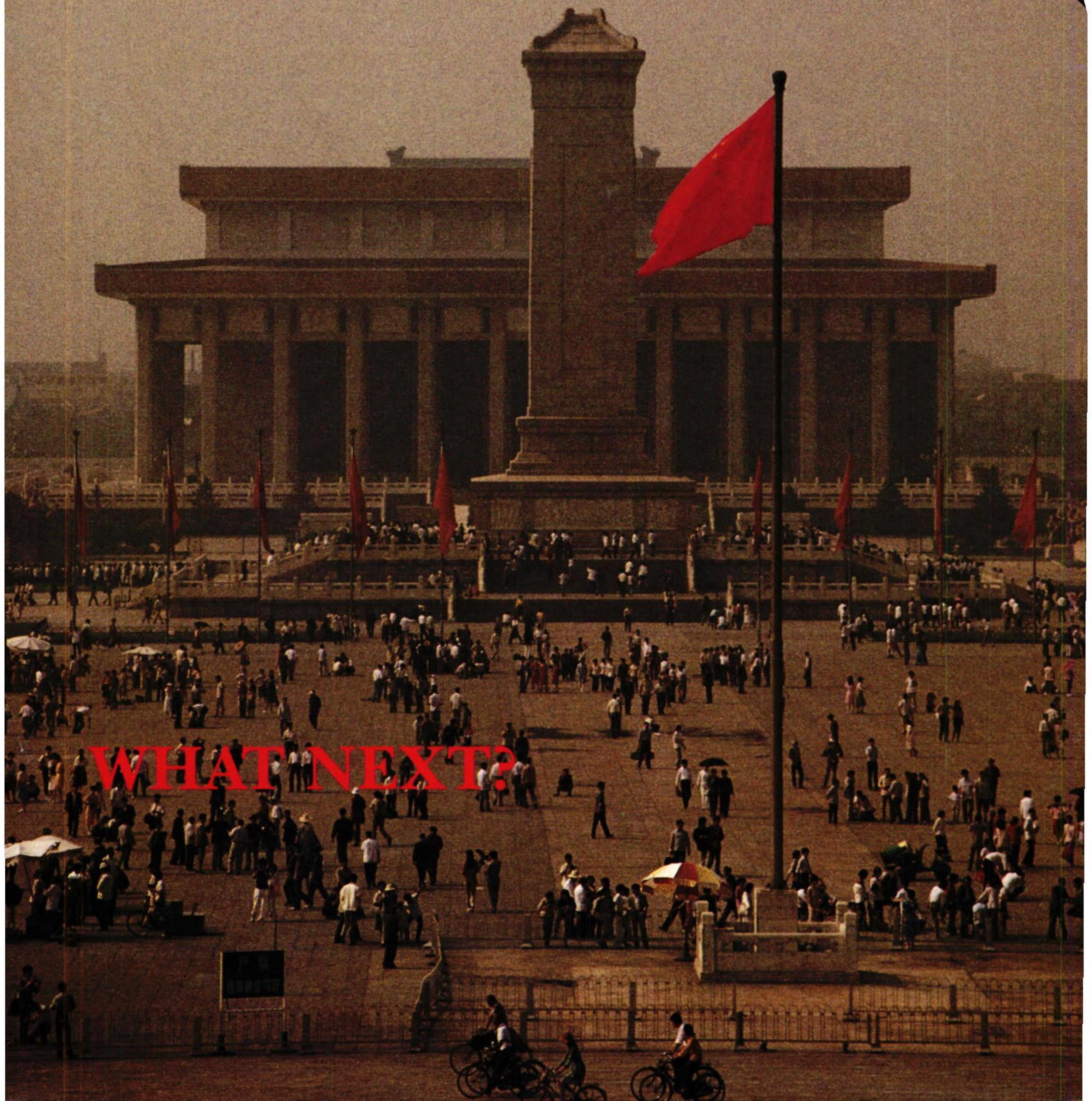
The China Business Review

July–August 1989

SPECIAL REPORT: Business Reacts



The China Business Review

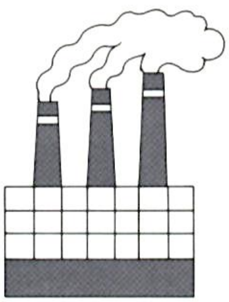
The magazine of the US–China Business Council

July–August 1989 Volume 16, Number 4

Cover: Tiananmen Square, Beijing, before the turmoil. *Photo by Dennis E. Cox.*

Council activities: Members had much to discuss at the annual meeting.

Importer options: Getting closer to the source.



EDITOR'S NOTE

This is not the issue we were planning to publish. Like all other China-related business operations in recent weeks, *The CBR* staff has seen months of plans, expectations, and effort devastated by the course of current events in China. In the days following the massacre in Tiananmen Square, the articles originally planned for this issue—focusing on China's tourism industry—came to seem ironic, and finally, tragically inappropriate. Instead, we now offer, in addition to our regular departments and several still-relevant features, a special report on how US companies are reacting to the current situation as well as what they are thinking about the future.

The responses vary widely, as companies find themselves affected differently depending on the nature, duration, and scale of their China business, as well as the region in which it is conducted. Some have found their work disrupted; others have operated smoothly throughout the turmoil, but virtually every company must now undertake a major reassessment of the China business environment. In a companion article, Council President Roger W. Sullivan analyzes some of the signals—those already seen and those anticipated—that point the way toward China's future and its relations with the outside world. In the Council activities department, readers will also find an account of the ideas and issues discussed at the Council's 16th annual membership meeting, held in Washington, DC in June, where nearly 300 representatives of member companies recounted both immediate experiences and long-term speculations.

As business trends become clearer, *The CBR* and Council staff will work to clarify the long-term impact of the political upheaval on China's economic development, international political relationships, and foreign business.

Departments

HOLDING UP THE SKY?

Social, political, and economic equality of Chinese men and women—whom Mao Zedong once proclaimed "hold up half the sky"—has long been a central tenet of the Chinese Communist Party, which has prided itself on the high number of women in the Chinese workforce—currently about 100 million between State and town enterprises and private business, or 37 percent of the total workforce. While Chinese women have prospered over the past decade through the greater employment opportunities offered by economic reforms, increasing competitive pressures on newly self-sufficient enterprises are eroding women's status in the workforce.

As thousands of Chinese enterprises strive to maximize profits, they are ridding their ranks of excess labor—and most of these workers are women. Generally less educated than men, Chinese women often hold the redundant jobs created in years past to guarantee full employment. A survey conducted by the Chinese journal *Chinese Women* indicates that about 70 percent of all employees released in job rationalization drives are female.

Although streamlining the labor force is inevitable if China is to make its economy more responsive to market forces, it is also being accomplished through blatant sexual discrimination on the part of many employers. More and more, enterprises and even scientific institutes are refusing to hire qualified women, claiming that they are more costly than men to employ because they are likely to request time off to bear and care for children. Some enterprises, however, don't even bother to veil discriminatory practices in economic terms. One factory director, for example, told the *China Women's Journal* that he would "rather spend ¥10,000 on a robot than recruit a woman." Company representatives at a March job fair at Shanghai's Fudan University stated that they wouldn't hire women simply "because they are women." Members of a laser research institute first pulled strings to have assigned to their institute the author of an outstanding thesis, only to reject the student when they discovered she was female. And teachers in charge of helping students find jobs at Beijing's Foreign Studies University reported that 12 male students who failed to get a diploma because they failed their final exams in the English department all found jobs much more easily than superior female classmates.

Charges that women are more costly to employ are not totally unfounded. Under China's longstanding "iron rice bowl" system, which requires the work unit to take care of virtually all an individual's needs, an employer has traditionally had to pay a woman's medical bills and salary for the two to three months of maternity leave she is legally permitted. Within the last six months or so, however, several cities have adopted new collective arrangements to ease the burden of maternity costs on enterprises. In Anshan City in Liaoning Province, for example, employers of both parents share medical costs and maternity leave benefits. In Jiangsu Province's Nantong City, ¥20 per employee is collected annually from each enterprise to fund a "maternity pool" for female workers. Similarly, in Zhuzhou City, Hunan Province, each enterprise is asked to turn in .5 percent of its payroll for the "birth fund." Although the programs are new and limited in scope—the Anshan system does not apply to government organizations, for instance—by setting a flat contribution rate for each enterprise, those with more female employees do not bear undue costs.

Enterprises are also encouraging female employees to modify their work habits, by allowing (and encouraging) them to take up to seven years maternity leave, during which they are to be paid 50-75 percent of their base salaries, and to retire at age 40 (the present retirement age for women is 55). Although such a system may appear to give women more flexibility by permitting them to raise their children and return unhindered to the workforce once the child has entered primary school, recent reports indicate that many enterprises are paying only a fraction of the sum owed their female employees, some are not paying at all, and many of them actually dismiss the women once they take their leave. Even if the factory doesn't dismiss them outright, an absence of seven years will easily render a worker obsolete and uncompetitive in a country modernizing as quickly as China. Growing ranks of women, therefore, are losing their economic independence—hardly the socialist ideal.

Aside from the obvious challenge these problems pose to China's social and political well-being, they also bode ill for the success of economic reforms. China needs a better educated, sophisticated workforce to enhance productivity and economic modernization—yet the number of females enrolled in primary education is declining. Moreover, the success of reforms depends ultimately on China's ability to reduce the rate of population growth. But if current trends continue to erode women's ability to support themselves, they will rely—as they traditionally have—on their children. And when children must serve as economic resources, one is not enough. — PB

GAMES FACE HIGH HURDLES

The Asian Games are one year away, and Beijing is scrambling to finish construction and other preparations before a total of 10,000 athletes, fans, and media representatives descend on the city in October 1990. This is China's debut as host of a major international sports competition, and officials hope it will burnish their country's international image just as the 1988 Olympics brightened South Korea's. A gold-medal hosting performance would also put Beijing in contention for an Olympic bid in the year 2000.

Chinese newspapers reported in April that more than 60 percent of the building or renovation of sports facilities for the games has been completed. Eight of the seventeen new facilities to be built throughout Beijing are now finished, along with much of the renovation on 11 additional sites, which together will house competitions in 27 sports. While some facilities have been completed ahead of schedule, it will be difficult for Beijing to keep up the pace—and perhaps to finish the job at all.

Lack of money is the chief hurdle. The government has already poured ¥600 million into the project, only to discover that the 1985 original cost estimate of ¥700 million has been outdated by rising raw materials prices and renminbi devaluation. The State now figures the actual cost will total around ¥2.4 billion, and has begun a fundraising campaign to make up the gap. So far, sizable donations include $13 million from Hong Kong developer Henry Ying Tung Fok and over $5 million from the All China Self-Employed Businessmen's Association—though these gifts amount to not quite half the funds needed.

The State has also exempted tax payments on building materials to be used in the games, and the Customs Administration has canceled duties on imported goods for the project. But more significantly, Chinese authorities are tapping Western promotional methods in their drive to solicit both cash and vital equipment, granting exclusive licenses to manufacturers to produce "official" souvenirs and selling promotional space at the site of the games.

A number of foreign companies have seized such opportunities. The Rado Watch Co. Ltd of Switzerland, for example, has earned the right to the title "official timekeeper of the Asian Games" by providing software and output terminals for data handling along with timing and scoreboard equipment. Several computer companies are also jockeying for the right to supply the games. Unisys Corp. leads the pack with a $4 million, 1987 deal for a computer system, and China Hewlett Packard weighed in last January with a reported $500,000 donation of various computer equipment. EDS is also reportedly considering a games-related deal. Other foreign-supplied technical equipment includes a $44 million media center sold by Rothwell Ltd. of Australia, and $3.5 million worth of digital telecommunications switching equipment donated by Canada's Northern Telecom Ltd.

But foreign participation doesn't stop there. M&M Mars, Inc. of the United States has signed on as a sponsor and will provide M&M's chocolates to attendees. And in the spirit of inter-Asian cooperation, a Sino-South Korean joint venture, Nara Advertising Inc., has bid to become the games' official billboard agent.

Even with cash—and sponsors—in hand, however, essential construction materials for the sports facilities and athletes' village are proving hard to come by. Early this year, projects related to the games were designated top-priority recipients of scarce construction materials. Various stern directives have been issued in recent months to both contractors and municipal authorities, urging them to stop squabbling over materials and energy resources and get the job done—and warning that those whose work falls behind schedule or fails to meet quality standards will be severely punished. What effect the current political turmoil will have on China's ability to pull off the games remains to be seen, but unless everything is completed on schedule and the events go off flawlessly, Beijing may find that its efforts produce more losers than winners—no matter how many medals Chinese athletes take home. —SER

CORRECTION

The third sentence of "Licensed Competition" in *The CBR,* May-June 1989, p. 4, was incorrect and should have read as follows:
"Civilian enduse goods with potential military applications that are sold by US companies are subject to a domestic national security review system managed by the US Department of Commerce and a multilateral security system through the Coordinating Committee for Multilateral Export Controls (COCOM)."

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The China Business Review welcomes articles from outside contributors. Manuscripts submitted for consideration should be typed, double-spaced, and normally may not exceed 5,000 words. They should be sent to the editor, *The China Business Review*, Suite 500, 1818 N St., NW, Washington, DC 20036-5559, USA (telephone 202-429-0340). The China Business Forum retains all rights to articles and artwork published in *The China Business Review*.

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Singer's Back in Town

Felicia Hwang

Singer sewing machines have long been known in China, where the first company opened an office in 1883. Even the Empress Dowager had an "iron tailor," as sewing machines were called—a gift from Singer. Singer came to dominate China's sewing machine market after the 1911 revolution, when Western clothing styles came into vogue. By the 1930s, Singer China had opened branches in Shanghai and Guangzhou. But the company had to close down its China operations in 1941, after the Japanese occupation.

Singer hopes the Guangdong factory will become one of its biggest.

Stripped of its China market, Singer nevertheless went on to establish a strong retail sales network in Asia, employing 9,000 sales representatives and operating factories in Thailand, India, Indonesia, Japan, and Taiwan. Beginning in 1987, sales and servicing of industrial Singer machines returned to China with Singer Nikko, a joint venture between Japan Steel Works and SSMC Inc., Singer Sewing Machine Co.'s parent.

Now SSMC is back, with a joint venture in Guangdong Province called Singer-Hua Nan that the company hopes will regain a share of China's huge domestic market for traditional-design sewing machines. The venture with Hua Nan Sewing Machine Co. Ltd. is not just a China operation, however. The $9.7 million joint venture (51 percent SSMC), which began operating in March 1989, will be a launching pad for Singer sales to the large tailor and artisan markets in Africa and the Middle East as well as to Europe, Asia, and North America. The joint venture also plans to export sewing machine parts to smaller Singer factories throughout the world. Ultimately, SSMC plans to build Hua Nan into one of its biggest manufacturing facilities.

Introducing a new model

The joint venture's Guangdong location has made it possible for SSMC to avoid disruptions in manufacturing during China's period of political upheaval. SSMC Manufacturing Group President John F. Naylor says that no changes are planned at the Singer-Hua Nan facility, and the factory's three expatriate managers have not left China. "Everything has been and is normal," Naylor says, adding that supply and production in Guangdong apparently have been little affected by recent civil strife.

Initially Singer-Hua Nan, which employs 340 workers, will build a sturdy, traditional model—the 15 Ch manual straight-stitch machine—using 90 percent locally sourced components. Of the targeted 250,000 annual production, 50,000 will be sold in China and the rest exported to Africa and the Middle East. The joint venture will also produce 50,000 191 Ch motorized straight-stitch tailor models for sale in China, which are faster, more reliable machines with backup treadles that can be used during power outages. At the outset, two-thirds of the machine components will be sourced locally. However, within a year SSMC plans to find a local source for imported motor controller sets.

At the top of the Singer-Hua Nan venture's product line will be 100,000 modern zigzag machines, with half pegged for export to Europe, Asia, and the United States, and the rest for the domestic Chinese market. Singer is gradually establishing sales and service centers throughout China, where repair shops are not equipped to service the comparatively sophisticated zigzag models. SSMC plans eventually to establish traveling sales and service teams.

