The China Business Review

THE MAGAZINE OF THE NATIONAL COUNCIL FOR US-CHINA TRADE

July–August 1987

Making movies

美中貿易

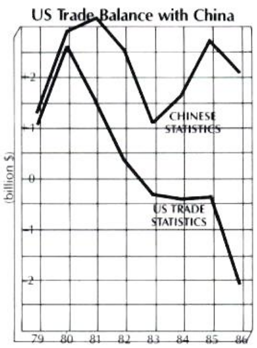
The China Business Review

The magazine of the National Council for US–China Trade

July–August 1987 Volume 14, Number 4

Cover: The Chinese film classic *Street Angels* (1937), and the Sino-American Co-production *A Great Wall* (1986). Today, foreign and Chinese directors are bringing new life to the art of making films in China. *Photos courtesy of China Film Corp. and Orion Pictures Corp.*

"Stat" Wars: In US–China trade last year, which country recorded a $2.1 billion deficit? The answer is . . . both. **Page 14.**



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TRENDS & ISSUES

摘要

BANNED IN BEIJING

In June 1987 the Beijing Railway Station took the drastic step of banning cigarette smoking throughout the terminal. The ban is to be extended to 100 other public places in Beijing later this year, as part of China's latest anti-smoking drive.

This is not the first time China's leaders have lashed out against the harmful habit. Smoking was banned for a time in the first half of the 17th century, until tobacco-smoking courtiers finally persuaded the emperor to lift the ban. Another attempt to curb smoking began in 1979 but faltered as most of China's 300 million puffers—more than two-thirds of adult men and about 8 percent of women—failed to take the health risks seriously.

Officials from the Central Patriotic Health Commission have already publicized the alarming news that lung cancer is now the leading cause of death in Beijing. Yet one Chinese survey reveals that only about 12 percent of ex-smokers quit in direct response to anti-smoking publicity. Most of the others kick the habit if and only when their health has already deteriorated. The degree of indifference is high even among China's doctors, more than half of whom smoke. A Western doctor who visited China last year was stunned to hear one otherwise well-informed Chinese cardiologist play down the link between cigarette smoking and coronary artery disease.

This year cigarette manufacturers must attach labels to cigarette packs warning of the health hazards, just as is done in the United States. Also proposed is a nonsmoking day and a ban on smoking on university campuses. But will this be enough?

Pessimists see no reason why the anti-smoking campaign will have any greater affect this year than it has before. The only sure way to reduce the incidence of lung cancer and other smoking-related diseases, they argue, is to produce more filter-tip and low-tar cigarettes. Not surprisingly, officials in the lucrative tobacco industry rank high among these pessimists. Their industry would have much to lose if the campaign succeeded. (Pretax profits reached ¥14 billion [$3.8 billion] last year.) So would the State, which regularly obtains 7–8 percent of its total tax revenue from cigarette sales and is calling for taxes from tobacco sales to increase by 29 percent during the current five-year plan.

Officials from the Ministry of Public Health and various national committees spearheading the anti-smoking campaign admit they are fighting an uphill battle. Recent surveys show that smoking is on the rise, particularly in rural areas and among middle-school students. China's growing affluence may be partly to blame.

Bringing cigarette consumption down again will not be easy. Offering cigarettes has been a traditional gesture of friendship (and a form of bribery) that will be hard to undo—although, remarkably, some Chinese are now actually exchanging gifts of anti-smoking tea and candies instead of cigarettes. Television also presents an obstacle to the campaign. Although cigarette advertising is forbidden, subliminal messages go out to the audience every time the famed and the powerful light up before the cameras. Anti-smoking activists hope to convince more officials, doctors, and teachers to quit so they can become role models for others. How about it, Mr. Deng? —DDK

A NEW FARMING TOOL

In China, mechanizing agriculture is usually not the preferred means of increasing yields. Mechanization would require larger plots than currently exist under the responsibility system and create more rural unemployment than China's leaders are willing to accept. Yet gains in agricultural productivity are becoming increasingly difficult to make now that rural reforms have run their course.

One way to solve this dilemma may be to leap even further ahead and promote the use of computers for a few appropriate agricultural applications. In Jiangsu Province, for example, computers have helped scientists determine the optimal use of chemical fertilizer on rice paddies and of pesticides on cotton fields. Computers have also helped another group of farmers dispense with pesticides altogether. In Sichuan Province, scientists devised a nontoxic means of coping with pest mites—the greatest scourge to citrus crops. Using a computer to forecast the development of mites' natural enemies, the scientists raised and then released them on mite-infested crops. The technique has already reduced production costs at one orchard by 90 percent during the past three years, while output increased 154 percent. If applied nationwide, one scientist estimates that the technique could save Chinese farmers more than $32 million in production costs.

The Chinese Academy of Agricultural Sciences is a firm believer in the value of computers. Since 1981, it has been setting up computerized data banks to help develop higher-quality strains of rice, wheat, corn, silkworms, poultry, and livestock. These data banks can answer many of the questions farmers need to know: what is the ideal temperature for growing greenhouse crops? How much water is necessary for irrigating fields? How far apart should seeds be planted?

Data banks are also helping policy-makers set realistic output targets by determining how much electricity, water, and fertilizer are needed to sustain or increase output for a wide variety of crops. And plans are now in the works to establish a computerized agricultural information center to serve the greater Shanghai Economic Zone that includes Shanghai, Jiangsu, Anhui, Zhejiang, and Jiangxi. But many more computers and trained computer technicians will be required before computer technology can assist agriculture on more than an experimental basis.

With the recent downswing in grain production worrying leaders in Beijing, these hi-tech innovations come at a good time. Official estimates are that 970,000 hectares of land are dropping out of cultivation each year, mainly due to the growth of rural industry and the boom in housing construction by farming families. And China's birth rate is expected to accelerate now that the "baby boom generation" has entered its child-bearing years. Unless and until these trends are reversed, gains in China's agricultural productivity will depend on how successfully new technology can be applied on a wide scale. —Kelly Ho Shea

A COLLECTIVE EFFORT

As many China traders will tell you, Hong Kong companies are skilled in navigating China's bureaucratic waters and quick to spot small but promising business opportunities. It's no wonder, then, that they have led the way in experimenting with a new type of joint venture—one that has more than its share of both attractions and risks. A number of Hong Kong investors, as well as a few enterprising firms from farther afield, have spurned China's dominant State sector in favor of China's fast-expanding collective sector.

Investments tend to be small in scale—averaging $600,000 at the 10 such operational joint ventures in Shanghai. The majority of joint ventures with collectives are located in Guangdong and Fujian, where they most commonly involve taxi services, aquaculture and fishing, poultry breeding, and light industry.

Chinese officials attempt to remain neutral when discussing this type of venture. When interviewed, a MOFERT spokeman noted that, "Although establishing joint ventures with collectives is permissible under the current investment laws, the government officially encourages foreign companies to invest in State-owned enterprises." But he added, "Nevertheless, China abounds with poorly managed State enterprises and well-run collectives, so the key criterion in choosing a partner should be how well the enterprise is run."

This ambiguity doesn't seem to be hampering the operations of existing joint ventures. To date most are faring quite well. Their small size can be a distinct advantage—allowing them to skip some of the time-consuming formalities required for larger foreign investment projects. As a result, start-up times are shorter, and returns on the original investment can be recouped more quickly.

And foreign firms concerned with enterprise efficiency may be pleasantly surprised. Many collectives have taken advantage of their independence from the State to initiate experimental factory reforms. Take-home pay is often pegged to individual productivity and the nature of the task. Year-end bonuses can be sizable if a collective has a good year. Thus the workers that a joint venture inherits may have already developed efficient work habits and a strong sense of enterprise loyalty.

But having a collective for a joint venture partner isn't recommended for most companies because of the risks involved. Collective enterprises operate at a greater distance from the local bureaucracy than State-owned enterprises. While less bureaucratic interference may sound like a blessing, it can deprive a joint venture of an important avenue of relief: the support of local officials, which can speed the awarding of preferential treatment under China's investment laws and bring assistance when problems crop up after the venture begins operations.

Still, a collective's position at the bottom of the pecking order for State-allocated production materials does have at least one advantage. Because they usually have to turn to China's erratic market to find supplies, collectives have groomed street-wise managers used to operating outside of the State-planned sales channels. More sensitive to changing market demand than their counterparts in State enterprises, these managers are often relatively willing and able to quickly develop products to fill new market niches.

Having the right product and finding a well-managed partner with reliable connections to planning and allocation bureaucracies is essential if joint ventures with collectives are to succeed. By keeping these ventures small, investors have so far avoided placing significant strains on local supplies of raw materials, and have been able to fit into the local economic scheme without posing a threat to entrenched interests.

—Andrew Ness

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The Great Battle of the Forms

Problems with the use of form contracts in China

Ta-kuang Chang

Over bottomless mugs of lukewarm tea, in countless negotiation rooms all across China, the all-too-familiar script is replayed. The Chinese negotiator solemnly presents the foreign company with one of China's ubiquitous standard form contracts which, he sternly announces, must be used in all business transactions.

If, for example, the transaction involves a transfer of technology, the form contract will usually be a filled-in version of the printed "Know-how" Form Contract commonly used by the China National Machinery and Equipment Import and Export Corporation, or the "License and Know-how" Form Contract (License Form Contract) used by the China National Technical Import Corporation. Like most Chinese form contracts, both of these all-purpose, fill-in-the-blank forms are rather simplistic and in many cases do not fit the circumstances or the technology being transferred. What's more, they contain numerous terms that favor the Chinese party and are unacceptable to foreign companies.

Not to be outdone, the foreign firm often counters with its own standard form contract, which it has used successfully in its home country or elsewhere. Drafted to favor the foreign company, this form contract will probably be in typical American legalese, full of "thereof"s, "therefor"s, and dozens of impenetrable boiler-plate clauses. And so begins yet another interminable round of the "great battle of the forms."

Most form contracts, wherever they come from, are written to favor the drafting party, whose perspective is embedded in the very structure and language of its form contract. Conversely, the party that accepts the other side's form contract is on the defensive from the start. It is much more difficult to scrutinize the opposing form contract and pick out every objectionable point, some so subtle that the other side will always lodge a charge of nitpicking. The drafting party needs only to sit back and repeat, "Why do you object to this phrase? It is perfectly reasonable."

The presumption that the drafting party enjoys an advantage is even recognized by US law. An American court usually interprets any ambiguity in the contract language against the interests of the party that has drafted it, particularly in the case of form contracts. Regrettably, this sound legal principle has not yet been—but should be—recognized by Chinese law.

Arguing over whose form contract to use as the basis for negotiations is, of course, an accepted ritual in business transactions all over the world, but China presents some problems all its own.

Case one: technology transfer

By making its form contract the basis for negotiations, the drafting party can gain control over the negotiating agenda. In the case of technology transfer, for example, the structure of China's form contracts shifts the focus of negotiations away from issues important to foreign companies, such as confidentiality, limitation on liability, trademark usage, and export control regulations. Instead, these negotiations tend to focus on issues like the requests for sweeping guarantees that are subtly embedded in different sections and clauses of Chinese form contracts. For example, the foreign company must guarantee not only the completeness and accuracy of the technology documentation provided but also the quality of the products manufactured by the Chinese party using that technology (*see* p. 8). Given the backward state of most Chinese factories, and the many factors beyond the control of the foreign company, few foreign firms can afford to make such sweeping guarantees.

The foreign company frequently finds itself in the uncomfortable position of arguing that, although its technology is superior, it cannot guarantee the quality of the products manufactured by the Chinese party. This is particularly awkward to justify to Chinese engineers from the end-user factory, with whom the foreign company has painstakingly developed personal relationships during the marketing process. Not fully understanding the legal reasons why the foreign company cannot give the type of guarantees demanded in the form contract, indignant Chinese engineers may go so far as to storm out of the negotiating room. Seeing months or even years of work about to go down the drain, the representatives of the foreign company often capitulate.

Case two: one-sided form leases

Real estate leases in China illustrate problems with Chinese form contracts in a different type of transaction. In the United States, China, and elsewhere, the landlord usually drafts the lease contract. The severe shortage of rental space for foreign companies in China gives Chinese landlords significant power, and they often respond to tenants' objections to their form leases with a curt "take it or leave it," giving tenants no

Ta-kuang Chang, the resident attorney in Beijing for Paul, Weiss, Rifkind, Wharton & Garrison, has been negotiating transactions in China since 1981.

KNOW-HOW CONTRACT

FOR

CONTRACT NO:
(DRAFT)

SECTION 7 VERIFICATION AND ACCEPTANCE

7.1 Both parties agree that a verification test on CONTRACT PRODUCTS manufactured by PARTY A in accordance with the DOCUMENTATION provided by PARTY B shall be jointly carried out. The method of the test is set forth in APPENDIX V.

7.2 If the VERIFICATION TEST shows that the performance of the CONTRACT PRODUCTS is in conformity with the technical specifications stipulated in APPENDIX I, the test shall be considered as qualified and both parties shall sign a Performance Quality Certificate in four copies, two for each PARTY.

7.3 If the VERIFICATION TEST shows that the performance of the CONTRACT PRODUCTS is not in conformity with the technical specifications, both parties shall, through amicable negotiation, make joint study, analyse the causes and take measures to eliminate the defects and carry out a second test and, if necessary, a third test. When the test demonstrates that the performance is qualified, both parties shall sign a Performance Quality Certificate stipulated in SECTION 7.2.

7.4 If PARTY B is responsible for the first and second test proven to be unqualified, all expenses for the technical personnel sent by PARTY B for second and third test shall be borne by PARTY B. If the failure is due to PARTY A, PARTY A shall bear al' t!.e expenses mentioned above.

7.5 If the third test again fails, and if PARTY B is responsible for the failure, the matter shall be dealt with according to the stipulations in SECTION 8.7. If the responsibility for the failure lies with PARTY A, the two parties shall negotiate on how to proceed the implementation of the CONTRACT.

SECTION 8 GUARANTEE AND CLAIMS

8.1 PARTY B guarantees that the DOCUMENTATION supplied by PARTY B shall be the latest documentation being used by PARTY B in its then current manufacturing. PARTY B shall also supply to PARTY A, during the validity term of the CONTRACT, the technical information

8.6 Whenever the delay of DOCUMENTATION delivery exceeds six (6) months, PARTY A has the right to deal with the matter according to the stipulations of 8.7.1.

8.7 In accordance with the stipulations in SECTION 7, if the tests fail three (3) times successively, and PARTY B is proven to be responsible, the matter shall be dealt with in the following manner:

8.7.1 If the VERIFICATION PRODUCT fails in its tests due to PARTY B's fault, and PARTY B expresses that there is no way to deal with the matter so as to cause PARTY A being unable to start normal production, PARTY A has the right to terminate the CONTRACT. PARTY B shall refund the amount of all the payments previously made by PARTY A, together with the interest at the rate of percent (%) per annum.

8.7.2 If only some aspects of the product quality do not meet the standards stipulated in the CONTRACT due to PARTY B's fault, bu this insufficiency of quality does not seriously affect the starting of production, PARTY B shall assist PARTY A to achieve the correct standards of the CONTRACT PRODUCTS, or PARTY B shall reduce the initial fee to a certain amount to be agreeded upon by both parties.

1. This Know-how Form Contract is typical of the form contracts used by Chinese foreign trade corporations in the transfer of technology to China.

2. Verification is a rather innocuous-sounding term that really means testing the quality and performance of the products manufactured by the Chinese party using the transferred technology.

3. Chinese negotiators generally will not accept a Performance Quality Certificate signed by a neutral third-party such as an internationally recognized testing organization. Instead they demand it be done by the Chinese buyer.

4. The foreign company may be required to send technical personnel to China repeatedly in order to perform these verification tests.

5. The form contract does not specify how one determines whether a test failure is the responsibility of the foreign company or the Chinese party.

6. If the products manufactured by the Chinese fail the verification test three times, the form contract gives the Chinese party the right—under certain ill-defined conditions—to terminate the contract and obtain a full refund.

choice but to accept the often unconscionable terms.

Almost anyone who has leased office or apartment space in China can regale listeners with tales of one-sided form leases. The form lease for the venerable Beijing Hotel, for example (*see* p. 11), gives the hotel the right to raise the rent or move the tenant from the rented space to other accommodations at any time. The Beijing Hotel has not hesitated to exercise both rights, raising the rent 60 percent overnight and moving tenants to different floors with one week's notice. But a tenant who tries to exercise his right under the lease to terminate before the expiration date may be penalized heavily and held responsible for paying 50 percent of the rent due on the remainder of the lease.

With the growing number of joint venture hotels, some landlords in China are now foreign companies, who can also be very hard-nosed. For example, the form lease for the newly constructed Noble Tower office building, a Chinese–foreign cooperative venture, implies that the tenant must start paying rent not when the space is ready to occupy, but merely after the building is "substantially complete."

China drives a hard bargain

The choice of form contract often demonstrates the parties' respective bargaining power at the time of negotiation. When one party has monopoly power, the other party has no choice but to accept a one-sided form contract. In real estate transactions, the looming specter of a glut of hotel and office space in several Chinese cities has suddenly made landlords more receptive to changes suggested by tenants to the form leases. But, as shown by several of the form contracts described below, the stronger party still frequently adopts a very hard line.

- **FESCO contracts.** Under Chinese law (and strengthened by new penalty regulations last April and October), China's Foreign Enterprise Service Corporation (FESCO) enjoys an absolute monopoly in supplying Chinese workers for foreign company offices. FESCO insists that all foreign companies sign exactly the same employment contract for such workers and usually rejects any alterations. However, foreign firms that hire many FESCO workers wield greater bargaining power, and some have reportedly been able to modify the form contracts.

- **Offshore oil contracts.** Experience with China's offshore oil contracts also shows that as the seller's monopoly power decreases, the seller becomes much less insistent on strictly adhering to its form contract. When oil prices were at their peak in the early 1980s and foreign oil companies were jostling to participate in China's offshore oil exploration, the China National Offshore Oil Corporation (CNOOC) was able to structure all their contracts following the CNOOC model. Based on oil contracts used by the governments of Norway, Brazil, and Indonesia, the CNOOC model contract sharply limited the managerial control and potential profitability of foreign oil companies.

But the tables were turned by 1986, as prices reached historic lows and most foreign oil companies drastically cut exploration and development expenses. The contracts negotiated in China's second round of offshore bidding and other oil-related contracts signed in 1986 and 1987 tend to diverge from the CNOOC model contract in favor of foreign oil companies.

- **Equipment purchase contracts.** According to conventional practice in the United States and elsewhere, in a sale of equipment or technology, the seller, rather than the buyer, determines the form contract used. This makes sense because the seller usually has shaped the contract to fit the particular complexities of its industry, product, or technology.

But when selling equipment or technology to China, foreign companies are often forced to use the form contracts provided by the Chinese buyer. In addition to the Know-how Form Contract and the License Form Contract mentioned previously, a standard purchase form contract generally appears when the foreign trade corporations under the Ministry of Foreign Economic Relations and Trade (MOFERT) are ready to buy equipment or goods from foreign companies. Although the Sales Form Contract is extremely simple and leaves many things unstated, some terms may still be unacceptable to the prudent foreign company.

For example, China's standard Purchase Form Contract usually stipulates that disputes are to be arbitrated in Beijing before the Foreign Economic and Trade Arbitration Commission (FETAC) of the China Council for the Promotion of International Trade. Last year a foreign attorney was permitted, apparently for the first time, to represent a foreign company in an arbitration before FETAC. But most foreign companies still have good reason to prefer arbitration in a third country such as Sweden or Switzerland. The expense of arbitration in a third country is a more effective bargaining tool for foreign companies in the event of a dispute. And in a FETAC arbitration, the foreign party is not allowed to choose even one member of the arbitration panel from its home country or a neutral third country; the entire panel must be picked from a short list of prescribed Chinese arbitrators.

Issues in joint venture contracts

Perhaps the most frustrating form contracts that foreign companies deal with in China are the "model" joint venture contract and articles of association (JV Form Documents) encountered in negotiations for the establishment of Chinese–foreign equity joint ventures. Distributed since late 1984 by MOFERT, these JV Form Documents are vague and simplistic, and at points inconsistent with China's laws regulating equity joint ventures, such as the Rules for the Implementation of the Joint Venture Law of the PRC.

The JV Form Documents were drafted by MOFERT to facilitate foreign investment. Instead, they have often had a counterproductive effect on joint venture negotiations. Certain Chinese negotiators, as well as some local approval officials, misunderstand the purpose of the JV Form Documents and regard them as mandatory standard contracts to be followed word for word. The negotiation and approval process becomes simply that of placing the draft contract and articles of association alongside the JV Form Documents, and making a rote comparison. Obviously, this is less risky from a bureaucratic standpoint, and requires much less effort than a careful reading of a contract that has been the result of months of negotiation between the parties.

As a result, negotiations are often deadlocked from the very beginning, as the Chinese side refuses to make even minor clarifications. Alternatively, the negotiations may turn into the exercise of trying to make the contract and articles resemble the JV Form Documents in outward appearance (particularly in the more conspicuous front part of the documents), while controversial substantive points are concealed in the back of the documents or in lengthy appendices.

Many Chinese officials and lawyers admit that the JV Form Documents are inadequate for regulating the great variety of equity joint venture projects ranging from tourist hotels to machinery manufacturing plants. High-level MOFERT officials have repeatedly assured foreign investors that the JV Form Documents are merely models for reference and that the parties to the joint venture are free to reach their own agreement on the contract and articles of association. But such enlightened opinions at the top are often ignored by the local authorities empowered to approve joint venture projects.

Government approval

The battle of forms in China can be especially exasperating for foreign companies because the Chinese government is often the invisible third player, acting as both the coach for the Chinese side and the referee that ultimately approves the contract.

For example, under Chinese law, all joint venture contracts and articles of association must be approved by MOFERT's Foreign Investment Administration before becoming legally effective. MOFERT delegates authority to approve contracts under certain dollar ceilings to local approval authorities, usually the local "Foreign Economic Relations and Trade Commission" (FERTC). The Beijing FERTC, for example, can approve industrial joint venture projects with a total investment of up to $10 million, while the approval ceiling for Shanghai is $30 million, and most provincial FERTCs can approve projects valued up to $5 million. Under current practice, such ceilings may be adjusted upward by about 10 percent without necessitating MOFERT approval.

Local authorities can also approve most service projects such as tourist hotels, expatriate apartments, and office buildings. But, in a disturbing recent case, MOFERT attempted to amend a joint venture contract that had already been approved by the authorized local officials. This action was justified by an internal regulation giving MOFERT the right to review local approvals.

Contracts for the transfer of technology must also be approved by MOFERT through its Technology Import and Export Department, although the power to approve projects valued at under $5 million is usually delegated to local or ministry authorities.

The requirement of Chinese government approval gives the Chinese side a formidable weapon in the battle of the forms. The Chinese negotiator can threaten that unless the foreign company accepts the Chinese form contract, the transaction in question will not be approved. Or he can claim that a particular contract clause suggested by the foreign company violates internal Chinese regulations, so that even if both sides agree to it, higher authorities will withhold approval.

It is very difficult for foreign companies, especially those unfamiliar with China, to respond to such negotiating tactics. Even if the Chinese negotiator's threats are false, the foreign party usually has no way of calling the bluff. Most published laws in China are vague and general, with more detailed administrative decisions and regulations published sporadically in specialized journals, or distributed privately only to interested foreign firms.

Foreign companies (or their agents) may resort to developing personal contacts with the approval officials so that they can check directly on the acceptability of particular contract provisions. This approach is not foolproof, however. Even Chinese officials from the same government office sometimes give inconsistent or even contradictory positions on specific issues.

The power of precedence

Another strategy foreign companies use in negotiating contracts is to enter the negotiation room armed with a stack of selected contract provisions from previously signed and approved contracts. When the Chinese negotiator pronounces a foreign company's proposed contract provision "contrary to Chinese law" and predicts that the contract will not be approved, the foreign company (within the bounds of any confidentiality obligations) can proceed to demonstrate that the exact same provision has been accepted in other approved contracts in China.

It is surprising how miraculously convincing such an argument can be to the Chinese negotiator, sometimes breaking months of deadlock. For a Chinese negotiator (or approval official) the rewards for good performance are minimal, while the penalties for making a mistake are great. Nothing is as reassuring as evidence that other Chinese negotiators and officials have also agreed to a particular contact provision.

The legal influence

Increasingly, lawyers from Chinese law firms participate in negotiations with foreign companies and often play a helpful role as far as contract language is concerned. Unlike some Chinese negotiators and officials who still expect the contract for a complex 30-year project to be as readable as the evening newspaper, many of the younger Chinese lawyers realize the need for precision and completeness in contract language.

But as Chinese lawyers admit privately, they will always be in the ambivalent position of acting both as the lawyer for the Chinese party and as an officer of the government. As such, if they are willing to affirm that a contract is satisfactory from China's viewpoint, the approval authority will generally take their word for it. From a bureaucratic perspective, the lawyer's neck is on the line.

The Chinese government should recognize that the entire contract negotiation process can be in itself a valuable transfer of "legal technology." By negotiating with foreign companies, the Chinese side gains "know-how" for conducting international business, which can be used in future transactions. And as Chinese companies and lawyers become more familiar with international contract documentation, foreign companies will find negotiations in China becoming progressively more routine.

Conversely, foreign firms and lawyers can learn a great deal from negotiations with their Chinese counterparts. By being forced to explain and simplify boilerplate contract clauses whose verbose obscurity is usually taken for granted, they will learn not only about doing business in China but may also gain a fuller understanding of their own contracts. 完

北京饭店
租賃书
BEIJING HOTEL LEASE AGREEMENT

The lessor Beijing Hotel
The lessee:

Beijing Hotel (hereafter referred to as The lessor) and - (hereafter referred to as The lessee) have, after friendly discussions, signed this lease agreement on 198 and have reached agreement on the following terms:

3. Rent

A. The rent of the room is yuan per day. (foreign exchange certificate).

B. The lessee have to pay the rent of the room once a month in the account office of the lessor.

C. The rent of the room will be readjusted as the lessor readjusts the rent of the rooms of the hotel as a whole.

1. This clause gives the Beijing Hotel the right to raise the rent on the long-term lease at any time.

5. Access

After renting of the room, if the lessee want to change or add office staff, the lessee should go through procedures with an introduction letter, the sign of the representative and official seal at the management department of the lessor.

6. Furniture and electrical equipment

After the renting of the room, if the lessee wants to remove the inherent furniture or add new furniture, telephone, telefax, telex-machine, duplicationg-machine, television, tape recorder, videocorder, electrical oven, iron, etc. The lessee should go through procedures with an introduction letter at the management department of the lessor. The lessee shall not do above-montioned things without the permission of the lessor.

2. According to the terms of the form lease, the tenant must have the hotel's permission to add new furniture or to bring in even a tape recorder. The tenant must also report any staff changes to the hotel.

7. Lessee's covenant

Lessee agrees to observe the following covenants and conditions.

D. Not to do, nor permit any thing in or upon the premises which may cause damage or to be a nuisance to the lessor or any other tenants of Lessor.

E. Not to use the premises for any illegal or immoral purpose.

F. Not to use the premises for rearing cattle (e.g. bird, pigeon, dog).

3. Hmmmm. . . .

9. Default

A. If lessee defaults in fulfilling any of the covenants of this lease agreement, then unless lessee corrects said default(s) to lessor's satisfaction within fourteen calendar days after lessor serves written notice of said default's to lessee, this lease agreement shall be deemed cancelled and the term hereunder shall end and expire upon the end of such fourteen days period and lessee shall then vacate and surrender the premises to lessor.

B. If one side stop the lease agreement before the due date, the side which stop the lease agreement should compansate for the other side 50 per cent of the total rent of the period which has not been implemented (except for repairing or reforming). During the period of repairing or reforming, the room of the lessee will be arranged by the lessor for other purposes.

4. Translation: the hotel can move the tenant on one week's notice.

11. Language

This lease agreement with its appendices is made in duplicate with lessor and lessee each holding one copy. Chinese and English versions shall have equal status under the law.

In witness whereof, the lessor and lessee respectively signed this lease agreement on the day and year above written.

Lessor:
Beijing Hotel
By

Lessee:

NEWSMAKERS

新闻人物

Fang Yi on Science and Technology

State Councilor Fang Yi came to the United States in May on the delegation led by Vice Chairman of China's Military Affairs Commission Yang Shangkun. As minister in charge of the State Science and Technology Commission from 1977 to 1984, Fang Yi established a reputation as a strong proponent of science and technology reforms, and continues to be China's chief science and technology spokesman in matters before the Central Committee of the CCP, of which he is a member. Fang Yi accompanied Deng Xiaoping on his historic US visit in 1979 and served as co-chairman of the US–PRC Joint Commission on Cooperation in Science and Technology in Washington, DC, in October 1981. In 1981 Fang Yi discussed China's science and technology plans and priorities with The CBR. *On his latest trip he spoke to* CBR *editor Madelyn Ross about science and technology issues concerning the United States and China.*

CBR: The United States and China continue to expand science and technology contacts. Could you comment on the successes and problems in this area of cooperation?

Fang: Since 1979 cooperation in science and technology between China and the United States has been carried out quite smoothly, and both sides are quite satisfied with the results. Sino–US cooperation in science and technology has become a very important part of our bilateral relations and has contributed greatly to the development of our relations.

Up to now we have signed 27 science and technology protocols between our two countries. Our two sides complement each other, and both have made progress through this form of cooperation. Such cooperation gives scientists a wide range of opportunity for contact and exchanges with each other. Chinese scientists are learning advanced science and technology theory and methods from the United States that are very helpful to the acceleration of the Four Modernizations in China. There's great potential in this cooperation, and we hope for further development—particularly in the fields of high technology, such as space, biotechnology, microelectronics and—I should add—the "in" subject for development: superconductivity. In superconductivity, our scientists have achieved quite remarkable results, because China is rich in the resources for superconductivity. [China ranks first in the world in rare earth reserves. Early this year Chinese scientists reported

Photos by Ray Crowell

Fang Yi

significant advances in the development of a new superconductor that achieves zero electrical resistance at temperatures higher than ever before possible.—Ed.]

