THE CHINA BUSINESS REVIEW
JULY-AUGUST 1992
VOLUME 19, NUMBER 4

# Health Care Diagnosis

## INSIDE

- Protecting your company's name
- The case for preserving China's MFN status

Zhang Xuan's " Lady Kuo-Kuo and her Sisters Setting Forth on an Outing " (Tang Dynasty, 8th century), reworked in 1989 by Sanna Shao(邵[illegible])in Hong Kong.

# A Quest for a New World of Hospitality in China

In old China, travel was restricted to nobility and merchants; trips were long and arduous... and comfortable lodging was hard to find.

Today, there's a New World in Beijing, Guangzhou and Shanghai. All first class hotels where travelling business people enjoy the utmost in comfort, service and style. Convenient locations, well appointed rooms, a wide choice of business support services, recreational facilities and, without doubt, the best restaurants in town.

For fine accommodation and superb hospitality in China, look no further than New World.

## NEW WORLD HOTELS INTERNATIONAL

GUANGZHOU
中國大酒店
CHINA HOTEL

BEIJING
京廣中心
JING GUANG CENTRE
JING GUANG NEW WORLD HOTEL

SHANGHAI
上海楊子江大酒店
YANGTZE NEW WORLD HOTEL

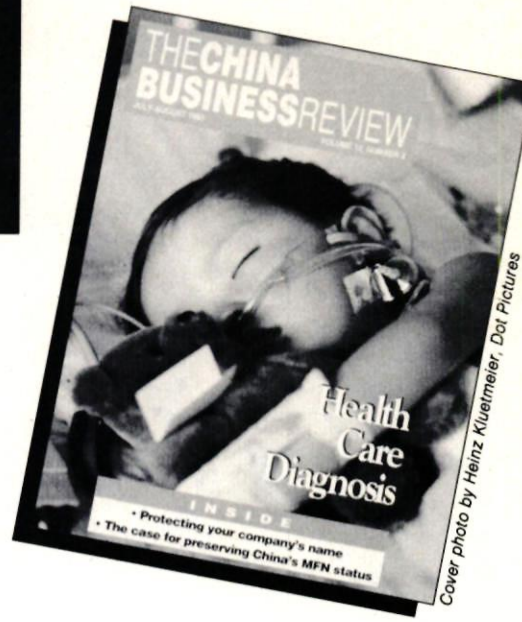
Hong Kong Reservations Hotline:(852)731 3488 Fax:(852)721 0741 Utell International

BEIJING • GUANGZHOU • GUILIN • HANGZHOU • SHANGHAI • SUZHOU • XIAN • HONG KONG • MACAU

# THE CHINA BUSINESS REVIEW

JULY-AUGUST 1992 VOLUME 19, NUMBER 4

*The magazine of the US-China Business Council*

*Cover photo by Heinz Kluetmeier, Dot Pictures*

## Features



## Departments

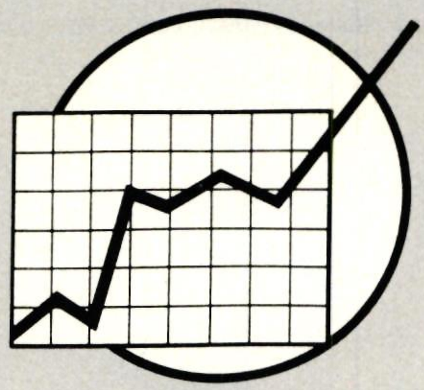
# 摘要 Trends & Issues

## *Swap Rates Climb*

Exchange rates at China's foreign exchange adjustment (swap) centers rose rapidly this spring, exceeding the ¥6/$1 mark for the first time in over two years. The spread between the official bank rate (¥5.5/$1) and the swap rate, which ranged from ¥6.2-6.5/$1 in mid-June, has now increased to 12-18 percent, after dipping below 9 percent for the past year.

A sharp rise in China's imports is the chief reason for the higher swap rates. Relaxation of import controls has stimulated demand for foreign exchange at the centers, as more buyers with import approvals attempt to buy foreign currency. At the same time, less foreign exchange is being sold into the centers as Chinese units with retained foreign exchange find increased import opportunities.

If more purchasers continue to chase less volume (Shanghai's trading volume in April was $260 million, a decrease of 20 percent from April 1991 volume), swap rates conceivably could go even higher, particularly if Chinese imports continue to grow at such a brisk pace (*see* Short Takes). During China's period of rapid import growth in early 1989, for example, swap rates ranged between ¥6.45/$1 and ¥6.80/$1.



In related news, State Administration of Exchange Control (SAEC) Director Yin Jieyan stated in an interview with *China Daily* that China's long-term goal is to make the *yuan* convertible. That goal is probably still far away, however, as Beijing is not yet willing to relinquish that much control over the country's trade and currency mechanisms. Furthermore, convertibility is not required for membership in the General Agreement on Tariffs and Trade (GATT), thereby eliminating the major source of outside pressure for change in China's trading system.

While *yuan* convertibility remains unlikely in the near future, Chinese officials frequently say that they are working to establish a "controlled, single-float exchange rate system," which suggests doing away with foreign exchange certificates (FEC). However, no definitive plans have been issued for abolishing the FEC system. A controlled-float exchange system stops short of convertibility, but does suggest that the official bank rate will continue to be devalued in the direction of the swap rate in order to eventually establish a single-rate system.

Chinese officials have also stated that they have no plans to develop a partial convertibility system for foreign investors. For the time being, China intends for foreign investors to continue to rely on exports, the swap centers, and limited foreign exchange sales in China to meet foreign exchange needs. There is talk, however, of combining the nearly 100 autonomous swap centers into a single national market. Provided local resistance to such a plan can be overcome, a unified swap market would increase the foreign exchange available to investors in locations outside of Shanghai and Guangdong, where trading volumes are currently largest.

—John Frisbie, director,
US-China Business Council
Beijing Office

## *The Next Governor*

Christopher Patten has been chosen to succeed Sir David Wilson as governor and commander-in-chief of Hong Kong. Patten, currently chairman of the British Conservative Party, will take up his appointment in July. The outgoing governor, in praising the appointment, said, "I have known Mr. Patten for many years. He will be an excellent governor for a most important period in Hong Kong's history. He has a fine reputation as an immensely able person with a great deal of political experience at the highest levels." Patten's past government appointments include parliamentary undersecretary of state for Northern Ireland, minister of state at the Department of Education and Science, minister for overseas development at the Foreign and Commonwealth Office, and secretary of state for the environment. He has no previous China experience.

In another recent appointment, Alastair Goodlad replaced Lord Caithness at the post of British minister of state with special responsiblity for Hong Kong at the Foreign and Commonwealth Office.

—AAF

# Short Takes

## *MFN: Round 3*

On June 3, President Bush officially extended China's Most Favored Nation (MFN) trading status for 1992. As *The CBR* goes to press, a resolution to disapprove the extension has been introduced in the House, which must vote on the issue by September 3. Separate legislation seeking to condition future renewal on a number of human rights, trade, and arms proliferation issues has been introduced in both houses, which have until the end of the current session (October) to vote on the bills. At this point, it appears the President has enough support to prevail over both groups of MFN opponents.

## *Customs Indicts China Traders*

As part of an ongoing investigation by US Customs, federal authorities announced on May 6 that three companies and four individuals in the China trade had been charged with defrauding US Customs and the Internal Revenue Service (IRS). The indictments allege that a Chinese textile manufacturer (China Jiangsu of Nanjing), its New York sales agent, and a California-based apparel import company under-reported the value of Chinese textiles and clothing by as much as $2.1 million to evade US import duties. The 17-count indictment includes charges of conspiracy to defraud both Customs and the IRS, entry of falsely classified goods, and smuggling of goods into the United States.

## *China Imports Up in '92*

China's Customs Statistics revealed that imports for the first five months of 1992 climbed 21.4 percent to $26.21 billion, while exports rose 14.4 percent to $27.95 billion. First quarter US statistics, however, show the opposite trend: China's exports to the United States soared 41.7 percent over the same period of 1991, while imports rose by only 17.6 percent.

# *US Treasury Unhappy with Chinese Monetary Policy*

In a shift away from earlier findings, a May report by the US Department of the Treasury concluded that China manipulates its exchange rate to regulate its balance of trade, and cites this action as a contributing factor to the large US trade deficit with China. In three previous reports, Treasury concluded that China's trade surplus with the United States was primarily due to causes other than exchange rate manipulation.

The findings of the recent Treasury report are a reflection of the administration's toughened stance toward China. According to the report, a "network of pervasive administrative controls over external trade" has proven a major impediment to Chinese import of US goods. Such measures include direct controls over imports and exports, such as the import licensing system, and indirect controls exercised through the allocation of foreign exchange and access to the foreign exchange swap markets.

According to Treasury, though China adopted a managed-float exchange system in 1991, its devaluation policy continues to allow authorities to use "exchange rate policy as a substitute for badly needed measures to eliminate domestic price distortions that undermine the competitiveness of Chinese producers and make export subsidies necessary." The report concludes with a caveat that "until far-reaching reform of China's trade and domestic price regimes has been undertaken, further devaluation of the administered rate should be suspended." The report's findings mandate that the secretary of the Treasury enter into negotiations with the Chinese to encourage correction of the manipulative policies.

The semi-annual report has been submitted to the House and Senate banking committees. And while no punitive measures are stipulated, it may provide further ammunition for congressional critics of the administration's China policy by expanding the list of economic grievances with China to include financial as well as trade concerns.

—Richard Brecher, director,
US-China Business Council
Business Advisory Services

THE CHINA BUSINESS REVIEW

1818 N Street, NW
Suite 500
Washington, DC 20036-5559

202/429-0340
Fax: 202/775-2476
Telex: 64517 NCUSCTUW

**Editor**
Pamela Baldinger

**Associate Editor**
Vanessa Lide Whitcomb

**Assistant Editor**
Ann Amelia Flynn

**Advertising Manager**
Daniel P. Reardon

**Circulation Manager**
Paula Nourse Ragland

**Production Manager**
Jon Howard

*The China Business Review* welcomes articles from outside contributors. Manuscripts submitted for consideration should be sent to the editor, *The China Business Review*, 1818 N St., NW, Suite 500, Washington, DC 20036-5559. The China Business Forum retains all rights to articles and artwork published in *The China Business Review*. Articles or artwork published in *The China Business Review* may be reprinted in non-Council publications or reproduced only with the written permission of the China Business Forum.

*The China Business Review*, ISSN No. 0163-7169, is published bimonthly by the China Business Forum, 1818 N St., NW, Washington, DC, 20036-5559, USA (Tel: 202/429-0340), a nonprofit organization incorporated under the laws of Delaware. Second class postage paid at Washington, DC, and additional mailing offices. Postmaster, please send address changes to *The China Business Review*, 1818 N Street, NW, Suite 500, Washington, DC 20036-5559, USA. Articles in *The CBR* do not reflect Forum policy, unless indicated. *The CBR* is grateful to I-Chuan Chen for the calligraphy used for the magazine's departments.

Annual subscription rates: $96, US/Canada  $150 international  Single copy issues: $16  over 1 yr: $8

# Phoning Home

*For China expats, keeping in touch with the home office is getting easier all the time*

**Jeffrey Kao**

Development of China's telecommunications network is a key national objective under Beijing's current five-year plan, and foreign companies have been rushing to secure their share of this lucrative market. Yet while improvements in basic infrastructure are clearly important, the bottom line for most users is this: Did my call get through? Happily, the answer increasingly is "yes."

### *IDD and more*

Results of a four-year study recently undertaken by AT&T and the Chinese Ministry of Posts & Telecommunications (MPT) indicate marked improvements in the percentage of successful long-distance calls placed from the United States to China. From 1988-92, a caller's chances of getting through to China on the first dial improved from 25 percent to more than 45 percent. For certain cities the improvement was even more dramatic: in 1987, AT&T customers placing calls to Shanghai had to dial an average of five times to complete one call. Today, many callers get through on the first try. Surprisingly, improved management rather than technological wizardry is given much of the credit for this gain. Such mundane yet fundamental advances should continue as cooperation between Chinese and foreign telecommunications equipment and service providers accelerates.

**From 1988-92, a caller's chances of getting through to China on the first dial improved from 25 percent to more than 45 percent.**

In late July 1991, for example, both MCI Communications and US Sprint joined AT&T in providing direct long-distance voice service between the United States and China. According to MPT Vice Minister Zhu Gaofeng, China's decision to break its long-standing policy of entering into voice agreements with only one carrier per country was in part inspired by the results of competition between the leading carriers in the United States—namely, lower prices and a larger market. Regardless of the motivation, the opening of China's international long-distance market heralds an even wider variety of calling options for customers in the People's Republic.

Of the major US carriers, AT&T recently expanded the scope of its USADirect calling option under an agreement with the Directorate General of Telecommunications (DGT). This plan gives dialers in China direct access to an AT&T operator in the United States for assistance in placing a call, which can then be billed either to a calling card or to the party being called. Previously limited to special telephones in hotels and telecommunications service centers, USADirect should now be obtainable from virtually any phone—including home phones—in Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, and Hangzhou. Fuzhou, Xiamen, Nanjing, Dalian, and Guilin will reportedly be added to the system by August. To use USADirect, callers simply dial a toll-free access number, 10811, to reach a US operator. AT&T is also offering a user-friendly version of the service to Chinese-speaking callers, who may dial another toll-free number, 10810, for automatic connection with Chinese-speaking AT&T operators in the United States.

Sprint offers a similar service called Express, through which callers in the same five cities may access US-based Sprint operators by dialing 10813. MCI plans to introduce in China its US operator service, Call USA, this summer. Loyalists to one of the "big three" carriers should note that the Chinese telephone administration assigns normal international direct dial (IDD) and local operator-assisted calls to one of the three US carriers according to mutually agreed upon accounting formulas. Therefore, use of one of the US operator access services is the only way for a caller to specify a certain carrier.

More significantly, calls made using one of these services are billed at

*Jeffrey Kao is director of information services at the US-China Business Council.*

US rates, which can be considerably less expensive than Chinese charges for a comparable IDD call. By using his calling card, a USADirect or Express caller would enjoy savings over IDD rates beginning with the fourth minute of a call. The amount saved increases dramatically with each additional minute. For example, the savings for a 10-minute USADirect call to the United States would be $7.80, and for a 20-minute call, nearly $20.00. The use of such services may also help the frequent traveler avoid the surcharges normally imposed by hotels on international long-distance calls, since the access numbers themselves are toll-free. The same US operator services can be used to complete manual-mode fax transmissions. The US carriers are also making plans to introduce international 800-number service to the US-China market, possibly as early as the end of the year.

### *Logging on to e-mail*

Desktop computer access to electronic mail (e-mail) is now also an option for foreign companies in China, through MPT's public digital packet-switching network, CHINAPAC. A means of transmitting text electronically from one system user to another, e-mail is now used by most major American companies. US e-mail providers MCI Mail, Sprint Mail, and AT&T Mail have all recently entered into agreements with China to give subscribers access to the carriers' international networks via CHINAPAC.

For communications not requiring immediate interaction, the "store-and-forward" technology utilized in e-mail message transfer provides some real benefits. Transmission to the intended "mail-box" is virtually instantaneous, delivery is ensured regardless of whether the recipient is available at the time of transmittal, and the unit cost of transmitting information is likely to be competitive with that of an equivalent voice call or fax—particularly if the destination lies outside of the local calling area. Moreover, billing rates do not vary with time or destination, and the message itself arrives as a computer-processable electronic file, which is particularly useful for longer documents requiring editing. The major e-mail providers typically offer additional capabilities, such as the ability to send messages directly to any fax or telex number, or to a service center which will laser-print the message and deliver it by postal or courier service. Most of the major commercial e-mail services can communicate with each other, as well as with the global academic and research network, Internet.

While toll-free access to these e-mail services is available through the public telephone network in the United States, limitations in the Chinese phone system make it necessary for a specialized data communications network, such as CHINAPAC, to serve as a conduit in that country. E-mail users in China should be able to employ the same basic functions they would use in the United States, but should expect significant additional costs and perhaps somewhat lesser access and performance levels. Potential foreign CHINAPAC subscribers should probably establish their e-mail accounts at home through the carrier of their choice before attempting to set up in China. At present, AT&T is the only US carrier with offices in China prepared to assist in the set-up and support of local e-mail users.

**Setting up a CHINAPAC account will involve a deposit and certain one-time costs for registration, installation, and testing.**

CHINAPAC is currently available in Beijing, Shanghai, Guangzhou, Tianjin, Shenyang, Xian, Wuhan, Chengdu, Nanjing, and Shenzhen. Companies must check with the relevant local telephone administration to determine the actual access sites in each city. In Beijing, CHINAPAC is administered by the Beijing Telegraph Office, and applications for a Network User ID (NUI) should be submitted to this office. Subscribers should anticipate at least a month's delay before their account is approved and access granted. Depending on the subscriber's particular office building, CHINAPAC access may also involve installation of an additional phone line for modem use.

While modems may be purchased from the local telephone administration, subscribers will need to provide their own computers and communications software. Subscribers with their own modems must register them with the telephone administration, which requires that the modems conform to certain international standards (CCITT V.22).

Setting up a CHINAPAC account will also involve a deposit and certain one-time costs for registration, installation, and testing. Connect-time charges and minimum usage fees will apply to actual use of the network. Aside from the local telecommunications administration's CHINAPAC charges, subscribers will be billed separately at standard rates by their US carrier for message delivery (*see* box).

Once an account has been opened, e-mail service can be initiated by dialing CHINAPAC's access number


# These companies put their reputation on our lines.

Successful companies take no chances when it comes to communications networks. That's why hundreds of the world's most successful companies have chosen Hong Kong as a hub for their private networks.

Hongkong Telecom is a world leader in advanced voice and data communication. We've invested in the latest fibre optic, satellite and undersea cable technology, putting us in the forefront. We've also invested in our people, so you can count on creative and cost-effective solutions to your communications requirements.

With our long experience in private networks, we're able to offer the kind of reliable service successful companies are looking for. To find out more call +852 888 2929.

Hongkong Telecom

and then entering the network user ID, password, and code for desired service. After connecting, subscribers need only complete the usual log-on steps for their particular provider. In practice, this "double log-on" procedure is simple, and may even be completely automated by communications software programs such as Lotus Express (MCI Mail), PC Sprint Mail, and Access Plus (AT&T Mail).

As the number of CHINAPAC subscribers increases, heavy usage may result in noticeable slowdowns—or even unavailability—during peak time periods. Subscribers accustomed to the 2400-baud modems most commonly used in the United States will also have to adjust to the slower 1200-baud access provided by CHINAPAC's dial-up service. China is, however, reportedly planning to upgrade the CHINAPAC network by early 1993.