As in Brazil, Japan, Taiwan, and Italy, where Singer operates large sewing machine factories, a sizable domestic market makes China an economically attractive base for export manufacture. Local sales will provide a volume base to support quality control and administration, providing for a competitively priced product. The joint venture will also export assembly kits to its smaller factories around the world. Exports should help the venture generate a positive foreign exchange balance. According to the joint venture agreement, SSMC can repatriate 70 percent of its share of Singer-Hua Nan profits at the end of each year. Over

Felicia Hwang recently completed an internship with The CBR.

the long term, SSMC expects the Guangdong facility to become one of the world's largest sewing machine factories.

Money matters

The new joint venture is the result of two years of negotiations that were not always smooth. After extensive research into other factories, SSMC decided to approach Hua Nan because of General Manager Shao Hua's aggressive style. After reaching agreement on cooperation in principle, Singer and Hua Nan engaged in extensive negotiations over export commitments and the renminbi (RMB) and dollar values for assets contributed by the partners to the venture. As part of their effort to evaluate assets, Chinese management personnel traveled to Brazil to assess SSMC equipment that would be imported to the joint venture.

Compensation rates for Chinese personnel formed one of the negotiations' trickiest sticking points. The Chinese wanted 60 to 70 percent of a US expatriate manager's salary for local deputy managers—far above the domestic pay scale. Furthermore, most of the wages would go not into employees' pockets but to the local labor bureau or another government organization. The Chinese ultimately settled for wages closer to the standard rate and not tied to US expatriate managers' compensation. Another dispute over the right to appoint a general manager was resolved by assigning that right to SSMC for the first 10 years of the 30-year contract. Naylor, assisted by Vice President of Manufacturing John Percival, led the negotiating team, occasionally aided by technical and legal specialists.

Workers at the Guangdong factory prepare to ship straight-stitch models.

The joint venture will receive active support from other SSMC factories in the United States and Brazil. SSMC plans to bring Chinese engineers and quality control personnel to the company's largest factory, in Brazil, for training, and SSMC employees in Asia will help train sales, repair, and service personnel for the new Singer service network being established in China. In addition to repairs, Singer-Hua Nan shops will offer sewing lessons and promotional sewing patterns to customers. The joint venture will open shops throughout the country, initially as outlets for its sewing products but eventually to include a large range of Singer products, duplicating retailing strategies that have succeeded in other Asian countries.

SSMC hopes Singer-Hua Nan will help reestablish the Singer reputation for quality and service in China, especially with the younger generation less familiar with the Singer brand. In Chinese, the ideographs Singer chose to represent its name, pronounced *sheng jia*, mean "family bestowed with success." SSMC is betting the company will make good on its name.

A Government in Transition

Roger W. Sullivan

Over two years ago I had a conversation with a senior Chinese government official, the importance of which did not become fully apparent to me until the extraordinary events of the past several weeks in China. We had been talking about economic development and reform, and he asked if Americans were concerned about what might happen after Deng Xiaoping passed from the scene.

I gave the polite answer about how impressed we were that Deng was aware of the problem and was undertaking, with apparent success, to effect a smooth transfer of power to a new generation while he was still in control. The official waved my answer aside and said that a smooth transfer of power was impossible. You cannot give power and withhold it at the same time, he said, but that is what Deng is doing. No designated successor can develop credibility or authority in his own right under such circumstances. Therefore, the official concluded, there can be no smooth transition; instead there will be a period of weak and unstable government perhaps lasting as long as 10 years, until the next generation is able to produce credible leadership.

I was reminded of this conversation when I read that one of the Beijing demonstrators was carrying a sign saying, "Our Gorbachev is still in school; all we have now is a bunch of Brezhnevs."

This story sums up my conviction that we are facing a period—perhaps a lengthy period—during which China will be ruled by a weak and discredited government in transition. But the conversation also highlights the question: Why didn't I or, anyone I told that story to at the time, pay more attention to the official's startling and prophetic statement? The hard answer is that it did not fit our hypothesis, so we simply filtered it out.

We must, of course, deplore the suppression and wanton killing of the demonstrators and find appropriate ways to respond. But we must also resist the temptation to respond emotionally. It would be unwise to take any actions which would undermine our long-term interests or those of the people of China whom we wish to support.

This is not an indictment of analysis but simply a realistic reflection on its limits. Analysis deals with probabilities, with likely scenarios. Therefore, analysts are consistently being surprised by apocalyptic events because such events are, by definition, improbable. This is true whether we are talking about stock market crashes, earthquakes, sudden death, or cataclysmic political occurrences. The events we recently have witnessed in China, culminating in the bloody suppression and subsequent wave of highly publicized arrests were not only improbable—they were the worst-case scenario.

Roger W. Sullivan is president of the US-China Business Council.

New questions—no answers

How has our understanding of China changed in the past few weeks? What might the new situation mean for the future of reform and China's commercial relations with the United States? First, we must be clear about what the new situation is—or at least about what it isn't. Premier Li Peng is not in charge. Deng Xiaoping is in charge. Deng Xiaoping has come out of semi-retirement or feigned retirement to assert direct, personal control over the party and the government. Li is playing the role of a useful, but I suspect dispensable, lieutenant. So stay tuned; there are more events to unfold in China. While we await the aftershocks, however, there are some useful observations to be made.

We have learned a lot in the past few weeks. Several assumptions about China have been shown to be false. I have already alluded to the first: that succession would be smooth, because Deng had already transferred everything but control over the military, and this final step was imminent. Now we learn of a secret 1987 party resolution giving Deng final authority over important decisions. So everyone in the leadership knew that the transfer of power to Zhao Ziyang and Li Peng was a sham, and that therefore there would indeed be a leadership struggle after Deng's death.

A second false assumption, also known to be false within the Chinese leadership, was that the leadership was basically united on reform, differing only on questions of pace and timing. We now know that the leadership is seriously fractured—how seriously we will learn only after we see how deep the purges are going to go and whether structures associated with reform, such as the Commission on the Reform of the Economy, will be purged along with the people associated with Zhao Ziyang.

History repeats itself

Most of us already knew that the leadership in China is made up of factions in which personal loyalty and preservation of the faction's power position is of paramount importance. We assumed incorrectly, however, as apparently did the leadership itself, that Chinese society was more willing than it has now shown itself to be to tolerate such a ruling structure.

What disturbs and surprises many who thought they knew Deng is that when the limits of popular tolerance became apparent, Deng chose the route of suppression rather than accommodation. We shouldn't have been surprised. As Deng and the old leadership have made clear by word and deed over the years, the first priority of the ruling factions is—and must always be—a single-minded concern to maintain control without regard for what they perceive as short-term costs to the economy or to the country's reputation abroad. And what they mean by control—the preservation of power for themselves, their followers and their children—the demonstrators call corruption. And so not only is the leadership fractured, the society as a whole is fractured, and the split between the leaders and a wide cross-section of Chinese society has become so wide as to be perhaps unbridgeable.

Finally, there has been a broadly shared view among China analysts that the policy of reform was irreversible. Under certain circumstances, it was thought, reform might slow down or even stall, but it had gone too far and had developed too much momentum to stall for long. It certainly would not go into reverse. That consensus assumption was clearly wrong. We are seeing the clock turned back. The only question is how far back and for how long.

Strains on relations

What does all this mean for US-China relations and commercial relations in particular? Government-to-government relations will clearly be strained. The executive branch will try to minimize the damage, as President Bush's repeated statements expressing hope of a return to reform suggest, but there will be continuing strong pressure from both conservative and liberal members of the Congress to impose sanctions or cut ties as a way of expressing disapproval of the suppression of the demonstrations and of the executions of citizens associated with them. The president has taken a position which I believe we should strongly endorse: We must, of course, deplore the suppression and wanton killing of the demonstrators and find appropriate ways to respond. But we must also resist the temptation to respond emotionally. It would be unwise to take any actions which would undermine our long-term interests or those of the people of China whom we wish to support.

Pressure from Representative Solarz and Senator Helms to impose sanctions will undoubtedly continue, but the support that leaders of both parties have given the president on this issue increases my confidence that cooler heads will prevail, and that the United States is not going to take any precipitate actions to cut ties, sacrifice our strategic interests, or give our political and economic competitors a free ride in China. Nevertheless, the relationship in many of its aspects will be on hold for some time, and forward movement will be impossible.

Keeping channels open

Looking toward the longer term, virtually all analysts agree that China will once again have a responsible, pro-reform leadership. Optimists say we will see this in a matter of months. I regretfully conclude that it may be several years. There may be nothing we can do to speed that day, but we can and should—even during this transitional period—look for ways to support and supplement the government's efforts to rebuild the shattered relationship. Government is going to find it difficult not only because of congressional pressure to downgrade relations, but also because the new strain in the relationship will tend to politicize every conversation between officials of the two governments. This will make all the more important the kind of private sector channels we have opened with the Chinese over the past two years, as we pressed for changes in investment policy, protection of intellectual property, and sanctity of contract. The private sector has been able to discuss these and other issues frankly and without politicization or mutual fault-finding over Taiwan, Tibet, the Middle East, or other contentious bilateral political issues. Chinese officials have noted this and commented that they value having a direct channel to the private sector. We will be exploring ways to keep and eventually expand these channels between our member companies, Chinese government officials, and corporation executives, as soon as such expansion becomes possible.

Even under the most optimistic assumptions, business operations will

RESOLUTION

The board of directors of the United States-China Business Council adopted the following resolution at its annual meeting in Washington, DC, on June 7, 1989.

The members of the United States-China Business Council deplore the violent suppression and wanton killing of pro-democracy demonstrators in Beijing and the apparent turning away from the policies of reform and economic liberalization by the government of the People's Republic of China. The commercial and economic relations between the United States and China, so carefully nurtured and developed through the efforts of people on both sides over the past 18 years and so clearly in the overall strategic interest of both our two countries, have been disrupted and could suffer long-term damage.

We wholeheartedly endorse the June 5 statement of President George Bush, and agree that it is critically important to both countries that we preserve the links between us until they can again be expanded. We pledge our support of the effort to rebuild the shattered relationship when that becomes possible and call upon the Chinese government to return to the policy of reform and respect for legitimate aspirations of the Chinese people for basic human freedoms.

be disrupted. As companies well know, commercial relations have already been damaged. The gravity of the disruption will depend largely on how extensive and far-reaching the purge is going to be. But there is also likely to be considerable variation from place to place in China.

Signs to watch

Rather than try to generalize about what "China" is going to be like in the immediate post-crisis period, I suggest each of you watch for indicators of how the political situation affects the behavior of the people you have to deal with in China. In your next meeting with them, either here or in China, you may and probably will be warmly received and assured that the door is still open. Don't be misled by appearances. Look for real signs of change. There are several obvious areas of concern.

Will negotiations once again become interminable because Chinese bureaucrats become more cautious in dealing with foreigners? Probably yes, but there will be a lot of variation from place to place. The farther away from Beijing, the better the environment, but how much better will depend on how deep the purge goes. If governors and mayors are replaced, the chill could be felt everywhere in China.

A likely casualty of another anti-bourgeois liberalism campaign and a purge of pro-reform elements will be the greater openness we have seen over the past few years on the part of Chinese officials. Bureaucrats both official and semi-official may be less willing to give "personal opinions" on likely official reaction to your proposals or to share information on internal directives that may indirectly affect your business.

In joint ventures I would also watch the attitude of workers. In the past year or so a number of companies have commented that Chinese employees of joint ventures no longer show ambivalence about working in a "foreign" enterprise. The residual fear that working for a foreigner might cause them problems or insecurity in the future seems to have waned significantly, if not disappeared. Companies may find that fear reasserting itself, making more difficult both the recruitment of new employees and the management and motivation of existing staff. Under these circumstances, do wholly foreign-owned enterprises (WFOEs), which have been growing in popularity among prospective investors in China, look as attractive as they did a few weeks ago?

Watch also to see if the bureaucracy will be able to follow through on politically sensitive matters, such as the commitment to bring computer software under copyright law or to cooperate on export control procedures sufficiently to make it feasible for the United States and its allies to extend a distribution license system to China. This year the Chinese were to have amended the law to remove the requirement that the chairman of the board of a joint venture must be Chinese. Will they go forward with that change? I doubt it. So not only will we find the investment climate less open and less attractive than it has been since the central government passed the so-called 22 Articles in 1986, but expected improvements will not be forthcoming either.

Most American companies were not willing to invest in China before those 1986 reforms. The strategic question for your companies is, would you be willing to invest in 1989 or 1990, if the environment returned to what it was in 1985 or earlier?

Transitional weaknesses

What about the longer term? I think there is little doubt that we are in for a period—perhaps even a lengthy period—of political instability in China. The transition to a new government has begun. The government is discredited in the eyes of its own people. But the current leadership can probably maintain control by police power for some time. We can therefore expect to see a cycle of demonstrations, strikes, repressions, and purges during this transition period. When Deng passes from the scene there will almost inevitably be a bitter struggle for control that could go on for several years before a clear winner emerges.

In the post-Deng period, the question arises: What will the army do? The military is a wild card in Chinese politics today. No one outside of China knows a great deal about how the military leaders think. Indeed, I suspect the Chinese leadership is not sure they know either. The PLA has undergone a generational change. It no longer consists of peasant soldiers commanded by old marshals committed to Maoism and people's war. It is a more professional military aware of modern technology and anxious to participate in the modern world.

It would be a mistake, I believe, to assume that this more modern military would, in a leadership crisis, behave like their conservative and ideological predecessors. More likely, they will become more like their counterparts in other Third World countries, where the military has often been allied with the forces of modernization. But no one, very probably including China's leadership group, knows enough to be certain.

In this unstable transition period the government will certainly be politically repressive, but as a governing force it will be weak. With the center paralyzed by leadership struggles and recurring demonstrations, the trend toward decentralization of the economy will accelerate, as localities become even bolder in ignoring central government efforts to interfere in their economic life. Certainly inflation will be more difficult to control, and regional protectionism will increase. But de facto price reform and greater reliance on market forces will continue. Under that scenario the central government might assert its intent to recentralize and bring the cities and provinces of south China under control, but it will not be able to follow through on the rhetoric.

Preoccupied with leadership struggles and the suppression of political dissent, the center will be limited to expressing its frustration and disapproval of defiant cities and provinces by lashing out from time to time and removing local officials from office. Such harassment from the center could be seriously disruptive, but much of the foreign and domestic economic activity of the localities would go on more or less as it does today.

A cautious approach

Despite the violence in Tiananmen Square and the likelihood that this means the hardline forces have overcome whatever moderating influences were left in the leadership, we need not assume the worst case of a slide into chaos or civil war in China. After the experience of the Cultural Revolution there is a strong, shared resolve to avoid a repeat of such a catastrophe. Were chaos to threaten, I believe a broad spectrum of Chinese, bitterly divided on other issues, would find a way to come together sufficiently to prevent it.

But we cannot be overly optimistic either. Several people have been quoted as saying that Deng and others in the Chinese leadership would never throw away the hard-earned gains of the past 20 years. We cannot assume that, nor can we assume that the leadership will avoid actions that we would consider contrary to China's interests—actions that would damage the economy, trade, foreign investment or attitudes toward China in Hong Kong or Taiwan. The leadership has made clear by its actions that it will risk that damage in the interest of its primary goals of preserving order and its political survival.

What do we do now? I do not recommend that companies take precipitate action, but in such an unstable and uncertain environment companies need to begin reassessing their strategies in China. If your investment is small and your objectives long term, you should probably hunker down and wait for better days. If your business is such that you can make money in a pre-reform environment, which is what we may be returning to, then go ahead. But if your current planning is based on a recognition of the improvements we have seen in the past few years and the assumption this trend will continue, you had better take another look. There is not going to be improvement in the near term. Breaking new ground is going to be much more difficult than before.