The cooperation in science and technology provides opportunities for Chinese scientists to come to the United States and work with US scientists in the labs here. The US scientists can also take advantage of this cooperation to go to China and learn about the unique geographical environment and unique phenomenon and collect important data and information. For instance, just recently, in the field of superconductivity, Chinese scientists provided important information to US scientists in the Y-BA-CU field [Yttrium-Barium-Copper; materials used in the development of superconductors.—Ed.]. China is quite rich in such material. And cooperation in science and technology can also promote the development of trade.

CBR: How has the US export controls situation affected technology exchange between the two countries? What changes would you like to see in this area?

Fang: Restrictions on the export of technology on the part of the United States do have an impact on the development and depth of the science and technology cooperation between our two countries.

We have taken note that, since 1983, the US government has adopted some successive measures to ease the restrictions on exports to China, and this has played a positive role in promoting the trade in technology and products between our two countries. But we can also see that—although the United States has put China into Group V—the US government has never really accorded China the treatment of Group V. Vice Chairman Yang put forward this question at talks that were held this morning between Secretary of State Shultz and Vice Chairman Yang and the Chinese delegation.

To sum up, the transfer of technology will benefit science progress in both the United States and China. The more technology the United States transfers to China, the more goods the US will be able to export to China. Take the case of satellite ground stations. The US transferred part of the technology to China, and then China imported some equipment from the US. So in this way the bilateral trade volume increased, and US exports to China increased by a large margin. Therefore, it is my hope that the US government will continue to make efforts to promote the cooperation between our two countries in science and technology to develop in a more "in-depth" direction.

CBR: What role do intellectuals play in China's modernization? Are they gradually assuming more decision-making positions?

Fang: In the process of modernization, the Chinese government attaches great importance to the role of Chinese intellectuals. This is a fixed policy that will not change for a long period of time—the Chinese Communist Party respects knowledge and respects those professionals. Therefore, the majority of intellectuals are trusted by both the government and the people, and they have become the backbone in building socialist modernization. They are now playing a more and more important role in China's science and technology, culture, education, health, and also industrial and agricultural production. Senior intellectuals now serve as the directors of all research institutes in China. Scientists and technicians are playing a large role in decision-making for very important projects, such as the Baoshan Iron and Steel Complex in Shanghai, a large project involving several billion yuan of investment, that turns out 6 million tonnes of steel annually. We have employed some experts as our consultants and advisers in this project and achieved marked results. I can say for sure that the Chinese intellectuals will play an ever greater role in important decision-making in China.

CBR: There are many students from China studying now in the United States. What effect do they have on China's modernization?

Fang: Since 1979 more than 23,000 students have come to the United States, some of them sent by the State and some on their own. They have learned a lot in the United States. At the same time, they have also made contributions to the United States in the fields of education, science and technology, and economic development. They have also enhanced the friendship and mutual understanding between our two peoples. More than 7,000 of them have already gone back to China and become the backbone in the ranks of our science and technology personnel. They are also playing a positive role in China's development and the implementation of the policy of opening to the outside world. China's socialist modernization needs professionals of various fields in large numbers. There's no doubt that the students who study abroad and who do research abroad will be accorded a warm welcome home by their motherland and their people, and will contribute their talents and their knowledge to the Four Modernizations program in China.

CBR: How is China utilizing the skills of the many Chinese students trained overseas? How are these returned students assigned jobs?

Fang: When we send students abroad (i.e., government-sponsored students), we follow a policy of sending them in accordance with our own needs. What they learn will then be used at home. To bring into full play the role of students who have studied abroad is a key link in our work of sending students abroad. This gives expression to the policy of the Party on intellectuals. For those students who have studied abroad and returned to China, we will follow the principle of using what they have learned abroad to assign them jobs. As for those students who went abroad to study on their own, we treat them in the same way in assigning jobs, and give play to their individual knowledge and expertise.

National Council Hosts Yang Shangkun Delegation

Yang Shangkun, vice chairman of China's Military Affairs Commission, recently led a distinguished delegation of China's military, technology, and foreign affairs leaders on a State visit to the United States. The delegation met with member firms of the National Council for US–China Trade at a reception in Washington, DC, on May 18, one of their few chances to meet with a broad segment of the business community.

Yang Shangkun (top) and Xu Xin, deputy chief of the PLA General Staff (below) meet with Council members.

A toast to friendship . . . (left to right) Vice Chairman of the Military Affairs Commission Yang Shangkun; Claus M. Halle, chairman of the board of the National Council for US-China Trade, and Roger Sullivan, president of the National Council.

US–China Trade Discrepancies

Nai-Ruenn Chen

Concern over last year's $166 billion and growing US trade deficit is bringing each US trading partner under the close scrutiny of Congress. Legislators looking at US–China trade for 1985 and 1986 will see US deficits of $368.5 million and $2.134 billion, respectively. But Chinese trade officials insist that in fact it is *their* country that runs a deficit in bilateral trade, and that they can only continue to buy more US products if the United States imports more Chinese goods to eliminate this deficit.

Discrepancies in trading partner data are not uncommon, but the gap between Chinese and US statistics has widened each year since 1981. In fact, both sets of Chinese trade statistics—those compiled by the Ministry of Foreign Economic Relations and Trade (MOFERT) and China's Customs service—differ widely from US Commerce Department trade statistics. In 1986 US statistics put total two-way trade at $8.3 billion, with the United States registering a deficit of $2.1 billion. On the other hand, Chinese customs statistics show a $7.3 billion trade total with a $2.1 billion deficit for China, while MOFERT's figures calculate two-way trade to be $5.8 billion with an $863 million deficit on China's books. Several factors account for this discrepancy:

• **Transshipments and Re-exports.** Transshipments through third parties, particularly Hong Kong, are the major factor in the different perspectives on trade, contributing to well over half of the discrepancy. US statistics record imports and exports according to the country of origin and final destination of goods. But both MOFERT and Chinese Customs statistics generally count goods sent via Hong Kong for reshipment as originating in or bound for that city.

Since the United States requires a product to be "substantially transformed" to have its country attribution changed, some Chinese products designated for shipment to Hong Kong show up as Chinese exports to the United States. Transshipment through Hong Kong is more common for Chinese exports to the United States than for trade going in the other direction. Manufactured goods, particularly textiles, toys, and handbags, account for a major portion of the discrepancy in the size of US imports. In the case of US exports, the Hong Kong routing is a significant factor only in a few specific product categories such as office machines and automatic data processing equipment.

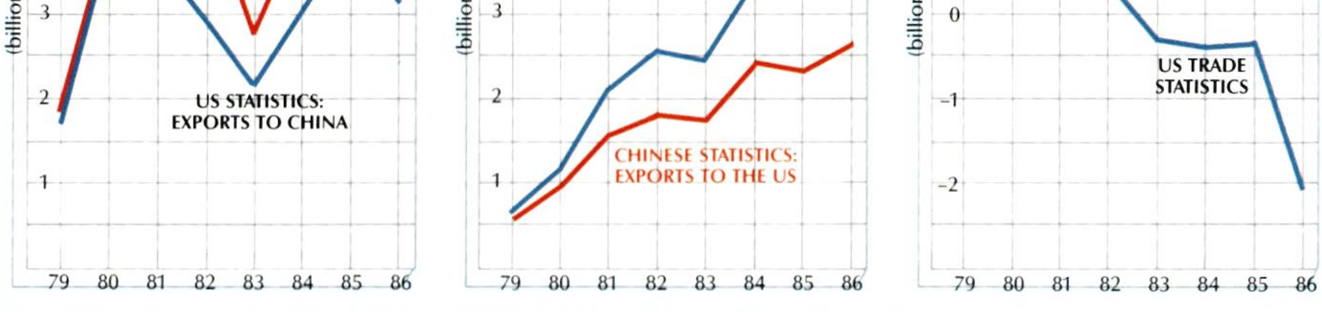
Transshipments through third parties other than Hong Kong cause statistical discrepancies for just a few specific products, such as crude oil, grain, and timber products. US import figures on Chinese crude oil and comparable export figures compiled by Chinese Customs varied by 30 percent in 1985, a direct function of transshipments through Japan. In that year, more than 2 million tonnes of Chinese crude oil worth some $400 million were shipped to the United States from China's storage facilities in Japan. These shipments are classified as imports from China in US trade statistics but are counted as exports to Japan in China's Customs statistics.

• **Goods Valuation.** Chinese and US trade statistics also use different methods to determine the value of traded goods. Chinese statistics report exports on an FOB (free on board) basis and imports on a CIF (cost, insurance, freight) basis. US trade statistics report exports in terms of FAS (free alongside ship) value and import statistics in terms of customs (similar to FOB) and CIF values. The root of the difference is that China bases import duties on a CIF valuation of the goods, while the United States uses the customs valuation to compute duties.

A simple calculation reveals how much of a discrepancy is caused by

PERCEPTIONS OF TRADE

US and Chinese Statistical Discrepancies, 1979-86



NOTE: Chinese figures for 1979, 1980 provided by MOFERT. All other years based on China's Custom's Statistics.

SOURCE: US Department of Commerce Trade Statistics, MOFERT, State Statistical Yearbooks, State Statistical Bureau Communique, Feb. 1987.

this factor. The difference between the customs and CIF values as tabulated by the United States shows that the cost of freight and insurance for US–China trade averages about 9 percent of the FOB value of imports. Applying this average for 1986, the different methods for valuation account for 24 percent of the discrepancy between the FAS value of US exports and the CIF value of Chinese import statistics and 18 percent of the discrepancy between the CIF value of US imports and the FOB value of Chinese export statistics.

• **Recording Systems.** The two countries use different methods to record some trade items. The treatment of leased equipment illustrates how these different methods result in discrepancies between trade figures. A piece of equipment leaving the United States under lease is included in US export data if the contract period exceeds one calendar year. When the same piece of equipment enters China, however, Chinese statistics record it in a separate category that is not included when China's total imports are calculated. Since China has leased several US aircraft in the past few years, Chinese import figures on transport equipment are significantly lower than US export figures for the same category. In 1985 the United States valued transportation equipment exports to China at $745 million, while China calculated imports from the United States in this category at $456 million.

• Currency conversion, time lags, differences in statistical coverage, accounting practices, and commodity classification systems all contribute to the US–China statistical discrepancy, but these are more common factors that contribute to differences in many trade partners' statistics.

Experts on trade statistics from the US and Chinese governments met in the fall of 1986 to discuss the discrepancy. Both sides agreed that differences in the treatment of transshipments and the valuation of imports on a CIF basis were the principal reasons for the discrepancy and resolved to continue investigating the differences. But until China and the United States standardize their methods of recording transshipments, reconciliation of statistical differences will not be possible. It is transshipments through third parties, especially Hong Kong, that represent the unique—and most important—factor in US–China trade data discrepancies. As Hong Kong becomes an increasingly important entrepot for China trade, the impact that transshipments will have on the discrepancy between US and Chinese trade data is likely to become even greater. 完

Nai-Ruenn Chen is an economist at the International Trade Administration of the US Department of Commerce. The views expressed are those of the author and do not necessarily represent those of the Department of Commerce.

Two Views of China's Foreign Trade

Christopher M. Clarke

The Ministry of Foreign Economic Relations and Trade (MOFERT) reports that China had a trade deficit of $5.76 billion last year—no small sum for a country that jealously guards its foreign exchange. But China's Customs statistics show a 1986 trade deficit of $12 billion—more than twice as large. How can one country with a highly centralized bureaucracy report two such different sets of figures on foreign trade?

China's Customs service and MOFERT look at trade in very different ways. The Customs Administration views trade as the physical movement of goods. It compiles statistics from customs declaration forms that include virtually all goods moved across China's borders. These statistics are based on the international trade classifications used by the United Nations Statistical Office—and are therefore comparable to trade statistics from other countries.

MOFERT, on the other hand, focuses on foreign trade as an aspect of China's planned economy. Data on the trade activity of factories, mines, and other enterprises officially authorized to engage in foreign trade form the basis of MOFERT's statistics. MOFERT's mandate to monitor and report on fulfillment of State foreign trade plans influences its classification of imports and exports—MOFERT's categories correspond to China's internal planning and statistical system and are based on the range of operations of China's specialized import/export corporations. Imports or exports of grains and vegetable oils, for example, are listed in MOFERT's chapter 01, which corresponds to the business scope of the trading company known as CEROILFOODS. (China's Customs statistics place grains in the 04 category, while vegetable oils fall in the 40 classification.)

Technical differences in the type of transactions counted in Customs and MOFERT trade statistics further complicate attempts to compare the different sets of numbers.

• Customs only includes transactions that take place on Chinese territory, while MOFERT reports all the transactions of its subsidiary corporations. These include triangular trade and barter arrangements that MOFERT oversees.

• Customs statistics include the full value of parts and materials brought into the country for export processing and the total value of these processed goods when they are exported. MOFERT figures generally do not include these imports and count as exports only the "value added" in processing arrangements (i.e., labor costs and processing fees).

• China's Customs service compiles import and export statistics regardless of whether the goods are related to foreign investment projects. Thus, Customs includes both the value of imported components and materials and the full value of exported finished or semi-finished products. MOFERT, however, regards imports of technology, raw and processed materials, and goods or materials for investment as "utilization of foreign capital," instead of imports. MOFERT statistics, however, do include the full value of joint venture exports.

• MOFERT compiles statistics on the value of multilateral and bilateral grants (including imported materials, lecture fees, and training fees) but does not include them in import–export figures. Customs figures include the value of customs-cleared commodity aid, material donations, and gifts reported on customs declaration forms.

• Customs includes the value of goods taken in and out of China in excess of allowable duty-free levels by embassies, joint ventures, representative offices, and individuals. MOFERT does not.

• MOFERT counts as exports all retail sales made in China's domestic foreign currency stores (including "friendship stores," service companies for personnel going abroad, overseas Chinese stores, and the Guangzhou Trade Fair), samples or other goods sold for foreign exchange to foreign visitors, supplies sold to foreign ships and airlines, and commodities sold to Chinese–foreign joint ventures for foreign exchange. The Customs Administration does not—unless the items are declared to Customs when the purchaser leaves the country.

• MOFERT also counts as exports goods billed through Hong Kong or Macau but delivered to a consumer in the interior (i.e., internal hard currency sales made by a joint venture but billed through Hong Kong) and goods purchased by a Chinese consumer with foreign exchange as a substitute for importing the same product. MOFERT counts as imports purchases made by China's foreign trade companies of gold or silver from the People's Bank of China for use in making jewelry and handicrafts. Customs does not count such transactions.

• The definition of the importing or exporting location causes further discrepancies. Customs records two types of information: the country "purchased from" and "sold to." For trade via Hong Kong and Macau, Customs statistics provide that if the transaction is done through a Chinese trade organization, and if the country purchased from or sold to is reliably known when the goods are imported or exported, the country is recorded. MOFERT statistics extend this treatment to imports or exports made by Chinese-owned Hong Kong or Macau enterprises. When goods transit through Hong Kong or Macau to an unknown destination, both Customs and MOFERT statistics register Hong Kong or Macau as the trade target country. Under both systems, most such transshipped goods are listed as having Hong Kong and Macau as their final destination.

• MOFERT and Customs statistics use the same method to calculate the exchange rate applicable to a particular transaction: both use the official exchange rate in effect when goods are entered into their respective records. But even this small procedural similarity does not mean the two sets of figures always agree since a single transaction is not always entered in the two sets of books on the same day. Customs records exports when the goods clear customs and lists imports on the date when the goods are approved for release and entry. MOFERT counts imports when the goods arrive in the first port of entry and records exports according to the date on the export loading certificate. This means that for the same transaction, MOFERT figures often predate Customs figures on imports but lag on exports.

Since China began to release both sets of figures in 1981, analysts of China's foreign trade have favored the Customs figures, which are considered more comprehensive and compatible with international statistics. The discrepancy between the two sets of statistics remained relatively small—less than 10 percent—between 1981 and 1984. In 1985, however, the figures began to differ substantially as decentralization of China's foreign trade structure began to allow more trade outside the State plan—and thus beyond MOFERT's statistical coverage—while local governments and traders went on a massive buying spree. Customs' total trade figure in 1985 was almost 18 percent higher than that reported by MOFERT, and Customs-reported imports exceed MOFERT's figure by 26.5 percent. That gap widened in 1986 with Customs' total trade figure 23.5 percent higher and imports 31 percent higher than MOFERT's figure.

In a recent interview, MOFERT's Minister Zheng Tuobin stated that China would continue to compile both sets of trade statistics, since MOFERT's "business figures" are needed for economic planning. While the two statistical systems may cause some confusion, China trade analysts have found a blessing in disguise—they are watching the discrepancies for clues to the progress of China's foreign trade reforms. 完

Christopher M. Clarke is a China analyst with the Department of State. The views expressed here are his own, not those of any governmental agency.

Movie Business

Patricia Theiler

Last March some residents of Shanghai were startled to find a familiar building decorated with a two-story high portrait of Kuomintang leader Chiang Kaishek. Foreign names like "Burkhill" and "Park" appeared on street signs. On a side street, Chinese pulling carts full of household goods were fleeing invading Japanese soldiers. Shanghai residents soon realized that they had indeed been "invaded"—but only by foreigners packing cameras and lighting equipment for *Empire of the Sun*, a Sino–American coproduction directed by Steven Spielberg.

Spielberg, whose films reportedly have grossed as many US dollars as there are Chinese people, spent two weeks in Shanghai filming scenes for his upcoming movie about a young English boy's struggles to survive a Japanese prisoner of war camp. He was the second big-name movie director to film in China within the last six months. Italian director Bernardo Bertolucci spent five months, most of it inside Beijing's Forbidden City, filming *The Last Emperor*, the story of the last ruler in China's 3,000-year dynastic history.

Although there was plenty of excitement on the Spielberg and Bertolucci sets, considerably less enthusiasm for such ventures prevails among some in the foreign film industry. The big Hollywood studios, in particular, are wary of the financial risks of film making in China even as they are attracted to the potential profits. Film makers claim that many of their financial and bureaucratic concerns are similar to those raised by the foreign business community in general. But the flurry of movie-making activity in recent months indicates that many find the risks worth taking.

Patricia Theiler is a free-lance writer living in Beijing. National Council Beijing Office Deputy Representative Zheng Xiao contributed to the research of this article.

From Kung Fu thrillers to lavish coproductions

For two decades after the founding of the People's Republic, most foreign film directors who wanted to make a film about China had to shoot in Taiwan or Hong Kong. The few foreign films shot on location were documentaries. The founding of the China Film Co-Production Corporation in 1979 changed all this: the corporation has now worked with film producers from 40 countries to produce 33 feature films and 68 documentaries.

Many of the feature films are inexpensive martial arts thrillers and historical dramas coproduced with Hong Kong studios. They usually do quite well in both China and Hong Kong. Chinese audiences are enthusiastic about action films; Hong Kong audiences enjoy watching films that use authentic locations on the mainland as a backdrop. *Cotton Robe*, one of the most popular, reportedly broke box office records in Hong Kong in 1985.

Coproductions with the West and Japan usually involve independent production companies rather than major studios. One of the largest and most expensive of China's international coproductions—and one of the most successful—was *Marco Polo*, a $25 million Sino–Italian coproduction released in 1982, directed by Giuliano Montaldo.

In 1986, another noted Italian director, Bernardo Bertolucci, attempted a historical extravaganza of his own. *The Last Emperor* rivals *Marco Polo* as one of the most elaborate coproductions ever staged in China. The $23 million picture traces the story of Pu Yi, whose life as emperor and common citizen spans six turbulent decades of Chinese history. No major problems have been reported so far, although the logistics of transporting and directing thousands of extras have been immense. Dressing and shaving the heads of these extras took as much as six hours a day and required the combined talents of many of Beijing's barbers. Several hundred carts were used to carry food, clothing, and water to the Forbidden City where the filming was done. Presumably to boost morale, Bertolucci shipped over massive amounts of pasta, cheese, canned tomatoes, and mineral water.

A variety of options

Bertolucci spent two years negotiating the project. His application was one of hundreds submitted to the China Film Co-Production Corporation. The Italian production company eventually won the right to film in China and to distribute the film world wide. It retained production control and responsibility for attracting investors. The Chinese coproduction company assigned a Chinese film studio to provide studio facilities and extras, build sets, and scout out locations in exchange for script approval and distribution rights in China. In addition to the in-country costs, Bertolucci paid undisclosed sums to the Beijing Film Studio and to the Forbidden City. He also paid the China Film Co-Production Corporation a percentage fee of the total budget for their involvement. This is the most common form of coproduction arrangement in China.

Like the Bertolucci production, the Spielberg film was organized through the coproduction corporation, which received a fee for its involvement. Total outlays for the 10 days of shooting in Shanghai amounted to several million dollars, covering location fees, living expenses, the cost of props and costumes made in China, and salaries. Half of the film crew consisted of Chinese on loan from the Shanghai Film Studio.

Two other options open to foreign production companies are:

• A joint venture with distribution profits based on investment shares. *Norman Bethune*, now in production, is the first coproduction that involves China as an investor in a coproduction with a Western film company. Because the Chinese are joint partners with French and Canadian producers and will be sharing profits in world distribution, they have more at stake. They also have more to gain if filming goes smoothly and the film is a commercial success. The French and Canadian sides invested $10 million in the film while the Chinese contributed additional funds largely calculated in the form of payments for labor, living expenses, and other services.

• A film made in both countries with each country paying for the local costs. Using this option the Chinese produced a film with the Japanese called *The Go-Masters*. Under this type of arrangement, both countries control distribution in their countries and share worldwide distribution profits based on the proportion of their investment.

While most coproductions are made through the coproduction corporation, some overseas Chinese have used a third avenue. Director Peter Wang and producer Shirley Sun worked with the news agency of the China Overseas Affairs Office to arrange filming of *The Great Wall*, a light-hearted look at the differences between American Chinese and their relatives on the mainland.

The bottom line

Foreign film producers complain that fees asked in China are among the highest anywhere. Film professionals interviewed for this article generally agreed that low budget shouldn't be the deciding factor for shooting in China. Fees, hotel and other living expenses, and transportation costs make China an expensive locale for productions using mostly foreign crew.

"Some foreign partners think we charge a lot," says Li Zhimin, director of the China Film Co-Production Corporation. But Li disagrees, adding that the Chinese consider film coproduction a "cultural" rather than a "commercial" venture. The fee his company receives varies from film to film but is usually a percentage of the total investment.

Li says his company can help cut through red tape and save money when it comes to arranging everything from visas to permission to shoot in historical areas. He estimated one film group on location in Xi'an could have saved $33,000 by going through his company rather than making arrangements locally.

Botches and blunders

The most famous case of everything going wrong that could go wrong is the making of the film *Taipan*. Li takes care to point out that it was not made with his company's cooperation. The film company approached him three times for assistance but, says Li, "The contents were no good." The film deals with the 1840s Opium War which, Li acknowledges, "the Chinese have strong feelings about." Eventually the film was made through the coproduction company of the China Central People's Television station and with the help of the Pearl River Movie Studio in Guangzhou. Following its production in 1985, problems

Photo courtesy of Empire of the Sun Productions

Steven Spielberg on location in Shanghai were well publicized. Producer Raffealla de Laurentiis was particularly outspoken."If I had known it was going to be this hard, I never would have started," she told reporters.

The film was reportedly plagued with problems over permits to film, fees, and script, and was not released in China. The coproduction company of the China Central Television station is now defunct, says Li. Before folding, however, it did complete negotiations for the filming of *Spring Moon*, the best seller on the life of a Manchu noblewoman written by Bette Bao Lord, the wife of US Ambassador to China Winston Lord. Alan Pakula Productions, which plans to make the film in cooperation with the Shanghai Film Studio, has yet to decide when shooting will begin.

Li advises film directors anxious to shoot in China to avoid pornography and controversial subjects, including those that "cause international conflict." Documentaries must "tell the truth, not exaggerate." As directors grow more familiar with China, they are likely to be more adept at avoiding themes that will only spell trouble. One script recently circulated among American producers that is not likely to see the light of day—in China at least—plays up corruption and intrigue among the Chinese leaders of the Long March!

Coming up with the right content is not the only problem. Another prickly issue that has emerged on numerous occasions is casting. Many foreign directors complain that they cannot find Chinese actors who can handle leading roles with sufficient subtlety and sophistication. But the Chinese are often offended by the idea of a Westerner playing a Chinese part. A compromise can sometimes be worked out if the production can find a Western-trained overseas Chinese actor to play the role. But not always. When American producer Carl Foreman proposed making a film about Sun Yatsen, the Chinese jumped at the idea. A letter of intent was signed, but nothing came of it. The reason: Foreman insisted that Sun Yatsen be played by Robert DeNiro, Al Pacino, or Dustin Hoffman. Foreman told reporters that "any one of those could have done it from a physical point of view." But as Foreman admitted, such a casting choice would have meant "a tremendous loss of face" for the Chinese.

Filming Norman Bethune

Even *Norman Bethune*, a Sino–Canadian coproduction that the Chinese have strongly supported, has had its share of troubles. Donald Sutherland will star as Norman Bethune, the Canadian doctor who gave his life in service to the Red Army in the 1930s. As of this May, with filming in progress, the Western and Chinese partners still hadn't agreed on an actor to play Mao Zedong. Says one source familiar with the production problems, "the Chinese want to use an actor that has played all the Mao roles in Chinese films. But he is too hammy and would only ruin the film."

Logistical problems are also frustrating, according to this source. "Western film crews expect to make the move to a new location 300 kilometers away overnight. But when the Bethune production had to move from Beijing to Pingyao in neighboring Shanxi Province, it took six days." In addition, the August 1 Studio—the film company of the People's Liberation Army, which is providing 90 percent of the actors, is "slow to move" and has a reputation for being less enthusiastic than most other Chinese studios. "Not all the Chinese crew and equipment it has supplied have been up to international standards, so the foreign partner is bringing in more 'outside people' from Canada and equipment from Hong Kong and Tokyo." Nevertheless, the source predicts, "Bethune will survive and do well."

The film, like a great number of others before it, was delayed for years due to financial problems. Five

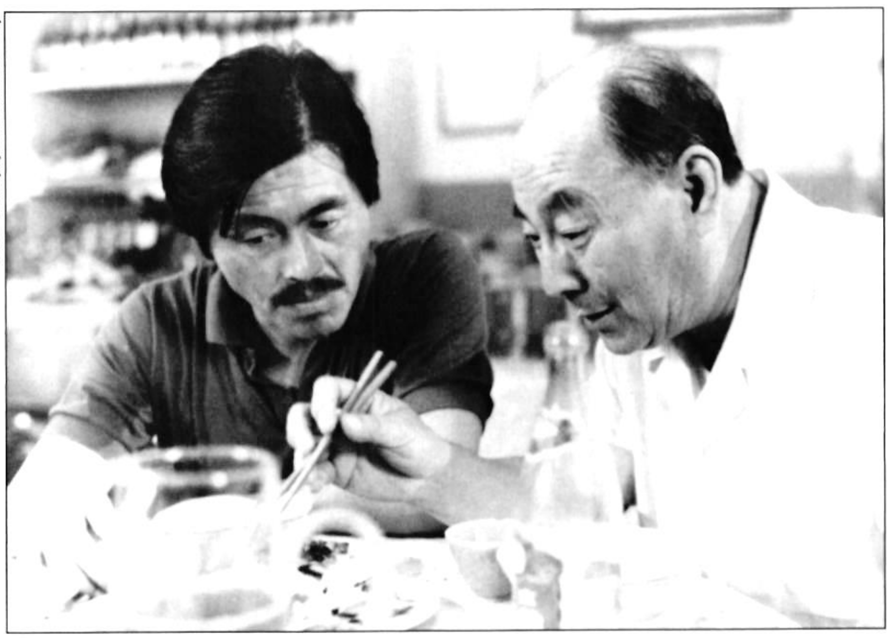


Photo courtesy of Orion Pictures Corp.

Released in 1986, the Sino–American coproduction,* A Great Wall, *takes a lighthearted look at the differences between American Chinese and their relatives on the mainland.

years ago, Warner Bros. expressed interest in making *Norman Bethune* until it learned that the cost of production would be equal to or above the costs of making the film in the United States. Other production companies also declined film rights until the Canadian production company Filmline International negotiated an agreement with the China Film Co-Production Corp. in 1985. Investing in the film are the Canadian Broadcasting Corporation, Telefilm Canada, and a French production company. This joint partnership solved the problem of financing the $16 million production, says Sean Ryerson, production manager on the film. Many other films have not been so lucky. Some are still looking for Western financial backing after five years or more.

Foreign film executives and script writer Ted Allen, who was a close friend of Bethune's, all insisted at a press conference that the representation of Bethune would be realistic and not a carbon copy of his image in China as a revered hero. "We had no problems with the Chinese over script," says Allen. When asked whether the movie would feature Bethune's reputation as a hard-drinking ladies' man as well as his contributions as a doctor and humanitarian, Allen said emphatically, "it will all be in."

On location at a railroad station in the outskirts of Beijing, producer Pieter Kroonenburg said the biggest "clash in the two systems" is over "different working hours." Kroonenburg said the Chinese prefer to work from 9 am to 11:30 am, break for lunch, and return for the afternoon.

But if this particular shooting was any indication, the foreigners had convinced the Chinese of the value of 'flextime.' The 180-person crew—30 from Filmline International and the remainder from August 1 Studio—was scrambling to shoot all night, trying to squeeze everything in between the last train of the day, which left around 9:30 pm and the first train of the day, which arrived at 5 am.

The location needed very little alteration: a Red Cross flag was added along with a political slogan urging China to keep up the fight against Japan and a 1930s advertisement for "Golden Mouse" cigarettes. Despite the services of numerous interpreters, many crew members found their own makeshift attempts at communication to be just as effective. One member of the foreign film crew approached a Chinese counterpart, flipped through the pages of a dictionary and pointed to a word. A flicker of understanding crossed the face of the Chinese, and the two walked off in the direction of the work that had to be done. Another rolled his arms to indicate a cord should be wrapped up and a light moved. A Chinese crew member asked the whereabouts of a staple gun by pointing his finger in a shooting gesture.

About 70 percent of the filming will be done in China, much of it in the countryside, says Ryerson. Most of the equipment used will be foreign, the main exception being the Chinese lighting system. Chinese and Westerners have similar approaches toward camera work, lighting, script problems, and casting, he says. Ryerson praises the role of the China Film Co-Production Corporation in helping with customs and cutting through red tape. "It's impossible to do a film in China without them," he says emphatically.

