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CHINA'S DYNAMO

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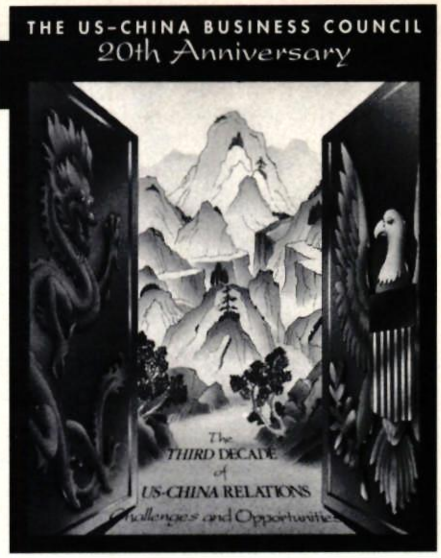

Special 20th Anniversary Insert
Insert cover by John Yanson

July-August
1993

FOCUS: Guangdong Province

Celebrating the Council's 20th Anniversary

A special pull-out insert provides in-depth coverage of "The Third Decade of US-China Relations: Challenges and Opportunities," a conference sponsored by the US-China Business Forum.

FEATURES

DEPARTMENTS

On the cover:
Satellite image of the Pearl River Delta, reprinted with permission of Geocarto International Centre, GPO Box 4122, Hong Kong

Will the Boom Turn to Bust?

China has been much in the media of late; the country's economic "boom" has become a business buzzword. But where there's a buzz, there's often a sting, and the warning signs of an impending bust cycle are emerging. Even China's leaders have hinted in recent weeks that the economy, after posting remarkable 12.8 percent GNP growth in 1992 and first quarter 1993 growth 14 percent above the level achieved during the same period last year, needs to slow down.

The real question, of course, is whether the Chinese government can ease up on the throttle without throwing the economy into a tailspin. Nobody—least of all foreign businesses—wants a return to the austerity conditions of 1989-90, but rising investment, construction material costs, transportation bottlenecks, real estate prices, corruption, and inland-coastal disparities have begun to trigger alarm bells in Beijing. A clamp-down appears imminent, as evidenced by recent announcements that credit will be tightened and the spread of new economic development zones will be strictly controlled—measures that reflect Beijing's reliance on administrative measures to cool things off. Worries about China's continuing trade deficit (according to Chinese statistics) may also prod Beijing to assert control over imports. The key is whether Beijing can implement such measures. Localities are resisting Beijing's directives, denying their own economies are overheated and pointing the finger at other areas. The Party Central Committee may convene a meeting by early July to resolve these differences.

Crazy currency dealings

The economic outlook for foreign investors, meanwhile, has been clouded by the depreciation of China's currency at the swap centers. For much of 1993, foreigners found few dollars available at the centers because holders of dollars were reluctant to sell following unfounded rumors that the *yuan* would be devalued or made fully convertible. While the official rate hovered around ¥5.7/$1, the government in February imposed an ¥8.2/$1 cap on the swap market rates, exacerbating the dollar shortage. Holders of dollars swarmed to the black markets instead, where $1 would fetch ¥9.5 and up.

When the State Administration of Exchange Control lifted the ceiling in early June to encourage traders to use the official markets, swap rates shot up to over ¥10/$1. Swap market volumes rose at many centers as holders of dollars made deals at the higher rate, but many investors still are finding the supply of dollars is insufficient. As *The CBR* goes to press, swap rates in many cities remain above ¥10/$1.

While Chinese officials grapple with currency problems and inflation, they face a new worry: China's economy may be too large to enable the country to qualify for concessionary loans from the World Bank's International Development Association (IDA). According to the purchasing power parity (PPP) accounting measures proposed by the International Monetary Fund in May, each nation's GDP will be assessed by determining the costs in local currency of a standard "basket" of goods and services. By this methodology, China has the world's third largest economy. Under previous accounting measures, in which output and income were tallied in dollars converted from local currency at the prevailing exchange rate, China's economy ranked tenth. Per capita GDP had shown little increase because of Beijing's repeated devaluations of the *yuan*.

Chinese officials have criticized the new accounting measures, questioning the appropriateness of the PPP approach. Sources at the IMF reveal that China and other developing countries are anxious to discuss the new accounting methods at the IMF's annual meeting in September. World Bank officials, meanwhile, concede that the IDA threshold may have to be adjusted to reflect the new IMF methodology, but suggest that regardless, China's graduation from IDA eligibility would be gradual.

—*VLW*

ADB to Spend $1 Billion in China

At the annual meeting of the Asian Development Bank (ADB) in early May, representatives of the ADB's 53 member countries agreed to spend more than $1 billion on projects in China during 1993, a 20 percent jump over 1992 lending. The funds will be spent on a number of projects, including: $200 million to build a pumped-storage facility in Guangzhou, $50 million to promote rural agribusiness development, $250 million to restructure several fertilizer plants, $110 million to build the Hefei-Jiujiang Railway, $190 million to help complete expressways in Hunan and Jilin, $150 million to reduce air and water pollution in the cities of Tangshan and Chengde, $70 million to fund a forestation/forest industries project in Yunnan Province, and $100 million to finance the ADB's first telecom project in China. In a shift from earlier lending to the coastal regions, much of the anticipated ADB lending for 1993-96 will apparently be channeled to the interior.

The ADB's president, Kimimasa Tarumizu, anticipates that lending to China and other countries will continue to rise. At the May meeting, Tarumizu asked that ADB member countries begin negotiations on doubling the bank's capital base, which is used to raise international capital for the bank's lending programs. A capital base of nearly $50 billion by 1998 is essential, Tarumizu argued, if the ADB's lending program is to continue to expand. The US delegate, however, countered that such negotiations would be premature, and cited the need to study the ADB's efficiency and the quality of its projects before a capital increase drive should be initiated.

—*VLW*

Grain Headaches

Chinese agricultural officials expect a good wheat crop this year, but sweeping changes in agricultural policy introduced over the past 12 months have disgruntled some farmers. Government subsidies for inputs such as fertilizer and pesticides have been abolished, for example, meaning production costs for farmers have increased. Market prices of major agricultural commodities have risen, but have not kept pace with input price hikes. In the case of grain, the abolition of subsidies for urban residents earlier this year has driven up free-market prices somewhat, but large grain stockpiles and the growing diversification of urban diets have limited the jump in price.

In some provinces, the government has announced it will no longer employ the grain contract system, reportedly because all sales are now to take place on the open market. But many farmers will probably receive IOU slips rather than cash again this year, as provincial- and national-level agencies may not have enough cash to make grain purchases. Last fall, farmers complained so bitterly about being paid in scrip that agriculture officials promised to clear all IOUs before the Chinese New Year. Despite the promise, many farmers still haven't been paid in full for last year's harvest.

The soaring cost of inputs and the continued use of IOUs may lead some grain farmers to plant other crops. This could prove worrisome to Beijing, which seeks to maintain large grain reserves in case of disaster. Beijing's stockpiling efforts, however, are hampered by inadequate storage facilities and inefficient transport. Some 2 million tonnes of grain are lost in transit each year, for example, while overall spoilage rates are likely much higher, particularly in the north, where two-thirds of the stockpiled grain is stored in the open. To address these problems, China has worked closely with the World Bank in recent months to finalize a $490 million loan to upgrade grain storage and distribution facilities. The project, which is expected to be completed in 1998, will involve a total investment of nearly $1.8 billion to enlarge grain storage sites and connect grain distribution centers to rail and water links.

—VLW

SHORT TAKES

Peace Corps Enters China

China's first US Peace Corps volunteers arrived in the country in June to begin serving two-year terms. An earlier plan to dispatch a group in the summer of 1989 was postponed following the events at Tiananmen Square. After a three-month training session in Chengdu, the 18 volunteers, who range in age from 23-68, will teach English at several teacher-training and medical colleges in Sichuan Province. The Chinese host for the Peace Corps is the Chinese Education Association for International Exchange, which administers all foreign volunteer programs in China.

SEC Okays Chinese Securities

The US Securities and Exchange Commission (SEC) has apparently opened the way for US institutional investors to buy Chinese stocks. In April, the SEC issued a "no-action" letter in regard to a US rule prohibiting institutional investors from investing in foreign markets with more than one central depository, as is the case in China. The SEC decision effectively clears the way for US investors to purchase Chinese securities.

A number of US brokerage fund managers visited China and Hong Kong shortly after the SEC decision. The delegation participants reportedly were enthusiastic about the prospects of some Hong Kong-listed companies with operations on the mainland.

A Golden Hedge

China became the world's largest purchaser of gold last year, many metal traders believe. Official purchases accounted for only part of the 350 million tons of gold bought by China in 1993, however, as Chinese citizens rushed to buy pure gold jewelry as a hedge against inflation.

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CELEBRATING 20 YEARS AS THE WORLD'S PREMIER MAGAZINE OF CHINA TRADE

A Pandora's Box?

MFN has been renewed for one year, but the conditions placed on future renewal could prove dangerous both to the President and business

■ **Richard A. Brecher**

On May 28, President Clinton issued an executive order extending Most Favored Nation (MFN) trading status to China for the period July 1993-July 1994. After this date, however, renewal of MFN privileges will depend on China's meeting several human rights conditions. While the renewal should temporarily mute political discourse on US China policy, the executive order has virtually guaranteed that the annual debate will continue and that the future of China's MFN status will remain uncertain. Indeed, though the executive order may represent the best result the business community could realistically have expected from the Clinton White House, given the President's campaign statements and strong congressional pressure for some sort of conditions, the Administration's willingness to condition the future of the US-China commercial relationship must be considered cause for concern. By attaching the MFN decision to political developments difficult to measure, the Administration has kept the trade status on the negotiating table.

The conditions

Under the President's executive order, China must meet two conditions in order to be eligible for MFN status next year. At the very least, the President must be able to show that extension of MFN will substantially promote the freedom of emigration objectives of the Jackson-Vanik amendment, which has guided US policy on MFN extension to socialist nations since 1974 (*see The CBR*, January-February 1993, p.16). In addition, China must comply with the 1992 bilateral memorandum concerning prison labor. Under this accord, China agreed to permit US Customs officials to inspect prison sites suspected of producing goods for export to the United States.

The executive order further stipulates that the Secretary of State, in making his recommendation to the President, "shall determine whether China has made overall, significant progress with respect to the following:"

■ Taking steps to adhere to the United Nations Universal Declaration of Human Rights;

■ Releasing and providing an acceptable accounting of Chinese citizens imprisoned or detained for the non-violent expression of their political and religious beliefs, including those connected to the Democracy Wall and Tiananmen Square movements;

■ Ensuring humane treatment of prisoners and allowing access to prisons by international humanitarian organizations;

■ Protecting Tibet's distinctive religious and cultural heritage; and

■ Permitting international radio and television broadcasts into China.

Though these conditions are bound to prove problematic, the President's decision nevertheless represents a partial victory for the Council and other business interests that lobbied hard to retain China's unconditional MFN trading status. By seizing the initiative on the MFN issue, the President removed the impetus for legislative action, which probably would have required stronger presidential action on a much broader range of issues. By implementing a list of administrative conditions confined to the human rights area, Clinton effectively retained the executive branch's prerogative to manage US relations with China, albeit with considerable input from Congress.

The other victory for the business community in the President's executive order is the de-linking of MFN from bilateral trade and proliferation issues. Accepting the reasoning of the Council (*see The CBR*, January-February 1993, p.10), the President chose to handle these matters through separate—and more appropriate—government channels. However, by removing these contentious issues from the MFN umbrella, the Administration may effectively have made implementation of retaliatory trade sanctions for transgressions in these areas more likely.

The move to expand upon the Jackson-Vanik precedent and add other human rights conditions to the MFN

■ **Richard A. Brecher directs the US-China Business Council's MFN lobbying activities.**

renewal process is an even greater threat to business, though, as it could leave US commercial interests vulnerable to the vagaries of Washington politics. This situation could be exacerbated by the probability that China's progress toward meeting the conditions listed in the executive order will be unclear, as no sharply defined way to measure such progress has been put forward.

The question at the crux of renewal next year, then, will not be how China has behaved, but how President Clinton, under the intense gaze of Congress, the media, and other interest groups, will interpret Chinese actions. To a great extent, the Administration's response will reflect the US domestic political situation, which is impossible to predict in advance. This uncertainty inevitably leaves US business hanging.

China's response

As the Council predicted, Beijing protested that the US executive order constitutes interference in China's internal affairs. Chinese officials further condemned the conditional renewal of MFN as an "open violation of the principles set forth in the three Sino-US joint communiques and the Agreement on Trade Relations between China and the United States."

However, the Chinese response to date has been limited to rhetoric rather than retaliatory action against US commercial interests. In meetings in early June with officials from the Ministry of Foreign Affairs (MFA) and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), the Council was reassured that China would take no action against US companies unless the United States actually imposed sanctions on China. "We will wait until MFN is removed," remarked one MFA official. For the moment at least, it therefore appears that US companies can go about their business in China without fear of retaliation from the Chinese government.

What next?

But what should companies expect from the US government? Though the imposition of additional conditions on MFN renewal next year has increased the risk of doing business in China, the Administration believes it has selected conditions that are realistic and "achievable." At a private meeting just before the May announcement, senior Administration representatives from the National Economic Council, National Security Council, and office of the US Trade Representative briefed members of the business community on the Administration's plan. The Administration sought to reassure the business community that each of the conditions in the executive order could be met, and that at the time of the briefing, China in fact was in compliance with many of them already. Specifically, the officials noted:

The President's decision represents a partial victory for business interests.

■ **Freedom of emigration** Beijing has taken a number of steps to satisfy the Jackson-Vanik requirement that China either allows free emigration or that the US extension of MFN would encourage movement in that direction. The US government has concluded that the principal constraint on Chinese emigration is not Beijing and its policies, but the unwillingness or inability of other nations to absorb all Chinese emigrants who wish to leave. Nevertheless, there have been instances in which families of political dissidents have been denied PRC exit visas, and the Administration intends to press Beijing on these individual cases.

■ **Prison labor MOU** Administration officials are satisfied that the Chinese government currently is complying with the Memorandum of Understanding (MOU) on Prohibiting Import and Export of Prison Labor Products signed between the United States and China last August. There are two key aspects to the MOU: China must allow US Customs inspectors timely access to prison factories and farms alleged to be exporting to the United States; and the United States may impound goods [at US borders] suspected of being produced by such facilities. The MOU does not mandate, as some press reports have suggested, that China cease exporting prison labor goods to the United States. Renewal of MFN, therefore, is *not* contingent on the complete cessation of this illegal practice. And since decentralization will continue to provide opportunities for prison facilities to defy efforts by central authorities to stop their foreign trading activity, some illegal prison exports may be expected to continue to slip into the United States. Such incidents likely will be well publicized and exploited by those seeking to limit China trade next year.

■ **UN Declaration on Human Rights** As a member of the United Nations, China is obliged to honor the UN Universal Declaration on Human Rights, which is a part of the organization's founding charter. The declaration is a broad statement embracing not only political and civil rights, but also basic economic rights such as access to adequate housing, education, and health care. Though US officials note that Beijing's compliance with certain of these rights is bound to remain unsatisfactory, China's track record for generating economic growth is impressive. Economic progress, however, is unlikely to satisfy human rights activists.

■ **Account and release of prisoners** On this issue, US officials have been encouraged by the release in recent months of a number of political prisoners and prisoners of conscience, such as Democracy Wall activists Xu Wenli and Wang Xizhe; religious leaders Yang Libo, Zhu Hangsheng, and Pei Ronggui; and Tiananmen student leaders Wang Dan and Guo Haifeng. More prisoner releases are expected in the coming year as a large number of Tiananmen demonstrators and other political and religious protesters complete their prison terms. Again, however, China's record is spotty on this issue, as a number of well-known dissidents, including Wei Jingsheng and Wang Juntao, remain imprisoned.

■ **Humane treatment of prisoners** According to the executive order, China must show "progress" on ensuring humane treatment of prisoners by allow-

ing access to prisons by international humanitarian and human rights organizations. The Administration is encouraged on this front by increased press attention (inside China) to prison conditions and implementation of Chinese laws, which forbid the torture or mistreatment of prisoners. The US government will seek to have the International Red Cross gain access to PRC prisons. Officials at the briefing stated China had indicated some willingness to discuss this issue.

■ **Protect Tibet's distinctive religious and cultural heritage** Ironically, as the final decision on MFN was being decided, the streets of Lhasa were filled with demonstrators protesting price increases and the Chinese presence in Tibet. According to the Administration, Chinese forces suppressed the demonstrations with non-lethal tear gas rather than force—a response considered an improvement over previous violent crackdowns. Moreover, China has demonstrated limited support in recent years for the restoration of Tibetan lamaseries and instruction in the local language in Tibetan schools. These developments are viewed by some US officials as positive steps taken by the Chinese to protect Tibetan culture.

■ **Access to international radio and television broadcasts** Although China continues to try to jam Chinese-language Voice of America (VOA) radio broadcasts into the PRC, British and German radio broadcasts are received in much of the country. In addition, over 120 million Chinese reportedly now have access to satellite TV from Hong Kong and elsewhere.

Though MFN is safe for another year, disputes in the trade and weapons proliferation area could result in damaging trade sanctions in the meantime.

It remains to be seen, of course, how actions taken by China that have an impact on these areas will be viewed by the US government next spring, when the MFN question arises anew. To a large degree, determining whether China in fact ultimately complies with each—or any—of these conditions is highly subjective. Next June, opponents of China no doubt will argue that China has not adequately met these conditions. Thus, despite the Administration's purported confidence, the business community must be prepared to face another battle next year.

The year ahead

US-China policy will likely continue to be a contentious political issue for the foreseeable future. Trade, proliferation, and human rights problems will not be solved overnight, and friction between the two countries is inevitable. Though MFN is safe until next July, in the meantime disputes in the trade and weapons proliferation areas could result in painful trade sanctions. These, in turn, could poison the environment in which MFN will be considered next year.

The executive order has opened a Pandora's box for the Administration by establishing MFN as a legitimate vehicle for addressing US human rights concerns. Not only does this move have implications for China, it could affect other trading partners with less-than-perfect human rights records as well as new potential partners, such as Vietnam. Though the wording of the executive order—"overall, significant progress"—provides the Administration considerable leeway to craft its response next year, the lack of precise standards for measuring Chinese behavior will end up focusing attention not on events in China, but on the President. This means that the domestic political environment at the time the decision must be made—something no one can foresee now—might be the strongest influence on the President's decision.

Expanding Trade and Opening Markets in China

■ Lee M. Sands and Deborah M. Lehr

With successful agreements on intellectual property and market access under its belt, USTR is eyeing China's service industries

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Expanding US trade, gaining access to foreign markets, and creating high-paying, export-related jobs are top priorities for President Clinton and his Administration. With these goals in mind, US trade policy toward China faces serious challenges in the next two to three years. China now has one of the fastest growing economies in the world: in 1992, the country's GDP grew by more than 12 percent. For good reason, many Fortune 500 companies have made China one of their top strategic targets and are excited about the prospects for sales and investment there. They have much to be excited about. According to the US-China Business Council, China plans to spend more than $200 billion on imports over the next two years.

Despite China's allure, its trade regime remains one of the most protective in the world. The combination of non-tariff barriers, prohibitively high tariffs and taxes, and the absence of a well-articulated legal system all make exporting to China a daunting, and sometimes dismal, experience.

In contrast, the United States remains more open to Chinese exports than any other industrialized economy. With the sole exception of textiles, which are regulated by a bilateral agreement and the Multi-Fiber Agreement (*see The CBR*, September-October 1991, p.40), Chinese goods are not subject to formidable structural or non-tariff barriers in the United States—unlike the situation in Japan or the European Community. Demonstrating the imbalance in our trade relationship is China's rapidly accelerating trade surplus with the United States. According to the Department of Commerce, the US deficit with China reached $18.3 billion in 1992, and that figure will likely continue to grow—perhaps exceeding $20 billion in 1993.

Clearly, the United States is far from achieving the level of access to the China market that China enjoys in the United States. One of the most important obstacles to the expansion of US exports to China is the rapid growth of a "gray," or unofficial, market that operates quasi-legally, beyond the reach of Beijing's planners and outside the bounds of China's licensing or quota requirements. As Asian businesspeople have long realized, gaining access to the Chinese market via the expanding gray market, or even the illegal black market, can be highly effective. American companies, however, are compelled by US anti-corruption laws to trade within the official market (as defined by the Chinese government) and to follow its regulations. But in sectors that are tightly controlled and where customer demand is very high—such as low-end computers—the gray market has become the dominant market, while the officially controlled market is comparatively small.

Without reform of China's trade system and the imposition of international rules and market discipline, the gray market will continue to flourish, severely limiting US market share in certain sectors. If this situation continues, US companies could find themselves permanently hamstrung in one of the most dynamic markets in the world. Clearly, the stakes for US business are high. More important, the trade strategies that the United States adopts now will have a profound effect on our trade relationship with China, and therefore on US companies, for many years to come.

Thus, while the United States presses China to open its markets, we must also be mindful that our policies will affect important constituencies within China. The strategies that we select must address long-term prospects for change in China as well as the immediate need to redress specific trade grievances.

US strategy

US trade strategy toward China is twofold. First, US trade negotiators have sought to underpin the relationship with a framework based on the rule of law. Over the past two years, the United States has negotiated agreements on market access and intellectual property rights (IPR) that commit China to liberalize its import regime and protect US intellectual property. For our part, we have committed to "staunchly support" China's bid for GATT membership, but only so long as China works with us to achieve an "acceptable protocol" of accession to the GATT.

Second, we have demonstrated that we are willing to take forceful measures to advance our trade interests with China. Both the IPR and market access agreements were the culmination of Special 301 and Section 301 investigations initiated by the office of the US Trade Representative (USTR). The United States was fully prepared to deny China access to portions of the lucrative US market if either agreement had not been reached.

IPR: a partial success story

So far, our strategy is working. China has made bold commitments to improve its trade and investment climate and to alter its behavior. At the highest levels, China's leaders have embraced many standard international principles. During his now-fabled southern tour in early 1992, for example, Deng Xiaoping put his personal imprimatur on the importance of protecting intellectual property. According to the *People's Daily*, he proclaimed to high-tech workers in Shenzhen that China "must abide by international rules on intellectual property."

> While there have been minor tussles with the Chinese over implementation of the IPR agreement, China so far faithfully changed laws and regulations as required by the agreement.

China must ensure protection of intellectual property if it wishes to attract US companies that are world leaders in high-tech sectors such as computer software and telecommunications. Without adequate intellectual property protection, US industries would be forced to bear research and development costs without reaping the rewards necessary to finance further innovation—an unacceptable situation.

While there have been minor tussles with the Chinese over implementation of the IPR agreement, Beijing so far has faithfully changed laws and regulations as required by the agreement (*see The CBR*, March-April 1992, p.9). For instance, over the past year, China has joined the Berne Convention on Copyrights, established bilateral copyright relations with the United States, and published regulations that protect existing copyrighted works, including computer software and sound recordings. Most recently, China adopted the Geneva Phonograms Convention, raising the level of protection for sound recordings on the mainland.

China has also taken important steps to overhaul its patent regime. Beijing has amended the Patent Law to extend protection beyond processes to pharmaceutical and agricultural chemical products. This change makes it possible for US chemical and pharmaceutical companies to export and manufacture in China without fear that their products will be reverse-engineered and marketed illicitly there.

All of these moves represent essential steps toward effective protection of intellectual property. China is now well along the road toward establishing a world-class legal structure for copyrighted works and patented products. Nonetheless, the government has not been able to halt the piracy of intellectual property in China. The International Intellectual Property Alliance estimates that US industries last year lost upwards of $415 million from copyright piracy in China.

Clearly, inadequate enforcement of China's new laws and regulations is a major—and growing—problem. Although China has used its media and bureaucratic channels to publicize the need to protect intellectual property, there still is no effective mechanism to enforce IPR laws and regulations in China. China's court system is rudimentary and Chinese judges are untrained in the intricacies of IPR law. As US trade and investment in China grows, the enforcement issues will become a significant concern in the United States. Already, the absence of effective IPR protection in China stands as an obstacle to US companies that wish to trade or manufacture in the publishing, motion picture, and other sectors.

Market access: a bumpier road

On market access, China's commitments are more sweeping than in the IPR agreement. The market access Memorandum of Understanding (MOU) signed in October 1992 commits China to implement far-reaching changes in its import regime. That commitment, if completely fulfilled, will inflict some short-term pain on China's industries by exposing them to foreign competition, but will help China's economy become more efficient over the long term. For the United States, the agreement should yield unprecedented access to China's markets in virtually all of our key export sectors.