Is there even a somewhat hopeful note on which to end? Perhaps only to remember what we have learned about the Chinese people over the past few weeks. All the old stereotypes about them have gone out the window. They don't prefer authoritarian government; they want freedom just like everybody else. They are not content to live with economic regimentation or the shortages and poor quality that are the by-products of a Stalinist economic system; they want reform. And I am not describing only students, but workers, bureaucrats, and perhaps even some soldiers as well. As one Chinese put it, with perhaps a touch of hyperbole, everyone in China wants political and economic reform except the Standing Committee of the Politburo. To me this is the ray of hope—that when we next go to China and meet with people there, whether in government or in enterprises, we will know that most of them, if only silently, are on the side of the demonstrators, and that they represent the future of China. 完

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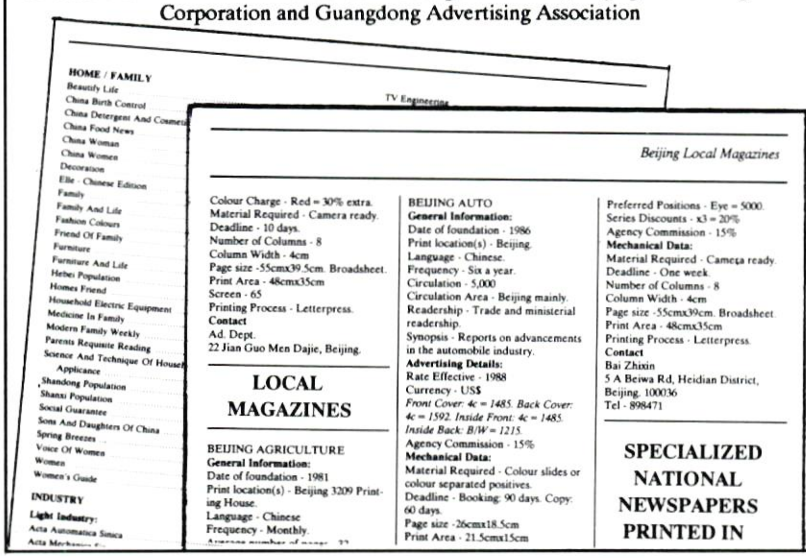

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Colour Charge - Red = 30% extra.
Material Required - Camera ready.
Deadline - 10 days.
Number of Columns - 8
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Screen - 65
Printing Process - Letterpress.
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22 Jian Guo Men Dajie, Beijing.

LOCAL MAGAZINES

BEIJING AGRICULTURE
General Information:
Date of foundation - 1981
Print location(s) - Beijing 3209 Printing House.
Language - Chinese
Frequency - Monthly.

BEIJING AUTO
General Information:
Date of foundation - 1986
Print location(s) - Beijing.
Language - Chinese.
Frequency - Six a year.
Circulation - 5,000
Circulation Area - Beijing mainly.
Readership - Trade and ministerial readership.
Synopsis - Reports on advancements in the automobile industry.
Advertising Details:
Rate Effective - 1988
Currency - US$
Front Cover: 4c = 1485. Back Cover: 4c = 1592. Inside Front: 4c = 1485. Inside Back: B/W = 1215.
Agency Commission - 15%
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COUNCIL ACTIVITIES

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Council President Roger W. Sullivan (right) talks about recent events in China with executives of member firms.

NEW STRATEGIES: THE 16TH ANNUAL MEETING

In one of the most unusual annual meetings the Council has convened, member companies gathered to assess the business environment following two months of political upheaval in China. Council and guest speakers, who had planned to focus their remarks on doing business in South China, amended their talks to offer advice and preliminary forecasts to companies uncertain of how to proceed.

• Reassessing risk

Held June 7-8 in Washington, DC, the meeting opened with a workshop on wholly foreign-owned enterprises (WFOEs) in which panelists and company representatives discussed the political situation's possible impact on staffing, supply and distribution, shipping, insurance, and other operational needs. Timothy Gelatt, a senior associate with the New York law firm Paul, Weiss, Rifkind, Wharton & Garrison, advised companies to reassess risk at their investment projects. Eugene Theroux, a partner with the law firm Baker, McKenzie, expanded on this point and suggested company representatives look not just at their joint venture contracts but at all contracts, including leases and personnel and sales contracts. Elizabeth E. Keck of the Overseas Private Investment Corp. in Washington discussed insurance coverage to protect assets in times of political violence, and Michael A. Kaufman talked about Johnson & Johnson Corp.'s China joint ventures.

• Strengths of the South

Proceedings opened on Thursday, June 8 with a general meeting focusing on the experience of businesses operating in South China, especially during the past few months of retrenchment. After opening remarks by Council Chairman Charles E. Hugel, Armas R. Hill of IBM's Asia/South Pacific Area outlined IBM's history in China and discussed training of Chinese personnel, which IBM conducts primarily in Hong Kong and Singapore. Next, Nike Inc.'s David Chang spoke on the advantages of operating out of Fujian and Guangdong, arguing that South China's infrastructure is relatively well-developed and its business climate well suited to Western practices, while proximity to Hong Kong allows for savings in materials handling costs. Robert Poole of the First National Bank of Chicago rounded out the morning session by discussing the reaction of banks and financial markets to China's crisis, saying the Bank of China was trying to honor its commitments, and exchange rates were being maintained.

Robert Poole of the First National Bank of Chicago addresses the membership on how financial markets have responded in the aftermath of the crisis.

• Addressing practical problems

Two afternoon workshops concluded the meeting. AT&T's Albert L.C. Chu, Charles C. Yang of Briggs & Stratton, and Xerox's Joseph Y.C. Chu compared the advantages of hiring within China with hiring abroad and talked about alternatives to hiring through China's Foreign Enterprise Service Corp. (FESCO). Panelists said Chinese employees were still being paid during the crisis period even though operations were disrupted. Danny Hayes, a partner with Ernst & Whinney, described tax options for Americans forced to evacuate a foreign country.

Former Council Chairman Claus Halle of Coca-Cola (left) talks with current Chairman Charles E. Hugel of Combustion Engineering.

David Chang talks about Nike's manufacturing operations in South China.

Margaret Walker of Schenkers International Forwarders initiated the matchmaking workshop by bringing members up to date on the status of major airports and ports in China, and Timothy Gelatt then discussed *force majeure* issues, saying that foreign businesses should first discuss problems frankly with their Chinese partners before invoking *force majeure*. Chian Kho of McDonnell Douglas Corp. then gave a slide presentation detailing his company's countertrade activities, which have generated $85 million in sales in the past six years, and Jack Shamash of S. Shamash & Sons discussed how his company's Chinese ventures liquidate *renminbi* profits. The session ended with importers and manufacturers getting together to discuss possible cooperation.

Legal Committee

The legal committee met on June 8 to elect new officers to serve until the Council's annual meeting in 1990. The new officers are:

Chairman: Marsha Cohan
Skadden, Arps, Slate, Meagher & Flom

Vice Chairman: Michael Kaufman
Johnson & Johnson

Secretary-Treasurer: Thomas B. Moore
Paul, Weiss, Rifkind, Wharton & Garrison

Members also met their new adviser, Richard Brecher, and discussed possible topics for future meetings, some of which may be held in conjunction with other Council committees.

Patent Delegation Well-Received

A delegation of companies representing the Council's Patent Working Group visited Beijing in late April for discussions with Chinese officials on patent protection and other intellectual property-related issues, and the group returned pleased with the positive reception by most of their hosts. The delegation included Edward P. Grattan, associate general patent counsel at Monsanto; Eugene G. Seems, director of chemical patents and licensing at FMC; Don O. Winslow, senior counsel at Dupont; Edward R.J. Neunuebel, senior attorney at Dow Chemical; and W.S. Pau, regional manager at Pfizer.

In visits to eight government offices involved in revising China's 1984 Patent Law, the delegation focused discussions on the benefits of improved patent protection and ways in which China might strengthen the law. Delegation members emphasized the need for protecting chemical and pharmaceutical products, extending patent terms, and guarding trade secrets. With the exception of the Ministry of Chemical Industry (MCI), a chief opponent of a strengthened patent law, ministries sent very highly placed officials to receive the delegation at each meeting, reflecting a growing recognition among the Chinese leadership of the importance of intellectual property-related issues. Even the State Pharmaceutical Administration was surprisingly receptive to the delegation.

To counter MCI's opposition, State Council authorities stressed the need for empirical evidence demonstrating the positive effects that stronger patent protection has had on the industrial development of other countries. The Patent Working Group will provide the State Council with relevant information in the coming months.

While it is extremely unlikely that China will adopt product protection for chemicals and pharmaceuticals in the short term, it does appear that China will extend the length of its patent term to 20 years from filing or 17 years from grant.

The Patent Office has already completed a draft of the Patent Law amendment, which will be finalized by the State Council for presentation to the National People's Congress (NPC). Assuming no major disagreement over the draft or lengthy extension of the current political crisis, it should be submitted to the NPC by early 1990 for review over at least four months. Should more ambitious revisions be attempted or political turmoil persist, the State Council's draft would likely be postponed until mid-1990 or later.

Patent delegation discussions with State Pharmaceutical Administration Director General Qi Moujia

New Board Members

The new members of the Council's board of directors, elected by an overwhelming majority at the annual meeting on June 8, are: Charles B. Coe, president of BellSouth International Inc.; Roger A. Enrico, president and chief executive officer of Pepsico Worldwide Beverages; John W. Georgas, executive vice president of The Coca-Cola Co.; Charles F. Jacey, vice chairman of Coopers & Lybrand; Philip H. Knight, president and chairman of the board of Nike Inc.; Michael E. Miller, vice president, administration, Monsanto Chemical Co., and Gary K. Willis, president and chief executive officer of The Foxboro Co. A complete list of the Council's board members appears inside the back cover of *The CBR*.

Special Report: Business Reacts

Two weeks after soldiers fired on pro-democracy demonstrators in Tiananmen Square, newspaper reports and announcements from China's fragile new leadership coalition declared that the situation was returning to normal, and foreign companies should send their representatives back to China.

Certainly, after the tense weeks of snarling among army troops that grouped around Beijing, ground conditions "normalized" markedly. Tanks left the streets, and many troops apparently withdrew, although in the third week of June 100,000 soldiers reportedly remained in the Beijing area. Public transport was functioning, and people had gone back to work. Though at this writing the State Department advisory cautioning Americans to leave China has not been lifted, Beijing again looks much like the city foreigners fled in early June.

Nevertheless, foreign companies remain far from returning to normal operations. Immediately following the Tiananmen incident, companies' first concern was to safeguard their employees based in China. Now that the threat of bodily harm has diminished, companies are beginning slowly to test the waters and assess how their China operations will look in the future. Some have sent staff back to China, but the expatriates are not necessarily returning to take up former posts. Instead, they are going to scout conditions in China and report back to the head office.

Such hesitation is likely to continue, at least as long as certain key issues remain unresolved, chief among them political reaction in the United States and its allies and a resolution of the stalemate over Fang Lizhi and Li Shuxian, the dissident couple that has taken refuge in the US embassy in Beijing. Almost all the 60-odd companies surveyed by Council staff in the first weeks of June agree it is too early to make decisions affecting long-term plans and strategy, especially since US investment in China—generally unprofitable in the short term—is almost entirely driven by long-term strategic considerations. However, the apparent consensus on the long-term opportunities China affords may drive businesses to maintain their links. "We are very hopeful for the long term," says Gladys Thomas, a spokesman for American International Group Inc. "We are not abandoning anything we do in China." Over the next few weeks companies will be testing their hypotheses and monitoring China's banks, transport and communication links, bureaucracy, and political climate to learn how, in the new atmosphere, foreign companies should do business with China.

Early reactions to crisis

Immediately following the Tiananmen massacre, foreign companies with offices in Beijing, Xi'an, Shanghai, and other cities that experienced or were threatened with violence began to pull out their expatriate staff. Of the more than 60 companies contacted by the Council staff for this report, only five reported they had not evacuated expatriate staff, and three of those companies operate in Guangdong or Jiangsu, far from the turmoil in Beijing. The other two are a transportation company and a communications joint venture, both in Beijing. The Council brought its own expatriate staff home from Beijing and is now evaluating the situation in China before deciding when to reopen its office in the CITIC building.

In the absence of expatriate staff, about half the companies polled report that their representative offices are closed, and the other half say they have reopened their representative offices with local staff, although most have little work. Of the companies contacted, 28 have investment projects in China, nearly all of which have maintained operations through the crisis under the management of Chinese staff, though mostly at reduced levels.

When to go back?

Six companies, five of which are service or trading companies, have sent some of their expatriate staff back to China, and four other concerns reported that they plan to send staff to joint venture production facilities in July or August, though in most cases the returning staff will do reconaissance to determine whether full operations can be resumed. Mercury Marine, which operates a joint venture producing boats and motorcycle motors, in June was gathering information on transportation conditions in China before sending back their expatriate manager. Unisys Corp. reopened Beijing and Shanghai offices—closed since June 5—with local staff only on June 13. The company has not yet set a date for expatriates to return, although in June the chief Beijing representative planned to travel to China to take care of urgent business and assess the situation. Several companies' expatriate managers remain in Hong Kong, keeping in contact by telephone and fax with their mainland operations.

Of the companies that evacuated personnel from technology transfer, licensing, and other contracted projects, many say project work has been suspended. Most say their Chinese counterparts can maintain equipment and facilities in their absence but that actual operations will require the return of expatriate technicians and engineers. For now, most companies have suspended new project plans, though some are continuing negotiations and feasibility studies. Most are waiting for better information on ground conditions in China before sending in foreign staff. "We have temporarily sent some

This story was compiled by the staff of the US-China Business Council.

expatriates back to China to find out the existing situation," says an executive of one US trading company. "There are existing contracts we have to execute."

McDonnell Douglas Corp.'s coproduction venture in Shanghai, which stopped production of MD-82 aircraft after the evacuation of its foreign personnel to Hong Kong, is uncertain when the full expatriate staff may be able to return, though the company has sent a staff member to China to assess and report on the situation. Generally, companies are reluctant to take precipitous action. "We are assessing the situation on a day-to-day basis and will return when that seems prudent," says Don Hanson, a spokesman for McDonnell Douglas.

At least three American companies were forced during the time of civil unrest to evacuate technicians working on major engineering projects and have declared *force majeure*, and signs suggest a number of non-American companies are also invoking *force majeure* prerogatives. The initial Chinese response has been to deny that a *force majeure* situation exists and to call upon the companies to fulfill their contracts. For these companies, prolonged, complicated negotiations on the subject probably lie ahead.

Effects on daily operations

The civil unrest disturbed the mechanics of trade, including freight shipping, courier services, mail, and bank transactions, though operations now seem to have returned to normal. Many US exporters, however, have delayed shipments or taken other actions to limit their exposure. Several companies have delayed delegations or participation in trade shows, for example. "There's moral repugnance. That interferes to some extent with business," says T.K. Chang, a lawyer with Latham & Watkins in New York.

Companies with manufacturing operations in China have worked to keep plants up and running, most successfully at factories geographically distant from Beijing, particularly in Guangdong. At SSMC Inc.'s Singer-Hua Nan sewing machine joint venture in Guangzhou, "Everything is and has been normal," says John F. Naylor, president of SSMC's manufacturing group. Some ventures in Shanghai, Jiangxi, Jiangsu, Harbin, and Shenyang have reported normal operations. A joint venture in Nantong, Jiangsu Province reported that work had been proceeding smoothly on construction and equipment installation throughout the crisis despite the evacuation of 12 of 20 expatriate staff. In Beijing, however, manufacturing operations were disrupted, and most still were not operating at full capacity by the third week of June.

All of China's oceans ports and airports were open as of June 20, and freight was moving in both directions, although substantial delays were reported in Shanghai in the second week of June. The delays were attributed to land-based transportation bottlenecks, however, including shortages of railway cars and truck transport, rather than to unrest. Some delays may persist, as ports cope with the freight backlog from the first half of June.

Resumption of courier service in the second half of June made possible the delivery of documentation to Chinese banks, and China's foreign trading companies were attempting to resume trade with foreign partners in the second half of June. Although a few companies said it took longer to get letters of credit honored, no major delays were reported, and some letters of credit even seem to have been processed more quickly than usual, perhaps in a good faith effort to perform during this period.

Hardest-hit sectors

Disruptions in freight delivery and banking services temporarily disturbed business in all sectors, but traders, consultants, and other businesses with low overhead seem to be recovering more quickly. A few sectors, however, will feel the effects of the shock for months to come.