Diplomacy and attention to detail

Experienced film makers emphasize that good ground work is essential before the filming starts. That means not only checking to make sure all arrangements have been made but presenting as complete a script as possible in the beginning stages. John Gruetzner, who worked as assistant director on *Taipan* and is now assistant director on *Norman Bethune*, says the key to success is a good contract. The contract has to "be fairly exact" but at the same time the nature of the business makes it nearly impossible to anticipate all problems. Therefore it's important in China to develop good working relationships. When problems come up, he says, "you can't buy your way out"—unlike film making in capitalist countries where a crew can arrange to shoot just about anywhere for a price.

"Diplomacy goes a lot further than money," he says. Gruetzner also advises that it's best to keep the Chinese film studio involved so they aren't "alienated" from the production.

Gruetzner believes that the ideal coproduction of the future is one where the foreign director comes to China and hires a bilingual local crew to do most of the filming, thereby cutting hotel and labor costs now incurred in most coproductions. But he says it will take time for the Chinese film crews to reach the technical levels of the foreign crews. 完

US FILMS IN CHINA: SELECTIVE DISTRIBUTION

China boasts an enormous movie-going audience that could be as attractive to film exporters as it is to film makers. Could be—but probably won't for some time because Chinese and US film industry representatives often don't agree on financial arrangements for US film sales. "There's lots of money there," says Myron Karlin, president of the Motion Picture Exporter's Association in Los Angeles. But Karlin does not believe that the US film industry will see significant profits from its sales to China "in my lifetime." Says Karlin, "distribution fees should be based on how many people will see the film and how many theaters there are." It's only natural, to his way of thinking, that countries with larger audiences should be paying higher fees.

Financial disagreements may be only part of the reason for the limited number of US films imported each year. (Seven or eight US films were imported in 1986.) Before Liberation, "Americans totally controlled the film market in China," says Zeng Desheng, senior director of international sales and acquisitions for China Film Export–Import Corporation. Zeng admits this dominance might have "hurt the national pride." In the 1930s almost every major American motion picture studio had offices in Shanghai, which handled the distribution in China of nearly all American films made at the time.

Today "financial conservatism and political sensitivities" have made authorities "choose carefully and distribute selectively," according to a report issued by the American Embassy in Beijing. Zeng made it clear that the Chinese will never allow the American movie industry to dominate their market again. At the same time, however, Ping Huilai of the China Film Export–Import Corp. office in Los Angeles, rejects the idea that there is any quota imposed on the number of American films each year. The company's decisions to import are based on the quality of the film, not its country of origin, according to Ping.

Zeng says the Chinese distribute 40 to 50 foreign films annually, from Japan, North Korea, the Soviet Union, Europe, and the United States. This year, China plans to import 60 foreign films, seven more than in 1986. Zeng says the financial arrangements vary: one method is to lease a film with distribution limited and stipulated in the contract; another method is to exchange films. The most common method is for China to acquire unlimited distribution rights for a fixed time of from three to five years, for which it pays from $10,000 to $20,000 in most cases. Until recently most films were bought through independent distributors because they were willing to grant China distribution rights at bargain prices. Among the films sold to China by independent distributors were *Superman* and *A Trip to Bountiful*. By contrast, major Hollywood distributors prefer to arrange for a split on box office profits, which the Chinese "won't accept," Zeng says.

The Chinese insist that the US distributors can earn more by accepting a flat payment, since China's admission prices are so low. But some film executives are unmoved. "We're not interested in what we can earn today," says Karlin. "Even if we earn less today, we will earn more tomorrow as the Chinese economy grows."

What about selling some of the older Hollywood films for less? If anything, Karlin believes, US film distributors should charge more, not less, for the older films, since these are the ones Chinese film importers are most interested in. "Who are the stars Chinese are familiar with? Robert Taylor, Greta Garbo, and Walter Pidgeon," says Karlin. But other industry sources are not so sure that old films are preferred, claiming that China wants a variety of old and new—especially Academy Award-winning films that stress themes Chinese audiences can relate to. And some distributors prefer selling older films on a flat-fee basis to not selling them at all.

This is the view of three Hollywood studios—MGM/UA Communications, Paramount, and Universal Pictures—who, in 1986, became the first major studios to sign a distribution agreement with China Film Corporation. Over three years, 21 films out of the studios' libraries of 8,000 films will be coming to China in addition to three already picked for distribution in movie theaters—*Love Story*, *Roman Holiday*, and *Spartacus*. Under the arrangement, the Chinese will pay a rental fee in hard currency and grant the studios the right to sell advertising time, according to Janet Yang, director of Far East Operations for MCA, Inc. The maximum allowed time is "two minutes per film per showing," says Yang.

Although the studios decline to say how much they expect to receive from these sales, Yang says the figure "far exceeds" what the Chinese have been willing to pay before. The amount paid to these studios will depend on the number of prints China makes—more if the movie is a hit, and fewer prints if it does not do well.

The studios "went into China before we knew we could generate a lot of advertising sales," says Yang. The main motive was to gain market share, which Yang believes "is crucial to reaping benefits when the market is more ripe."

So far, the response among Chinese film goers appears very enthusiastic. At a Beijing showing of the first movie distributed, *Love Story*, one Chinese movie goer who attended the Sunday night performance said he waited in vain for an hour to get Saturday night tickets that sold out.

The Sunday screening showed that the audience reaction could be as entertaining as the story. When the hero's father offered to use his influence to get his son Oliver (Ryan O'Neal) into law school, a Chinese viewer commented, "He's trying to use the back door." The uncut love scene drew less reaction than the scene of a rebellious and unfilial Oliver meeting with his father after a long separation. Without any explanation, Oliver asks for a large sum of money and abruptly leaves, spitting out a quick "thank you" before bolting. The nervous laughter hung in the air for several minutes. Plot is apparently everything among Chinese audiences. Once the heroine (Ali McGraw) is on her deathbed, the audience left in droves, missing Ryan O'Neal's famous closing line "Love means never having to say you're sorry." 完

DOMESTIC FILMS—PLAYING TO THE WORLD'S LARGEST AUDIENCE

China claims to have the world's largest film audience, some 25 billion viewers a year, and the cheapest film tickets, roughly 14 cents. As many as 100 million viewers see a popular film. A record 500 million Chinese saw the box office hit *Happiness Knocks at the Door*, according to one Chinese report. On any day 60 million people in China watch movies, 80 percent of them farmers.

China's film industry, originally controlled by the Ministry of Culture, was organized last year under the Ministry of Radio, Cinema, and Television. The Movie Bureau, directly under the ministry, has jurisdiction over the movie studios. A subsidiary corporation handles foreign film coproductions, while other subsidiaries handle equipment sales and distribution.

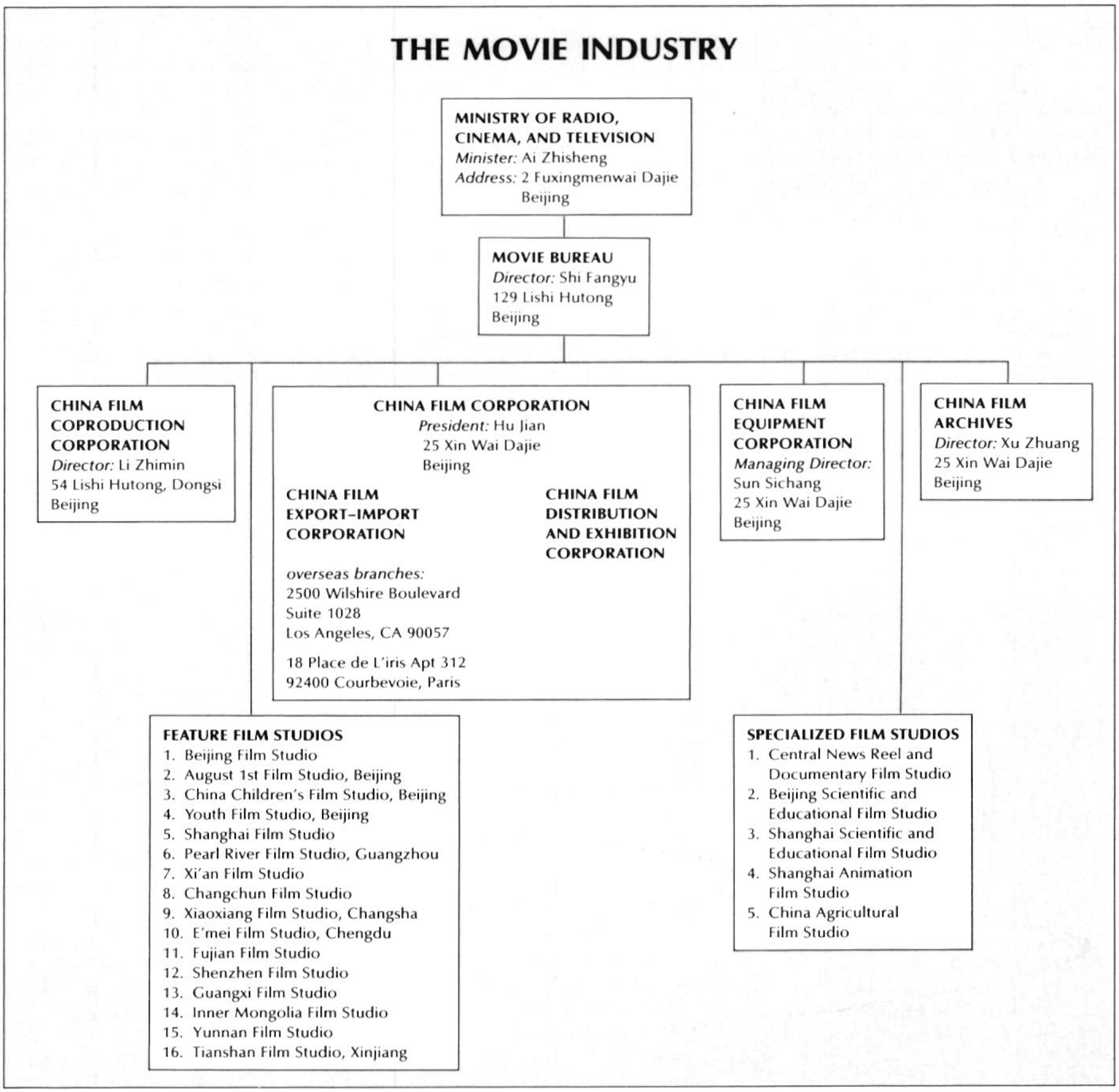
China's 16 film studios produced 137 feature films in 1986. The average film costs ¥1 million to produce and takes about six months, according to Cai Rubin, manager of the Beijing Film Studio. About 100 copies or prints are made of a film on average, while 200 prints are generally considered the mark of a commercially successful film. China Film Corporation, which consists of the China Film Export–Import Corporation and the China Film Distribution and Exhibition Corporation, arguably wields more influence than any other organization in the China movie industry by controlling the distribution of all films both inside and outside China. The corporation has half a million employees, 2,000 local branches, and distributes films through 180,000 projection units (140,000 of them in the countryside) and 3,000 professional theaters.

Not surprisingly film goers' tastes differ, says Hu Jian, president of China Film Corporation. Detective stories are popular in the countryside, city audiences want dramas, intellectuals prefer art films, and young workers in the factories like action films, Hu says.

As in the United States, the increase in television watching has had an effect on movie attendance in China. The number of tickets sold sharply declined from 27 billion in 1983 to about 21 billion this year.

But the growing access to television is not the only problem facing the film industry. Chinese audiences are becoming more demanding. According to a survey of 2,000 moviegoers conducted in Beijing last year, more than 80 percent of the respondents claimed they were very or moderately dissatisfied with the quality of Chinese films while only 1.4 percent were satisfied. Three quarters of those surveyed expressed a preference for foreign over domestic films.

Realizing that their fortunes lie with improving film quality, China's studios are making fewer films (137



THE FILM EQUIPMENT INDUSTRY

When a talented young movie director had the chance to make his first film using equipment that recorded sound, he discovered the new method required more than just adjusting the sound level, according to a businessman at the shooting.

The crew and director weren't used to worrying about keeping the crew and environment quiet. Suddenly a cough from a worker or a blare from a passing truck could ruin a take. The rest of the equipment, which was not designed to be run quietly became an even bigger problem. During one production, the film crew had to bury a generator in the ground to silence it.

Most Chinese films are filmed without sound, then dubbed in later. But many Chinese directors are eager to brave the challenges of new equipment that is up to international standards, although the use of such equipment is likely to increase the need for multiple "takes," which can drive up a budget.

About 70 percent of the cameras currently used in the Chinese studios are made in China, says Sun Shichang, managing director of the China Film Equipment Corporation. While most of the film is imported, China Film Equipment Corporation is responsible for providing film studios and cinemas with audio-visual equipment.

Two factories—one in Lanzhou, Gansu Province, and another in Nanchang, Jiangxi Province—make about 200 movie cameras annually, both for domestic use and export to Japan and Hong Kong, says Sun. Each year 83 local factories produce 45,000 sets of movie projectors; more than 80 percent of them are 16 mm sets. Six film factories make 200 mm film and earn ¥10 million in profits. The corporation earns a total of ¥400 million, says Sun. "The quality cannot compare with the US, but the output is greater," says Sun.

The company's biggest import and export business, totaling about $15 million, is with the United States, Japan, and West Germany. The company buys some studio cameras and rents others, since the major American manufacturer, Panavision, leases but never sells its equipment. Sun says his company is very interested in technology transfer and joint venture possibilities in this area. Import priorities this year will include wide screen and stereophonic films. —PT

in 1986 compared to 144 in 1985) but spending more on them. The film industry has also recently made major revisions in its distribution system in order to increase incentives for making films with box office appeal. The China Film Distribution and Exhibition Corporation recently signed contracts with every movie studio except the PLA's August 1st Studio to increase the studio share of profits from box office sales. In the past there were fewer incentives for studios to make a profit because the fees they received generally did not reflect the popularity of their films. The system worked like this: the distribution corporation paid the studios a minimum for each film made—around ¥1 million—no matter how commercially successful. The total fees varied only slightly with box office success or failure, says Zeng Desheng of China Film Export–Import Corporation.

But under the new system just being implemented, each studio signs up for one of two options: 1) the studio opts to share a percentage of the box office profits; 2) the distribution corporation buys the film with the price based on the number of prints ordered. Zeng says both the movie studios and the distribution corporation wanted to change the system because both sides "complained" of the other's work performance. Now he says they will "work together." They are "both aiming for more audience," he says. The corporation will continue to make decisions about how many copies of a film to make based on requests submitted by the local distribution branches after they view the film. But the corporation reserves the right to reduce or increase the numbers of prints distributed locally.

Most of the studios prefer to sign up for the second option, says Zeng, since sharing box office profit is risky unless you make a hit movie. Zeng says about 80 percent of the box office profits go to the municipality where the film is showing. The second option also allows the film studios to realize their profit immediately after production without having to wait for profits from ticket sales. Zeng also thinks the studios prefer the second option because it is closest to what they are used to, but he predicts that with experience the studios may come to prefer the box office slice because the potential profits are greater. Zeng says it's still too early to tell how much more revenue the new distribution system will bring into the movie studios.

Another major shift in the relationship between the movie studios and the distribution corporation is taking place. Among the "big pictures" released in China over the last few months have been those produced with the investment help of China Film Distribution and Exhibition Corporation. The corporation can provide as much as 50 percent of the investment for major films. It has invested money in the Inner Mongolia Film Studio and the Beijing Youth Film Studio movie about Genghis Khan, another film on Sun Yatsen with the Shanghai Film Studio, and a war film with the Guangxi Film Studio. It also invested in the recently released Shanghai Film Studio *Hibiscus Town*.

Film experts say that even before the current campaign against "bourgeois liberalization," politics has always affected the movie industry. The Party is ever mindful of the influence of this popular medium on the general public and the role it plays in propaganda. The Chinese film representatives interviewed all insisted that the drive against bourgeois liberalization would not affect the industry. However, in early March, film directors from around the country met and urged film industry circles "to adopt a clear cut attitude in opposing bourgeois liberalization and to correct further the guiding principle in film making in order to promote socialist cinema." In addition, Zeng Desheng recently noted that deciding what films to import would be based in part on whether the films "conform to the four cardinal principles" of socialism.

At the same time, He Jingzi, deputy director of the Propaganda Department of the CCP Central Committee, emphasized the need to implement the principle of "letting a hundred flowers bloom and a hundred schools of thought contend. We not only advocate diversification of themes, styles, patterns, and methods in artistic work but also encourage writers and artists to explore and create, including adapting useful parts of foreign literature and art, and literary and artistic works to serve the people and socialism . . . .We should refrain from suppressing young people's creative talents," he said. 完

CHINA'S NEW FILM PHENOMENA

Chris Berry

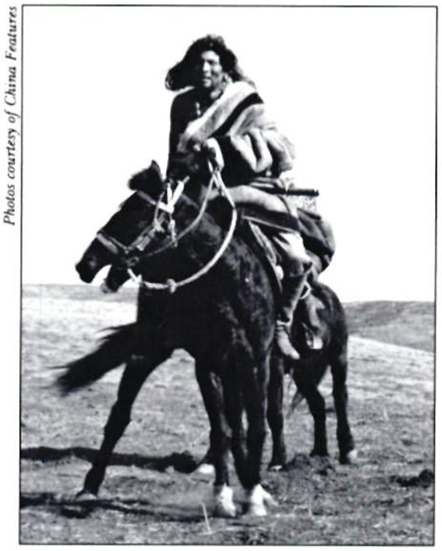
China's film industry is opening up again after two decades of self-imposed isolation. Young artists are beginning to strike out on their own with innovative films that are not only challenging audiences at home but winning admiration and acceptance abroad.

The new films—all made within the last few years—are subtle and better suited to current Western tastes. Take *Yellow Earth* as an example. Released in Great Britain in 1986, this film promptly broke and rebroke house records at London's premier ICA theater. The first commercially distributed Chinese film in Britain for many years, it played across the country and became one of Britain's top three foreign-language films of the year. Partly as a result of its success, at least five Chinese films are already lined up for British distribution this year.

Breaking with "Hollywood Didactic"

China's 80-year-old film industry is one of the largest in the world, with an annual output of about 140 features and audience of some 25 billion each year. For the last 30-odd years the industry has been turning out films that combine the look of old Hollywood classics with a moralistic concern for educating the audience. This style, which I call "Hollywood Didactic," reflects the overwhelming influence Hollywood films exerted on China long after the founding of the People's Republic in 1949.

Hollywood Didactic, as it evolved in China, was heavy on plot, characters, and dialogue. Editing, framing, camera movement, and lighting were subordinated to these other elements of the film. If someone spoke—and they spoke a lot—they'd be in the center of the film, evenly lit. If they moved, and they didn't move much, the camera would follow them and keep them center frame. When someone else started talking, the film would cut to them. In keeping with the educational requirements of China's socialist state, plots unfolded in strict chronological sequence, heroes and villains were typecast, and each story ended with an uplifting lesson for the audience.



Photos courtesy of China Features

Tian's **The Horse Thief***: the outer reaches of China's cinema*

Contrast this with the Chinese hit film *Yellow Earth*, the first effort of Chen Kaige, a director in his early 30s. Set before the Chinese revolution, *Yellow Earth* tells the story of a Communist soldier who visits a remote and drought-stricken village in northern Shaanxi in search of folk-inspired marching songs for the guerrilla army. He befriends a local teenage girl who wants to leave with him and join the Communists, partly to avoid an arranged marriage. Called back to his base, the soldier promises to return for her. But when he does, it is too late: the girl has drowned in the Yellow River while attempting to escape her husband.

Yellow Earth does not impose views upon its audience, but instead leaves room for individual reflection. Although the soldier may be said to bring enlightenment, his efforts do not seem to do much good in the end. When he returns to the village, the girl has died and the locals are still suffering a serious drought. Critics in China objected to the film's lack of heroes, role models, and edifying lessons for movie audiences. But audiences at major film festivals such as Edinburgh and Lausanne were captivated.

Minimal dialogue, vast asymmetrical landscapes, dark cave dwellings, and a sparse soundtrack dominated by local folk songs give *Yellow Earth* a style quite different from the flat 1940s style of many earlier Chinese films. Developed by cinematographer Zhang Yimou, this style is distinguished by its long shots, barren landscapes, dark interiors, and asymmetrical framing—techniques that have won Zhang cinematography prizes in Western Europe and North America, and which are now being copied by nearly every cameraman in China.

The new generation

What accounts for the sudden emergence of the talented young directors, cinematographers, and art

Chris Berry is a scholar of Chinese film currently living and working in Beijing.

1937
Street Angels

1957
Family

1960
Red Detachment of Women

directors—the "Fifth Generation" as they are called in China—whose films are receiving such wide recognition?

Part of the answer lies in the 10-year hiatus in film education during the 1966–76 Cultural Revolution. The Beijing Film Academy is China's only film school. Because it must guarantee work for its graduates, it only accepts students every few years to meet the limited demand. No students were accepted during the Cultural Revolution, leaving a gap of close to 20 years between this generation of film makers and those preceding them.

The Fifth Generation represents a true break with the directors brought up in the honeymoon years immediately following 1949. Although the Cultural Revolution unquestionably changed their lives, too, the aesthetic of the older directors had formed much earlier. With a few exceptions, the films they made in the years following the fall of the 'Gang of Four' in 1976 pushed conventional themes and techniques to their limits but didn't radically transform them.

By contrast, the more independent-minded Fifth Generation was deeply impressed by the avante-garde films introduced to China after 1979—including the French New Wave, Italian neo-realism, and films by Antonioni and Fassbinder.

Young directors in the provinces

The dramatic growth of the Chinese film industry in recent years has also played a large role in letting the Fifth Generation cut their teeth at this time. Young film makers like Zhang Yimou, Chen Kaige, and Tian Zhuangzhuang graduated from the Beijing Film Academy in 1982, just as many small studios were being set up all across the country. Nearly every province seemed to want the prestige of its own film studio.

The young film makers assigned to these fledgling studios thought they had gotten a bad break, but soon found that the lack of established directors at these studios hastened their progress. For example, before any of the young Shanghai directors had made their first films, Wu Ziniu had already made four full-length features at Hunan Province's tiny Xiaoxiang Film Studio. Tian Zhuangzhuang made *On the Hunting Ground* in 1984 for the Inner Mongolia Film Studio. *One and Eight*, the first film produced by a Fifth Generation director, and *Yellow Earth* were both made for the small film studio in Guangxi in 1984 and 1985, respectively. Zhang Yimou says that when he and his Beijing Film Academy classmates got to Guangxi, they found a small studio with a full administrative staff but almost no qualified film makers. They were welcomed with open arms and set to work almost at once.

When the films they made didn't rake it in at the box office, however, the small studios began to lose interest in their new directors. At this point, fate intervened in the person of a middle-aged director named Wu Tianming. In 1985 Wu was made head of an established second-rank studio in northwestern China: the Xi'an Film Studio. Unlike other Chinese studio heads, Wu doesn't need large committees of elderly bureaucrats to approve a new production. Wu has used his autonomy to the studio's advantage, shooting detective and Kung Fu films that have now made Xi'an the most commercially successful studio in the country.

Wu still tries to satisfy government officials who generally favor production of laudatory biographies and historical epics. But he has also looked for critical success with his peers, and has supported Fifth Generation artists accordingly. He uses part of the earnings from his box office hits to subsidize Fifth Generation film makers, who welcome the opportunity to go to Xi'an on loan from their own film studios.

The outer reaches

When it comes to departing from Hollywood Didactic, it is—not surprisingly—a Fifth Generation director who has shown just how far some Chinese film makers are willing to go.

Tian Zhuangzhuang's movies are missing more than just cardboard heroes and moral lessons. They have very little plot, and critics aren't sure whether to call them feature films or documentaries. They are, in short, the closest thing to experimental cinema in China today. Although they have received very little foreign exposure, when they have been shown, their novelty, inventiveness, and visual collages have impressed foreign critics and audiences alike.

Tian's *On the Hunting Ground* and *The Horse Thief* are set in Inner Mongolia and Tibet, respectively, on the outer reaches of both the People's Republic and Chinese cinema. Their remote setting may be less politically sensitive than present-day Beijing.

The first film details the rituals and habits of hunters on the Mongolian steppes. The second looks at religion in traditional Tibetan life. Both use a

1979
Little Flower

1986
Black Cannon Incident

minimal plot as a thread on which to string a patchwork of exotic images: animal sacrifices, shamanistic ceremonies, and eerie campfires. In each film the central characters are marginal figures, men who have broken the rules of the clan and so fallen out of favor. They are about as far from the squeaky clean heroes of the Hollywood Didactic that China has ever come. Neither the characters nor the setting is idealized or familiar. Instead, viewers are made to feel as outsiders looking through the eyes of another outsider at a mysterious people and lifestyle.

Success for the absurd

Predictably, the reaction of Chinese audiences to this kind of film has been hostile. Tian Zhuangzhuang didn't help matters when he responded to charges of obscurantism in his films by saying that he was aiming for 21st century audiences.

Of all the Fifth Generation films discussed in this article, only *Yellow Earth* has broken even so far, and Tian Zhuangzhuang's two films are probably competing for the all-time Chinese box office low. Such esoteric works are hardly favorites with the authorities either—it's the hardcore film fans who love them.

Nevertheless, a few Fifth Generation films have achieved both commercial and artistic success. The first major Fifth Generation movie to become a box office hit, *Black Cannon Incident*, was made at the Xi'an Film Studio and released in 1986. The first film by 31-year-old Huang Jianxin, it sold about five times as many prints as *Yellow Earth* and earned substantial profit for the studio. It also won critical acclaim, with commentators pointing out that its expressionistic style, which they termed "absurdist," marked another new departure for Chinese film.

The film is a "much-ado-about-nothing" satirical comedy concerning a Chinese translator, Zhao Shuxin, who is suspected of industrial espionage because of a mysterious telegram he sends asking a West German business partner to recover a missing "black cannon" from a hotel room. Instead of confronting Zhao directly, the Party committee at Zhao's factory launches a secret investigation, unaware that the black cannon in question is nothing more than a chess piece. Zhao is prevented from further contacts with the German, even though his company has no other suitable translator to help install the equipment the German has sold to them. In the end he is cleared, of course—but not before industrial accidents and devastating financial losses have been precipitated by translation mistakes.

Black Cannon Incident continues the habit of Fifth Generation directors to depict characters as flawed individuals. The authorities are no worse than anyone else, but they are not necessarily better either. The suspicious Party vice secretary and her buck-passing superior stand in sharp contrast to Zhao, who is lovable but also hopelessly diffident.

While its comedy format and topicality help explain its box office success, the film also has an expressionistic look that contrasts with the relentless, drab realism of much traditional Chinese cinema. While characters are realistically portrayed, the sets are heavily stylized and exaggerated. At the enormous mining operation where most of the action takes place, people are dwarfed by vast piles of rock and giant machines that present a totally industrialized sensibility for the first time in Chinese film. The Party committee repeatedly deliberates in a blindingly white room. A gigantic plastic clock with black numerals dominates the proceedings, time ticking away visibly as decisions are continually put off.

Black Cannon Incident's success, both critical and commercial, has started a trend toward "absurdist" movies in China. The most obvious example is Huang Jianxin's just completed sequel to *Black Cannon Incident*. In *Dislocation*, Engineer Zhao has become a big shot. His successful innovations have turned him into a bureau chief with a chrome and plastic fantasy office, a secretary, and a chauffeur-driven car at his disposal. However, he is so often called to attend pointless meetings that he can't get on with his work. His solution is to construct a robot just like himself to attend the meetings in his place. Of course, things don't quite turn out as he had hoped, and another hour of pointed farce follows.

Questions for the Living, released this year, seems to have learned a lot from *Black Cannon Incident*. Based on the true story of a murder on a crowded public bus, the film proceeds from the distinctly nonrealist premise that the dead man comes back to life to find the eyewitnesses to his own stabbing, and to understand why they did nothing to help him. Populated by modern dancers, cave men, monolithic statues, and special effects, it is the most dreamlike film produced in China since 1949.

Determined to shake up China's film industry, the films of the talented Fifth Generation challenge conventional views and often stray from officially sanctioned subjects. But no matter how innovative, Fifth Generation films are not dissident films. They do not prescribe solutions, but merely portray life as the director sees it.

The very ambiguity of these films may be a key to their success. At home, ambiguity helps shield them from official disapproval. Among Western audiences, ambiguity may enhance the films' appeal. Although the Fifth Generation dispenses with most formulas, ambiguity, independence, and innovation are some of the characteristics they share. 完

BOOKSHELF

书刊介绍

Business Law & Practice in the PRC, by Richard J. Goosen. Hong Kong: Longman Group (Far East) Ltd., 1987. 255 pp. $50.

An excellent introduction to China's business law and practice, this book is well organized into sections dealing with economic laws, finance and banking, intellectual property and technology transfer, and enforcement of legal rights. Charts outlining the structure of China's courts and system of banking and foreign exchange control enhance the reference value of this work.

The author, a Canadian lawyer in Hong Kong, looks at major laws affecting foreign business in China, describing the situations in which they apply. A discussion of the advantages and disadvantages of equity joint ventures and wholly foreign-owned ventures is particularly informative. Current as of early 1986, the book would have been even more valuable had it reviewed the investment incentive legislation promulgated since October 1986 but can be highly recommended nonetheless. An index mentioned in the author's introduction, however, is mysteriously lacking.

—Sue-Jean Lee

Law & Business Practice in Shanghai, by Ellen R. Eliasoph. Hong Kong: Longman Group (Far East) Ltd., 1987. 229 pp. $50.

This guide covers Shanghai's laws relating to investment and joint ventures, representative offices, foreign contractors, and commodity inspection. Each section begins with a commentary drawing upon the author's own experience managing a law office in Shanghai since 1985, followed by both Chinese and English texts of the laws. These texts, some of which were previously not available to the foreign business community, were obtained by the author during the course of her work and make up the bulk of this volume. More up to date than many other recent publications on business law, this book does include the investment incentive legislation promulgated in late 1986.

Appendices include, among other things, an organizational chart outlining the project approval process in Shanghai and a helpful English-Pinyin-Chinese glossary of legal and business-related terms.

—Sue-Jean Lee

Investing in China: Where, How and Why?, by Lynette Kemp. London: The Economist, 1987 (The Economist Intelligence Unit Special Report No. 1071) 196 pp. £85 in UK and Europe, £88 elsewhere.