Companies with heavy data communications demands may wish to consider the more expensive option

# *TELECOMMUNICATIONS OPTIONS IN CHINA*

## Long distance phone & fax service to the United States

*operator-assisted service for phone calls and manual fax transmissions*

| PROVIDER | | AVAILABILITY | PROCEDURE | COST |
|---|---|---|---|---|
| AT&T: | USADirect | Beijing, Shenzhen, Shanghai, Tianjin, Guangzhou, Hangzhou | Dial 10811 for operator | First min.: $4.29<br>Addl min.: $1.99<br>Phonecard fee: $2.50 |
| MCI: | CALLUSA | same | Dial 10812 for operator | N/A |
| SPRINT: | EXPRESS | same | Dial 10813 for operator | First min.: $4.28<br>Addl min.: $1.99<br>Phonecard fee: $2.00 |

## Electronic mail

*electronic transmittal of information through computer networks*

| PROVIDER | AVAILABILITY | PROCEDURE | CHARGE |
|---|---|---|---|
| CHINAPAC | Beijing, Xian, Shanghai, Wuhan, Guangzhou, Chengdu, Tianjin, Nanjing, Shenyang, Shenzhen | Must have modem and applicable software.<br>Dial access number; enter ID, password, and service code; log-on. | Deposit: ¥2,000<br>Installaton fee: ¥550<br>Fixed monthly charge (1200 bps): ¥330<br>Connect time charges: ¥.08 per segment, ¥.87 per minute |
| AT&T<br>MCI<br>Sprint | All can be accessed wherever Chinapac is available. | Normal log-on procedure through Chinapac for all three US carriers. | AT&T: Mailbox $3 per month. Message fees: 0-1,000 characters: .50; 1,001-2,000: .80; 2,001-3,000: .95<br>MCI: Mailbox $35 per year. Message fees: 1-500 characters: .50; 501-1,000: .60; 1,001-2,000: .70; 2,001-3,000: .80<br>Sprint: Mailbox $15 start up, $20 per month minimum usage. $14 per hour + .05 per 1,000 characters usage fee |

## Contact information

| AT&T | Chinapac | Sprint | Hongkong Telecom |
|---|---|---|---|
| Richard Wu<br>AT&T China, Inc.<br>8/F China World Tower<br>Beijing<br>Tel: 505-5566<br>Fax: 505-5577 | Zuo Feng<br>Data Communication Service<br>Beijing Telegraph Office<br>Tel: 601-0757<br>Fax: 601-0717 | Dave Wong<br>Sprint International<br>Suite 1212<br>2 Pacific Place<br>88 Queensway, Central<br>Hong Kong<br>Tel: 810-8810<br>Fax: 810-7373 | Virgina Chi<br>Private Networks and Datacom Branch<br>Hong Kong Telecommunications, Ltd.<br>P.O. Box 9896 GPO Hong Kong<br>Tel: 883-3224<br>Fax: 824-3379 |

of dedicated-line access to CHINAPAC. This option provides significant gains in speed and primary access to available lines.

*Expanding private networks*

While China's IDD and e-mail options may be adequate for most business communication needs, further resources are available via private network offerings. In general, however, the cost and technical complexity of private networks dictate that only companies with fairly high volumes of communications traffic and knowledgeable information managers will find the networks cost effective.

**Only companies with fairly high volumes of communications traffic and knowledgeable information managers will find private networks cost effective.**

Perhaps the most dramatic option available through private networks is videoconferencing—simultaneous audio and video communication. Videoconferencing is now available via high-speed digital private-line systems such as AT&T's SKYNET International Service. SKYNET utilizes a network of earth stations situated on the roofs of telecommunications buildings in Beijing and Shanghai, microwave links to selected office buildings in these cities, and, for overseas hookups, Intelsat satellites. Available digital line speeds range from 56/64 kbps to 1.5/2.0 mbps.

Beijing locations linked with SKYNET include the China World Trade Center, the Fortune Building, the New Otani Changfugong Hotel, and Beijing Telecom's Downtown Telecommunications Building. In Shanghai, the service is now available in the Baoding area, at the Ruijin Building and the Hongqiao Guest House, and soon may be available at the Shanghai Centre and the International Trade Center. Videoconferencing studios are also being established in telecommunications centers in Beijing and Shanghai, with service to be made available to the public on an hourly basis later this year.

Other SKYNET services include multiplexed voice, data and fax, and bulk data transfer; graphics; and customer premises-to-premises videoconferencing. Comparable capabilities are offered by Hongkong Telecom through its system of International Private Leased Circuit connections from Hong Kong to Shanghai (including Pudong), Guangzhou, Dongguan and Shenzhen, and through optical fiber links from Hong Kong to Guangzhou and Shenzhen. A company with sophisticated communication needs should consider the availability of such high-speed private network resources when considering possible office sites in China. 完

# Protecting Your Company's Name

## *New regulations promise safeguards against misuse*

**Michael M. Hickman and Helen K. Ho**

Most foreign firms entering the Chinese market have already made a point of building goodwill and market recognition for their companies' names abroad. To ensure exclusive use of these names in China, companies interested in exploring business opportunities in the PRC should register their names under regulations recently enacted by the State Administration for Industry and Commerce (SAIC). Firms already registered under the previous regulations need not re-register, but should find that their exclusive rights are now spelled out more clearly than before.

**A registered name must be composed of at least two Chinese characters.**

The Regulations on the Administration of the Registration of Enterprise Names (the Regulations), which were issued by the SAIC on June 22, 1991, set forth registration procedures, delineate the rights of name holders, and stipulate remedies for redress if registrants' names are used illegally. While the Regulations became effective September 1, 1991—repealing a 1985 set of interim rules—the registration procedures have yet to be implemented fully, and long delays in obtaining registration approval are still common.

### *Much-needed protection*

The Regulations fill a significant gap in Chinese law, providing the only clear means for a foreign company to prevent other firms from using its name. Before passage of the interim regulations, China had no explicit legislation regarding the protection of foreign company names. While China's Trademark Law provides some protection for trademarks of certain classes of goods, business names are not covered. Article 29 of the new Regulations, however, expressly states that foreigners may apply to register their company names and thereby obtain the same protection as domestic Chinese enterprises. The new Regulations also formalize and clarify this registration process.

According to the Regulations, all enterprises (including foreign investment enterprises [FIEs]) established in China must register with the SAIC. The basic registration fee is ¥1,000, which must be paid in foreign exchange certificates. Under Article 17, an FIE should register its name following approval of its project proposal and initial feasibility study.

Companies incorporated abroad, regardless of whether they are actively engaged in business in China, may also register their names to receive protection under the Regulations. These companies are required to submit their applications to the SAIC headquarters in Beijing, while domestic applicants, including FIEs, may apply for registration in their localities.

### *Fending off imitators*

Under the Regulations, the holder of a registered company name is granted the exclusive right to use that name in its registered line of business. The Regulations stipulate that unauthorized users of a registered company name may be subject to penalties ranging from ¥5,000-50,000; the SAIC may also order the infringer to compensate the legitimate user for losses caused by the infringement. In theory, illegal gains from the infringement may also be confiscated by the SAIC. While the Regulations allow the registered

**The Regulations provide the only clear means for a foreign company to prevent other firms from using its name.**

owner of a company name to bring suit directly against the infringer in a Chinese court, administrative remedies will probably be the usual course of action.

Article 25 of the Regulations expressly provides that a dispute between a Chinese registrant and a foreign enterprise will be resolved by the SAIC on the basis of international treaties and agreements to which China is a party. These include the Paris Convention, which sets forth international patent and trademark protection. Since a US firm that has yet to register its company name in China is entitled to protection of its name by virtue of US membership in the Paris Convention, in theory, it is possible that a Chinese enterprise that has registered or appropriated the name of a US firm could be subject to sanctions. In practice, however, it is doubtful such an argument would prevail. Registering one's name in China—before any conflict arises—is the safer course of action.

### *What's in a name?*

According to the Regulations, a registrable name must be composed of three elements, in the following order: the business or trade name of the registrant, the line of business or specialty of the registrant, and an indication of the form of organization of the registrant, i.e. adding the word "Incorporated" or the abbreviation "Inc." when appropriate.

The SAIC will reject the registration of any company name which is the same as, or which it deems to be confusingly similar to, that of a previously registered company name in the same line of business. Similarly, an enterprise name which echoes too closely that of an enterprise which has been terminated or had its license revoked within the preceding three years, or that of an enterprise whose registration was canceled within the preceding year for any other reason (such as a change of name), will not be registered. If the name of a representative office is registered, it will be protected only if the words "representative office" are part of the name.

Only registered company names may be used in production and business activities. Because protection will be limited to the scope of business stated on the registration certificate issued by the SAIC upon approval of the application, the SAIC should be given a full and complete description of the applicant's business. Broadly worded or catch-all phrases are not likely to be accepted. For example, if an application by a company states that it is authorized to engage in "all lawful activities," the SAIC will most likely require the applicant to specify its current line of business. Companies that later expand into other areas can extend their name protection in China by amending the originally registered line of business to include the new activities.

For the most part, applications will be handled on a "first-to-file" basis. Other registration requirements having been met, if two or more applicants engaged in a similar business activity or profession seek to register the same or similar names, approval in most circumstances will be granted to the application first received by the authorities. There is no conflict if the registrants are engaged in different businesses. It is not currently possible, however, for a search to be made to determine the availability of a company name for registration.

### *Names to avoid*

In addition to names which are deemed unacceptable because they are found to be too close to previously registered names, the Regula-

*Michael M. Hickman and Helen K. Ho are associates with the international law firm Cleary, Gottlieb, Steen & Hamilton. Hickman, now based in New York, has worked in Hong Kong and Beijing and advises clients doing business with China. Ho, second secretary for Hong Kong commercial affairs at the British embassy in Washington from 1983-86, is now with the firm's Washington, DC, office.*

tions prohibit other types of names, including:

- Names with contents or words which are deemed harmful to the interests of the State or the public;
- Names with contents or words that may deceive or mislead the public (e.g., a company that only prints bonds seeking to call itself a financial adviser);
- Names incorporating references to foreign countries, regions, or international organizations;
- Names of political parties; party, government, or military authorities; mass organizations; social organizations; or designations of military units;
- Names containing numerals or words in *pinyin* (except if used in foreign names);
- Names incorporating the word "China" (*Zhongguo*), "Chinese" (*Zhonghua*), or "international" (*guoji*), unless, in the case of domestic enterprises, the enterprise has nationwide operations, or the use of the relevant word is approved by the State Council or the SAIC.

Before the Regulations were promulgated, the SAIC held that an FIE or a foreign company could register a company name including the words "China" or "Chinese" as long as neither word appeared at the beginning of the company name and the name had been registered and used in jurisdictions outside China. Although the 1991 Regulations restrict the use of these words in the names of domestic enterprises, they do not expressly reverse the prior position of the SAIC; such names will continue to be permitted provided the other conditions for registration are met. The same criteria should be applied by the SAIC if a foreign registrant has in its name words indicating a country or region other than China, or the word "international." The SAIC has stated that if such a name has already been registered elsewhere, it would probably be given approval within China.

According to the Regulations, foreign companies must register a Chinese name composed of at least two characters "consistent with" the corresponding foreign name. If the applicant does not provide a Chinese name, the SAIC will most likely coin one itself. As the resulting name may be less than desirable (particularly when all major market dialects are considered), each foreign enterprise should supply its own name in Chinese for registration with the SAIC.

**_Foreign registrants may want to submit applications for renewal well in advance of expiration._**

### *New law, old bureaucracy*

Certain procedures in the Regulations designed to expedite registration will not be implemented fully until at least the end of 1993. In the meantime, it may take 12-18 months for a foreign company to register its name.

The Regulations state that the SAIC is to determine whether preliminary approval of registration will be granted within 30 days of its receipt of a completed application. In practice, however, responses can take several months and delays should be expected for some time to come. As part of the new streamlined procedures, once preliminary approval is granted, applications will be subject to a six-month waiting period commencing with the publication of the name by the SAIC in one or more leading domestic newspapers. During this six-month period the name is reserved under the first-to-file rule, though any interested party may file an opposition to the proposed registration. If no opposition is filed, a certificate of registration reserving the name for five years will be issued by the SAIC.

The first newspaper publication of foreign companies' names is expected to occur in late 1992, when names registered prior to the promulgation of the Regulations will be printed. The next group of names, those submitted for registration between June 22-December 31, 1991, will probably be published six months later. Publication of a third group, those names submitted for registration in 1992, will likely follow in another six months. It is anticipated that in the future publication will be carried out at regular intervals following the publication of these initial sets of backlogged names. Precise publication procedures, however, including the intervals between publication of different groups of names, have yet to be determined.

### *Renewal, transfer, and cancellation*

Registration of an FIE's name can remain valid as long as the enterprise maintains its existence under Chinese laws and regulations. As registrations may be renewed while the extant five-year registration is still valid, foreign registrants may want to submit an application for renewal well in advance of expiration.

The registration of an FIE's name automatically becomes void if the enterprise does not commence business operations within the reservation period which, in most cases, is one year. If the FIE has an approved preparation and construction period in excess of one year, however, the reservation of the name will be valid for the duration of the approved period. Foreign firms not currently active in China are not required to commence business operations in China after approval of registration.

In cases where all or part of an enterprise is transferred, the Regulations provide that the enterprise's registered company name may be assigned to one of the new owners. For example, at the end of a joint venture's term, one of the partners may be assigned the venture's name along with all or part of the venture. The contract or agreement governing the assignment must be filed with—and approved by—the SAIC before the assignment becomes legally effective. Once the assignment has been consummated, only the approved user may continue to use the name in China in the line of business registered with the SAIC.

### *Slow but solid*

A company's reputation and goodwill are intangible assets. Though the process can be slow, a clear and comprehensive legislative mandate for formally protecting a well-recognized and admired name in China now exists. Currently, it is too early to tell whether these new regulations will be implemented fully and effectively, but the structural foundation for enforcement is sound. 完

# The Case for China's MFN Status

**With the President's June 3 extension of Most Favored Nation (MFN) status for China, the now-annual battle over renewal has resumed. The US-China Business Council, which has taken the lead each year in urging Congress to retain China's MFN status, prepared the following position paper this spring to educate the government and population about the potential costs of withdrawing MFN.**

Most Favored Nation (MFN) status is not a concession or special benefit to China. It is the standard tariff treatment the United States extends to almost all its trading partners, including Iran, Iraq, and Libya, and has been granted to China for more than a decade. Withdrawing MFN status now would abrogate the 1980 US-China Trade Agreement and destroy the structure of the US-China commercial relationship, which has been built up so painstakingly over the past 12 years. Before taking such a momentous step, we must understand what, exactly, is at stake. We must examine the costs involved and weigh them against the potential benefits to prevent precipitous action.

Costs to the United States of withdrawing MFN status for China include:

• **Lost exports:** Withdrawal of China's MFN status would invite reciprocal action by China. The net result would be the loss of a major American export market—$6.3 billion in 1991, up nearly 30 percent over the preceding year—and the loss of well over 100,000 American jobs.

It would not be difficult for China to import equivalent goods from other countries, as the United States is the only nation even contemplating denial of MFN status for China. Our unilateral action would only serve to benefit Japan and the European nations, most of which are promoting their own products through aggressive mixed-credit programs. The United States would thus be locked out of a major export market—and the fastest growing economy in the world in South China—at a time when the American economy is weak and unemployment is a persistent problem.

American exporters that would be hardest hit include (*see* Table 1):

• *Commercial aircraft manufacturers*, who racked up more than $1 billion in sales last year and who have topped $2.3 billion in total China sales over the past three years.

• *Computer and industrial and construction machinery manufacturers*, whose sales to China exceeded $1 billion last year, up 23 percent over 1990.

• *Fertilizer producers*, who last year realized sales of nearly $1 billion and whose sales to China have increased nearly five-fold over the past four years.

• *Wheat and other cereal farmers*, whose annual China sales have averaged over $600 million for the past three years.

• **Lost jobs:** Over 118,000 largely high-tech American jobs may disappear if we lose access to the China market. This figure is derived from a US Department of Commerce estimate that an average of 19,100 jobs are created for each billion dollars' worth of exports.

• **Increased trade deficit:** Removal of China's MFN status would contribute further to our overall trade deficit with the world. While the United States would lose as much as $6 billion in exports, our overall import bill would be relatively unaffected, as China simply would be replaced by other low-wage countries as the source of labor-intensive goods. Manufacturers would not produce these goods in the United States; rather, they would seek out cheap labor in Indonesia, the Philippines, and Malaysia.

Parties who argue that eliminating MFN from China would reduce the US-China trade deficit fail to take into account the nature of most Chinese exports to the United States. Many of these goods are produced by Hong Kong- and Taiwan-invested projects on the mainland. Thus, as the US trade deficit with China has climbed over the past few years, our deficits with Hong Kong and Taiwan have dropped; Hong Kong and Taiwan have effectively shifted their trade surpluses to China. If we remove MFN from China, the Taiwan and Hong Kong companies operating there will simply shift certain processes back home or to other low-wage countries to avoid the excessive tariffs. While our imports from China may decrease, they will increase from these other areas. Our lost exports to China, however, will not be replaced.

**Removal of China's MFN status would hurt US consumers and Chinese reformers**

• **Higher consumer prices:** Increasing tariffs is tantamount to imposing an import tax on the US consumer. Removing MFN would effectively levy a $7 billion-10 billion cumulative sales tax on American purchasers, as the average duty rate on goods imported from China would increase from about 6 percent to over 40 percent.

In reality, of course, the same goods would not be purchased from China because of the high duties. However, retailers would suffer severe, short-term disruption while they shifted to other low-cost suppliers. Consumers least able to afford it would see significant price increases in clothing, footwear, toys, and other low-end products for which China is now a leading supplier.

• **Lost American investment:** US firms have invested nearly $5 billion in manufacturing enterprises in China, largely to gain access to the domestic market. These projects would be put at risk if MFN were withdrawn, as many remain dependent on inputs from the United States and/or sell their finished products in the US market. Moreover, the reputations of American firms—whether active in China or not—would be damaged around the world, as they will be perceived as unreliable business partners.