Under the terms of the MOU, China has agreed to phase out internal, or *neibu*, trade regulations; onerous import licensing requirements such as import "controls," "restrictions," and quotas; and restrictive sanitary and phytosanitary standards (*see The CBR*, November-December 1992, p.9). Perhaps because these commitments require structural changes in industrial sectors—and not primarily in laws and regulations as with the IPR agreement—China's fulfillment of the market access MOU has been more problematic. The agreement is now only about eight months old, but even so, some disturbing signs are emerging. China's powerful planning establishment, still alive and well despite the regime's commitment to build a "socialist market economy," shows signs of resisting fulfillment of commitments made under the memorandum.

Among the areas of concern is China's adherence to its pledge to significantly liberalize quotas on selected US products. Included are some of our most important exports, such as computers, medical equipment, agrichemicals, pharmaceuticals, heavy machinery, and telecommunications equipment. The office of the USTR has been—and will continue—working with the Chinese to open their markets to these products. USTR is also carefully monitoring China's activities in the areas of transparency, standards and certification requirements, autos, and other key categories specified in the MOU. Under the terms of the memorandum, China must meet a number of deadlines in these areas by October 10. While the United States expects China to meet its obligations in their entirety, the Administration is prepared to act decisively if China fails to do so.

A deal is a deal

China's full implementation of the market access agreement is absolutely essential to the health of the bilateral relationship. USTR intends to make certain that China takes the steps necessary to implement the agreements that it has signed with the United States. China's failure to do so would, among other things, endanger our strategy of using negotiation to solve US trade problems with China. After all, if China does not honor the obligations it has already undertaken, how could the United States trust it to honor future obligations? Failure to honor its bilateral commitments would also call into question China's willingness to abide by GATT rules.

Even if China does implement the changes specified in the MOU, US access to key Chinese markets may remain impeded. In the course of many discussions on China's sectoral markets, US negotiators have discovered that China has barriers beyond those originally under investigation, such as the requirement that prospective buyers obtain "purchase certificates" before being permitted to buy many imported commodities. These practices must stop—the MOU explicitly forbids the existence of any import restrictions that would violate the spirit of the market access agreement.

USTR is therefore holding follow-on discussions with China on removing additional barriers in high-priority sectors covered by the market access agreement, including computers, medical equipment, heavy machinery, and distilled spirits. As we better understand the way in which China's still-opaque import regime works, we will make more progress in opening markets in key areas. As always, we are very interested in receiving the views of companies that encounter such discriminatory regulations or trade practices.

Opening the market for services

The US market access agreement with China has set the stage for the opening of China's potentially extensive market for services. While US companies—either through direct trade or investment—can sell some products in China, the absence of standard business services still hinders foreign operations in the PRC. If US industries are going to establish a long-term and successful presence in China, they will need to be able to draw on a highly developed service sector.

Right now, US service companies are either entirely or partially prohibited from operating in China. In most instances, US companies cannot offer after-sales service, have no direct access to sales and distribution networks, cannot own or manage their own retail outlets, cannot operate their own leasing companies, and are otherwise restricted in their access to a vast array of business and local customers. In some instances China's quasi-governmental companies maintain a full or near monopoly over the market. In other cases, markets are virtually unregulated, or regulated by Chinese interests that would face foreign competition were the markets to be opened. In the insurance area, for example, the People's Insurance Co.—which holds 98 percent of the China market—is also the main drafter of the forthcoming insurance law.

The United States wants to establish a sounder basis for the development of China's service sector. As we've done with goods, we seek to create a bilateral framework for services that is based on the rule of law and international principles. At both the government and private levels, the United States has much to offer China's developing service industries. From insurance to education to telecommunications services, US companies can help China lay the foundation of a modern economy. It is in China's interest, and in the US interest, to see service-sector markets opened in China and to see them regulated properly. We are currently discussing services with the Chinese in the multilateral context of the GATT negotiations for the Uruguay Round, and we expect to hold bilateral discussions as well. As *The CBR* goes to press, the office of the USTR is consulting with the Chinese on initiating such discussions. Here, as on market access issues, we are intensely interested in helping US companies that wish to do business in China, but we need a better understanding of their experiences in China and their impressions of China's market.

The US government is intensely interested in helping US companies that wish to enter China's services market.

Promoting US interests

The United States currently has an unparalleled opportunity to work for positive change in the fastest growing economy in the world. We have taken the initial steps toward establishing a solid framework for a better bilateral trade relationship. While some sectors in China resist change, there are many powerful constituencies within the Chinese government that support it. For the US business community, the agreements that we have already signed open the door wider to China's markets and growing economy. If the Chinese work constructively with us, over time we can resolve specific trade problems and realize the US goal of a truly open trade relationship to the benefit of both countries. 完

The Fifth Dragon

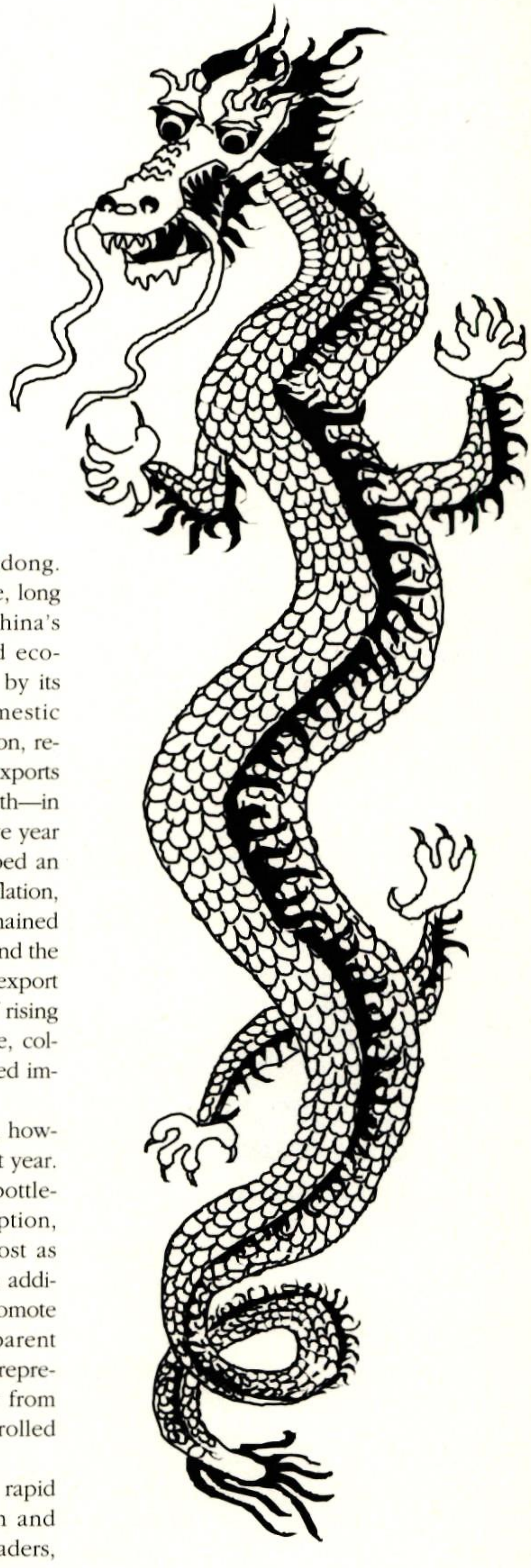
■ Lee A. Brudvig

Guangdong Province's economic growth is off the charts—but can it last?

1992 was the year of Guangdong. This southern coastal province, long considered the engine of China's economic reforms, recorded economic results extraordinary even by its own high standards. Gross domestic product (GDP), industrial production, retail sales, capital investment, and exports all posted strong double-digit growth—in many cases, for the fifth consecutive year (*see* p.22). Per capita income jumped an astounding 21.1 percent, while inflation, officially listed at 9.7 percent, remained under control. Rising productivity and the devaluation of the *yuan* buoyed export earnings and blunted the impact of rising labor costs. Enterprises in the State, collective, and private sectors all posted impressive gains in output.

Social and environmental strains, however, also became more evident last year. The problems of transportation bottlenecks, predatory taxation, corruption, and housing shortages grew almost as fast as investment opportunities. In addition, the government's failure to promote development of open and transparent markets resulted in Cantonese entrepreneurs re-directing resources away from official markets into loosely controlled gray markets.

Recognizing that the province's rapid growth would re-kindle inflation and arouse concern among central leaders, Guangdong officials began implementing pre-emptive economic stabilization



Illustrations by Elaine M. Flynn

■ Lee A. Brudvig has been an economics officer in the US Consulate General in Guangzhou since July 1991. He previously held posts in Kenya, the Philippines, Swaziland, and Washington. He has also worked at the American Institute in Taiwan.

measures in late 1992. These included direct credit controls, price reforms, and restrictions on investment in sectors of the economy which threatened to overheat—especially construction. The aim of this "legitimize and control" strategy was to reassert regulatory control over markets, ward off inflation, and reduce corruption.

In the short term, the government's lack of effective macroeconomic tools will make direct administrative intervention in markets unavoidable, however. Over the longer term, Guangdong leaders are counting on the recently enacted economic reforms to elicit a strong supply-side response which will reduce market bottlenecks and stabilize prices.

Then and now

Over the past 12 years Guangdong has changed from a largely rural, undeveloped area into China's wealthiest province. The transformation is the result of China's economic reform program, which led to the establishment of three Special Economic Zones in the province (*see The CBR*, November-December 1991, p.14), economic interdependence with Hong Kong, and autonomy from Beijing to experiment with market-oriented measures. The success of Guangdong's reform efforts is evident in the rapid growth of the province's light industrial sector, the improved living standards of its residents, and the expectation of the populace that incomes and opportunities will continue to grow.

The zeal with which Guangdong has pursued economic reforms over the past decade now is channeled into meeting an ambitious goal: to catch up to Asia's "four dragons"—Hong Kong, Singapore, South Korea, and Taiwan—by the year 2010. In order to accomplish this task, provincial leaders raised targeted growth rates for Guangdong in mid-1992. The province is now aiming to achieve 13.4 percent average annual GDP growth and 17-18 percent annual export growth until the year 2000—all while holding inflation to the single-digit level.

Top priority for this period is to be given to high-technology projects, investments which generate foreign exchange, and the restructuring of large and medium-sized State enterprises. Specific goals include:

- Expansion of special economic zones, open coastal areas, and technological development zones;
- Delegation of greater economic decisionmaking authority to lower levels of government;
- Greater utilization of foreign investment in basic infrastructure (power stations, ports, expressways, railways, and phone lines) and redirection of domestic funds to projects with high rates of return;
- Promotion of exports by converting export-oriented State industries into large, autonomous trading conglomerates;
- Integration of urban and rural markets and improvement of marketing and distribution networks;
- Reform of government administrative structures to reduce personnel, improve management quality, and separate business from government;
- Upgrade of science, technology, and human resources; and
- Development of the service sector and the province's financial, legal, accounting, and auditing systems.

The pace of reform in these areas differs widely in various localities, depending on local circumstances. Although the provincial government has placed restrictions on the establishment of new development zones, implementation of other directives is largely dependent on the political will and financial resources of local leaders. Change is fastest in the Pearl River Delta.

In the years ahead, Guangdong leaders plan to expand non-traditional sources of fiscal revenues, including securities issuances, land-lease fees, and various "pay-as-you-go" user fees.

Footing the bill

Accelerated growth will substantially increase Guangdong's financial needs and import requirements. Provincial leaders expect State-financed fixed capital investment to rise from about $5 billion per year in 1992 to an average of $6-7 billion per year until 2000. In addition, Guangdong hopes to attract over $50 billion in foreign investment and credit during this period, primarily for energy, transport, and other infrastructure projects.

Guangdong's fiscal resources have tightened in recent years as the province's net fiscal contribution to Beijing has increased (it exceeded ¥6 billion in 1992). Concurrently, central funding for provincial investment has decreased from 80 percent of total investment in 1979 to approximately 2 percent in 1992. This fiscal independence from Beijing allows the province to exert a good deal of autonomy in setting its own development agenda and experimenting with economic reform, albeit under central guidance.

In the years ahead, Guangdong leaders plan to expand non-traditional sources of fiscal revenues, including securities issuances, land-lease fees, and various "pay-as-you-go" user fees. Central authorities, however, concerned about arbitrary tax assessment by local officials, are pushing for greater centralization and standardization of China's taxation system.

Tax reforms, though, have become stalled in Guangdong because of enterprises' and localities' unwillingness to accept a more centralized tax system, which would require them to pay more taxes to higher levels of government. Currently, widespread tax evasion limits the pool of fiscal revenues available to the province to finance development. Local authorities, therefore, have resorted to soliciting "special contributions" for many services. Collection of road, bridge, airport use and various "infrastructure development" fees is already widespread in the Pearl River Delta. Recently, US business representatives have begun raising objections to this type of unpredictable freelance fund raising. In 1992, the Guangzhou municipal government rescinded a 5 percent Metro surcharge on office and residential space for foreign companies after a number of firms expressed strong objections.

Despite these problems and a large increase in State-funded investment in

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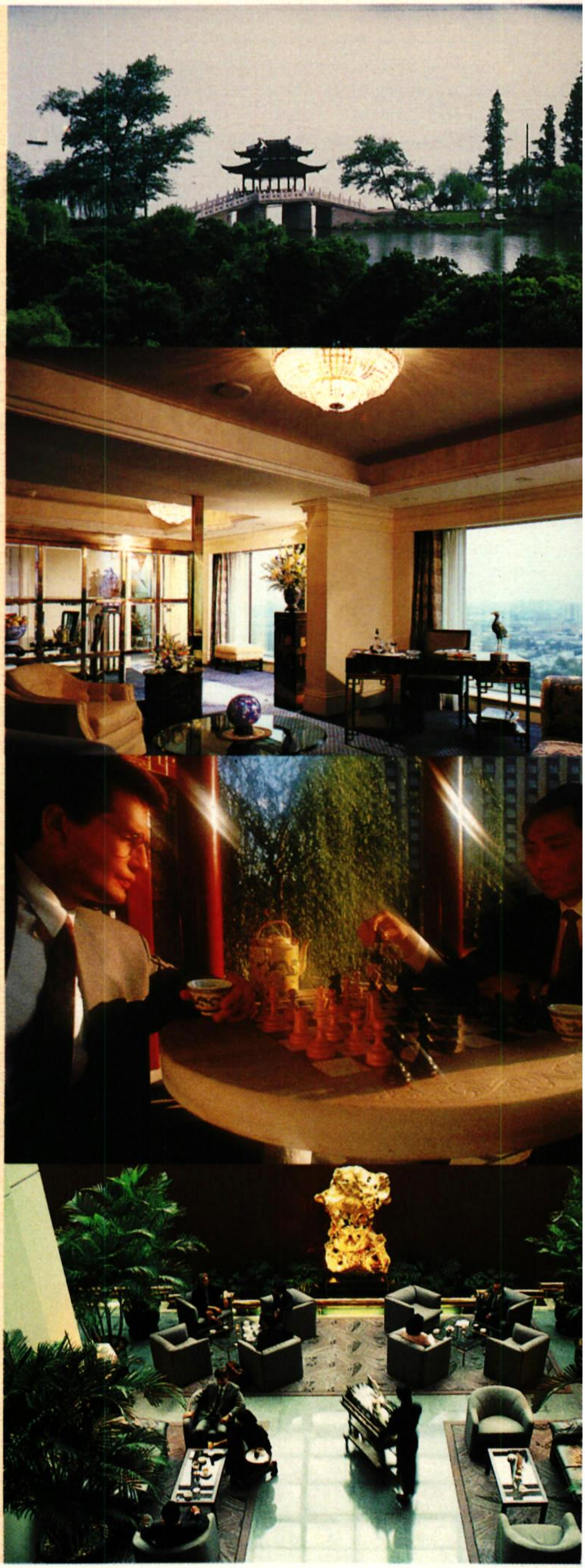


1992, Guangdong's budget surplus increased dramatically last year, reaching ¥3 billion. Expenditures rose by 20 percent to ¥21.9 billion, while revenues, mainly from commercial and industrial taxes, rose by 25 percent to ¥22.7 billion.

Industry goes private...

A good portion of Guangdong's expenditures last year went to subsidize State enterprises. Although output of the State sector rose over 20 percent, State enterprises cumulatively lost ¥594 million after taxes in 1992.

In 1978, before Guangdong opened up to the outside world, 73 percent of the province's industrial output came from the State sector. By 1992, this figure had declined to 32 percent, according to official statistics. Private and collectively-owned enterprises (including township and rural enterprises and foreign enterprises) now form the basis of the Guangdong economy.

The distinction between State and privately-owned enterprises, however, is becoming blurred as State-owned assets are turned over to private managers under various lease, contractual, and cooperative venture arrangements. In the Pearl River Delta, many enterprises categorized as collective or State-owned are, in fact, privately owned or managed. At the same time, many private enterprises operate under management contracts or cooperative agreements with State and collective enterprises. Use of the "collective" or "State-owned" labels allows these firms to obtain certain privileges not accorded to private enterprises, such as preferential loans from State banks and independent authority to engage in foreign trade. Some enterprises have set up holding companies to act as umbrella entities for private, collective and State-owned subsidiaries—each accorded various preferences based on ownership. A large number of enterprises listed as foreign-invested, similarly, have no real foreign investment. Known in Guangdong as "false foreign devils," these firms are joint ventures between Chinese enterprises and Chinese-owned offshore affiliates. The purpose is to obtain tax preferences reserved for foreign-invested firms.

As differences between State and private enterprises are disappearing, so is the planned segment of Guangdong's economy. According to the Guangdong price bureau, 86 percent of production was market-determined in 1992, while 95 percent of retail sales were transacted at market prices. Allocation of most inputs is now conducted on a market-price basis.

In 1992, over three-quarters of total investment in Guangdong was directed toward the dynamic Delta region.

...and agriculture moves up-market

Agriculture in Guangdong is also undergoing transition, as more land is diverted toward non-agricultural uses. High-value fruit, vegetable, poultry, and aquatic products are supplanting traditional crops of rice and sugarcane. These changes are being driven by industrialization, urbanization, expansion of market-oriented policies, and consumer demand for more varied and high-quality foods. Guangdong continues to be a grain deficit province, and its imports of grain and soybeans will increase in the future as local production declines and rapid economic growth boosts demand for food and feed.

Meanwhile, the growing ranks of supermarkets and fast food outlets in Guangdong are helping open up the province's food retailing and distribution systems. These changes, combined with a general consumer preference for US products, are creating new opportunities for US suppliers of such products as dried fruits and nuts, ginseng, meat, poultry, frozen french fries, and confectionery items. If phytosanitary barriers are eliminated in mid-October in accord with China's market access agreement with the United States (*see* p.10), prospects for US fresh fruit will be particularly bright. Guangdong food and beverage importers already are seeking to establish more direct links with US suppliers rather than rely on Hong Kong intermediaries.

Guangdong's engine

The Pearl River Delta continues to drive Guangdong's economic success. In 1992, over three-quarters of total investment in Guangdong was directed toward the dynamic Delta region, which draws heavily on Hong Kong and Taiwan for

Best Bets

The US Foreign Commercial Service has identified the following markets as holding the most promise for US goods and service providers seeking to do business in Guangdong:

1. Electrical power generation equipment
2. Airport equipment
3. Telecommunications equipment
4. Food processing equipment and supplies
5. Aircraft and engines
6. Medical equipment
7. Construction equipment and building materials
8. Environmental protection equipment and technology
9. Automobiles, parts, and service equipment
10. Banking and financial services
11. Fast food
12. Packaging equipment
13. Consumer goods
14. Railroad and subway equipment
15. Oil and gas field equipment
16. Petrochemical industry equipment
17. Electronic production and test equipment
18. Retail ventures
19. Advertising
20. Electronic components
21. Computer software

capital, management, and technical support. Currently, the Pearl River Delta accounts for about 80 percent of provincial GDP and generates 90 percent of provincial fiscal revenues.

Despite provincial government efforts to accelerate development of rural and mountainous areas, the great bulk of new investment continues to be directed toward Guangdong's three SEZs and core areas in the Pearl River Delta. In 1992, however, the percentage of total foreign investment directed to the SEZs fell from 31 to 23 percent, as more investors turned their sights inland. At present, Guangdong's relatively backward mountainous areas (which cover 64 percent of the province's land and contain 41 percent of its population) account for only 10.4 percent of industrial output and 2.5 percent of foreign trade. Wages and overall income levels in these areas are 30-40 percent below the provincial average.

Looking ahead, provincial planners expect rising land and labor costs in the open coastal areas to gradually push low-cost export processing and other unsophisticated, labor-intensive industries out of the Delta and into more remote areas. To promote such "trickling up," provincial authorities in 1992 declared all major cities in Guangdong "open." Non-Delta cities have begun competing aggressively for foreign investment, offering low-cost land leases, special tax incentives, preferential access to local markets, and transportation and utilities subsidies.

To date, however, weak transportation and distribution links to the mountainous areas have inhibited most firms from moving out of the Delta. Foreign-invested enterprises in Guangdong rely heavily on Hong Kong affiliates for marketing, repair, and other support services. Such services often are not available—or at least not as cheaply—in other parts of China.

Investors can't get enough

Despite rising costs in the Delta, foreign investors continue to come to Guangdong in droves. Utilized foreign investment jumped by 88 percent to $4.9 billion last year, while contracted investment soared 242 percent over 1991 levels. Approximately 60 percent of all foreign investment in Guangdong comes from Hong Kong, which has invested more than $17 billion in the province.

Roughly one-third of the money invested in Guangdong in 1992, however, went into speculative real estate development projects. In order to stabilize overheated property markets and cool investment fever, Guangdong authorities implemented measures late last year to limit construction of new industrial and commercial properties, stabilize land-use fees, and prevent transfer of agricultural land to industrial purposes. The State land bureau set quotas on the amount of new land which may be developed, adopted a capital-gains tax on real estate transactions, and introduced a new property-rights registration system in certain areas. These measures, if implemented aggressively, could curb real estate speculation and stabilize investment in the sector. To date, implementation has been incomplete, however.

> Swap centers are no longer reliable sources of foreign exchange.

World-class trading power

Like foreign investment, Guangdong's foreign trade in 1992 posted a stunning performance. Exports increased by 31.8 percent to $18 billion, while imports rose by 25 percent to $10.6 billion. These figures, moreover, exclude $5-10 billion worth of exports from the province's huge export processing sector and some imports by foreign-invested enterprises.

According to official Chinese statistics, Guangdong currently accounts for about 22 percent of China's total exports and 13 percent of total imports. These percentages are growing steadily, as Guangdong's external trade continues to expand at a rate far greater than that of most other parts of China.

According to Xu Dezhi, the head of the Guangdong Foreign Economic Relations and Trade Commission, Guangdong expects to account for half of China's total exports by 2010. Currently, approximately one-half of Guangdong's exports go to the US market, though provincial officials are trying to reduce Guangdong's reliance on traditional markets and export products. At the same time, local authorities are seeking to increase Guangdong imports from the United States both in absolute and percentage terms.

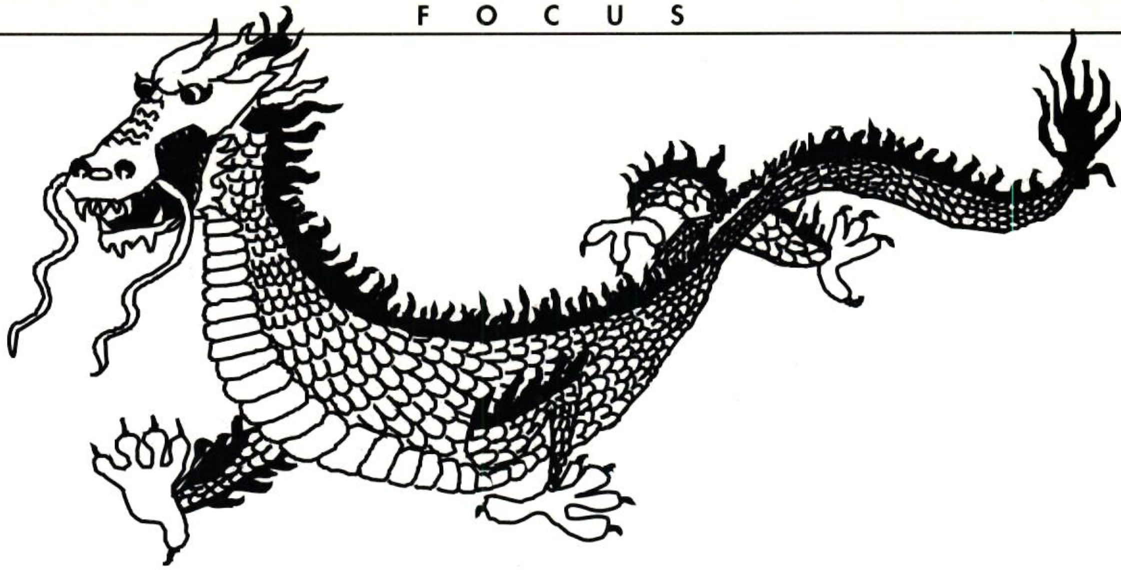
The fall of the RMB

Both foreign trade and invesment, however, are being squeezed by the depreciation of the *renminbi* (RMB). In early 1992, the RMB began to fall rapidly in Guangdong's foreign exchange adjustment (swap) centers, widening the gap between the official and swap rates. In Guangzhou, the swap rate rose from ¥5.88/$1 in January to ¥7.69/$1 in December. The decline continued in 1993 and the current rate hovers above ¥10/$1. Factors behind the slide include:

- Increased demand for foreign exchange as a result of rising imports and foreign investment;
- Hoarding of foreign exchange by provinces and enterprises;
- Speculation fostered by the assumption that the *yuan* would be devalued or made convertible.