One highlight of this study is its realistic overview of the pros and cons of investing in China. Practical issues such as whether to invest inside or outside of China's special economic zones, or whether to build a new factory rather than renovate an old factory, are also thoughtfully explored. The study provides background information on China's economic development and policy, examines the environment for foreign investment, and profiles the investment climate in four locations—Guangdong Province and the cities of Dalian, Shanghai, and Tianjin.

This book is less useful when it turns to the operational issues associated with an investment project. For example, the study claims that—except in certain cases—joint ventures are not permitted to sell on the domestic market. In practice, however, selling on the domestic market is by no means a rare privilege—many joint ventures report doing so. Similarly, the study wrongly asserts that joint ventures can hire only from a pool of labor supplied by labor bureaus, when many joint ventures directly recruit at least a portion of their workforce from other sources. Perhaps one reason for these inaccuracies is that the study relies on data from 1979–83 to analyze joint venture activity. Since 90 percent of all joint venture investment has occurred since 1983, this information is too dated to be accurate.

Despite these problems, the study does serve as a useful introduction to investment in China. —John Frisbie

The China Investment Guide, 3rd edition, by China International Economic Consultants, Inc. Essex, UK: Longman Group, 1986. 921 pp. $98.

The third *China Investment Guide* updates its previous edition with 1985 statistics (*see The CBR*, May–June 1986, p. 66) as well as new sections on China's Seventh Five-Year Plan and foreign investment. Along with the texts of 14 new laws or revisions to existing laws promulgated in 1985 and early 1986, the *Guide* contains seven new profiles of joint ventures. These profiles, as may be expected from an official Chinese publication, are positive descriptions of "success stories" rather than objective case studies.

Issued by a subsidiary of the Ministry of Foreign Economic Relations and Trade, the *Guide* remains China's leading official source of information about China's investment climate.

—JLL

Midwest USA/China Resource Guide, edited by P. Richard Bohr. St. Paul, MN: Midwest China Center and Minnesota World Trade Center, 1986. 201 pp. $45.

This comprehensive, bilingual guide to northern Midwest companies doing business with China is published by the Midwest China Center, a private, nonprofit organization that promotes a wide variety of business and cultural exchanges between the American Midwest and China. The book lists midwestern importers and exporters, as well as service sector companies and governmental offices. The guide does include an unusual feature aimed at the Chinese business community: it cross-references US companies' expertise to key words found in China's Seventh Five-Year Plan. Six case studies of midwestern companies' experiences in China provide business insight for aspiring China traders. A bibliography and index to companies are included. —JLL

Handbook for Investment and Tourism in Guangzhou, compiled by Guangzhou Social Sciences Research Institute. Beijing: Beijing Review, 1986. 311 pp. $9.95. Available from China Books and Periodicals.

This guide to investment and travel in Guangzhou contains a wealth of background and business information on one of China's key foreign trade cities and its newly opened economic and technological development zone. The text is current through the end of 1985. Over half of the book consists of trade and investment laws, but the Guangzhou investment incentive regulations issued in late 1986 are not included. The chapter on tourism reveals little about the tourist industry in Guangzhou, but it does identify some of the city's major tourist sites, restaurants, and shops. —JLL

America's China Trade in Historical Perspective: The Chinese and American Performance, edited by Ernest R. May and John K. Fairbank. Cambridge, MA: Harvard University Press, 1986. 388 pp. $21.

This volume explores America's economic relations with China from the 1800s up to 1949. A compilation of scholarly studies, it devotes several chapters to China's tea and silk exports. Other chapters deal with American exports of opium, cotton and cotton cloth, tobacco, and kerosene. One chapter looks at US–China trade in the context of China's total trade. The final chapter looks at the experiences of large US corporations in China. Although Sino–US trade amounted to very little during this time, this book highlights a time that firmly established the image of China trade as a 'good thing' in the American consciousness. —JLL

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

BOOKS RECEIVED

China Through the Ages: History of a Civilization, by Franz Michael. Boulder, CO: Westview Press, 1987. 278 pp. $33 hardcover; $14.95 softcover.

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Foreign Trade Offensive

A new round of changes to the foreign trade system strengthens central planning, but also allows some flexibility—for those who play by the rules

Madelyn C. Ross

Swings in China's foreign trade policy—experiments with decentralization, followed by mounting trade deficits, panic, and recentralization—have become all too familiar since China made its first attempts to reform the foreign trade structure in 1978. The latest round of rethinking—prompted by the reemergence of large foreign trade deficits in 1985—has forced a reversal of many of the more decentralized and free-wheeling trade policies that had evolved in the last few years.

Predictably, the Ministry of Foreign Economic Relations and Trade (MOFERT), China's State trading giant and the traditional beneficiary during periods of recentralization, has tightened its grip on trade. MOFERT and other central authorities responded to excessive imports in 1985 by imposing stiff foreign exchange controls on nonessential purchases, adjusting tariffs, and slapping on additional import regulatory taxes. Controls on trade in strategic commodities, which still encompass at least half of China's exports and a third of its imports, have been strengthened by more strictly enforcing existing import and export licensing regulations, expanding the scope of licensing, and tightening contract scrutiny.

Revival of a dual trade strategy

China's present trade policies resemble those put forward by trade officials in mid-1984. Their strategy, then described as "centralization and flexibility going hand in hand," used the threat of protectionism abroad to justify renewed central control over trade. At the same time, the importance of trade flexibility at local levels was stressed. Officials called for a trade regime that would "strengthen competitiveness," avoid confusion, and protect the interests of foreign businesspeople. But an ambitious proposal to decentralize trade, announced in September 1984, left these earlier ideas in temporary limbo.

Today, many of the same themes—including the grave threat of protectionism to China's trade—are being heard again. Like the earlier proposal, the present trade strategy contains a significant degree of central planning but recognizes that the central bureaucracy alone cannot achieve the country's ambitious trade goals.

Instead, trade authorities prefer to walk a thin line—encouraging limited competition and the pursuit of local interests where beneficial, but banning it or minimizing its impact when it jeopardizes the national interest. For instance, MOFERT encourages factories to compete to make the best export goods, but sets upper and lower limits on the price for which they may sell these goods to the country's foreign trade corporations (FTCs). And while MOFERT allows multiple bureaucracies to operate foreign trade corporations, it limits their ability to compete both through regulatory measures and the formation of new organizations that unite them for common goals.

Thus the present trade system tolerates a greater number of players—but encourages more organized forms of cooperation among them. The strategy strengthens central agencies like MOFERT without giving them a mandate to monopolize trade as they have in the past.

Although not all of China's trade strategies are being spearheaded by MOFERT, the ministry is keeping a hand in most of them. In the words of one veteran China trader "the tentacles of MOFERT are as wide or wider than ever, but their present expansion is more rational and better organized than in the past."

The name of the game is EXPORT

The nationwide obsession with preserving and increasing China's foreign exchange reserves is the driving force behind ongoing readjustments in China's trade policies, as in the past. Seeing oil revenues dropping sharply and central foreign exchange reserves declining in 1985 and 1986, Chinese leaders decided to adopt a more aggressive export stance.

The recent remarkable surge of Chinese textile sales demonstrates China's powerful ability to develop target export industries. The idea of repeating this pattern in other industries has captured the imagination of Chinese leaders, and led them to encourage the idea of lateral economic links between enterprises in the same industry to boost exports.

Nationwide export production networks have emerged in the last two years as the most ambitious of several new forms of lateral economic cooperation. Outlined in the Seventh Five-Year Plan, these networks create special conditions to stimulate the exports of advanced enterprises within target industries. Participating factories, selected by national authorities, will spearhead China's efforts to move into higher value-added exports and improve export quality. The networks will also encompass the processing, storage, research, and marketing of the targeted export goods.

The basic idea behind such export production networks is not new:

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China has maintained what it calls "export commodity production bases" since the 1960s. These are still around, and earn some ¥10 billion ($2.7 billion) per year, or close to 10 percent of China's total export earnings. They range from single commodity bases, such as those producing soybeans in Heilongjiang, to more comprehensive bases, centered on a province or prefecture, which typically produce a variety of agricultural or light industrial goods. (For a detailed description of these bases *see The CBR*, Nov–Dec 1984, p. 52.)

But these bases have not achieved the desired quality or production levels. According to a MOFERT official, "the existing export commodity bases, in both scale and export structure, can no longer meet the needs of today's foreign trade."

The new export production networks, in contrast, will be national in reach, comprehensive in scope, and will have a broadly defined industry orientation rather than a regional one. They will also require more central funds and a high degree of government involvement to coordinate the network's activities from production to marketing.

Ambitious plans for machinery and electrical exports

Critics in the Chinese press point out that export production networks may reduce enterprise flexibility and lead to dependency on large government subsidies. Despite such reservations, the idea is moving quickly off the drawing board.

One of China's first export networks involves machinery and electrical products. The plan for this network was approved by the State Council in October 1985, and several hundred factories throughout the country (producing such diverse products as power-generating equipment, machine tools, farm machinery, clocks, watches, and bicycles) have been selected to participate.

MOFERT recently upgraded its supervision of production bases, creating a bureau in charge of Production Bases for Export Commodities that incorporates its former China Export Bases Development Corporation. The trade ministry's role in the export networks includes working out export plans for the enterprises, coordinating production, research, transportation, and sales, and making plans for investment and technology imports.

But MOFERT has been working largely behind the scenes, ceding the lead role to the Machinery and Electrical Products Export Office (MEPEO) created in early 1986. Directly under the State Council and headed by Lin Zongtang, a powerful vice minister of the State Economic Commission, MEPEO can influence policy, help the network get needed resources, and minimize bureaucratic delays.

The central government's financial commitment to the network also sweetens the picture. The government will invest ¥400 million ($108 million) each year for the next five years in the technical upgrading of the chosen factories. Foreign investment and concessionary financing are also encouraged; the World Bank has made a $100 million loan to support Shanghai's machine tool industry that will help modernize two enterprises in the network.

The present foreign trade strategy contains a significant degree of central planning, but recognizes that the central bureaucracy alone cannot ensure achievement of the country's ambitious trade goals. It strengthens central agencies like MOFERT without giving them a mandate to monopolize trade as they have in the past.

In addition to the renovation funds available to them, the factories in the network are also eligible for many special economic incentives. These include guaranteed supplies of raw materials, power, and packaging materials, priority access to transportation, tax reductions or exemptions on imported equipment and materials, attractive purchase prices for their goods, retention of 30 percent of the foreign exchange they earn—and even greater benefits if they overfulfill their export plans.

The government's coordinating and supervisory role does not end when export targets are met. For instance, when fierce competition between foreign trade corporations drove down export prices of machinery and electrical goods this spring, MEPEO spokesman Yi Hui announced that his office would "intervene to stop such competition and coordinate Chinese foreign trade corporations." Efforts would be made to "supervise product quality, price fixing, and market division between Chinese exporters."

The Chinese press has already begun to hail the achievements of this network. MEPEO officials estimate that China exported more than $2 billion in machinery and electrical products last year, and several FTCs claim to have more than doubled their machinery and electrical products sales in the first quarter of 1987. MEPEO officials hope to boost machinery and electrical exports by at least 10 percent a year, targeting Western Europe and North American markets in particular.

Forming export associations

Another new form of lateral economic cooperation is the "export association." Like export production networks, export associations attempt to bring formerly competitive entities together into working relationships. But export associations focus more on orderly marketing than on the development of export products.

Here again MOFERT's hand is strong; it must approve the creation of all export associations and its trade corporations will play a major role in them. Among the first to be established was the China Association for the Export of Tungsten Ore and Products, approved by MOFERT in March. It includes four FTCs: two of them (SINOCHEM and MINMETALS) MOFERT corporations, and the other two (the China Metallurgical I/E Corporation and the China Nonferrous Metals I/E Corporation) under an industrial ministry and a State corporation, respectively. These FTCs formerly tried to divide up the market, failed, and resorted to fierce competition. The present-day solution: form a new organization

MINISTRY OF FOREIGN ECONOMIC RELATIONS AND TRADE

Minister: Zheng Tuobin
First Vice Minister: Li Lanqing
Vice Ministers: Lu Xuejian
Wang Pinqing
Zhang Haoruo
Assistants
to the Minister: Shen Jueren
Zhu Youlan (f)
Wang Wendong
Liu Yan
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MOFERT is responsible for managing China's foreign trade. It works closely with the country's industrial ministries, the banking system, the State Planning Commission, and the State Economic Commission. Formed in March 1982, MOFERT incorporates the former Ministry of Trade, Ministry of Economic Relations with Foreign Countries, Import-Export Commission, and Foreign Investment Control Commission. MOFERT's structure is replicated at the provincial and city level in its foreign economic and trade bureaus and commissions. The foreign trade corporations under MOFERT also maintain branch offices around the country. And MOFERT maintains four large regional offices in Dalian, Tianjin, Shanghai, and Guangzhou to integrate policy implementation on a regional basis.

■ BUREAUS

■ FOREIGN TRADE ADMINISTRATION
Director: Li Dengshan
Responsibility: Quotas, export licenses, trademarks, reform of foreign trade structure, foreign representative offices

■ IMPORT AND EXPORT ADMINISTRATION
Director: Zhou Chuanru
Responsibility: Import and export policy, countertrade, activity of foreign trade corporations

■ TECHNOLOGY IMPORT AND EXPORT ADMINISTRATION
Director: Wu Fengzhou
Responsibility: Licensing, import-export of whole plants and technology, and monitoring technology transfer controls in foreign countries

■ FOREIGN INVESTMENT ADMINISTRATION
Director: Liu Yimin
Responsibility: Joint ventures and other forms of foreign investment in China

■ FOREIGN ECONOMIC COOPERATION
Director: Wulan Mulun
Responsibility: China's overseas investments, labor exports

■ FOREIGN AID
Director: Li Chengwei
Responsibility: China's outgoing foreign aid program

■ LOAN ADMINISTRATION
Director: Zhang Qi
Responsibility: Government-to-government concessional financing

■ REGIONAL POLICY
Responsibility: Formulates trade policies and strategies with different countries. Divisions:

1. USSR, E. Europe, and other socialist countries
   Director: Liu Jingli
2. Asia and Africa
   Director: Chen Zhixiao
3. North and South America, W. Europe, Australia
   Director: Liu Zepu

■ INTERNATIONAL RELATIONS
Director: Wang Tiance
Responsibility: Economic relations with foreign governments and international organizations including the World Bank, UN, and IMF

■ TREATIES AND LAWS
Director: Yuan Zhenmin
Responsibility: Researches and drafts treaties, laws, and regulations; provides legal counsel to government

■ TRANSPORTATION
Deputy Director: Jiao Wenfen
Responsibility: Executes policy in foreign trade transport, coordinates transport plans of central and local foreign trade enterprises with transportation departments of other ministries

■ POLICY RESEARCH
Director: Liu Xiangdong
Responsibility: Devises strategies and speaks for MOFERT on domestic and overseas trade policies

■ PRODUCTION BASES FOR EXPORT COMMODITIES
Director: Ma Xizhao
Responsibility: Recently established to formulate and implement policy for China's export production bases. Incorporates the former Export Bases Development Corporation formed under MOFERT in 1981

■ PLANNING
Director: Xu Wenrong
Responsibility: Formulates import/export and purchasing plans for the foreign trade companies throughout the country

■ AUDIT BUREAU
Responsibility: Formed in 1986 to monitor foreign trade activities

■ EDUCATION
Responsibility: Formed in 1987 to oversee training of overseas cadres and workers (formerly under Personnel)

■ PERSONNEL
Director: Liu Yan

■ PROTOCOL
Director: Zhang Xingqiao

■ FINANCE AND ACCOUNTING
Director: Liu Shanzai

■ COMPUTER CENTER
Director: Rong Quanxing

▲ FOREIGN TRADE CORPORATIONS

- ▲ **China National Arts and Crafts I/E Corp.** (ARTCHINA) Director: Yu Zhiting
- ▲ **China National Cereals, Oils, and Foodstuffs I/E Corp.** (CEROILFOODS) Director: Cao Wantong
- ▲ **China National Packaging Corp.** (CHINAPACK) Director: Xu Jianguo
- ▲ **China National Silk I/E Corp.** (CHINASILK) Director: Huang Jianmo
- ▲ **China National Textiles I/E Corp.** (CHINATEX) Director: Zhou Yunzhong
- ▲ **China National Native Produce and Animal By-Products I/E Corp.** (CHINATUHSU) Director: Wang Zhixin
- ▲ **China National Complete Plant Export Corp.** (COMPLANT) Director: Wang Mingpo
- ▲ **China National Light Industrial Products I/E Corp.** (INDUSTRY) Director: Li Wenqun
- ▲ **China National Instruments I/E Corp.** (INSTRIMPEX) Director: Zhang Baohe
- ▲ **China National Machinery I/E Corp.** (MACHIMPEX) Director: Gu Yongjiang
- ▲ **China National Medicines and Health Products I/E Corp.** (MEHECO) Director: Yan Rudai
- ▲ **China National Metals and Minerals I/E Corp.** (MINMETALS) Director: Wang Yan
- ▲ **China National Chartering Corp.** (SINOCHART) Director: Ping Jian
- ▲ **China National Foreign Trade Transportation Corp.** (SINOTRANS) Director: Ping Jian
- ▲ **China National Chemicals I/E Corp.** (SINOCHEM) Director: Zheng Dunxun
- ▲ **China National Technical Import Corp.** (TECHIMPORT) Director: Xu De'en

Another 30 foreign trade corporations belong to other ministries, but are considered important enough to be under MOFERT's close business supervision. They are:

China National Machinery and Equipment I/E Corp. (EQUIMPEX)
China National Aero-technology I/E Corp. (CATIC)
China National Electronics I/E Corp. (CEIEC)
China National Petrochemical Corp. (SINOPEC)
China National Chemical Construction Corp.
China National Agricultural Machinery I/E Corp.
China National Coal I/E Corp.
China National Atomic Industry Corp.
China National Xinxing Co.
China North Industries Corp. (NORINCO)
China National Anqing Industry Corp.
China National Kaili Industry Corp.
China National New Era Corp.
China National Kanghua Investment I/E Corp.
Ping He Electronics Co. Ltd.
China National Shipbuilding Trading Co. Ltd.
China National Metallurgical I/E Corp. (CNMIEC)
China National Nonferrous Metals I/E Corp. (CNNC)
China National Building Materials and Equipment I/E Corp.
China National Xinxing Building Materials United Development Corp.
China National Medical Apparatus and Instruments I/E Corp.
China National Geomachinery and Equipment I/E Corp.
China Film Equipment Corp.
China National Tobacco I/E Corp.
China Industry and Commerce Development Corp. (INCOMIC)
China International Trust and Investment Corp. (CITIC)
Everbright Industrial Corporation
China National Animal Breeding Stock I/E Corp.
Huaneng Group
China National Seed I/E Corp.

• RESEARCH AND INFORMATION CENTERS

- **International Trade Research Institute** (ITRI)
  Director: Zhang Peiji
  Responsibility: International trade research; publishes several magazines and newspapers relating to China's foreign trade

- **Institute of Foreign Economic Relations and Trade**
  Director: Zhang Wenzhong
  Responsibility: Economic research, including economic policies in foreign countries

- **China Economic and Trade Consultants Corp.** (CONSULTEC)
  Director: Guo Yimin
  Responsibility: Providing information and services to foreign and Chinese trading enterprises

- **University of International Business and Economics**
  Director: Sun Weiyan
  Responsibility: Trains university students, most of whom will be assigned jobs in the ministry

- **International Economic Information Center**
  Director: Zhao Gongda
  Responsibility: Collects information on foreign trade issues for policy decisions

- **International Technological Exchange Center**
  Director: Wang Zhiye
  Responsibility: Collects data on foreign and Chinese technology suppliers

NOTE: Chart does not include MOFERT's various representative offices outside China.
SOURCE: The National Council for US-China Trade

that coordinates all of their tungsten trading activities and protects the national interest in the process.

The goal of the tungsten association is to eliminate multiple export channels through coordination, price fixing, and stronger management. Justifying the move to tighten central control, a Chinese trade analyst noted last year that "since China already commands a substantial share of the world's tungsten market, competition will only bring down prices, reduce earnings, and lead to random exploitation of resources." This has in fact already happened. In recent years China has watched its own competing foreign trade corporations flood the market and contribute to a 70 percent drop in the world price.

MOFERT Assistant Minister Zhu Youlan has indicated that China will establish more such export associations this year. Some will focus on well established export commodities like tungsten, that have a large impact on foreign markets. Others, like the newly formed China Bus Export Association, will bring together China's major bus producers, importers, and exporters to promote a product with good potential but few established export channels—and ensure that China no longer imports a product that it can make for itself. The goal of all of these associations will be to "coordinate the interests of various parties and deal with foreign counterparts in a unified manner," according to Zhu.

Strengthening traditional methods of control

The government is also not shying away from more tried and true methods of boosting exports and controlling imports. The import and export licensing system in particular, administered by MOFERT through its central office as well as its network of provincial and municipal offices, has played a key role in efforts to bring trade under better control since 1985. Although China's long-term goal is to reduce the number of goods requiring import and export licenses, for the time being the overriding trend is up, not down.

Licenses are now required for 45 categories of imports and 212 categories of exports, up from just 30 and 152 in 1985. An important goal of the revised export license regulations has been to stem the flow of "parallel goods," i.e., goods being sold through unofficial channels at lower than State prices to or through Hong Kong and Macau. Therefore, export licenses for 25 products apply only to goods destined for Hong Kong and Macau.

The licensing system not only serves as an effective control over import and export products, but also facilitates other types of trade regulation. For instance, when a Chinese exporter applies for a license, price checks now take place to ensure that the goods are not being sold too cheaply. MOFERT sets minimum prices for export commodities below which an FTC may not quote, and which can be readjusted frequently according to market conditions. And import licenses are checked to ensure that the importer has an adequate (and legal) source of foreign exchange to pay for the goods, and that the sales tag is not too high. MOFERT claims that it "saved the country more than $9 million last year by checking unreasonable prices for imports concluded in Sino-foreign contracts." A nationwide computerized system to keep closer track of import and export licenses should contribute to the efficiency of these checks when it goes into operation sometime next year.

Not surprisingly, the use of trade tariffs and taxes is also in full swing. Perhaps the most unpopular among foreign traders is the "import regulatory tax," a relatively new type of tax that can be imposed on top of existing tariffs as a short-term, and highly effective, way to put the brakes on unwanted imports—particularly consumer durables such as automobiles and televisions.

Although the administration of trade tariffs and duties comes under the authority of China's Customs Administration, MOFERT recently gained a greater voice in this process as well. A national Tariff and Tax Committee, set up early this year, has broad powers to review and set certain types of tariffs. The chairman is Wang Bingqian, minister of Finance, but MOFERT Vice Chairman Wang Pinqing serves as one of three vice chairmen. The committee will try to make tariffs a more efficient tool for implementing China's trade strategy.

Laying down the law for FTCs

New rules governing the operation of China's FTCs demonstrate MOFERT's growing regulatory role. In early 1986 the ministry announced plans to review the operations of all Chinese entities engaged in foreign trade. These include MOFERT's 16 "in-house" trading corporations (which still dominate trade in strategic commodities), some 30 large trading firms affiliated with industrial ministries or State Council-controlled corporations, a few dozen factories or groups of factories conducting their own trade, and hundreds of trading companies at the provincial level and below. The review even extended to the relatively independent trade fiefdoms of Guangdong and Fujian, where MOFERT's control is weakest, although decisions there were left largely to provincial authorities and merely had to be reported to MOFERT.

This campaign represents a coup for MOFERT and the 16 large foreign trade corporations it controls directly, which had seen their authority severely threatened by the September 1984 trade decentralization plan. Long gone is the talk of breaking up foreign trade monopolies and sanctioning competition. Gone is the idea of allowing factories to choose their own trade agent.

The new rules are designed to eliminate the small "briefcase" trading companies that operate on the fringes of legality with little more than *guanxi*, or connections, as their assets. With few exceptions, the rules require trading companies to be at the provincial level or above and to earn at least $5 million by their third year of operation. Other rules limit FTC activities: local trading companies may not set up branch offices in other areas, factories with independent foreign trade rights may not act on anyone else's behalf, and collectives and individuals are banned from foreign trade.

Trading companies that do not meet the new criteria will be shut down—but very few have been so far, judging by the official totals. MOFERT claims it has completed its review and will soon publish a complete list of some 1,200 approved trading companies—800 of which deal in merchandise and 400 in trade-related services.

Some observers view the greater number of trade entities as a positive sign of trade decentralization. It does indicate a major evolution in a short time: in 1978 there were only a dozen official trading companies. Instead of slugging it out with the trading arms of industrial interests and the constantly multiplying local trading firms, MOFERT has implicitly acknowledged their right to a place in the trade system—as long as they play by the rules.

But perhaps this is simply a recognition of the fact that the trading system is now too large and complicated, and the export imperative too strong, for MOFERT not to divvy up the tasks at hand. While the greater number of trade entities is a positive sign, it is not a departure from the basic system in which most Chinese producers and end-users must buy and sell through intermediary trading corporations. These FTCs insulate them from foreign markets (in some cases more so than in others) and follow State plans and priorities, not to mention rules governing what they can trade and with whom. Decentralization of real trading power to producers and end-users is at its earliest stages in some sectors, and not yet happening in most.

Keeping a hand in business

MOFERT continues to monitor the business activities of China's foreign trade corporations closely—especially the 16 that it administers directly and the 30 others with which it maintains a close "business relationship."

Most of China's trading companies continue to have relative freedom over many import decisions, since indirect central controls such as tariffs and foreign exchange allocation are relatively effective. But their exporting activities are supervised more closely, with local traders usually limited to exporting new product lines not already handled by the national foreign trade corporations. And this year MOFERT strengthened its export quota system by signing contracts with each of the 46 national FTCs, committing them to export a certain amount of goods. If they exceed quarterly export targets while staying within cost projections they will be eligible for various rewards. The head office of each FTC is supposed to sign a similar contract with its branches, the branches with their subsections, and so on down the line. MOFERT will also monitor how the FTCs go about fulfilling their contracts. For instance, it has forbidden trade corporations from bidding up factory purchase prices in order to buy more goods for export, and plans to watch these activities closely.

MOFERT FTCs are also being encouraged to strengthen their bonds with factories whose products they export. For instance, the China National Arts and Crafts Import/Export Corporation expects to receive a $50 million five-year syndicated loan from foreign banks to support a $200 million modernization program for the factories that it buys from. ARTCHINA acts as a conduit through which the enterprises have access to funds that they could not obtain individually. According to a MOFERT official, such forms of producer/trader cooperation represent "a new trend in our foreign trade system."

The foreign trade reform tightrope

The central planning side of China's self-styled "planned-market economy" has clearly made a strong comeback in foreign trade since 1985. As the deputy director of MOFERT's Foreign Trade Administration noted on a May visit to the United States, China's foreign trade system remains under firm central control. "In China's trading regime, there are no private enterprises and no cooperatives. All of China's trading entities are State-owned." Moreover, trade priorities and overall targets will continue to be set by an annual import/export plan that is not available to the public.

Despite this increase in central planning during the past two years, China's leaders seem sincere in their desire to proceed with more market-oriented trade reforms when the time is right. Subsidies paid to inefficient trade enterprises continue to be a drain on the central budget. China must also convincingly demonstrate the ability of its trade system to respond to market forces in order to become a member of the GATT. And most Chinese leaders (at least those outside of MOFERT) would eventually like to see the FTCs become completely independent and MOFERT become a purely regulatory agency.

But such changes will not come easily. China has twice in eight years experienced painful deficits and foreign exchange shortages brought on by loosening central controls over trade. While China's leaders may agree in principle with the theory of decentralizing foreign trade decision-making, there will be high-level opposition to any actions that threaten a return to chaotic trade patterns or large trade deficits.

Grass-roots opposition to foreign trade reform is another stumbling block. While trade reforms offer market-based incentives to efficient enterprises, they can also spell disaster for the many inefficient and inexperienced Chinese traders and producers that have come to depend on the central plans and subsidies that are part of the current system.

Moreover, changes in the foreign trade system must be preceded by certain developments in the economy-at-large. Thoroughgoing price reforms are needed to eliminate the economic irrationalities that make some sound trading decisions unprofitable. And the shortage of experienced professionals in economics and trade consistently hampers efforts to widen the foreign trade decision-making base.

Although trade reform is officially on hold this year, officials point out that some of the steps being taken to strengthen macroeconomic trade controls may actually help pave the way for future trade reforms by creating a better environment for trade decentralization and market forces. Early this year, an article in *People's Daily* gave an example of this theory in practice. The export production networks will "concentrate" export-oriented enterprises, and thus "create a necessary condition for making full use of such economic levers as exchange rates, taxation, tariffs, prices, and foreign exchange retention to conduct overall economic control and adjustment. This will also be favorable to changing foreign trade management gradually from the pattern of direct control and management mainly based on administrative means to the pattern of indirect control and management mainly based on economic means."

The current two-pronged approach to foreign trade, combining elements of strong central planning with closely supervised efforts to retain local initiative and broaden the trading constituency, may not be incompatible with attempts to expand foreign trade decision-making powers in the future. And given the inevitable swings in China's foreign trade policy, such attempts are a fairly sure bet. 完

China's GATT Bid

A long but welcome road

Spencer S. Griffith

Last summer China formally announced its desire to rejoin the GATT—the General Agreement on Tariffs and Trade. China was a founding member of the GATT in 1947, but the Republic of China, then the Chinese representative, withdrew in 1950. China has not been represented in the GATT since that time, but is now eager to participate. While certainly an imperfect legal regime, the GATT has become the major vehicle regulating world trade. GATT membership would give China a role in formulating and interpreting GATT rules that are pivotal to international trade. And most GATT members should welcome the fact that China's participation would make it a more predictable trading partner and improve access to China's markets.

China's application raises a host of complex questions, however—both for China and the GATT itself. As a result, restoring China's full membership may not be a smooth or rapid process.

Benefits of joining the club

The 92 member nations of the GATT contractually agree to abide by certain principles of free trade, based on the assumption that imports and exports are carried out by private enterprises responding to market forces. As China strives to better integrate its economy with the world trading system, it has a strong interest in shaping the rules under which that system operates. China's admittance into the Multilateral Fiber Arrangement in 1983, for instance, allowed China to participate in renegotiating the MFA, so critical to its booming textile exports. Similarly, GATT membership would give China a role in formulating many other trade policies regulated by the GATT such as dispute resolution, unfair trade laws, and government procurement.