Tourism, as the industry perhaps most sensitive to political turmoil, has all but died for the time being, and travel operators, hotel ventures, and other related industries are facing heavy losses. InterPacific Travel Management Group canceled about 100 summer tours to China, while American Express Co. canceled 24 summer departures. Travel companies are attempting to reorient tourists to other Pacific Rim destinations and to reschedule for fall, but many believe the tourism industry has taken a fall from which it will not easily recover. "Tourism authorities were in a state of shock after the violence in Tiananmen," says Robert Leeds, executive director of the US-China People's Friendship Association, which organizes tours to China. Frederick Kaplan, president of China Passage in New Jersey and author of *China Guidebook*, believes this crisis will force some specialized companies out of business, as it may take years for tourism to return to pre-crisis levels.

Hotels, suffering occupancy rates of 6-10 percent in a season that should see rates of 90 percent and higher, will sustain losses. Shangri-La International's hotels in Beijing and Hangzhou continue to operate with reduced expatriate staff, as do Holiday Inn properties. However, even if occupancy rates rise in a few months, hotels will have to contend with reduced morale and greater fearfulness on the part of their employees. "[Chinese employees of joint ventures] are very susceptible to finger-pointing and accusations," says Michael Baer, former personnel director in China for a major international hotel. "This inhibits them in trying to do well and move up through the ranks. When there's a backlash, it's easy to target the ones who go out of their way."

Airlines are also running at reduced capacity. Northwest Airlines Inc. has canceled one of its two weekly flights to Shanghai, and planes are half full at best. Autumn bookings are also way down.

President Bush's June 5 suspension of military cooperation with China not only suspends government and commercial exports of military equipment but affects non-military sales as well, if the products or component parts are on the munitions control list (MCL) managed by the Department of State. Sales of four Boeing 757s and one Boeing 747 and an export license allowing Hughes Aircraft to ship its satellite to China have been stopped because the aircrafts' inertial navigation system and the Hughes satellite are both MCL rather than commodity control list items.

Other sensitive industries are expected to suffer from temporary disruptions. Metals traders reportedly met with no interruption in their business, but US fertilizer companies, which depend on China for roughly 20 percent of their exports of key fertilizers, will suffer losses from delayed and canceled shipments, according to John Douglas of Douglas Associates, a consultant to the fertilizer industry.

Reassessing credit

Perhaps most damaging of the crisis' effects on China's business environment is the loss of investor confidence and good will. Moody's Investors Service may downgrade China's longtime A3 debt rating, damaging China's performance on long-term bonds. Increased political upheaval, an extensive purge of reformers from the leadership, and the prospect of a slowdown in China's economy could also affect China's creditworthiness. Standard & Poor's will downgrade China's rating if a severe downturn in foreign investment and export earnings raises China's current account deficit, or if major problems develop in the domestic economy.

Prices on China's bonds in the Euromarket fell in early June but later regained some lost ground. For example, the Bank of China's floating-rate bonds recovered slightly after falling in early June, indicating some renewed confidence in China's ability to meet interest and principle payments.

Many syndicated loans for China have been put on hold, in most cases, bankers say, because Chinese borrowers agreed with their arranging banks to avoid the syndicated market at this time, when confidence in China is low and lenders might seek extremely high returns. "[The Chinese] are being pragmatic about it," says Thomas Aylward, vice president of Morgan Guaranty Trust in New York. "Now's not the time to go into the syndicated marketplace, with the rest of the world looking at you with a magnifying glass." Among the loans that have been tabled is a $120 million international syndicated loan to the China National Petroleum Corp. (Sinopec). The China National Metals and Minerals Import and Export Corp. (Minmetals) has also canceled its April agreement to acquire New Zealand Steel.

Cutting back on government loans

Further damaging China's ability to gain credit, several foreign governments are moving to curtail concessionary loans. Although the US government has said it would not extend formal economic sanctions beyond the cut-off of military sales and assistance, the government has announced it will work to delay consideration of Chinese loan applications to multilateral institutions. The United States has also suspended high-level government contacts.

Among foreign governments, the dominant response has been to cancel high-level meetings with Chinese government officials as a sign of displeasure and to suspend programs temporarily while striving to maintain their continuity in the long run. Foreign countries seem unlikely to press new sanctions against China, unless China's political conditions deteriorate further.

The European Economic Community canceled an official visit by Chinese Foreign Trade Minister Zheng Tuobin to Europe after the massacre to show displeasure. It is unlikely the EEC will agree multilaterally to suspend all new lending programs to China, although some curtailment in the pace of lending is probably inevitable.

Several countries are reviewing their lending programs to China, and Sweden has already announced that it is suspending new soft credit offers, including one telephone switching project for which L.M. Ericsson A/S had already signed a contract. How long the suspension lasts will probably depend on whether comparable measures are adopted by other countries. The Canadian government is reviewing its lending program to China, including both its consensus rate and concessional lines of credit, and while Finland has announced no sanctions against China, it has issued policy statements condemning the events in Tiananmen Square that could ultimately affect Finland's agressive concessionary finance program.

Great Britain has made no announcements on loans but has suspended all ministerial exchanges, banned all arms sales, and suspended all high-level military contacts.

Japan has minimized its public statements about China and is being careful that its political response to events in China does not outpace that of the United States. Japanese sources indicate, however, that the government hopes to maintain the full Overseas Economic Cooperation Fund lending program to China, even if there is some delay in implementing specific projects.

Lending programs to China administered by the multilateral banks will probably continue, but at reduced levels. The World Bank stopped submitting new China loan proposals to its governing board in the beginning of June, and in late June a Bank team went to Beijing to seek assurances that China's economic reforms and overall stability remain dependable. New loans may not be approved for some weeks or months, and some of the projects prepared for submission to the board are likely to be reevaluated.

'Opportunity'—or big chill?

As foreign companies remain uncertain of the stability of China's political leadership, and governments work to assess the appropriate political response, China's foreign business remains in suspended animation, continuing essential operations but balking at major new deals. Some companies see the general hesitancy—in the face of concerted encouragement from the Chinese government to return—as a window of opportunity. "Now is the time to do business in China," says Jacques Leonard of Beloit Corp., a subsidiary of Harnischfeger Industries which operates a joint venture in Xi'an. "The government wants to make a good impression. Smart people are coming to China, not leaving."

In fact, Chinese officials have launched a campaign to lure back business, telephoning, faxing, and writing to foreign companies to assure them China has not changed. "Now is one of the best times to move quickly through the bureaucratic cyles," says Roland Tseng, a consultant to several multinationals operating in China. By returning early, companies can turn the crisis to their advantage, Tseng says, and "use the scar as a beauty mark."

Nevertheless, China's eagerness to please makes many executives anxious to look again before resuming normal operations. Many returning companies will want to seek greater security in their investments, assessing the value of equipment and increasing liquidity, reviewing contracts, and making sure of insurance coverage and contingency planning. For the moment, US business is hesitating between the desire to resume business and the reluctance to aid China's drive to cover the traces of the military crackdown. 完

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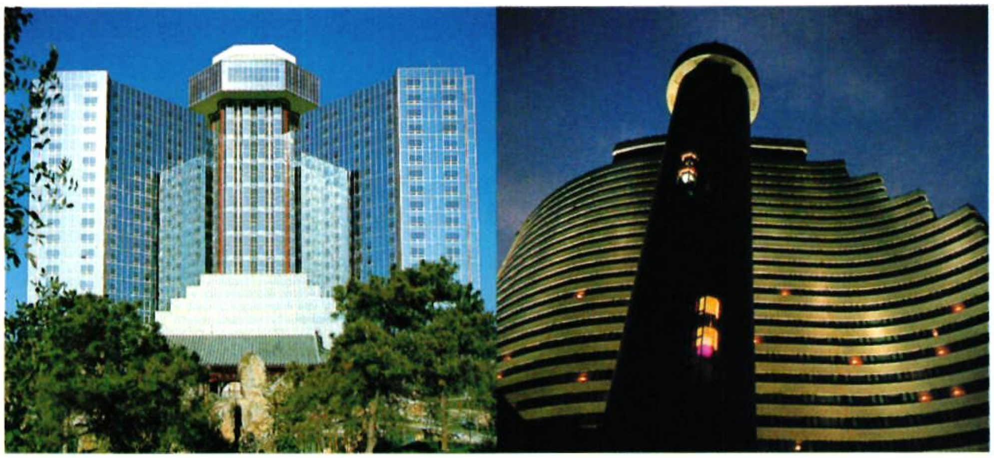

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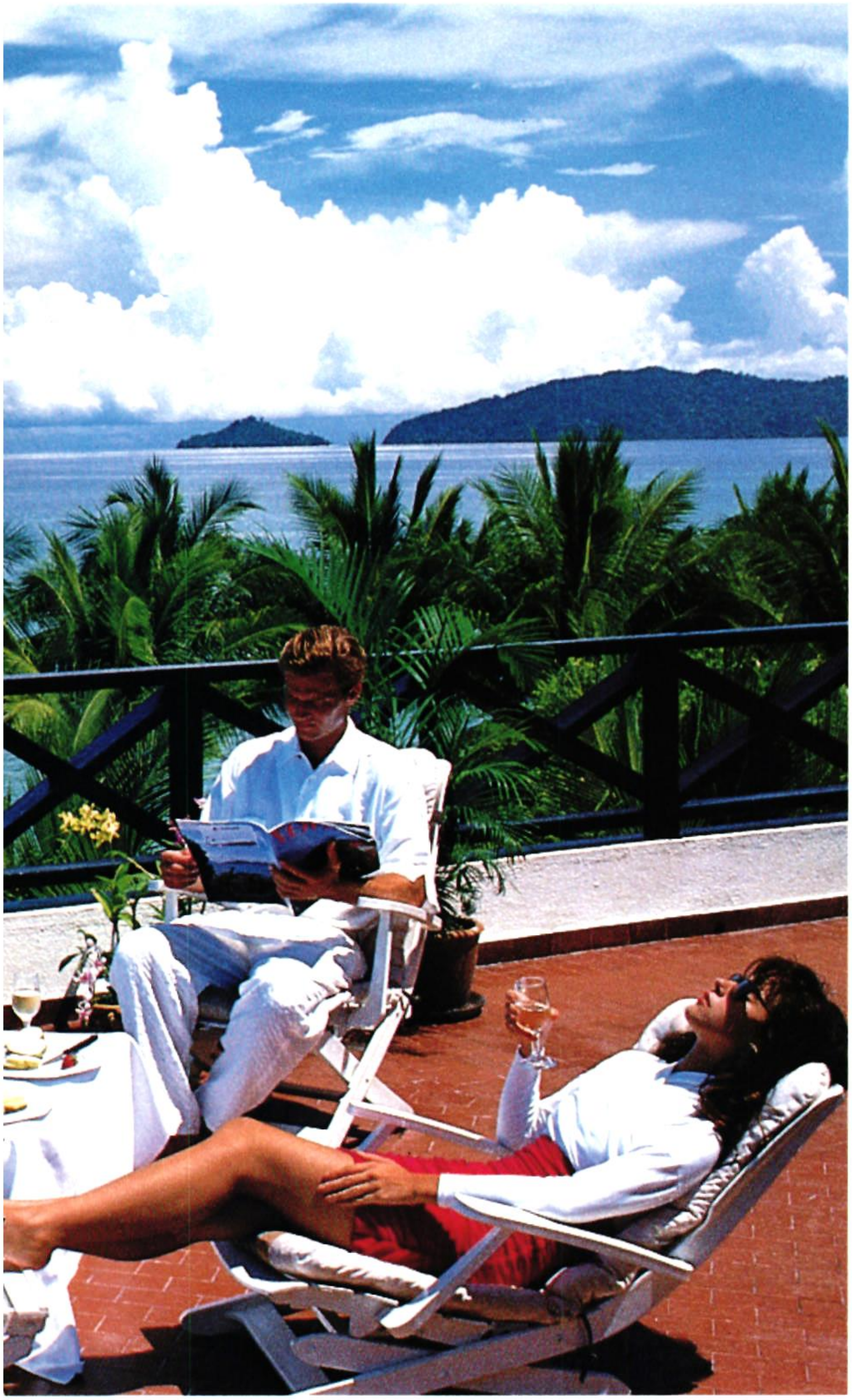

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CBR 0347

So, You Want to Buy from China

A guide to today's challenging—and confusing—trade environment

Julie Reinganum

Gone are the days when buying from China meant merely hooking up with a foreign trade corporation (FTC), a one-stop market that would help foreign customers track down sources of production, supervise quality control, and arrange delivery.

No longer bound to a few centralized FTCs, foreign traders do their own shopping for the best deals, which may be arranged by working through FTCs, going directly to factories and their suppliers, negotiating with independent new enterprises, or piecing together agreements with multiple organizations. China's more open, more competitive market now offers new opportunities for foreign traders to bypass red tape and get the products they want when they want them. But the new environment is also fraught with peril for newcomers to China's import-export practices.

Until around 1984, China had only a handful of FTCs, which enjoyed sole authority to import and export goods and traded in broad product categories. The FTCs made purchases with State-allocated funds and kept a portion of the foreign exchange earned in the transaction. If a Chinese factory sold goods to an FTC for export, for example, the factory generally received 12.5 percent of its payment in foreign exchange. Through these large, central FTCs, which provided access to the Chinese market and signed contracts, the central government could easily monitor trade and pricing, as well as implement national trade policy.

Foreign companies selling to China did not always like dealing with FTCs, however, because of confusion over who was authorized to make trade decisions. After being approached by a Chinese enduser, a foreign company would spend a great deal of time and money preparing technical presentations. But after reaching an agreement with the enduser, the foreign company would learn that the FTC had sole authority to purchase products outside of China. In other cases, painstakingly arranged sales fell through, because the FTC negotiator followed strict cost guidelines without understanding the technical differences among products offered by different suppliers. Japanese and some European suppliers were quick to understand the role of the commercial negotiator and offered low-cost, no-frills products to China to make the negotiators look skillful at getting attractive prices. US suppliers tended to be less flexible in their offerings and lost many a deal because of it.

Creating a nearly open market

The 1979 economic reforms widened the doors to China's trade, and further reforms in 1984 authorized provincial and municipal governments and specialized industrial organizations to conduct foreign trade. Two new types of FTCs emerged, one specializing in specific product lines, and the other, under provincial authority, trading in products that did not require export licenses from the Ministry of Foreign Economic Relations and Trade (MOFERT).

Changes announced in 1988 and implemented in recent months further widened access to foreign trade rights for Chinese organizations, in some cases allowing factories to directly export their products. Dozens of new companies, which the Chinese call enterprises, have been established, many of them to facilitate legal but not formally sanctioned trade activities. Examples of this type of organization are companies that trade local Chinese currency for US or Hong Kong dollars on the "gray" or swap market, which authorities permit only in a few locations.

With hundreds of new companies granted import-export rights, the foreign trader in China confronts a more complicated picture than ever before. No longer is it apparent which companies handle a given product or which can easily obtain products from factories. No longer can the foreign company identify potential suppliers by working with officials at FTCs, which do not necessarily know of every organization producing or trading in a given commodity.

The foreign trader who wants to buy a certain product in China must decide whether it is better to approach the central FTC in Beijing or the local FTC branch, go directly to the manufacturer, or link up with one of the new foreign trade enterprises.

Each option has clear advantages and disadvantages, and the trader must understand them all in order to shape the most workable deal.

One-stop shop: the central FTC

Going to the FTC in Beijing offers the convenience of working with a single, experienced central organization that has the infrastructure to deal with foreign buyers. The national-level FTCs can also do legwork for foreign traders, contacting the provincial and municipal FTCs and factories around the country to find desired products.

Dealing with national FTCs involves significant risks, however, in terms of reliability, sourcing, quality,

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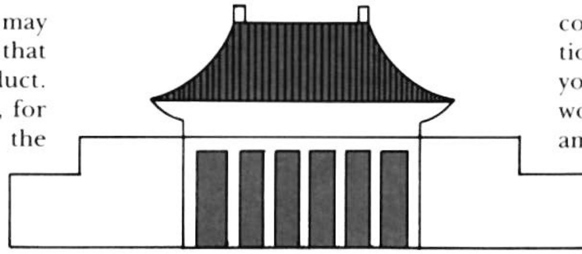
and delivery time. These FTCs may not have access to a factory that manufactures the desired product. Scarce pharmaceutical products, for example, may be controlled by the manufacturers or local FTCs. China National Medicines and Health Care Products Import and Export Corp. (MEHECO), the national FTC responsible for pharmaceutical products, handled only 25 percent of the export volume of vitamins A and E in 1988, for example. In 1989, the national MEHECO has been unable to obtain any of these vitamins for export, though the factories have been willing to sell directly.