**The adverse effects of MFN withdrawal are not limited to the US economy; withdrawal would also have a tremendous impact upon our allies and friends abroad.**

### *Damage to friends and allies*

The adverse effects of MFN withdrawal are not limited to the US economy; withdrawal would also have a tremendous impact upon our allies and friends abroad. The decision to withdraw MFN must therefore be weighed in terms of the collateral damage to:

• **Hong Kong:** Hong Kong already faces a crisis of confidence as it prepares for the transition to Chinese sovereignty in 1997; withdrawal of US MFN treatment for China would devastate the territory both economically and psychologically. Nearly 70 percent of American imports from China are transshipped through Hong Kong, which earns significant income from banking,

## Table 1.
## TOP US EXPORTS TO CHINA, 1991

($ millions)

| HTS # | Item | $ 1990 | $ 1991 | % Change |
|---|---|---|---|---|
| 88 | Aircraft | 749.1 | 1,082.6 | 45 |
| 84 | Computers, industrial & construction machinery | 859.9 | 1,058.2 | 23 |
| 31 | Fertilizer | 543.9 | 981.7 | 80 |
| 10 | Cereals | 512.4 | 363.4 | –29 |
| 52 | Cotton | 280.9 | 326.6 | 16 |
| 90 | Optical, measuring, and medical instruments | 226.8 | 317.6 | 40 |
| 39 | Plastics | 165.8 | 297.1 | 79 |
| 85 | Machinery and electrical equipment | 264.1 | 277.4 | 5 |
| 29 | Organic chemicals | 251.6 | 273.9 | 8 |
| 44 | Wood | 179.9 | 168.2 | –7 |
| 48 | Paper and paperboard | 84.2 | 153.5 | 82 |
| 55 | Man-made staple fibers | 105.8 | 136.1 | 29 |
| 73 | Articles of iron or steel | 26.9 | 91.4 | 240 |
| 87 | Vehicles, except railway or tramway | 52.4 | 66.4 | 27 |
| 47 | Wood pulp and paper scrap | 57.5 | 64.5 | 122 |
| 76 | Aluminum and articles thereof | 19.5 | 56.9 | 192 |
| 27 | Mineral fuel and oil | 4.6 | 56.5 | 1,128 |
| 38 | Miscellaneous chemical products | 31.1 | 46.9 | 51 |
| 74 | Copper and copper articles | 32.7 | 46.0 | 41 |
| 26 | Ores, slag, and ash | 50.3 | 37.8 | –25 |
| 28 | Inorganic chemicals; precious and rare-earth metals | 21.0 | 31.9 | 52 |
| 59 | Impregnated textile fabrics | 25.9 | 25.0 | –3 |
| 32 | Tanning and dye extracts | 22.1 | 21.9 | –1 |
| 94 | Furniture, lamps, and prefab buildings | 7.8 | 19.7 | 153 |
| **TOTAL ALL COMMODITIES** | | $4,807.3 | $6,286.8 | 31% |

*HTS = Harmonized Tariff System number*
*Source: US Department of Commerce*
*Compiled by the US-China Business Council*

insurance, shipping, and legal services involved in this entrepot trade. Furthermore, more than a third of Hong Kong's manufacturers have moved their operations to South China; their continued viability—and Hong Kong's economic prosperity—clearly are dependent on China's participation and integration into the global economy. Revocation of China's MFN status would retard that process and damage Hong Kong's stability. Specifically, Hong Kong would suffer the following under such a scenario:

- 35-47 percent ($4.7 billion-6.3 billion) reduction in re-exports from China to the United States.
- 6-8 percent ($12-16 billion) reduction in overall trade.
- $2 billion in lost income.
- 44,000-60,000 lost jobs.
- 1.8-2.5 percent drop in GDP, about one-third to one-half the current growth rate.
- More than $25 billion in direct investment in manufacturing operations in China would be put at risk.
- Further loss of jobs and income as China retaliates against US goods.

• **The semi-private sector in South China:** This region, which accounts for over half of all China's exports to the United States, would be devastated. Removing MFN would destroy this thriving, market-oriented segment of the Chinese economy—a segment which serves not only as the engine for China's economic development, but as a model for reform. The impoverishment of South China would not damage the hard-line Beijing leadership; on the contrary, it would remove the major obstacle to its efforts to bring the entire country under the stranglehold of the central planning bureaucracy. How could such an outcome be considered in our interest, or in the interest of greater freedom for the Chinese people?

Indeed, withdrawing MFN would make the current repression worse, by undercutting the sole sector of the economy that operates largely outside the central control of the State. We tried to change China's behavior with sanctions in 1950, while the Soviet Union sought to bring China to its knees in 1959; in each case, Beijing responded by tightening its belt, suppressing all dissent, and uniting the country around the myth that foreigners seek only to plunder and humiliate China.

**Conditional renewal would effectively translate into a one-year plant-closing notice for foreign companies operating in China.**

### *The illusion of conditions*

Recognizing the costs and risks involved in terminating MFN, some members of Congress propose a "compromise" solution: renewal of MFN, provided China meets certain conditions concerning human rights and other areas. While this option may sound attractive, it does not reflect reality—it simply amounts to another way of withdrawing MFN.

No country would willingly accept a list of conditions effectively regulating the management of its internal affairs from another country, simply in order to conduct normal trade. China certainly would not comply with such conditions, so its MFN status would be withdrawn; if not immediately, then in a year. Conditional renewal, therefore, would effectively translate into a one-year plant-closing notice for foreign companies operating in China. The question thus returns to whether to continue MFN or withdraw it—conditional approval is not a viable third option.

### *Alternatives to MFN withdrawal*

MFN is not the only policy option we possess to influence China's behavior, nor is it the most effective. Direct bilateral negotiations have led to demonstrable progress on a host of persistent problems that have plagued the US-China relationship in the areas of trade, weapons and nuclear proliferation, and human rights. Achievements thus far include:

*In trade:*

- The United States Trade Representative (USTR) obtained an agreement in January 1992 to improve the protection of US intellectual property rights in China. China has agreed to join the Berne Copyright Convention by October 15 and the Geneva Phonograms Convention by June 1993, and to extend copyright protection to computer software. China further agreed to extend patent protection to US pharmaceutical and chemical products.
- USTR is presently engaged in negotiations to reduce barriers to American access to the China market. Failure to reach agreement in these talks by October 10 could result in the imposition of prohibitive tariffs against several billion dollars' worth of Chinese products exported to the United States each year.
- The Federal Maritime Commission in February successfully pressured China to allow US shipping companies to establish branch offices and conduct direct business in China.
- The US Customs Service has vigorously pursued violators of US textile quotas—filing criminal charges against offenders—and has seized imports of goods manufactured with prison labor.

*In proliferation:*

- The Chinese, in February, provided

**Table 2.
GROWTH RATE OF
CHINA'S INDUSTRIAL OUTPUT, 1991**

| | |
|---|---|
| State-owned enterprises | 8.4% |
| Collective enterprises | 18.0% |
| Private enterprises | 24.0% |
| Foreign-invested enterprises | 55.8% |

*Source: State Statistical Bureau*

President Bush with written assurances that they will abide by the Missile Technology Control Regime (MTCR). The White House subsequently pledged to continue to monitor China's compliance and levy new sanctions if China fails to fully implement this commitment.

• China acceded to the Nuclear Non-Proliferation Treaty on March 9, 1992.

• Following pressure from the United States, China has endorsed application of International Atomic Energy Association safeguards on a nuclear reactor it helped construct in Algeria.

*In human rights:*

• China has given the United States a name-by-name response to a list of prisoners detained after Tiananmen, and has released some of these people.

• Secretary Baker obtained assurances that all dissidents and relatives of dissidents not charged as criminals would be permitted to leave the country. Some have already left China.

• China has published regulations forbidding the export of products produced with prison labor.

• The US government sponsored a resolution at the UN Human Rights Commission addressing the need to improve the human rights situation in China.

• The US State Department has held repeated consultations with the Chinese to maintain pressure on human rights issues. In the past, China never agreed to discuss such topics with foreign countries.

We urge the administration to continue to press for improvement of human rights in China, as well as to press for further progress in ensuring China's adherence to international norms of trade and arms control. Clearly, the achievements in these areas to date indicate that the mechanisms and institutions required to address our disagreements with China already exist. Even more important, they are gaining results. Lumping all of our grievances with China into one very public challenge is both irresponsible and ineffective; the MFN threat only undermines our ongoing bilateral negotiations, which have had—and will continue to generate—a positive impact.

### *MFN: bane to conservatives, boon to reformers*

Those who argue to take MFN away—either directly or indirectly—base their arguments on the false assumption that foreign commercial relations with China prop up the anti-democratic central planners in Beijing and undercut the forces of reform. On the contrary, foreign trade and investment promote the reform of any communist system.

The Chinese leadership is well aware of the competitive challenges presented by foreign trade and investment—both in terms of contrasting business practices and ideologies, and in direct competition for goods and markets. Chinese State enterprises simply cannot compete with more market-oriented enterprises (*see* Table 2).

China's policymakers thus face two options: reform the State system or restrict foreign competition. Withdrawing MFN makes that choice for them—the wrong choice. We should not be helping the hardliners in China. We should be looking for ways to increase our commercial interaction with the country, in order to help promote reform there as well as to ensure the position of our own companies. We should be prepared to use all of the tools at our disposal to open China to trade and investment, including Section 301 of the US Trade Act. We must press for greater market access for American exporters and service industries, and greater freedom for foreign investors to supply their customers, manage their work forces, and gain access to the foreign currency they need to operate efficiently.

The effort to increase commercial interchange with China will be a continuing tug of war. The Chinese hardliners will keep looking for ways to gain the direct benefits of foreign contact (capital and technology) and reject the indirect benefits (growing integration with the global economy and the free exchange of values and ideas), which they consider subversive. If we keep up the pressure on Beijing to open Chinese markets, we will help keep China's reforms alive, in both the political and economic spheres. More contact with China—not less—is the most effective way to bring about greater freedom and respect for human dignity in China.

# China's Medical Equipment Purchases

*Imports of new technologies are on the rise*

**Roberta Lipson and Lawrence Pemble**

With over 2 million beds in more than 60,000 hospitals, China's health care system is a major potential purchaser of Western medical technology. Though Chinese imports of medical equipment and supplies have increased significantly during the past seven years, the Chinese market can be a difficult one for foreigners to penetrate. US firms on the whole have done well in this sector, however, and should continue to see good sales and investment prospects during the Eighth Five-Year Plan (FYP, 1991-95).

### *Cyclical spending patterns*

In recent years, Beijing has spent an average of $278 million per year on Western medical products, but import levels have been uneven, ranging from a low of $241 million in 1985 to a high of $335 million in 1991. Despite the fluctuations, China's annual spending is actually quite predictable. Typically, China purchases fairly large amounts of medical equipment in the first two years of a five-year plan, with a drop in the third and fourth years before a jump in imports during the fifth year (*see* graph).

Imports of medical equipment in the 7th FYP (1986-90) were true to this pattern, and figures for the current plan seem to be following suit. For example, by the end of 1991, the first year of the 8th FYP, spending on medical imports had risen to $335 million, a 21 percent increase over 1990 levels. Foreign suppliers and Chinese health care officials alike are optimistic about further increases in 1992 spending.

While this rate of growth is very attractive to foreign suppliers, government-imposed barriers to imports will prevent the market from growing as fast as it otherwise might. Though imported medical equipment is often preferred for reasons of quality, technology, reliability, and status, China's foreign trade system continues to protect domestic products through the imposition of high import duties and taxes, as well as through complicated import-approval procedures. In practice, high-end products China cannot manufacture itself are imported, while lower-end products tend to be sourced locally.

**Imported medical equipment is often preferred for reasons of quality, technology, reliability, and status.**

China will remain dependent on imports of high-end health care equipment for the foreseeable future. Typically, developing countries such as China initially prioritize the acquisition of diagnostic equipment, which is used to determine what is troubling a patient. Spending then increases on therapeutic equipment, such as surgical instruments, which are applied to cure whatever ailment has been diagnosed. The highest level of health spending centers on purchases of patient care technology, such as cardiac care units, ventilators, and other specialized equipment to help doctors monitor and assess the efficacy of the recommended treatment.

Though China has followed this general pattern to some extent, the sheer size of the Chinese hospital system has meant significant market segments co-exist for each type of health care equipment. Since the early 1980s, for example, there has been steady demand for ultrasound, X-ray, and various other kinds of laboratory diagnostic equipment. At the same time, demand for imported therapeutic and patient care technology has grown rapidly with the modernization of the health care system. As the system develops further, therapeutic and patient monitoring equipment will likely claim a larger share of overall imports, though purchases of diagnostic equipment will remain significant.

### *More money, more buyers*

The size and diversity of China's health care system has made it difficult for foreign suppliers to develop comprehensive marketing strategies. Over the past decade, purchasing decisions have become increasingly decentralized (*see The CBR*, November-December 1987, p. 29), leaving individual hospitals as well as health care systems at the provincial and local levels greater leeway in making foreign purchasing decisions.

Most Chinese hospitals buy foreign equipment with retained earnings from patient and insurance payments, or through bank financing

*Roberta Lipson is the president of US-China Industrial Exchange, Inc. (USCIE), which provides market services in China for a number of US companies. Lawrence Pemble, vice president of USCIE, is responsible for the company's Western hemisphere operations.*

backed by authorities at the local or ministry level. While in the past hospitals had to obtain foreign exchange through ministerial channels, they may now exchange their own *renminbi* earnings for hard currency at the local swap markets in order to finance foreign purchases.

Foreign vendors looking to capitalize on this increased buying power will probably find that potential Chinese customers, like US buyers, are keenly interested in the repayment period for a particular piece of equipment. Some foreign suppliers have been willing to accept extended payments over as many as 24 months, in light of the increasingly innovative financing schemes Chinese hospitals are adopting to purchase foreign equipment. For instance, departments within hospitals have been known to present departmental revenue projections to lending institutions as a sort of "guarantee" that loans can be repaid. Other cases have been reported in which hospital workers have bought "shares" in a piece of equipment in anticipation of a portion of the profits it will generate. As long as such plans are backed by a government authority such as the local bureau of health, Chinese banks readily accept requests for these types of loans.

While Chinese hospitals now have far greater autonomy in deciding what they want to buy and how to finance their purchases, they must still receive approval from central-level authorities to import equipment, a process that can be quite cumbersome. Import approvals and licenses can involve as many as five or six individual "chops" from authorities in Beijing, with final approval usually required from the State Pharmaceutical Administration (SPA) and State Council Review Office. Hospital personnel, in fact, often spend weeks in Beijing once a sale has been finalized in order to facilitate the approval process.

The import approval system gives primary consideration to the availability of local substitutes, but also weighs the general technical abilities of the hospital purchasing the equipment. In the past five years, obtaining official approval to import most equipment valued under $20,000 has been fairly straightforward, particularly for mid- to high-level diagnostic, therapeutic, and patient care equipment for which no domestic equivalent is available. Licenses are required for imports of equipment costing more than $20,000, though there is generally no fixed limit to the number of units that can be imported each year. For equipment that is already being manufactured in China, such as simple black-and-white ultrasound scanners, however, import approval is increasingly difficult to obtain.

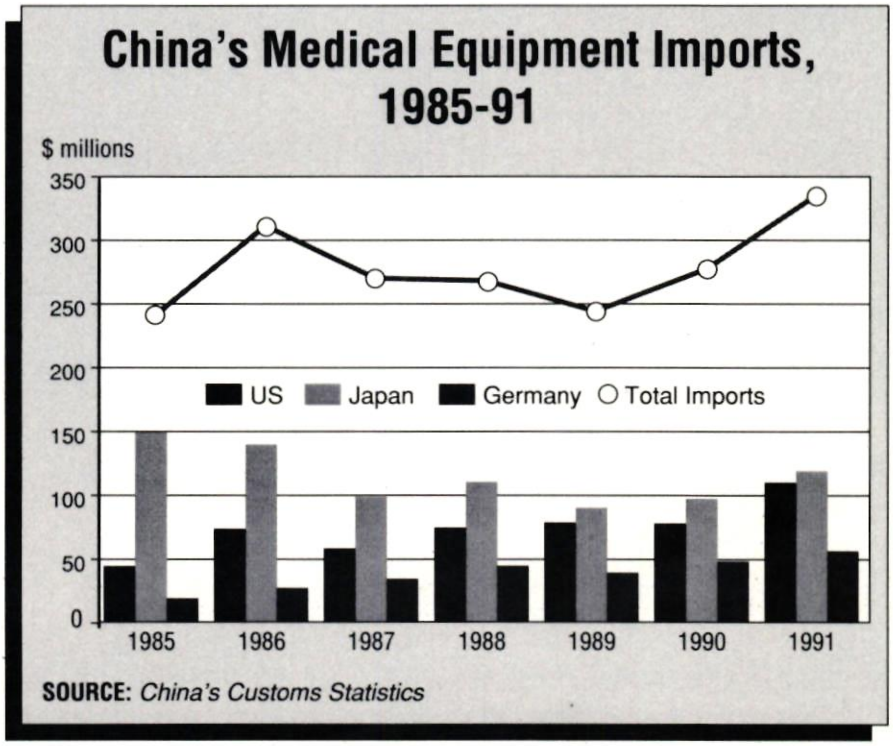
**_As the health care system develops, therapeutic and patient monitoring equipment will likely claim a larger share of overall imports._**

A few high-tech, high-demand items, such as magnetic resonance imaging scanners (MRI) and computerized tomography (CT) equipment, continue to be purchased entirely through central channels. Import of these technologies is restricted by the requirement of a special license, which is issued on a case-by-case basis by a committee composed of radiologists, SPA and Ministry of Public Health (MOPH) officials, and other government representatives, who meet just once a year to review import requests and determine how many units may be imported.

While a fair number of these machines seem to slip in each year through the Special Economic Zones, where local import policies are generally more flexible, foreign suppliers of CT and MRI equipment should anticipate lengthy delays in obtaining import approvals. Only a few of the special licenses are granted annually, largely to ensure even national distribution of the equipment and on-going technical support from foreign suppliers, as well as to promote the development of domestic production of CT and MRI equipment through foreign investment and technology transfer programs. In the past year, import licenses were granted for 10 MRI units, nearly 30 CTs, and approximately 50 CT units in kit form to be assembled by joint ventures in China.

### *US firms cash in*

Although decentralization means foreign suppliers now have to sell far more people on the merits of their equipment than before, US suppliers have become increasingly astute at penetrating the China market. Since China began large-scale purchases of Western medical equipment in the early 1980s, the United States, Ger-



# China's Health Care Network

China's vast health-care system is loosely organized along geographical and ministerial lines. The Ministry of Public Health (MOPH), the State Administration of Traditional Chinese Medicine, the People's Liberation Army (PLA), and various industrial ministries all administer their own systems. Provinces and counties also maintain their own networks, which include township hospitals and village clinics. These latter institutions generally have limited resources and treatment abilities, and therefore do not have much contact with foreign medical technology suppliers. Most sales of foreign technologies go to the MOPH, PLA, industrial ministry, or provincial facilities.

• ***MOPH***

MOPH oversees the operations of 11 medical colleges, each of which has 2 or 3 teaching hospitals. Equipment procurement for these hospitals is funded directly by MOPH, though each hospital may supplement purchases by drawing upon its own revenues or by obtaining independent financing from local banks.

While hospitals under MOPH's jurisdiction increasingly are making their own foreign equipment purchases, the ministry recently made centralized purchasing decisions regarding the upgrade of equipment in the teaching hospitals' intensive care units (ICU). In 1991, MOPH-appointed committees reviewed all these hospitals' ICU-related equipment and analyzed the cost/benefit ratios of the various products before issuing, in spring 1991 and 1992, limited tenders for respirators, defibrillators, patient monitoring technologies, and other equipment. An estimated total of $10 million will be spent on this equipment. The collective bargaining power of the ministry should enable it to obtain the equipment at a significant savings over independent purchases. MOPH will likely engage in similar review and acquisition programs in the future.

• ***PLA***

The PLA hospital system is administered by the PLA's Department of Logistics. The army operates nearly 300 hospitals nationwide, as well as four medical colleges, each of which is affiliated with two or three teaching hospitals. The PLA system is responsible for providing health services for the more than 3 million PLA soldiers and their families. In addition, many PLA hospitals treat fee-paying civilian patients to earn extra revenue.

The military hospitals are primarily funded by the PLA, and tend to be the best equipped. Equipment purchases are financed through PLA funds, independent revenues, and loans from local banks. The PLA teaching hospitals in Guangzhou, Shanghai, Chongqing, and Xian earn significant revenue from civilian patient fees. Like the MOPH system, the PLA procurement system has developed a balance between centralized, coordinated purchases (largely organized through an annual equipment exhibition in Beijing) and decentralized, hospital-initiated procurement.