GATT membership would help depoliticize and stabilize China's trade relationships, now based largely on shaky bilateral agreements. The multilateral GATT rules would better protect China's exports, particularly as those exports increase and produce protectionist pressures overseas. And while the United States and a number of other countries currently extend China most favored nation (MFN) treatment, GATT membership would ensure such treatment from all GATT members.

China would also become eligible for Generalized System of Preference (GSP) tariff benefits in the United States. While many other nations already grant China GSP status, US law dictates that only GATT members are eligible for these benefits—and final approval remains at the discretion of the president. Major unions and import-sensitive industries in the United States, particularly electronics, textiles, and footwear, are likely to oppose GSP benefits for China, however. Given these pressures, the administration may decide to with-hold GSP treatment from China in certain industries.

The central issue of market access

A GATT applicant must normally negotiate a "ticket of admission" before membership is awarded. This usually takes the form of tariff reductions designed to ensure other GATT members reciprocal access to the country's markets. But despite ongoing market reforms, the Chinese government still plays a crucial role in many trading, production, pricing, and purchasing decisions—a fact that could make tariff concessions alone inadequate to ensure market access in China. If, for example, China reduces its tariff on widgets, Chinese authorities could still limit widget imports through a variety of administrative means, including restricting the foreign exchange available for such purchases.

The central dilemma surrounding China's admission is therefore how to ensure access to China's market—the "cost" to China of joining the GATT. Although other countries with nonmarket economies, including Romania, Yugoslavia, and Poland, have joined GATT on special terms, the size of China's market and trade potential make its GATT entry far more problematic. GATT members are also concerned that China's membership might make it easier for the country to deploy its large and low-cost labor force in target export industries that could overwhelm their markets, particularly since China's State-managed economy can theoretically support exports priced lower than the cost of inputs. This threat seems particularly real given China's current attempts to expand its export base through a variety of new administrative and market incentives (*see* p. 30).

The Chinese position

China argues that its ongoing economic and trade reforms are creating an economy responsive to market forces, and that tariff concessions should suffice for China's admission into the GATT. Yugoslavia set a precedent by acceding to GATT on the basis of tariff concessions alone after implementing broad trade reforms. In addition, China could rightfully note that the meaning of "market economy" is unclear since almost all governments interfere in the marketplace to some extent.

China will argue that its status as a developing country entitles it to considerable leeway in negotiating appropriate tariff reductions. China may also demand that discriminatory quotas against its exports, such as those imposed by the European Economic Community, be abolished.

In return, China may be willing to accede to some of the GATT "codes" that regulate trade. For example, joining the Technical Barriers to Trade Code, which governs technical standards and certification, or the Customs Valuation Code, which determines how imports are to be valued for customs purposes, would help demonstrate China's willingness to abide by international standards and impose internal discipline on the country's trading system.

On a procedural level, China will argue that it need only "resume" the China seat vacated by the Republic of China, rather than apply as a "new" member under the GATT rules. China will have to negotiate the same concessions either way, but this issue is of great symbolic importance for Chinese leaders.

Reservations of GATT members

Some GATT members, particularly the United States, prefer to see China join GATT as a "new" member. This would reflect the reality that both China and the world trading system have evolved greatly since 1950 and signal that China should not be allowed to offer less substantive concessions merely because it was a GATT member years ago. On a more concrete level, it would also allow the United States to comply with certain technical requirements of US law.

This is not the only issue on which the two sides may find themselves far apart. Some GATT members, including the United States, will want more stringent economic concessions than China now seems willing to offer. While they support China's application in general, they are doubtful that China's economy is eligible to be treated as a market economy for GATT purposes. They point to the fact that China's trade record is mixed. In late 1985, for example, China recentralized control over the import and export of many goods and imposed rigid controls on foreign exchange expenditures. And the political uncertainty stemming from Hu Yaobang's dismissal in January raises additional doubts about China's long-term commitment to economic and trade reforms.

With these concerns in mind, GATT members may seek more than just tariff concessions from China. Some may press Beijing for a firm commitment on reforms, particularly after official Chinese statements in 1987 that the pace of price reforms will slow down. Without comprehensive price reforms, however, foreign competition could well be stifled as Chinese products continue to benefit from below-cost inputs and artificially low prices. GATT members may also seek a reduction of China's various nontariff barriers, including its cumbersome import licensing schemes and foreign exchange controls. The growing recognition of nontariff barriers in Japan (a GATT member) may make GATT nations even more cautious on this issue.

China may also be asked to provide more information on the operation of its trading system and to clarify its purchasing criteria. An improved statistical base and publication of more accurate economic and trade data would allow China's trading partners to operate more effectively and reassure them that the Chinese market is in fact open.

To ensure that China is offering meaningful market access, GATT members may want to conduct periodic reviews of China's progress in implementing reforms. And some GATT members, including the United States, may insist upon reserving the right to take special "safeguard" actions when imports from China threaten to injure a domestic industry. Such provisions, adopted when other nonmarket economy countries joined the GATT, would help allay fears that China's massive export potential might threaten domestic industries. But the need for special safeguards may recede in the long run as GATT members are able to verify that the price of Chinese exports reflects their true economic costs.

The road ahead

China took the first concrete step in its GATT application in February 1987, submitting to the GATT Secretariat in Geneva a confidential memorandum describing its economy and foreign trade system. The memo, prepared largely by China's Ministry of Foreign Economic Relations and Trade, discusses efforts to ease price controls and further decentralize foreign trade. It argues that as a result of these reforms, China has basically achieved a hybrid market economy—or what it calls a "planned market economy."

GATT members have reviewed the memo and submitted numerous specific questions to China in June. A working party has been established to serve as the focal point for discussions of China's accession and is expected to begin formal deliberations later this year. In the meantime, China is participating as an observer at the Uruguay Round, where issues of immediate concern to China, such as expansion of the GATT to cover trade in services, will be addressed.

Negotiations on China's GATT bid will likely stretch out over a matter of years, although China is anxious to become a full GATT member as soon as possible. One possible solution might be for China to follow a step-by-step process and gradually assume its GATT obligations, allowing GATT nations to monitor the progress of China's economic and trade reforms. China could thus take its GATT seat while still negotiating substantive concessions. A similar approach was used with Yugoslavia, although this model is of limited use since Yugoslavia's reforms were more far-reaching than China's to date.

GATT members want to ensure that China takes its place in the GATT on terms that are fair and equitable. Clearly, there are difficult issues to be worked out in reaching this goal. But the potential benefits to all concerned should make the process well worth the effort, even if it takes longer than the parties involved would prefer. 完

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Preferential Trade with China

Stephen Guisinger

Chinese goods worth $17 million were brought into the United States in 1986 under a little-publicized preferential tariff known as Section 807. While China's preferential exports to the United States are tiny in comparison to its total US exports of more than $4 billion, this tiny category of trade has big potential.

Article 807 of the US tariff code allows articles manufactured in the US to be sent abroad for assembly and then returned to the US—with customs duties due only on the value added abroad. In 1986 the US imported some $35.8 billion worth of goods under Section 807, of which $6 billion represented the US raw materials sent abroad for processing and $29.8 billion the value added abroad.

This preferential treatment is designed to encourage the efficient organization of US manufacturing worldwide: unskilled assembly work can be done at lower cost offshore, allowing US workers and capital to focus on the more skill and technology-intensive aspects of production. Many US semiconductor manufacturers, for example, ship silicon wafers to East Asia for assembly and testing before they are returned for further processing in the United States. The cost savings helps them remain competitive with Japan and other foreign suppliers.

China's trade under Section 807 has already grown rapidly—from just $400,000 in 1980 to more than $17 million in 1986 (*see* table). China has much to gain from developing 807 trade. Because 807 exports involve assembly, they are labor-intensive and thus able to take advantage of China's most abundant resource. And 807 exports rely primarily on imported inputs, sidestepping the supply and quality problems often associated with China's domestic raw materials. Despite the high import content of 807 products, China is assured a net foreign exchange gain since virtually all of the output is ultimately exported. There is one drawback: this trade can be relatively unstable since it usually involves consumer items subject to drastic market shifts. One category of China's 807 exports—models, dolls, toys, tricks, and party favors—mushroomed from $1.3 million in 1984 to $18 million in 1985, only to drop again to $3.6 million in 1986. Meanwhile sales of suspenders shrank from $2.3 million in 1980 to less than $1 million in 1986.

China does not yet qualify for a second important type of preferential trade—the Generalized System of Preferences (GSP), maintained by 20 industrialized nations to assist developing countries through tariff reductions on certain products. In the US, the GSP permits duty-free entry of more than 2,500 items from qualifying countries known as Beneficiary Developing Countries or BDCs. Because the incentives provided by GSP (no duties even on the value added) are greater than those provided by Section 807, many countries substitute GSP exports for Section 807 exports to the extent possible. But certain restrictions on what qualifies for GSP treatment—ceilings on the amount any one country can ship, a minimum of 35 percent of the value added in the BDC, and the fact that certain products are excluded from GSP that qualify for 807—limit the size of the GSP program. Still, GSP imports of the US have grown steadily from $7.3 billion in 1980 to $13.9 billion in 1986.

Communist countries are eligible for BDC status in the United States if they are members of the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT), and if they have also been granted most favored nation (MFN) treatment by the US Congress. Yugoslavia has qualified as a BDC since the GSP's inception in 1976 and exported $282 million worth of goods to the United States under GSP in 1986.

But China may still have far to go before achieving BDC status. Although it received MFN status and joined the IMF in 1980, China's admission to the GATT may still be a long way off (*see* p. 36). Moreover, China will have to meet additional qualifications for BDC status established in 1984. A BDC must agree to protect intellectual property, afford its workers internationally recognized workers' rights, and reduce trade-distorting investment practices and barriers to trade in services. Even if China can meet these revised criteria, it will gain GSP status only with final approval from the president.

At present China is only a minor participant in the US preferential import market. It supplies less than one-tenth of 1 percent of total US imports of 807 goods, is ineligible for GSP treatment, and does not qualify for the third major preferential program, the Caribbean Basin Initiative.

Yet the record of China's neighbors—Singapore, South Korea, Hong Kong, and Taiwan—suggests the possibilities if China can pursue preferential exports vigorously. In 1986 these four regions accounted for more than 20 percent of all US preferential imports and more than 5 percent of all US 807 imports. If China could achieve only one-tenth of the preferential exports generated by her neighbors on a per capita basis, it would earn $16 billion annually from 807/GSP trade alone with the United States. Compared to China's current level of exports of $31 billion, the incentives are obvious. 完

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CHINA'S "807" EXPORTS TO UNITED STATES
(million $)

Category	1980	1981	1982	1983	1984	1985	1986
Models, dolls, toys, tricks, party favors	—	0.3	0.2	0.1	1.3	18.0	3.6
Games and sporting goods	0.1	0.1	0.6	1.0	1.2	1.4	0.9
Luggage, handbags, billfolds	—	0.5	0.4	0.2	0.5	0.9	0.5
Garters, suspenders, body support garments	—	0.6	1.7	0.5	2.3	0.9	0.8
Others	0.3	1.3	1.9	0.5	0.9	2.1	11.5
Total	**0.4**	**2.8**	**4.7**	**2.2**	**6.2**	**23.3**	**17.3**

SOURCE: US Department of Commerce import data tapes; processed by the Flagstaff Institute

MEMBER SPOTLIGHT

会员动态

Luxury goods, or the raw materials to produce them, have long been a staple of the China trade. The three National Council member companies spotlighted in this column are all small, specialized firms with longstanding ties to their trading partners in China. Since luxury goods buyers expect the best, these companies must face the problem of quality control head on, and are constantly on the lookout for new ways to be more closely involved in the production process.

FORTE CASHMERE

Forte Cashmere Company of Woonsocket, Rhode Island, began importing cashmere, camel hair, angora, and silk from China before 1949 and resumed its China trade in 1973. After processing the cashmere it imports, Forte sells the finer material to domestic and foreign mills for further processing into yarn, fabric, and finished products.

In the early 1970s, according to James S. Coleman, vice president and general manager of Forte, the company negotiated to buy cashmere with the Beijing office of the China National Native Products and Animal By-Products Import-Export Corp.—even though the hair itself came from the cashmere-producing provinces of Inner Mongolia, Xinjiang, Gansu, and Shanxi. Decentralization in the 1980s allowed Forte to negotiate with each province separately, but recently Coleman has detected a trend toward recentralization: representatives from all the cashmere-producing provinces are gathering again at the Guangzhou Fair to take orders. Although Forte could buy all its cashmere at the fair, the company continues to make regular trips to the provinces to maintain relations with the producers.

China has the largest population of cashmere goats in the world. In the early 1970s Forte could buy virtually unrestricted amounts of cashmere from China. But now China is turning cashmere into finished garments for export itself and as a result, raw materials exports have been reduced to the point where Forte buys one quarter of what it was able to purchase in the past.

But Forte sees an encouraging sign that China's cashmere exports may open up again: Animal husbandry representatives from Australia have traveled to China to advise them on the sophisticated breeding techniques the Australians are now using to breed cashmere goats.

MOTTAHEDEH

Porcelain is a hallmark of the China trade. Sophisticated porcelain production in China peaked during the Qing Dynasty, declined after the Taiping Rebellion of 1850, and has yet to fully recover. But Mottahedeh, Inc. of New York, which has been producing antique porcelain reproductions from US and European collections since 1924, is doing its part to restimulate the industry in China.

Licensed reproductions are a major part of Mottahedeh's business. One of Mottahedeh's most popular lines for the last 30 years has been Blue Canton china dinnerware, which was made as a licensed reproduction of 18th-century Chinese landscape export porcelain for the Historic Charleston Foundation in South Carolina. Recently the Shanghai Museum approached Mottahedeh to make licensed reproductions of their collection. As with the Historic Charleston contract, Mottahedeh would pay the Shanghai Museum a royalty for each piece the company sells in US and European markets.

Mottahedeh also buys ceramics from 13 producers in seven countries, including five Chinese factories in the traditional ceramic-producing provinces of Jiangsu and Hebei. One of these creates Yixing earthenware, a distinctive red stoneware, based on classical Chinese designs. To help these factories raise quality, the firm's president, Mildred Mottahedeh, has traveled to China five times to advise on the use of modern kilns and technology.

Outdated kilns and impure raw materials in China produce a high level of rejected pieces. To solve these problems, Mottahedeh is now negotiating with the Guangdong Ceramics Corp. and China National Arts and Crafts Import-Export Corp. (ARTCHINA) to open a joint venture factory that will specialize in reproducing antique porcelains. According to Andrew Heyden, general manager for Asia, Mottahedeh aims to promote a "renaissance" of Chinese export porcelain while taking advantage of reasonable labor rates and Chinese workers' manual dexterity.

TRANS-OCEAN

Trans-Ocean, a New York-based rug importer founded in 1921, has capitalized on China's longstanding rug-making expertise and craftsmanship to import hand-knotted, and hand- and machine-made rugs in wool and some synthetics. The company spends more money importing rugs from China than from all its other sources (Western Europe, Japan, Hong Kong, India, and Pakistan) combined. The rugs are displayed in Trans-Ocean's showrooms in New York, Atlanta, Chicago, and San Francisco, and bought by department and specialty stores, catalog houses, and designers.

Trans-Ocean orders rugs from about 20 factories all over China, which create 10 to 40 new rug designs a year, usually Chinese and American floral designs and Chinese ming designs. To assist Chinese rug designers, the company provides fabric swatches, paint samples, and magazines such as *Architectural Digest* and *Better Homes and Gardens*.

Trans-Ocean, which resumed trading with China in 1973, is not considering a joint venture at present. Nor has it attended the Guangzhou Fair in recent years, preferring to deal directly with factories and the China National Native Produce and Animal By-Products Import-Export Corp. According to Ted Hassen, executive vice-president of Trans-Ocean, business is booming, and China is essential to the company's future plans. —Priscilla Totten

Trade fairs and exhibitions no longer hold the prominent position in China trade that they did in the past. But rumors of the demise of these trade extravaganzas are greatly exaggerated. Despite the explosion in direct trade opportunities, many firms find these more organized forms of trading a valuable introduction to the intricacies of the China market, a good way to make or cement contacts, and a welcome supplement to their other China business.

In fact, the breakup of China's rigid central control over trade has made it possible for many new Chinese entities to get involved in organizing and sponsoring trade fairs and exhibitions, bringing a greater ability to meet specialized needs. As the trading power of certain regions grows, so does the number of specialized trade fairs and exhibitions they sponsor. Changing priorities are reflected, too: the current Chinese export drive has stimulated the trade fair industry, while China's strict import controls are putting a damper on some segments of the exhibition industry. Trade fairs and exhibitions are proving adaptable to China's rapidly changing trade patterns and may remain features of the China trade landscape for some time.

To supplement exports, China puts more goods on show

Trade Fairs in Flux

Julia S. Sensenbrenner

As part of its current export drive, China is leaving no stone unturned. In addition to the highly publicized China Export Commodities Fair (or Guangzhou Trade Fair), several other types of Chinese trade fairs are now coming into their own.

These trade fairs play an important supporting role in China's quota-oriented trading system. China's Ministry of Foreign Economic Relations and Trade (MOFERT) assigns annual export quotas to foreign trading corporations (FTCs) under its control and to provincial trade authorities, both of which then delegate export responsibility to their various branches or local trading companies. FTCs rely primarily on direct sales and sales made at the Guangzhou Trade Fair to meet their quota. But if they fall short, trade authorities increasingly try to make up the difference by holding mini-fairs in China or abroad.

The Guangzhou Fair fights to retain its place

In the 1960s as much as 40 percent of China's exports were sold at the Guangzhou Trade Fair. Held every spring and fall since 1957, it was once the only way for many companies importing from the PRC to meet suppliers and negotiate prices. The FTCs under MOFERT all attended the fair and conducted much of their business in this structured environment.

The glory days of the Guangzhou Trade Fair are long past now that MOFERT's monopoly on trade has been broken. In the 1980s, while the total value of transactions concluded at the fair has generally continued to climb, reaching $7.32 billion in 1986, the percentage of China's exports sold at the fair has dwindled to about 20 percent.

But despite recurrent rumors, the Guangzhou Trade Fair shows no signs of getting ready to close its doors after 61 sessions. Joseph Scarry of Wagman-Wolf Inc., a leather and bristles importer, helps put this all in perspective commenting, "Everyone says the Guangzhou Fair is declining in importance. Actually, now the Guangzhou Trade Fair is just becoming more like other trade fairs . . . many contracts are still negotiated or written at the fair."

To celebrate the fair's 60th anniversary in October 1986, the expansive main fairgrounds building received a glitzy new lobby and new negotiation booths. But this facelift did not remove some of the more basic and persistent shortcomings beneath the surface. Each year, many traders are frustrated by the fact that a portion of the deals signed at the fair never materialize because of production shortfalls, transportation problems, or other complications in

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China. And at every fair some foreign buyers go home empty-handed when the supply of popular products cannot meet demand.

Many American importers report that they no longer attend the fair, relying instead on their telex machines or offices in Beijing for contact with Chinese sellers. Those that persist go mainly to strengthen their contacts with trading officials. Says Joseph Scarry, "It's of dubious value, but we keep going because it is an inexpensive way to see and deal with the key people."

The importance of the fair varies from product to product. While textiles have been the major earner at the fair for most of the last decade and a half, Ching Yeh Chen, a US garment importer, says that her organization Chinese Native Products, Ltd. sees little value in going to Guangzhou to purchase textiles and garments. "Because so few of the US textile importers attend the fair, the key people in charge of US accounts generally do not go since they know the major buyers won't be there." Due to US quotas on Chinese textiles, US buyers rely on one-to-one relationships with Chinese trading companies to purchase goods that already have central-level authorization to be exported to the United States.

The Guangzhou Trade Fair does have other uses. Since Chinese companies frequently launch new products at the fair—15 percent of the products displayed at the spring 1986 fair were new—foreign buyers in attendance may have an unusually good opportunity to find new product lines and the partners to develop them with. Buyers seeking an assortment of products from various provinces find the fair a convenient place to shop around and compare. And some companies use the fair to scout out products with countertrade potential.

For the first-time importer from China, the fair offers a valuable introduction to who in China makes what, in what price range, and of what quality. With more factory managers attending the fair to participate in negotiating the technical side of contracts, a foreign buyer can also learn something about who he or she is buying from, offer advice on production methods, or discuss special characteristics of the goods to be bought.

A niche for single product fairs

While the Guangzhou Trade Fair has not outlived its usefulness, it is no longer the fair of choice for all foreign buyers. During the 1970s, as trade began to pick up, some products began to be sold at specialized mini-fairs sponsored by MOFERT's foreign trade corporations throughout the country. From 1975–77 China held at least 20 such fairs, focused on such popular export items as feather and down products, woolen and cashmere sweaters, tea, and chemicals. Foreign buyers found these fairs invaluable because MOFERT's foreign trading company branches would often offer a wider range of goods within each product category than found at the Guangzhou Trade Fair.

Decentralization of trade lessened the predictability of this pattern as the FTCs relinquished some of their monopoly over trade. MOFERT is no longer the sole trade fair organizer: provinces and municipalities have started sponsoring their own shows. Now, at the beginning of each year, FTCs and local foreign trade organizations estimate their ability to fulfill export quotas, and then decide whether to apply to MOFERT for permission to hold a mini-fair. In most sectors, as alternative trade channels opened up, the number of mini-fairs has declined greatly, the scheduling has become more erratic, and the target audience more focused.

But there are exceptions. For example, mini-fairs are the only way to go if you want to purchase cotton work gloves. China began holding annual fairs for this product three years ago, and now more than 95 percent of these sales are made at the annual glove fair. Held in late summer, the fair brings together the 10 or 12 FTC branches that make these gloves and the 10 to 12 foreign companies that buy them. Sheldon Cohen, treasurer of Magid Glove Company, notes that the fair allows producers to take orders for the following year so that the materials needed and production totals can be properly planned.

Other important mini-fairs are those for down products, carpets, and garments. Because the Guangzhou Trade Fair does not coincide with the peak ordering time for these products, MOFERT's trading corporations always arrange mini-fairs during the peak demand periods for these goods.

But for the most part, single product trade fairs now occur on an ad hoc basis. So far in 1987 most specialized fairs have involved textiles, native products, and arts and crafts. Among the fairs to come this year are a garments mini-fair aimed at buyers from the United States, Canada, and Western Europe; a Chinese herbal medicine fair; a wool and heavy woolen articles fair for Hong Kong and Macau buyers; and a knitwear fair specifically for Japanese importers.

Proliferation of local fairs

In 1979 decentralization also encouraged many localities to hold their own general foreign trade fairs. Soon there was a glut of fairs, many with conflicting schedules that prevented foreign traders from attending. In 1985 MOFERT stepped in to take charge of approval and scheduling for both general and specialized mini-fairs, and it now tries to schedule shows in more convenient blocks. For example, Jiangsu, Shangdong, and Hubei provinces and Beijing and Shanghai municipalities all hosted trade fairs during the last half of February, making it possible for foreign companies to attend several shows during one trip to China—but also intensifying the competition between these regions.

Some of the local trade fairs are even becoming successfully institutionalized. The fifth annual foreign trade symposium hosted by Shanghai in February 1987 garnered $204 million—20 percent above 1986's record-setting pace. Sponsored by the Shanghai Municipal Foreign Economic Relations and Trade Commission, the latest fair attracted some 2,500 businesspeople from 47 countries and Hong Kong. One attendee believes that local Chinese organizations put more effort into this type of fair than the Guangzhou Fair because they have a greater stake in the results.

These fairs are usually organized by the local foreign trade bureaus with the assistance of local FTC branches. MOFERT must approve the fair at the central level, and the local branch of the China Council for the Promotion of International Trade (CCPIT) provides general support and sometimes rents facilities to local sponsors.

Local fairs draw many Chinese

organizations based in the region, including industrial enterprises, local foreign trade organizations, the local branches of MOFERT's FTCs, and even Sino–foreign joint ventures. Although local fairs allow FTC branches to pad out their annual orders, one representative from an FTC branch office complained that such fairs are not a highly productive way of spending time. Nevertheless, his branch always sends a representative to the local events because of strong pressure from local officials.

Foreign buyers also have reservations about these provincial and municipal fairs. Since local fairs cover a relatively small geographic area, they offer a limited selection of products. To tap all the major fairs, a foreign buyer would need a lot of time and a sizable travel budget. And in an effort to raise the fair's totals, Chinese officials may try to postpone a contract signing until the fair is in progress so the sale can be attributed to the fair. Several importers complain that they are forced to attend local fairs just to sign these prenegotiated contracts.

On the other hand, local fairs can be very important for buyers of regional speciality products. A seafood importer shouldn't miss trade fairs in Shandong Province or Dalian City, while a canned goods purchaser should take in the wide selection at the Shanghai fair. One textiles buyer reports that since Shanghai and Jiangsu Province (two of China's largest textile manufacturing centers) hold their fairs before the Guangzhou Trade Fair, attendees of the local fairs have a better chance of purchasing textiles already assigned visas for export to the United States under China's annual quota allocation.

And local fairs are a convenient way to get better acquainted with local factory conditions and personnel. Foreign business representatives at the fair may be able to tour the factory from which they source products, inspect the production process and, if necessary, suggest ways to tailor the product more closely to their needs.

The concept of the local trade fair may be expanding. In the first effort of its kind, foreign trade authorities from northeastern China will jointly sponsor a large, regional trade show second in size only to the Guangzhou Trade Fair. The Northeast Regional Commodities Fair, to be held in Dalian from July 21 to August 1, is hosted by Liaoning, Jilin, and Heilongjiang provinces, Inner Mongolia Autonomous Region, and the municipalities of Dalian, Shenyang, and Harbin.

Taking the show on the road

In the past two years, more and more Chinese provinces have begun looking for ways to show their wares in foreign countries—particularly the United States, Western Europe, Japan, and Canada.

New York City has become a center for Chinese provincial trade fairs in the United States. As one American involved in coordinating these shows observes, "China has suddenly realized that the United States is one of the biggest markets, and that they can understand it better by coming." Chinese trade shows held in New York are usually organized by the China United Trading Corp. (a large trading conglomerate serving as the United States representative of many Chinese trading organizations). A province initiates plans for a fair, but MOFERT must approve them. Provincial funds cover the delegation's airfare, room, and board, while China United loans provincial representatives a showroom of approximately 6,000 square feet in the heart of Manhattan, and helps with advertising, publicity, and general support services.

This year China United has already organized shows in New York for Liaoning, Hebei, and Sichuan provinces, while plans are in the works for Hubei, Guangxi, Jiangsu, and Hunan provinces. Most of these are smaller, inland provinces still trying to make

Photo by Julia S. Sensenbrenner

Silk exhibit at the Guangzhou Trade Fair.

contacts, probe markets, and learn the ropes. China United's expertise and US contacts provide an excellent introduction to the intricacies of trade with the United States. While the dominant trading provinces, such as Shanghai and Guangdong, have also expressed interest in hosting shows in New York, their participation will make less of an impact on their exports since they already have many established trading channels.

Most Chinese trade shows in the United States are not yet big money makers. The Beijing Economic and Trade Exposition held in Washington, DC, in 1985 rang up $30 million worth of export and investment contracts. In contrast, $80 million in contracts were signed at Beijing's first domestic trade fair held in late February 1987—and the overhead was much lower. The recent Liaoning trade fair in New York garnered $34 million, termed "a very good response" by a Chinese trade official.

Anywhere from several hundred to several thousand US and foreign buyers may attend Chinese trade fairs in the United States, from companies that already do business with China to those that just want to see what China has to offer. Textiles, garments, and silk are usually the hottest selling commodities. But several long-time importers complain that only a few sample-types are brought to the United States, the quantity of goods available for purchase is limited, and the Chinese manning the booths are often not professionals capable of answering technical questions about the product lines.

Not all fairs exhibiting Chinese products in the United States are sponsored by provincial groups. Two cities in Guangdong Province, Guangzhou and Foshan, have hosted fairs in New York. And FTCs or their branches may also bring shows to the United States. China National Nonferrous Metals Corp. (CNNC) will hold a large nonferrous metals fair in New York this summer as part of its strategy of organizing one large show outside of China each year. This specialized show, held in Japan in 1985 and West Germany in 1986, resulted in deals worth $60 million and $100 million, respectively, and is becoming an international industry event. Comments Bao Yulian of CNNC's recently opened New York office, "We expect to draw three to five times more people to this US show than to shows in China."

China is also beginning to enter more international trade shows to exhibit their most competitive wares. In the last year, China has participated in a wide variety of international shows , including a major defense exhibition and a Paris fashion show.

As more of China's products achieve internationally competitive quality standards, China can be expected to enter more of these shows. One FTC official admitted that his organization prefers international trade shows to export commodity fairs featuring only Chinese products, since they allow Chinese groups to compare their products to those from other countries. Such head-to-head competition helps Chinese exporters understand foreign markets better and find out just how competitive they really are. International shows also allow China to fulfill another goal—meeting international buyers enticed by the merit of the products being sold, not just the allure of dealing with China. 完

The struggle to keep costs down—and interest up

Exhibitions at the Crossroads

Priscilla Totten

A company receives a brochure announcing that a trade exhibition in its field will be held in China next year. If the company's line of business matches China's priority sectors under the Seventh Five-Year Plan, this may well be the 10th such brochure received this year. Each announcement boasts of the money China spent at the last such exhibition, promises appearances by top ministry and technical personnel, and even offers to schedule factory visits.

How does a company choose which exhibition to attend, or whether to go at all? With no international standards regulating exhibitions from country to country, and exhibitions in China costing two to three times as much as those in other countries, the decision to exhibit in China can be an expensive hit-or-miss proposition.

International exhibitions have proven to be a smart way for China to shop for technology and equipment, providing the chance to compare a wide variety of companies and products and ask questions before making a choice. As a result, the number of international exhibitions in China has mushroomed: more than 200 were held there in 1986, compared to just a handful in 1980.