Another drawback of working with the central FTCs is that the FTC, which contracts with a manufacturer, may not be well acquainted with the product's technical specifications and thus may be unable to evaluate production. Traders who do not have direct and frequent meetings with the manufacturer may not get what they ordered. A US purchaser of shorts and pants, for example, received an order marked with all the wrong sizes, and changes had to be made in a warehouse in New York. Another company ordering Christmas bulbs from China was unable to get delivery before early December. The supplier could not understand why there was a problem—after all, it was still *before* Christmas.

Companies that require products made to specifications encounter other problems. One company, for instance, placed a special order for black skirts—which were delivered with chartreuse zippers. In such cases, the only recourse for the foreign company is to contact the Chinese FTC and hope someone takes the time to sort out the problem.

The national FTC also demands a premium to cover the commission charged to the manufacturer. In addition, these FTCs often set high prices for export sales.

A final drawback to using the central FTCs is that, given their size, they have many customers. Relatively small or new FTC clients will find that they have no control over how the FTCs prioritize orders from different clients. Thus, some customers may find the orders of larger or more established accounts get shipped first when factory production is behind schedule.



THE CENTRAL FTC

+ Experience
+ Access to products nationwide
+ Telecommunications and translation facilities

— Inflexibility
— Expense
— Less dependable delivery

Local trade corporations

Working with a local FTC provides some of the advantages of working with the central trade corporation, along with the added benefit of closer relationships between the local FTC and the manufacturer. In addition, local FTCs in many areas have considerable power to obtain raw materials, resources, and utilities, and they provide assistance and direction to local manufacturers.

If you know which cities or provinces produce the items you want, the local FTC can be very helpful in introducing you to specific factories. Closer links between the local FTCs and manufacturers also provide other advantages, such as better access to products in short supply that central corporations may be unable to obtain because of their greater distance from the manufacturers. Also, proximity often gives the local FTC more influence in the production process and a more direct and effective role in solving problems. Finally, the local FTC may have access to local inputs required in the manufacture of the product desired.

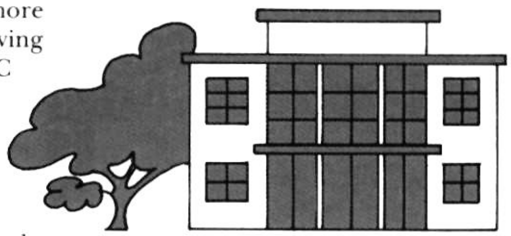
Offsetting the advantages of proximity to the product's source, local FTCs may have problems related to their small size and relative inexperience. The local FTC will not have access to producers or want to cooperate with other regions, for example, so a central FTC would be better placed to get goods from producers with excess capacity. Many local FTCs are new to the export business and may lack experience in handling financial arrangements and contracts and arranging transportation. Unless you know how to pay for your goods and get them on a ship, working with an inexperienced FTC amounts to courting disaster.

Straight from the source

Though working with a manufacturer is the most direct way to get the products you want, you must choose carefully. Central ministries in Beijing can be helpful in locating factories, but their information is often incomplete or contrary to your interests. Secondary resources, such as the *China Directory of Industry and Commerce*, can provide a good starting point for locating manufacturers, though the information is often inaccurate and out of date. Representatives of Chinese manufacturers on trade missions to the United States and Hong Kong can also provide an introduction to product sources. Finally, nothing beats independent research. Most factories want to talk with foreign company representatives and can also provide good information on other manufacturers.

The desire for access to foreign exchange drives manufacturers and many of the new foreign trade enterprises to do business with foreign traders, partly because foreign exchange enables them to improve production with imported equipment. Another important incentive for Chinese nationals involved in foreign trade is the opportunity to travel abroad—an important consideration for most Chinese, who otherwise would not have this chance.

The advantages to foreign traders of working directly with the produc-



Illustrations by Elizabeth Stewart

THE LOCAL FTC

+ Effective trouble-shooting
+ Access to raw materials
+ Ability to get scarce local products

— Inexperience
— Parochialism
— Lack of nationwide access to products

ers include flexibility in implementing adjustments and product changes, both because the negotiator usually understands the limitations of production better than an FTC representative and because the factory has direct control over its production schedule, making factory-set delivery times generally more realistic than those set by the FTC. Quality control is also easier, since the buyer can explain requirements directly to workers who check products coming off the line.

On the down side, the manufacturer may have even less experience than the local FTC in dealing with the foreign trade organizations. Also, the manufacturers generally have little clout in getting raw materials from other factories, particularly materials in short supply. In certain product areas, such as raw silk, the manufacturer may have to pay more than the central FTC, which has access to a certain State-allocated quota of cheap raw materials.

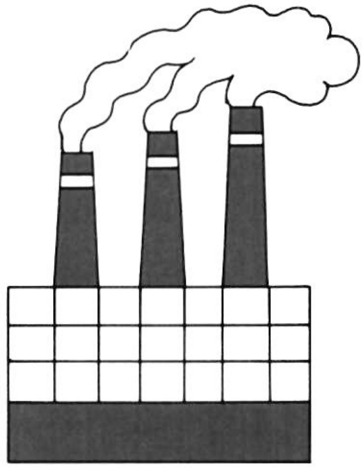
Local manufacturers, many of which are just learning to implement transactions without the help of FTCs, also lack the facilities of older, more established trade corporations. Most lack international telecommunications facilities, for example, making it extremely difficult for traders to communicate directly with them, and many have no ready access to English interpreters, so correspondence must take place in Chinese.

New enterprises: innovative but uneven

The Chinese enterprises recently authorized to handle foreign trade provide a new channel of access for foreign traders and a more innovative, entrepreneurial corner of the import-export business. But the reliability of these enterprises, whether subsidiaries of central government trading companies or private companies funded on a shoestring, is very difficult to assess, since most have a very short history.

These enterprises are generally distinguished from other Chinese trading companies by a high degree of staff motivation and flexibility solving problems. Certain enterprises are also very well connected and can move the bureaucracy much faster than the FTCs.

The drawbacks to working with these enterprises stem from their



THE MANUFACTURER

+ Flexibility in production
+ Technical understanding of product
+ Better quality control and delivery time

— Inexperience
— Lack of communications, translation facilities
— Lack of access to raw materials

inexperience. Working with one such enterprise to export knit shirts, I found myself explaining the process required to gain approvals for export and how best to approach the local FTC or factory. Some are handicapped by resentment from organizations that regard them as opportunists profiting from the work of others. And, like the manufacturers, these enterprises often lack telecommunications facilities and foreign language-speaking personnel.

Going to the fair

China's semiannual trade fair held in Guangzhou in the spring and fall (formerly called the China Export Commodities Fair) attracts numerous Chinese manufacturers of export goods, so buyers new to China can quickly learn where various products are made and compare goods from different regions. The fair also offers a convenient way to order products at booths staffed with English speakers familiar with foreign trade practices.

The shortcomings of buying at the fair, however, are many. There is often no follow-up to orders, since whoever takes the order is usually unfamiliar with production capacity and has no records of other orders. To make matters worse, the Chinese generally do not take seriously a buyer who does not visit the factory, leaving until last any order placed at the trade fair that is not followed up by a visit. Prices also tend to be 20-30 percent higher for goods purchased at the fair. Communicating with exhibitors after the fair can also be difficult, if not impossible, because they often lack telecommunications facilities.

Which option is for me?

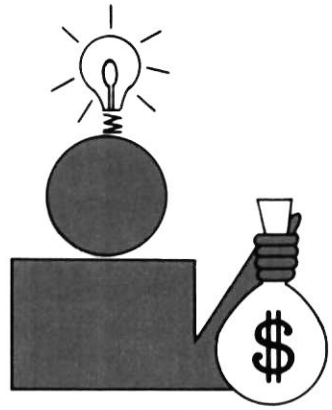
Before choosing a Chinese trade agent or arrangement, you must answer several questions about the products being exported.

- **Is the product's quality consistent?**

  Products easily purchased in China have many potential sources, but quality often varies greatly. It may be worthwhile to use a central trading organization to find a good manufacturer.

- **What raw materials are required?**

  Some products, particularly chemicals, pharmaceuticals, and metals, are more expensive to buy in China than on the world market. It is thus critical to know the ability of a manufacturer, FTC, or enterprise to obtain any hard-to-get material at a reasonable cost. If the raw materials can be imported and then re-exported, experienced FTCs may make better trading partners. Processing agreements with factories can also solve raw materials problems. For example, one foreign company has an agree-



THE NEW ENTERPRISES

+ Willingness to solve problems
+ Good bureaucratic connections
+ Strong staff motivation

— Inexperience
— Lack of communications, translation facilities
— Lack of established reputation

ment with a factory to import steel and export ball bearings.

- **What is the local price for the product?**

  Items which the Chinese have produced expressly for export, such as certain electronic equipment, are sometimes sold domestically at very high prices, if quality is not deemed high enough for export. If factories can sell inferior products locally at such high prices, they have little incentive to manufacture products of consistently high quality.

- **Is there a subsidy?**

  Factories may receive subsidies from the FTC to encourage export. If the FTC is providing a subsidy, traders working with the FTC will get a better price. Otherwise, it may be wiser to work directly with the manufacturer.

- **Is a Chinese export license required?**

  If so, an FTC may be the most practical trading partner. MOFERT sets and implements trade policy in China and must approve export licenses. The FTCs under MOFERT generally fare better in the approval process, with some exceptions.

THE GUANGZHOU FAIR

+ Opportunity to see products of every region
+ Convenience
+ Experienced sales staff

— High prices
— Unreliability of orders
— Difficult follow-up

- **Does the manufacturer require a major electrical power source?**

  If the manufacturer requires electricity and power allocations from local government officials, the local FTC may often be the best route to the power source because of the clout it commands.

Get close, stay alert

Sorting through the trading options can be laborious but, if done correctly, rewarding. Most important is to devote time up front in order to avoid unnecessary problems later. The uncertainty generated by China's political unrest has underscored a rule of the China trade: Work with a partner closest to the product's source whenever possible. Find the people in China who are problem solvers rather than problem describers. And do your homework. Don't be satisfied with responses from a single source. Finally, keep your sense of humor. The only thing you should expect is the unexpected. 完

BOOKSHELF

书刊介绍

Hands Across the Ocean: Managing Joint Ventures with a Spotlight on China and Japan, by Susan Goldenberg. Boston, MA: Harvard Business School Press. 242 pp. $27.95 hardcover.

This catalogue of joint ventures mines a rich field of case histories, culled from Susan Goldenberg's extensive interviews with corporate executives and joint venture (JV) managers in the United States, China, Japan, Europe, and Canada. Organizational and stylistic shortcomings severely limit the usefulness of this book, however, and the author makes no attempt to draw conclusions from the material. Thus, the reader gains little more than a rough idea of the do's and don'ts of joint venturing.

Hands Across the Ocean is loosely organized into 11 chapters divided into three sections. Although the table of contents lists subchapters, no headings or spacing indicates the introduction of a new topic. The text jumps from subject to subject almost without warning and sometimes without logic. Within two pages, for example, Goldenberg lists sources of information and consulting advice on China, describes Warner-Lambert's process of selecting a JV partner, notes the absence of any contract or joint venture law in 1978, and discusses China's approval process for foreign investments.

Goldenberg has unearthed a tremendous amount of material, but her "just the facts, ma'am," style presents no conclusions and provides no theoretical framework upon which to base one's own conclusions. Valuable points are buried beneath a mountain of cases, some of which present seemingly contradictory conclusions, and all of which are given equal weight.

Compounding these stylistic obstacles, the text contains several mistakes—some relatively harmless, others not. Goldenberg errs when describing several important aspects of investing in China, such as mechanisms for balancing JV foreign exchange expenditures and revenues, representation on a JV's board of directors and selection of the board chairman, arbitration of disputes, and the State's control over JV product prices.

The reader would do well to limit lessons gleaned from this book to broad, conceptual impressions and consult more authoritative sources before taking action. While the book contains a wealth of case information and displays a wide variety of corporate approaches and attitudes toward joint venturing, one gets the sense that the makings of a good book are in here somewhere, but the editor has failed to bring them to our attention.

—Richard Brecher

China Media Book: China's Advertising Rates and Media 1988/89. Bath, UK: Anglo-Chinese Publications, 1988. 312 pp. $56 softcover.

Filling a large gap in foreign companies' information requirements for advertising and marketing their products in China, the *China Media Book* details advertising availability and prices for Chinese print and broadcast media. At the beginning of the book, a brief history of advertising in China also describes the recent explosive growth in this area.

The first of the volume's three sections provides advertising costs for over 700 domestic print and broadcast media. Each entry contains address and contact information, frequency of publication, size, circulation, rates, and readership. The second section lists 44 magazines, journals, and directories (mostly in Chinese) that are published by foreign companies for distribution within China. The three indexes for these two sections make it easy to locate newspapers, magazines, and radio and TV stations by type, location, or alphabetically. The third section lists major service companies and organizations of use to China traders, including foreign advertising agencies, business consultants, trade associations, direct mail companies, media representatives, foreign publications covering China, public relations firms, and translation companies. This book is highly recommended for any foreign company wishing to market its products and services in China.

—JLL

China Statistical Abstract 1988, edited by William T. Liu. Editorial board includes China Statistical Information and Consultancy Service Center, an affiliate of the SSB, and the China Statistics Archives, University of Illinois at Chicago. New York, NY: Praeger, 1989. 124 pp. $45 hardcover.

This book is the revised English language edition of the Chinese volume published by the State Statistical Bureau. *China Statistical Abstract* offers basic statistics on China for 1987, often in time series form starting from 1978. The volume's nine sections include macroeconomic data; population and labor force; agriculture; industry; transportation, posts and telecommunications; investment in fixed assets; finance, trade, and prices; personal income and consumption; and education, science, culture, public health, and sports. The 1987 State Statistical Bureau's Communique, the first annual report of the aggregate figures of the previous year's performance, is also included.

The chief value of this work is that it comes out before the publication of the English-language edition of the *Statistical Yearbook of China*, which contains more detailed tables. Due to a change in publishers, however, this volume was not published until shortly before the *Yearbook*, thus eliminating much of its value. However, the next *Abstract* will come out in August 1989 and will thus appear a few months before the *Yearbook* due later in the year. —JLL

Environmental Law and Policy in the People's Republic of China**,** by Lester Ross and Mitchell A. Silk. New York, NY: Quorum Books, 1987. 449 pp. $75.00 hardcover.

Ross and Silk have compiled into one volume an impressive collection of Chinese laws, documents, and articles concerning environmental protection. The main portion of this book groups relevant documents into sections on conservation, pollution control (air, water, noise, and toxic waste), enforcement means and mechanisms, and specific cases. After many of the documents the authors have provided concise commentaries on the selection's relevance and impact on China's environmental legal structure and policy. The book's appendices also contain translations of the major environmental laws promulgated from 1979 to 1986.

The authors have done a good job of organizing an enormous amount of material. Most of the translations are fairly easy to read. Their introduction provides a clear overview of the interplay between law and policy in China with a specific focus on environmental protection. Unfortunately, the reader gets only bits and pieces of the authors' interpretations throughout the rest of the book. Consequently, this book serves more as a source of information than a thorough analysis. —Priscilla Cooke

Environmental Policy in China**,** by Lester Ross. Bloomington, IL: Indiana University Press, 1988. 240 pp. $35 hardcover.

In this book Lester Ross discusses environmental protection issues in China from a slightly more theoretical perspective than in the book reviewed above. Here, Ross analyzes the effectiveness of three ways to implement environmental protection policy: political centralization, moral exhortation, and market exchange. Within this framework he looks at policies for forestry, water resources, and pollution control, and concludes that market mechanisms adopted since 1978 have proven the most promising approach to environmental protection. This is a refreshing change from the mainstream view that any erosion of central control (inherent in a larger play of market forces) jeopardizes environmental protection policies.