• ***Industrial ministries and the provinces***

The hospital systems under the jurisdiction of the various industrial ministries (such as the ministries of railways, machine building and electronics, and petroleum) are basically designed to serve the workers in their own industries. Some of the hospitals in these systems are established by individual enterprises. Imports of medical equipment are generally funded by the parent enterprise or the system's supervising ministry, although hospital-initiated product recommendation and financing is growing. Industrial hospitals are also seeing an increasing number of outside, fee-paying patients, and the resulting increase in revenue can be expected to continue to spur independent purchases of equipment.

In addition to these specialized hospital networks, thousands of hospitals are administered by provincial, municipal, and county governments. By and large these hospitals are expected to cover their operating costs, although they also receive financial support from their governing authorities. While they are more or less free to initiate procurement projects through in-house or bank financing, these facilities must obtain the approval of their governing bodies.

—Larry Pemble

many, and Japan have accounted for about 80 percent of all such sales. The remaining 20 percent of Chinese orders have gone principally to France, the United Kingdom, Italy, and Canada.

While the major players in the market have remained the same, their relative market shares have changed dramatically. In 1985, the United States had a 17.5 percent share of the China market and gross sales of $42 million. By 1991, the US share had grown to 31.9 percent, with $107 million in sales (*see* chart). The German share also increased during this period, while Japan's early domination of the market eroded sharply. Between 1985-91, Japanese exports of medical equipment plummeted from 60 percent to 34 percent of total sales to China, while gross sales of Japanese medical equipment fell from $145 million to $115 million.

Japan's slide from the early 1980s, when its medical equipment companies were quick to market middle- to low-end products such as x-ray and ultrasound equipment at very competitive prices, stems largely from the failure of Japanese companies to provide in-country technical support. While these firms have tried to regain market share—with some success in a few areas—general wariness on the Chinese side about being overdependent on Japanese products has hindered their efforts.

US suppliers, on the other hand, have made a serious commitment to develop and sustain a strong market base in China. For example, Acuson Corp., a leading supplier of ultrasound equipment, and SpaceLabs, Inc., maker of patient monitoring systems, offer the services of an independent representative, US-China Industrial Exchange, Inc. (USCIE), to supply trained sales and service personnel, spare parts inventories, and liaison offices throughout the country.

Generally speaking, major US suppliers seek to export "cutting-edge" technologies, then transfer them a few years later, either through sales of semi-knockdown (SKD) kits or by investing in a joint venture. Such investments generally focus on the production of lower-technology product lines in China to complement direct sales of high-technology items. Although duties on imported inputs are assessed at the same level as those levied on imported finished products, joint-venture production can still be cheaper because there is no additional tax on the value-added portion of production.

A number of US companies, such as General Electric Co., Hewlett-Packard Co., and Analogic Devices, have generated lucrative sales by investing in China's medical equipment sector. General Electric, which sells MRI, CT, X-ray, and ultrasound equipment, recently established a joint venture with MOPH and the Ministry of Aeronautics to assemble imported CT units, and plans to eventually develop local production capabilities of the equipment (*see* box). Like other foreign suppliers, the company maintains inventories of spare parts in China for its products, as well as a network of factory-trained local service personnel.

Hewlett-Packard Co. recently began producing patient monitoring equipment at its Qingdao Zhonghui Medical Products joint venture. The venture also plans to produce HP ultrasound units, which currently must be imported into China. HP, a separate Hewlett-Packard Co. joint venture that assembles scientific products for sale in China, also provides sales and after-sales support for all the parent company's medical products. By channeling such services through China-HP, the US parent not only gives its Chinese customers support and service, but also the assurance that the company is in China for the long run.

Analogic Devices, a Boston-based component designer and manufacturer, has formed a cooperative joint venture in Shenzhen with the Kejian Corp. to develop, manufacture, and sell MRI equipment, ultrasound scanners, and fetal-monitoring products—among the most sophisticated medical equipment being produced domestically.

### *Penetrating the market*

Regardless of whether their products are assembled in China, foreign companies must demonstrate a commitment to their products and to the provision of after-sales support. Chinese hospitals generally expect to use a piece of imported equipment far longer than is customary in the West, making the availability of technical support and spare parts especially critical. In most product areas, savvy suppliers provide in-country enduser training specialists and an on-going educational program to boost customer loyalty.

**Chinese hospitals generally expect to use a piece of imported equipment far longer than is customary in the West, making the availability of technical support and spare parts especially critical.**

A particularly sensitive aspect for China's medical equipment purchasers is how easily product lines can be upgraded with new technological developments. In the early 1980s, Chinese hospitals learned the hard way that their imported equipment could become obsolete within a few years. In some cases, there was no way to upgrade a particular model, and the hospitals had to buy a completely new piece of equipment in order to obtain the newer technologies. Chinese hospitals therefore now look to foreign vendors whose CT, ultrasound, x-ray, and electro-diagnostic equipment can be upgraded with the installation of new software.

US companies looking to expand their China-related activities in the medical equipment sector should do well if they cater to these types of needs. The sector also offers other benefits. Protecting patents and avoiding unlicensed production—which are major concerns of some US companies operating in China—are not a major worry in the medical technology field. The fast pace at which new technologies become obsolete and the fact that many of the technological advances in medical instrumentation are software-generated make it unlikely that current

## *Selected Chinese Medical Equipment Imports, 1991*

| Product | Value ($ millions) |
|---|---|
| Medical/surgical/veterinary instruments | 33.8 |
| Other medical apparatus based on x-ray | 25.4 |
| Patient monitors | 20.6 |
| Computed tomography scanners (CT) | 19.4 |
| Parts for x-ray machines | 18.7 |
| Ultrasonic diagnostic equipment | 15.4 |
| Optical fiber endoscopes | 14.2 |
| Centrifuges | 14.0 |
| Other radiological equipment | 13.8 |
| Electronic instruments for physical chemical analysis | 12.3 |
| Mechanical instruments for physical chemical analysis | 11.7 |
| Physical therapy equipment | 7.9 |
| Dental instruments and appliances | 6.6 |
| X-ray tubes and intensifiers | 6.3 |
| Anesthetic apparatus and instruments | 5.8 |
| Nuclear magnetic resonance imaging apparatus (MRI) | 5.3 |
| Breathing appliances | 5.1 |
| Laboratory hygienic pharamaceutical glassware | 4.4 |
| Artificial dialysis apparatus | 3.7 |
| Biological microscopes | 2.1 |
| Medical laboratory sterilizers | 2.0 |
| Orthopedic appliances | 1.3 |

*Source: China's Customs Statistics*

# Scanning the Medical Market

*In September 1991 GE Hangwei, a $5-million joint venture established by the General Electric Co. (GE), the Ministry of Public Health, and the Ministry of Aerospace Industry, began producing computed tomography (CT) scanners for the China market at its Beijing facility. Assistant editor Ann Amelia Flynn spoke with David Wang, chairman and general manager of GE Hangwei, about the venture's operations and market strategy.*

**CBR:** *GE produces a wide range of medical products. Why did you choose to manufacture CT equipment in China?*

**Wang:** A computed tomography scanner is a sophisticated diagnostic tool; a rotating x-ray machine takes pictures of a reclining patient, and a computer then synthesizes the pictures to produce a 3-dimensional image of the body. Because they effectively detect a variety of illnesses, CTs are sorely needed by the Chinese health care system, but domestic producers don't have the technology to manufacture them. Our joint venture is importing knockdown kits of an existing model and assembling them for sale locally.

Over the next three years, we will gradually localize production by incorporating more and more Chinese-made components. We researched the supply situation and are contracting with Chinese sources that meet our quality and technology standards. When necessary, we've worked with the vendors to bring their quality up to acceptable levels.

Although the government currently maintains control over CT sales through quotas, we believe demand will continue to increase at a rapid pace.

**CBR:** *How has GE Hangwei adapted to the decentralization of distribution and purchasing of medical equipment in China?*

**Wang:** CT purchasing has not yet been decentralized, but we are preparing for that time by establishing a local service and sales network. Our main concern right now is manufacturing, but we will open our first branch office this year in Shenyang. We then plan to open 13 offices thoughout China over the next two years, to provide support and maintenance services for our products.

**CBR:** *What are the most important factors to consider in marketing medical equipment in China? Are the purchasers most concerned about price, level of technology, dealer support, or some other factor?*

**Domestic producers don't have the technology to manufacture CTs.**

**Wang:** The most important factors vary for different buyers in China. For CT scanners, a hospital purchasing one for the first time is looking for a low-cost model. Facilities that already have the basic equipment, such as teaching hospitals, are more interested in the latest technology and are not as worried about cost. Upgradability also becomes a factor for these buyers.

Throughout the market, service of the equipment is a large concern. Much of GE's success thus far is due to our reputation for providing service. This has been a strong selling point for us and we plan to capitalize on it by offering even greater levels of equipment service to boost customer satisfaction.

**CBR:** *What sort of technical training and education programs does GE offer to Chinese purchasers of its medical equipment?*

**Wang:** GE provides pre-installation training and service support, post-installation application training, and service engineering training. We also sponsor national and international technical exchange seminars.

**CBR:** *Many analysts are concerned that decentralization will result in an inefficent system in which a small percent of the population overutilizes health services while the bulk of the population is underserved. What is your perception of the development of China's health care system and the impact of decentralization?*

**Wang:** As far as the CT market is concerned, the biggest problem right now is lack of general availability. Although most large metropolitan areas now have hospitals that are equipped with CTs (and these hospitals generally serve a broad cross section of the population and do not limit their services to a select few), many smaller cities do not yet have the equipment. I believe that if the equipment were sold to smaller towns, it would significantly elevate the standard of healthcare to the general public.

**CBR:** *Where do you see the medical equipment market heading in the next few years? What are GE's plans for the future?*

**Wang:** The medical equipment market has been growing in the past few years and that growth will continue. We will be looking to produce other diagnostic equipment, such as magnetic resonance imagers (MRI), which use a magnetic field instead of X-rays to produce an image of the body. Right now our focus is on CT production and a smooth transition to localized production, but we are keeping a close eye on the market. We are poised to grow with its development by manufacturing in China world-class, current-technology products at reasonable prices.

***Along with disposable products, after-sales support and "second-stage" marketing programs should prove to be growth areas for foreign companies.***

Photo courtesy of US-China Industrial Exchange

Chinese manufacturing facilities can copy and market the latest medical technologies.

A greater barrier to the market is the limited range of products China is willing to import. To date, the Chinese health care system has been reluctant to purchase products such as specialized chemical reagents, one-time use surgical products, and disposable syringes and catheters. These products have generally been regarded as luxuries, while "durable" equipment or instruments have been perceived as wiser expenditures. However, educational programs of international organizations such as UNICEF, coupled with greater exposure to Western medical practices, are beginning to foster more widespread awareness of the hygienic necessity of using these items as disposable syringes. Foreign suppliers of these kinds of products are just beginning to set up sales and support networks in China to capture this emerging market, which could soon generate millions of dollars in sales.

### *Looking ahead*

The 1990s should prove to be another decade of rapid development for China's health care system, which likely will mean greater demand for a broader range of foreign medical technologies. The vast size of the health care system will help ensure that the primary market for high-end imported medical technology remains viable for the foreseeable future. As decentralization continues and hospitals in remote regions gain greater access to imported equipment, more sales opportunities across a broad range of medical technologies can be expected.

Lack of access to foreign exchange, long a constraint on medical equipment purchases, should become less of a problem as the variety of funding mechanisms open to Chinese hospitals increases the availability of foreign currency. Medical equipment imports, which are generally perceived by Beijing as necessary to improve overall health care, should also be immune to centrally imposed austerity measures, if another import squeeze is initiated.

Decentralization, however, will continue to present a great challenge to suppliers to provide reliable, well-trained service and technical support throughout China. Along with disposable products and other new technologies, after-sales support and "second-stage" marketing (i.e., assembly and investment in China) programs should prove to be growth areas for foreign medical equipment companies. Provided US companies are willing to address the price and support needs of the market, there seems to be nothing on the horizon either from a health care perspective or a foreign trade perspective to stop them from enjoying profitable operations in China. 完

# A Prescription for Success

*Foreign producers of antibiotics and other drugs face big markets—and tough competition*

**Mitzi Swanson**

China has a deservedly high reputation among developing countries for providing quality health care. During the Seventh Five-Year Plan (FYP, 1986-90) and again in the Eighth (1991-95), increased funding was allocated for health care infrastructure and development. During the 8th FYP, China hopes to boost production in the medical industry by 8.5 percent annually; domestic sales are scheduled to increase by 7 percent per year, exports by 6.5 percent, and output of drugs by 3.5 percent, annually. For the entire 1991-2000 period, ¥26 billion has been allocated by central authorities for investment in capital construction and technical upgrading in this sector.

Pharmaceuticals, which account for roughly 50 percent of all current and planned health-care expenditures, constitute the largest single share of medical spending. Over ¥23 million worth of pharmaceutical products were produced in 1990, a 13 percent increase over 1989 levels. On average, pharmaceutical production has increased 5-6 percent each year during the past five years.

While domestic production of most pharmaceuticals—which include antibiotics, analgesics, cardiovascular and other medicines—is generally sufficient to meet demand, the level of technology used in production still lags some 10 or more years behind the latest Western developments. Like other developing countries, China has focused on the production of antibiotics and basic medicines used to treat acute or endemic diseases. Products such as anti-cancer drugs, some of which rely on bio-technology or other recent research techniques, must be imported because the advanced methods required for their production do not yet exist in China.

**Products that rely on bio-technology or other recent research techniques must be imported.**

Both doctors and patients in China tend to view foreign-made pharmaceuticals as being of higher quality and efficacy than domestic variants. Therefore, imported drugs, though typically at least double the price of locally made alternatives, are preferred by many Chinese even if cheaper domestic brands are available. Accordingly, foreign drug companies have been paying close attention to China's pharmaceuticals sector. By all indications, their prospects are good: knowledgeable doctors, increasing levels of disposable income, and an industry sector with great market potential but outdated equipment make the pharmaceutical industry receptive to foreign trade and investment. Indeed, a growing number of pharmaceutical producers are establishing business relationships with Chinese counterparts in order to stake their share of the potentially lucrative Chinese market.

*Mitzi Swanson is an analyst at Medical China, a Hong Kong-based company providing research and consultant services on the Chinese health-care market. Medical China recently completed a syndicated report called* The Market for Antibiotic Drugs in China.

### *Emphasizing antibiotics*

In the early part of the century, China was aptly named the "sick man of Asia" because low health-care standards and a high population density left much of the population easily susceptible to infectious disease. To cure this problem China increased production of—and dependence on—antibiotics (*see The CBR*, November-December 1987, p. 35). Now, even the mildest cold is treated with antibiotics to stave off potential respiratory infections.

According to the State Pharmaceutical Administration (SPA), antibiotics currently constitute about 15 percent—the largest share—of total pharmaceutical production in China. While some temporary shortages of certain antibiotics may exist, China's overall supply of most common antibiotics now appears sufficient, thanks to national and provincial efforts during the 7th FYP to expand antibiotics production facilities. The Shanghai No. 3 Factory, for example, added a large plant extension in 1990 to increase production, and now ranks as the country's leading antibiotics maker. Other factories were also enlarged and their machinery upgraded to boost antibiotics production.

Despite impressive growth in overall production of antibiotics, China still cannot make the newest drugs. For instance, third and fourth-generation cephalosporins and the latest penicillins, which are used to treat a wide range of infections with a minimum of side effects, must be imported, though tougher import restrictions are likely to be put in place by 1995 in order to encourage domestic production of both kinds of drugs. In all likelihood, however, domestic production capability is unlikely to catch up to the latest Western advances any time soon.

Despite China's reliance on many kinds of imported pharmaceuticals, central government control over import licenses effectively limits pharmaceutical imports. Currently, almost all pharmaceutical products must be imported through the Medical and Health Products Import/Export Corp. (MEHECO), which falls under the auspices of the SPA. MEHECO approval is based on whether domestic alternatives are available in sufficient quantities to meet demand, and whether the imported drug is to be used to treat a priority disease in China. These criteria, in addition to quality and reliability standards that also must be met, apply to both finished and bulk preparations. Approved imports are assessed a 30-percent duty upon entry to the country. Imports of raw materials to be used in pharmaceutical production generally fall under the jurisdiction of the Ministry of Chemical Industry, and therefore are subject to other import requirements.

### *Selling foreign drugs*

Despite Beijing's attempts to increase reliance on domestically produced medicines, a recent study by Hong Kong-based Medical China reveals that foreigners will probably continue to play a key role in both the antibiotics market and the overall pharmaceuticals sector. The study, which included interviews with doctors and pharmacists from 150 hospitals throughout China, found that most care givers demonstrated extensive knowledge of the types of antibiotics available in the West, and were eager to introduce them to China.

The interviews revealed that while quality and efficacy are the chief factors guiding a doctor's choice of which drugs to prescribe, the cost to the patient is also an important consideration. Chinese health care is not, as is widely believed, free; only a minority of the population—mostly urban residents—have free or subsidized health care (*see* p. 32). The rest either pay for their own health care

**Pharmaceuticals constitute the largest single share of health care spending in China.**

or use health care cooperatives, which do not normally cover drug costs. In rural areas, where disposable income is lower and traditional Chinese medicine more common, patients are more likely to request Chinese preparations as the first line of defense against illness.

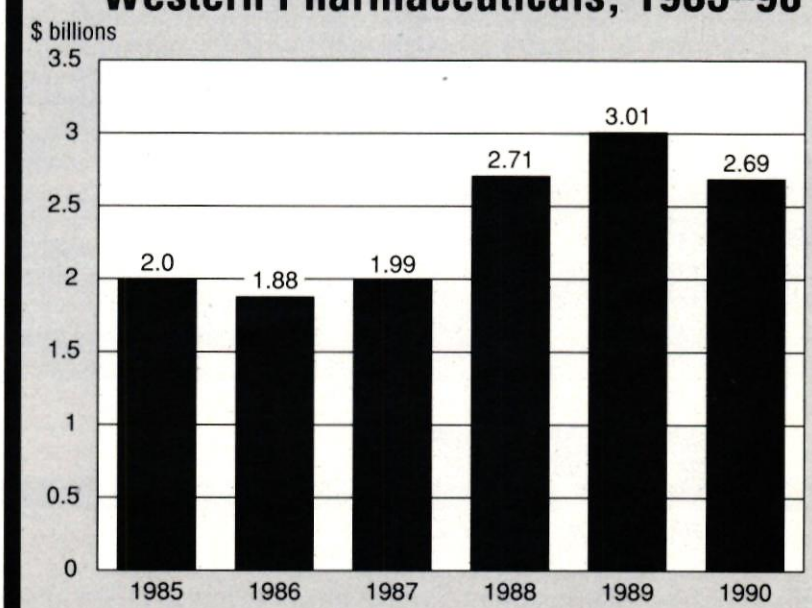
Most foreign pharmaceutical companies have thus focused their marketing efforts on the cities, where rising incomes and greater patient awareness of the efficacy of foreign drugs can be translated into greater sales. Chinese hospitals often seek to stock imported drugs—which can be sold at a higher profit to patients—as long as their costs are not prohibitive. While some foreign drug manufacturers have chosen to produce locally in order to keep their products competitively priced, many others are concentrating on exporting their foreign-made antibiotics to a highly targeted audience in urban areas.