As a result of these factors, a severe shortage of foreign exchange developed in Guangdong, beginning in May 1992. The State Administration of Exchange Control subsequently tightened foreign exchange allocation procedures, driving prospective dollar-sellers underground. FIEs are now accorded the lowest priority in purchasing foreign exchange at swap centers, making it difficult for some to obtain necessary hard currency. Although central authorities last year announced their intention to liberalize foreign exchange controls, reduce government intervention in swap markets, and increase the supply of foreign exchange available to foreign-invested firms, no timetable for such reforms has been set. Consequently, foreign exchange in Guangdong remains in scarce supply.

Swap centers are no longer reliable sources of foreign exchange. Local authorities have petitioned the central government for authority to accelerate reform of provincial swap centers, in order to "marketize" allocation of foreign exchange and to direct trading back into officially-regulated channels. Thus far, however, central authorities have been



1993 Guangdong Trade Fairs

Date	Trade Fair	Location
July 22-26	International Electric Power Technology & Equipment Fair	Guangzhou
August 26-30	International Household Electrical Appliances Exhibition	Guangzhou
September 6-9	International Fashion & Accessories Fair	Shenzhen
September 7-11	Textile Machinery & Technology Fair	Zhuhai
September 7-13	International Fashion Fair	Guangzhou
September 13-17	Electronics China 1993	Shenzhen
September 16-22	International Beauty & Health Care Products Exhibition	Zhuhai
September 21-25	International New Auto Technology Fair	Shenzhen
September 21-25	Surface Engineering Exhibition	Guangzhou
October 4-7	International Consumer Goods Fair	Shenzhen
October 5-9	International Meteorological Equipment & Technology Exhibition	Guangzhou
October 5-9	International Exhibition on Environmental Protection Technology & Equipment	Guangzhou
October 13-16	International Toys & Gifts Exhibition	Shenzhen
October 21-25	International Machinery & Industrial Supplies Fair	Shenzhen
November 2-5	International Grain & Oil Storage Equipment Exhibition and International Meat Processing & Packaging Machinery Exhibition	Shenzhen
November 3-6	International Waste Regeneration Technology & Equipment Exhibition	Shenzhen
November 9-13	International Port Equipment Exhibition	Guangzhou
November 9-15	International Science, Peace & Health Care Exhibition	Zhuhai
November 11-15	International Leather Trade Fair	Shenzhen
November 12-16	International Timber & Stone Processing Machinery Exhibition	Shenzhen
November 22-26	International Food & Food Processing Machinery Exhibition	Shenzhen
November 28-December 3	International Audiovisual & Automated Office Equipment Fair	Zhuhai
December 1-5	International Gifts & Houseware Exhibition	Guangzhou
December 2-5	CIBAC (Building Materials Fair) and International Lighting Fixtures & Illuminators Fair	Shenzhen
December 14-18	International Motorcycle Exhibition	Guangzhou

SOURCE: US Consulate General, Guangzhou
The above list is not intended to be comprehensive.

unwilling to allow Guangdong to step ahead of other areas in reforming its foreign exchange allocation system.

Inflation rears its ugly head

Aside from the swap centers, foreign companies are keeping their eyes on Guangdong's price indices—and many don't like what they see. The cost of living in Guangzhou reportedly soared 17 percent in the first quarter of 1993, a rise fueled largely by price jumps for food, services, construction materials, and basic inputs. Much of the increase, however, was caused by seasonal factors—especially short supplies of fresh vegetables and other foods—which make up a large component of the price index.

Though rising labor productivity, robust savings, and adequate supplies of most goods bode well for Guangdong's ability to keep the inflationary tiger in its cage, supply bottlenecks, high import demand, and accelerated price reform efforts (especially of electricity, petroleum products, and housing) will keep upward pressure on inflation rates.

Local economists and officials describe Guangdong's current economic expansion as driven by investment rather than consumption. Judged by their phenomenal demand for new stock and bond issues in Guangdong, residents indeed appear willing to invest rather than consume if given the opportunity.

Provincial officials estimate as much as one-half of Guangdong residents' total savings is currently held in foreign currencies, either "under mattresses" or in accounts overseas. Failure by local officials to open up more competitive over-the-counter channels of investment—such as securities—to absorb these funds can only cause under-the-counter (or illegal) channels to flourish. Such a result would further weaken provincial banking authorities' ability to control money and credit, a possibility that raises fears of fierce inflation.

On the credit side, loans extended by Guangdong banks amounted to ¥181.4 billion last year, up 24 percent from 1991. All told, banks took in ¥56.2 billion more than they lent out. Most of these funds were sold on the inter-bank market to other parts of China. Operating under strict credit quotas set in Beijing, Guangdong banks are large creditors to inland areas.

Impediments to future growth

Energy, transportation, and communications bottlenecks have reached critical levels in many areas of the Pearl River Delta, especially Guangzhou. Local US business representatives report rapid deterioration of infrastructure and longer commutes to work, as well as increasing shortages of skilled labor. The supply of new housing is not keeping up with demand, especially for affordable commercial residences. Water and air quality are deteriorating and urban crime is rising.

> Provincial planners view nuclear power as the key to Guangdong's long-term energy needs.

Demand for electricity now outstrips capacity by 30 percent, causing more frequent power outages. To make up the difference, in the short term Guangdong has little choice but to expand its use of environmentally undesirable coal-fired thermal plants. In 1992, Guangdong's electricity generating capacity increased by 1.08 million kw. By the year 2000, Guangdong plans to increase capacity by over 30 million kw.

In the longer term, provincial planners view nuclear power as the key to Guangdong's energy needs. The Daya Bay nuclear facility (two 900 mw plants) will come on line in 1995. By 2010, the government plans to complete three more nuclear energy projects, each consisting of six 1,000 mw plants. Planners have indicated a desire to buy turn-key nuclear plants on the world market. In years ahead, Guangdong hopes to expand private sector participation in its power sector and will consider wholly foreign-owned projects.

Demand for rail freight transport currently exceeds supply by 49 percent and provincial highways are becoming increasingly clogged. As a coping measure, the railway bureau has adopted a quota system. Looking ahead, Guangdong hopes to complete the Shenzhen-Guangzhou leg of its Pearl River Delta superhighway by the end of 1993 and five other superhighways and expressways by the year 2000. In addition, the province is expanding rail links to its eastern and western wings with assistance of the Asian Development Bank. New airports and air routes are being planned for several Guangdong cities (*see* p.24).

A massive influx of people into Guangdong from other parts of China, while boosting economic growth and keeping wages down, has placed enormous pressure on existing infrastructure. Guangdong's population is now increasing at a rate of 4 percent a year. If this trend continues, 100 million people will live in Guangdong by the year 2000. According to the Guangdong Labor Bureau, over 4 million migrant workers were employed in Guangdong in 1992, mainly in factories and on construction sites. Some migrants, however, have resorted to criminal activity or prostitution. Vagrancy, drug use, and the incidence of contagious diseases are all on the rise throughout the province.

The foreign perspective

The absence of codified laws governing property rights, taxation, customs, accounting standards, arbitration procedures, and other regulatory matters raises the risk of doing business in Guangdong. Although provincial leaders have identified legal reform as a priority, progress in drafting new standardized regulations has been slow. Provincial authorities may have difficulty implementing regulations once enacted, given entrenched municipal and county bureacuracies interested in maintaining local autonomy and flexibility.

Guangdong's proximity to Hong Kong, however, along with its developed market system and its pivotal function as China's trade and investment entrepot, bode well for the province's economic future. By all indications, Guangdong appears ready to continue to experiment with innovative economic reforms in the years ahead and will continue to act as a catalyst for economic change in other parts of China. 完

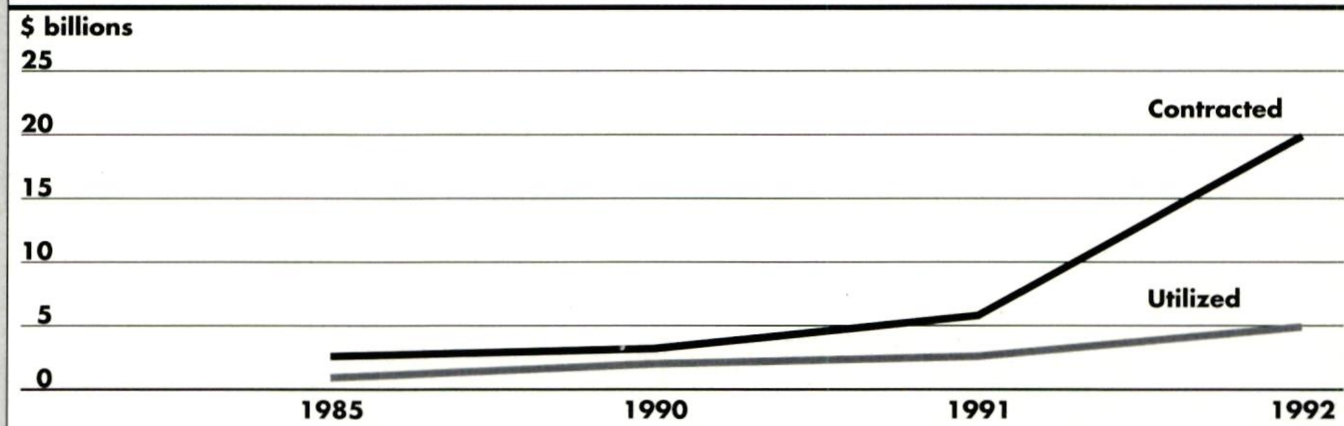
GUANGDONG DATA

1992 Basic Indicators for Guangdong

Size	**212,000 sq km**	**(2.2% of national total)**
Population	**63.5 million**	**(5.5% of national total)**
GDP	**¥221.8 billion**	**($38.9 billion)**
Agricultural Output	**¥66.3 billion**	**($11.6 billion)**
Retail Sales	**¥106.0 billion**	**($18.5 billion)**
Individual Bank Deposits	**¥146.0 billion**	**($25.6 billion)**
Inflation	**9.7%**	

Yuan figures converted to $ figures at current official exchange rates.
SOURCES: Guangdong Statistical Bureau, *China Perspectives*, *China Statistical Yearbook*

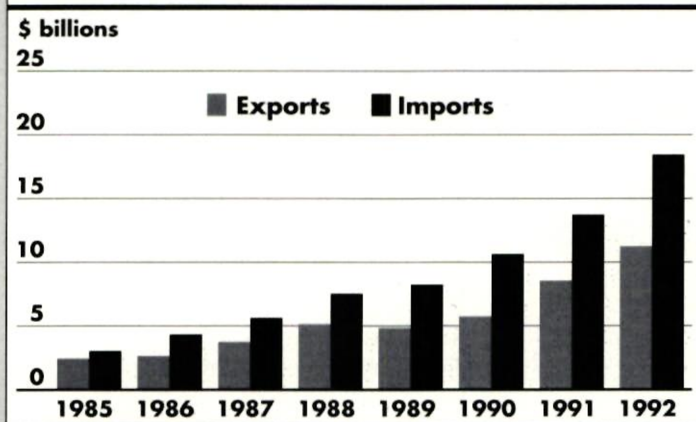
Foreign Investment in Guangdong



	1985	1990	1991	1992
Amount Contracted	2.6	3.2	5.8	19.9
Amount Utilized	0.92	2	2.6	4.9

SOURCE: US Consulate General, Guangzhou

Guangdong's Foreign Trade



Year	Total ($ billion)	Exports	FIE* Exports	Exports/ GNP	Imports
1992	29.6	18.4	8.1	51.4%	11.2
1991	22.2	13.7	5.3	43.1%	8.5
1990	16.3	10.6	3.7	37.4%	5.7
1989	13.0	8.2	2.3	24.0%	4.8
1988	12.9	7.5	1.2	NA	5.1
1987	9.3	5.6	0.6	30.1%	3.7
1986	6.9	4.3	0.4	35.2%	2.6
1985	5.4	3.0	0.2	NA	2.4

SOURCES: MOFERT, US Consulate General, Guangzhou

* Foreign-Invested Enterprise

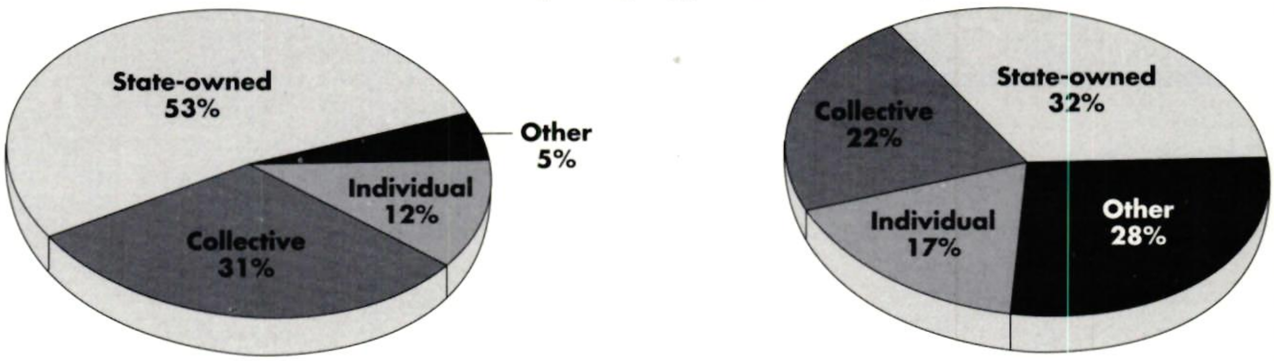
GUANGDONG DATA

Guangdong's Industrial Output

¥ millions

Year	Total	Light Industry	Heavy Industry	State-owned Enterprises	Collective-owned Enterprises	Individually owned Enterprises	Other Enterprises
1992	3,370	2,288.0	1,082.0	1,088.0	749.0	587.0	946.0
1991	2,524	1,658.6	865.5	973.6	828.7	119.0	602.9
1990	1,902	1,283.5	618.7	765.4	659.6	91.2	386.0
1989	1,647	1,073.4	573.8	715.0	607.0	72.9	252.5
1988	1,319	864.6	454.3	595.0	521.0	55.6	147.4
1987	896	484.6	278.9	442.7	241.0	71.6	**
1986	527	358.2	168.8	298.8	186.8	*	*
1985	518	307.0	154.0	276.8	155.8	*	*

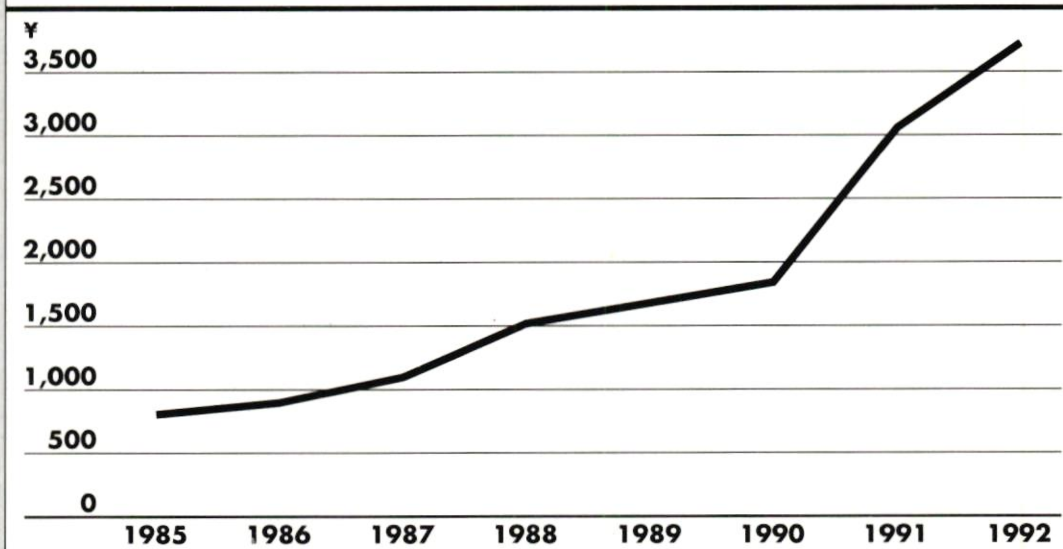
Industrial Output by Type of Ownership



1985 1992

*not applicable
**not available
SOURCES: *China Statistical Yearbook*, Guandong Statistical Bureau

Per Capita Income in Guangdong



Year	Total ¥
1992	3,703
1991	3,058
1990	1,842
1989	NA
1988	1,518
1987	1,098
1986	897
1985	804

SOURCE: *China Statistical Yearbook*

A Transportation Transformation

Guangdong is experiencing an across-the-board upgrade

■ **This article was excerpted and adapted from the World Bank report *Transport Development in Southern China*, published in 1992. Prices are quoted in 1988 *yuan*.**

The transport system of Guangdong Province consists of railways, roads, coastal shipping routes, inland waterways, and civil aviation. Roads and inland waterways are the principal modes for intraprovincial or short-haul transport, while railways and coastal shipping are the principal modes for transport to other provinces. Although the density of the road network and inland waterways in Guangdong is higher than average for the country, the province still has a relatively undeveloped system. There is such a severe shortage of transport capacity that neither shippers of cargo nor passengers really have much choice among modes; they are fortunate if transport by any mode is available.

Currently, the distribution of infrastructure in the province varies according to the level of economic development. Basically, the transport routes form four axes centering on the city of Guangzhou. In shape, they resemble two wings with a head and tail (*see* map). For the foreseeable future, north-south flows will continue to dominate traffic patterns in the province despite relatively high growth in the west corridor. The north corridor is expected to carry about 30 percent, and the south corridor about 40 percent of total provincial traffic; the other 30 percent will be split between the west and east. Within the Pearl River Delta, transportation demand in the east bank will grow fastest. This subcorridor must deal with the growth of the Shenzhen economic zone and the increasing demands on transport by light industry. In this area, local road traffic probably will grow even faster than the provincial rate of transport growth.

The major handicaps of the Guangdong transport system are its capacity limits, reliance on outmoded technologies, high costs, and geographic sparsity. The province has inadequate and substandard highways and only limited railway service, primarily through the critical rail links to the north via the Guangzhou-Beijing corridor. Roads are experiencing significant congestion in the faster-growing areas. Moreover, many rural roads are of low standards.

Much of the technology used for road, rail, and river transport resembles that used by developed countries in the 1940s and early 1950s. Although new rolling stock and road vehicle technologies are being introduced in China, not all of it is well planned. For example, the recent introduction of modern heavy trucks is causing rapid deterioration of pavements which are too thin to support the heavier loads.

Growth rates in Guangdong in freight and passenger transport demand over the next 10 years could result in a 250-500 percent increase in total demand on the transport system. Short-term projects to meet demand by increasing road and rail capacity in major corridors are underway,

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The Founding of the Council

■ Eugene Theroux

The Council's history begins shortly after President Nixon's meeting with Mao Zedong in 1972. Following their signing of the Shanghai Communique on February 22, both the United States and China sought channels to foster relations. US-China relations had been in a deep freeze for two decades and there had been an almost total embargo on US business with China. Formal diplomatic relations were out of the question in 1972, as the United States recognized the Republic of China on Taiwan as the sole legitimate government of all of China. But **unofficial relationships with the People's Republic of China were encouraged by the US government, paving the way for the Council's role in enhancing US-China relations**.

Shortly after the Nixon visit, Senate leaders Mike Mansfield (D-MT) and Hugh Scott (R-PA) visited Beijing, and in June, House Majority Leader Hale Boggs (D-LA) and Minority Leader Gerald Ford (R-MI) traveled to China. I accompanied the House delegation as a trade specialist. The Boggs-Ford meetings in Beijing included a discussion with China Council for the Promotion of International Trade (CCPIT) Vice Chairman Li Xifu. Li stated that there was little prospect for any significant Sino-US trade and, in later meetings with the delegation, Premier Zhou Enlai affirmed China's strong disinclination to repeat the misfortunes the nation suffered during the 19th century in trade with the West. With diplomatic estrangement likely to continue for the foreseeable future and US laws severely limiting trade with communist countries such as China, commercial prospects seemed dim.

Nonetheless, the Boggs-Ford mission report recommended the creation of a "non-governmental" or "quasi-governmental" organization in the United States to promote trade relations with China, a proposal which caught the eye of the Nixon White House. With the President's encouragement, Robert Hormats of the National Security Council and Commerce Secretary Frederick Dent informally assembled a group of senior business leaders who, in April 1973, formed the Board of Directors of the newly incorporated National Council for US-China Trade, Inc. Attorney Walter Surrey arranged incorporation of the National Council and became its first legal counsel. Donald Burnham, chairman and CEO of Westinghouse Electric Corp., was elected chairman of the Council's board. Founding board members included William M. Batten, chairman of the J.C. Penney Co.; Gabriel Hauge, chairman of the board of Manufacturers Hanover Trust Bank; William Hewitt, CEO of Deere & Co.; Donald M. Kendall of PepsiCo, Inc.; Robert Malott of FMC Corp.; Fred Seed, president of Cargill, Inc.; and Thornton Wilson, CEO of Boeing Co.

To determine whether enough US business support existed to sustain the Council and whether the Council would be welcomed by China, the Board took two actions. First the Council convened a conference on trade with China. The conference, **the founding event of what is now the US-China Business Council, was held at the Mayflower Hotel in Washington, DC on May 31, 1973. More than 500 companies attended, demonstrating an unmistakable interest in learning about business opportunities in China—despite the fact that, in 1973, China's global foreign trade amounted to less than J.C. Penney's annual sales.**

China gave the Council its chop of approval by sending to the conference Han Xu (later China's Ambassador to Washington). Though China had established a "Liaison Office" in Washington in 1973, in those days, Chinese officials rarely appeared publicly, so Han's appearance really piqued the interest of attending companies. Council Board Chairman Burnham announced at the conference that Christopher H. Phillips had been engaged to serve as the Council's first president, to take office on the completion of his duties as US deputy ambassador (under George Bush) at the United Nations. By the end of the day, most of the companies represented at the conference had signed up to join the Council.

Around the same time, Burnham appointed me Council vice president and sent me to Beijing to meet with CCPIT officials. Though a "people's organization," CCPIT was the channel through which China's Ministry of Trade worked to conduct trade promotion activities with countries lacking diplomatic ties with China. CCPIT Vice Chairman Li Chuan assured me that CCPIT would cooperate with the new Council.

Back in Washington, the first Council offices were opened in a building on 17th Street adjacent to the Mayflower Hotel. At that time, China's Liaison Office was located in the Mayflower, and, by sheer coincidence, the back windows of the Council's new fifth floor offices were directly opposite the windows of the Liaison Office's ping-pong room.

In October 1973, the Council opened its first China office—in the Dong Fang Hotel in Guangzhou—to aid Americans attending the Chinese Export Commodities Fair, also known as "the Canton Fair." The next month, the first broadly based US trade delegation to China, composed of members of the Council's Board of Directors, visited China to establish the Council as CCPIT's counterpart and to plan for future trade exchanges and exhibitions. When Han Fanyu, deputy director general of the China National Textiles Import & Export Corp., led China's first trade delegation to the United States in February 1975, Council President Phillips greeted her at the airport with flowers. Trade relations had begun to blossom.