Although one may disagree with Ross' analysis, it is difficult to find fault with his presentation. This book is both well organized and well written. In addition, it is packed with pertinent facts and examples that give it a degree of depth not found in purely theoretical works. While the book focuses primarily on supporting its conclusion, and at times seems a bit over-optimistic about prospects for effective environmental policies in China, it should still be welcome reading for anyone interested in environmental protection or policymaking in China. —Priscilla Cooke

The Political Economy of Chinese Socialism**,** by Mark Selden. Armonk, NY: M.E. Sharpe Inc., 1989. 241 pp. $39.95 hardcover, $15.95 softcover.

Conventional wisdom detects a major break between the ideology-driven early decades of Chinese socialism and the more pragmatic years of reform, beginning in 1978, during which Marxist rhetoric has all but disappeared. Both left and right hold up the early Chinese path as a unique experiment, the left calling China's development strategy a model of egalitarianism and responsiveness to rural concerns, the right deriding China for promoting ideology at the expense of economic development.

These seven essays quietly debunk the monolithic view of pre-reform China. Instead, Selden outlines in clear and flowing prose dramatic policy shifts evidencing less ideological coherence than is generally credited to China. He shows the reforms of Deng Xiaoping as a continuum originating with pre-1955 reform movements and a brief period of experimentation in the early 1960s. Selden also delineates an uneven development pattern that often conferred benefits on urban areas at the expense of the countryside.

After an introductory essay on China's industrial development, Selden examines the promise of Marxism-Leninism for agrarian progress and compares China's rapid collectivization with that of the USSR and Yugoslavia, discussing both Yugoslavia's and China's search for alternative strategies after collectivization proved largely unsuccessful. Analysis focuses on China's abandonment of its original commitment to slow and voluntary collectivization in favor of an overnight collectivization movement and a concentration of State resources on urban industrial development. Another essay, comparing China's development strategy with Taiwan's, finds significant similarities, highlighting the decisive role economic backwardness plays in the early stage of industrial development regardless of ideological orientation. The remaining essays examine income inequalities, urban-rural schisms, and the macro-economic implications of land reform movements in the 1955-80 period.

Though Selden's well written analysis breaks little new ground, this volume cuts through ideology to show both the many achievements of Chinese socialism and the great price rural China paid for development. The book also touches on important questions about whether the reform program can sustain growth without sacrificing socialism's commitment to equality and basic economic welfare for all. —ASY

Deng Xiaoping, by Uli Franz. Boston, MA: Harcourt Brace Jovanovich, 1988. 340 pp. $21.95 hardcover.

West German reporter Uli Franz's biography of Deng Xiaoping is a fast-paced, easily readable account—even in translation from German—of the life of China's paramount leader. Franz relies heavily on Taiwan and Hong Kong sources, together with interviews with Deng's contemporaries in Beijing, Shanghai, and his home province of Sichuan. While much of the information Franz weaves into his narrative of Deng's activities is new—particularly regarding his relationships with other senior Chinese leaders—the lack of footnotes on key passages detracts somewhat from its credibility.

What the book does provide is an insight into Deng's rise to prominence within the Chinese leadership as well as an understanding of his unique capacity for survival in the Communist Party power struggles that have punctuated the first 40 years of the current regime. The key to Deng's success stems from his mastery of party politics and his unparalleled ties to the military leadership. Pro-Deng constituencies within the party and military establishments have helped him to survive several attempted purges and to form the leadership coalition which for years promoted reform and an open door to foreign trade and investment. —Richard E. Gillespie

The China Guidebook, by Fredric Kaplan, Julian Sobin, and Arne de Keijzer. Teaneck, NJ: Eurasia Press, 1988. 800 pp. $16.95 softcover.

Choosing among the myriad of China guidebooks available today can be as frustrating as trying to get a hotel room in Xi'an in September without a reservation. To get the most useful information for your journey, it's most important to keep in mind how you want to travel. For example, do you want to see China's most famous tour spots with a minimum of hassle? Or are you the adventurous type who prefers to wander footloose through the countryside? *The China Guidebook* is a fitting companion for the first type of tourist, and the too-brief sections on business and solo travel clearly reflect the authors' encouragement of the tour package approach to China.

For a group-oriented traveler, *The China Guidebook*'s advice on choosing a tour, differing types of itineraries, and the costs of tour travel will be quite helpful indeed. While *The China Guidebook* is probably not the best choice for the backpack or for the briefcase, the group traveler will find it highly readable, with an abundance of interesting China background and a well indexed, easy to follow format. It makes perfect reading for that long tour bus ride from Beijing to the Great Wall. —Eric Kaidanow

China Briefing 1988, edited by Anthony J. Kane. Boulder, CO: Westview Press, 1988. Published in cooperation with the Asia Society. 179 pp. $35 hardcover, $12.95 softcover.

This annual volume follows the format of the previous editions in analyzing and reporting on 1987 events in China. Chapters focus on politics, economic reform, foreign policy, culture, students, law, and Taiwan and Hong Kong. The book also contains a chronology of events in 1987. The Chinese leadership is listed for late 1987, and biographical profiles of the Politburo Standing Committee members are provided. —JLL

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China's Economic Opening to the Outside World: The Politics of Empowerment, by Jonathan R. Woetzel. New York: Praeger Books, 1989. $45 hardcover.

A History of the Chinese Communist Party, Stephan Walley, Jr. Stanford, CA: Hoover Institution Press, 1988. $17.95 softcover.

China and the World: New Directions in Chinese Foreign Relations, 2nd edition, edited by Samuel S. Kim. Boulder, CO: Westview Press, 1989. $55 hardcover.

Transational Corporations and China's Open Door Policy, by Weizao Teng and N.T. Wang. Lexington, MA: Lexington Books, 1988. $45 hardcover.

Chinese Universities and the Open Door Policy, Ruth Hayhoe. Armonk, NY: M.E. Sharpe, 1989. $37.50 hardcover.

Establishing an Office in Hong Kong, a free guide published by The American Chamber of Commerce: Hong Kong, May 1989.

Technological Innovation in China: The Case of Shanghai's Electronics Industry, by Denis Fred Simon and Detlef Rehn. Cambridge, MA: Ballinger Publishing Co., 1988. $29.95 hardcover.

Prospects for Improved Protection of Intellectual Property Rights

Pitman B. Potter

Following discussions in May 1989, the US Trade Representative (USTR) and the Chinese Ministry of Foreign Economic Relations and Trade (MOFERT) reached agreement on a wide ranging Memorandum of Understanding (MOU) expanding protection of intellectual property rights in China. The MOU contains specific commitments by the Chinese government to strengthen legal protection of intellectual property rights of American and other foreign companies in China. In return, the USTR agreed that it will not "at this time" designate China as a priority country under Section 301 of the 1988 Omnibus Trade and Competitiveness Act, thus removing for the present the specter of burdensome trade sanctions against Chinese products.

301 provisions

Under the "special 301" provisions of the act, failure to provide adequate and effective protection for intellectual property rights constitutes an unreasonable trade practice. The act requires the USTR to identify countries engaging in such practices or denying fair and equitable market access to US companies that rely on intellectual property protection. Countries so identified are designated "priority countries."

The act requires the USTR to initiate formal investigations into the intellectual property or relevant market access practices by priority countries, unless USTR determines that doing so would be against the economic interests of the United States. The USTR must decide whether to impose trade sanctions within six months after the investigation is completed. Should an investigation be initiated against a country with whom the US has a trade agreement, the act imposes specific deadlines for voluntary resolution of the matter through consultations, and if a mutually acceptable solution is not reached within the deadline, the USTR must request formal dispute resolution proceedings under the terms of the applicable trade agreement.

The 1979 bilateral Agreement on Trade Relations (ATR) between China and the United States stipulates that each country will offer equivalent protection of patents and copyrights. This provision forms the basis for selection of these two issues as the focus of the Section 301 consultations, on grounds that China's protection of US patents and copyrights is not equivalent to the protection afforded in the United States to Chinese patents and copyrights.

Gaps in Chinese legislation

Patents are protected in China under the 1984 Patent Law and 1985 Implementing Regulations, which provide for 15-year terms for protection of inventions, and five-year terms for designs and utility models, with the possibility of renewal for three additional years. Protection for foreign patents is offered according to bilateral or multilateral treaties, but certain items such as scientific discoveries, pharmaceutical products, and chemical compounds are not patentable under China's Patent Law.

Currently China has no copyright law, and copyright protection is available only to the extent that private contracts contain protective terms that can be enforced against other contracting parties. Contract enforcement has been difficult to achieve, however, and generally would not extend to copyright violators who are not party to contracts governing use of the copyrighted works.

Such gaps in China's existing legislation are further exacerbated by the provisions of the 1988 "Implementing Rules for PRC Regulation on Technology Import Contracts." These regulations usually impose a 10-year time limit on the duration of technology transfer contracts (including contracts for the use of copyrighted or patented technologies), and generally prohibit the application of contract terms beyond the duration of the contract. Thus, although patents will be protected for 15 years by Chinese law, this relatively brief period of protection generally cannot be expanded by contractual agreement. In addition, contract terms and conditions limiting the use, copy, or re-assignment of copyrighted technology are effectively limited to 10 years' duration.

Deficiencies in the Chinese system for protection of intellectual property have affected a variety of foreign business transactions with China. Lack of a copyright law inhibits effective protection for proprietary technology in technical manuals, for example, and also limits distribution of films, music, and other artistic works. Licensing transactions for the transfer of technologies involving pharmaceuticals and agricultural chemicals have been hampered by the absence of patent protection, as has licensing of computer programs.

With few exceptions, computer programs cannot be patented, and in the absence of a Chinese copyright

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law they are denied the copyright protection normally accorded under US law. Thus, protection for computer programs in China has generally been limited to contractual provisions, which are often imperfect or ineffectual.

Action on copyright law

The MOU stipulates that China will submit a draft of a copyright law to the State Council and then to the Standing Committee of the National People's Congress (NPC) by the end of 1989. Since the copyright law has been undergoing drafting and revision for several years, the year-end deadline for submission to the NPC Standing Committee would not appear to pose an insurmountable obstacle. The MOU provides no final deadline for the enactment of the copyright law by the full NPC, and China is permitted to take into account international practice—and thus possibly avoid certain US copyright norms—in formulating the legislation. Nonetheless, it is hoped that the MOU should provide sufficient impetus for quick enactment of the law.

The MOU also stipulates that China's copyright legislation will include computer programs as a specific category, and will take into account the views of the international community, including those of the US government, in the legislation. The legislation will extend to computer programs all provisions applicable to literary expressions, unless expressly stated otherwise.

The MOU further stipulates that upon enactment of the copyright law, the Chinese and US governments will take "appropriate actions to extend protection of their copyright laws to works originating in each other's countries." It remains to be seen, however, whether the phrase "appropriate actions" will result in satisfactory protection.

Although the copyright provisions of the MOU contain ambiguities, the MOU nonetheless reveals an impressive commitment by the Chinese government to improve its protection of copyrights.

Strengthening patent protection

The MOU also contains provisions on patent protection, providing that an amendment to the Patent Law be submitted to the State Council for examination by the end of 1989. The MOU commits China to expanding the scope and term of patent protection, although it does not specify industries or time limits. As with the preparation of a copyright law, the Chinese may take into account international practice when preparing the amendment.

The Chinese government is committed under the MOU to enforce laws relating to the protection of intellectual property rights. The government is further obligated to educate enforcement officials and the public on the importance of protecting intellectual property rights. The emphasis on enforcement seeks to redress the common complaint that China does not sufficiently enforce existing intellectual property protection.

Improving cooperation

The MOU also provides that the US government will give positive consideration to the prompt conclusion of an intellectual property rights annex as part of an agreed renewed science and technology agreement. The 1979 bilateral Science and Technology agreement (STA), which offered China important opportunities for acquiring new technologies, lapsed in January 1989 after having been extended by a series of protocols following the expiration of its original five-year term. The STA was permitted to lapse in part as a result of US dissatisfaction with the pace of improvement in China's intellectual property protection system. Thus, the US agreement to give positive consideration to concluding a renewed agreement reflects the US position that cooperation in science and technology must be premised on China's offering adequate and effective protection of intellectual property rights.

The two governments have also agreed to consult and review the operation and implementation of the undertakings set out in the MOU. Either China or the United States may request discussion concerning performance of the terms set in the MOU. This provision is generally consistent with the intent of the Section 301 provisions, which call for yearly monitoring of performance of any agreement executed by a foreign country to improve intellectual property rights in order to avoid identification as a priority country.

Keeping tabs on progress

Although the USTR has not classified China as a priority country, China has been placed on a "priority watch list." The trading partners on the priority watch list were deemed by USTR to maintain acts, policies, or practices that satisfy some or all of the statutory criteria for priority country identification. However, the USTR determined that since these trading partners had made progress in recent bilateral or multilateral negotiations, they would not be identified as priority countries at this time.

Any trading partner on the priority watch list may be designated a priority country if the USTR determines the country is no longer making satisfactory progress toward eliminating deficiencies in intellectual property protection or other statutory criteria. Such satisfactory progress will be evaluated in part on the basis of an accelerated action plan formulated by USTR for each priority watch list country. China will be subject to review not later than November 1, 1989 to determine whether satisfactory progress and results have been made in three areas:

- Enactment of a copyright law, including copyright protection of computer software;
- Establishment of copyright relations with the United States; and
- Improved and adequate patent protection for all classes of inventions.

Although these three areas are essentially derived from the terms of the MOU, the language is substantially stronger. First, the MOU does not require China to enact a copyright law, but provides only for submission of the law to the NPC Standing Committee by year-end. Final review and approval by the full NPC would be required for normal enactment of the law. Second, the MOU does not require China to establish copyright relations with the United States but requires only that China take "appropriate measures" to extend copyright protection to works originating in the United States. Finally, the MOU does not require that China provide adequate protection for all classes of inventions but only that China extend the term and expand the scope of patent protection in an amended patent law, for which an enactment date is not specified.

However, disparities between the terms of the accelerated action and those of the MOU should not be cause for alarm. The accelerated action plan states that China must achieve satisfactory (but not complete) progress and results in carrying out the plan in order to avoid priority country status. Under the MOU, on the other hand, China must fully complete performance of the specific obligations in order to avoid identification as a priority country. Thus, rather than being superseded by the accelerated action plan, the provisions of the MOU appear to provide the specific criteria by which progress on the accelerated action plan is measured.

Moreover, the November deadline under the accelerated action plan does not directly conflict with the MOU's year-end deadline, since the use of the words "at this time" in the MOU indicate that the United States could designate China a priority country at any time, even prior to the year-end deadline. Thus, even if the USTR determines in November that China should be classified as a priority country, such a finding would not contradict the terms of the MOU.

China's placement on the priority watch list has significance mainly as a mechanism for monitoring and enforcing the terms of the MOU. It lends strength to the consultation provisions of the MOU and to the likelihood of its being implemented, but does not appear to impose significant additional obligations on the Chinese side.