### *Selling to endusers*

Understanding China's pharmaceutical distribution system is key to successfully marketing foreign drugs in China. Distribution is controlled through a three-tiered system managed by the China National Corporation of Medicine (CNCM). At the top of the ladder are national Level 1 stations in Beijing, Shanghai, Shenyang, Guangzhou, and Tianjin, which allocate products to Level 2 distributors at the provincial level, who in turn sell to Level 3 stations within the county or municipality. At each level, a State-determined price mark-up is allowed.

Until the mid-1980s, hospitals and clinics purchased all pharmaceuticals at their local Level 3 stations, though they may now deal directly with suppliers. Under decentralization, retail prices for most products remain determined by the State, but factories can sell directly to endusers and reap greater profits by adding on the mark-ups each distribution level normally would add. While a few independent distribution networks

**China's Production of Western Pharmaceuticals, 1985–90***




*Converted from *yuan* using International Monetary Fund periodic average exchange rates.

**SOURCE:** *China Statistics Information Consultant Service Center*

DHL
WORLDWIDE EXPRESS
N8700R
DHL TARE WT 1924
D-59
1607 LBS

could emerge as other ministries and corporations seek to become involved in this sector, it is likely that CNCM will maintain tight control over drug distribution in order to minimize the risks of drug abuse and improper distribution. In any case, most local producers prefer to rely on the traditional distribution system in order to avoid transport and bureaucratic obstacles.

Foreign companies also tend to use the distribution network, as setting up one's own network requires a considerable number of staff. Many joint-venture companies, however, attempt to market their pharmaceuticals independently in key cities, and rely on the tiered system to reach other purchasers. Those foreign drugs that are distributed by the traditional network are available in "new and special drug stores" at both levels 2 and 3. These stores control the distribution of limited, expensive, or otherwise "special" drugs. There is no fixed price for imported pharmaceuticals, though intermediate mark-ups at each tier are also State-controlled.

### *Targeting doctors*

While hospitals and pharmacies still place the bulk of orders for pharmaceuticals, Chinese doctors are beginning to play a bigger role in determining which drugs will be stocked. As hospitals are now responsible for their own profits, they have a far greater interest in what is sold and supplied, and tend to give greater weight to doctors' recommendations on which pharmaceuticals to order. Although previously they could prescribe only those drugs available in their local hospital's pharmacy, Chinese doctors now have greater freedom to prescribe the drugs of their choice.

**Pharmaceuticals are distributed through a three-tiered system managed by the China National Corporation of Medicine (CNCM).**

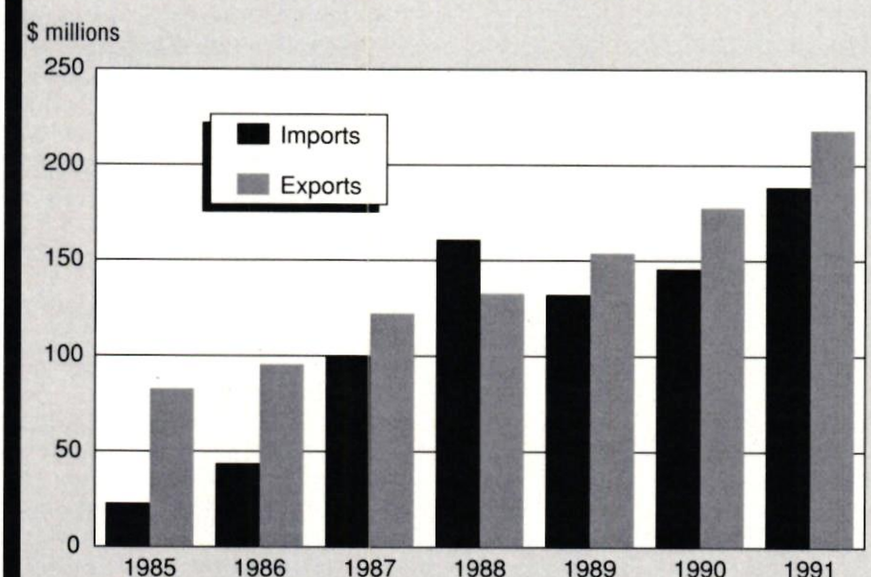
Marketing foreign drugs directly to doctors, then, is critical if a foreign company wishes to establish its products over those of local or foreign competitors. Chinese doctors are generally receptive to pharmaceutical salespeople introducing new products, and such information passes quickly through the health care grapevine. Several of the physicians we interviewed, however, noted that many foreign sales representatives have patronizing attitudes, which did little to encourage the doctors to try their products.

Foreign pharmaceutical companies operating in China generally adopt promotional programs similar to those used in other countries, with some modifications. In addition to sales visits, their efforts include seminars, distribution of free samples, and other incentives for doctors at influential hospitals, along with widespread advertising and distribution of promotional literature. A few companies even sponsor Chinese doctors' participation in foreign medical conferences. Some companies also make a point of labeling their products in both Chinese and English; in this way they can try to cash in on the allure of Western products while ensuring correct usage. The ultimate success of a sales pitch may also depend on good evidence of a particular drug's efficacy, such as scientific articles and the results of clinical trials.

Like most physicians around the world, Chinese doctors give primary consideration to a particular drug's efficacy when considering which one to prescribe. While Western doctors are apt to then consider side effects or dosage requirements, the Chinese are more likely to place price and availability as their next concerns. Therefore, foreign drug companies seeking to develop product loyalty in China must ensure that their distributors deliver their products to the sites that have ordered them or that are being targeted for promotions. A hospital that frequently encounters supply disruptions—a common problem in China—will give up ordering the drug and will be a hard sell to sign up again. Some joint-venture companies have established their own factory-to-hospital supply networks to counter this problem, but foreign salespeople may also avoid supply disruptions by forging good relations with local distributors. Once a stable supply is established, sales will usually follow fast.

Local factories, in contrast, spend little on marketing, relying instead on the traditional distribution system and assuming that the huge demand for antibiotics and other pharmaceutical products will guarantee sales. Their drugs are labelled only by

**China's Antibiotics Trade, 1985–91**




**SOURCE:** *General Administration of Customs* generic content name and the name of the manufacturer, so domestic producers are less able to market a product that can be easily distinguished from that of their competitors. Product loyalty is generally built on a particular factory's reputation for quality, which can take some time to establish. Moreover, local manufacturers rarely target doctors, preferring to concentrate on the pharmacists and hospital purchasing departments—the people who actually sign the orders.

### *Transferring foreign technology*

Though one goal of the 8th FYP is to become self-sufficient in production of all antibiotics, most Chinese planners are skeptical this can be achieved by 1995, when the plan is to conclude. China will depend on certain imports—if only to obtain the latest technology—for many years to come. However, Beijing's priority with self-sufficiency in the pharmaceuticals sector opens the door to investment and technology transfer in this sector.

In the short term, it is difficult to predict just what types of drugs China will target for foreign-invested production, though the breakthrough on intellectual property protection earlier this year (*see The CBR*, March-April 1992, p.9) should encourage more US pharmaceutical companies to investigate opportunities in China. Those producing the latest technologies for drug administration, such as delayed-release tablets, skin patches, nasal sprays, and inhalation preparations, could prove to be the next wave of foreign investment in China. China has already attracted a few investments in this area, such as Warner-Lambert Co.'s Suzhou Capsugel joint venture, which produces hard gelatin capsules used in delayed-release preparations (*see* list). Similarly, the Chongqing Glaxo, a joint venture between UK-based Glaxo Holdings and two Chinese partners, is producing "Ventolin" brand inhalers for sale to China's asthma sufferers. In the coming years, foreign makers of these and other advanced pharmaceutical technologies will likely become a stronger presence in China.

### *Entering the 21st century*

In order to approach the health care levels of industrialized countries, China must learn to develop its own drugs. Though few figures are available on manpower and resource allocation in the pharmaceuticals sector, spending levels on research and development are probably insufficient to boost the sector's development to Western levels.

Foreign pharmaceutical producers will thus continue to play an important role in this sector, if only as a source of the latest technologies. While Chinese officials are reluctant to rely on foreign investment to develop the pharmaceutical industry, Beijing will no doubt keep its doors open to investment in this sector, especially in high-technology areas.

In the shorter term, increased flexibility in distribution should boost both foreign investment and sales by helping antibiotics factories, which are generally located in the northern regions, sell more of their products in the south. The rising incomes and increasing sophistication of patients in the coastal areas, moreover, will almost certainly create demand for the latest pharmaceutical products. 完

## *Recent US Investment in the Pharmaceutical Sector*

**Abbott International Ltd.**, a subsidiary of **Abbott Laboratories**
Established a $4-million joint venture with the Shanghai Medicine Industry Research Institute and Ningbo Pharmaceutical Factory. Production of diagnostic reagents began in November 1990.

**American Enterprise Inc.**
Established in August 1989 the $13.7-million Sino-American Pharmaceutical Co. Ltd. joint venture with Zhejiang Tian Tai Pharmaceutical Co. to produce lincomycin.

**Capsugel,** a subsidiary of **Warner-Lambert Co.**
Began producing hard gelatin capsules in June 1989 at Suzhou Capsugel Ltd., a $14-million joint venture with China International Pharmaceutical Cooperation Corp.

**Fluor Daniel Inc.**
Signed a contract with CTIEC in September 1990 to upgrade pharmaceutical plants in Shanghai and Zibo, Shandong Province.

**HAQ Biomedical Inc.**
Established a $1.7-million joint venture in May 1990 with the Zhanjiang Municipal Scientific Committee to produce diagnostic kits using blood from horseshoe crabs.

**ICN Pharmaceuticals Inc.**
Agreed in 1989 to establish a $25-million joint venture with China National Medical Corp. to produce ribavirin, an anti-hepatitis drug.

**Ivax Corp.**
Signed an agreement in March 1992 with the Kunming Pharmaceutical Factory to establish the $8-million Kunming Ivax Pharmaceutical Co. Ltd., which will produce six kinds of Ivax-patented medicines.

**Merck & Co. Inc.**
Licenced the technology to produce Recombivax HB, the company's hepatitis B vaccine, to the National Vaccine and Serum Institute and the Shenzhen Biotechnology Corp. in March 1991.

**New Brunswick Scientific Inc.**
Agreed in April 1989 to establish E-N United Biotechnology Laboratory with East China University of Chemical Technology, Shanghai, to develop new equipment and products for the pharmaceutical industry.

**Pfizer International Inc.**
Began construction of a $35-million joint venture with the Dalian Pharmacuetical Factory in May 1990 to produce antibiotics and other medicines.

**Shanghai Squibb Pharmaceuticals Ltd.**
Spent $4.9 million in August 1990 to expand its manufacturing facilities. The Sino-US venture produces antibiotics, vitamins, and medicines for cardiovascular and dermatological diseases.

**SmithKline Beecham Corp.**
Established a $1.3-million joint venture with Tianjin Pharmaceutical Administration, Wuhan University, and a European firm in April 1991 to produce L-cystine.

*Compiled by the US-China Business Council*

# AMCHAM'S CHINA BOOKS

### China Commercial Relations Directory

A bilingual, English-Chinese directory, published biennially. This year includes 119 companies. Also includes "statistical anatomy of China" in the form of 18 charts or listings reprinted with permission of leading research publications on China. A "China Travel" chapter which gives information on getting visas, transport connections. American business contacts in the country, and foreign exhibitions calendar. Now in its eight edition. List price: HK$215/US$34 (HK$175/US$29 for AmCham members).

### PRC Business Firms in Hong Kong and Macau

A guide to over 400 firms compiled by a team of US government staff members and business people active in China.

Banking & Finance, Insurance, Oil Companies, Shipping Agents, Travel Services, Publishing and News Media: *Geographic* listings show company connections to national, provincial, urban and Special Economic Zone corporations of China. Also *Parent/Holdings firms* guide. *Products & Services* index and *Chinese-language* company names appendices: essays surveying nature and history of Chinese corporate presence in Hong Kong and Macau; US Commerce Department and Hong Kong Trade Development Council review economic impact and trends of Hong Kong/Macau/China connection. List price: HK$265/US$41 (HK$215/US$34 for AmCham members).

### Hong Kong Connection — Doing Business in Guangdong Province

Comprehensive introduction to how business works and where to get help on the ground in Guangzhou. Special Economic Zones and so-called "Open Areas" like deltas of the three major rivers in the province — the Pearl, Han and Jian. First book in English to offer a simple, straightforward and inexpensive introduction to business conditions in the province based on first-hand research. List price: HK$215/US$34 (HK$175/US$29 for AmCham members).

# AMCHAM'S HONG KONG BOOKS

### American Foods and Beverages in Hong Kong

American Foods and Beverages in Hong Kong is a directory of over 200 importers, supplemented with chapters describing the American presence in Hong Kong's food business and giving tips on how best to enter this growing market. Published in cooperation with the US Foreign Agricultural Service (FAS) in Hong Kong. First edition. List price: HK$165/US$28 (HK$135/US$24 for AmCham members).

### Returning to Hong Kong — A Home Employment Resource Guide for Graduates of Overseas Universities

A guide to jobs for almost 6,000 graduating Hong Kong students returning from overseas. Distributed free to graduating Hong Kong students at American, Australian, United Kingdom and Canadian universities in cooperation with the Institute of International Education (IIE), British Council and International Development Program in Australia. List Price: HK$195/US$32 (HK$165/US$28 for AmCham members).

### AmCham Members Directory 1991/92

Over 500-page book contains four major sections, including a guide to over 600 American private or government organizations concerned with US business development in Asia-Pacific. Lists 2,425 members from 1,074 companies. List price: HK$1,220/US$169 (HK$820/US$124 for members).

* * * * * * * * *


**The American Chamber of Commerce in Hong Kong**
Room 1030, Swire House, Chater Road, Central, Hong Kong.
Tel: 526 0165 Fax: 810 1289
Tlx: 83664 AMCC HX
Mail Address: GPO Box 355, Hong Kong.


### Who's Who in Hong Kong Communications

312-page book with four major categories: "Who's Who in Hong Kong Communications" carries extended paid listings of 115 companies, providing 65 categories of products & services. "Communications in the Hong Kong Context" includes 11 articles reviewing themes in advertising, public relations, publishing, desktop publishing equipment, and printing. "Professional Support in Hong Kong" includes a miscellany of 10 different lists/key documents. "Quick Contact File" is a telephone finders' guide to about 4,400 companies in Hong Kong, divided into 36 categories. List price: HK$215/US$40 (HK$175/US$35 for AmCham members).

### Doing Business in Today's Hong Kong

A compendium of investment analyses covering the key sectors of Hong Kong's export-led economy, authored by active and successful executives in the territory's commercial life. Written by businessmen for businessmen, the authors of which are drawn from the membership of Hong Kong's largest grouping of foreign investors — The American Chamber of Commerce. List price: HK$245/US$44 (HK$195/US$38 for AmCham members).

### Hong Kong Electronics Handbook/Directory

Hong Kong Electronics Handbook/Directory is divided into three major sections. The first introduces the manufacturing side of the industry with articles from people who know it.

"Sourcing guide" directory of 133 electronics companies describes their products and services, indicates if they do original equipment manufacturing (OEM), describes the nature of their manufacturing in China if any, and names their subsidiaries in Hong Kong, China and the region.

The last section of the book is a guide to Hong Kong's electronics services sector. It includes 10 different articles by authors active in each sector covered. List price: HK$215/US$34 (HK$175/US$29 for AmCham members).

### Establishing an Office in Hong Kong

An annual service book which features Hong Kong context reviews of business services as varied as freight forwarding, law and architectural consulting. First-reference book for newcomers. Text material divided into 17 brief chapters intended to raise the right questions and offer the best references supported by six appendices with referrals to key organizations. AmCham business contacts and other sources. Five maps. List price: HK$195/US$32 (HK$165/US$28 for AmCham members).

### Hong Kong's Training Services 1991

Extended profiles of 33 major training providers in Hong Kong and nine major types of training surveyed, also described are 17 educational institutions and seven "in-house" programs run by specific companies or organizations. List price: HK$175/US$28 (HK$145/US$25 for AmCham members).

### Living in Hong Kong

The guide for newcomers to the region. First published in 1973. Divided into 15 chapters covering topics as Living and Health, Communications Services, Legal Information, Schools, Leisure Activities and even a chapter on the best way to leave. List price: HK$215/US$40 (HK$175/US$35 for AmCham members).

*(Quoted prices include local/overseas postage)*

## ORDER FORM

Name: Mr/Ms ____________________
(Please Print)

Title: ____________________

Company: ____________________

____________________

Address: ____________________

____________________

Tel: ____________________

Fax: ____________________

Tlx: ____________________

Date: ____________________

Enclosed is my ☐ check/bank draft or

☐ pay by credit card for

_______ Copies of ____________________

Total HK$ ____________________

Signature: ____________________
(not valid unless signed)

CHARGE TO MY ☐ American Express ☐ Visa ☐ Master Card ☐ Diners Club

Card Issuing Bank ____________________

Card No. ____________________

Expiry Date: ____________________

## MORE INFORMATION

- ☐ Joining AmCham HK
- ☐ The AmCham HK Business Briefing Program, a service for business visitors interested in doing business in Hong Kong, China or Asia-Pacific.
- ☐ AmCham HK VIP Luncheons/Committee Meetings
- ☐ AmCham HK Seminars and Conference Programs
- ☐ AmCham HK Publications
- ☐ Advertising in AmCham HK publications

# Financing China's Health Care System

*Decentralization and incomplete reforms are increasing gaps in treatment between rich and poor*

Over the last several decades, China has achieved notable success in providing health services and disease prevention programs that are effective and low in cost, both to the consumer and to the economy. For most of this period priority in funding, manpower, and political attention has been given to disease prevention and health promotion.

In recent years, however, the rates of some chronic diseases have begun to increase, and some infectious diseases that had been virtually eradicated are reappearing. In part, these changes are due to demographic and epidemiological factors. However, they may also be attributable to changes in spending patterns and sources of financing for the health care system.

The sources of health care financing in China are extremely varied and complex. They include both direct and indirect government spending, different types of insurance plans, and expenditures by industry, collectives, private practitioners, and patients. It is not possible to obtain precise figures on total health care expenditures in China, as the government itself has no systematic way to calculate these numbers; sources of health financing are disaggregrated, and the agencies responsible for the major funding do not routinely share data or aggregate data in a useable form.

***It is not possible to obtain precise figures on total health care expenditures in China, as the government itself has no systematic way to calculate these numbers.***

### *Coverage for a minority*

Up until about a decade ago, provision of health care in China was offered primarily through communes, which provided free and preventive care to their members. With the disbanding of the commune system, health care is now paid for through several methods:

- **Government monies**

Government has always provided an important share of health care financing in China. It finances most capital investment in the sector, and also finances some equipment purchases and staff salaries.