For foreign companies, the reasons for exhibiting in China vary. Those who merely want to introduce their product to the China market find exhibitions an easy way to make, expand, or reinforce contacts with State, provincial, and local end-users, who are all conveniently gathered in one location. Some companies report that, in addition to signing long-term contracts, they are able to sell all or a majority of the exhibited equipment on the spot. Even companies who admit they are no longer making significant sales at exhibitions may still attend simply to maintain their personal contacts, and keep up with their competitors who will be there.

A big advantage of exhibitions in China over those in many other countries is the fact that the actual end-users—rather than professional buyers or agents—often attend. Usually engineers and technicians, who are given brochures on the equipment beforehand, are ready to carefully inspect the merchandise and ask specific, detailed questions at the exhibition. And the opportunity to have direct conversations with difficult-to-reach end-users from remote provinces can permit foreign companies to more accurately gauge their sales potential throughout China.

The pros and cons of exhibiting

An exhibition in China can be a microcosm of all the frustrations of doing business with China. Foreign businesspeople complain that some Chinese exhibitions are not carefully controlled. When the general Chinese public is allowed to attend, exhibitors have a hard time concentrating on their real customers. Companies also complain about scheduling conflicts. Exhibitions in the same or similar sectors held too close in succession or geographic proximity can dilute the quality of the audience and the money available for purchases. Organizers claim that the China Council for the Promotion of International Trade (CCPIT), the major sponsor of exhibitions in China, should be more aggressive in trying to find solutions to these problems. But perhaps the most serious complaint, which CCPIT cannot do anything to solve, is that too often contracts signed at exhibitions are broken later when foreign exchange proves to be unavailable.

Dresser Industries of Peoria, Illinois, has exhibited in China since the 1970s, when it displayed and sold a small truck at the Guangzhou Fair. But exhibitions alone have not translated into sales for Dresser in quite some time, and now the company participates in them only on a carefully selected basis, and mostly for PR purposes.

John Craddock, director of international market development at Rockwell International in Dallas, echoes this sentiment. Rockwell already has extensive contacts with its buyers and views exhibitions largely as a way to introduce more Rockwell staff to their Chinese customers.

One mining machinery executive takes a tougher line. His company

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Priscilla Totten, production manager of The CBR, *follows exhibitions in China for the National Council for US–China Trade.*

only considers exhibitions recommended by their Beijing office, and at most attends only one a year. He calls them "an expense we can do without. After 15 years in China, 'friendship' just doesn't cut it anymore—we're in China to make sales." His company has also stopped sending machinery samples to the few exhibitions they do attend and now relies solely on booth displays.

But some companies tell a different story. Robert C. Isham, advertising and marketing information director for Monsanto, wrote about his company's experience at the SINOCHEM 85 exhibition in Shanghai for *Sales & Marketing Management* magazine. Monsanto bought 870 sq. feet of space, split the costs between 10 different units in the company, and sent 25 people to man the exhibit. By arranging to have the booth and literature prepared in Hong Kong, rather than the US, the company saved money on construction costs, printing, and shipping.

Isham terms Monsanto's total outlay of $80,000 a worthwhile investment. Monsanto reached an audience of 40,000, sold everything on display, and booked "solid" orders for much more. In addition, the company got the market data needed to decide whether to market certain products in China.

Baker & Taylor, a book distributor in Somerville, New Jersey, displayed (and sold) 1,500 books at the Beijing Book Fair in September 1986. Jim Ulsamer, vice president for marketing, praised the "good, qualified traffic" at the "well organized" fair. Several banquets provided opportunities to speak with importers, who were well prepared and very specific about the books they were interested in buying. Ulsamer says the event produced good leads for his company that he believes will translate into more business.

The high cost of being there

Costs for a firm putting its product on display and manning a Chinese exhibition booth can easily run as high as $40,000, a significant outlay for a one-time appearance that might not result in sales. The US government, unlike some other foreign governments, does not subsidize the participation of US firms in international exhibitions. Costs can be reduced by choosing between different options on exhibition booths, including just renting space or opting for only a table and chairs. Still, additional costs pile up quickly, including advertising in the official exhibition directory ($240–$4,000), hotel accommodations ($70–$160/night), interpreters ($30–$60/day), printing, equipment and furniture rental, and freight forwarding.

One exhibition organizer charges that some of its competitors are discouraging potential exhibitors by running up prices. Noting that exhibition space in Western Europe, Asia, the United States, and the Middle East ranged from $88–$262 per sq. meter compared to $367–$667 per sq. meter in China, this organizer advised CCPIT, which serves as the major Chinese organizer for exhibitions, to consider sanctions against overpriced exhibition firms.

Most exhibition organizers, who make their money by renting out space in the halls they've rented from the Chinese, agree that exhibiting in China is costly, but deny that they are to blame. They complain of price gouging by the Chinese, noting in particular the inordinate cost of renting an exhibition hall. Organizers also point out that West European and US exhibitions are many times larger than those in China, making their cost per square meter lower. And unlike Western Europe, charges in China for admission and catalogs are included in the initial expense. Most important, an exhibition organizer must spend more on marketing Chinese exhibitions due to intense competition between promoters and the difficulties in identifying appropriate Chinese end-users to target for attendance. One organizer claims that staging an exhibition in China actually takes twice as much effort as staging one in Western Europe due to bureaucratic and marketing hurdles.

West German officials agree that China should bear some responsibility for the high cost of exhibiting there. Last year, at a meeting with CCPIT representatives in Beijing, they urged CCPIT to impose price ceilings on future shows.

In response CCPIT plans to set flexible price ceilings on an exhibition-by-exhibition basis. Factors to be considered include the value and sophistication of the equipment on display, the nationality of countries, and the venue.

Behind the scenes

An exhibition organizer begins

EVALUATING AN EXHIBITION

Based on a survey of exhibition organizers and participants, companies interested in participating in an exhibition in China should consider the following:

- **How good are the organizer's credentials?** To judge this, look for timely and accurate China market information in the brochure, experience in holding exhibitions in that sector in China or other Third World countries, and—for non-US organizers—a US representative that can provide assistance.
- **Has the show been held before?** Request the post-exhibition report from the organizer to review the results, and talk to past exhibitors to hear their reactions.
- **Is the exhibition certified by the US Department of Commerce?** Companies generally find Commerce's certification a reliable indicator of quality.
- **Who are the Chinese sponsors and how much money do they have to spend on purchases?** Exhibition firms often try to get support from one of China's ministries, since a ministry that endorses an exhibition also sets aside State funds to spend there. If the endorsing organization is merely a department within a ministry, less money will generally be available. And local support means only local funds will be spent.
- **Does your own market research confirm the organizer's figures? Are China's end-users ready to buy the equipment being exhibited?** Try to do some of your own market research. If you are choosing among several regional exhibitions, relevant production figures from the different areas may help you determine where the market is best. Good sources of information include the National Council for US–China Trade, relevant professional associations, and the Department of Commerce.
- **How much customer contact will there be?** Ask what the Chinese attendance promotion plan will include, and check to see if there will be adequate time to meet with key prospective customers. This contact can take place in meetings, private presentations, or banquets. Also, ask the organizer if you can invite people who are not on the official attendee list.

planning up to two years in advance. The first step is market research. If the exhibition involves products for which there is a promising market, the firm proposes the idea to CCPIT, which passes the proposal on to the relevant ministry. If the ministry believes the focus is worthwhile, CCPIT authorizes the exhibition and the ministry or one of its bureaus usually sponsors it. If it does, one of China's trade corporations also serves as a sponsor (and later makes the purchases on behalf of the ministry at the exhibition). CCPIT continues to sponsor most national-level exhibitions, while its 35 subcouncils frequently sponsor local shows, with CCPIT branches in Beijing, Shanghai, Guangzhou, Tianjin, Wuhan, and Shenyang the most active in regional and local exhibitions.

Once the exhibition is approved—a process that may take up to a year, but usually less for shows that have been put on in China before—the exhibition firm begins marketing the event to companies. Mailings are sent out, ads placed in trade publications, and follow-up telephone calls made to stir up interest.

When a list of expected foreign exhibitors is available, organizers compile profiles of participating companies, which they distribute to Chinese attendees. Some organizers even bring Chinese delegations to the United States before the event to meet with prospective exhibitors. In rare cases, a sale may be made before the exhibition begins.

According to Chris Ayres of Cahners Exposition Group, in recent years many organizers have been able to participate in the domestic attendance promotion process in cooperation with their Chinese hosts and sponsors through direct mail and issuing exhibition and seminar tickets.

If an organizer plans to hold seminars for Chinese attendees, it solicits topics from professional associations and exhibitors, which must be approved by CCPIT. Seminars may be highly technical or more general industry overviews. Many of the high-level executives who speak at these seminars consider them a valuable way to raise their company's profile at the exhibition.

Exhibition organizers proliferate

Exhibitions in China are usually organized by established international exhibition firms, Chinese organizations, and professional societies. The largest international firms, which account for about a third of the exhibitions in China, are Cahners Exposition Group and E. J. Krause & Associates of the United States, and Adsale Exhibition Services, China Promotion Ltd., and SHK International Services, all based in Hong Kong. Several of them claim to be the largest exhibition firm operating in China and the first to hold an exhibition there. But this much is clear: all have extensive experience within and outside of China.

After years of acting as the Chinese sponsor and watching how it's done, CCPIT is starting to organize exhibitions itself, without the involvement of foreign firms. In 1986 it held a medical equipment exhibition and, in 1987, it plans exhibitions of printing technology, textile technology, and packaging.

A wide variety of other Chinese organizations now realize there is money to be made as an exhibition organizer. Trading companies in particular are now sponsoring a growing percentage of the exhibitions in China, although many attendees feel that their efforts are not yet as polished as those of the still-dominant international organizers.

China's size creates niches in the exhibition field that can be filled by smaller organizers. Roman Associates, a small consulting firm in San Francisco that has organized several exhibitions in China each year since 1980, sticks with what President George Roman refers to as "end-user" exhibitions held in the provinces. He claims these small exhibitions can supplement the marketing job a company does at the national level. Roman advises companies to rely on video presentations and small-scale models, and to concentrate on meeting the local end-users—though he doesn't discourage exhibitors who want to bring along equipment to sell.

The US Department of Commerce's Trade Fair Certification Program has offered a seal of approval since 1983 to foreign trade exhibitions that effectively promote US exports. To qualify, an exhibition firm must apply for certification at least one year in advance; be able to recruit at least 20 US companies to form a "US Pavilion"; include small and medium-sized firms in its recruiting; assist American exhibitors in freight forwarding, customs clearance, translation services, exhibit design, and public relations; and provide a post-exhibition evaluation report. The Department of Commerce is currently reviewing the program and may loosen some of these requirements in order to be able to endorse more shows.

According to David Earle, man-

IF YOU DECIDE TO GO

- Double the lead time you normally allot for a US exhibition, or give yourself at least a year to prepare. Arranging such aspects as translation, shipping, and visas all take extra time.
- Check with the Commerce Department's Office of Export Administration regarding the regulations governing exports of your product, particularly if it's high-tech, to China.
- To see what the Chinese are interested in purchasing, ask the exhibition organizer to supply a list of products suggested for exhibition by the Chinese.
- Submit a detailed description of your product for distribution to the Chinese before the event. This gives end-users ample time to analyze your product and begin applying for import approval and foreign exchange.
- Translate your catalogs and brochures into Chinese. As Stanley Chu of Adsale points out, "The inclusion of pictures, technical specifications, and test results and charts will all enhance their value in the eyes of Chinese specialists . . . [and] it is worth remembering that very little material of that nature is ever thrown away in China."
- Ask about participating in a seminar while at the exhibition; if you opt to do so, have your papers translated into Chinese and available for distribution.
- Audio-visuals should be presented in Mandarin, rather than a local dialect. But since some attendees will be more fluent in other dialects, the video should be short and action-packed for maximum impact.
- Have attendees register their names, titles, and information about their work units in a visitor's book.
- Bring extra traveler's checks. Special services may be required during the exhibition that you will probably be asked to pay for in cash.

ager of the Trade Fair Certification Program, most applications for exhibitions in China are approved, perhaps because those that do not meet Commerce's criteria don't bother to apply. Several companies that have not applied for certification cite their tight lead time, and the requirement that a foreign firm have a US representative to handle recruiting and promotion. But many US companies feel more comfortable at an exhibition that has been certified, since this is one of the few standards of quality.

Once Commerce has approved an exhibition, the organizer can use the official certified trade fair logo on all its brochures. Commerce also provides pertinent market and organizational information for the target country, and will usually set up a booth at the event to advise companies on relevant trade issues, such as US export controls.

Reforms on the way?

Many organizers fear that the excessive number of exhibitions in China shows China's propensity to cash in quickly on a booming market at the expense of a long-term, well thought-out approach. But in a promising step, CCPIT recently applied to become a member of the Union Fair Internationale (UFI). This French-based association of cities with major exhibition halls provides a consistent set of quality guidelines for European exhibitions. CCPIT says it closely follows the progress of UFI and has attended three meetings sponsored by the group. Its application for membership is awaiting approval.

Another problem is China's attempts to conserve foreign exchange, which have slowed the growth of imports and inevitably made an impact on the exhibitions industry. The number of exhibitions, while still high in relative terms, has declined slightly in the past two years as China cuts back on certain types of imports.

CCPIT has acknowledged the concerns of exhibition organizers and participants, including the problems of high costs, too many exhibitions, too few sales, and diffused authority. They have promised to review issues as they come up on a case-by-case basis. Just how effective their response will be remains to be seen. 完

INTERNATIONAL EXHIBITIONS IN CHINA

The following exhibitions, sponsored by international exhibition firms, are to be held in China between August 1987 and December 1988. Companies interested in taking part in specific shows should contact the organizer to confirm the date and venue.

AGRICULTURE AND FOOD PROCESSING

AGRO CHINA 87/2ND INTL AGRO-TECHNOLOGIES EXHIBITION. August 26–September 1, 1987. Beijing. AVP Expositions.

SINO-HO-RES-FOOD 87/INTL HOTEL AND RESTAURANT SUPPLY AND FOOD PROCESSING EXHIBITION. September 3–9, 1987. Guilin. Hong Kong Expositions.

AGEX 87/INTL EXHIBITION ON AGRICULTURE, FISHERY, FORESTRY, AND ANIMAL HUSBANDRY. September 18–24, 1987. Beijing. SHK Intl Services.

PRO-PAK 87/INTL FOOD PROCESSING & PACKAGING EQUIPMENT. September 21–26, 1987. Beijing. Goodwill Trading & Exhibitions.

AGRO EXPO CHINA 87/AGRICULTURAL MACHINERY & TECHNOLOGY EXHIBITION. November 4–10, 1987. Beijing. E. J. Krause & Associates.

AG CHINA 87. November 5–11, 1987. Beijing. Cahners Exposition Group.

AGRICULTURE, FOOD PROCESSING & MEAT TECHNOLOGY. November 25–30, 1987. Guangzhou. B & I Trade Fairs.

FOOD, BEVERAGE & LIQUOR PROCESSING & PACKAGING EXPO/CHINA 87. December 1–7, 1987. Beijing. China Promotion.

CHINA FISHERY 88/INTL EXHIBITION ON FISH FARMING, FISHERY TECHNOLOGY & EQUIPMENT. September 5–11, 1988. Shanghai. SHK Intl Services.

AG CHINA 88. November 7–11, 1988. Beijing. Cahners Exposition Group.

FOOD PROCESSING EXPO/CHINA 88. December 1988. Beijing. China Promotion.

AVIATION

AIRPORT CHINA 87/AIRPORT FACILITIES & SECURITY EQUIPMENT CONFERENCE AND EXHIBITION. September 21–26, 1987. Shenyang. Commedia Associates.

AVIATION EXPO/CHINA 87. October 14–20, 1987. Beijing. China Promotion.

AIRPORT & AVIATION EXPO/CHINA 88. March 21–26, 1988. Guangzhou. China Promotion.

AEROSPACE CHINA 88. November 11–17, 1988. Beijing. SHK Intl Services.

SHANGHAI AIR SHOW 88. December 5–10, 1988. Shanghai. China Promotion.

AUTOMOTIVE

ENGINE CHINA 88/TRUCK MANUFACTURING & MAINTENANCE EXPO. May 11–17, 1988. Beijing. China Promotion.

TRUCK INDUSTRY AND ENGINE EXPO. April 20–26, 1988. Beijing. China Promotion.

AUTOMOTIVE CHINA 88. June 15–21, 1988. Beijing. Adsale Exhibition Services.

CHEMICALS

CHEMICAL ENGINEERING & SPECIALTY CHEMICALS. December 3–9, 1987. Beijing. SHK Intl Services.

CHEMICAL PROCESSING EXHIBITION. May 25–30, 1988. Guangzhou. B & I Trade Fairs.

CHINACHEM 88/INTL EXHIBITION ON CHEMICALS AND PETROCHEMICAL INDUSTRIES. June 6–11, 1988. Beijing. Adsale Exhibition Services.

CHINACHEM 88/3RD INTL EXHIBITION ON CHEMICAL AND PETROCHEMICAL INDUSTRIES. September 8–13, 1988. Shanghai. Adsale Exhibition Services.

CHEMTECH CHINA 88/2ND INTL EXHIBITION ON CHEMICAL ENGINEERING AND SPECIALTY CHEMICALS. December 3–9, 1988. Beijing. SHK Intl Services.

CONSTRUCTION

CHINA CONSTRUCT 88/4TH INTL CONSTRUCTION EQUIPMENT & MATERIALS EXHIBITION. May 6–12, 1988. Shanghai. SHK Intl Services.

INTERHOTEL 88/3RD INTL TOURISM, HOTEL FACILITIES & CONSTRUCTION MATERIALS EXHIBITION. May 6–12, 1988. Beijing. SHK Intl Services.

INTL BUILDING EXHIBITION CHINA. October 8–13, 1988. Beijing. Cahners Exposition Group.

DEFENSE

ASIANDEX INTL/ 2ND ASIAN DEFENSE TECHNOLOGY EXPOSITION. November 17–23, 1987. Beijing. Commedia Associates.

DEFENSE CHINA 87/INTL EXHIBITION ON ADVANCED DEFENSE TECHNOLOGY AND EQUIPMENT. November 21–26, 1987. Beijing. Adsale Exhibition Services.

CHINA LOGISTICS 87/INTL LOGISTICS, RECONNAISSANCE & MILITARY COMMUNICATIONS EXHIBITION. November 23–28, 1987. Beijing. Modern China.

DEFENSE EXPO/CHINA 88. November 15–21, 1988. Beijing. China Promotion.

ELECTRONICS

INTL OFFICE AUTOMATION AND BUSINESS COMMUNICATION EQUIPMENT EXHIBITION. September 8–13, 1987. Beijing. Adsale Exhibition Services.

MICROTRON CHINA 87/INTL EXHIBITION ON MICROTRONICS & MICROMOTORS. September 20–26, 1987. Nanjing. Look Ease Enterprises.

ADVANTECH 87/2ND INTL ADVANCED ELECTRONIC TECHNOLOGY EXHIBITION. October 23–29, 1987. Shanghai. SHK Intl Services.

EXPO HITECH SHANGHAI 88. March 19-24, 1988. Shanghai. E. J. Krause & Associates.

INTERNEPCON 88. April 19–24, 1988. Beijing. Cahners Exposition Group.

SOUTH CHINA ELECTRONIC & ELECTRICAL ENGINEERING EXHIBITION. May 5–25, 1988. Guangzhou. B & I Trade Fairs.

CONSUMER ELECTRONICS EXPO/CHINA 88. June 1–6, 1988. Guangzhou. China Promotion.

TELECOMMUNICATIONS & ELECTRONICS EXPO/CHINA 88. June 1–6, 1988. Guangzhou. China Promotion.

ENERGY AND POWER

SHENGLI 87/INTL PETROLEUM INDUSTRY TECHNICAL EXCHANGE AND CONFERENCE. August 20–29, 1987. Shengli. Roman Associates.

FLUID POWER EXHIBITION. November 9–14, 1987. Beijing. Hong Kong Exposition.

ELECTRIC POWER EXPO/CHINA 88. April 20–26, 1988. Shanghai. China Promotion.

WATER EXPO/CHINA 88. April 20–26, 1988. Shanghai. China Promotion.

EP CHINA 88/INTL EXHIBITION ON ENERGY AND POWER. June 13–18, 1988. Beijing. Adsale Exhibition Services.

ENERGY CHINA 88/INTL EXHIBITION ON ENERGY CONSERVATION, DEVELOPMENT & UTILIZATION. September 20–26, 1988. Beijing. SHK Intl Services.

NATURAL GAS UTILIZATION & TRANSPORTATION TECHNOLOGY. November 3–8, 1988. Beijing. B & I Trade Fairs.

FURNITURE

INTL FURNITURE DESIGN AND PROCESSING MACHINERY EXHIBITION. November 30–December 5, 1987. Tianjin. Hong Kong Expositions.

FURNITURE CHINA 88/WOODWORKING MACHINERY FAIR. March 2–8, 1988. Beijing. Adsale Exhibition Services.

GEOLOGY

GEOLOGY 88/GEOLOGY, PROSPECTING, SURVEYING, SEISMOLOGY & METEOROLOGY EXHIBITION. October 11–17, 1988. Beijing. SHK Intl Services.

CHINA INTL GEOLOGY, OCEANOGRAPHY & SEISMOLOGY TECHNOLOGY & EQUIPMENT EXHIBITION. October 20–25, 1988. Beijing. Expo Management.

HEAT TREATMENT AND WELDING

CHINA HEATEX 87/3RD INTL EXHIBITION OF HEAT TREATMENT, FOUNDRY AND WELDING TECHNOLOGY AND EQUIPMENT. September 9–15, 1987. Beijing. SHK Intl Services.

INTL EXHIBITION ON WELDING, HEAT AND SURFACE TREAMENT. November 19–25, 1987. Wuhan. Hong Kong Expositions.

WELDEXPO 88/3RD INTL EXHIBITION ON WELDING, CUTTING & HEAT TREATMENT. June 1988. Beijing. China Intl Convention Service.

WELDING CHINA 88. September 6–11, 1988. Shanghai. Adsale Exhibition Services.

HEALTH CARE

MEDICAL CHINA 87/2ND INTL MEDICAL APPARATUS & EQUIPMENT EXHIBITION. September 12–19, 1987. Beijing. Adsale Exhibition Services.

PHARM EXPO 88/INTL EXHIBITION ON PHARMACEUTICALS AND HEALTH CARE. April 16–21, 1988. Beijing. China Intl Convention Services.

CHINA MEDICAL 88/3RD INTL MEDICAL INSTRUMENT & EQUIPMENT EXHIBITION. May 4–8, 1988. Hangzhou. Adsale Exhibition Services.

HOSPITAL EXPO/CHINA 88. July 8–14, 1988. Shanghai. China Promotion.

BIOTECH EXPO 88/2ND INTL EXHIBITION ON BIOTECHNOLOGY & LIFE SCIENCES. September 1988. Shanghai. China Intl Convention Service.

INSTRUMENTS

EDEQUIPEX 87/2ND INTL EDUCATIONAL INSTRUMENTS AND EQUIPMENT EXHIBITION. October 7–13, 1987. Beijing. SHK Intl Services.

6TH INTERMED 87/INTL MEDICAL SHOW. November 1987. Shenyang. Goodwill Trading & Exhibitions.

ITEME 87/1ST INTL ENVIRONMENTAL TESTING EQUIPMENT AND MEASURING INSTRUMENTS EXHIBITION. September 1–5, 1987. Guangzhou. Coastal Intl Consultant.

TESTEXPO 87/CHINA INTL EXHIBITION ON TESTING AND MEASURING INSTRUMENTS. October 7–12, 1987. Harbin. China Intl Convention Service.

MICONEX/3RD MULTINATIONAL INSTRUMENTATION CONFERENCE & EXHIBITION. May 18–24, 1988. Beijing. SHK Intl Services.

LIGHT INDUSTRY

TOYSMA/WORLD SHOW FOR TOY MAKING AND LIGHT INDUSTRIAL MACHINERY. September 12–18, 1987. Wuxi. Hee How Intl Show Centre.

CHINA GLAS TECH 87/CHINA GLASS & CRYSTAL TECHNOLOGY AND EXHIBITION. September 23–28, 1987. Guangzhou. B & I Trade Fairs.

INTL LIGHT INDUSTRY EXHIBITION. October 8–14, 1987. Shenyang. Hong Kong Expositions.

LEATHER CHINA 87/INTL EXHIBITION ON LEATHER INDUSTRY AND SHOEMAKING. November 3–9, 1987. Beijing. Adsale Exhibition Services.

CHINA LIGHTING EXPO 87. November 4–9, 1987. Shanghai. China Business Enterprises.

ADHESIVE TECHNOLOGY & EQUIPMENT EXHIBITION. December 4–10, 1987. Tianjin. Jenston Intl Services.

CHINA CERAMIC 88/INTL CERAMIC MANUFACTURING EQUIPMENT & TECHNOLOGY EXHIBITION. March 16–21, 1988. Shanghai. B & I Trade Fairs.

JEWELTIME CHINA/JEWELRY & WATCH MANUFACTURING EQUIPMENT EXHIBITION. May 1–6, 1988. Shanghai. B & I Trade Fairs.

MACHINERY

HEILONGJIANG 87/INTL EXHIBITION ON ADVANCED INDUSTRIAL MACHINERY AND EQUIPMENT. October 12–17, 1987. Harbin. Look Ease Enterprises.

AUTOMAT 87/INTL INDUSTRIAL AUTOMATION EXHIBITION. October 27–31, 1987. Guangzhou. Jenston Intl Services.

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ENGINE (INTERNAL COMBUSTION) EXPO/CHINA 88. May 11–17, 1988. Beijing. China Promotion.

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PLASTICS

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INFORMATION MANAGEMENT AND TELECOMMUNICATION EXHIBITION. September 7–13, 1987. Beijing. Database Expositions.

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GARMENTECH 88/INTL GARMENT MANUFACTURING & MACHINERY EXHIBITION. November 23–29, 1988. Beijing. SHK Intl Services.

TRANSPORTATION

URBAN TRANSPORT, SUBWAY & RAILWAY EXPO/CHINA 87. September 4–9, 1987, Shanghai. China Promotion.

TRANSPO 88/INTL LAND TRANSPORT, CAR MAINTENANCE & TRAFFIC CONTROL EQUIPMENT. October 19–25, 1988. Beijing. SHK Intl Services.

LAND TRANSPORT EXPO/CHINA 88. October 28–November 2, 1988. Beijing. China Promotion.

MISCELLANEOUS

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MARINTEC CHINA 87/INTL MARINE TECHNOLOGY EXHIBITION FOR SHIPBUILDING, PORT DEVELOPMENT, AND OFFSHORE EXPLORATION. December 7–11, 1987. Shanghai. Cahners Exposition Group.

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Compiled by Priscilla Totten.

Photo courtesy of E.J. Krause & Associates

US company booths at the Expo Comm China 86 exhibition in Beijing.

Sisters in Commerce

US–China regional relationships try to promote trade and investment

Sarah R. Peaslee

When President Jimmy Carter established full diplomatic relations with China at the end of 1978, America's governors were quick to see the potential. Hoping to forge commercial, scientific, cultural, and educational ties with China, a delegation of governors traveled to China in 1979 to propose establishing sister relations between American and Chinese cities and states. The Chinese readily accepted.

Since then, 54 US cities and states have entered into sister relations with their Chinese counterparts (*see* box). Many of these relations were cemented only within the last couple of years. The extent to which sister relations have promoted commerce in ideas between the two countries is hard to quantify, but it is clear that commerce in products and services remains below its potential.

This is not to say that sister relations have a negligible impact on US–China trade. Small and medium-sized US companies seeking an entree into the China market often do not know where to begin. Sister committees or international trade divisions of state or city governments can help these companies get a "foot in the door" through their established connections with sister city or province officials and enterprises in China. These introductions can be invaluable, since personal contacts, familiarity, and trust play a paramount role in successful business dealings in China.

Small Chinese enterprises can also benefit from sister relations. Many of them seek trade opportunities or technical assistance on a scale that has little appeal to large American corporations. Yet these enterprises are rarely familiar with any but the largest American corporations in their field. Seeking the help of officials involved in sister relations is a good way to find an appropriate partner—albeit one they may have never heard of before.

Shoestring budgets

Although sister relationships are initiated in various ways, most are paired on the basis of economic compatibility and perceived trade possibilities. With the exception of the Boulder, Colorado and Lhasa, Tibet tie—established last April at the behest of American devotees of Lamaism who want to strengthen religious bonds between the two communities—the impetus behind sister relations is largely economic, often spearheaded by energetic and outward-looking mayors and governors. Yet despite the almost immediate exchange of trade delegations and lists of possible cooperative projects that usually follows the signing of sister agreements, most projects have been slow to get under way.

The generally slow pace of the Chinese decision-making process is certainly a common constraint, compounded by the limited amount of foreign exchange available to provincial and city organizations for purchases. But the realization of economic partnerships has also been limited by the scope and budget of US sister city and state organizations. The sister-city committees are usually run by volunteers and rely almost entirely on contributions from private enterprises. Difficulties in attracting business interest often arise, especially when such committees are perceived to be cultural or academic bodies with no commercial expertise.

Most of the US state relationships are managed by the international trade divisions within the states' economic departments and thus have a budget and the attention of full-time staff. But even then, their role is usually limited to making introductions and initial contacts.

Illinois is the only sister state to have established a trade office in China. This office allows Illinois companies to benefit from a wide range of services, including assistance with negotiations in China. Financed entirely by the Illinois Department of Commerce, the trade office costs over $100,000 a year to maintain. But even Illinois' motivations for establishing a trade office appear to transcend its commitment to expanding trade with its sister province, Liaoning. In 1983, when the Illinois Commerce Department first informed the Chinese People's Association for Friendship with Foreign Countries of its desire to open a trade office, it had Beijing, not Shenyang (the capital of Liaoning) in mind. Only after encouragement by Liaoning trade officials did Illinois finally decide to set up an office in Shenyang.

Sister committees in most other states are far from emulating Illinois' example. While Ohio supports a representative who spends six months a year in Wuhan, the capital of Hubei Province, most sister committees use their limited budgets to pay for US and Chinese delegations traveling under the relationships' auspices. Originally, the understanding seemed to have been that sister committees would pick up the tab for American delegations that could not pay their air fare to China, while hosting expenses would be handled by the Chinese—and vice versa. But,

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increasingly, sister committees find that they cannot afford to even partially cover the expenses of the growing number of US and Chinese delegations. The sister committee for Washington State, recognized as one of the most committed of sister states, has cut back and now pays only some transportation expenses for visiting delegations. Much of its budget goes to maintaining a trade desk that conducts general China market research.