■ **Eugene Theroux is a legal partner with Baker & McKenzie and is vice chairman of the Board of Directors of the US-China Business Council.**

A Look at the Score

The history of the US-China Business Council is intertwined with the development of US-China relations

June 1971

US ends 21-year embargo on trade with China

February 1972

President Nixon and Premier Zhou Enlai sign Shanghai Communique

September 1972

First US grain sale to China

October 1972

More than 40 US firms attend Canton Trade Fair for the first time

May 1973

Chinese Liaison Office opens in Washington, DC; US Liaison Office opens in Beijing

Inaugural meeting of the National Council for US-China Trade

November 1973

First Council board trip to China

“For the Council's first 5-6 years, before the establishment of US-PRC diplomatic relations, we were able frequently to act as an unofficial go-between. [The US] had a liaison office in Beijing but they had great difficulty in getting Chinese officials to come to the office...When I went there with the members of the delegation, we could invite senior Chinese who would accept our invitation to visit the office. This was welcome by the liaison office, because they didn't have those kinds of contacts.”

—*Christopher Phillips, the Council's first president*

February 1975

The Council hosts first Chinese delegation to the United States

“In the early years,commercial contact centered on the trade fairs held in Guangdong. It was kind of exciting to participate in the international group, staying up all night at the Dongfang Hotel, trying to get telexes out, hoping the ice machines wouldn't break down. There were no refrigerators, no air conditioning. It was really camping out. [The Chinese] people were extremely friendly; you couldn't go anywhere without people offering to help....There was a real sense of discovery as a Westerner. You were kind of on a frontier.”

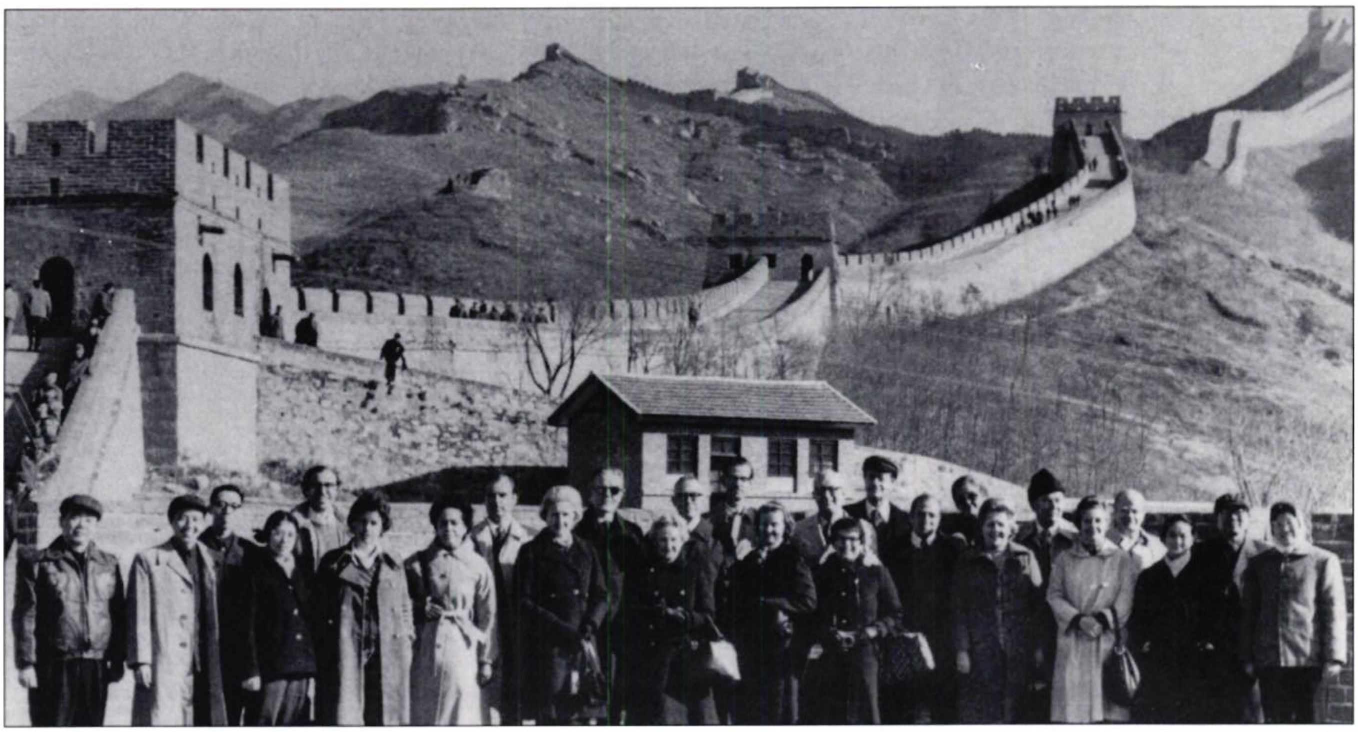
—*Pam Myers Phipps, vice president, China Products North America, Inc. (Council member since 1976)*

January 1979

US-China diplomatic relations established

“I was with our first construction equipment delegation to China in December 1978. Toward the end of our visit, I had a call in my Guilin hotel room from a member of the US embassy staff in Beijing saying that normalization of relations was to occur within two weeks—the announcement had just been made. I had been expecting it to happen in a general way, but the timing was a complete surprise.

To celebrate normalization, on the last night of our visit, in Guangzhou, our group hosted a huge, impromptu banquet for all



the Chinese involved with the trip at a restaurant pavilion in the middle of a lake.

We had a wonderful program, with speeches and toasts, presentations of gifts, and Chinese songs. Since this was now just a week before Christmas, we highlighted the evening by singing Christmas carols, in grand harmony. Copies of the words were passed out for all those present to join in, which some of the Chinese there managed to do. It was a very poignant moment and many of us were in tears, fortunate as we were to be in China at that time.

To end the evening, we organized an enormous burst of firecrackers, purchased with the remains of the delegation's budget, to play our small part in ushering in a new era of relations between the United States and China. The fireworks seemed to go on forever."

—Nicholas Ludlow, the Council's first director of publications

China's Joint Venture Law promulgated

The Council hosts Vice Premier Deng Xiaoping and President Carter at a Kennedy Center gala in honor of Deng's visit to the United States

"The first couple of months after [President Carter] announced normalization were just incredible [at the Council]. The phones rang off the hook morning, noon, and night. Every possible small, medium, and large company was calling in, asking for information on how to get into the China market. It was special to be at the forefront of China's opening."

—Carolyn Brehm, senior Washington representative, General Motors Corp. (Council member since 1976) and former head of the Council's investment advisory services

October 1979

First US joint venture contract signed by ES Pacific Development Co. and CITS to build the Great Wall Hotel in Beijing

Rong Yiren, president and board chairman of the China International Trust and Investment Corp. (CITIC), addresses the Council in the first of many visits

January 1980

US awards Most Favored Nation (MFN) status to China, subject to annual renewal

April 1980

China joins the International Monetary Fund and the World Bank

April 1982

First US manufacturing joint venture contract approved between Foxboro Co. and Shanghai Instrument Industry Co.

May 1983

China deemed a "friendly, nonaligned nation" for US export controls purposes; "green zone" created for US exports to China

June 1983

Former President Nixon speaks at the Council's 10th anniversary

December 1983

China joins the Multi-Fiber Agreement

January 1984

Premier Zhao Ziyang speaks at a Council luncheon in Washington

November 1984

3M sets up the first US wholly foreign-owned enterprise in China

July 1985

Foreign Economic Contract Law promulgated

PRC President Li Xiannian visits the Council's Washington office

January 1986

US-China Bilateral Tax Treaty signed

November 1986

Council delegation travels to Beijing to present to senior policy-making officials detailed recommendations on how to improve the investment environment in China

"The Council's DC office has given us a broad view of business conditions, supplying economic data, monthly newsletters, and information on swap markets and pricing. The information helps us gauge our position when we negotiate prices."

—Fred Pflum, manager of sourcing, Ingersoll Dresser Pump Co. (Council member since 1977)

February 1987

China applies to join the GATT

September 1987

He Chunlin, executive director of the State Council Leading Group on Foreign Investment, discusses investment problems with Council member companies in various US cities

March 1988

7th National People's Congress announces new organizational reforms and promulgates Contractual Joint Venture Law

December 1988

Inflation for the year hits 20-30 percent

March 1989

Li Peng outlines a temporary program of economic retrenchment in his report to the National People's Congress

April 1989

Council delegation discusses patent problems and presents a recommendation paper to Beijing officials

June 1989

China receives world-wide condemnation and sanctions in reaction to the killing of pro-democracy protesters at Tiananmen Square; many US firms temporarily evacuate expatriate personnel and reassess their commitment to China business; the Council closely monitors the situation in China throughout the summer and reports to member companies by daily fax reports

October 1989

Council President Roger W. Sullivan travels to Beijing to speak at the 10th Anniversary of CITIC and to meet with a wide range of senior government officials who confirm plans to strengthen the central planning system and Party control of enterprises

January 1990

State Department lifts China travel advisory imposed in June 1989

April 1990

Congressional debate over the renewal of China's MFN status begins; the Council takes a leading role in the fight for unconditional renewal

"Especially in the first year of the MFN renewal, if it wasn't for the Council being willing to be the public face when a lot of companies weren't willing to be out front regarding China, I don't think we would have gotten renewal. The Council has been getting the story out regarding the importance of MFN for relations with China." —*Carolyn Brehm*

September 1990

Copyright Law promulgated

December 1990

US trade deficit with China reaches $10.4 billion

May 1991

Office of the United States Trade Representative (USTR) begins investigation into Chinese violations of US intellectual property rights

June 1991

Council leaders meet with Premier Li Peng, who expresses concern over the issue of MFN conditions for China

President Bush imposes sanctions on high technology trade with China in retaliation for Chinese transfer of missile technology to Pakistan and Syria

November 1991

USTR initiates a formal investigation of Chinese market access barriers

January 1992

The United States and China sign a Memorandum of Understanding (MOU) on intellectual property protection

Shanghai and Shenzhen securities exchanges issue 'B' shares for foreign investors

Deng Xiaoping journeys to Guangdong Province, calling for faster economic growth and "bolder reform"

"It's just like the gold rush in South China. The changes are dramatic in every sense. You see helter skelter-capitalism."
—*R. Derek Finlay, senior vice president, corporate development, H.J. Heinz Co. (Council member since 1983)*

March 1992

China accedes to the Nuclear Non-Proliferation Treaty (NPT)

The United States lifts June 1991 high-technology sanctions as China promises to abide by the Missile Technology Control Regime (MTCR)

July 1992

China opens tertiary industries to foreign participation

The United States and China sign an MOU on prison labor to ease US concerns over exports of prison-made goods

September 1992

Council President Donald M. Anderson leads a board delegation that presents to senior-level Chinese officials recommendations on improving China's investment climate

October 1992

The United States and China sign an MOU on market access in China; import licenses eased for many US exports

China joins Berne Copyright Convention

Chinese automobile producer Jinbei Automobile Shareholding Co., Ltd. becomes the first Chinese company to list on the New York Stock Exchange

March 1993

The National People's Congress amends the constitution to reflect China's new policy of developing a "socialist market economy"

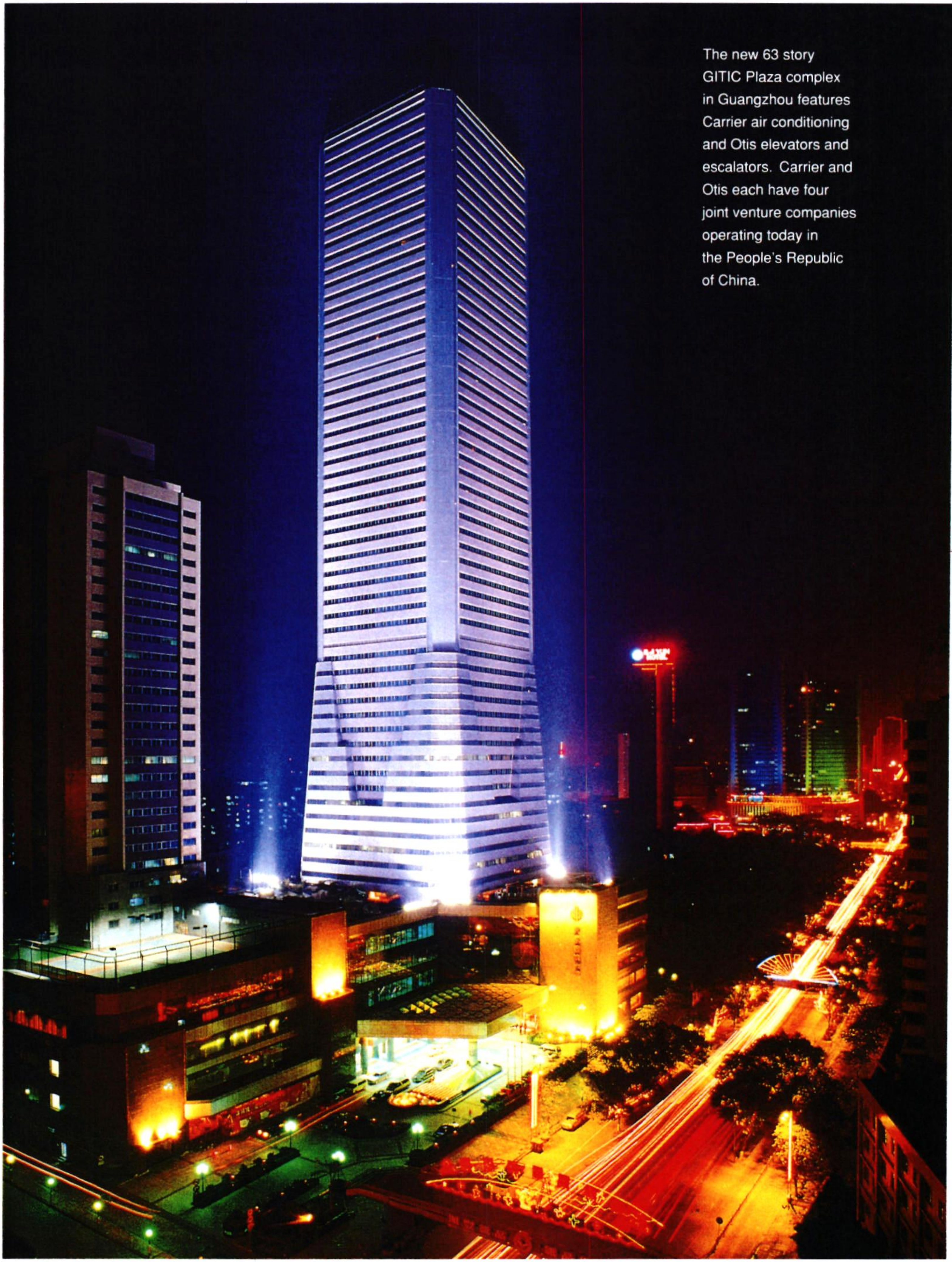
"China is a "must-be" place. I think any corporation of any size or significance looking for growth in the next 10 to 20 years has to...get into the race now starting. You've got to be there to participate." —*R. Derek Finlay*

April 1993

State Planning Commission Vice Chairman Gan Ziyu leads a buying delegation to the United States; purchases of aircraft and automobiles worth $960 million are made

June 1993

The Council celebrates its 20th anniversary



The new 63 story GITIC Plaza complex in Guangzhou features Carrier air conditioning and Otis elevators and escalators. Carrier and Otis each have four joint venture companies operating today in the People's Republic of China.

The Future of China's Economic Reforms

■ Peter Harrold

Since the now legendary visit of Deng Xiaoping to the South early in 1992, there has been almost constant reaffirmation of the renewed commitment to reform and opening of the economy. However, until recently, this was realized primarily through a higher level of development activity, especially in the coastal regions. Indeed, 1992 saw a quite remarkable pace of economic activity, with overall economic growth at 13 percent but some of the coastal provinces growing at well over 20 percent. Moreover, much of the increased output came not from the old State sector, but from the non-State township and village enterprises, and from the very rapid expansion of foreign investment.

Our latest statistics show that the record inflow of foreign exchange in 1992 to finance such investment was about $9 billion, which makes China by far the most popular destination in the developing world. There are as yet no signs that this was a "bubble," and the pace seems to be continuing this year. Changed attitudes have facilitated this rapid growth within China, as local leaders have rushed to out-do each other in the speed of approval of new projects.

In the period since the 14th Party Congress in October and, even more important, the National People's Congress (NPC) in March, **we can see a far more specific approach to reforms across a wide spectrum. The key to each is the endorsement of the use of *market* solutions to the problems of the Chinese economy, while before there was still a need to balance the requirements of planning and the role of markets. The key to this is that socialism is now seen to be reflected in just two features of the economy: the dominance of public ownership, very broadly defined, and balanced income distribution to avoid poverty.** I will touch on six areas of reform.

Enterprise reform is now at the heart of the agenda. In July 1992, the government published important new regulations which set out with much greater clarity the future relationship between the State and enterprises. By now, all provinces have moved to develop implementing regulations to put these policies into practice, which is, of course, the most difficult aspect. The regulations grant a wide range of freedoms to enterprise managers, albeit within the constraints of the rights of the government as owners. What this represents is the *corporatization* of China's State-owned enterprises. For the first time, enterprise management can be held truly accountable for the performance of their enterprises.

Of course this policy could fail, and in two key respects. First, the government has yet to work out new institutional arrangements to represent the ownership function of the State, although they are hard at work on this aspect. Second, there are powerful interest groups, notably in the industrial bureaus and ministries, that do not wish to see their own powers diminish. They can be expected to wage a strong rearguard defense of their current position. Nevertheless, this new enterprise reform policy can be interpreted as the best approach yet to addressing the serious problems of the Chinese state sector, and thus merits close attention and assistance.

Price reform has made quiet and steady progress in recent years, even though the administrative apparatus has yet to be fully dismantled. Prices of coal and oil are being liberalized through sharply reducing the share of output allocated by the plan, and the urban grain system is being turned over to the market in a large number of provinces. The next step will be a crucial one: the liberalization of freight transport to permit the freer movement of goods. But the key point is that price reform has moved from the 1989-91 stage of adjusting distorted prices to one in which the emphasis is on the development of markets.

Recent moves in **trade policy reform**, especially since the October 1992 301 memorandum signed between the US and China, coupled with China's determination to resume its seat in the GATT, mean a strong move away from administrative control over trade toward control through economic means. This is now being paralleled by moves to reform the management of foreign exchange, and to make those existing foreign exchange markets in China work efficiently and rationally. China appears determined to unify its exchange rates as soon as possible, and now seems to see movement toward the convertibility of the currency as a necessary step to cement the open economy. Change will not come easily, but, there seems to be a renewed determination to define market solutions in this sector.

In the area of **financial sector reform**, the issues are not new: the need to make the specialized banks behave as banks rather than cashiers for the State, and the need to strengthen

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the central bank. The government is now addressing the long-standing issue of the removal of "policy lending"—i.e., lending at the behest of the State—from the specialized banks and is forming new "policy banks" instead. Whether this scheme will work is perhaps less important than the motivation behind it, although this area remains one in which much work remains to be done. With respect to the central bank, much of the task is the technical one of upgrading skills and systems, which the World Bank and the IMF are hard at work on, but the principle of a strong central bank able to operate monetary policy effectively is now accepted as a key challenge for the future.

The fifth area is that of **fiscal reform**. The government recognizes that the fiscal system that exists at present is not suitable for the transition to the market economy. The present tax system is deficient with respect to relationships it preserves both between the State and enterprises, and between the center and the local governments. The lack of elasticity in the system prevents the central government from performing some of the key roles of government, and does not support the management of the economy through indirect macroeconomic means. There is now a renewed effort to address these issues.

A new set of taxes is being prepared for implementation, which will operate on an "arm's length" basis. These include the proposal to introduce a broad-based, value-added tax. There are also investigations under way to develop a new way to share revenue between the center and localities. At present, there is a revenue-sharing system, which divides the uniform taxes between the two levels: this will be reformed into a set of taxes that belongs exclusively to local governments, and some that will belong exclusively or mostly to the center, with a smaller share remaining to be divided between them. This reform will require enormous efforts and considerable time, involving as it does the introduction of entirely new tax systems and a new form of tax administration, but the current set of proposals are the most serious we have seen in this area.

The final reform is that of **government reorganization**. The first attempts in this field were introduced at the recent NPC, but were rather timid. It is to be hoped that we will see further progress in two key areas. First, the government has yet to create or nominate an agency with primary responsibility for macroeconomic management, which continues to hamper the formulation of appropriate policies in this area. Second, only a modest start has been made to strengthen those aspects of the structure critical to a market economy, and to eliminate the remnants of the planned economy. For example, as noted, the tax administration will need considerable reinforcement, but the price administration can be reduced considerably. While the difficulties of restructuring a government administration are not to be minimized, the task facing China is made considerably easier by the fact that it is taking place in a booming economy.

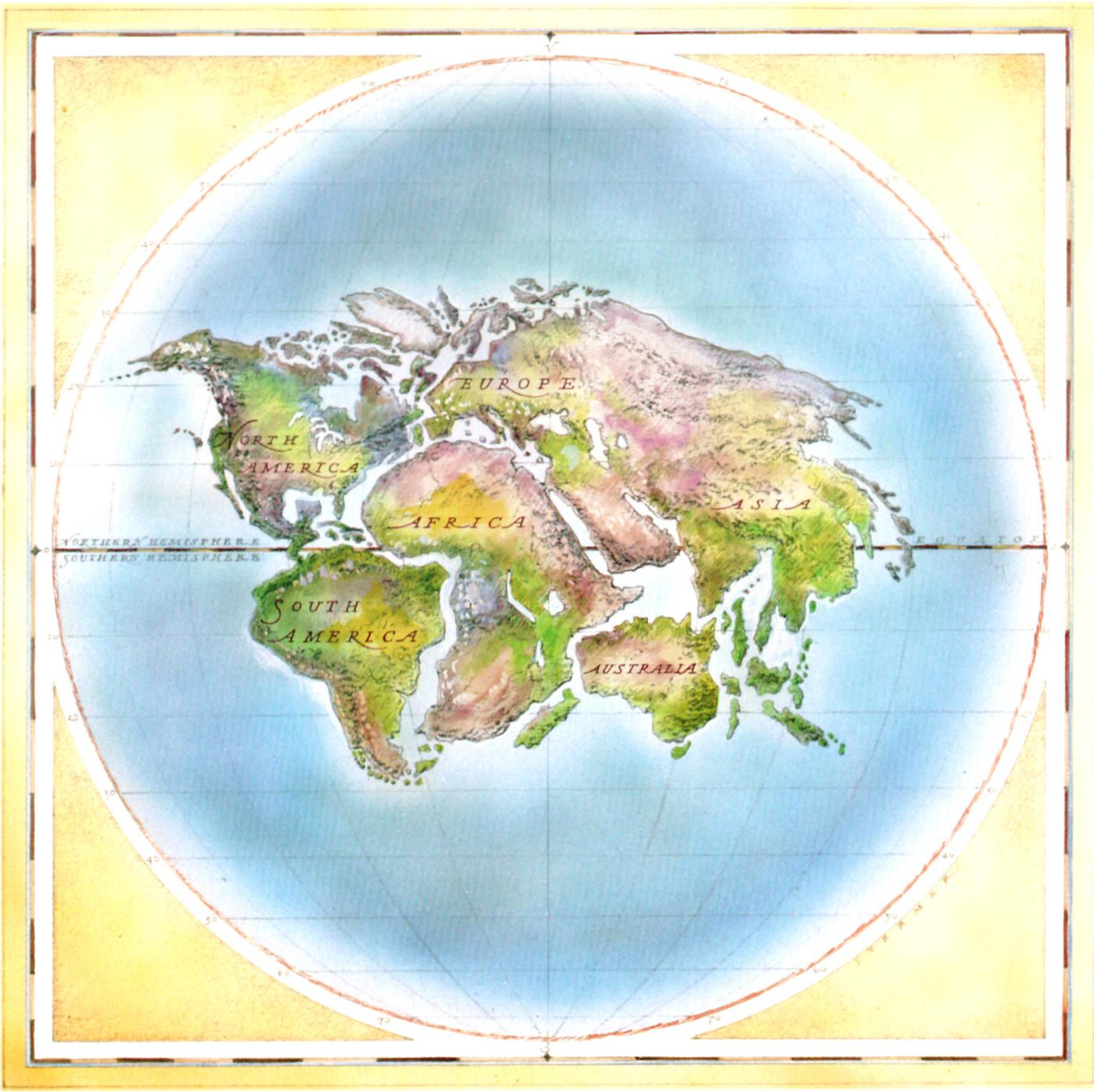
But what of the dangers for this renewed reform program? The biggest threat, and it is a real one, comes from the possibility of overheating of the economy leading to another bout of inflation. This would certainly cause a slowdown, especially in such areas as financial sector reform and price liberalization. The signs of overheating are already very clear. There has been a reappearance of the trade deficit, as imports, especially of raw materials and capital goods, are sucked in, and as exports slow as production is attracted to the domestic market. Even more worrying is the rapid rise in the prices of raw materials in response to the remarkable growth of investment, and the ongoing construction boom.