- **Insurance**

Insurance schemes together provide medical coverage to about 20-25 percent of China's population. Currently, there are three main types of health insurance:

- *The Government Insurance System* (GIS) insures about 25 million civil servants, but is not extended to their dependents. This scheme requires no deductibles or co-payments.
- *The Labor Insurance System* (LIS) provides coverage to the approximately 75 million workers of State-owned-enterprises. It also covers half the costs of medical care for their dependents, and co-payment requirements, if any, are generally very low.
- *Collective and TVE insurance schemes* cover about 35 million collective enterprise workers and 49 million township and village enterprise (TVE) workers. Typically, these insurance plans provide a lower level of coverage than GIS or LIS, and the schemes vary in the extent of coverage accorded to family members. Many of the collective and TVE insurance schemes feature co-payment requirements and ceilings on reimbursements.

The GIS and LIS insurance schemes cover about 10 percent of China's population. Another 10-15 percent may have limited collective, TVE, or communal insurance coverage, while a small number have some kind of coverage under remnants of the old commune insurance system or through a number of experimental mutual insurance systems or societies. This means that there are more than 800 million uninsured Chinese, whose access to health services and, increasingly, to disease prevention services, depends on their ability to pay.

- **Patient fees**

Patient fee payments are difficult to estimate and monitor as a source of health financing. For all practical purposes, all rural, primary health services are now provided on a fee basis. Uninsured patients in urban areas also must pay the full fees charged by clinics, hospitals, and other health care providers.

This article was excerpted and adapted from the World Bank report *Long-Term Issues and Options in the Health Transition*, to be published by the Bank this summer.

*Soaring costs*

The respective contributions of these three main sources of income changed significantly during the 1980s. Health care funding during this time was characterized by a reduction in the role of public subsidies and a sharply increased reliance on cost recovery through insurance payments and patient fees. Several trends in funding became apparent by the end of the 1980s:

- Per capita health spending (from all sources) grew faster than overall economic growth. From 1980-88, for example, annual growth of health spending in real, per capita terms averaged 11 percent, while GDP growth averaged 8.7 percent.
- Public subsidies for health increased in absolute terms, but declined as a share of total health spending, dropping from 30 percent in 1980 to 19 percent in 1988.
- Insurance payments, similarly, increased in absolute terms but decreased as a percentage of total health spending, dropping from 53 percent to 41 percent.
- Patient fees increased both absolutely and as a share of total health expenditures, rising from 14 percent of the total in 1980 to 36 percent in 1988.
- An increasing share of health spending was accounted for by hospitals and by treatment costs, rather than by prevention and health maintenance programs.
- Drug consumption accounted for a high proportion of health expenditures.
- Equipment purchases and new construction were undertaken with both public subsidies and health-sector revenues, but with little apparent attention to future recurrent cost implications and with relative neglect of funding for disease prevention programs.

**There are more than 800 million uninsured Chinese whose access to health services depends on their ability to pay.**

Many of these trends in expenditure were directly linked to incomplete price reforms and to administrative reforms introduced throughout the 1980s. For example, reforms intended to encourage efficiency by requiring health institutions to earn revenues sufficient to cover their operating costs have resulted in "provider-encouraged" consumption of those health services on which a profit can be earned (*see* box). Since few insured consumers of health services have co-payment or deductible charges, moreover, they have had no incentive to discourage excessive consumption of services.

This problem has been exacerbated by State pricing policies. Prices for certain treatments or services are set well above costs and provide an incentive for hospitals and physicians to prescribe or use these items, while prices of other services or medicines are sometimes well below cost and therefore cause losses that discourage their use.

Other problems include the lack of an effective referral system, which results in fee-paying patients seeking care from higher-level facilities. These hospitals consequently have high utilization rates and therefore make additional plans for expansion, relying on the public investment budget. The reforms have also resulted in the redirection of efforts away from basic prevention programs and toward revenue-earning treatment activities.

With decentralization, the Ministry of Public Health (MOPH), which has a better understanding of the long-term trends and their implications for China, has lost some of its influence at the provincial level and below. The MOPH has only input planning criteria (ratios of beds to population, etc.), to use as policy tools. In general, these are inappropriate planning and policy tools and tend to be misused at the local level because they generally strengthen the position of health institutions, which argue for increased investment, budgets, and personnel.

For the future, MOPH hopes to rely on a set of health laws or regulations to influence local authorities and institutions toward better planning, investment, and programs. Experience elsewhere, however, has shown that the legal framework provides the central government a policy lever of limited use for influencing local governments and institutions. Without a return to some kind of direct budgetary policy levers (for financial influence), and perhaps some cooperative efforts by both the Ministry of Finance and MOPH to use fiscal tools to influence health sector spending, it is very unlikely that China's central authorities will succeed in arresting the general escalation of health budgets. The result is likely to be continued inflation of health costs, less equity of access, and an erosion of the shares of GDP available for other sectors of the economy. 完

## *The Wrong Incentives*

Provider-driven escalation of health costs is common today in China, as in various other countries. The reasons are two-fold: Incentives exist at the health institution level to earn more revenue by providing more—and more expensive—services, and incentives exist at the provider level to increase patient costs in order to generate funds for bonuses to compensate low wage rates.

It is difficult to disaggregate the self-interest of providers from that of institutions on these matters. Often an institution's financial interest corresponds directly to the self-interest of its staff. The little labor mobility that does exist in China stems from the expertise that workers can develop by becoming specialized in high-technology fields. Health workers' status, transfer, and promotion prospects are thus partly linked to the sophistication of the services that their institution offers, and the staff of an institution therefore have a natural interest in acquiring and using intensively the newest technology or medical procedures. To the extent that the prices charged for using these technologies are above the marginal costs to the institution, the institution itself makes a "profit," which is used for yet more sophisticated equipment purchases, for expansion, for workers' welfare funds, or for incentives and bonuses.

Project Notebook

# Training the Care Givers

*A US non-profit is teaching China's doctors and nurses how to teach themselves*

**Pamela Baldinger**

Technically, it's called Health Opportunities for People Everywhere. But in 28 countries around the world, it is more commonly known as Project Hope—a Virginia-based organization dedicated to improving health care in developing areas by helping them establish self-sustaining medical training and education programs. Created in 1958, Project Hope currently is active on five continents, but its largest program is in China.

Project Hope was first invited to China in 1983, after the president of the Zhejiang Medical University called on the directors in the United States. A year later the organization set up its first training course in the People's Republic, and now has established programs in several fields with universities in Beijing, Shanghai, Xian, Hangzhou, and Chengdu. All of the programs, regardless of the discipline on which they concentrate, involve the training of Chinese health-care workers by Project Hope staff or consultants. The Chinese are then expected to teach what they have learned to others and eventually take over all responsibility for the programs.

### *Hope in China*

Project Hope's China programs tend to focus on primary care in the disciplines in which the organization is the strongest: pediatrics, biomedical engineering, oral surgery, and nursing. Programs are selected on the basis of Chinese requests; "The Chinese identify a need, and we then determine whether we can help them," says Leslie Mancuso, associate director of nursing at Project Hope. Costs of running the training programs are then shared by Project Hope, which is funded by US AID and private donations, and the host university. Most projects are centered on urban areas, with the exceptions of the preventive dentistry program in Chengdu and the rural medical education program in Xian.

Photo courtesy of Project Hope

**Children will be the main beneficiaries of Project Hope in China.**

The Chengdu project involves training dentists at West China Medical University how to coat children's teeth with a fluoride-enriched sealant, and then sending the dentists to rural areas to teach local personnel the technique. The Xian Medical University program involved establishing a course for the training of rural physicians to help alleviate the shortage of doctors in Shaanxi Province.

The programs in the other cities involve training doctors in pediatric cardiovascular surgery, technicians and engineers in the maintenance and repair of biomedical equipment, and nurses in teaching skills. The nursing program has been particularly important, given the shortage of nurses and the underdeveloped nature of their training in China. According to Mancuso, China's nursing shortage is "astronomical"—there are only 11 baccalaureate programs in the whole country—and the status and salaries associated with the job tend to be lower than even those in other developing countries. Nurses already on the job generally have little access to new information or training, and instructors generally have not been trained how to teach.

To remedy this situation, Project Hope established a faculty training program at Beijing Medical University in 1985. Attended by faculty from the 11 B.A. programs, the course helped the instructors develop training materials and curriculums they could bring back to their own universities. Today, this program is being successfully taught and administered by Beijing Medical University on its own, and Project Hope is working with the university to establish the country's first Master's degree program in nursing. This course of study, which will also focus on nursing faculty, is scheduled to begin this fall.

Aside from the Master's program, Project Hope has turned its attention to clinical nursing training. Faculty and students in six provinces are

---

*Pamela Baldinger is editor-in-chief of* The China Business Review.

being taught to apply basic nursing concepts to practical situations in hospital-like demonstration units. Moreover, with the help of the China Nursing Association (CNA) and its local chapters, Project Hope's on-ground nursing program director, Marcia Petrini, has been traveling around the country conducting continuing education workshops. Mancuso estimates that Petrini has probably trained 1,000 people in the past year. "It's astounding how far they've come already," says Mancuso. "We're seeing very good results. The nurses are really using the new information and skills they've obtained." Eventually, the CNA will take over the training in each region.

### *Focusing on Shanghai*

The other programs have also been successful, though some more than others. Robert Burastero, regional director for Asia, gives much of the credit for success to the Chinese, saying the "universities have been holding up their end of the funding and the faculties have been supportive. The students have also been good." Lewis H. Pierce, director of Project Hope's international management division and formerly program director in China from July 1989-July 1991, agrees. "Our programs have been institutionalized into Chinese university curriculums, and increasingly are being maintained by the Chinese themselves."

This success has given Project Hope the confidence to select China as the site of one of its largest, most complex projects ever—the Shanghai Children's Medical Center. When it opens in 1996, this $50-million, state-of-the-art facility will encompass a 250-bed acute care pediatric hospital with services in all major specialties. The hospital will also serve as a national training facility for medical workers from around the country. Says Burastero, "We felt our efforts should be more focused in order to have the greatest impact. There is a great need for in-service education to demonstrate new techniques, and great demand for new equipment to increase the quality of the care delivered."

According to Project Hope Vice President Don Weaver, who has responsibility for health facilities development, the hospital is a natural outgrowth of Project Hope's previous involvement in China. "One of our first training programs in China was in pediatric cardiology, at the request of the presidents of Shanghai Second Medical University and Xinhua Hospital, one of Shanghai Second's teaching hospitals. It was also their suggestion that we cooperate on the hospital. Given what we'd seen in China and our previous experience with the American Children's Hospital Complex in Poland, we thought the proposal was a sound one."

### *Cutting-edge care for China's children*

About half the funding for the hospital project is to come from Project Hope, with the rest to come from the Chinese partners, the Shanghai municipal government and Shanghai Second Medical University. Project Hope will provide technical assistance for the design and construction of the hospital, as well as medical equipment unavailable in China. The Chinese will actually build and operate the hospital, which will be located in Pudong. Project Hope will also be involved in the training of hospital staff.

According to Weaver, central authorities have had little direct involvement in the project, though the municipal authorities keep them informed. The fact that Chen Minzhang, the minister of Public Health, is a graduate of Shanghai Second no doubt has helped smooth the process along. The principles of cooperation between Project Hope and its Chinese partners were drawn up last November, and the various parties are now trying to pin down details and review architectural plans.

While the hospital is under construction, Project Hope will start scientific exchanges for staff training. Over the next three years, Weaver anticipates that 60-75 people will be brought to the United States for training. These individuals will be of management or lead-specialist rank; the bulk of the new hospital's staff will be trained in China. Weaver hopes to be able to look to other foreign companies with experience in the People's Republic, such as hotels, for help in instilling notions of cleanliness and hygiene and in the training of such departments as laundry.

Although the hospital is to be a cutting-edge facility, Weaver is quick to point out that it will include Chinese characteristics, such as a pharmacy with traditional Chinese medicines. Project Hope will seek contributions from US and foreign companies in cash and kind to equip the hospital, but also plans to buy equipment with project funds. No specific purchasing decisions have been made yet, but major product categories will probably include radiology imaging products, critical care monitors, and laboratory and surgical equipment.

### *Aiming for self-sufficiency*

Project Hope's involvement in the Shanghai Children's Medical Center extends to helping the Chinese devise strategies for administration. In line with the current trend of decentralization, the Chinese are very concerned about financing mechanisms and how to distribute the costs and revenues associated with the hospital. Weaver anticipates that Project Hope's Center for Health Affairs, a health policy think tank, will help work on this issue, and that outside experts in both the United States and China will also be consulted. "Health care financing is an issue being grappled with all over," says Weaver. "But given the changing nature of the system in China, it will prove especially challenging. I'm sure it's an issue we'll have to deal with on an ongoing basis; it's certainly always the first topic on the minds of the Chinese when we meet to discuss the project."

While the details are being worked out, the other Project Hope programs in China will wind down or be incorporated into the hospital project, with the exception of the nursing Master's degree program, which will remain in Beijing. Beyond 1996, it is unclear what Project Hope's role in the hospital or in China will be, though the vast size of China's population and health care system will probably ensure that there is a need for the organization's "hope bringers" for some time to come.

# 我会活动 Council Activities

## *Annual Meeting Notes Positive Signs for China Business*

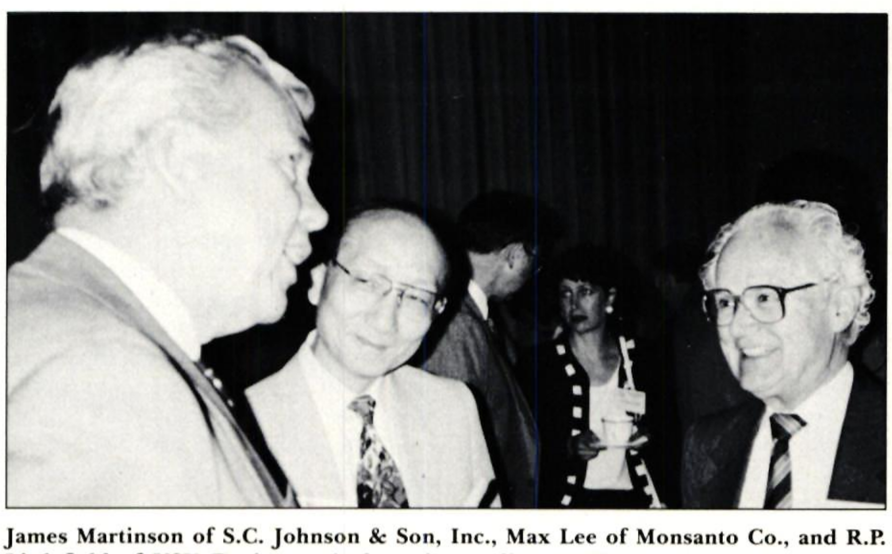
Navigating the uncertain waters of election-year politics in both the United States and China dominated discussion at the US-China Business Council's 19th annual meeting on June 11, when around 100 member company representatives convened in Washington, DC, to extract the relevant from the rhetoric and plan for future China business. The meeting was opened by President Donald M. Anderson, who set a positive tone for the day by informing the audience that the Council's restructuring has been a success and the organization's membership is increasing.

Anderson then introduced Robert Perito, director of the Office of Chinese and Mongolian Affairs at the Department of State, who examined China's economy and possible obstacles to continued growth in US-China trade. Perito noted that Chinese regulations limiting market access have retarded US exports to China, but that these problems may soon be resolved through the negotiations of the US trade representative's office. Non-economic issues, however, such as human rights violations, nuclear and arms proliferation, environmental pollution, and illegal drug trafficking are also sources of tension between the two nations. Perito cautioned that the complex web of relations between the United States and China would be irreparably severed by the passage of conditional Most Favored Nation (MFN) bills targeting the products of Chinese State enterprises, as these firms are the biggest Chinese buyers of US goods. Retaliation on their part would result in a hemorrhage of US sales and jobs.


**Robert Perito of the Department of State and Council President Donald M. Anderson look on as Minister of Hong Kong Economic and Trade Affairs Peter Lo discusses the growing spending power of China's citizens.**

In contrast to the storm clouds hovering over US-China trade relations, China's burgeoning consumer market, the topic of Minister of Hong Kong Economic and Trade Affairs Peter Lo's talk, holds forth only promise. Lo's upbeat message: China's one billion-plus population is in a spending mood, and consumers are reaching into hidden savings to buy quality goods. For instance, while official figures put annual per capita income in Shenzhen at $706 in 1991, per capita consumer spending for the same period was $759. This spending binge is expected to hit mach speed over the next eight years. By the year 2000, 10 percent of all households are expected to own telephones, and 3-5 percent of all urban residents are expected to purchase motor vehicles (currently there is 1 private car on the road per 190 people). The growing integration of Hong Kong and South China will help fuel the growth of the domestic consumer sector, but any interference with China's MFN status would choke this South China engine of prosperity.

At luncheon, National Public Radio News Analyist Cokie Roberts delivered a sharp and sarcastic analysis of US election year politics. US



**James Martinson of S.C. Johnson & Son, Inc., Max Lee of Monsanto Co., and R.P. Littlefield of USX Engineers & Consultants discuss US companies' prospects in China.**

# *New Board Members*

John C. Hunter, III, Monsanto Chemical Co. vice president and general manager of Asia Pacific, and Eugene Theroux, partner at Baker & McKenzie, were voted vice chairmen of the Council's board of directors at the annual meeting on June 11. They will join Jonathan M. Schofield, president of United Technologies International Corp., who continues his term as chairman. Four new members were also elected to the board: Samuel Rubinovitz, executive vice president, EG&G Inc.; Donald N. Sorterup, vice president, International Operations and Business Development, The Foxboro Company; Dale F. Larson, group president, World Milling Industries, Continental Grain Company; and James T. Clarke, vice chairman, Professional and Regulatory Issues, Coopers & Lybrand. In addition to the new members, three directors were re-elected to second terms. A complete list of the Council's new board appears inside the back cover of *The CBR*.

voters are surly and pessimistic, unsure if their children will be able to achieve the standard of living previous generations have enjoyed. While relations with China may be debated against this backdrop, the issue will have negligable impact on America's increasingly dissatisfied, inward-looking voters.

In the afternoon, attendees split into three workshops. Members of the import committee journeyed to Capitol Hill to lobby for renewal of China's MFN status, meeting with a total of eight senate offices. The export controls workshop featured panelists Robert Price, director, Office of COCOM Affairs, Department of State; William Clements, director, Office of Technology and Policy Analysis, Department of Commerce; Thomas Crocker, attorney with Shaw, Pittman, Potts & Trowbridge; and Eric Wemple, editor, *Export Control News*. They presided over a lively discussion of the recent high-level COCOM meeting, critical issues in strategic trade, and the implications of The Enhanced Nuclear Proliferation Initiative for the China trade. Many attendees noted that Hong Kong's new COCOM associate status has resulted in delays in obtaining re-export licenses.

Participants at the investment roundtable reviewed the Council's draft investment report, a paper offering suggestions on how to improve China's investment climate. Member company representatives discussed problems with transparency and interpretation of rules and regulations, corruption, and foreign exchange balancing. They agreed that the paper should provide constructive advice on how to deal with these and other issues, and that the report should be distributed to top Chinese leaders upon its completion.


