venture with China Merchants Steam Navigation Co.	NVG	Agreement announced 6/21/80
Steel and Steel Products			
Nippon Steel Corp. Nippon Kokan K.K. Sumitomo Metal Industries Ltd. Kawasaki Steel Corp. Kobe Steel Ltd. Nisshin Steel Co. (Japan)	Export of 1.4m to 1.5m metric tons of steel from July to December	NVG	Negotiations 5/21/80
Keystone Consolidated Industries Inc. (US)	Carbon-steel wire rod to be shipped late in June or early July	$4 million	Order announced 6/5/80
Steel Plants and Equipment			
General Descaling Co. (UK)	Equipment for pigging energy pipelines	$166,140 (£75,000)	Order won 3/22/80
Nippon Steel (Japan)	Contract to export a chemical plant, a power center, and related pipings for new steel complex near Shanghai	$278 million (¥ 70 billion)	Contract signed 5/14/80
Midland-Ross (US)	Three walking-beam reheat furnaces	$20 million	Contract signed 5/21/80
Wean United Inc. (US)	Building of huge ultramodern steel plant near Shanghai	$80 million	Contract signed 6/6/80
Schloemann-Siemag A.G. (W. Germany)	Construction of cold-steel rolling mill outside Shanghai	$733 million	Contract signed 6/6/80
Telecommunications			
COMSAT Rockwell (US)	Talks underway as to possible engineering consulting services for satellite broadcast and communications system	NVG	Talks announced 3/80
Ford Aerospace General Electric Co. Hughes RCA (US)	Discussion involving sale of satellite broadcast and communications system	NVG	Discussions announced 3/80
Essco Collins Ltd. (Ireland)	Ten space-frame spheres	$2.2 million (£1 million)	Supplied 4/80
Textile Products			
International Wool Secretariat	Agreement signed authorizing certain Chinese mills to use its Woolmark symbol	NVG	Agreement signed 4/18/80
Tourism			
(Hong Kong)	2,300-room hotel in Guangzhou	$575 million	Agreement signed 4/21/80
Kohler Co. (US)	Supply of 312 sets of bathtubs, lavatories, and toilets for the Nan Hu Hotel	$100,000	Order announced 5/14/80
Shin Ho Cheng Devt. Ltd. (Hong Kong)	1,200-room hotel in Guangzhou	$60 million	Deal announced 6/11/80

Company/Country	Product/Plant/Technology	Value	Status Date Announced
Hotel New Otani (Japan)	Tie-up agreement with Beijing Hotel: hotel management know-how in exchange new Chinese cooking techniques	NVG	Agreement announced 6/21/80
Transportation Equipment			
Mitsubishi Motors Corp. (Japan)	1,510 vans to be shipped between June and July	$9 million	Order announced 6/5/80
Equipement Mécaniques Specialisés (France)	Joint venture proposal to build tire plant	Approximately $10 million	Negotiations announced 4/16/80
Miscellaneous			
Black & Veatch Camp Dresser & McKee Malcolm Pirnie (US)	Joint venture (AMCHENG) to offer environmental engineering services in China	NVG	Announced 2/80
Comex Industries (France)	2 diving units and 2 mini-submarines as training for Chinese divers and technicians for the units	$9.9 million	Contract signed 3/80
(Macau)	Agreement to invest in huge housing project (1,400 flats)	$150–200 million	Agreement signed 3/23/80
Seibu Department Store (Japan)	Joint venture company in Tokyo for marketing Chinese herb medicine, foods, industrial art objects, carpets, and other products	$3.97 million (¥ 100 million)	Agreement reached 4/15/80
Asahi Glass Co. (Japan)	Order to upgrade glass factory	$27.8 million (¥ 700 million)	Order announced 4/16/80
Dussek Campbell Ltd. (UK)	Casting wax handling plant and equipment	$299,052 (£135,000)	Sale finalized 4/23/80
Japan Philatelic Society (Japan)	Contract with China Stamp Company to market Chinese stamps and philatelic products in Japan	NVG	Contract signed 4/26/80
All-Japan Printing Industry Ass'n, Japan China Industrial Technology & Culture Centre (Japan)	Book composition plant in Shanghai with annual capacity of 100,000 pages	$3.97 million (¥ 100 million)	Agreement on 5/3/80
Donaldson Lufkin and Jenrette Securities Inc. (US)	Joint venture to build twin-tower skyscraper in Guangzhou	$250 million	Negotiations announced 5/21/80
AMF Inc. (US)	10-year contract for manufacturing in China basketballs, soccer balls, and volleyballs for AMF	$50 million	Contract signed 6/24/80
Licenses			
Sperry Vickers Troy (US)	Technical know-how agreement for manufacture of industrial hydraulic valves	NVG	Agreement signed 5/5/80
Hughes Tool Co. (US)	License agreement to manufacture Hughes rock bit	Approximately $200 million	Agreement signed 5/9/80
Sulzer Brothers (Switzerland)	License agreement to manufacture compressors in China to be used in steel production	NVG	Contract concluded 5/14/80
Thorn Consumer Electronics Ltd. (UK)	License agreement to assemble color television sets in Hong Kong and China	NVG	Announced 6/19/80

Total Value of 1980 Sales Listed Through July 1:	**$2.6 billion+**
Total Value of 1980 Negotiations Listed through July 1:	**$1.8 billion+**
Cumulative Value of Sales from January 1, 1979, through July 1, 1980:	**$10 billion+**
Cumulative Value of Negotiations from January 1, 1979, through July 1, 1980:	**$3.7 billion+**

NVG = No Value Given

NOTES: Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in *International Financial Statistics (IMF)*.

Contracts concluded over two months ago are also included, if they were not reported in the last issue of *CBR*.

Table prepared by Catherine Yelloz.

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