While the danger of this overheating spilling over into inflation is very real, we do not consider that the situation has yet gone far enough that it can only be solved through another bout of austerity measures. Rather, the application at an early time of a range of indirect measures to slow down the expansion—notably the raising of interest rates—would be sufficient to cool the economy down to its sustainable rate of growth of about 8-9 percent. In addition to the need to take short-term measures, the recent burst of growth emphasizes the importance of the macroeconomic reforms mentioned above. While it is to be hoped that they will be pursued, there remains a feeling in China—especially, of course, at the provincial level—that measures that reinforce the role of the central government are anti-reform, while decentralization and development are synonymous with reform. The genuine creation of a stable market economy will require these attitudes to be overcome.

The second danger comes from the distribution of income, for not all are sharing in the new boom to the same degree, and the interior, more rural provinces are being left behind. The central government needs to have the capacity to mobilize resources to transfer to the poorer provinces, and this capacity can realistically only come from new fiscal resources, as the coastal provinces are unlikely to give up existing funds. Also, it seems most likely that the government will have to take measures to reverse the recent decline in the terms of trade for agriculture, for it is in this sector that incomes have grown least of late. This, in turn, would most likely entail higher grain prices for farmers as grain planting is liberalized further.

Finally, what does this overall upbeat assessment imply for US-China relations? First, **the new emphasis on reform implies that growth is likely to be maintained in the 8-10 percent range for the rest of this decade, making China the most vibrant economy in the developing world. It will thus be a vital market for the US and other economies,** as imports are likely to grow, on average, by more than the growth of the economy, or by an average of about $10 billion a year. Second, there is likely to be an increasingly open trading system in China, both externally and internally, which offers the potential for an ever-increasing number of business opportunities in an expanding number of sectors.

Of particular note for the US is the likely continued expansion of foreign enterprises in the service sector. This applies especially to the knowledge-intensive sectors such as accounting, banking, insurance, consulting, and design. Finally, there is a genuine desire to learn the ways of the market economy, and interest in the United States is continuing to rise. **The possibilities of improved business relations and a higher level of business activity between China and the US are, therefore, very high.**



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Congratulations
to
The United States-China Business Council
on its Twentieth Anniversary

AT&T salutes the Council's
continuing efforts to promote closer ties
between
the People's Republic of China and the U.S.

China's Search for Political Stability

■ Lucian W. Pye

It is universally acknowledged that China's extraordinary economic achievements of recent years have not been matched by equal progress in politics. While the economy continues to thrive at unprecedented rates, the political system has stagnated. The Chinese economy is the envy of more than just the former Communist world, but the politics remain in the same old mold. **The Chinese thus seem to have a genius for operating open markets but not more open politics.**

This striking imbalance in development is truly paradoxical given China's basic Confucian culture, for the very essence of Confucianism is extolling the art of government and depreciating the value of business. The highest values of Confucianism all relate to providing good government, and all the activities associated with the market and with making money were scorned as being mean and base. Traditionally, the scholar official was honored, while the merchant ranked near the bottom of the ideological social scale, below the peasants and artisans. The merchant's game was thought to be cheating the customer and greedily seeking material accumulations rather than refining one's character.

Somehow, things have been turned on their heads, as the heirs of Confucius have excelled in business and blundered in running the government. We will not go into that aspect of the paradox that might explain how products of Confucian culture have become such natural capitalists. Rather, my task is to try to explain why there has been failure in politics and government.

The Problem with Managing a Modern Nation-State

The Chinese difficulty with politics starts with the fact that Confucianism was a philosophical orientation appropriate for an imperial system built around a bureaucracy of mandarin officials and not for the politics of a modern state. The Confucian system was based on a moral order in which there was a broad consensus about fundamental values, and the society was well-structured and not sharply differentiated. The mandarin officials not only presided over a relatively homogeneous Chinese domestic society, but they also presumed that their society was the center of all humanity.

In contrast, the modern state has its foundations not in a coherent moral order, but in a pluralistic political order consisting of diverse interests and operating in terms of a rule of law. In trying to achieve modernization, China has sought to take on the outward forms of a modern nation-state. But it remains a civilization pretending to be a nation-state. Indeed, the Chinese have gone off in numerous directions in their search to become a modern nation. First, after the 1911 Revolution that ended the imperial system, the Chinese declared that they had a republic. But it was only a phantom republic which soon disintegrated into rule by warlords. (And, not unlike today, the Chinese economy from 1911 to 1927 grew at a respectable rate even as the political system floundered.) Then, from 1927 to 1937, China went down the road of a one-party tutelary dictatorship as Chiang Kai-shek and the Nationalist armies united the country. From 1937 to 1945, China heroically resisted the Japanese conquests. In 1949, China turned to Communism, first in the virulent ideological version that was Maoism and then in the more pragmatic Leninism of Deng Xiaoping's era. The search for a political formula still remains elusive. Before one can intelligently speculate as to the direction China is likely to turn to next, one needs to look further into the sources of China's political problems.

Rule by Men and Not by Law

Basic to the Chinese approach to government is the principle that good government requires rule by superior people and not a rule of law. This emphasis upon the personal character of the ruler has meant that Chinese politics tends to be a perpetual game of succession politics. Indeed, it is no exaggeration to say that Chinese politics since the mid-1960s has been a continuous politics of succession, first for Mao Zedong's successor and eventually for Deng Xiaoping's.

The Confucian rejection of the rule of law goes back to the founding of the imperial system and the great struggle with the Legalists. The Legalist school of the 3rd century BC was an important Chinese effort to establish the principle that government should be based on laws that could be sternly and ruthlessly enforced. (The Legalists advanced some sophisticated arguments, such as that laws should be loosely worded because most people have a sense of right and wrong and need only general guidance, and, moreover, if too much attention is given to precise wording, this would encourage the emergence of a class of people devoted to looking for loop-holes and thus endless litigations.) The short-run victory of the Legalist school helped to establish the Qin dynasty, which as an autocratic dictatorship did not outlast its first emperor, Shi Huangdi. That ex-

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perience confirmed once and for all for the Chinese the Confucianists' argument that rule by law was certain to be harsh and dictatorial, because it was inherently impersonal and lacking in human compassion. Better rule by upright men who could manifest understanding and judgment, condone any small faults, and make exceptions as needed.

The problem, of course, is that rule by men can also become autocratic. Worse still, it can be unpredictable, as when a whole political system must respond to the whims of an 88-year-old paramount ruler who has no formal office or title. Furthermore, without a system of law, there can be no enduring policies. New rulers can bring about totally new policies, as happened when Deng replaced the Maoists, and which may happen when Deng in turn is replaced.

The Goal of Stability

The very uncertainty inherent in rule by men contributes to the exaggerated Chinese concern about stability. The expectation that things could easily change heightens general anxiety about the prospects for political stability.

This sensitivity to the likelihood of political instability produces two contradictory tendencies in Chinese politics. One is that of a generally optimistic rhetoric, which is more ritualistically practiced than actually believed in. The language of Chinese politics is one that constantly suggests that wonderful things are in the offing. Nobody is willing to be soberly pessimistic in public, regardless as to how he may actually feel.

Countering this surface optimism is the profound Chinese fear of disorder (*luan*). Fundamental to Chinese political culture is a pervasive anxiety about the incalculable dangers of political confusion and disorder. It is this fear which feeds the instinct to accept authoritarian rule as the best guarantee against disorder.

In the contemporary Chinese situation, this fear of disorder has been heightened for several reasons. First, one of the most profound consequences of the Cultural Revolution was the public's, and even more important the leadership's, experiences with anarchy. That traumatic period of violent upheaval reinforced the Chinese belief that disorder is a truly frightening nightmare, to be avoided at all costs. Secondly, the dawning of the era of rapid economic growth has made the Chinese especially fearful of any hint of political instability which might be the omen of an end of prosperity.

Thus, the fundamental fear of disorder and hyper-concern for stability explains in part both the Deng leadership's call for martial law and the Tiananmen massacre, and also the readiness of so many Chinese to accept as necessary, and hence right, the harsh repression of the students and parts of the Beijing public.

The perceived need to use brute force at Tiananmen was reinforced by a second profound consequence of the Cultural Revolution, and this was the widespread erosion of ideology that initially opened the way for Deng's pragmatism, but that also left Deng without an ideological or moral basis for legitimacy, and hence no alternative to using coercion.

All of this has meant that, **instead of being able to find stability through the dynamic play of pluralistic forces in the society and the orderliness of a rule of law, the Chinese authorities feel that they must rely upon repression. The suppression of dissent is essential in order to prevent chaos. Without a legitimizing ideology to guide the State, the leadership must rely upon its instruments of force to ensure stability. Fear that the economy will not continue to grow thus reinforces the need for coercion.**

Possible Futures

It is not clear what these tendencies hold for the future. Indeed, today the China-watching community is more fragmented in its views of China's prospects than at any time in the history of the People's Republic. In the past, the community was often polarized into pro and con, and into optimists and pessimists. Today the views are more diverse, more confused, and held with less certainty. Many things could happen with the death of the Ancient Ones.

There are those who are confident that the expansion of the market economy must lead to the opening of political life. They uphold the optimistic, liberal view that "All good things go together." At the other extreme are those who either believe China's autocratic traditions are too great for such optimism or generally believe that continued economic progress does require stern political controls. Few Western observers would fully agree with Deng Xiaoping and Li Peng, but some might come close to the view that "Every increase in freedom takes place at the cost of a slowdown in economic development; every acceleration of development involves less freedom." Between these two extremes there are a variety of more probable outcomes. Those who see the "collapse of Communism" as eventually having to come to Asia share many expectations with those who sense that China is about to experience once again the "fall of a dynasty." What comes after the "collapse" or the "fall" raises profound questions which produce a host of answers. It is clear that the uncertainties inherent in such a situation will be peculiarly upsetting to Chinese who believe that there is only a thin line between order and chaos. Yet history shows that, contrary to Chinese perceptions and sensitivities, such periods have not been so bad for China's development. The warlord era which Chinese speak of with shame was characterized by great intellectual vitality (such as the May Fourth Movement) and actually sustained economic growth. So a more tumultuous political scene might be consistent with general progress in the economic and social realms.

What seems most certain from my perspective is that China is going to go through a period of contradictions and striking paradoxes. **China is not a coherent "system" in which developments in one sphere or region will be translated into like tendencies in other spheres or regions. What works here may not work there: progress in the South may not produce progress in the Northwest, and enthusiasm among entrepreneurs may exist with demoralization among the intellectuals.**

In short, China will continue its painfully slow progress of becoming a modern nation. The Chinese people still have not resolved what kind of self-identity they want to assert collectively as they confront the outside world. Hopefully, the trends that we in the West would welcome as positive will outweigh the negative, but one must be prepared for the Chinese propensity to use authority in repressive ways.

China, The United States, and East Asian Security

■ James Lilley

The big question today is: How should the United States participate in security of East Asia, given the major changes taking place there? The major developments are:

- The disintegration of Soviet power. The reasons for alliances and cooperation to contain that power hence have become less valid.
- The growing economic power of this area. This power has challenged the US by increasing Asian exports to the US, by causing a growing US trade deficit, by infringing on US intellectual property rights, and by manipulating currency and market access to limit US exports. These kinds of economic disagreements can undermine security cooperation.
- The emergence of regions in Asia which transcend national boundaries and which challenge statist regimes. This phenomenon causes great disparities in economic growth and income levels and could lead to instability over time.
- The persistence of an over-militarized regime in North Korea which seeks weapons of mass destruction and tries to ensure its survival through military means while its economy crumbles and its leadership faces a major transition.
- The prospect of US partial withdrawal caused by a downsized military force and increasing budget restraints. This could undermine the current balance of power and bring about a competition among major Asian nations to gain ascendancy. This is generally an unwelcome prospect to most smaller and medium-sized nations in Asia who do not view a remilitarized Japan, an aggressive China, or a resurgent Russia as a benign substitute for American power.

US Commitments

Since World War II, the US military role in Asia has ranged from success to defeat. As for the successes, since 1953, the Korean peninsula has been stabilized by a firm commitment of US military force. This has contributed to the dramatic success story of South Korea's economic development and pluralistic democracy, and has provided an effective deterrence to North Korean military aggression.

The post-war US security role in Japan denied the then-aggressive Soviet Union the establishment of a beachhead in Japan, and under the US security umbrella Japan flourished, almost to excess.

The US security role in the Taiwan Straits has kept the peace and obviated a military solution, and both Taiwan and China have prospered economically. The US presence has established an equilibrium of power. A great disparity of power in the straits could have invited military confrontation.

The US failure was in Vietnam, where misconstruing a domestic struggle as an international communist assault led to an over-commitment of US military force in an unwinnable situation.

Today, US power does not come without certain costs for Asian beneficiaries. Japan picks up close to 70 percent of non-salaried costs for American forces in Japan, South Korea covers one-third and Singapore has been generous in covering domestic costs for Americans assigned to the naval logistics unit there. Thailand, Indonesia, and Malaysia have been deprived of IMET (a US military education program) on grounds of human rights violations which are determined solely by the US. China and Burma have received sanctions—China because of our displeasure at Tiananmen, Burma for military suppression. East Asians also have learned that if the US military presence is not wanted, as was the case in the Philippines, it will leave quickly and decisively with social and economic consequences for the host nation.

But East Asian nations have been wise enough to see beyond US pressure for increased burden sharing or continuing US indignation about their human rights behavior. In their view, the US military has been largely a positive influence and an essential element in keeping the peace. This has been reflected in the nations' willingness to provide access to US ships and planes and to exercise with US forces.

The US Strategic Framework for the Asian Pacific Rim, published in 1992, was well received among the US' important friends and allies. Without getting into specific threats other than the obvious North Korean one, this document projects a strong forward US presence in Asia through 1995, focused logically on Japan and Korea. The overall US troop deployments should decrease to about 100,000 in 1995 from 135,000 in 1990. Our carrier battle group with the upgraded modern carrier, The Independence, will be based in Yokosuka, backed up by five carrier battle groups in the Eastern Pacific. The Air Force posture will have two to three fighter wings in

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Japan and Korea, and we should also maintain ground forces in Korea and Okinawa.

In order to sustain Asian public support for this American presence, the US will be moving from a command to a supporting role in Korea and will be turning over peacetime operational control to a Korean commander by 1994. In Japan, the US will continue to return land in Okinawa where population and development pressures require decreased land use by the US, particularly in the Naha Port area. To sustain public opinion in the US, Asian countries who benefit most by the US presence will need to continue increasing their percentage of cost sharing. The improvement and modernization of the militaries with US equipment and technology are important, and these Asian nations should continue to train and exercise with the US forces in the area. This will ensure that there is no precipitous vacuum of military power which could encourage potential predators.

It has been a consistent US policy since the Eisenhower era that Asian powers assume greater responsibility for their own defense. Korea, Singapore, Thailand, Indonesia, and Taiwan have all purchased F-16s which provide them with an excellent interceptor force tested in Desert Storm, as well as interoperability among themselves and with the US Air Force. F-18s in Australia and, hopefully, in Malaysia, and F-15s used by Japan provide a modern but modest air capability. Command conferences at the Defense Department and CINCPAC (Commander-in-Chief Pacific) bring together East Asian commanders with their US counterparts for exchange of views and some coordinated planning.

China's Role

As for China, which looms large in any consideration of Asian security, the Sino-US security relationship since 1989 has deteriorated but now shows some signs of recovery. The former Soviet Union shifted from being the common threat which brought the Chinese and American militaries together, to a major supplier of expert personnel, high technology, and modern hardware to the Chinese military. US sanctions after Tiananmen in effect suspended the military relationship with China and caused hard feelings on both sides about the way this suspension was done and what caused it. The differences over the controversial military sales cases (the F-8 avionics, naval torpedoes, artillery radars, etc.) have, however, been resolved.

It is clear that China's current interest is in downsizing and modernizing its military and in developing a power projection capability by emphasizing air and naval forces as well as rapid deployment of ground forces. The US is no longer a player in this; Russia has taken the lead. The dimensions of the Chinese conventional build-up are, to date, not threatening to the US, but have caused some consternation among China's neighbors, who are often US friends and allies. China's acquisition and proliferation of weapons of mass destruction are more ominous developments, but the evidence is less apparent. China has signed on to the Missile Technology Control Regime and the Nuclear Non-Proliferation Treaty, which at least provide internationally accepted ground rules for curbing proliferation. To date, unfortunately, China has not joined the Nuclear Supplier's Group.

The Russians, however, can only provide a quick fix for the Chinese. China's long-term needs for modernization lie with the US, Europe, and Japan, and the emphasis will be more on commercial, not military, cooperation. This is a world-wide trend. Both the United States and Russia have made significant cuts in their defense budgets. China will surely follow suit eventually. The hard-earned profits from the economically more prosperous areas of China will not finance a centralized military machine indefinitely. Rather, in the tight competition of Asian economies, these profits will be plowed back into investment and technology.

Sino-US Cooperation

It is important now that the US and China start to improve the nature of their military ties. Both sides need to lay their positions on the table frankly and directly. When this has been done in the past, misunderstandings have been clarified and miscalculations avoided. In addition, the US and its partners have to talk to the Chinese about the issue of proliferation of weapons of mass destruction. This should be done in a strategic context with a full array of incentives and disincentives and with close international cooperation. **China is not a pariah—any attempt to isolate China will not work, and the military in China is a major factor in its existence.** The Chinese have let us know that they are prepared to resume the military relationship. We need to respond positively, because we want China's support and cooperation in the United Nations Security Council, in Cambodia, in the Taiwan Straits, and in the South China Sea. Korea is especially important for Sino-US cooperation as it is the most dangerous flashpoint in Asia. There can be no chance for peace there without China.

East Asia will probably produce one-third of the world's GNP in the next decade. It will be the fastest growing economic area in the world, and the US stake in this economic growth is very high. **Good security relationships cannot exist apart from a strong economic base and a cooperative attitude in solving economic disagreements. This is especially relevant to the US relations with East Asian nations. By the same token, economic prosperity occurs when there is stability, and security is assured. Economic relations need to be a way to enhance security arrangements, not undermine them.**

The US-China Business Council works to increase and improve US-China trade and investment, and this is exactly what the US's highest priority should be. China and Taiwan are becoming increasingly important as economic players in the East Asian area. Lateral ties between economically interdependent regions such as South China-Hong Kong-Taiwan could become the main force in the coming Asian century, and the United States must be part of this dynamic trend. It is in the US interest and in the interest of America's friends and allies in Asia for the US to remain heavily engaged, economically and militarily, with China, Taiwan, and the entire Asian region.

The United States-China Business Council was formed in 1973 as a private, not-for-profit organization to facilitate development of the US-China commercial relationship. We work on behalf of our member companies to promote this bilateral relationship by providing information and analysis to our members; by offering members forums for discussion of common concerns; and by representing our members' interests to both the American and Chinese governments. Many of the ties that today bind the United States and China were created and nurtured by the US-China Business Council. We will continue our commitment to building and improving these ties.

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but are not sufficient to accommodate the amount of growth anticipated. Therefore, the present congestion will certainly get worse. Higher demand for road transport in particular will lead to increasingly severe and pervasive congestion throughout the Guangdong network.

On the road

Roads play an important role in Guangdong transportation, although most are of low technical standards, have poor surface conditions, and are often congested. Road transport is particularly suited to Guangdong's light industry and export agriculture, which demand fast delivery, careful loading and unloading, and door-to-door transport services.

■ Traffic volume Growth rates of total road traffic in Guangdong have averaged 20-30 percent per year and have been accelerating throughout the province since 1980. If the supply of vehicles remains relatively plentiful and additional road capacity is provided, these extraordinary growth rates could continue unabated. Growth will continue due to pent-up demand, the greater flexibility of road transport compared to other modes, and the changing economic structure of Guangdong Province, particularly the rapid growth of the light manufacturing sector. Another important factor contributing to the extremely rapid growth of road transport has been the freedom of enterprises and collectives (and, more recently, private individuals) to acquire their own motor vehicles. These conditions imply a major need to expand highway capacity, particularly in high growth areas such as Shenzhen.

In recent years, congestion has greatly reduced travel speeds and, consequently, increased vehicle operating costs. At present, most trunk roads pass directly through cities and towns, forming traffic bottlenecks, particularly in the Pearl River Delta. Traffic congestion is exacerbated by the mix of different-speed vehicles in the traffic flow; extremely high vehicle operating costs are anticipated until more traffic separation is achieved.

■ Poor conditions Outside the Delta, high transport costs stem mainly from poor road surfaces and geometric conditions (i.e., width and alignment of the roads). Technical standards for roads are extremely poor and surface conditions, despite more frequent maintenance and higher maintenance expenditures than in the rest of the country, are lower than the national average. Only 13.4 percent of roads are surfaced with cement, concrete, or asphalt. There are many broken-stone roads with extremely rough riding characteristics akin to those of cobblestone pavements. Bridge weight limits on rural roads often are also low.

> Road transport is particularly suited to Guangdong's light industry and export agriculture.

There are too few Class I roads (divided roads with 7 m wide carriageways), and Class II roads (a single, undivided, 8 m carriageway) and expressways (akin to Class I roads but using raised ramps at intersections) are only now being built on the trunk routes in the Pearl River Delta. Over 2,300 km of existing gravel roads carry an excess of 2,000 vehicles per day. This is at least four times the threshold at which paving becomes economic. In addition, the introduction in recent years of heavier trucks from abroad has greatly accelerated pavement deterioration, since bituminous pavements in Guangdong Province have not been generally designed to withstand the heavier loads of modern trucks.

If timely action is taken, road deterioration can be arrested by pavement strengthening measures for only one-fourth to one-third the cost of reconstruction. However, in locations where existing roads suffer not only from weak pavements but also from congestion due to heavy volumes of slow local traffic, the preferred solution may be to construct a new road to serve fast-moving, through traffic, and relegate the existing road to local traffic needs.

■ Priorities Ongoing improvements to Guangdong's road infrastructure include the construction of expressways, the upgrading of roads to Class II or Class I standards, and the paving of waterbound macadam roads with bituminous or cement surfaces.

Road transport should be made more efficient by expanding capacity and upgrading the quality of highways and by using modern large buses and heavy semi-trailer trucks for longer hauls. Service should be expanded to encompass more than local delivery, especially for passenger transport and freight delivery for distances of up to 1,000 km. Secondary road construction is also required in fast-growing areas to provide access for new industries and residential or commercial areas and for commercial agriculture areas.

Highways will play an increasingly large role in the future, because the fastest growing segments of the Guangdong economy are industries which typically are prepared to pay premium prices for the speed and flexibility of road transport. Upgrading the highway system and introducing a full array of modern vehicles (including very large trucks) is expected to lower highway transport costs to about half their present levels, so that substantial new traffic would be generated or diverted from other modes to highways. Efforts to decongest the railways by diverting traffic more economically served by highways will further increase highway demands.

■ Financing Total highway investment, a high priority under the Eighth Five-Year Plan (FYP, 1991-95) could amount to about ¥8.3 billion. Another ¥12 billion could be justified for the Ninth FYP (1996-2000). This includes approximately ¥2.7 billion for paving 5,000 km of high-traffic, broken-stone roads, ¥1.2 billion for 4,000 km of high priority pavement overlays, and about ¥4.4 billion for main arteries.

The provision of highway infrastructure is primarily the responsibility of provincial and local governments. The Ministry of Communications is responsible only for establishing overall design standards and for making a minor financial contribution for construction of national highways. In addition to the 100 percent foreign-financed Guangdong-Hong Kong Expressway, other toll roads under construction in Guangdong are being financed by the provincial and local governments, and the provincial government has constructed five major toll bridges in the province using funding from foreign sources.

Additional taxes will be needed in Guangdong Province to help finance the road program. The present major sources of revenue for highways are road maintenance fees and motor vehicle purchase surcharges, which raise approximately ¥300 million per year. However, only 30 percent of these funds are available for new construction, amounting to approximately ¥500 million over the next five years—only 10 percent of the non-toll road needs. These revenues are increasing with the expanding vehicle fleet, but will not boost funding to the levels needed to finance needed road programs unless the basic tax rates are increased.