**National Public Radio News Analyst Cokie Roberts predicted that China policy would be debated during the US presidential election, but that it would not become a major issue.**

**Member company representatives Diane Mand of Dresser Industries Corp. and Louise Finnerty of Pepsi Cola International were joined by US and Chinese government officials at the pre-luncheon reception.**

# *Legal Committee Hosts Tax Official*

On June 1, the Council's Legal Committee hosted a luncheon with Jin Xin, commissioner of China's State Tax Bureau (STB), at the United Nations in New York. Jin spoke primarily on China's 1991 Foreign Investment Enterprise and Foreign Enterprise Income Tax Law, which unified China's previous foreign investment tax legislation (*see The CBR*, September-October 1991, p.12).

Commissioner Jin said the STB designed the law to protect China's national interest, to contribute to the open door policy, and to follow accepted international practices on tax issues. To assure continued foreign investment in China, tax officials structured the new law to avoid increasing tax burdens or nullifying investment incentives. Consistent with this approach, Jin noted, the STB is developing new tax regulations that will extend tax benefits to foreigners investing in projects in interior capital cities, such as Wuhan and Chengdu. It is unclear, however, whether these benefits will equal the reduced corporate tax rates of the Special Economic Zones (15 percent) or the rates that apply to foreign investments in the open coastal cities (24 percent).

Legal Committee elections were held immediately preceding the luncheon to select officers for 1992-93. Lucille Barale of Coudert Brothers was re-elected committee chairman, while Nancy Murphy of Skadden, Arps, Slate, Meagher & Flom was chosen vice chairman and Matthew Bersani of Paul, Weiss, Rifkind, Wharton & Garrison was named secretary/treasurer.

**World Economic Development Congress**®

**CNN**®

# 1992 CNN World Economic Development Congress

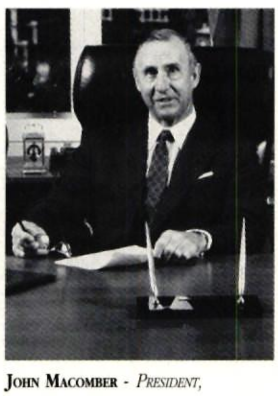
## "Building the Integrated Global Economy"

## September 17-20, 1992
## Washington, DC

**CONFIRMED KEYNOTE SPEAKERS:**

**HENRY KISSINGER** - *CHAIRMAN, KISSINGER AND ASSOCIATES, INC.*

**ARTHUR DUNKEL** - *DIRECTOR GENERAL, GATT*



**JOHN MACOMBER** - *PRESIDENT, EXPORT-IMPORT* ***BANK OF THE U.S.***

## For Registration & Information
## (617) 487-7900

**FAX: (617) 487-7937**

• World Economic Development Congress • Bay Colony Corporate Center • 1000 Winter Street, Suite 3700 •
Waltham, Massachusetts USA 02154 •

CNN will convene the World Economic Development Congress on September 17-20 in Washington, DC, the first major international conference dedicated to "Building the Integrated Global Economy."

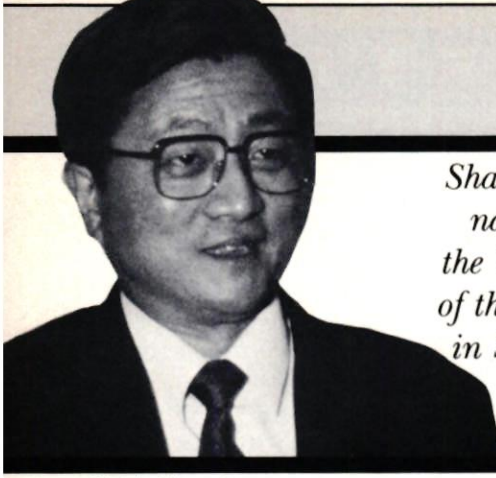
Immediately preceding the IMF/World Bank Annual Meeting, the Congress will offer a global forum where public and private economic development leaders can establish new business and trade relationships and explore market forces, competitive strategies and investment opportunities worldwide.

Delegates to the Congress include multinational CEOs, senior government & corporate development officers, planning, marketing, business, investment, and economic leaders worldwide.

Program features include:

- **CEO SUMMIT,** gathering the leaders of the world's largest multinational corporations for a by-invitation-only forum;
- **ECONOMIC POLICY & MARKETING SUMMIT,** exploring the international conditions necessary to attract new investment and develop and market a country's assets;
- **INSTITUTIONAL INVESTORS SUMMIT,** analyzing in-depth industry and country specific investment opportunities;
- **LARGE SCALE INFRASTRUCTURE SUMMIT,** examining the selling, financing and contracting of major engineering, telecommunications, construction and manufacturing projects;
- **HYPERGROWTH SUMMIT,** uncovering the secrets of fast growth and global expansion;
- **EXECUTIVE WORKSHOPS,** targeting opportunities in specific vertical markets and industries such as agribusiness, mass transit, health care, biotechnology, and hazardous waste.
- **INTERNATIONAL BUSINESS CENTER,** offering a unique opportunity to showcase products and services to a high level global audience.

The World Economic Development Congress will enable you to establish key international relationships to help your firm compete in today's challenging world.



*Shanghai, China's largest city, has always been the country's main financial and industrial center. Its mayor, Huang Ju, recently visited the United States to commemorate the 20th anniversary of the signing of the 1972 Shanghai Communique, which officially marked the thaw in Sino-US relations and paved the way for China's open door policy in 1978. Associate Editor Vanessa Lide Whitcomb spoke with the mayor about recent developments in Shanghai.*

Photo by Rebecca Cooney

# Widening the Open Door

**Q** *Since we interviewed your predecessor, Zhu Rongji, nearly two years ago (see The CBR, September-October 1990, p.50), how has the foreign investment climate in Shanghai progressed?*

**A** There have been many improvements in the city's infrastructure, for one. In 1985, Shanghai had a total electricity output of 2.5 million kw, but now the total is over 4 million kw. In fact, we have a surplus where we used to have electricity shortages. The pattern of electricity use has also changed. Now there is less energy consumed at night than during the daytime, which is one indicator of greater industrial activity. At the same time, the gas and water supply systems have been improved, and the city's telecommunications capacity is being rapidly modernized.

**Q** *What steps are being taken to make the city more attractive to foreign investors?*

**A** Foreign investment in Shanghai rose sharply last year to $450 million, a 20 percent jump over the year before. But in the first four months of 1992, the figure reached $600 million, so total foreign investment this year is sure to be much higher than in 1991.

Shanghai has always had strong support mechanisms for foreign investors. The city is known nationwide for its economic development and investment guidelines and regulations. Tax incentives for foreign investors are excellent—they're more attractive than those in Hong Kong. In the Pudong New Area, such incentives are equal to or better than those offered in any other area of China (*see The CBR,* November-December 1991, p. 30). For example, income tax for foreign ventures operating in Pudong is only 15 percent.

**In addition to the retail sector, we are experimenting with involving foreigners in the insurance business in China.**

The Shanghai Foreign Economic Relations and Trade Commission has strived to simplify the application and approval procedures for foreign investors looking to set up in Shanghai. A Foreign Investment Service Center has also been set up to advise potential investors. Most important, however, was the decision to decentralize the approval authority. Now, foreign investment involving less than $5 million can be approved at the district or county level.

**Q** *Tell me more about the latest developments in the Pudong New Area.*

**A** There have been tremendous strides in road transportation, port facilities, and telecommunications infrastructure in Pudong. The Nanpu Bridge to the Pudong New Area was completed last year. A second bridge connecting Pudong with the Puxi district across the river will be finished by the end of 1992. Both bridges have been financed through Asian Development Bank loans.

Eight new foreign banks have been granted authority to open branches in Pudong, in addition to the four banks already operating. These banks will be allowed to issue credits and loans, but will be restricted to foreign-currency transactions.

Construction is also underway in the Waigaoqiao Free Trade Zone, the first such zone in China. The zone will have extensive port facilities, and will allow foreign investors to engage in entrepot trade.

We feel that foreign investors continue to be very interested in Pudong. The new Du Pont enterprise will soon start production [of the rice herbicide Londax]. Other foreign companies based in Puxi—including Xerox, Squibb, Foxboro, and Coca Cola—are looking to expand their operations in Pudong.

**Q** *There have been rumors that foreign businesses will be allowed* *to get involved in other service industries in Shanghai. Is this true?*

A Yes, for first time in China, foreign businesses will be able to engage in retail business in Shanghai. The first approved cooperation in the retail sector is with the Yaohan Department Store of Japan. And we are experimenting with involving foreigners in the insurance business in China. We can't discuss any details on this as the proposals are in the negotiation stage at this point, but in principle and policy, the city has agreed to allow foreigners to participate in this sector.

**I would like to see the city's GNP double within the next 5 years, and double again in 10 years.**

Q *The Shanghai Securities Exchange has generated much fanfare—and much curiosity—abroad. Can you bring us up to date on recent activities on the exchange?*

A Shanghai's exchange will be the biggest in China. So far ¥2.5 billion-3 billion has been issued in bonds, and nearly ¥300 million in stocks. Last year the exchange issued special "B" shares for foreign investors, and this year's plans call for another $100 million in B shares to be issued. Trading of these shares has been brisk.

The number of companies that will be listed on the exchange will double this year, and we expect trading volume to increase 10-fold. In fact, if any other city in China issues stocks and bonds, they will be listed on the Shanghai exchange, which will function as the country's main exchange.

Q *What are your goals for Shanghai in the next 5-10 years?*

A I would like to see the city's GNP double within the next 5 years, and double again in 10 years. Another priority will be the completion of the first stage of the Pudong New Area, including the Waigaoqiao Free Trade Zone.


hina International
rust & Investment Corp.
*New York Representative Office*
Two World Trade Center
Suite 2250
New York, NY 10048

Tel: (212) 9380416
Fax: (212) 4881107

China International
Trust & Investment Corp.
19 Jianguomenwai Dajie
Beijing, 100004
People's Republic of China

Tel: 5002255 (SB)
Fax: 5001535
Cable: 3319
Telex: 22305 CITIC CN

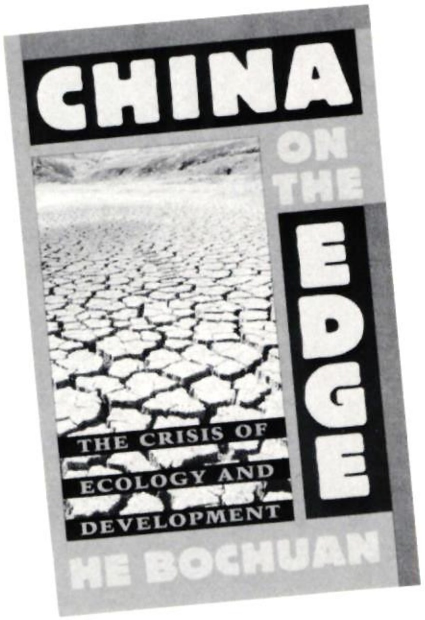
CITIC Hong Kong
(Holdings) Ltd.
25th Floor
Admiralty Centre, Tower 1
18 Harcourt Road
Hong Kong

Tel: (852) 8610838
Fax: (852) 8613834
Telex: 80516 CITIC HX

# 书刊介绍 Bookshelf

## *China on the Edge*

### *The Crisis of Ecology and Development*



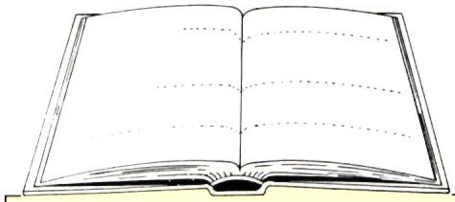

*by He Bochuan. San Francisco, CA: China Books and Periodicals, Inc., 1991. 208 pp. $29.95 hardcover, $16.95 softcover.*

While the title, cover photo, and jacket of this book prepare the reader for a treatise on China's environmental problems, this volume has a much broader scope. *China on the Edge*, which was first published in Chinese in 1988, is essentially a primer on the full range of barriers to economic development. While He's analysis is confined to China, his sometimes shocking examples of corruption, waste, and environmental degradation could just as easily have come from India, Mexico, or any number of developing countries.

For the China hand, such tales make for scintillating reading. Statistics on pollution, water reserves, deforestation, desertification, erosion, and other environmental indicators are hard to come by in China, so the well-documented facts and figures are sure to satisfy those looking to quantify such factors. According to He, a quarter of China's forests have disappeared in the past 30 years; by 1977, erosion and desertification had claimed nearly 1 million sq km of arable land—an area equivalent to the combined acreage of Guangdong, Guangxi, and Sichuan provinces.

While the numbers may be stunning, the real value of this book lies in He's macro approach to development. Like Vaclav Smil, whose numerous volumes have laid a framework for the study of China's environment, He Bochuan sounds a cry of alarm at the unsustainable nature of Chinese development. How can China quadruple output by the year 2000 (a goal stated by Deng Xiaoping in 1979) with only twice the energy production—a feat no country has been able to achieve? Halfway toward that target date, China's energy use per unit of GNP is the highest in the world; while total energy use is roughly equivalent to that of Japan's, China's GNP is only one-sixth that of Japan's. The book details other, fundamental contradictions in Chinese policies toward investment, agriculture, transportation, and education.

When published in China, this book startled many officials in Beijing, and its author, a lecturer in the philosophy department of Guangzhou's Sun Yat-Sen University, was recently denied a passport to attend an international environmental conference. What Beijing does not want to hear, however, may not translate into a rallying cry for advanced environmental technologies. Though arguing that China's policies place the country on a collision course for environmental disaster, He does not seem particularly convinced that imported technologies or foreign aid will alleviate China's problems. Instead, fundamental changes in China's economic development strategy are needed to halt the "top three polluters" of "bureaucratism, ignorance, and poverty." —VLW



## *Books Received*

***China at the Brink: The political Economy of Reform and Retrenchment in the Post-Mao Era,*** by Peter M. Lichtenstein. New York, NY: Praeger Publishers, 1991. 159 pp. $42.95 hardcover.

***China Breifing, 1991.*** edited by William A. Joseph. Boulder, CO: Westview Press, 1991. 213 pp. $34.85 hardcover, $14.85 softcover.

***China: Implementation Options for Urban Housing Reform,*** a World Bank Country Study. Washington, DC: World Bank Publications, 1992. 172 pp. $11.95 softcover.

***Chinese Negotiating Style: Commercial Approaches and Cultural Principles,*** by Lucian W. Pye. New York, NY: Quorum Books, 1992. 119 pp. $42.95 hardcover.

***Laogai: The Chinese Gulag,*** by Hongda Harry Wu. Boulder, CO: Westview Press, 1992. 247 pp. $34.95 hardcover.

***Legal and Policy Issues of the Trade and Economic Relations between China and the EEC: A Comparative Study,*** by Hu Yuanxiang. Deventer, The Netherlands: Kluwer Law and Taxation, 1991. 415 pp. $102.00 softcover.

***Organization and Management in China 1979-1990,*** edited by Oded Shenkar. Armonk, NY: M.E. Sharpe, 1991. 181 pp. $35.00 hardcover.

***Private Business in China: Revival between Ideology and Pragmatism,*** by Willy Kraus (translated from German). Honolulu, HI: University of Hawaii Press, 1991. 246 pp. hardcover.

# *Barefoot in the Boardroom*

## *Venture and Misadventure in the People's Republic of China*

*by Bill Purves. North Sydney, Australia: Allen & Unwin Pty Ltd., 1991. 177 pp. $19.95 softcover.*

Coping with chickens squawking beneath the office desks and ensuring product quality were just two of the challenges Bill Purves faced during his two-year stint as general manager of Goldland Ltd., a Sino-Hong Kong joint-venture cast iron factory in Gaozhou, Guangdong. Despite a few years' residence in Hong Kong and an understanding of the Cantonese dialect, Purves had had little exposure to mainland China before taking the position and learned Chinese business practices the hard way—on the job.

To help newcomers learn from his mistakes, Purves has summarized his experiences in this delightful book. Whether dealing with procurement, labor, production, accounting, banking, shipping, or customer relations, Purves provides a clear-eyed, personal account of the obstacles that challenge western managers in China's centrally controlled economy. Judging by the open and easy tone of his book, Purves' eventual success in running Goldland must partly be credited to personal character.

Purves assumes *Barefoot*'s audience has no familiarity with business in China, so he thoroughly and thoughtfully guides the reader through the maze of China's business practices. Starting with a humorous and detailed physical description of the Goldland office—where water pipes and white-out are the cultural currency of exchange, paper is in short supply, and work is an all-day drop-in meeting—Purves widens his circle of observation with each chapter, introducing the reader to the factory's workers, local party members, and the overarching central planning system. The author always stays tightly within the sphere of factory management, and keeps the full attention of the reader, whether he is describing the pedestrian fare doled out in the company dining hall or the impact of Marxist economic planning on business interactions. As if to underscore the vital role that personal connections, payoffs, and kickbacks play in China's economy, one of Purves' last chapters outlines banquet etiquette, covering everything from the lighting of cigarettes to the tunes crooned at tipsy singalongs.

While the foibles and follies of Goldland's operations may elicit soft chuckles of recognition from seasoned foreign managers, newcomers to China will find this small book a valuable introduction to the everyday problems that plague China business. Moreover, they can avoid future frustration by learning from Purves' experiences with such fundamental issues as electricity supply and package handling; confronted with a gargantuan, byzantine bureaucracy and an antediluvian communications system, he always maintains his composure and good humor. And while Purves' descriptions are keen, he avoids generalizing and never grows preachy. His unstated formula seems to be one of understanding, adjustment, and plain doggedness. The perseverance, wit, and intelligence of Purves and his Chinese colleagues is inspiring to would-be joint-venturists. Such reassurance is perhaps *Barefoot in the Boardroom*'s greatest contribution. —AAF

# *Direct Investment and Joint Ventures in China*

## *A Handbook for Corporate Negotiators*

*by James E. Shapiro, Jack N. Behrman, William A. Fischer, and Simon G. Powell. New York, NY: Quorum Books, 1991. 328 pp. $55 hardcover.*

This volume is the product of four authors, who have pooled their experience in academia and the corporate world to create a "how-to" handbook on direct investment in China. The book is a smorgasbord of history, economic data, business anecdotes, and advice on contract negotiation and other issues. While it possesses clear chapter headings and a comprehensive index, *Direct Investment* suffers from a lack of focus and an unclear sense of audience.

Supposedly targeted at corporate negotiators, much of this book deals with topics of less than immediate interest to this group of readers. Corporate managers, for example, may have less need to refer to the seven basic concepts of Confucianism than to the market and legal information, although the former is helpful in understanding the cultural milieu within which they will operate.

The book's tightest and strongest chapters explore practical concerns such as the legal framework for direct investment, market and distribution systems in China, the use of China as a production base, and the negotiation and implementation of joint venture agreements. Chapters 10 and 11, in particular, contain a skillful blend of pragmatic advice on negotiating and operating joint ventures, highlighted by numerous case studies. Here one of the author's extensive experience with the Xerox joint venture in Shanghai proves valuable. The reader is rewarded with a detailed chronology of negotiations—from initial meeting to signing of the contract—that took place over a period of nine and one-half years. One wishes the timeline extended further through production start-up.