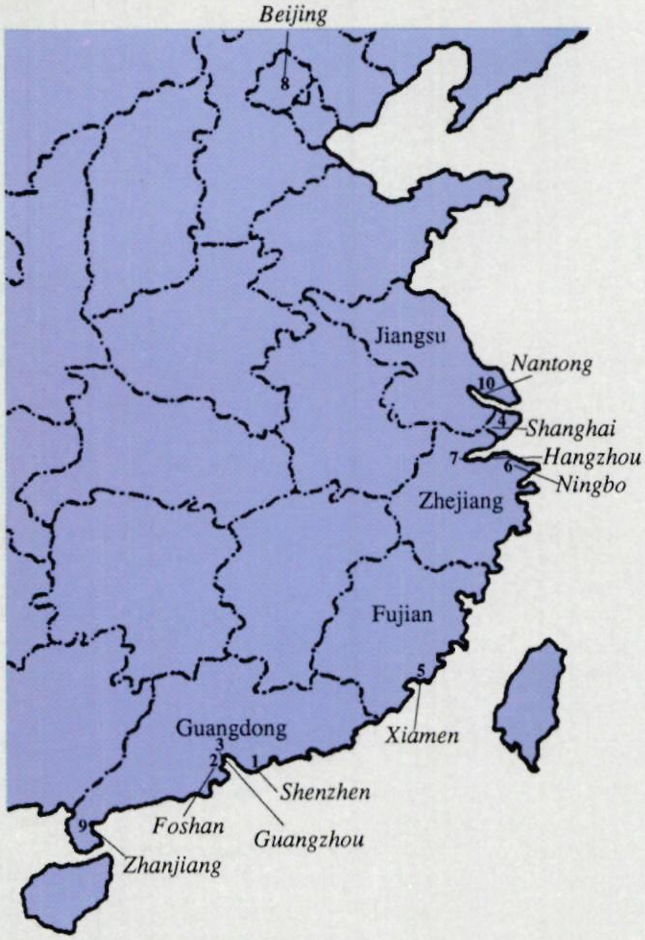
A basis to build on

Recent events in China and the strained relations between the United States and China may possibly hinder smooth implementation of the terms of the MOU. If the United States imposes economic sanctions the Chinese may be less inclined to adopt a cooperative approach toward improving protection for intellectual property rights in China. Changes in China's political leadership may also have an effect. Nonetheless, the MOU represents a significant breakthrough in the intellectual property relations between the United States and China, and should provide a basis for further strengthening of China's system of intellectual property protection. 完

CHINA DATA

中国数据

TOP CITIES BY PER CAPITA INCOME, 1988



City	Province/Municipality	Monthly Per Capita Income (yuan)
Shenzhen	Guangdong	¥153.39
Foshan	Guangdong	114.93
Guangzhou	Guangdong	109.44
Shanghai	Shanghai	108.57
Xiamen	Fujian	106.10
Ningbo	Zhejiang	98.97
Hangzhou	Zhejiang	98.97
Beijing	Beijing	96.75
Zhanjiang	Guangdong	96.58
Nantong	Jiangsu	94.87

SOURCE: *China Economic Information*

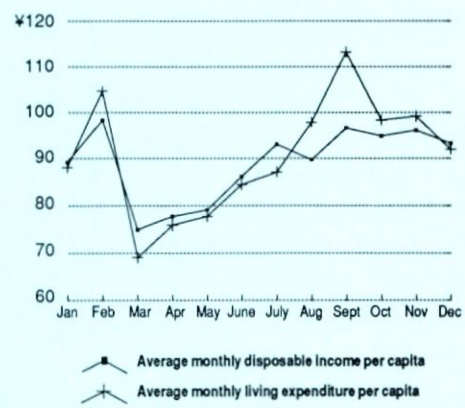
SWAP CENTER EXCHANGE RATES

May 11, 1989

National Center (Beijing)	¥6.7/$1
Beijing	¥6.65/$1
Chongqing	¥7.0/$1
Guangdong	¥6.8/$1
Guangzhou	¥6.9/$1
Shanghai	¥6.7/$1
Shenzhen	¥6.525/$1
Wuhan	¥7.0/$1

SOURCE: Local swap centers

BASIC INDICATORS OF URBAN HOUSEHOLDS, 1988



Month	Income	Expenditure
January	89.23	88.14
February	98.37	104.72
March	74.98	69.10
April	77.76	75.92
May	79.13	77.74
June	86.17	84.46
July	93.10	87.14
August	89.79	97.91
September	96.70	113.18
October	94.92	98.43
November	96.17	99.19
December	93.28	92.00

SOURCE: *China Statistics Monthly*

The tradition of a safe haven at the Palace.

The merchants of Old China journeyed far to trade at the Emperor's many palaces. The perils of the road were accepted because of the comforts waiting at the end of the journey.

Those traveling to Beijing on business today, will understand this well on their arrival at Beijing's other legendary Palace, The Palace Hotel.

For they find not only sanctuary but all the requirements for both elegant living and their business needs.

The hotel and its services were planned with the business traveler in mind; direct dial international telephone system; telex and facsimile transmission; personal computers and telephone modems; radio controlled limousines and taxis; twenty-four hour Business Center services.

For accommodations, in addition to the five hundred de luxe rooms and suites, the two exclusive floors of The Palace Club offer a lounge, bar and butler service. Express check in and check out, of course, together with complimentary laundry, dry cleaning, valet services and Continental breakfast.

For the inner man, the dining choice includes French, Italian, Bavarian, Japanese, Cantonese and Sichuan Restaurants in addition to the Palm Court Coffee House. Then there are the Intermezzo Lounge, Rumours Discotheque, Piccadilly Night Club and The Point After Music Lounge.

For further recreation, guests will find The Palace Spa, with indoor pool, gymnasium, sauna, Jacuzzi, aerobics studio and Billiard Room.

And when business takes them outside The Palace Hotel they find the main government offices, embassies and trade centers just a few minutes away.

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CHINA BUSINESS

中外貿易

Jennifer Koch-Brick

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

US-China Business Council member firms can contact the library to obtain a copy of news sources and other available background information 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 the Business Information Center at The US-China Business Council.

中外
贸易

SALES AND INVESTMENT THROUGH
APRIL 15, 1989

Foreign party/Chinese party
Arrangement, value, and date reported

Advertising and Public Relations

Investments in China

Nara Advertising Inc. (S. Korea)/China International Advertising Corp.
Will be billboard agent for 1990 Asian Games in Beijing. 3/89.

Patrick Media Group (US)/China International Advertising Corp.
Established joint venture in billboard advertising. 11/88.

Agricultural Commodities

China's Imports

NA (Brazil)
Sold 200,000 tonnes soy oil. 4/89.

Canadian Wheat Board
Sold 278,000 tonnes barley in 1988. 3/89.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Import-Export Corp.; CCTV: China Central Television; CEIEC: China Electronic Import-Export Corp.; CEROILFOODS: China National Cereals, Oil, and Foodstuffs Import-Export Corp.; CHINATEX: China National Textiles Import-Export Corp; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNCCC: China National Chemical Construction Co; CNOOC: China National Offshore Oil Corp.; CPIC: China National Corporation of Pharmaceutical Economic and Technical International Cooperation; ETDZ: Economic Technological Development Zone; ICBC: Industrial and Commercial Bank of China; INSTRIMPEX: China National Instruments Import-Export Corp.; MLI: Ministry of Light Industry; MOCI: Ministry of Coal Industry; MOPI: Ministry of Petroleum Industry; MPT: Ministry of Posts and Telecommunications; MWREP: Ministry of Water Resources and Electric Power; NA: Not Available; NDSTIC: National Defense, Science, Technology, and Industry Commission; NORINCO: China North Industries Corp.; SEZ: Special Economic Zone; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SITCO: Shanghai Investment and Trust Corp.; SPC: State Planning Commission.

Agricultural Technology

China's Imports

Iberson International Inc. (US)/Xin Tai City Feed Corp., Shandong
Will build modular feed mill. $2 million. 3/89.

Investments in China

Rhone-Poulenc (France)/Tianjin
Will build factory to produce methionine, a feed additive. 3/89.

Klockner-Humboldt-Deutz Co. Ltd. (FRG)
Discussing joint manufacture of farm machines. 2/89.

Other

USSR/Fujian
Will trade agricultural plastic film for floor tiles. 3/89.

Arcon Manufacturing Inc. (US)
Traded 5,000 tonnes storage silos for industrial magnets. 1/89.

Chemicals, Petrochemicals, and Related Equipment

China's Imports

USSR/Fujian
Will trade chemical raw materials for tangerines and oranges. 3/89.

C.F. Braun Inc. (US)
Will supply ammonia technology. 2/89.

Ems-Inventa AG (Switzerland)/Xiamen Liheng Polyester Co. Ltd.
Will supply polyester fiber production plant. $6.3 million (SFr10 million). 2/89.

Krupp Corpoplast and Krupp Formaplast (FRG)
Sold 24 polyethylene systems. 2/89.

Marubeni Corp. and Mitsubishi Petrochemical Co. (Japan)/Shanghai
Will construct high-pressure polyethylene plant. $70 million. 2/89.

Meccaniche Moderne (Italy)/Tianjin
Will build saponification plant for fatty esters. 2/89.

Malaysia
Sold 37,000 tonnes olein. 1/89.

Investments in China

Amoco Chemical Co. (US)/Ministry of Textile Industry and NA, Zhuhai
Signed letter of intent for joint venture to produce purified terephthalic acid with initial output of 250,000 metric tonnes. 5/89.

Dow Chemical Co. (US)/Zhejiang Chemical Factory
Signed agreement to establish Zhejiang Pacific Chemical Corp. to produce 45,000 tonnes of chemicals in Ningbo, Zhejiang. $50 million. (50-50). 4/89.

Dow Chemical Canada Inc./Zhejiang Pacific Chemical Corp.
Will provide process design technology, equipment and material, and technical engineering training. 4/89.

Quadrant Bioresources Ltd. (UK)/Nanjing University
Will establish Nu-Quad Co. to produce trehalose for medicine and food storage. 4/89.

Air Liquide International (France)/Shanghai
Established Liquid Air Shanghai Co. Ltd. to produce gas mixtures and super-pure gas. $7 million. 3/89.

Chia Tai Chemical Co. (Thailand)/Shanghai Alkali Chlorate General Factory
Will establish Shanghai Guocheng Plastics Co. Ltd. $11 million. 3/89.

Snamprogetti SpA (Italy)/China Petrochemical International Co.
Will construct polyethylene plant in Shanghai. $70 million. 3/89.

Other

Sumitomo Bank (Japan)/Bank of Communications, Shanghai branch, and Shanghai Tianyuan Chemical Plant
Provided $11.5 million loan to import bleaching powder technology and equipment. 3/89.

China's Investments Abroad

NA (US-Italian joint venture)/Three Chinese companies
Established Yupei Corp. to produce, develop, and market polypropylene and its products in the US. 4/89.

Chemicals (Agricultural)

China's Imports

Lurgi GmbH (FRG)
Supplied technical services to World Bank Fertilizer Rationalization Project. $1.2 million. 3/89.

Construction Materials and Equipment

China's Imports

Canada
Sold trusses, beams, prefabricated lumber, and other wood products. 3/89.

AAF (UK)
Sold two heating and ventilation units. $29,800 (L17,000). 7/88.

Investments in China

Schindler Holdings Ltd. (Switzerland) and Jardine Schindler Group of Companies (HK)/Suzhou Elevator Co.
Opened Suzhou Schindler Elevator Co. to produce lifts. $20 million. 3/89.

Lotus Engineering Holdings Ltd. (HK)/Sichuan Plastic Industrial Co. and Chengdu Plastic Plant
Established Chuanlu Plastic Co. Ltd. to produce soil and waste pipes. 1/89.

Hyundai Pipe Co. (S. Korea)
Seeking joint venture for steel pipe manufacture. 10/88.

Consumer Goods

Investments in China

NA (Japan)/Zhongshan Washing Machine Factory, Guangdong
Will produce 170,000 General brand washing machines annually. 3/89.

Fanmei Enterprises (Macao)/Jinsui Material Purchasing and Selling Station, Inner Mongolia
Established Chifeng Jinmei Co. Ltd. to produce disposable chopsticks, toothpicks, and wooden floor planks. $250,000 (¥940,000). 3/89.

Hitachi Ltd. (Japan)/Beijing
Will set up refrigerator production plant. 2/89.

NA (US) and NA (HK)/Guangzhou Soap Factory and Guangzhou ETDZ
Established Baojie Health Product Corp. Ltd. to produce soap, shampoo, and detergents. $10 million. 2/89.

Majorca (Spain)/Suzhou
Negotiating to construct jewelry plant. $8 million. 1/89.

China's Investments Abroad

NA (Thailand)/Jingde Town Carved Porcelain Ware Plant, Jiangxi
Established 15-year Porcelain Ware Plant of Thailand & Jiangxi Art Porcelain Ware Responsibility Corp. Ltd. to produce decorative chinaware. 2/89.

Electronics and Computer Software

China's Imports

Control Data (US)/Chengdu Science and Technology University
Sold Cyber 932 mini-mainframes. 3/89.

Hewlett Packard Asia Ltd. (US)
Provided graphics work station for World Bank Provincial Universities Project. $1 million. 2/89.

Chubb China, subs. of Chubb (HK)
Will supply security equipment to Asian Games. 2/89.

Olivetti (HK) Ltd. (US)/Hunan
Will provide 350 microcomputers for use in 10 middle schools. $1.2 million (HK$9.5 million). 10/88.

Investments in China

Dataquest Co. (US)/Electronic Science and Technology Research Institute
Established China Dataquest Co. to promote cooperation in electronics. 4/89.

Omron Tateishi Electronics Co. (Japan)
Plans to establish software research center in China. 4/89.

NA (Taiwan)
Established the wholly owned Taiwan Beijing Haixia Data Co. Ltd. to develop and produce computer software. 3/89.

IBM Corp. (US)/Zhong Huan Computer Co., Tianjin.
Zhong Huan will manufacture IBM personal computers. 3/89.

Racal-Redac Co. (UK) and Techtrend Electronics and Computer Ltd. (HK)/Jin Zhong Electronics Co.
Signed agreement to develop Cadstar advanced electronic design system. 3/89.

Semi-Tech Electronics (HK)/Shenzhen Electronics Group
Established Semi-Tech SEG Technology for electronics development. $514,000 (HK$4 million). (HK:70%-PRC:30%). 2/89.
NA (HK)/Wang Yongmin Research Institute of Computers for Chinese, and Henan Provincial Software Technology Co.
Established Wang Yongmin Computer Corp. to manufacture software. 11/88.

Koyo Electronics Industry Co. Ltd. (Japan) and Jason Technology (HK)/Wuxi Electronic Device Factory, Jiangsu
Established second joint venture to produce programmable controllers. 10/88.

Other

Boston Consultants Co. (US)/Shanghai Institute of Mechanical and Electrical Equipment
Conducted feasibility study of electrical products and printing machinery industry to be used as basis for credit rating by the World Bank. 3/89.

Data General (UK)
Will open Beijing service support office. 2/89.

Electronics (Consumer)

China's Imports

Corning Glass Corp. (US)/Zhongkang Glass Co. Ltd., Shenzhen SEZ
Will transfer colored kinescope production technology used in television manufacturing. $94.4 million. 3/89.

NA (Switzerland)
Sold ion-smoke detector manufacturing technology. 3/89.

Investments in China

Armstrad Co. (UK)
Will manufacture stereo systems in Guangdong. 2/89.

Windmere Co. (US)
Will manufacture hair dryers, fans, toasters, and similar products in China. 2/89.

NA (HK)
Established Henan-Hong Kong Enterprise Co. to produce glass casings for color television picture tubes. 2/89.

Engineering and Construction

Investments in China

Lassenco Co. (Switzerland)/BOC
Signed agreement to cooperate on development of Hainan's infrastructure. 3/89.

Other

Societe de Techniques et d'Etudes (France)/CTIEC
Will provide loans and technology to harness inland river. $33.6 million (¥125 million). 3/89.

Finance and Banking

China's Imports

Nixdorf Computer AG (FRG)/ICBC
Will automate banking facilities in Qingdao, Shandong. $2.56 million. 2/89.

Investments in China

Long Term Credit Bank (Japan) and First Interstate Bank of Hawaii (US)
Acquired minority stakes in Xiamen International Bank. 4/89.

Other

Al Baraka (Saudi Arabia)/Ningxia Islamic ITIC
Established Al Baraka-Ningxia Islamic International Trust and Investment Co. to provide financial services and consulting. (SA:60%-PRC:40%). 4/89.

Genossenschaftliche Zentralbank AG (Austria)/Agricultural Bank of China
Will advise on international expansion through cooperation agreements. 2/89.

Food and Food Processing

China's Imports

Nescafe (Switzerland)
Negotiating a coffee joint venture. 4/89.

Anthony Zurich & Co. (US)
Will market California wines to a Beijing hotel. 2/89.

Investments in China

Impexital (Italy)/Chineng Winery, Shandong
Establishing winery with 3 million bottles/yr capacity. 4/89.

Longsdale Ltd. (HK)/Beijing Taxi Co. and Chinese and Foreign Products Journal
Opened World Showcase Restaurant Ltd. in Beijing. $3 million. 4/89.

Samyang Foods Co. (S. Korea)/Chintao No. 2 Foodstuff Factory, Shandong
Will supply facilities for instant noodles, soup, and dried agro-marine product manufacture. (50-50). 3/89.

Island World Corp. (US)/Hainan Development Construction Corp.
Will open several fast-food restaurants. 3/89.