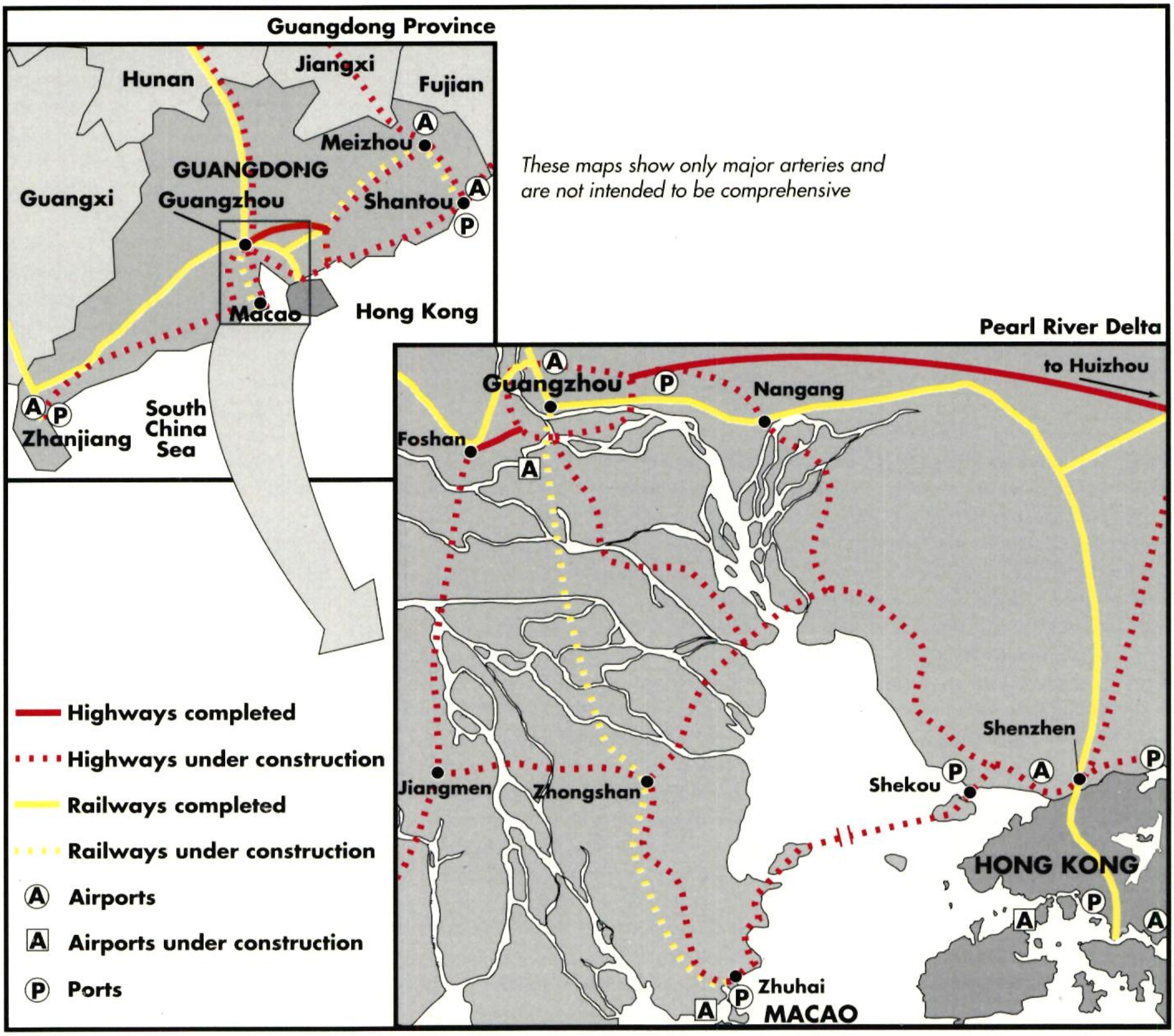
All aboard

Compared to the lines in many provinces and regions, the length of Guangdong's railway network is relatively short. The capacity of stations and yards is also limited relative to the demand, although the double-tracking and expansion of rail yards on the Hengyang-Guangzhou and Guangzhou-Shenzhen sections have provided a temporary respite. Five main lines are equipped with semi-automatic block signaling. The railways connect the ports of Huangpu, Guangzhou, and Zhanjiang with the rest of the country, and also serve as an export link to Hong Kong. Rail traffic focuses on heavy commodities and long-distance passenger and freight traffic.

The management of China's railways has been removed from the central ministry and decentralized into 12 administrations. These include Guangzhou, which handles the Beijing-Guangzhou-Shenzhen line, and Liuzhou, in Guangxi Province, which handles the Litang-Zhanjiang line.

Recent local rail extension projects—Sanshui-Maoming and Guangzhou-Meixian-Shantou—are being organized as local railway companies rather than traditional administrations. The companies are being given separate financial management and operating budgets, which, with the consent of the central

Guangdong's Transportation Network



government, are designed to cover operating costs and allow tariffs to be set high enough to repay capital investment funds borrowed for construction.

The limited capacity of ports and outmoded vessel designs have prevented full exploitation of good coastal shipping conditions.

■ Priorities Ideally, the railways should concentrate on medium-distance freight and passenger transport, and the movement of coal, bulk commodities, and heavy freight at all distances. Rail likely will grow the slowest among the transport modes because the types of traffic for which rail is best suited are not expected to grow as rapidly in Guangdong as traffic better served by other modes.

The main railway investments now under consideration by Guangdong Province are the construction of the Guangzhou-Meixian-Shantou (GMS) railroad, the electrification of the Hunan-Guangzhou-Shenzhen lines, the construction of more passenger stations, and the expansion of freight yards in the present system.

■ Costs Total railroad investment in Guangdong Province over the next five years will vary considerably, depending on whether electrification projects are undertaken. Without electrification ¥3-4 billion will be invested, including the GMS, Yaogu-Maoming and Litang-Zhanjiang Railroads. Electrification of the Guangzhou-Beijing line would require an estimated ¥326 million for the portion in Guangdong Province and far larger sums for the sections beyond Guangdong.

Recent increases in rail tariffs will provide a source of funds for investment, and the rates to be charged by the new local railways are designed to enable full payback within 10 years. It is likely that external financing can be raised if these organizations are set up on a financially autonomous basis.

Cruising along

Guangdong's long coastline and favorable conditions for coastal and marine shipping are complemented by 13 seaports, four of which traditionally have been classified as major ports. Three other Special Economic Zone (SEZ) ports have assumed a significant role in the province. These ports serve intraprovincial, interprovincial, and international transport. Except for the deep-water port at Zhanjiang and the new port being developed at Yantian, the capacity of the major seaports is limited by the depth of approach channels or the water depth alongside ship berths.

The major seaports in Guangdong Province provide different types of freight and passenger services. Huangpu and Zhanjiang ports serve both international trade and domestic coastal shipping routes. Huangpu Port, which handles the largest volume of freight, serves most of South China. Zhanjiang Port serves the southwestern provinces. Guangzhou Port serves the Guangzhou region and provides transfer services for inland water freight on the tributaries of the Pearl River. The smaller ports mostly handle domestic cargo; goods going abroad are generally transshipped via the larger ports.

The Guangzhou Ocean and Shipping Co.—a branch of the China Overseas Shipping Co. (COSCO)—is the predominant supplier of ocean shipping services, and the Guangzhou Maritime Shipping Bureau is the major supplier of coastal shipping services. Both operate under the Ministry of Communications. Foreign shipping companies also serve the ocean ports. Competition among public carriers in the ocean and coastal trade is limited, but enterprises are permitted to own and operate their own vessels. Joint-venture shipping companies have been established in recent years between Hong Kong shippers and the SEZ bureaus. Cooperatives can also own ships and make investments in handling equipment for the smaller ports.

The limited capacity of Guangdong's ports and outmoded vessel designs have prevented full exploitation of good coastal shipping conditions. The problems in freight service are manifested by the long average waiting times for vessels, particularly in Huangpu and Shantou, and the high congestion costs incurred by shippers. In addition, there are bottlenecks in land connections to ports, especially secondary ports and major river ports. Long travel times and delays also discourage passenger travel by ship; as incomes have risen, fewer passengers have opted for coastal waterway transport.

■ **Projects** Seaport development is a major ongoing area of investment. The ports of Shekou, Chiwan, and Jiouzhou were built in the 1980s to handle traffic growth in Shenzhen and Zhuhai. Although these ports will satisfy demand in the short

On their marks...

"$300 million worth of exports from US companies is at stake on this project," says Richard B. Griffin, Jr., chairman of The United States China Transit Group (USCTG). The US marketing group is one of the finalists in the bidding to build Guangzhou's first mass transit system. As the decisionmaking process on foreign supply contracts draws to a close, USCTG faces intense competition from British, German, French, South Korean, and Japanese firms.

Construction of the Chinese-designed system is scheduled to begin by the end of this year. The Guangzhou Metro Corp., a bureau-level enterprise under the municipal government, has been commissioned to oversee construction and management of the two-line system.

The first phase of the system, the red line (line 1), is slated for completion by 1998. The 16-station line will run 18.4 km on a west-east axis, beginning at the west terminal at the Guangzhou Iron & Steel Works. The red line will then pass through the city's most densely populated neighborhoods, ending at Guangzhou East Railway Station.

The 16-station green line (line 2) will run 18 km from the north terminal at Xinshi to the south terminal at Chigang. Although it awaits both a feasibility study and State Council approval, the green line should be completed by 2003, according to the master plan for the city of Guangzhou.

The feasibility study for the red line estimates total investment in the project will reach about ¥6 billion ($1 billion). Financing for the line will come from local and foreign sources; no central or provincial government funding is expected. The local portion is slated to come from a combination of Guangzhou municipal government appropriations, "social financing" surcharges on taxi rides and hotel services, and property development along the metro line.

No World Bank or Asian Development Bank financing for the subway system is anticipated. Instead, foreign government loans—totalling about $460 million—are to account for the remaining 50 percent of funding needs. These funds will be used primarily to purchase rolling stock and other electrical and mechanical equipment. The Financing Coordination Office of the Guangzhou Planning Commission is responsible for putting together the financial package for the project.

Fierce competition

In 1991, the Metro Corp. issued the first bidding documents for the Guangzhou subway project. In response, several US companies formed USCTG to market advanced rail technology for the Guangzhou subway system; each individual company, however, negotiates its own contracts. The corporate members of the USCTG are De Leuw, Cather International Ltd., a transportation engineering firm; General Railway Signal Corp., a specialist in rail signaling systems; Cubic Western Data, a manufacturer of automatic fare collection systems for rail transit; Motorola, Inc., a provider of electronic equipment, system components, and services; and Controlled Power Ltd. Partnership, which specializes in the design, manufacture, and start-up of power supply systems.

"The US companies are seeking to provide virtually all of the project's needs but the rolling stock," says Griffin. The US Export-Import Bank has indicated it is willing to consider supporting US suppliers of goods and services for the project.

Chinese officials visited the United States in June to conduct site investigations of US companies vying for Guangzhou Metro contracts. When asked about the chances of the US firms, Zeng Baoxian, senior engineer and technical deputy director of the Guangzhou Metro Corp., would only say that they were "competitive."

The Metro Corp. is now evaluating financial and technical packages and will weigh three factors in choosing contractors: technical capabilities, financial support from the company's government, and price. After inspecting the manufacturing facilities of the finalists, Metro Corp. will finish evaluating technical packages, and then award contracts sometime this fall. Commercial negotiations and contract signing authority will rest with the China National Machinery Import-Export Corp.

When it opens, the red line will carry up to 52,000 passengers per hour and an average of 1.13 million passengers per month—an estimated 15 percent of Guangzhou's total public transit passenger flow. Once complete, the system is expected to reduce congestion, but will not solve all the city's traffic problems, as the rate of motor vehicle use is expected to continue to increase. The subway's fare system will be similar to those used in Hong Kong and Washington, DC, in which fares are calculated based on the distance traveled.

In the meantime, local traffic will worsen as construction begins. The Metro Corp. will use tunnel-boring machinery designed to minimize above-ground inconveniences, but disturbances can't be totally avoided. Though construction has not yet begun, planners already are thinking ahead. Says Zeng, "I think that in the future we can build a light rail to connect the red line to Foshan."

—Karen Kullgren Juh, vice president of the US-China Business Council, met with Guangzhou officials in May to discuss the subway project.

term, medium-range growth will require further capacity. Funds have already been committed for projects to upgrade Shantou harbor and to construct a new port at Yantian (Daqing Bay) near Shenzhen and Hong Kong.

The port at Yantian could become a major transshipment terminal in the region for coal and containers; Yantian has 6 km of shoreline available for development, and depths of 10-14 m. The first phase of the port's upgrading is being financed by Japanese loans and will include container berths and a capacity of 2.8 million tons (200,000 TEUs) per year. It will have a rail connection to Shenzhen and 650 m of sidings. However, the future role of this port will be affected by ongoing port developments in Hong Kong.

The Huangpu Port upgrade project is designed to increase port capacity from 17.5 million to 22.3 million tons annually. The upgrade will include expansion of coal terminals and general cargo terminals, as well as rail connections. However, channel depth limitations are a major constraint on the use of larger vessels for both coastal shipping and foreign trade.

■ **Financing** Total seaport investment planned for the next five years is substantial. A range of ¥2.5-3 billion is estimated to be needed for development of the ports at Huangpu, Yantian, and perhaps Shantou, although the high costs of dealing with difficult silting conditions at the latter indicate the need for a detailed review.

Seaport and inland port expansions are being carried out on a cost recovery basis, with higher port charges being assessed to achieve a reasonable payback period. Singapore financing of Mawan Port and the World Bank loan for Huangpu/Guangzhou will increase the overall funds available for port expansion in the next five years by about ¥1 billion.

Tonnage of major commodities shipped by coastal vessels is expected to more than triple by the year 2000. Ocean shipping will probably grow even faster. International traffic flows are expected to increase, especially for road and river traffic to Hong Kong. Port congestion, therefore, is expected to be significant.

Inland waterways

Use of the inland waterway system in Guangdong Province has not grown rapidly, despite the system's 11,000 km of navigable inland rivers. Construction and improvement of inland waterway infrastructure has not received priority attention, and the condition of the water channels varies from good to poor, which limits long-haul shipping. Exploitation of water resources for irrigation in recent years also has reduced the length of navigable routes. In addition, many river ports have not been equipped with modern handling equipment and loading and unloading often is done by manual labor.

In the Pearl River Delta, larger barges, barge trains, and container barges have increased their services and efficient port-handling equipment has been installed in a few locations. There are several new ports, and there appears to be Hong Kong capital available for river vessels, including container barges and hydrofoil passenger services linking the Delta to Hong Kong. Outside the Delta, inland river transport tends to specialize in bulk commodities such as construction materials, cement, fertilizer, and mineral ores. Inland waterways also carry general cargo to locations where road transport is limited.

Inland water transport investments include port development, channel dredging, and fleet purchase. River port development is now in the hands of local authorities on a self-financed basis, and each port has an expansion plan. Channel dredging is being used in several locations in order to allow larger vessels upstream or to extend the navigation season. The Xijiang (West River), for instance, is being deepened to allow 1,000 dwt barges access. The main Pearl River channel to Huangpu Port may also be deepened to allow fully laden 35,000 dwt ships into the port on a regular basis. Total inland river investment for the next five years, however, is likely to be less than ¥50 million.

Airborne options

Guangdong has two of the busiest airports in China—Baiyun Airport in Guangzhou and Huangtian Airport in Shenzhen. Both are being expanded in order to cope with increased passenger demand. Long- and medium-distance air traffic are expected to grow rapidly due to continuing economic growth and the rising time sensitivity of business and other travelers. Funding for airport projects will come from central, provincial, municipal, and foreign sources (*see The CBR*, May-June 1993, p.12).

Needed: major money

Total investment in high priority transport projects in Guangdong Province over the next five years will amount to tens of billions of *yuan*. The economic return on these projects could average a minimum of 20 percent per annum, with returns growing rapidly each year.

In general, projects linking all areas of Guangdong to Hong Kong, the "growth pole" for the province, would be beneficial and would help disperse the concentration of light industry in the Pearl River Delta. Further secondary road construction in fast-growing areas is also required to provide access to new industries and residential or commercial areas. Overall, the development of a transport infrastructure best suited to support the development of Guangdong will require a concerted effort to ensure a coordinated strategy. 完

A Recipe for Success?

Catering to Chinese tastes, Campbell Soup Asia Ltd. hopes to score in Guangdong

■ **Adam Heller**

Everyone knows the Chinese are large consumers of rice and tea. But did you know that 99 out of 100 people in South China have had soup in the past 24 hours? According to a recent survey by Campbell Soup Asia Ltd., it's true. Simply put, the Chinese have the highest per capita consumption of soup in the world. The Chinese appetite for soup, combined with the growing strength of China's consumer market, has led the New Jersey-based Campbell Soup Co. to view the China market as an important part of its global strategy.

Attracted by the potential of Asia's increasingly affluent populace, Campbell Soup Asia Ltd. opened its Hong Kong office in 1987. Hong Kong consumers' acceptance of Western foods and receptiveness to prepared dishes made Hong Kong a natural base of Asian operations for the company. Since 1987, Campbell has focused its efforts on studying Asian markets, earning a reputation for quality, and building a client base in the region.

Establishing a beachhead

To learn about Asian tastes, Campbell opened a $500,000, 3,000 sq ft research and development (R&D) facility in Hong Kong in 1991. Technicians at the R&D center conduct taste tests to determine consumer preferences to develop new products tailored to specific markets.

The center has three sections. A consumer research area is equipped with individual tasting booths where consumer preferences for taste, texture, appearance, and flavors of soups are measured and recorded. The product development area contains a recipe library and commercial cooking facilities to aid in the development of new recipes. The third section houses pilot canning and processing equipment to develop prototypes for consumer research.

Staff at the R&D center were instrumental in developing four Chinese-style Campbell soups introduced in Hong Kong in 1990. These "long boil" soups are sold under the Swanson brand name. Campbell executives expect that the center will play an increasingly prominent role in developing products for Asia as the various markets mature.

Crossing the border

From its base in Hong Kong, Campbell has been able to monitor development of China's consumer market, especially in Guangdong Province. Not only is Guangdong geographically close to Hong Kong, but Guangdong residents share language, culture, customs, and, most important, eating habits with the Chinese in Hong Kong. Soups and broths, for example, are integral to the Cantonese diet. Even better news for Campbell, people in Guangdong Province eat soup more than five times a week on average.

Guangdong natives, moreover, are the most affluent and most consumption-oriented citizens in China. Growing per capita incomes and rapid urbanization are two trends fueling rising consumer purchases of packaged foods. Campbell expects that the mainland's demand for such foods will continue to rise as consumers become more sophisticated and time conscious.

In order to capitalize on these positive trends, Campbell opened an office in Guangzhou in 1992 to oversee marketing, sales, and distribution of the company's US-made products. According to David Wells, managing director for Campbell Soup Asia Ltd., "The idea is to leverage our success in Hong Kong and develop a firm foothold in China."

Treading lightly

Campbell does not view China simply as a one billion-plus consumer market open for the taking, however. The company realizes that cross-cultural differences, if ignored, could ruin its attempts to enter the Chinese market. Though foreign brands enjoy a reputation for quality in China, nearly all imported products share this cachet. Campbell's products, therefore, essentially compete against

■ **Adam Heller works for Hong Kong-based Newscan Public Relations, which handles the Campbell Soup Asia Ltd. account in the Greater China market.**

unrelated Western goods for a place in Chinese market baskets, as local shoppers seek to demonstrate their growing sophistication by purchasing foreign brands. A major challenge for Campbell, therefore, has been to create easily accessible, affordable packaged foods that still retain a foreign allure.

Campbell has made a conscious effort not to flood the China market, in the belief that introducing its entire product line at once would confuse and overwhelm novice consumers on the mainland. Instead, it selected 17 products based on market research in Guangdong and sales in Hong Kong. The products—vegetable juices, broths, and soups—are sold under the V8, Swanson, and traditional Campbell's red-and-white labels. The products began selling in Guangdong in late 1992, and results to date have met awareness, sales, and distribution goals. Vegetable juices, as well as chicken broth and cream soups with corn and mushrooms, have been the top sellers.

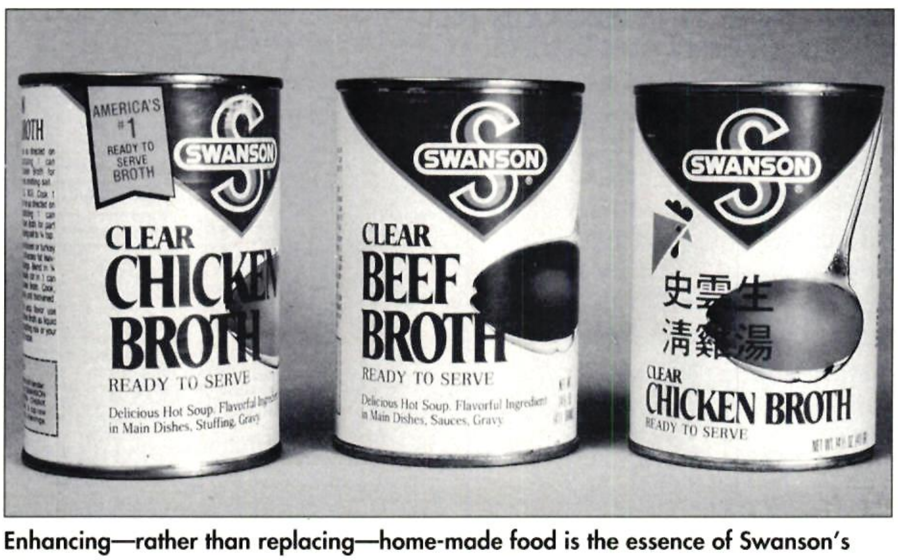
A kitchen helper

Campbell's strategy in China is based on meticulous market research, which has yielded some interesting findings. For one, consumers in South China have only a basic understanding of "convenience" soups. In the United States, people have grown up using canned goods, but this is not the case in China. As a result, consumers need to be educated about how to prepare condensed soups, how to incorporate ready-made broths into their cooking, and how to combine packaged and fresh products. Consumer education, including cooking shows and recipe books, therefore has been a focus of Campbell's promotional and advertising activities.

In addition, Campbell found that its competition takes an interesting form in China: Mom. While a growing domestic canned soup industry provides some competition, the real barrier to sales of Campbell soups and broths is the consumer's preference for home-cooked meals. To be perceived as a friend rather than a threat, Campbell markets its broths as cooking aids, rather than as replacements.

> Campbell found that its competition takes an interesting form in China: Mom.

Research has also revealed that the issue of nutrition is gaining the attention of Cantonese consumers. Provincial officials recently called for proper labeling of food products and according to reports in *China Daily* and South China newspapers, Guangdong parents are becoming more aware of the importance of good nutrition for the healthy development of their children. To increase consumer knowledge about basic nutrition, Campbell sent one of its nutritionists to Guangdong in March to share information with officials from the Public Health Bureau, the Maternal and Infant Nutrition Society, and other groups. Campbell plans to ensure its products meet the priorities outlined by these officials.



Enhancing—rather than replacing—home-made food is the essence of Swanson's Guangdong marketing strategy. *Photos courtesy of Campbell Soup Asia Ltd.*

Building loyalty

Once Campbell is able to tailor its products to meet Chinese nutritional needs, it will have a natural marketing edge. Until then, the company is striving to increase consumer recognition of its products.

In 1992, Campbell began a campaign to establish local brand-name recognition in South China. Campbell worked with Saatchi & Saatchi China to develop a customized TV advertising campaign which stressed the quality of Campbell products. The ads often include shots of vegetables and other ingredients to emphasize their quality and freshness. Campbell commercials also feature step-by-step preparation of its soups to show the consumer how to use them. The commercials are generally broadcast on locally produced programs in major cities throughout the province.

Campbell also uses recipe booklets to promote product use and boost user frequency in China. The instructions for the recipes must be very precise and simple to cater to these new consumers. Like the television cooking show, the booklets provide creative ways to use Swanson broth products as a base for home-made dishes, noodles, and soups. Recipes are designed to suit local taste and dietary patterns.

Another type of consumer promotion utilized by Campbell in China is the "lucky draw"—a point-of-sale sweepstakes promotion which allows consumers to turn in proof-of-purchase seals for a chance to win such prizes as watches, aprons, and kitchen utensils. Unlike the situation in the United States, in China the manufacturer can require an individual to purchase an item in order to enter such contests. Very popular in Hong Kong and Guangzhou, the sweepstakes have been extremely effective in attracting consumer attention and boosting sales.

Market barriers

Getting the word out about Campbell products is one thing, but getting the product out is another, given the lack of a well-developed supermarket distribution network in China. China's distribution network is fragmented and in transition, making it difficult for a foreign company without a local partner to penetrate the consumer market.

To overcome this difficulty, Campbell has appointed the East Asiatic Co. (EAC) as its exclusive distributor for China. A Danish company, EAC has experience in handling products such as Mars confectionery and Paul Masson wines in China and has been performing well for Campbell.