While *Direct Investment* provides useful information for foreign companies considering an investment project in China, it could benefit from more up-to-date statistics (some go up only to 1986) and tighter editing. Its sage advise on how to prepare corporate headquarters for the protracted, sometimes confrontational nature of joint-venture negotiations, however, more than compensates for these shortcomings. —H.M. Skilling

*H.M. Skilling is a senior consultant at Deloitte, Touche, Tohmatsu in Washington, D.C.*

# 中外貿易 China Business

Val Huston

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
May 6, 1992

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

## Banking and Finance

*China's Investments Abroad*

**ICBC/Russia, Ukraine, Uzbekistan**
Will open branch offices. 4/92.

**ICBC/Singapore**
Opened representative office. 3/92.

## Chemicals

*Investments in China*

**EniChem Synthesis, a subsidiary of Eni Chemical SPA (Italy)/Taicang General Chemical Factory**
Established the Taicang Eni Chemical Co. Ltd. in Jiangsu Province to produce low-pollution pesticides. $20 million. 4/92.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Import-Export Corp.; CATIC: China National Aero-Technology Import-Export Corp.; CCTV: China Central Television; CEIEC: China Electronic Import-Export Corp.; CEROILFOODS: China National Cereals, Oil, and Foodstuffs Import-Export Corp.; CHINALIGHT: China National Light Industrial Products Import-Export Corp.; CHINAPACK: China National Packaging Import-Export Corp.; CHINATEX: China National Textiles Import-Export Corp.; CHINATUHSU: China National Native Produce and Byproducts Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CMC: China National Machinery Import-Export Corp.; CNCCC: China National Chemical Construction Co.; CNOOC: China National Offshore Oil Corp.; CTIEC: China National Technical Import-Export Corp.; ETDZ: Economic Technological Development Zone; ICBC: Industrial and Commercial Bank of China; INSTRIMPEX: China National Instruments Import-Export Corp.; MLI: Ministry of Light Industry; MMEI: Ministry of Machinery and Electronics Industry; MOE: Ministry of Energy; MOTI: Ministry of Textile Industry; MPT: Ministry of Posts and Telecommunications; 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.; SPC: State Planning Commission; UNDP: United Nations Development Program.

## Computers and Computer Software

*Other*

**China Hewlett-Packard (US)/Beijing Legend Computer Group Corp.**
Will jointly develop Chinese character ink-jet and laser-jet printers. 4/92.

## Construction Materials and Equipment

*Other*

**World Bank**
Will provide loan for the development of cement production and distribution facilities in Tongling, Anhui Province; Ningbo, Zhejiang Province; and Nanjing, Jiangsu Province. $87.2 million. 3/92.

## Consumer Goods

*Investments in China*

**Sharp Corp. (Japan)/Shanghai Radio & Television Co.**
Will establish a joint venture to produce air conditioners, household appliances, and copying and facsimile machines. $30 million. 5/92.

**Ralston Purina Overseas Battery Co. (US)/Beijing Battery Factory**
Established the Beijing Eveready Co. Ltd. joint venture to produce zinc-manganese batteries. $12.5 million. (US:59% - PRC:41%). 4/92.

**Matsushita Electric Industrial Co. (Japan)/Jinyu Electrical Appliance Co.**
Established a washing machine joint venture in Hangzhou. $4.78 million. 4/92.

**Daicel Chemical Industries Ltd. and Mitsui & Co. (Japan)/Huian Chemical Works**
Will establish a joint venture in Xian to produce 8,000 tpy of acetate cellulose tow fiber for use in cigarette filters. $39 million. (Japan:30% - PRC:70%). 3/92.

*Other*

**Walt Disney Co. (US) and Vigor International Inc. (Taiwan)**
Signed agreement to set up sales counters in 20 leading department stores in Beijing, Shanghai, Guangzhou, Wuhan, and Shenyang. 3/92.

## Electronics

### *Investments in China*

**Philips Electronics (Netherlands)/Suzhou TV Set Factory**
Established the Philips Consumer Electronics Technology Development and Manufacturing Co. of Suzhou Ltd. joint venture to produce 14-inch, 21-inch, and 25-inch television sets. (Netherlands:51% - PRC:49%). 4/92.

**AMP Inc. (US)/Shanghai Electronic Components Corp.**
Opened the AMP Shanghai Ltd. joint venture to produce electrical and electronic connection devices. 3/92.

## Food and Food Processing

### *Investments in China*

**McDonald's Corp. (US)**
Opened a McDonald's restaurant in Beijing. 4/92.

**Chia Thai Group (Thailand)/Lianyungang ETDZ, Jiangsu Province**
Established the Lianyungang-Chia Thai Feed Co. Ltd. joint venture to produce chicken feed and breed chickens. $12.5 million. (Thailand:70% - PRC:30%). 4/92.

**Australian Wheat Board and Kuok Group (HK)/Cereoilfood Beijing**
Established a joint venture to construct a flour and feed mill. $14.5 million. 3/92.

**Carl Karcher Enterprises Inc. (US)**
Opened a Carl's Jr. restaurant in Beijing. 3/92.

## Foreign Assistance

**World Food Programme**
Will provide aid for a project in Yunnan Province aimed at land improvement, increased food production, and greater environmental protection. $14 million. 4/92.

**Austria/China**
Will provide soft loan to finance the purchase of Austrian goods. $83 million. 3/92.

## Machinery and Machine Tools

### *China's Imports*

**California Steel Industries Inc. (US)/Shougang Iron & Steel Co.**
Will sell equipment, including two 220-tonne converters and a continous slab caster. 3/92.

### *Other*

**Hitachi Ltd. (Japan)/Shanghai Refrigerator Compressor Factory**
Will sell technology for the production of compressors used in household air conditioners. 4/92.

## Metals, Minerals, and Mining

**Asian Development Bank (ADB)**
Will provide loan to modernize and expand the Laiwu Iron and Steel Mill in Shandong Province. $133 million. 4/92.

### *Other*

**Mitsui Bussam Co. Ltd. (Japan)/Baoshan Iron and Steel Complex**
Signed agreement to cooperate in trade and production of iron and steel. 4/92.

## Packaging, Pulp, and Paper

### *Investments in China*

**Ball Corp. (US) and FTB Packaging Ltd. (HK)**
Will upgrade metal beverage-container manufacturing facilities in Guangzhou and North China by executing management contracts, supplying technical assistance, and acquiring equity interests. $6 million. 3/92.

## Petroleum, Natural Gas, and Related Equipment

### *Investments in China*

**Amoplex Orient Inc., a subsidiary of Amoplex Ltd. (Australia)/CNOOC**
Signed contract for oil exploration in the 120 sq km, 17-22 oilfield in the South China Sea. 4/92.

## Power Plants

### *China's Imports*

**GEC-Alsthom (UK-France)/Guangdong General Power Co.**
Will sell two 655mw coal-fired units to the Shajiao C plant, to be built 60 miles south of Guangzhou. $1 billion. 4/92.

**Bonus Co. (Denmark)/CTIEC**
Will use Danish government funding to sell four wind-driven generators with a capacity of 1,200 kw to Xinjiang Province. $800,000 grant, $800,000 loan. 4/92.

### *Other*

**Nuclear and Fossil Generation of Electricite de France (France)/Guangdong Nuclear Power Joint Venture Co. Ltd.**
Will provide data and emergency services to the Daya Bay nuclear power station during construction and to train production personnel. 4/92.

## Property Management and Development

### *Investments in China*

**China Resources Co. Ltd. (HK)/Hualian Commercial Building**
Will establish the New Shanghai Emporium joint-venture department store in Pudong. $100 million. 4/92.

**Fortune Co., a part of the Chia Thai Group (Thailand)/Shanghai Lujiazui Financial Development Co.**
Will jointly develop 40 ha of land in Pudong. $2 billion. (Thailand:50% - PRC:50%). 4/92.

**Kumagai Gumi Co. (Japan)/Yangpu, Hainan Province**
Signed a 70-year lease for 30 sq km, at 51 cents per sq m, to develop an industrial park and port. 3/92.

### *China's Investments Abroad*

**China/UK**
Will invest in the Coombe Abbey Countryside Park leisure development in cooperation with Saudi investors. $34 million. (Saudi Arabia:68% - PRC:32%) 3/92.

## Telecommunications

### *China's Imports*

**Belgium Bell Telephone Co. and Taiwan International Standard Electronics Ltd./INSTRIMPEX and CTIEC**
Will use Belgian government loans to sell 160,000 telephone sets, 9,700 long-distance exchanges, and transmission facilities. $29 million. 4/92.

**Motorola Inc. (US)/Hangzhou Communications Equipment Factory**
Will sell five EMX-250 electronic switches for installation in Ningbo, Hangzhou, Jiaxing, Shaoxing and Wenzhou. 3/92.

**L.M. Ericsson AB (Sweden)**
Will sell mobile telephone equipment to Guangdong, Guangxi, Hebei, and Henan provinces. $40 million. 3/92.

### *Investments in China*

**Matsushita Electric Industrial Co. (Japan)/China National Posts & Telecommunications Industry Corp., China National Postal & Telecommunications Appliances Corp. and Beijing Telecommunications Components Factory**
Will establish the Beijing Matsushita Communication Equipment Co. to produce pagers. $2.9 million. (Japan:50% - PRC:50%). 4/92.

**Nokia Telecommunications (Finland)/Guilin Institute of Optical Communications**
Will establish a joint venture to produce optical terminal equipment in Guangxi Province. $5 million. (Finland:50% - PRC:50%). 4/92.

**Taihan Electric Co. Ltd. (ROK) and Golden Island Group (HK)/NA**
Established the Tiajing Telecommunication Cable Co. joint venture to produce 800,000 large-capacity electric cables per year in Beijing. $30 million. (ROK and HK:65% - PRC:35%). 4/92.

**Contrad Ltd. (HK)/Beijing Huaxun Telecommunications Tech Co., Beijing Wireless Electrical Products Factory and Fengtai Huaxiang Industrial Co.**
Signed agreement to establish a joint venture to produce mobile telephone equipment in Beijing. $3 million. 4/92.

**Motorola Inc. (US)/Tianjin ETDZ**
Established the Motorola Electronics Ltd. Co., a wholly owned enterprise, to produce semiconductors, computer software, paging systems, cellular phones, and other electronic equipment. $120 million. 3/92.

**Fujitsu Ltd. (Japan)/Nanjing Telecommunications Works**
Established the Nanjing-Fujitsu Telecommunications Co. Ltd. (NFTE) joint venture to produce optical telecommunications equipment. $14.5 million. (Japan:40% - PRC:60%). 3/92.

## Textiles

### *Investments in China*

**Maxim Technology Development Corp. (HK)/Beijing Coal Industry Co.**
Established the Beijing Fast-Deer Knitting Co. Ltd. joint venture to produce socks and stockings. $6 million. 4/92.

## Transportation

### *Investments in China*

**Ikawa Trust Group (Japan)/Fuzhou provincial government**
Signed letter of intent for the construction of a 280-km bullet train railway between Fuzhou and Xiamen. 4/92.

**Kasaoka Co. Ltd. (Japan)/Shougang Air Conditioner Factory**
Will establish the Kasaoka Yantai Air Conditioner Co. Ltd. joint-venture to produce SK-10 series automobile air conditioners in Shandong Province's Yantai ETDZ. $13.5 million. (Japan:30% - PRC:70%). 4/92.

**Win Holdings Ltd. (HK)/Zhangjiagang Port Administration**
Will construct container wharf and chemical materials wharf in Jiangsu Province. $34 million. 4/92.

### *Other*

**Japan**
Will provide loan for eastern section of the Hainan Island expressway. $70 million. 4/92.

**Germany**
Will provide loan for the construction of the Aeronautic Apprentice Training Center in Beijing, which will supply technicians for the Aircraft Maintenance and Engineering Corp., a Lufthansa-Air China joint venture. $12.5 million. 4/92.

**Canac International Inc., a subsidiary of Canadian National Railways/Southwest Jiaotong University**
Will jointly develop a high-speed railcar in Chengdu. 4/92.

**Breathews Safe Aviation Corp. (Norway)/Xiamen Airlines**
Will lease four Boeing 737-500 airliners to Xiamen Airlines. 4/92.

**Ansett Leasing Corp. (Australia)/China Aviation Supply Corp. (CASC)**
Will lease two Boeing 737-300 airliners to the CASC. 4/92.

### *China's Investments Abroad*

**China National Foreign Building Materials Corp./Transportation Ministry of Kirgizstan**
Will establish a bus factory joint venture in Kirgizstan. 3/92.

## Miscellaneous

**Uzbekistan/China**
Signed a bilateral investment treaty and 14 agreements on cooperation in the fields of technology, culture, education, transportation, telecommunications. 3/92.

# THE US–CHINA BUSINESS COUNCIL

**OFFICERS**

Chairman: Jonathan M. Schofield

Vice Chairmen: John C. Hunter, III, Eugene Theroux

Secretary-Treasurer: David Tendler

Counsel: Lionel H. Olmer, *Paul, Weiss, Rifkind, Wharton & Garrison*

President: Donald M. Anderson

**BOARD OF DIRECTORS**

Ronald J. Anderson, president, Asia-Pacific Divisions, *American International Underwriters*

Theodore H. Black, president, chairman, and chief executive officer, *Ingersoll-Rand Co.*

Alan Chien, chairman, *Abacus Group of America, Inc.*

James T. Clarke, vice chairman, Professional and Regulatory Issues, *Coopers & Lybrand*

John W. Georgas, executive vice president, *The Coca-Cola Co.*

Gerald M. Glenn, group president, *Fluor Daniel, Inc.*

John A. Hinds, president, *AT&T International Inc.*

John C. Hunter, III, vice president and general manager, *MCC Asia Pacific, Monsanto Co.*

Dale F. Larson, group president, World Milling Industries, *Continental Grain Co.*

Patrick J. Martin, vice president and general manager, China Business Development, *Xerox Corp.*

William R. Pearce, vice chairman, *Cargill Incorporated*

Samuel Rubinovitz, executive vice president, *EG&G Inc.*

Jonathan M. Schofield, president, *United Technologies International Corp.*

Christopher A. Sinclair, president, *Pepsi-Cola International*

Don E. Six, president, *Texaco International*

Donald N. Sorterup, vice president, International Operations and Business Development, *The Foxboro Co.*

Eugene Theroux, partner, *Baker & McKenzie*

David Tendler, chairman, *Tendler Beretz Associates Ltd.*

Paul W. Van Orden, executive vice president and member of the Corporate Executive Office, *General Electric Co.*

Christopher H. Phillips (Honorary), retired president, *US–China Business Council*

Roger W. Sullivan (Honorary), retired president, *US–China Business Council*

**WASHINGTON STAFF**

President: Donald M. Anderson

China Business Review: Pamela Baldinger

China Business Forum: Karen K. Juh

Management and Budget: Richard L. Peterman

**Address**

1818 N Street, NW, Suite 500
Washington, DC 20036 USA
Telephone: (202) 429–0340
Fax: (202) 775-2476
Telex: 64517 NCUSCTUW

**BEIJING OFFICE**

Director for China Operations: John Frisbie
CITIC Building, Suite 22C
Telephone: 5002255, ext. 2263, 2266
Cable: USCHINTRAD
Fax: (861) 512-5854

## US GOVERNMENT OFFICES IN CHINA

**EMBASSY**

Ambassador: J. Stapleton Roy
Deputy Chief of Mission: Lynn B. Pascoe
Agricultural Counselor: Edwin A. Bauer
Commercial Counselor: Timothy P. Stratford
Commercial Officers: Alice Davenport, John Muehlke, Jr., Steve Hendryx, Matt Brazil, David Schneider
Economic Counselor: Steven A. Schlaikjer
3 Xiushui Bei Jie
Jianguomenwai, Beijing
Telephone: (861) 532–3831
Telex: 22701 AMEMB CN
Fax: (861) 532-3178

**CHENGDU CONSULATE GENERAL**

Consul General: Marshall P. Adair
Economic/Commercial Officer: John Brennan
Jinjiang Hotel
180 Renmin Road
Chengdu, Sichuan
Telephone: (8628) 582-222
Fax: (8628) 583-520
583-792

**GUANGZHOU CONSULATE GENERAL**

Consul General: Dennis Harter
Deputy Principal Officer/Economic Section Chief: John J. Tkacik, Jr.
Agricultural Officer: Philip A. Shull
Commercial Officers: Jonathan Marks, Denny Barnes
Economic Officers: Lee A. Brudvig, Shirley Long
Dongfang Hotel
Telephone: (8620) 888–8911
Attn: USA Consulate
Fax: (8620) 886-2341

**SHANGHAI CONSULATE GENERAL**

Consul General: Frank P. Wardlaw
Political/Economic Section Chief: John J. Norris, Jr.
Commercial Officers: David Murphy, Rosemary Gallant, Vivian Stephenson
1469 Huaihai Zhong Lu
Telephone: (8621) 433–6880
Fax: (8621) 433-4122
433-1576

**SHENYANG CONSULATE GENERAL**

Consul General: Morton J. Holbrook, III
Commercial Officer: Sharon Beerman
No. 40, Lane 4, Section 5
Sanjing St, Heping District
Shenyang, Liaoning
Telephone: (8624) 290-000
Fax: (8624) 290-074

**HONG KONG CONSULATE GENERAL**

Consul General: Richard Williams
Deputy Principal Officer: David G. Brown
Agricultural Officer: Phillip C. Holloway
Commercial Officers: Thomas Lee Boam, William Brekke, Henry Richmond
Economic Section Chief: Gilbert J. Donahue
26 Garden Rd.
Telephone: (852) 523-9011
Fax: (852) 845-1598

## PRC GOVERNMENT OFFICES IN THE US

**EMBASSY**

Ambassador: Zhu Qizhen
Minister Counselor for Commercial Affairs: Wang Tianming
2300 Connecticut Avenue, N.W.
Washington, DC 20008
Commercial: (202) 328–2520 through 2527
Fax: (202) 232–7855
Visas: (202) 328–2517
Telex: 440038 PRC UI

**CHICAGO CONSULATE GENERAL**

Consul General: Wang Li
Commercial Consul: Dai Youde
104 S. Michigan Avenue, Suite 900
Chicago, IL 60603
Commercial: (312) 580-7403, 7245
Visas: (312) 346–0288, 580–7406
Fax: (312) 580-7402

**HOUSTON CONSULATE GENERAL**

Consul General: Zhu Qiusheng
Commercial Consul: Luo Jizhong
3417 Montrose Blvd.
Houston, TX 77006
Commercial: (713) 524–4064
Visas: (713) 524–4311
Fax: (713) 524–7656

**LOS ANGELES CONSULATE GENERAL**

Consul General: Wang Xuexian
Commerical Consul: Liang Bihua
501 Shatto Place, Suite 300
Los Angeles, CA 90020
Commercial: (213) 380-0587, 0669
Visas: (213) 380-2506 & 2507
Fax: (213) 380-1961

**NEW YORK CONSULATE GENERAL**

Consul General: Zhang Weichao
Commercial Consul: Song Guibao
520 12th Avenue
New York, NY 10036
Commercial: (212) 330–7428 & 7427
Visas: (212) 330–7410
Fax: (212) 502-0248

**SAN FRANCISCO CONSULATE GENERAL**

Consul General: Zheng Wanzhen
Commercial Consul: Liao Qicheng
1450 Laguna Street
San Francisco, CA 94115
Commercial: (415) 563–4858
Visas: (415) 563–4857
Fax: (415) 563-0494