Danish Interbrew (Denmark consortium) and Mr. Kam Moon Ip (HK)
Will brew Song Hay beer in Guangzhou. 3/89.

Puromat International Co. Ltd. (Thailand)/Hangzhou Taikang Food Co.
Producing enriched and flavored milk. 3/89.

Zapata Co. Ltd. (HK)/Tianjin Hotel and Tianjin ITIC
Producing and marketing Cheng Bao Fresh American Orange Juice. $215,000 (¥800,000). 3/89

NA (N. Korea)/Dandong, Liaoning
Will open Korean restaurant in Dandong. 2/89.

General Foods Corp. (US)/Great Wall Food Factory, Tianjin
Producing Tang brand orange-flavored drink at Tianmei Food Co. Ltd. (50-50). 2/89.

PepsiCo (US)/Guangzhou ETDZ Industrial Investment Corp. and Guangzhou Asia Beverage Factory
Will establish PepsiCo China Ltd., a wholly-owned foreign enterprise, to produce soft drink concentrates for local consumption. 1/89.

Leasing and Insurance

Investments in China

Bank of Tokyo (Japan)/Jiangsu ITIC and Bank of Communications, Nanjing branch
Will establish Nanjing International Leasing Co. Registered capital: $5 million. (BOT:50%-ITIC:25%-BOC:25%). 4/89.

Industry Bank of Japan/Construction Bank of China
Became partners of North International Leasing Co., contributing $2 million to capital fund. 3/89.

Hai Fu International Container Leasing and All-purpose Services Co. Ltd. (HK)/Shanghai Harbor Bureau and Dong Hua Container Repair Service Co. Ltd.
Opened container leasing company. 3/89.

Sanjing Leasing Co. (Japan)/Liaoning ITIC
Established 20-year leasing company, based primarily in Liaoning. 2/89.

Machinery and Machine Tools

China's Imports

Waldrich Coburg Co. (FRG)/Beijing No. 1 Machine Tool Plant
Coproduced 1.75 meter and 5 meter high-precision milling and boring systems. 3/89.

Numeritronix (US)/China United Shipbuilding Group
Retooled, shipped and installed three axis profiler machine tool plant. 2/89.

Plasser and Theurer (Austria)
Supplied tamping machines to World Bank Fourth Railway Project. $1.2 million. 12/88.

Shapes Machines Ltd. (UK)
Sold 20-station turret punch press. $122,700 (L70,000). 7/88.

Investments in China

Beaver Engineering (UK)
Licensed lathe manufacturing. 3/89.

Multimatic Corp. (US)/Castic Corp., part of Ministry of Aviation and Technology
Established Castic-SMP Corp. to manufacture drycleaning machinery. 2/89.

Media

Investments in China

Mr. Gu Xiaokun (HK)/Zhejiang ITIC
Established 20-year Hangzhou Cartoon Manufacture Corp. Ltd. to produce cartoons. (HK:80%-ITIC:20%). 3/89.

L Rex International Inc. (HK)
Established joint venture to print hardcover and paperback books. 3/89.

Opah Screen Printing (UK)/Shenyang, Liaoning
Will open 15-year joint venture to produce printing inks. $14 million (L8 million). 2/89.

Medical Devices

China's Imports

Varian Co. (US)/Shanghai 9th Medical Instrument Factory
Sold complete X-ray image intensifier production line. $6.8 million. 4/89.

IMPEX (France)/Shanghai Jinshan Trade Corp.
Sold second-hand production factory for syringes. $2.74 million (FFr17 million). 3/89.

Siemens (FRG)/Jiangsu Provincial Institute of Oncology
Will sell radiology facilities. 3/89.

Leeman Laboratories Inc. (US)
Provided inductively coupled plasma emission spectrometer for World Bank Provincial Universities Project. $1.6 million. 2/89.

NA (France)/Gulou Hospital, Nanjing
Sold extracorporeal shock-wave lithotripter. 12/88.

NA (Japan)/Nanjing College of Traditional Chinese Medicine
Sold color Doppler ultrasound machine. 12/88.

NA (US)/Jiangsu Provincial People's Hospital
Sold ventricular late potentiometer. 12/88.

Investments in China

Korea Asahi Optical (S. Korea)
Plans to build two prescription lens plants. 3/89.

Leeco Diagnostics Inc. (US)/Tianjin Medical College and Tianjin ETDZ
Will expand factories at Tianjin-Leeco Biotechnological Inc. 3/89.

Sola International, subs. of Pilkington Plc (UK)/NORINCO
Will establish joint venture to manufacture plastic optical lenses. $2.5 million. 3/89.

Other

Italy/Beijing 301 Hospital
Established Sino-Italian Friendship First-Aid Center and donated medical equipment. $4.6 million. 3/89.

Mr. Philip Allen (Australia)/Shanghai Medical University
Donated two electronic microscopes. 2/89.

Metals, Minerals, and Processing Equipment

China's Imports

Ashton Mining Ltd. (Australia)
Granted 10-year exclusive exploration and mining rights for diamonds in Hunan. 3/89.

Denco Lube (UK)/Bohai Aluminum Industries, Hebei
Will supply pumps, valves, pipework, and control equipment for rolling mills. $631,400 (L360,000). 2/89.

Armco Steel Mill (US)
Sold used steel-plate manufacturing machinery. 1/89.

Investments in China

NA (US)
Established Jinhui Reprocessed Metals Co. Ltd. to process copper and aluminum ingots. $570,000. 4/89.

Corub Kopes Co. (FRG)/Anshan Coking and Refractory Material Engineering Co.
Will establish Sino-German Engineering Co. for coking. 3/89.

Ilshin Industrial (S. Korea) and Cyprus (US)
Will develop talc mines. 3/89.

NA (HK)/Yongfu County, Guangxi
Established Guiyong Magnetic Material Plant to mine and process nafeb alloy, a rare earth magnetic material. 2/89.

NA (UK)/Fenghua Machinery Co. and Chemical Reagent Plant, Heilongjiang
Established Heilongjiang Licheng Aluminum Foil Paper Products Co. Ltd. to produce 120 million sq m aluminum foil annually. $9.2 million. 2/89.

NA (HK)/Tianjin
Established Huasheng Co. to process metal waste. Registered capital: $400,000. 11/88.

Military Equipment

China's Imports

United States Navy
Sold four MK46 torpedoes. 2/89.

Packaging and Paper and Pulp Equipment

China's Imports

APM (Australia)
Sold coated carton board production equipment. 3/89.

Investments in China

USSR
Will help restructure Jiamusi Paper Mill. 3/89.

Other

E.I. Du Pont De Nemours & Co. (US)/Shanghai
Will open packaging materials technical development center. 4/89.

Petroleum, Natural Gas, and Related Equipment

China's Imports

George E. Failing Supply Co. (Canada)
Sold slant drilling rig. $1.7 million. 3/89.

USSR/Fujian
Will trade gasoline and diesel oil for filling station equipment and building ceramics. 3/89.

China's Investments Abroad

Thailand Petroleum Co. Ltd./Tianjin ITIC
Will established petroleum company. (TH:51%-PRC-49%). Registered capital: $790,000 (TB20 million). 1/89.

Pharmaceuticals

China's Imports

Faulding (Australia)/State Pharmaceutical Administration
Transferred pellet-coating technology. $2 million. 2/89.

NA (Japan)/Tianjin No. 1 Pharmacy of Traditional Chinese Medicine
Sold medicine production technology. 11/88.

Investments in China

Information System Institute (Japan)/Small-Business Research Center, Beijing
Opened Traditional Chinese Medical Science and Health Co. Ltd. 4/89.

NA (Japan)/Qingdao, Shandong
Established Huazhong Pharmaceutical Co. Ltd. to produce traditional medicines. $19 million. 3/89.

Nippon Meigi Pharmaceutical Corp. (Japan)/Guangzhou Pharmaceutical Factory
Signed cooperation agreement to produce ampicillin and amoxicillin. $35 million. (50-50). 3/89.

NA (US)/Chinese Academy of Medical Science
Established joint venture to research anti-cancer drugs. 2/89.

NA (Taiwan)/Baiyunshan Group
Will establish pharmaceutical joint venture in Guangzhou. (TW:60%-PRC:40%). 12/88.

Power Plants and Equipment

China's Imports

Alsthom (France)
Will supply steam turbine generator to Beilungang Thermal Power Plant in Zhejiang. 3/89.

John Brown Engineering Ltd. (UK)/Liuzhou Power Development Co., Guangxi
Will provide gas turbine-based power generating equipment. 2/89.

Investments in China

Asea Brown Boveri (Switzerland)/Sanya, Hainan
Will set up gas power station. 3/89.

Xinhong Electricity Investing Ltd. (HK)/Xinli Energy Developing Co., part of CITIC, Jiangsu Provincial Investing Co., and Wuxi Municipal Electricity Co.
Shareholders in Ligong Thermal Power Plant. 2/89.

Property Management and Development

Investments in China

Chuang's Consortium Ltd. (Ltd)./Huizhou, Guangdong
Developing 2 million sq ft industrial park. 3/89.

Hidaka Kousan Co. (Japan) and Xinlong Co. (HK)/Shanghai Gubei New District Development Corp.
Established Shanghai Gubei-Xinlong Development Co. to develop real estate and infrastructure projects. $13.4 million (¥50 million). 3/89.

Lancashire Enterprises (UK)
Assisting in development of industrial park in Shenzhen. $175 million (L100 million). 3/89.

Emmons (Singapore)/Hongqiao ETDZ, Shanghai
Signed 50-year lease for 1.29 hectares. $28 million. 3/89.

G/Nanjing, Jiangsu
Will establish economic and technological center. 1/89.

Scientific Instruments

China's Imports

Integrated Measurement Systems Inc. (US)/Ministry of Aerospace
Will supply Logic Master XL2 high performance prototype verification system. 3/89.

Hewlett Packard (US)
Sold gas chromatograph mass spectrometer through World Bank Provincial Universities Project. $1.7 million. 2/89.

Ships and Shipping

China's Imports

Hutchison Whampoa Ltd. (HK)/China Resources Holdings Co. Ltd.
Sold 10% interest in Hong Kong International Terminals Ltd. 3/89.

Hong Kong Islands Line (HK)/COSCO
Negotiating purchase of services and/or vessels. 2/89.

Telecommunications

China's Imports

NEC Corp. (Japan)/Guangdong Post and Telecommunications Bureau
Signed 2-year contract to supply switching systems. $39 million (J¥5 billion). 4/89.

Farinon (US)/Sichuan
Will supply microwave transmitters and receivers. $3 million. 3/89.
Loral Corp. (US)

Will supply portable microwave telecommunications equipment. $400,000. 3/89.

Nokia Co. (Finland)/Shengli Oilfield, Shandong
Will supply DX200 digital exchange. 3/89.

Siecor Corp. (US)
Sold fiber optic cable and equipment. 3/89.

M/A-COM Inc. (US)
Sold satellite components. $4 million. 3/89.

Cable & Wireless (UK)/Xinhua News Agency
Will set up international communications network, initially linking Beijing, Hong Kong, and New York. 3/89.

Hutchison Telephone, subs. of Hutchison Whampoa (HK)/Beijing Telecommunications Administration
Will supply mobile telephone service. 3/89.

SESA (Spain)/Hangzhou, Zhejiang
Will supply 50,000 program controlled telephone exchanges. 2/89.

Italtel (Italy)
Will supply telephone exchanges. 2/89.

C Telecommunications (UK)
Will supply transmission equipment to World Bank Second Railway Project. $2.3 million. 1/89.

Investments in China

Cable & Wireless (UK)/CITIC
Sold 20% share of Companhia de Telecommunicacoes de Macao. 3/89.

Kexin Technologies (Singapore)/CAS
Established Asian Satellite Communication Technology Ltd. to transmit television programs. 3/89.

Philips Co. (Netherlands)/Chengdu Television and Electrical Appliances Group
Established Philips Chengdu laboratory and research center. 3/89.

USA GE Ltd. (HK), subs. of AT&T (US)
Producing telephones in Shenzhen SEZ. 2/89.

Other

Kokusau Denschin Denwa Co. Ltd. (Japan)
Will set up the Beijing International Telecom Plaza to provide international calling, telex, and facsimile services. 3/89.

INEX Technology International (US)
Distributing Gateway brand local area networks in China. 2/89.

China's Investments Abroad

Thailand
Negotiating establishment of satellite communications agency. 3/89.

Textiles

China's Imports

Rieter-Scraggs (UK)
Sold four yarn machines. 2/89.

Investments in China

NA (HK) and NA (Macao)
Established Monisa Fashion Co. Ltd. in Beijing. 4/89.

Biagiotti Export SpA (Italy)
Will produce cashmere garments in China. 3/89.

Chai Luk Enterprise Co. Ltd. (HK)/Shandong Textile Products Import and Export Corp.
Established Hua Lian Wool Spinning Co. to process 300 tonnes/yr angora. 3/89.

PNV Group (Australia)/Nanjing Woolen Textile Mill and Jiangsu Knitting and Cotton Textile Co.
Established Suwei Woolen Knitting Co. Ltd. to produce yarns. 2/89.

Transportation

China's Imports

METROTEC (UK)/Shanghai
Will construct at least two Shanghai subway lines. 4/89.

Airbus (France)/Shanghai Eastern Airlines
Will sell three A310s. 3/89.

American Leasing Co. (US)/Southwest China Aviation Co.
Leased two Boeing 737-300s. 3/89.

GEC Avionics, subs. of GEC Plc. (UK)/China National Aerotechnology Import and Export Corp.
Will supply avionics. $52 million (£30 million). 3/89.

Togen Co. Ltd. (Japan) and Sanwa Bank (HK)/Air China
Leased one Boeing 767-200. 3/89.

Plasser and Theurer (Austria)
Sold three sets ballast cleaners to World Bank Third Railway Project. $6 million. 2/89.

Investments in China

France/Hainan
Will assist in building Fenghua Airport in Hainan. $97 million (¥360 million). (FR:60%-PRC:40%). 3/89.

Liftomatic Material Handling Inc. (US)/China National Materials Storage and Transportation Corp., Wuhan branch
Established Wuhan Liftomatic Material Handling Inc. to produce dollies and forklifts. 3/89.

Dunlop International Projects (UK)
Will set up steel radial truck tire factory. 2/89.

Toyota Motor Co. (Japan)/Changchun
Will set up truck factory. 2/89.

Mr. Jerry Bell (US)
Established Zhangzhou American Tire Retreading Co. $1.1 million. (50-50). 2/89.

Xinlong Co. Ltd. (HK)/Fengsheng Trade Co. Ltd. and Nanjiang Science and Technology Co., Xiamen

Established ID Light-aircraft Co. to produce lightweight aircraft. 2/89.

York Trailer Co. (UK)
Manufacturing axle designs. 1/89.

Miscellaneous

Investments in China

NA (Taiwan)
Established Beijing Ledali Enterprise Co. to manufacture lottery tickets. 4/89.

NA (HK)/Guangxi
Established Guilin Travel Service Group. 3/89.

MPSI (US)/Sino-US Small and Medium-sized Enterprises International Exchanges Liaison Office
Established joint venture to study investment and business opportunities. 2/89.

Fortunate Intertrade Group Inc. (US)/Inner Mongolia
Established joint venture to promote Inner Mongolian trade. 9/88.

China's Investments Abroad

NA (US)/Gansu ITIC
Established Lanzhou-U.S. Non-destructive Testing Co. to test petrochemical projects, nuclear power station installation, and offshore oil drilling platforms. 4/89.

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MS ACCOUNTING, U of Toledo, Aug 89. Finance & engineering experience. Native Chinese seeks a US position. CHAO SUN 419/531-3129, 419/537-2240.

ETHNIC CHINESE seeks China trade opening. MBA/ME, 20+ years business, manufacture, computer background. Experienced in aviation, production plant, technology transfer, rubber processing, buy back projects in China, will travel and relocate. C. Hung. Fax: 852/3-7307052.

ENGLISH/CHINESE/FRENCH SPEAKING engineer/MBA/management consultant seeks job in China trade. Resume on request. P. Martin, 47 Cherrywood Dr., Nepean, Ont., Canada K2H 6H1. Phone: Beijing 282471 (3893) Rm 419.

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