Currently, Campbell products are sold in 650 outlets throughout Guangdong, including supermarkets, food sections of department stores, and *tangyanjiu* (sugar, tobacco, and liquor) shops. In general, Campbell and EAC have had to approach each store individually in order to introduce Campbell's product line. While this method has been time consuming, Campbell has found many stores receptive to the new products.

Distribution worries aside, Campbell has been concerned about China's potential trademark violations. Copycat products are common in China and can hurt a company's reputation and bottom line. A food producer such as Campbell must also be concerned about consumer safety, as a substandard knock-off not only could damage the real company's name but also could make someone ill. To help deter would-be counterfeiters, Campbell has registered its trademarks in China. So far no imitators have emerged, but the company is still keeping a watchful eye.

Campbell's traditional red-and-white line carries the *Jinbao* (Golden Treasure) label in China.

Currency fluctuations and domestic inflation are other considerations that demand Campbell's ongoing attention. Campbell soups are sold in local currency for ¥5-7 per can. Though the company wants to maintain stable prices for its products, the rapid decline in value of the *renminbi* at the local swap centers over the past six months has required Campbell to revise its financial projections and increase its prices on some products.

Campbell's sales and revenue projections must also take into account import duties and other taxes levied on foreign products; Campbell is lobbying the office of the US Trade Representative to address the tariff issue in particular. As it now stands, the import tax increases the price a consumer must pay for a Campbell product, a situation which confines the company's sales to more affluent consumers.

Looking local

One way around some of these financial problems would be for Campbell to produce soups in China. Local production would also improve warehousing and distribution logistics. The company currently is discussing with a Chinese partner plans to develop a manufacturing plant in South China to take advantage of the area's comparatively inexpensive land and labor costs. Campbell plans to source ingredients in China and is researching potential suppliers.

The Guangdong facility eventually will serve as Campbell's launching pad in China. From the South, the company will target the coastal areas, and later the inland urban centers. Before expanding to these areas, however, Campbell will conduct more research in order to determine the preferred spices, ingredients, and recipes of the various regions.

According to Wells, Campbell's goal for the future "is to increase the power of the Campbell brand name and continue on a cycle of implementation, evaluation, and refinement of our products. The Campbell Soup Co. seeks to leverage its trademarks globally. China, with a quarter of the world's population, is a linchpin in our global efforts." 完

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China Hails the "Socialist Market Economy"

■ David Bachman

The Eighth National People's Congress embraced the open policy—as well as Jiang Zemin and Zhu Rongji

■ **David Bachman, chair of the China Studies Program at the University of Washington (Seattle), is an associate professor of international studies in the Henry M. Jackson School of International Studies. He is the author of *Bureaucracy, Economy, and Leadership in China* (Cambridge University Press, 1991) and other works.**

The spring of 1993 was a period of transition for both the United States and China. In Washington, the Clinton Administration was settling in, while in Beijing, the first session of China's Eighth National People's Congress (NPC) completed a round of leadership changes and organizational restructuring initiated last fall at the 14th Congress of the Chinese Communist Party (*see The CBR*, January-February 1993, p.22). While there were no real surprises at the NPC, which was held March 15-31, many policies were developed and elaborated. In essence, the Congress reflected a leadership dominated by concerns of economic growth and political and economic stability.

Often referred to as China's "rubber-stamp parliament," the NPC meets for about two weeks each year. The NPC's approximately 2,900 delegates are elected to five-year terms; in effect, the Communist Party selects delegates from each of the provinces, along with representatives from the People's Liberation Army (PLA). The NPC, however, is not constituted on a proportional representation basis, as the PLA has the highest per capita representation, followed by the coastal areas. Inland provinces, with the exception of Tibet, generally have the lowest number of delegates, in both absolute and per capita terms.

Because of its large size and short meeting schedule, the NPC is too unwieldy to act as a true legislature. Instead, substantive legislative policy in China tends to be determined in the bimonthly meetings of the 134-member NPC Standing Committee, which is named by the Party leadership and the Politburo for approval by the NPC.

The annual NPC sessions, in contrast, provide a forum for ratifying and publicizing leadership decisions. Customarily, the leadership presents the government's work report—in essence, China's state-of-the-union address—as well as the annual plan and budget. The NPC also promulgates major laws and approves top governmental appointments. Since the March meeting was the first session of a newly elected NPC, changes in the executive leadership of the Chinese State were also announced and approved. New appointments to China's State Council—the body that oversees China's State organs—were made, and the structure of the State Council itself readjusted to reduce government staff, improve efficiency, and encourage ministries to become more business-oriented.

The top guns

One of the most important appointments approved by the NPC was that of the new president of the People's Republic of China, Jiang Zemin. Jiang, who replaces Yang Shangkun, also serves as general secretary of the Chinese Communist Party and chairman of the Military Affairs Commission. The 67-year old Jiang now holds three of the four most prestigious formal positions in the Chinese hierarchy, making him Deng Xiaoping's heir apparent. While the president of the PRC has few actual powers other than naming the premier—the fourth of the top positions in China—for approval by the NPC, Jiang's new appointment will give him a larger role in foreign affairs. As head of the Party, Jiang found it difficult to travel to non-communist countries. In his new role, however, Jiang should be able to go abroad more frequently, which could strengthen his hand, as well as help China's image overseas.

Li, age 65, was elected by the NPC to a second five-year term as premier of the State Council; under the rules of the Chinese constitution, Li is ineligible for any further terms. A cautious and conservative politician, Li has been able to adjust to the prevailing political and economic winds of the past 18 months. But, while Li enjoys the support of some of the old leaders behind the scenes, there are signs that his standing within the current leadership is less than secure. The fact that about 10 percent of the NPC did not vote to confirm him as premier, for example, indicates the weakness of his power base. Perhaps a bigger threat to Li's career, however, was his curious disappearance after the NPC, amidst rumors that he suffered one or more serious heart attacks in April.

Under Li are four vice premiers, including Executive Vice Premier Zhu Rongji (age 65), who is seen by many in China and abroad as China's emerging economic czar; and former State Planning Commission (SPC) head Zou Jiahua (age 67). Zhu and Zou, both of whom have already served as vice premiers for some time, were joined by newly appointed vice premiers Qian Qichen (age 65) and Li Lanqing (age 61) at the March NPC. Qian, who also serves as foreign minister, and Li, former minister of the Ministry of Foreign Economic Relations and Trade (MOFERT), replaced Tian Jiyun, Wu Xueqian, and Yao Yilin. All four of the current vice premiers are members of the Party Politburo, though Zhu Rongji also sits on the Politburo's Standing Committee, the most powerful political body in China, as does Premier Li Peng.

Rounding out the top leaders, the NPC appointed 77-year old "red capitalist" Rong Yiren to serve as vice president of the PRC—a move generally regarded by Western analysts as a symbolic affirmation of China's transition to a "socialist market economy." Rong, formerly head of the China International Trust and Investment Corp. (CITIC), is unlikely to wield much formal power in his new post, but he presumably will be consulted on reform and foreign policy issues. Rong's appointment is also noteworthy because he is now the highest-ranking non-communist leader in the history of the PRC.

Jiang Zemin should now be able to go abroad more frequently, which could strengthen his hand as well as help China's image overseas.

Generally speaking, the new members of the State Council are younger than the outgoing delegates. Many speak English or Russian and have had extensive interaction with foreigners, making it likely that they are comfortable handling foreign economic matters. Most of them have college degrees, usually in scientific or engineering fields, which suggests that the State Council might be fairly technocratic in orientation.

New institutions were created...

In addition to the leadership changes, the NPC amended the structure of the State Council and a number of ministries, in order to streamline government bureaucracy and reduce government personnel (*see* chart). As a number of Chinese commentaries have noted, however, similar reorganizations in the early and late 1980s actually resulted in an even larger bureaucracy.

Among the most important changes for the foreign business community was the restructuring of MOFERT into the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), with Wu Yi as its new minister (*see* p.38). Madam Wu, age 54, handled some of the negotiations with the United States on intellectual property protection, and is generally regarded both within China and abroad as a highly competent negotiator.

A number of other Chinese ministries are now to be transformed into non-ministerial organizations. The Ministry of Aeronautics and Astronautics has been abolished and replaced by the National Aviation Industrial Corp. and the National Astronautics Industrial Corp., but how these corporations will differ from the old ministry is not yet clear. The Ministry of Textiles and the Ministry of Light Industry have also been disbanded and replaced by the China Chamber of Light Industry and the China Chamber of the Textile Industry. Chinese press reports have implied that these chambers will act much as the old ministries, but will not have control over enterprises in their respective industries.

...and former ones resurrected

Changes to other ministries involved splitting them apart: the Ministry of Machine-Building and Electronics Industry (MMEI) was divided into two distinct ministries, for example, and the Ministry of Energy Resources (MOE) was replaced by separate ministries of coal and electric power. Most likely, these changes were made to eliminate ministries that had become large and unmanageable. Both MMEI and MOE were formed several years ago by merging separate ministries, the staffs of which reportedly never meshed.

As a whole, the reorganization reflects the State Council's new emphasis on infrastructure activities and heavy industry. No light industrial product line is reflected at the ministerial level, but heavy industry and infrastructure are represented by multiple ministries. Given the large number of organizational changes underway, it remains unclear how the working relationships and responsibilities of many organs under the State Council will evolve (*see* p.42).

See page 47 to order reprints of this chart

National People's Congress

Standing Committee
Chairman: Qiao Shi

Central Military Commission
Chairman: Jiang Zemin
Vice Chairmen: Liu Huaqing, Zhang Zhen

Supreme People's Court
Chief Justice: Ren Jianxin

Supreme People's Protectorate
Chief Procurator: Zhang Siqing


PRC President Jiang Zemin


PRC Vice President Rong Yiren

State Council

Premier: Li Peng
Executive VP: Zhu Rongji; VPs: Zou Jiahua, Qian Qichen, Li Lanqing

State Councilors:
Li Tieying, Chen Junsheng, Li Guixian, Song Jian, Luo Gan, Chi Haotian, Peng Peiyun, Ismail Amat
Secretary General: Luo Gan

State Education Commission
Chairman: Zhu Kaixuan

State Science & Technology Commission
Chairman: Song Jian

State Economic & Trade Commission
Chairman: Wang Zhongyu

State Planning Commission
Chairman: Chen Jinhua

State Commission for Restructuring the Economy
Chairman: Li Tieying

Commission of Science, Technology, & Industry for National Defense
Chairman: Ding Henggao

Ministry of Agriculture
Minister: Liu Jiang

Ministry of Chemical Industry
Minister: Gu Xiulian (f)

Ministry of Civil Affairs
Minister: Doje Cering

People's Bank of China
Governor: Li Guixian

State Auditing Administration
Auditor Gen'l: Lu Peijian

Ministry of Coal Industry
Minister: Wang Senhao

Ministry of Communications
Minister: Huang Zhendong

Ministry of Construction
Minister: Hou Jie

CHINA'S GOVERNMENT STRUCTURE

Ministry of Culture
Ministrer: Liu Zhongde

Ministry of Domestic Trade
Minister: Zhang Haoruo

Ministry of Electronics Industry
Minister: Hu Qili

Ministry of Finance
Minister: Liu Zhongli

Ministry of Foreign Affairs
Minister: Qian Qichen

Ministry of Foreign Trade & Economic Cooperation
Minister: Wu Yi (f)

Ministry of Forestry
Minister: Xu Youfang

Ministry of Geology & Mineral Resources
Minister: Zhu Xun

Ministry of Justice
Minister: Xiao Yang

Ministry of Labor
Minister: Li Boyang

Ministry of Machine-Building Industry
Minister: He Guangyuan

Ministry of Metallurgical Industry
Minister: Liu Qi

Ministry of National Defense
Minister: Chi Haotian

Ministry of Personnel
Minister: Song Defu

Ministry of Posts & Telecommunications
Minister: Wu Jichuan

Ministry of Power Industry
Minister: Shi Dazhen

State Pharmaceutical Administration
Director: Qi Moujia

Ministry of Public Health
Minister: Chen Minzhang

Ministry of Public Security
Minister: Tao Siju

Ministry of Radio, Film, & Television
Minister: Ai Zhisheng

Ministry of Railways
Minister: Han Zhubin

Ministry of State Security
Minister: Jia Chunwang

Ministry of Supervision
Minister: Cao Qingze

Ministry of Water Resources
Minister: Niu Maosheng

Gen'l Admin of Civil Aviation (CAAC)
Director: Jiang Zhuping

National Tourism Administration
Director: Liu Yi

State Admin of Building Materials
Director: Wang Yanmou

State Price Bureau
Director: Luo Zhiling

State Tax Bureau
Director: Jin Xin

Gen'l Administration of Customs
Director: Qian Guanlin

State Admin of Industry & Commerce
Director: Liu Minxue

Environmental Protection Agency
Director: Qu Geping

Reform priorities

Another important function of the NPC meeting was to present major reports on the economy and economic reforms. Overall, these reports emphasized the need to continue to open China to the outside world, deepen economic reform, speed economic development, and affirm the development of the "socialist market economy" endorsed by the Communist Party Congress last fall. While inflationary pressures, problems with agricultural production, and the declining ability of the central government to control the economy were noted, the overall tone of the addresses was highly optimistic. The economic reports presented at the NPC are important because they are a good indicator of official concerns and priorities.

In his government work report, Li Peng announced that the growth rate for the current five-year plan (FYP, 1991-95) would be increased from a targeted 6 percent to 8-9 percent per year. The plan for 1993 called for an 8 percent increase in GNP, with the agricultural sector to grow 4 percent, industry 14 percent, and tertiary or service industries 9 percent. The revised figures reflect a modification of the intent of the Eighth FYP. Originally drawn up when conservative interests were relatively powerful, the plan emphasized slower, more controlled growth.

MOFERT's New Look

China's foreign trade ministry, commonly known as MOFERT, is halfway through a reorganization that began last year. Apart from receiving a new name and acronym—the Ministry of Foreign Trade and Economic Cooperation, or MOFTEC—at the March NPC meeting, the ministry has completed restructuring its internal departments. Some of the former MOFERT bureaus have been split up and some new ones have been added, although specific duties of some bureaus have not yet been finalized.

MOFTEC's reorganization is intended to conform to the central government's general goals of reducing micro-management, streamlining the State bureaucracy, and reducing government personnel. Early speculation last year held that the ministry would be eliminated or have most of its responsibilities taken over by the State Economic and Trade Commission. Though such a drastic change has not occurred, the delineation of responsibilities between the organizations could change in the future.

At this point, foreign companies will not find many changes between the new MOFTEC and the old MOFERT. The bureaus that foreign companies generally meet with—Foreign Investment Administration, Treaties and Laws, American and Oceanian—retain the same basic functions. Changes in personnel are imminent, however, and companies may find old contacts leaving the ministry. The total number of MOFTEC employees is to be reduced by 20-25 percent, but no timetable for the staff reductions has been set.

Ministry of Foreign Trade and Economic Cooperation (MOFTEC)

Address: 2 Dong Changan Jie, Beijing
Telephone: 861/519-8114
Fax: 861/519-8834 (American and Oceanian Bureau)
Minister: Wu Yi (f)
Vice Ministers: Gu Yongjiang, Tong Zhiguang, Shi Guangsheng
Assistant Ministers: Tian Runzhi, Li Guohua, Liu Shanzai, Liu Xiandong

MOFTEC BUREAUS

New Bureaus:

Economic and Trade Policy and Development Created from the former Import-Export Bureau, Policy Restructuring Bureau, and the foreign-invested enterprise division under the Foreign Trade Bureau, this group is responsible for overseeing trade policy and granting approval for the establishment of trading companies.

Director: Position temporarily vacant

Deputy directors: Zhou Zhilin, Fan Baoqing, Wu Juren

Economic Coordination Despite its name, this bureau manages MOFTEC property and assets.

Director: Li Fengting

Foreign Trade Storage and Transportation Created from the transportation division of MOFERT's Import-Export Bureau, this bureau will coordinate with COSCO and other shipping companies. The bureau reportedly will push for developing transportation routes to smaller countries in order to facilitate export diversification, and eventually may be responsible for approving new domestic shipping companies.

Director: Wang Zixun

International Trade and Economic Relations Formerly the International Relations Bureau, this group handles multilateral affairs, including China's relations with GATT, APEC, UNIDO, and other organizations.

Director: Long Yongtu

Science and Technology A revamped version of the former MOFERT Technology Import-Export Bureau, this new bureau will take on the additional task of developing technology exports.

Director: Liu Hu

In all likelihood, the higher target rate also suggests that the government, despite its desire to avoid another year of double-digit growth, will not find it easy to slow the economy.

The focus of State investment policy over the next five years will be on infrastructural and basic industrial construction. Though not a major change from previous government priorities, Li's report appears somewhat more definitive than past declarations. Development of railroads, highways, raw materials, and steel will be a high priority; Li also noted that China must revitalize the machine-building, electronics, petrochemical, automobile manufacturing, and building industries to "turn them into pillar industries of the national economy." These sectors, with the possible exception of the building industry, are likely to face the most intense competition—both at home and abroad—as China opens its markets in response to the 301 market access agreement with the United States.

While Li was not very specific about upcoming reforms, he did suggest that further efforts would be made in several areas. These include:

■ **State-owned enterprises** The efficiency of these enterprises is to be improved by separating ownership and management functions and by creating a

Regional Bureaus:

The number of regional bureaus has increased by two. These groups continue to handle bilateral trade affairs, as well as oversee the newly combined commercial and economic sections of Chinese embassies within their respective jurisdictions. A new and difficult task of the regional bureaus will be to diversify China's export trade to reduce dependence on the American and European markets.

American and Oceanian This group will continue to manage trade relations with North and South America, Australia, and New Zealand, including the 301 negotiations with the United States.

Director: Sun Zhenyu

Asian This bureau was created by the split up of MOFERT's Asian and African Affairs Bureau. It will concentrate on Asian countries only.

Director: Position temporarily vacant

Deputy directors: Wei Xiaorong, Gu Guocai

European Basically unchanged by the recent reorganization, this group will continue to handle trade with Eastern and Western European nations and the countries of the former Soviet Union.

Director: Chen Zhixiao

Taiwan, Hong Kong, and Macao Affairs Previously the Taiwan Economic and Trade Relations Bureau, this bureau has now been expanded to include Hong Kong and Macao.

Director: An Min

West Asia and African Spun off from the former Asian and African Affairs Bureau, this group will concentrate on China's trade relations with Africa and the countries of the Middle East and West Asia.

Director: Sha Wei

Other Bureaus:

Most of the remaining bureaus have not been significantly affected by the reorganization.

Foreign Aid This bureau continues to oversee China's foreign aid programs, but it may be changed or eliminated in the future.

Director: Sun Guangxiang

Foreign Economic Cooperation This bureau formerly was responsible for China's overseas investment policy, labor exports, and economic sections at Chinese embassies and consulates. It will now no longer oversee the embassy/consular activities, as these functions are being taken up by the regional bureaus.

Director: Chen Yongcai

Foreign Investment Administration There have been no changes in this bureau, although it is to become less involved in FIE contract approvals in the future.

Director: Jiao Sufen (f)

Deputy Director: Tong Yizhong

Foreign Trade Administration This bureau is responsible for negotiating and setting quotas with foreign countries and licensing foreign representative offices in China. According to MOFTEC officials, the bureau will no longer be involved in the distribution of quotas among domestic exporters, as this task will be carried out at the local level.

Director: Zhou Keren

Foreign Loan Administration No changes.

Director: Lu Zhen

Protocol Bureau Sometimes called the Liaison Bureau, this bureau is responsible for general protocol work, including coordinating meetings with top MOFTEC officials.

Director: Xie Shusheng

Treaties and Laws Basically unchanged, this bureau is charged with drafting trade and investment-related treaties, laws, and regulations and providing legal counsel to the government.

Director: Wang Dianguo

The following bureaus handle MOFTEC's internal affairs:

Administration Bureau
General Office
Personnel, Education, and Labor Bureau
Planning and Financial Bureau

—John Frisbie, director of China Operations, US-China Business Council

system of "property rights." These rights presumably will focus on the roles of the State and managers in controlling enterprise operations.

■ **Formation of new markets** Li called for the development of real estate and technology markets over the next few years. Enterprises may also gain greater ability to lay off redundant workers, creating local markets for labor. Such experiments would likely stop short of unleashing a national labor market, however, as such a development might prompt a destabilizing rush of peasants seeking work in China's major cities.

■ **Price reforms** Virtually all prices are to be set by the market within the next three years. To guard against price fluctuations, particularly for agricultural products, Beijing will establish a "grain risk regulatory fund," expand State reserves, and create more futures markets for agricultural commodities.

■ **Financial reforms** Li argued that China's tax revenue system must be reformed to alleviate chronic budget deficits and shortages of investment funds at the central level. As part of the solution, Li advocated stepping up tax collection efforts for all enterprises, including foreign ones. Beijing is also planning to shift to a double-budget system—as used by many US state governments—with separate operating and construction budgets. The practical implications of many of these reforms remain uncertain at this point, though the shift to a double-budget system suggests China's leaders are trying to confine deficit spending to the infrastructure development budget.

> Virtually all prices are to be set by the market within the next three years.

Li also stated that the People's Bank of China would begin to act more like a central bank, leaving policy and business functions to specialized banks. Li implied that the activities of the banking industry increasingly would be governed by economic criteria. He did note, however, that special "policy banks" might be established to provide subsidies to enterprises suffering losses due to unrealistic State-set prices or other political factors.

Essentially, the policy banks would conduct activities similar to those of the US Resolution Trust Co., which confines all the bailouts in the savings and loan industry to one entity so that the losses don't inflate the official budget. Li's statements imply that some industries, probably including coal production, will not rely on fully marketized prices and will still need subsidies for their policy-imposed losses. Though the creation of these policy banks could delay implementation of fundamental enterprise reforms, the banks might help rationalize the fairly chaotic system of financing of State enterprises.

While Li Peng did not discuss major economic laws on the State's agenda, an

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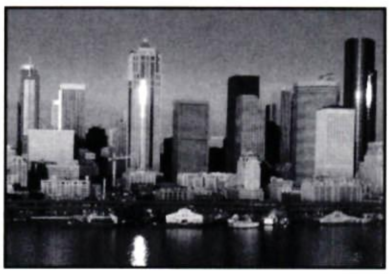
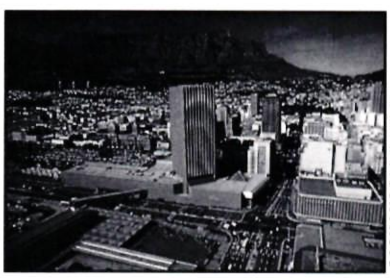
Shanghai, China

The first Pacific CEO Institute Emerging Markets Forum will explore the rapidly changing political and economic environment in China. The program will look in depth at the specifics of China's renewed commitment to building a vital and evolving socialist market economy, and give participants access to a wide array of senior officials, experts and top managers from the region. Sponsors: AIG Trading, Braxton Associates, Deloitte Touche Tohmatsu International, and Hongkong Telecom.



The Pacific CEO Institute Roundtable
November 15-17, 1993
Seattle, Washington

The sixth annual Pacific CEO Institute Roundtable will gather Asian and U.S. leaders in business and government to discuss the next wave in growth in Asia and the Pacific. From China and India to Vietnam and Indonesia, this roundtable will examine the dynamic changes in the region and strategies for seizing the opportunities presented by those changes.



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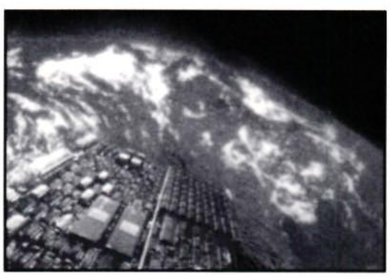
The Pan-African CEO Institute Roundtable
November 17-19, 1993
Cape Town, South Africa

The CEO Institutes will bring a major mission of U.S. and European corporate leaders to South Africa for an in-depth assessment of the investment environment once sanctions are lifted. Timed to occur shortly before South Africa's first nonracial elections, the Roundtable will also examine prospects for cooperation and trade in the greater Southern Africa region. Sponsors: African Business Round Table, AIG Trading Corporation, ESKOM, South African Airways, Standard Bank/Standard Merchant Bank, and Telkom S.A.



The CEO Institutes Technology Retreats
October 27-30 & December 1-4, 1993
Hyatt Dorado Beach, Puerto Rico & The Ritz Carlton Naples, Florida

In response to the popular demand for the first technology retreat held earlier in the year, these programs will focus on information technology strategies exclusively from the CEO perspective. Designed to give chief executives a hands-on sense of changing technologies, each delegate will receive a complete CEO technology package including a laptop computer, color monitor, portable printer and customized software. Sponsor: Computer Associates International.