Benefits for small businesses

Whether publicly or privately financed, delegations must continue crossing the Pacific if commerce among sisters is to thrive. These visits can be especially useful for small businesses. For example, when a St. Louis delegation visited its sister city, Nanjing, in 1984, all the projects discussed involved small businesses seeking to break into the China market for the first time. According to several participants, the sister city relationship helped clear the way for small businesses that couldn't afford long periods or frequent trips away from St. Louis but who had specific contracts in mind. Said Antony Yen, general manager of Transworld Electric and Technology Co., "If you said you were from St. Louis, they recognized you immediately. The St. Louis connection made it much easier to make contact with the right people."

The value of trade delegations organized within the framework of sister relations is also clear to executives at General Scanning Inc. of Watertown, Massachusetts—a small medical equipment manufacturer. In September 1985, General Scanning met with a Guangdong packaging and medical equipment delegation invited by Massachusetts Governor Michael Dukakis as a part of the state's sister relationship with Guangdong Province. After submitting a proposal for the sale of its products, the company's director of sales and marketing traveled to Guangdong several times in 1986 to meet with Ministry of Health representatives and local government officials and visit more than 10 manufacturing locations. By September of that year, the company became the first trade success story of the Massachusetts–Guangdong tie—signing a $2 million contract with Dong Jiang Electronics Factory to supply galvanometers for use in medical instruments.

The company has now gone a step further. Beginning this summer, General Scanning, as part of a technology transfer agreement, will train Dong Jiang employees at the company's Watertown facility to help the factory begin production of its own galvanometers by the end of next year.

Jean Montagu, General Scanning's founder, believes the contract—the largest in the company's history—will be the first of many in China. "Already a number of our domestic customers have expressed an interest in working with us and the province to manufacture other medical equipment there," he notes.

Commenting on General Scanning's success, Massachusetts Economic Affairs Secretary Joseph D. Alviani adds that "this contract underscores the reality that smaller sized firms can successfully sell their products in China and, just as important, demonstrates the tangible benefits Massachusetts' companies can reap through this special state–province relationship."

State-to-province relations

Just how special these relations are is hard to measure. Sister committees keep track of the businesses they have advised, as well as the Chinese end-users attending meetings and exhibitions that they sponsor. But what happens after Chinese and American firms make contact is not easy to monitor, since sister committees are usually not involved in the later stages of negotiations. Nor is it easy to determine whether sister relations have any direct bearing on the outcome of these negotiations. In some cases, sister cities and states promise each other preferential treatment. For example, Liaoning agreed to consider Illinois products first if they are equal in price and quality to other products. This is just a verbal agreement, however, that covers communications and agricultural equipment. How well it is upheld is hard to say.

Photo courtesy of the Asia Foundation

Shanghai Mayor Jiang Zemin and San Francisco Mayor Dianne Feinstein at the opening ceremony last year for the San Francisco Friendship Library in Shanghai.

What happens when two US states have sister ties with the same Chinese province? Do conflicts arise that diminish the value of the relations? Not according to Nancy Farris, director of the China Trade Program at the Michigan Department of Commerce. The fact that Sichuan Province is a sister province of both Michigan and Washington State presents no problems for them, she says, adding that the exchanges Sichuan seeks from Michigan differ from those it wants from Washington. Michigan and Sichuan hope to cooperate in tourism, energy, and transport industries, while wood, grassland seed for dairy and cattle farming, radio manufacturing expertise, and airplanes are Sichuan's key projects with Washington State. Farris says that Washington and Michigan even try to coordinate visits from Chinese delegations to reduce expenses for the Chinese.

City-to-city relations

Although sister-state committees usually have full-time staffs and government support, they are not necessarily more active or better funded than privately supported sister city relationships. In fact, several city relationships are as active—if not more so—than their corresponding state. Take the Baltimore–Xiamen relationship. Although the state relationship between Maryland and Anhui Province was established five years earlier than that of Baltimore and Xiamen, the two cities have a larger number of projects in the works. Maryland has a lot of technology to sell to Anhui, but not much that it wants or needs from the province in return. Primarily agricultural and one of the poorest of China's eastern provinces, Anhui is short of the foreign exchange necessary to pay for purchases from Maryland. The Xiamen Special Economic Zone in Fujian Province, on the other hand, has more foreign exchange, is accustomed to flexible trade practices, and offers Baltimore firms attractive investment opportunities.

While Baltimore has not needed to rely much on the Maryland sister state tie, other cities do take advantage of state-to-province relations that overlap with their sister city partnership. A case in point is Seattle, Washington, whose sister city is Chongqing, Sichuan. The Seattle–Chongqing relationship has benefited from the previously established Washington–Sichuan tie. Both the city and state sister committees see Washington as a major gateway to the Pacific Rim, and the two relationships have been able to coordinate delegation visits and share information about Chinese and American companies and contacts.

Easily one of the most vigorous—and the oldest—of all US–China sister relations is that between San Francisco and Shanghai. Since January 1980 the cities have sponsored almost continuous exchanges in the areas of science, technology, legal affairs, medicine, sports, education, and the arts. Patricia Kalman, a free-lance writer following China issues in San Francisco, reports that the second of two "friendship libraries" funded by the sister-city programs was recently completed. The Shanghai library houses more than 5,000 books and video cassettes relating to American culture. The sister library of China-related materials opened at the University of San Francisco this June.

Commercial ties are also thriving. According to Peter Henschel, deputy mayor of San Francisco, 70 economic and commercial projects have gotten under way. These include projects in telecommunications, capital construction, mass transportation, and public works; help from the Pacific Stock Exchange in developing a Shanghai exchange and other financial services; and establishment of the International Business Management Training School in Shanghai to promote future US–China economic cooperation and trade.

The blending of trade and friendship that the San Francisco–Shanghai bond typifies is common to all sister relations, whether their exchanges are large or small in scale. Although most have seen business and trade opportunities materialize only slowly, the pace at which sister relationships continue to form provides solid evidence of the fact that business is far from the only attraction. 完

US–CHINA TWINNINGS

US City	Chinese City	Date Established
Anchorage, AK	Harbin, Heilongjiang	8/85
Baltimore, MD	Xiamen, Fujian	11/85
Birmingham, AL	Changsha, Hunan	pending
Boston, MA	Hangzhou, Zhejiang	5/82
Boulder, CO	Lhasa, Tibet	4/87
Charlotte, NC	Baoding, Hebei	pending
Chattanooga, TN	Wuxi, Jiangsu	10/82
Chicago, IL	Shenyang, Liaoning	9/85
Denver, CO	Kunming, Yunnan	5/86
Des Moines, IA	Shijiazhuang, Hebei	8/85
Detroit, MI	Chongqing, Sichuan	7/85
Erie, PA	Zibo, Shandong	5/85
Flint, MI	Changchun, Jilin	6/85
Harrisburg, PA	Luoyang, Henan	11/84
Honolulu County, HI	Hainan Island, Guangdong	8/85
Houston, TX	Shenzhen, Guangdong	4/86
Jersey City, NJ	Wenzhou, Zhejiang	pending
Joliet, IL	Liaoyang, Liaoning	12/85
Kansas City, MO	Xi'an, Shaanxi	pending
Long Beach, CA	Qingdao, Shandong	4/85
Lorain County, OH	Taiyuan, Shanxi	pending
Los Angeles, CA	Guangzhou, Guangdong	12/81
Midland, TX	Dongying, Shandong	6/86
New York, NY	Beijing	2/80
Norfolk, VA	Lianyungang, Jiangsu	pending
Oakland, CA	Dalian, Liaoning	3/82
Orlando, FL	Guilin, Guangxi	5/86
Paramus, NJ	Huainan, Anhui	pending
Philadelphia, PA	Tianjin	12/79
Phoenix, AZ	Chengdu, Sichuan	5/87
Pittsburgh, PA	Wuhan, Hubei	9/82
Portland, OR	Suzhou, Jiangsu	pending
Sacramento, CA	Jinan, Shandong	6/85
San Diego, CA	Yantai, Shandong	7/85
San Francisco, CA	Shanghai	1/80
Seattle, WA	Chongqing, Sichuan	6/83
Spokane, WA	Jilin City, Jilin	5/87
St. Louis, MO	Nanjing, Jiangsu	11/79
Syracuse, NY	Fuzhou, Fujian	pending
Toledo, OH	Qinhuangdao, Hebei	10/85
Tulsa, OK	Beihai, Guangxi	pending
Washington, DC	Beijing	5/84
Wichita, KS	Kaifeng, Henan	12/85
Wilmington, NC	Dandong, Liaoning	10/85
US State	**Chinese Province**	**Date Established**
Alabama	Hubei	10/85
Alaska	Heilongjiang	2/85
California	Jiangsu	possible
Colorado	Hunan	9/83
Connecticut	Shandong	5/86
Georgia	Fujian	pending
Hawaii	Guangdong	6/85
Idaho	Shanxi	10/85
Illinois	Liaoning	9/82
Indiana	Zhejiang	pending
Iowa	Hebei	10/82
Kansas	Henan	6/81
Kentucky	Jiangxi	10/85
Maryland	Anhui	6/80
Massachusetts	Guangdong	11/83
Michigan	Sichuan	11/82
Minnesota	Shaanxi	10/82
New Jersey	Zhejiang	6/81
New York	Jiangsu	6/84
Ohio	Hubei	10/79
Oklahoma	Gansu	6/85
Oregon	Fujian	12/84
Texas	Shandong	pending
Utah	Jiangxi	9/85
Washington	Sichuan	10/82
Wisconsin	Heilongjiang	10/82

Current as of June 1987 — Compiled by Sarah R. Peaslee

SOURCE: National Council files; Sister Cities International; National Committee on United States–China Relations

Foreign Exchange Guarantees

New questions arise following release of China's latest guidelines

Owen D. Nee, Jr. and Thomas E. Jones

The regulation of foreign exchange guarantees issued by Chinese organizations has important implications for foreign investors in China. Many Chinese–foreign joint ventures must borrow to meet their total investment requirements and depend upon guarantees issued by the Chinese investor in the joint venture or by other designated Chinese organizations to secure loans. Thus, the greater the restrictions are upon issuing guarantees, the more difficult it will be for projects in China to obtain funds.

The Provisional Measures Governing the Provision of Foreign Exchange Guarantees by Domestic Organizations (the "Guarantee Measures"), promulgated by the People's Bank of China (PBOC) in February 1987, supplement existing regulations controlling China's banks and financial and investment institutions. They also apply to foreign exchange guarantees issued by nonfinancial institutions in China. This new legislation, coinciding with stronger fiscal control in China, places tighter restrictions on guarantees by limiting who is authorized to make guarantees and by setting borrowing/guarantee limits for these guarantors. This suggests a move toward recentralization of foreign exchange borrowing in China that will enable the State to channel funds into high priority capital construction projects and to curtail the diversion of funds into projects that are either outside the State plan or are not actively promoted by the central government. But the measures may also make it more difficult for Chinese–foreign joint ventures, as well as other Chinese enterprises, to borrow funds and thus may act as a disincentive for investment.

The problems outlined below relate primarily to foreign creditors assessing the risks of lending against the guarantee of Chinese organizations as the primary security for a loan. Such problems, however, will in turn affect those in China who want to borrow, since ambiguities in the law may either decrease the willingness of the lenders to provide funds or increase the spreads charged for such loans.

1. What is a foreign exchange guarantee? China's Guarantee Measures define a foreign exchange guarantee as a "guarantee provided by a guarantor with the foreign exchange funds it owns." There can be no mistake, therefore, that a guarantee once issued will be backed only by the resources of the issuing entity rather than those of the Chinese government.

Determining what types of guarantees are covered by this legislation is no easy matter. For example, the creditor is promised "that in the event the debtor fails to repay its debts in accordance with the provisions of the contract," the guarantor must repay. It is not clear, however, whether this means that legal proceedings may be brought against both the debtor and guarantor simultaneously or whether creditors must first exhaust their remedies against the primary debtor. Neither does the definition address the question of whether a completion guarantee (issued in connection with a project financing agreement) or a take-or-pay contract (whereby the obligor undertakes to pay a stipulated minimum sum for goods from a project whether or not he takes them) are considered guarantees for the purposes of the Guarantee Measures.

2. Who may issue a guarantee? At present 93 institutions have been authorized by the State Administration of Exchange Control (SAEC) to issue foreign exchange guarantees, including 40 banks (including branch offices), 47 trust and investment corporations, two financial companies, and four leasing companies (*see* p. 56).

The SAEC, a division of the PBOC, administers the foreign exchange guarantees and other aspects of China's foreign exchange control program. China's Provisional Regulations of the People's Bank of China for the Control of Banks promulgated on January 7, 1986, by the State Council and the Provisional Regulations Concerning the Control of Financial Trust and Investment Institutions promulgated on April 26, 1986, by the PBOC set forth in detail how financial institutions are to obtain permits to engage in foreign exchange business. Once a Permit to Engage in Foreign Exchange Business is received, financial institutions such as banks and trust and investment corporations may issue foreign exchange guarantees and need merely to file a copy with the SAEC for the record.

The Guarantee Measures do not specify the procedures that nonfinancial institutions must follow in order to obtain approval to issue a foreign exchange guarantee. A foreign bank should therefore request to see both the foreign exchange permit issued to a nonfinancial institution by the SAEC and evidence that the guarantee has been filed with the relevant office of the SAEC. To date, such permits have been issued on a case-by-case basis.

3. Whose obligations may be guaranteed? Article 5 of the Guarantee Measures stipulates that guarantees may be provided to enterprises in China that are registered in accordance with Chinese law. These include domestic

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Chinese enterprises, Chinese–foreign equity and cooperative joint ventures, and wholly foreign-owned enterprises. Although foreign organizations and other foreign enterprises located outside of China may also obtain guarantees under Article 5, it is doubtful that many will do so since they must provide collateral security equal to the debt guaranteed. Those having such collateral do not need a guarantee since they can borrow directly.

Guarantees may not be provided in connection with the equity portion of an investment. This follows the State Council policy requiring foreign investors to make minimum equity contributions to their projects in China. The Provisional Regulations Concerning the Ratio of Registered Capital to Total Investment of Joint Ventures Using Chinese and Foreign Investment of March 1, 1987, establish the minimum debt/equity ratios for foreign investment.

TOTAL INVESTMENT	APPLICABLE EQUITY/ TOTAL INVESTMENT RATIO
$3,000,000 or less	7:10
$3,000,001 to $10,000,000	5:10 (but if total investment less than 4.2 million, registered capital shall not be less than $2.1 million)
$10,000,001 to $30,000,000	2:5 (but if total investment less than $12.5 million, registered capital shall not be less than $5 million)
$30,000,001 and above	1:3 (but if total investment less than $36 million, registered capital shall not be less than $12 million)

4. What limits are set on guarantees? A financial institution may issue guarantees in an amount which, when taken together with its other external debts, will not exceed 20 times the foreign exchange funds it owns. The meaning of the critically important phrase "foreign exchange funds it owns" is not made clear: do these include funds allocated by the State as paid-in capital and/or retained foreign exchange earnings generated from business operations?

Nonfinancial institutions are under even greater restrictions, since the value of their guarantees may not exceed the amount of their foreign exchange funds. One may therefore wonder why a nonfinancial institution would guarantee a loan. It would seem simpler for the nonfinancial institution merely to lend its own funds to the borrower—and thereby earn higher interest—than to guarantee the borrower's loan and have its own funds sit idly on deposit with the PBOC.

5. How does the State monitor compliance? Since the Guarantee Measures do not require nonfinancial guarantor institutions to provide financial information to the PBOC, it is not clear how the PBOC will determine whether or not such guarantors are operating within their guarantee limits. In the case of financial institutions, financial information must be submitted to the SAEC on a regular basis. While a creditor may not have access to this information, the Trust Regulations provide that if an institution is found to have violated the regulation, the PBOC may order the institution to correct the violation within a designated period of time, impose penalties, order it to cease operations, or suspend its Permit to Engage in Foreign Exchange Business.

Article 8 gives a creditor the right to request financial reports and foreign exchange information from the guarantor. Bankers should consider inserting covenants in the guarantee requiring the guarantor to provide this information, maintain the guarantee limits, and inform the creditor in the event that the SAEC determines that the guarantor has failed to comply with the Guarantee Measures.

6. When are counterguarantees necessary? In the past, one popular method of financing cooperative joint venture projects has been for the foreign investor to act as the borrower for the project, contributing the loan proceeds as its investment in the venture. Article 5 of the Guarantee Measures applies to such foreign borrowers who are attempting to secure the funds raised abroad through foreign exchange guarantees issued by a Chinese domestic organization. Now Article 5 requires the foreign enterprise to provide a counterguarantee secured by foreign exchange assets of an equivalent value. Previously, the Chinese party to the cooperative might have provided a mortgage over its assets as security.

Article 6 makes it clear that counterguarantees will be required for guaranteed loans and that Chinese organizations providing guarantees will need to obtain counterguarantees (from either the Chinese or foreign investor, or both) before providing their own guarantee. More than likely, counterguarantees will cause the guarantor and the creditor to compete for the debtor's security.

Article 10 provides that a guarantor shall have the right to recover its debts after it has performed its obligations under the guarantee. Since there is no time provision, it may be interpreted as giving the guarantor the right of subrogation before the creditor releases the guarantee. To protect the interests of the creditor, a clause restricting the exercise of such subrogation rights until the creditor has been repaid in full should be added to the guarantee.

7. What types of contracts are required? Article 7 stipulates that separate written contracts are to be entered into between the debtor and the guarantor and the debtor and the creditor that specify their respective rights and obligations. It is less clear what type of written contract the guarantor is to enter into with the creditor. If a contract other than the guarantee is contemplated, this would represent a considerable departure from international practice that would add another layer of complexity to the documentation and cause additional expense and delays to guaranteed financing transactions in China.

8. When may a guarantee be released? The Guarantee Measures relieve the guarantor of its obligations under certain circumstances that differ from internationally accepted practice. For example, the guarantor's consent must be obtained if the original contract is amended. Would any waiver of any term of a contract also be interpreted as an amendment? Would any amendment, no matter how immaterial, such as the change of an address of the creditor, be sufficient to release the guarantee? It is customary international practice that a creditor may amend the underlying contract within certain conventional limits but may not, for example, increase the principal amount guaranteed or the interest rate. The risk of a release of the guarantee suggests the need for frequent consultation with the Chinese guarantor, which may withhold consent from a proposed amendment in order to negotiate better terms for itself.

From the point of view of a lending bank, Article 11 is troublesome because it relieves the guarantor from its guarantee obligations "in the event that the creditor fails to perform its obligations in accordance with the contract during the effective term of the contract of guarantee."

Even more discouraging is the statement that the guarantor may demand compensation from the creditor for losses resulting from this failure. It is difficult under a loan agreement to understand what obligation a lender could fail to perform other than the obligation to lend. Generally speaking, it would appear unreasonable for a guarantor to seek compensation from a creditor given the fact that a guarantor is entitled to a guarantee fee and may also have taken a counterguarantee from the debtor.

9. Which law governs? Even when a foreign exchange guarantee is governed by foreign law, certain provisions of the Guarantee Measures will apply, such as the requirement to file a copy of the guarantee with the SAEC for the record, possibly the aggregate limits on direct and contingent liabilities, and the provisions as to on whose behalf a guarantee may be issued. Whether the provisions for the release of the guarantee will apply notwithstanding the party's choice of law remains unclear—but ultimately this will be decided when a creditor tries to enforce a guarantee issued by a domestic Chinese organization.

Given some of the unconventional provisions of the Guarantee Measures, it would be prudent to avoid using Chinese law as the governing law in guarantees issued by Chinese domestic organizations. Chinese guarantors have on occasion insisted on using Chinese law. As a compromise, Chinese guarantors may agree that the laws of a third country govern, and in such cases they frequently prefer to use the laws of Hong Kong. The problem with this alternative, however, is that, to date, Hong Kong law has not reached the level of acceptability among the international financial community that the laws of New York and England have attained and there is some concern as to possible future changes in Hong Kong law. 完

FOREIGN EXCHANGE GUARANTORS

The following financial institutions in the People's Republic of China have been approved by the State Administration of Exchange Control to provide foreign exchange guarantee services:

BANKS

1. Bank of China and its branches
2. The Hongkong and Shanghai Banking Corp., Shanghai Branch
3. Standard Chartered Bank, Shanghai Branch
4. Overseas Chinese Banking Corp., Ltd., Shanghai Branch
5. The Bank of East Asia, Shanghai Branch
6. Nanyang Commercial Bank, Ltd., Shenzhen Branch
7. Nanyang Commercial Bank, Ltd., Shekou Branch
8. Nantong Bank, Ltd., Zhuhai Branch
9. The Kwangtung Provincial Bank, Shenzhen Branch
10. The China Investment Bank
11. Xiamen Intl Bank
12. The Hongkong and Shanghai Banking Corp., Shenzhen Branch
13. Bank of Credit and Commerce Intl Overseas, Ltd., Shenzhen Branch
14. United Overseas Bank, Ltd., Xiamen Branch
15. Banque Indosuez, Shenzhen Branch
16. Standard Chartered Bank, Shenzhen Branch
17. Chiyu Banking Corp., Ltd., Xiamen Branch
18. Societe Generale, Shenzhen Branch
19. The Hongkong and Shanghai Banking Corp., Xiamen Branch
20. Banque Nationale De Paris, Shenzhen Branch
21. Bank of Tokyo, Ltd., Shenzhen Branch
22. The Hokkaido Takushoku Bank, Ltd., Shenzhen Branch
23. The Sanwa Bank Ltd., Shenzhen Branch

24-32. The Industrial and Commercial Bank of China (The ICBC), branches in Guangdong, Fujian, Shanghai, Shenzhen, Xiamen, Foshan, Shantao, Fuzhou, and Guangzhou.

33. Bank of the Orient, Xiamen Branch
34. The Agricultural Bank of China, Guangzhou Branch
35. The Agricultural Bank of China, Foshan Branch
36. Standard Chartered Bank, Xiamen Branch
37. Fuji Bank, Shenzhen Branch
38. The Industrial and Commercial Bank of China, Sichuan Branch
39. CITIC Industrial Bank
40. Bank of China Merchants

INVESTMENT CORPORATIONS

1. China Intl Trust and Investment Corp.
2. Shanghai Investment and Trust Corp.
3. Guangdong Intl Trust and Investment Corp.
4. Fujian Provincial Investment and Enterprise Corp.
5. Hubei Provincial Intl Trust and Investment Corp.
6. Tianjin Intl Trust and Investment Corp.
7. Zhejiang Intl Trust and Investment Corp.
8. Bank of China Trust and Consultancy Company
9. Liaoning Intl Trust and Investment Corp.
10. Hebei Intl Trust and Investment Corp.
11. Guangzhou Intl Trust and Investment Corp.
12. Jiangsu International Trust and Investment Corp.
13. Beijing Intl Trust and Investment Corp.
14. Jiangxi Provincial Intl Trust and Investment Corp.
15. Shenzhen Intl Trust and Investment Corp.
16. Shenyang Intl Trust and Investment Corp.
17. China Chongqing Intl Trust and Investment Corp.
18. Shaanxi Provincial Finance and Joint Investment Corp.
19. Guangdong Intl Trust and Investment Corp. Shenzhen Branch
20. The Trust and Investment Co. of The ICBC
21. Zhongyuan Development, Trust, and Investment Corp. (Henan)
22. Changjiang Intl Trust and Investment Corp. of Sichuan Province
23. Anhui Intl Trust and Investment Service Corp.
24. China Jilin Province Intl Trust and Investment Corp.
25. China Ningxia Islamic Intl Trust and Investment Corp.
26. Shantou Intl Trust and Investment Corp.
27. Henan Provincial Intl Trust and Investment Corp.
28. Shanxi Economic Development and Investment Corp.
29. Guangxi Intl Trust and Investment Corp.
30. Hunan Intl Trust and Investment Corp.
31. China Venturetech Investment Corp.
32. Dalian Intl Trust and Investment Corp.
33. Nanjing Intl Trust and Investment Corp.
34. Lianyungang Intl Trust and Investment Corp.
35. Xiamen Intl Trust and Investment Corp.
36. Shanghai Aijian Banking, Trust, and Investment Corp.
37. Ningbo Intl Trust and Investment Corp.
38. Wuhan Intl Trust and Investment Corp.
39. Guangzhou Intl Trust and Investment Corp., Economic and Technology Development Zone Branch
40. Foshan Trust and Investment Corp.
41. Xinjiang Intl Trust and Investment Corp.
42. Tianjin Trust and Investment Corp. of The ICBC
43. Chongqing Trust and Investment Corp. of The ICBC
44. Fujian Overseas Chinese Investment Company
45. Wenzhou Intl Trust and Investment Corp.
46. Beijing Travel, Trust, and Investment Company
47. Trust, Investment, and Consultancy Company of Bank of China, Chongqing Branch.

FINANCIAL COMPANIES

1. Shenzhen SEZ Development and Finance Company
2. Everbright Finance Company

LEASING COMPANIES

1. China Electronics Leasing Company
2. China Foreign Trade Leasing Company
3. China Leasing Company, Ltd.
4. Guangdong Intl Leasing Company

Source: State Administration of Exchange Control
Last released April 30, 1987.

CHINA BUSINESS

中外貿易

Betsy Saik

The following tables contain recent press reports of business contracts and negotiations exclusive of those listed in previous issues. For the most part, the accuracy of these reports is not independently confirmed by *The CBR*.

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

中外贸易

SALES AND INVESTMENT THROUGH MAY 31

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported
Agricultural Commodities	
(Australia)/MOFERT and Tianjin	Signed memorandum of understanding to build poultry disease control diagnostic and training center; includes supplying major equipment, technical instruction, and training. $1 million. 2/87.
(Thailand)/CEROILFOODS	Will supply 200,000 tonnes of 25 percent-grade rice for local consumption. $3 billion. 2/87.
Atochem SA, subs. of Nationale Elf Aquitaine, Ste. (France)	Negotiating contract to supply castor hybrid seeds to make castor oil. 2/87.
(Australia)	Negotiating 3-year contract to supply 750,000 tonnes of raw sugar. 3/87.
(Sweden)	Signed agreement to supply pulp. 4/87.
Applied Animal Genetics and University Genetics Co. (US)/Gansu Provincial Animal Husbandry Bureau and Zhangye Prefecture Agricultural and Animal Husbandry Bureau	Signed contract to provide training, equipment, and supplies for conducting embryo transfers. 4/87.
Agricultural Technology	
Berga Impianti (Italy)	Signed contract to supply technology and equipment for three 15 TPH animal feed plants. $12 million. 1/87.

NA = Not available.

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

KEY: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Industry Import-Export Corp.; CCTV: China Central Television; CEIEC: China Electronics Import-Export Corp.; CEROILFOODS: China Natinal Cereals, Oil, and Foodstuffs Import-Export Corp.; CHINATEX: China National Textiles Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNCCC: China National Chemical Construction Co.; CNOOC: China National Offshore Oil Corp.; CNTIC: China National Technical Import Corp.; COSCO: China Ocean Shipping Co.; CPIC: China National Corporation of Pharmaceutical Economic and Technical International Cooperation; ICBC: Industrial and Commercial Bank of China; INSTRIMPEX: China National Instruments Import-Export Corp.; ITIC: International Trust and Investment Corp.; MACHIMPEX: China National Machinery Import-Export Corp.; MEI: Ministry of Electronics Industry; MLI: Ministry of Light Industry; MOCI: Ministry of Coal Industry; MOPI: Ministry of Petroleum Industry; MPT: Ministry of Posts and Telecommunications; MWREP: Ministry of Water Resources and Electric Power; NDSTIC: National Defense, Science, Technology, and Industry Commission; NORINCO: China North Industries Corp.; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SPC: State Planning Commission

Chemicals and Chemical and Petrochemical Plants and Equipment

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported
China's Imports	
Le Gaz Integral Enterprise (France)/CNTIC	Signed contract for coal gasification plant to power Zhengzhou Glass Factory, Henan. 1/87.
BP Chemicals International Ltd. (UK)	Licensed fluidized-bed process for high-density and linear low-density polyethylene for ethylene complex in Liaoning. 2/87.
Hitachi Ltd. and Marubeni Corp. (Japan)/CNTIC	Signed contracts to supply equipment to produce 66,000 TPY of polyester. 2/87.
Mitsui Petrochemical Industries Ltd., Mitsui Engineering & Shipbuilding Co., and C. Itoh & Co. Ltd. (Japan)/CNTIC and Jinan Chemical Fiber Works in Jinan, Shandong	Signed contract to build 75,000 TPY plant in Beijing to produce purified terephthalic acid with MPIL responsible for licensing, operator training, and start-up guidance; MES for design, component procurement, and construction guidance; and CIC for liaison work with Chinese. $66 million (J¥10 billion). 2/87.
Toyo Engineering Corp. and C. Itoh & Co. Ltd. (Japan)/CNTIC	Received order for 130,000 TPY plant to produce ethylene and propylene at chemical complex in Liaoning. $79.2 million (J¥12 billion). 2/87.
Permea Inc. (US)/ SINOPEC, CNCCC, Luzhou Natural Gas Chemical Co. (Sichuan), Yunnan Natural Gas Chemical Co. (Yunnan), and Cangzhou Chemical Fertilizer Co. (Hebei)	Will supply prism hollow-fiber membrane gas separators to recover hydrogen from purge gas of hydrodesulfurizer at Shengli refinery in Shandong. 3/87.
Snam Progetti SpA (Italy)/ CNTIC	Received order for plant to produce 40,000 TPY of polypropylene for chemical complex in Liaoning. 3/87.
Technipetrol (Italy), subs. of Tecnip SA (France)/ CNTIC	Received order for plant to produce 125,000 TPY of polyethylene for chemical complex in Liaoning. 3/87.
Tecmimont SpA (Italy)/ Shanghai	Awarded contract to provide equipment and machinery, engineering services, and construction supervision for 70,000 TPY polypropylene plant at petrochemical complex near Shanghai. $45 million. 3/87.
Xytel Corp. (US)/SINOPEC	Signed eight contracts to design and construct computer-controlled pilot plants for energy and fertilizer research. $3.8 million. 3/87.
Macpherson Drynamels (UK), subs. ot Tikkurila Oy (Finland)/Zhaoqing Chemical Paints	Sold licenses to produce powder coatings for metal products. $398,075 (£250,000). 4/87.
Investments in China	
H.B. Fuller Co. (US)	Will open joint venture plant in Guangzhou to manufacture chemicals for construction industry. $1.5 million. (US:60%-PRC:40%). 1/87.