For additional information, please call Ana Ginja at (212) 995-9595 article appearing during the NPC in Hong Kong's *Jingji Daobao*, a newspaper well-connected to the PRC leadership, revealed that the Congress and its standing committee would adopt 12 major economic laws this year. These include a commercial code, an insurance law, a law on negotiable instruments, and a company law. No details of these laws have been revealed, but many reportedly are in an advanced stage of drafting. They appear to strengthen the legal underpinnings for China's emerging market economy.

The door opens wider

Another prevalent theme of this year's NPC was the importance of the open policy to China's development. Li Peng noted that China had just opened 5 more coastal cities, 18 provincial capitals, 13 border cities, and 34 ports to the outside world, giving foreigners new investment options in the inland regions and enabling Chinese entities to look for opportunities with neighboring states. Li also called for the inland provinces to build their own economies by learning from the experiences of the Special Economic Zones and singled out the development of Shanghai's Pudong New Area—an increasingly popular locale for foreign investors—to receive higher priority from

The Big Six

China's State Council, the core administrative body in China, is charged with overseeing governmental control of the economy, civil affairs, education, and other areas. Schematically, the State Council consists of the premier, vice premiers, commission chairmen, and ministers; their positions are roughly analogous to those of the President, vice president, and cabinet secretaries in the United States.

The work of the State Council is supervised by the leadership of the Chinese Communist Party and its Politburo, several of whose members also hold high-ranking positions within the State Council. In general, the Party leadership sets the direction of national policy and controls senior personnel appointments, while the State Council formulates and implements concrete policies and handles government administration.

Beneath the premier and vice premiers of the State Council are six commissions which direct and coordinate developments and formulate policy in the overlapping areas of education; science and technology; defense; and economic planning, management, and reform. Two other commissions handle family planning and nationality affairs (relations between the Han majority and China's minority populations). The Central Military Commission, despite its name, falls under the direction of the president of the PRC and the National People's Congress, rather than the State Council (*see* p.36).

In the past, commissions were tasked with coordinating activities that crossed ministerial lines. But as the State plan began to shrink with the advent of the reform era, the distinct roles and activities of many of the commissions blurred. Nonetheless, the commissions under the State Council still rank higher administratively than either ministries or provinces. Currently, the six major commissions and their responsibilities are:

■ **State Commission for Restructuring the Economy** Founded in 1982, this group is tasked with formulating long-term economic plans and studying the interaction between economic, technical, and foreign developments and China's political, social, and economic reforms. The commission's current head is Li Tieying.

■ **State Economic and Trade Commission** Set up in 1992 as the Economic and Trade Office (ETO), this group was made a full commission at the recent NPC session, giving it a higher—and more permanent—status. While the ETO was directed by Zhu Rongji, the commission is now headed by Wang Zhongyu, former governor of Jilin Province. Presumably, Zhu will continue to work closely with the commission, though his duties as vice premier will keep him occupied with a range of other tasks as well. At this point, the role of the new commission is somewhat unclear, though it is expected to play a part in State enterprise reform.

■ **State Planning Commission** Under China's centrally guided economic system, the State Planning Commission (SPC) was responsible for formulating economic plans based on input from the ministries and localities. As the SPC traditionally has been headed by a member of the Politburo, the selection of its new head, Chen Jinhua—a non-Politburo member—may reflect a weakening of the commission and its role. Nevertheless, the commission retains responsibility for compiling basic plans for the economy and approving major projects. Currently, the SPC appears to direct the vestiges of the planned economy.

■ **State Education Commission** Charged with controlling and administering educational policy in China, this commission is widely regarded as a conservative organization. While its main responsibility is to oversee China's major universities, the commission also sets basic education policies for primary and secondary schools.

■ **State Science and Technology Commission** This commission guides China's national scientific and technological development plans, encourages the use of scientific and technological achievements in industry and other fields, and supervises the activities of scientific bodies in China. The commission also is responsible for overseeing China's international cooperation and exchanges in science and technology.

■ **State Commission on Science, Technology, and Industry for National Defense** This rather shadowy body directs China's military industrial complex and plans the modernization of defense industries. It supervises a large number of factories and highly trained personnel and reportedly has responsibility for international cooperation in military technology and production, as well as trade in military equipment.

—*David Bachman*

the central government. This support might lead to a marginal increase in government spending for the area. It remains to be seen, however, if Pudong will have any expanded ability to offer incentives to foreign investors.

Perhaps more important for foreign traders, Li argued that "strategies should be worked out to explore international markets aggressively." Li and other leaders stated that China needs to export more high-technology products, particularly higher value-added machinery and electronic equipment. As part of this effort, companies and research institutes in China will be given greater autonomy to import and export goods and components. On the import side, several delegates to the NPC proposed that China formulate an anti-dumping law, so that foreign firms could not unfairly harm domestic industries. There has been no reported follow-up to this proposal.

Foreign investment, always a priority, is to be enhanced by an improved legal framework for foreign-invested enterprises. No details were given on what laws would be promulgated in this regard, though. Foreign investment, as in the past, is to be guided by State industrial policy, a situation which implies that foreign investment will be directed toward the high-priority areas outlined by the NPC.

After a record year for both foreign trade and investment, it is not surprising that Li and others were short on specifics as to how even better results would be obtained though a more open policy. The Congress called for China, the world's twelfth largest importing nation, to increase its foreign trade from \$165 billion last year to \$185 billion in 1993. Exports are to grow by 11.7 percent and imports by 11.6 percent, leaving an overall Chinese trade surplus of around \$5 billion this year. During the course of the current five-year plan, the NPC anticipated that China would import \$350 billion worth of products and technology, an increase of about \$50 billion over the initial 8th FYP target.

Putting the heat on Hong Kong

The last major point discussed at the NPC was the importance of Hong Kong to China's open policy. In fact, no issue received more attention at the NPC than China-Hong Kong relations. Hong Kong Governor Christopher Patten's proposals to enhance voter representation were singled out for continuous denunciation, and various forms of Chinese retaliation were threatened should Patten's plan be implemented. The rhetorical fireworks had a negative effect on the Hong Kong economy and further strained relations between the two governments. Several Chinese leaders suggested that Sino-British economic ties would also suffer unless Patten withdrew his proposals.

By the end of the NPC, Beijing had placed immense pressure on Patten and, indirectly, on the British government. The subsequent agreement between Hong Kong and Beijing to hold official talks about the issue calmed the waters somewhat, but to date there have been no specific developments in the ongoing discussions.

Cementing the changes

The March NPC marked the culmination of the economic reform policies revived by Deng Xiaoping's trip to South China in early 1992, and affirmed by the Communist Party Congress last fall. While few new initiatives appeared at the NPC, the delegates gave their clear stamp of approval to the continuation of economic reforms and the move toward a market system. No new macro-economic coordination or control mechanisms were introduced to guide the market effectively, however, an omission which should make it difficult for Beijing to clamp down on overheating and corruption. While the open policy remains a fundamental—and perhaps the driving—force behind the transition to a fully marketized economy, Beijing may have trouble guiding investment into bottlenecked sectors.

On a political level, the NPC ratified a distribution of power that will leave Jiang Zemin, institutionally at least, the most powerful leader after Deng Xiaoping and the other aged leaders die. However, all of the potential post-Deng leaders surely realize that their positions, authority, and legitimacy are tenuous, and this uncertainty should inhibit the emergence of an outright power struggle after Deng's death. Since providing material benefits to supporters in the Chinese political system will help consolidate the power of Deng's successor, it is in the interest of all the contenders to preserve and encourage economic reforms even after the patriarch's death.

US and other foreign companies should view the developments that emerged from the NPC session positively. The Chinese leadership projected an image of continuity in economic policy, while the new leadership team within the State Council appears more foreign-oriented than did previous State Council memberships. Ideological concerns remained muted throughout the NPC meeting, with the exception of a vigorous assertion of Chinese nationalism on the Hong Kong issue.

As far as possible, the Chinese leadership tried to ensure that the next five years—the length of the 8th NPC—will be marked by significant economic expansion and growing international trade and investment. While five years is a long time in modern Chinese political and economic history, the signals emerging from the NPC suggest that US firms can play a major role in China's modernization. 完

■ **Windy Zou**

The following entries are a compilation of recent press reports of business contracts and negotiations. The accuracy of these reports has not been independently confirmed by *The CBR*. Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly rate quoted in the International Monetary Fund's *International Financial Statistics*.

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 editor.

SALES AND INVESTMENT THROUGH May 15, 1993
Foreign party/Chinese party Arrangement, value, and date reported

Advertising and Public Relations

OTHER

GTE Telephone Kiosk Advertising Co., a subsidiary of GTE Directories (HK) Ltd., GTE Co. (US), and Tele Pacific International Communications Corp. (Canada)
Will market and sell telephone kiosk advertising in Beijing, Tianjin, Chengdu, Xiamen, and 12 other Chinese cities under a 10-year contract. 4/93.

Banking and Finance

INVESTMENTS IN CHINA

ABN AMRO Bank (Netherlands)
Will open a branch in Shanghai. 4/93.

OTHER

Hambros Australia Ltd. (Australia)/CITIC Australia PTY Ltd.
Formed CH China Securities Ltd. in Sydney and Melbourne to act as a broker for China's stock exchanges. 5/93.

Bear, Stearns and Co. (US)
Opened a representative office in Shanghai. 4/93.

DBS Bank (Singapore)
Opened a representative office in Beijing. 4/93.

Merrill Lynch (US)
Opened an office in Shanghai to trade in securities. 3/93.

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.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNOOC: China National Offshore Oil Corp.; ETDZ: Economic and Technological Development Zone; ICBC: Industrial and Commercial Bank of China; MPT: Ministry of Posts and Telecommunications; NA: Not Available; NORINCO: China North Industries Corp.; P&T: Post and Telecommunications; PBOC: People's Bank of China; 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.

Chemicals, Petrochemicals, and Related Equipment

INVESTMENTS IN CHINA

Eastman Kodak Co. (US)/Tianjin Sensitive Materials Co.
Will form the Tianjin Kodak Sensitive Materials Co., Ltd. to produce polyester film base and black-and-white X-ray film coating. $140 million. 4/93.

Rhone-Poulenc Group (France)/Qingdao Sodium Silicate Factory
Will establish a joint venture in Qingdao to produce 20,000 tpy of precipitated silica. 4/93.

OTHER

Asahi Chemical Industry Co. (Japan)/Ministry of Chemical Industry
Signed an agreement on long-term technical cooperation and exchange. 3/93.

Consumer Goods

INVESTMENTS IN CHINA

Unilever (US)/Shanghai Daily Chemical Factory, Shanghai Detergents Factory
Formed a laundry detergent joint venture. (US:70%-PRC:30%). 5/93.

NA (HK)/Jilong Township Economic Associated Co. (Guangdong), Qiannan Prefecture Leather & Shoes Co. (Guizhou)
Will form the Huizhou Changyun Leather & Shoe Group Co. to produce shoes. $10 million 4/93.

China Strategic Investment Co. (HK)/Dalian Light Industry Co.
Will form the Dalian CSI Industrial Co. Ltd. joint venture to produce a wide range of consumer goods. $89.5 million. (HK:51%-PRC:49%). 3/93.

Electronics and Computer Software

CHINA'S IMPORTS

BMC Industries Inc. (US)/China Electronics Import-Export Co.
Will sell aperture mask products and related technology. $26 million. 4/93.

Microsoft Corp. (US)/Beijing Hope Computer Co.
Sold computer software and instruction manuals. 3/93.

INVESTMENTS IN CHINA

NA (US)/Xinyu Foreign Trade Industrial (Group) Co. (Jiangxi)
Formed a joint venture to produce floppy disks for the US market. 3/93.

OTHER

Smith Corona Corp. (US) /Primedtech, Tech Ping, Nanfang Co.
Will form an alliance to market personal word-processors, portable electronic typewriters, and Coronajet 200J compact ink-jet printers in China. 4/93.

NA (US)/Beijing Stone Group Co.
Will offer a loan for high-tech development. $17 million. 3/93.

Export-Import Bank of Japan (Japan)/BOC
Will offer a 15-year loan to the Shougang NEC Electronic Co., Ltd. joint venture to boost production and quality of integrated circuits and electronic products. $89.7 million. 3/93.

Environmental Technology and Equipment

OTHER

World Bank
Will provide an IDA credit for improving water supplies and wastewater disposal in Hangzhou, Ningbo, Shaoxing, and Wenzhou in Zhejiang Province. $110 million. 4/93.

World Bank
Will provide a loan for pollution control in Suzhou, Wuxi, Cangzhou, and Zhenjiang in Jiangsu Province. $250 million. 4/93.

Food and Food Processing

CHINA'S IMPORTS

Cubazucar (Cuba)/NA
Will sell 700,000 tonnes of sugar. 4/93.

INVESTMENTS IN CHINA

Unilever (US)/Sumstar Co.
Formed the Wall's Co. Ltd. joint venture to make ice cream. (US:85%-PRC:15%) 5/93.

Mitsui & Co. (Japan), Continental Grain Co. (US)/Conti Wanda Ltd.
Mitsui bought a 20% stake from Continental Grain in a 10,000 tpy broiler chicken company. (US:60%, Japan:20%-PRC:20%). 5/93.

Canadian Government/Ministry of Agriculture
Will donate money to help China develop lean pork. $7.1 million. 5/93.

Shi Sui Industrial Co. Ltd. (Japan)
Established the Beijing Xiao Shui Food Processing Co. Ltd. to produce ice cream. $560,000. 3/93.

Foreign Assistance

CHINA'S IMPORTS

World Bank
Will provide a 35-year IDA credit to improve school facilities and teaching methods in China. $100 million. 3/93.

Foreign Trade Agreements

Philippines/China
Signed agreements on economic, technical, trade, and tourism cooperation. 5/93.

Tajikistan/China
Signed a joint declaration and 10 cooperation pacts on mutual investment protection and commodity loans. 3/93.

Machinery and Machine Tools

CHINA'S IMPORTS

Litton Industrial Automation-Lamb Technicon Co. (US)/China Machine Tool Corp., Jiangxi Branch of China National Automobile Industrial Import-Export Corp.
Will sell advanced machine tools for processing cylinder heads and blocks. $13.5 million. 5/93.

Maho AG (Germany)/Jinan First Machine Tool Works (Shandong)
Will sell a complete production line to manufacture advanced tools in China. $10 million. 3/93.

INVESTMENTS IN CHINA

Otis Elevator Co., a subsidiary of United Technologies Corp. (US)/Shanghai Industry Co., Tianjin Otis Elevator Co.
Will form a new joint venture in Shanghai to provide sales, service, and components for elevators. 4/93.

Rosemount Co. (US)/Shanghai Automation Instruments Co.
Will form a joint venture plant in the Pudong New Area to produce mass flow meters, flow analyzers, dispersion control systems, and automation support instruments. $18 million. 4/93.

ISI Robotics Co. (US)/Jinan No. 2 Machine Tool Works (Shandong)
Will set up a joint venture to manufacture advanced industrial robots to control heavy-duty presses used in the automotive and other industries. ISI will supply technology, key systems, and spare parts. 3/93.

OTHER

Toshiba Corp. (Japan)/Pearl River Refrigerating Equipment Facility
Will transfer manufacturing equipment and technology for building advanced rotary compressors for air conditioners. 4/93.

Metals, Minerals, and Mining

CHINA'S INVESTMENTS ABROAD

China National Metallurgical Import & Export Corp., Beijing Steel Design and Research Institute, Anshan Ferrous Metal Mining Design Institute/Indian Middle East Co. (India)

Will set up a steel joint venture in India with Chinese technology and equipment. $300 million. 4/93.

Packaging, Pulp, and Paper

CHINA'S IMPORTS

JP International OY, a subsidiary of Jaakko Poyry Group (Finland)/CNTIC

Will sell equipment for making full-bleached wood pulp to the 10,000 tpy Nanning Paper Factory in Guangxi Province. $83.4 million. 4/93.

Petroleum, Natural Gas, and Related Equipment

INVESTMENTS IN CHINA

Halliburton Co. (US)/CNPC

Established the Halliburton-CNPC Co. joint venture in Beijing to provide equipment and services for the hydrocarbon exploration and production industry. 4/93.

Atlantic-Richfield Co. (US)/CNOOC

Will explore for natural gas in the western section of the Jingdingnan basin of the South China Sea. 4/93.

Amoco Corp. (US)/China Offshore Oil Nanhai East Corp.

Will develop the Liuhua oil field in the South China Sea. $1.5 billion. (US:49%-PRC:51%). 4/93.

Phillips Petroleum Co. (US)

Will explore two sites in the Pearl River estuary. $600 million. 3/93.

OTHER

Export-Import Bank of Japan (Japan)/CNOOC

Will provide loans to support development of off-shore oil fields. $283 million. 4/93.

Pharmaceuticals

INVESTMENTS IN CHINA

HB Co. (Germany)/Hunan Chinese Medicine Development Co., Hunan International Economic Development Co.

Formed the Hunan Wuma Phamaceutical Co. joint venture to research, produce, and market medicines. $9.8 million. 3/93.

Power Generation Equipment

INVESTMENTS IN CHINA

Wing-Merrill International (US)/Jiangsu Power Bureau

Will build the Dengfeng and Mixian Power Plants with a capacity of 1,400 MW each. $2.4 billion. (US:70%-PRC:30%). 5/93.

OTHER

Sanwa Bank (Japan)/Huaneng International Power Development Corp.

Will provide a loan for the import of German-made boilers for a thermal power plant in Beijing. $22.5 million. 5/93.

NA, New World Development Co. Ltd. (HK)/Guangzhou Pearl River Power Co. Ltd.

Will offer a five-year mixed loan for the first phase of construction of a power plant. $140 million. 3/93.

Property Management and Development

INVESTMENTS IN CHINA

Hong Kong Lucky Electrical Co. Ltd. (HK)/Beijing Electronics Technology Development Co., Beijing Building Materials Group Co.

Will build the $22 million Beijing Electronics World Trading Center. $15 million. 4/93.

New World Development Co. Ltd. (HK)/Tianjin

Will develop 2 sq km of land in the Port of Tianjin's Free Trade Zone. $100 million. 4/93.

Wharf Group (HK)/NA (Dalian)

Will develop the Time Plaza multi-function building covering 17 sq km in downtown Dalian. 4/93.

Fujita Corp. (Japan)/Shanghai Jinqiao Export-Processing Zone Development Corp.

Will set up the Shanghai Jinqiao-Fujita United Development Co. Ltd. to develop a 1 sq km industrial park. $80 million. 3/93.

Golden Sheep International Relations Sheep Enterprise (Taiwan)/Beijing Chaoyang Park Development Corp.

Will construct the Beijing Around the World Golf Club, encompassing a 44 ha golf course and an entertainment center. $70 million. 3/93.

Telecommunications

CHINA'S IMPORTS

AT&T Tridom, a subsidiary of AT&T Co. (US)/CAAC

Will install satellite communications networks for airline reservations and voice applications. $3.8 million. 5/93.

General Data Communications Industries (US)/Guangdong P&T Bureau

Signed a three-year agreement to supply network and transmission equipment. $12 million. 5/93.

Hughes Aircraft Co. (US)/Chengdu Tongfa Telecommunications Co.

Will provide cellular telephone systems to serve 20,000 homes and offices in Chengdu. $15 million. 4/93.

Motorola (US)/NA (Ningbo)

Will market Silverlink and CT-2 handsets. $1.4 million. 4/93.

INVESTMENTS IN CHINA

SCM/Brooks Telecommunications (US)/Galaxy New Technology Co. (Guangzhou)

Will set up a network offering telephone, television, cellular radio, and data services in Guangzhou. $1 billion. 5/93.

Comsat Corp. (US), Satellite Communications Asia Ltd. (HK)/Huitong Electronics Center
Will develop communications systems in China. 4/93.

AT&T Co. (US), S. Megg (HK)/China National P&T Industrial Corp.
Will form a joint venture to market and supply personal communications products, including cordless phones, videophones, digital answering machines, and fax machines. 4/93.

MTC Electronics Co. Ltd. (Canada), New Year Investments Ltd. (HK)/China Satellite
Will form a joint venture to develop digital, cellular, and paging communications. (Canada:51%,—HK & PRC:49%). 4/93.

Scientific-Atlanta Inc. (US)/Shanghai Optical Fiber Communications Corp., Shanghai Radio and Television Development Corp., Shanghai P&T Industrial Corp., Shanghai Jin Ling Co.
Formed a joint venture in Shanghai to manufacture and market cable-TV distribution equipment. 4/93.

Siemens AG (Germany)/Shanghai P&T Bureau, Shanghai Changjiang Telecommunications Corp., First Institute of the MPT
Will establish the Shanghai Siemens Mobile Telecommunications Ltd. joint venture to produce digital mobile phone systems. $30.5 million. (Germany:60%-PRC:40%) 3/93.

Harris Corp. (US)/Shenzhen Telecommunications Equipment Co.
Will establish the Shenzhen Harris Telecom Co. to manufacture low- and medium-capacity digital microwave radios to be integrated with other telecommunications units. 3/93.

AT&T Co. (US)/China National P&T Industrial Group
Will form a joint venture to market telephone equipment. 3/93.

Global Cellular Technology Corp. (US)/Luoyang Telephone Equipment Factory, China P&T Design Institute
Will set up a joint venture to produce cellular phones. Total investment $5.49 million. (US:55%-PRC:45%). 3/93.

OTHER

MCI International
Opened a representative office in Beijing. 5/93.

NA (Eight Asian and European countries)/NA
Will construct a 13,000-mile optical cable network from Shanghai to Berlin to provide direct telecommunications services between Europe, the Commonwealth of Independent States, China, and Southeast Asia. 4/93.

Transportation

CHINA'S IMPORTS

Pandrol Jackson Technologies Inc. (US)/Ministry of Railways
Sold two ultrasonic inspection vehicles. $3 million. 5/93.

Boeing Commercial Airplane Group (US)/CAAC
Will sell 20 Boeing 737-300 jetliners and one 757-200 jetliner. $800 million. 4/93.

Chrysler Corp., GM, Ford Motor Corp. (US)/CNAIC
Sold 1,000 Chrysler minivans, 3,600 Plymouth Sundances, 5,200 Ford cars, 3,600 GM Chevolet Corsica sedans, and 1,000 Chevolet Lumina APV minivans. $160 million. 4/93.

NA (Germany)/NA (China)
Signed an export agreement including sales of 12 German-made Airbuses. $1.2 billion. 3/93.

Airbus Industries (Europe)/China Northern, China Northwest Airlines
Sold 12 A-300 jetliners. $1 billion. 3/93.

INVESTMENTS IN CHINA

TIBS International Pty Ltd. (Singapore)/Beijing Bus Manufacturing Co.
Will set up the Jingda Automotive Manufacturing Co. joint venture to make luxury buses. $29 million. 5/93.

Suzuki Motor Corp., Nissho Iwai Corp. (Japan)/NORINCO
Will set up the Changan Suzuki Automobile Co. joint venture to manufacture passenger cars. $60 million. (Suzuki:35%, Nissho Iwai:15%-PRC:50%). 4/93.

Suzuki Motor Corp. (Japan)/NORINCO
Will set up the Wangjiang Suzuki Motorcycle Co. joint venture to manufacture motorcycles in Sichuan Province. $170 million. 4/93.

Ford Motor Co. (US)
Will have dealer representation to sell its foreign-made vehicles in Beijing, Shanghai, Shenyang, and Dalian. 4/93.

Singapore Airport Terminal Services Ltd. (Singapore)/Beijing Capital International Airport
Will establish the Beijing Airport In-flight Kitchen Ltd. Co. joint venture to provide catering services and in-flight duty-free goods. $8.4 million. 3/93.

OTHER

ADB
Will provide a loan for a rail system linking Hefei, Anhui Province with Jiujiang, Jiangxi Province. $110 million. 4/93.

Hyundai Motor Co. (S. Korea)
Opened its first Chinese service center in Beijing. 4/93.

Kuwait
Will provide a 19-year loan at 3.5 percent interest for the construction of two airports in Jiangxi Province. $12 million. 4/93.

World Bank/Ministry of Railways
Will provide a 20-year loan for double-tracking the Beijing-Zhengzhou rail line and electrifying the Chengdu-Kunming line. $420 million. 4/93.

Miscellaneous

INVESTMENTS IN CHINA

Berjaya Group (Malaysia)/NA (Guangzhou)
Will set up a lottery to be run by Berjaya Lottery Management (HK). $16 million. 3/93.


REEBOK
REUTERS
BANK OF TOKYO
SHELL
VISA INTERNATIONAL
TELERATE
CITIBANK
HARLOW-BUTLER (HK) LTD.
CHASE MANHATTAN BANK
LEVI STRAUSS
HEWLETT-PACKARD
MOTOROLA