Ecolab (US)/NORINCO	Signed contract to establish Ecolab Chemical Industrial Co. in Shanghai to produce rinsing agents. $2.4 million. 3/87.

Chemicals (Agricultural)

China's Imports

(Philippines)	Will supply fertilizers. $70 million. 12/86.
Canpotex Ltd. (Canada)	Will supply 500,000 tonnes of potash. $31.8 million (C$42 million). 12/86.
FBM Hudson Italiana SpA (Italy)/CNCCC	Signed contract to supply high pressure heat exchanges for urea plant for World Bank-supported Fertilizer Rehabilitation Project. $2.1 million. 1/87.
Imperial Chemical Industries Plc (UK) and Uhde GmbH (FRG)/Puyang, Henan	Will license ICI's AMV process in new 1,000 TPD ammonia plant. 2/87.
Incro SA, subs. of Cros SA (Spain)	Awarded contract to supply technology for fertilizer plant being constructed by Dragados y Construcciones (*see The CBR*, May-June 1987, p. 57). 2/87.
Xytel Corp. (US)/SINOPEC	Signed eight contracts to design and construct computer-controlled pilot plants for energy and fertilizer research. $3.8 million. 3/87.

Investments in China

Kemira Oy (Finland)/Wuhan Chemical Engineering Corp.	Investigating possibility of forming joint venture to build 160,000 TPY fertilizer plant and phosphoric acid unit at Yichang, Hubei. 12/86.

Construction Materials and Equipment

China's Imports

Atlas Air Australia Pty. Ltd./Shenzhen SEZ Information Center	Awarded contract to supply 14 air conditioning units. 2/87.
Atlas Copco AB (Sweden)/International Tendering Co. of CNTIC	Awarded contract to supply five grouting pumps and drilling machine for World Bank-supported project to construct power transmission line linking Shanghai and Xuzhou. $228,981 (SK1.468 million). 3/87.
Caterpillar China Ltd. (US)/International Tendering Co. of CNTIC	Awarded contract to supply 14 bulldozers, loaders, and levelers for World Bank-supported power project (*see* Atlas Copco AB entry above). $1.8 million. 3/87.
Marubeni Corp. (Japan)/ International Tendering Co. of CNTIC	Awarded contract to supply four concrete pump cars and a workshop facility for World Bank-supported project (*see* Atlas Copco AB entry above). $950,244 (J¥144 million). 3/87.
Saab-Scania AB (Sweden)/International Tendering Co. of CNTIC	Awarded contract to supply tractors for World Bank-supported project (*see* Atlas Copco AB entry above). $96,709 (SK620,000). 3/87.
Wako Koeki Co. Ltd. (Japan)/International Tendering Co. of CNTIC	Awarded contract to supply six concrete mixer-lorries for World Bank-supported project (see Atlas Copco AB entry above). $283,753 (J¥43 million). 3/87.
Meta Services, subs. of Ederer Inc. (US)	Awarded contract to supply two high-speed cableway systems used to place concrete for dam construction for World Bank-supported Yantan Hydroelectric Power Project. $6 million. 4/87.

Investments in China

The Jardine Engineering Corp. Ltd. (HK)/China Academy of Building Research (Beijing) and Shanghai General Machinery Associated Corp.	Signed letter of intent to establish joint venture air-conditioning service companies in Beijing and Shanghai. 1/87.
Mitsubishi Electric Corp. (Japan) and Ryoden Electrical Engineering Co. Ltd. (HK)/Shanghai Mechanical and Electrical Industrial Investment Co. and MACHIMPEX	Established Shanghai Mitsubishi Elevator Co. Ltd. joint venture to produce 2,000 computerized elevators annually. $9.5 million. (JPN:15%-HK:10%-PRC:75%). 3/87.
Terex (UK)/NORINCO	Negotiating joint venture to build plant to produce 300 dump trucks annually in Baotou, Inner Mongolia. 3/87.

Consumer Goods

China's Imports

IJV Co. (US)/Jiangsu Light Industrial Import-Export Corp.	Reached agreement to process sports balls. $5 million. 1986.
Indesit-Industrial Electtrodomestici Italiana (Italy)/Shuzhou Wujiang Refrigerator Equipment Factory	Supplied refrigerator production line. $700,000. 1986.
Indesit-Industrial Elettrodomestici Italiana (Italy)	Signed turn-key contract to construct two factories, one to produce electric motors and the other to make compressors for refrigerators; includes supplying know-how and machinery and equipment, and training 70 technicians in Italy. $8.5 million. 1/87.
Shiseido Co. (Japan)/ Beijing No. 3 Daily Use Chemical Factory	Supplied technology to produce cosmetics including cleansing and moisturizing cream, lipstick, and rouge. 3/87.

Investments in China

Hercules Inc. (US)/China National Tobacco Co. and Wuxi Textile Industry Co., Jiangsu	Signed letter of intent to form joint venture to manufacture polypropylene fiber tow for CNTC and export sales. 3/87.
Natural Beauty Products (UK)	Reached agreement to establish joint venture factory in Beijing to produce 10 million cosmetic items annually. $796,150 (£500,000). (50-50). 3/87.
Rothmans International Plc (UK)/Shandong Provincial Tobacco Corp. and Jinan Cigarette Factory	Negotiating to establish joint venture to produce cigarettes. 3/87.
Celanese Fibers Operations, subs. of Celanese Corp. (US)/Jiangsu Tobacco Corp.	Formed cigarette filter joint venture Nantong Cellulose Fibers Co. Ltd. to produce 10,000 TPY of cellulose fiber. $35.17 million. (US:31%-PRC:69%). 4/87.
Tele-Art Inc. (UK)/ Guangzhou	Established joint venture Asia Ebauches to produce 1 million analog quartz watches annually in first four years and 5 million per year beginning in 1992. (US:65%-PRC:35%). 4/87.

Other

EMI Music, subs. of THORN EMI Plc (UK)/ China Record Co.	Signed cooperation contract to market EMI's classical music collection in China and EMI will market and distribute traditional and contemporary Chinese music in 40 countries. 2/87.

Electronics and Electrical Equipment

China's Imports

(US)/Provincial Computer Corp., Fujian	Put into operation warm disc assembly line to manufacture 60,000 sets annually. 12/86.
Control Data Canada Ltd./Jiaotong University, Shanghai	Will supply computer system. 1/87.
Modular Robotic Systems (UK)	Received order to supply robot for project to automate electric motor production. 1/87.
Nestar Systems Inc. (US)/ China Business Associates	Signed agreement to supply network computer system to automate shipping arrangements, inventory, and accounting control at 19 ports. $1.3 million. 1/87.
Dataprep (HK) Ltd./Guilin China Hotel	Signed contract to supply two ECI 3610 systems. 2/87.
Cable & Wireless Systems Ltd. (HK)/BOC	Received order for 70 advanced uninterruptible power systems for computer installations. $512,689 (HK$4 million). 3/87.
Ing. C. Olivetti & C. SpA (Italy)/Kunming	Established factory to manufacture 25,000 M24 PCs annually. 3/87.
Standard Telephones & Cables Plc (UK)	Negotiating contract to supply computerized digital message system, digital telephone exchange, and radio testing equipment. 3/87.

Investments in China

Tudor (Portugal), and Nan Yut Trading Co. and Mr. Ng Fok (Macau)/ Guangdong Machine Co.	Established joint venture Tudor-Macau to manufacture batteries and accumulators at Macau and Guangdong plants. $10 million. (Tudor:40%-NYTC:10%-Ng Fok:10%-GMC:40%). 1/87.
IBS (Japan)/Shanghai Research Institute of Computing Technology	Signed letter of intent to establish joint venture to develop computer software. 3/87.
Nixdorf Computer AG (FRG)	Will open software development center in 1987. 3/87.
Microtecnica SpA (Italy)/ CATIC	Opened marketing and maintenance office for high-technology products in Beijing. 4/87.
Electronic Data Systems Corp. of General Motors Corp. (US)/Beijing Municipal Government Commission for Science and Technology	Established Beijing International Information Processing Co. Ltd. joint venture computer center to offer information, technology, and telecommunications services. $15 million. (US:49%-PRC:51%). 4/87.
Ing. C. Olivetti & C. SpA (Italy)/CATIC	Opened service center in Beijing to provide after-sales services for computers and electronic printers. 4/87.
Northgate Computer Services Ltd. (UK)/Tianjin Computing Center and Tianjin New Technology Development Co.	Opened joint venture Northgate China Computer Services Ltd. to develop and supply computer software. $796,150 (£500,000). 4/87.

Electronics (Consumer)

China's Imports

Polaroid Corp. (US)/ Guangzhou News Photo Society	Established instant photo products center to promote instant imaging technologies, facilitate supply of instant photo products, and provide maintenance and repair services. 3/87.
TDK Corp. (Japan)/CNTIC and Hangzhou, Zhejiang	Awarded contract to supply plant to produce 100 million video and audio magnetic tapes annually. 3/87.
Three companies (Japan)/ Shandong Vacuum Cleaner Factory	Put into operation plant to produce 500,000 vacuum cleaners annually. $1.39 million. 4/87.

Investments in China

NV Philips (Netherlands)/ Nanjing, Jiangsu	Signed letter of intent to establish joint venture to build factory to produce 1.5 million TV tubes annually. $90 million for equipment and know-how. (Neth:30%-PRC:70%). 1/87.
NA (HK)/Tianjin Radio Factory and Tianjin Economic and Technical Development District Industrial Investment Co.	Established joint venture to build color TV tube factory in Tianjin. $44.8 million. 2/87.

Finance, Leasing, and Insurance

China's Imports

Reuters Holdings Plc (UK)/CITIC Industrial Bank	Will suppy foreign exchange monitoring service. 3/87.

Other

The Mitsui Trust & Banking Co. Ltd. (Japan)/ China Investment Bank, Beijing	Signed agreement to cooperate in trust, banking, and international business. 2/87.
Mastercard International Inc. (US)/BOC	Signed agreement for BOC to join Mastercard. 3/87.
The Industrial Bank of Japan Ltd. and The Bank of Tokyo, Ltd. (Japan)/Communication Bank of China	Signed contract to establish cooperative relations with each company. 4/87.

Food Processing and Food Service

China's Imports

Technoexport Prague (Czechoslovakia)	Signed contract to supply brewery to produce 300,000 hectoliters annually. 12/86.
(Bulgaria)/Qingdao Winery and MLI	Signed agreement to update winery's production technology. 1/87.
Simon-Rosedowns Ltd., subs. of Simon Engineering Plc (UK)/Changsha Fat and Oil Chemical Factory, Hunan	Will supply caustic refining plant for rice bran oil. 3/87.
Alfa-Laval International AB (Sweden)/MACHIMPEX and Tongliao Dairy Factory of Inner Mongolia Autonomous Region	Signed contract to supply baby-food production line to produce 2,000 tonnes of powdered nutriments annually. $1.9 million (SK12.5 million). 4/87.
Toula (Italy)/Beijing International Hotel	Signed agreement to open restaurant; includes training Chinese hotel workers in Italy. 4/87.

Investments in China

Nestle SA (Switzerland)/ China Development and Investment Corp. (Beijing) and Heilongjiang Shuangcheng County Daily Industry Corp.	Established joint venture to produce baby food, milk cereals, and milk powder in Shuangcheng. $14.3 million (SF22 million). 1/87.
The Coca-Cola Co. (US)/ Nanning and Dalian	Will set up new bottling plants. 2/87.
The Coca-Cola Co. (US)/ Shanghai ITIC and Shanghai Food Industry Development Center	Will establish contractual joint venture for bottling plant, beverage base plant, and Coca-Cola concentrate plant. 3/87.

Machine Tools and Machinery

China's Imports

Robertshaw Controls Co. (US)/Nanjing Hotwater Utensils Factory	Supplied safety valve production line. $1 million. 1986.
Sira (UK)/Shanghai General Photosensitive Film Factory	Received order to supply automatic inspection equipment. $477,690 (£300,000). 1/87.
Black Clawson International (UK)	Negotiating contract to construct and equip mill to produce 500,000 TPY of newsprint from pine timber. 3/87.
Clupak, Inc. (US)/Jiamusi Paper Mill, Heilongjiang	Signed license agreement to produce extensive kraft paper. 3/87.
DeVlieg Machine Co. (US)/China Machine-Building International Corp. and Weihai Machine Tool Accessories Works, Shandong	Signed license agreement granting manufacturing and sales rights for tooling systems metal-cutting tools. 3/87.
Ingersoll-Rand International Sales Inc. (US)/International Tendering Co. of CNTIC	Awarded contract to supply six air compressors for World Bank-supported power transmission line project linking Shanghai and Xuzhou. $146,900. 3/87.
Stord Bartz A/S (Norway)/an alcohol plant in Beijing	Concluded contract to supply designs for equipment to purify waste water and produce proteins. $6.5 million (NK45 million). 3/87.

Investments in China

NA (HK)/Guangdong Shunde Agricultural Machinery Factory	Signed cooperation agreement to establish plastic machinery plant to produce plastic injection machines. $2.9 million (HK$23 million). 1/87.
Lik Fung Machinery Co. Ltd. (HK)/Shanghai Measuring and Cutting Tools Factory	Signed joint venture contract to produce milling cutters and dial indicators; annual output of 500,000 and 20,000 items respectively. $2 million. 1/87.
Dori Co. Ltd. (US)/ Guizhou Branch of China Export Commodity Centers Construction Corp.	Reached agreement to coproduce "Jiashang" brand machinery maintenance agent. 4/87.

Medical Equipment

China's Imports

Smith Barney, Harris Uphom & Co. Inc. (US)	Received order for ambulatory ECG system. $500,000. 12/86.

Investments in China

(Japan)	Established Changbaishan Ginseng-Antler Medicine Co. Ltd. joint venture. 2/87.
(Belgium)/Science and Technology Commission	Exchanged letters of intent to build and manage joint biological technology center. 3/87.

Sover (Italy)/a spectacles factory in Suzhou	Signed agreement to establish Sisco joint venture to produce 700,000 glasses frames annually. $1 million. (50-50). 3/87.

Metals, Minerals, and Processing Technology

China's Imports

Krupp Industrietechnik (FRG)	Received order for mill to manufacture 60,000 tonnes of copper rod annually. 12/86.
Hitachi Zosen Corp. (Japan)/Baoshan Steelworks	Will provide 4.5 million TPY sintering facility including design, equipment, and technical guidance. $33 million (J¥5 billion). 2/87.
Lazaro Cardenas las Truchas Steel Mill (Mexico)	Will supply 280,000 tonnes of steel in 1987. 3/87.
Mitsui Aluminum Co. Ltd., Ryoka Light Metal Industries Co. Ltd., and Sumitomo Light Metal Industries Ltd. (Japan)	Negotiating agreement to supply aluminum refining equipment. $99 million. (J¥15 billion). 4/87.
Outokumpu Oy (Finland)/Zhengzhou Cable Works	Supplied line to produce continuous current-bearing copper wire. $1.2 million (DM2.2 million). 3/87.

Investments in China

Chilean Wrought Copper Co. (Chile)/Beijing Nonferrous Metals Industrial Corp. and Beijing No. 1 Copper Tube Factory	Signed agreement to establish Beijing-Santiago Copper Tube Co. joint venture to build copper tube factory. $9.93 million (Chile:20%-PRC:80%). 4/87.

Other

Kawasaki Steel Corp. (Japan)	Began feasibility studies for site of new steelworks; considering sites at Shijiusuo (Shandong), Ningbo (Zhejiang), and Tianjin. 3/87.

Military Equipment

Nationale Industrielle Aerospatiale, Ste. (France)/Peoples Liberation Army	Signed contract to supply 8 anti-tank helicopters and several anti-tank missiles. $29.5 million (FF180 million). 4/87.

Mining Equipment

Troester KG (FRG)/MOCI	Put into operation line to produce specialized cables for mines. $1.25 million. 3/87.

Packaging Materials

China's Imports

Lansmont Corp. (US)/NORINCO	Received orders for eight laboratory packaging test machines and associated computer-based control systems. $650,000. 2/87.

Other

Tulsa Globe Trade Foundation Inc. (US)/Chinese Economic System Restructuring Research Institute	Chinese and US companies will participate in symposium in Tulsa, Oklahoma to improve design, packaging, and quality of products for international market. 3/87.

Petroleum, Natural Gas, and Related Equipment

China's Imports

A/S Roulunds Fabriker (Denmark)/Weizhou Oilfield, Zhanjiang	Awarded tender to supply oil pollution prevention equipment. 2/87.

Investments in China

Gaz de France (France)	Has 5-year cooperation agreement to train 60 Chinese gas engineers in natural gas technology in France. 1/87.
Eastman Christensen (US)/Sichuan Petroleum Administration Bureau	Signed agreement to establish ChuanShi Christensen Diamond Bit Co. joint venture in Chengdu to manufacture and market natural and polycrystalline synthetic diamond and drilling coring bits. (50-50). 2/87.
Japan Petroleum Exploration Co. Ltd., Esso China Ltd., Shell Exploration (China) Ltd., Texaco Petroleum Maatschappij (Netherlands), BP Petroleum Development Ltd. (UK), Amoco Orient petroleum Co. and NA/CNOOC	Signed eight contracts with 15 companies to explore blocks in Pearl River Mouth and South Yellow Sea. 3/87.

Pharmaceuticals

Investments in China

Merlin Gerin SA (France)/three partners	Established Tianjin Merlin Gerin Co. joint venture. (France:45%-PRC:55%). 3/87.

Power Plants and Equipment

China's Imports

Meta Service Inc. (US)/International Tendering Co. of CNTIC	Signed contract to supply 20-tonne cable crane, special tools, and spare parts for World Bank-supported Yantan Hydroelectric Power Project. $6.1 million. 10/86.
Philips Industries Inc. (US)/MWREP	Received order for system to monitor large turbines in 20 fossil-fueled power stations. 10/86.
Mitsubishi Heavy Industries Ltd. (Japan)/CNTIC	Signed contract to supply coal handling system for World Bank-supported Beilungang Thermal Power Project. $26.3 million. 1/87.
Marubeni Corp. (Japan) and United Conveyor (US)/CNTIC	Signed contract to supply ash handling system for World Bank-supported Beilungang Thermal Power Project. $7.3 million. 3/87.
Trench Electric (Canada)/International Tendering Co. of CNTIC	Signed contract to supply 24 sets of current limiting reactor for World Bank-supported project to construct power transmission line linking Shanghai and Xuzhou. $68,072 (C$89,800). 3/87.

Investments in China

(FRG)	China proposed cooperation in search for and processing of uranium fuel for nuclear power stations; includes possibility of FRG firms investing in plant, taking part in production, or cooperating with Chinese partners. 1/87.
ASEA AB (Sweden)/MWREP	Signed letter of intent to cooperate in establishing Sino-Swedish power transmission development center for high-voltage transmission. 4/87.

Printing Equipment, Publishing, and Broadcasting

Investments in China

Cable News Network (CNN) (US)/CCTV	Signed agreement to air reports in exchange for advertising time and permission to establish news-gathering bureau in Beijing. 2/87.
Ministry of Communications (Canada)/Ministry of Radio, Cinema, and Television	Signed agreement to coproduce films. 2/87.
MGM/UA Entertainment Co. (US)/CCTV and China Film Export-Import Corp.	Signed agreement for MGM/UA to join previously announced Paramount/Universal venture to release movies in China (*see The CBR*, May-June 1987, p. 59). 3/87.
Pergamon GED International (US-UK joint venture)/CCTV and CITIC	Signed agreement to coproduce 52 half-hour programs entitled "What's New" to introduce new Western ideas in science and technology. 3/87.

Other

GTE Directories (HK) Ltd./China Telephone Directory Corp.	Signed contract to appoint GTE as exclusive agent for worldwide advertising and sales for CTD. 1/87.
NBC News (US)	Signed agreement to air 12.5 hrs. of program from mainland for five days beginning Sept. 28. 2/87.
Brazilian News Enterprise (Brazil)/Xinhua News Agency	Signed agreement to exchange wire services. 4/87.

Property Development and Property Management

China's Imports

Seylla Corp. Ltd. (HK)/China Sports Service Corp.	Constructing Olympic Hotel in Beijing. 3/87.

Investments in China

All Nippon Airways Co. Ltd. (Japan)/Xiyuan Hotel (Beijing) and BOC Beijing Trust & Consultancy Group	Signed contract to establish Beijing New Century Hotel Co., Ltd. joint venture in Beijing to build and operate hotel/office complex. Capital: $19.25 million. (Total investment expected to reach $80 million by completion in 1989). (ANA:40%-PRC:60%). 1/87.
Asbee Corp. (US)/TK	Signed final contract to build Old Dragon Head Resort Village. (US:70%-PRC:30%). $50 million. 1/87.
Takenaka Komuten Co. Ltd., Japan Airlines Co. Ltd., and Japan Airlines Development Co. Ltd./Diplomatic Personnel Service Corp., Beijing	Signed contract to establish joint venture to expand and upgrade International Club in Beijing. 1/87.
Chalon Corp. (Japan)/CAAC, Shanghai Branch	Held ground-breaking ceremony for joint venture Shanghai International Airport Hotel. 2/87.
SARA AB (Sweden) and Puloimatka (Finland)/NA	Formed joint venture company to construct and manage new hotel in Beijing; SARA will manage and own hotel and Puloimatka is responsible for construction. SARA investment: $1-$2 million. 3/87.
Elena Yee (US)/Guangzhou	Signed letters of intent to open a joint business with Beiyunshan Pharmaceuticals Factory, invest in building apartments for overseas Chinese in Guangzhou, and provide financial aid for 120 Guangzhou students to study in US. 3/87.

Other

(Sweden)	Signed agreement to manage and operate Beijing Huaqiao Mansion. 4/87.

Scientific Instruments

China's Imports

Beckman Instruments, subs. of SmithKline Beckman Corp. (US)/State Education Commission	Signed contract to supply science laboratory equipment for World Bank-supported Provincial Universities Project. $1 million. 11/86.
China Resources Machinery Co. Ltd. (HK)/State Education Commission	Signed contract to supply chemistry instruments for World Bank-supported Provincial Universities Development Project. $1.6 million. 11/86.
Wako Koeki Co. Ltd. (Japan)/State Education Commission	Signed contract to supply chemistry instruments for World Bank-supported Provincial University Development Project. $2.2 million. 11/86.
Wako Koeki Co. Ltd. (Japan)/State Education Commission	Signed contract to supply chemistry instruments for World Bank-supported Provincial University Development Project. $2.3 million. 11/86.
Western Japan Trading Co. Ltd. (Japan)/State Education Commission	Signed contract to supply chemistry instruments for World Bank-supported Provincial University Development Project. $1.1 million. 11/86.
Thermo Instrument Systems Inc. (US)/Anshan Iron and Steel Complex	Received order for 7 computer-controlled environmental monitoring systems. $1 million. 1/87.
General Scanning Inc. (US)/Dongjiang Electronics Factory, Guangdong	Signed contract to supply galvanometer for use in oscillograph recorders. $2 million. 3/87.
Jobin et Yvon (France)	Received order to equip 13 universities with monochromatography and optical spectroscopes and to train technicians and engineers for World Bank-supported Provincial Universities Development Project. $819,054 (FF5 million). 3/87.

Investments in China

International Image System Corp. (US)/Oriental Scientific Instruments Import-Export Corp. of Chinese Academy of Sciences	Established service center in Beijing to service image processing hardware and software. 3/87.
Ludwig Krohne GmbH & Co. (FRG) and Altometer Co. (Netherlands)/Shanghai Guanghua Instrumentation Factory	Opened Shanghai-Guanghua Altometer Instruments Co. Ltd. joint venture in Minhang SEZ to produce magnetic inductive flowmeters. 3/87.

Shipping

China's Imports

Norcontrol Surveillance Systems (Norway)/Ministry of Communications and Qingdao HarborReceived order for vessel traffic management system. 1/87.

North East Shipbuilders, div. of British Shipbuilders (UK)/COSCO	Negotiating contract to supply boxships. $63.7 million (£40 million). 1/87.
Japan Marine Machinery Development Association and Sumitomo Heavy Industries Ltd. (Japan)	Awarded contract to provide basic design and conduct tank tests on 5,000-tonne-deadweight tanker for Yangtze River transport. 3/87.
Norcontrol Automations A/S (Norway)/Dalian Shipyard	Signed contract to supply automated computer systems for shuttle tanker. 3/87.
Govan Shipbuilders Ltd., subs. of British Shipbuilders (UK)/COSCO	Awarded contract to build two 46,000-tonne containerships. $71.7 million-$79.6 million (£45 million-£50 million). 4/87.

Investments in China

Paceco Corp. (US)/Dalian Port	Signed cooperation agreement to manufacture and erect two ship-to-shore container cranes and two container-stacking gantries. 2/87.
Takenaka Komuten Co. Ltd., Takenaka's civil engineering subs., and Marubeni Corp. (Japan)/Ministry of Communications	Established joint venture to build container ship pier at Tianjin port. $23.1 million (¥85.9 million). 4/87.

Telecommunications

China's Imports

GTE Corp. (US)/Zhihua Corp.	Signed letter of intent to supply digital switching system for northeastern China. 12/86.
SPAR Aerospace Ltd. (Canada)/MOPI and MLI	Signed contract to supply 23 earth stations. 12/86.
American Telephone and Telegraph Co. (US)/Wuhan, Hubei	Put into operation digital switching system. 2/87.
Motorola Inc. (US)/Shanghai ITIC	Received order for cellular system. 2/87.
Northern Telecom Canada Ltd./Beijing Telecommunication Administration and Beijing Foreign Trade Commission of China	Signed contract to supply automatic call distributor system for directory inquiries. 2/87.
GEC Telecommunications Ltd. (UK)/Guangdong	Received order for digital telephone exchanges. 3/87.
Ericsson Radio Systems AB (Sweden)/Beijing Tourist Car Co.	Put into operation mobile land radio system. $2.2 million. 4/87.

Investments in China

Nitsuko Ltd. (Japan) and Huadian Investment Co. Ltd. (HK)/Beijing No. 3 Radio Factory and Beijing Electronics Import-Export Co.	Negotiating to establish joint venture factory to produce 50,000 electronic telephones and 2,000 internal extension sets annually. $1.8 million. (JPN:40%-HK & PRC:60%). 3/87.

Other

American Institute for Cancer Research and Cornell University (US)/Chinese Academy of Preventive Medicine, Beijing	Supplied facsimile machine to provide direct transmission of research data between the Academy, Cornell, and Oxford University (UK) for joint research. 2/87.

Textiles and Textile Plants and Equipment

Asko Deutsche Kaufhaus AG (FRG)	Signed contract to establish joint venture to produce textiles. 2/87.

NA (Japan)/Yangzhou General Fur and Leather Clothing Factory, Jiangsu	Established coproduction workshop to produce 40,000 pieces of down and polyester-and-cotton blended clothes annually. 3/87.
NA (US)/Tianjin Button Factory	Signed contract to establish joint venture to produce 300 million unsaturated polyester resin buttons annually. 3/87.
Far-East Commerce Consultative Co. Ltd. (US-HK joint venture)/Yangzhou General Fur and Leather Clothing Factory, Jiangsu	Established Yangzhou Yuanyang Case Co. Ltd. joint venture. 3/87.
Tootal Group Plc (UK)/Guangzhou No. 2 Textile Mill	Opened Guangying Yarn Co. joint venture textile mill to produce 2 million kilograms of industrial polyester sewing thread annually. $10.8 million. (50-50). 3/87.

Transportation and Transportation Equipment

China's Imports

All-Union Energomasheksport Association (USSR)	Signed contract to supply railway freight wagons. 2/87.
Komatsu Ltd. (Japan)/China National Heavy Machinery Corp., First Heavy Machinery Works, Shanghai Heavy Machinery Plant, Taiyuan Heavy Machinery Plant, and Qiqihar No. 2 Tool Plant	Signed technology transfer agreement to provide technology to manufacture large presses used in motor vehicle production. 2/87.
Selective Electronic, Inc. (US)/Anhui, Guilin, Qingdao, and Chongqing truck tire manufacturing plants	Will supply four continuous profile scanning systems. 2/87.
Dunlop Aerospace Group (UK)/CAAC	Received order for 6 Boeing 757 aircraft with wheels and brakes. 4/87.

Other

Yuasa Battery Co. Ltd. (Japan)/a battery factory in Shenyang, Liaoning	Concluded agreement to produce car batteries, with Yuasa providing technical guidance. 1/87.
Australian Development Assistance Bureau/Shenyang, Fushun, Benxi, Liaoyang, Anshan, Yingkou, and Dalian	Signed memorandum of understanding for aid package to provide engineers, technicians, and equipment for river basin management study in preparation for water and waste water projects; and traffic and transport studies in Shenyang, Anshan, and Fushun. (All projects have World Bank endorsement and will take three years to complete.) 3/87.

Miscellaneous

China's Imports

Synergetics International Inc. (US)	Received order for flood management system for Daning and Yuzixi river basins of Yangtze. $250,000. 3/87.

Investments in China

(FRG)	Signed agreement to jointly run center in Tianjin to train teachers, managers, and technicians for cooperation enterprises and projects in fields of machinery and electronics. FRG:$13.6 million (DM25 million) as financial loan and $5.5 million (DM10 million) as donation. 2/87.
(Japan)	Established joint venture economic information center in Beijing to provide information and consulting services on investment and joint ventures in China. $2 million. (50-50). 2/87.
Foreign Ministry (Italy)	Signed 3-year cooperation agreement to develop energy, transport, and chemical projects. Italy: $190 million. 2/87.
Amerex (US)/Ministry of Light Industry	Formed Sino Development Corp. joint venture. 4/87.
Kowin Development Corp. and Simonds Cutting Tools Co. (US)/Beijing Steel File Co.	Put into operation Beijing Kowin-Simonds Steel File Co. joint venture to produce 10 million industrial and consumer steel files annually. 4/87.

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