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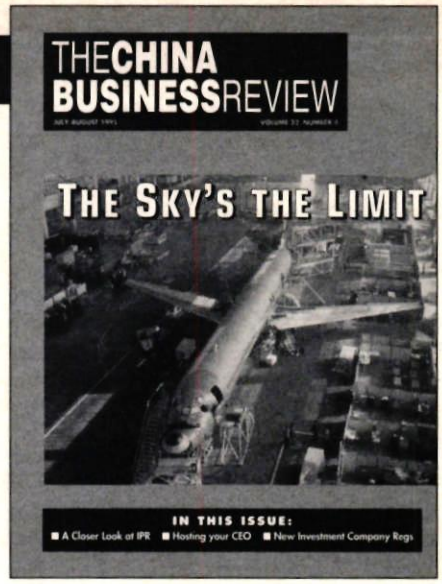

FOCUS: Aerospace

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Cover photo by Jeffrey Aaronson

DEPARTMENTS

A Tighter Monetary Line

Increases in China's foreign loan commitments prompted Chinese monetary policymakers in April to issue a $5 billion ceiling on foreign commercial borrowing by Chinese entities in 1995—half the amount China borrowed internationally last year. The campaign to rein in foreign borrowing was prompted in part by provincial authorizations of untold amounts of foreign loan commitments in 1994. The high levels of credit in the economy added to the country's total indebtedness and helped fuel last year's high inflation rates.

With total foreign debt at $100 billion, China is the world's fifth largest debtor nation. Its debt-service ratio of 20 percent, however, falls well within acceptable international limits. In taking the move to limit foreign loan commitments, central authorities are attempting both to control inflation and direct foreign funds into preferred sectors, such as telecommunications, agriculture, biotechnology, and civil aviation, according to experts on China's economy. SPC Minister Chen Jinhua indicated in April that international financing and leasing, foreign borrowing by foreign-funded enterprises with Chinese guarantees, and financing through the issue of convertible bonds must receive central-level approval.

The surge in the value of the Japanese yen has also factored into officials' concerns over excessive foreign borrowing, as a significant portion of Chinese loan commitments are to Japanese lenders. With the yen's appreciation, the total value of China's debts increased $8.9 billion as of April, according to a Ministry of Foreign Trade and Economic Cooperation vice minister.

The US dollar's sharp decline against the yen also helped prompt Beijing's tough line on foreign borrowing, as China's foreign reserves are denominated largely in dollars. Another factor contributing to monetary restraint was the financial crisis in Mexico. China, however, appears to be much less vulnerable to crises such as that suffered recently in Mexico. Investment in China has been primarily direct investment, while in Mexico, 80 percent was portfolio investment. Zhu Xiaohua, deputy governor of the People's Bank of China and director of the State Administration of Exchange Control, has stated nonetheless that the Mexican crisis encouraged Chinese authorities to be more prudent in managing investment flows.

—KAS

Corruption Crackdown Continues

China remains in the throes of an anti-corruption campaign that forced the resignation of Beijing Chinese Communist Party (CCP) Secretary Chen Xitong in April. The current campaign has been cited by many experts as an attempt by President Jiang Zemin to build support among the population, root out opponents, and demonstrate to provincial and municipal leaders that he is in control. The campaign falls under a larger nationwide movement to strengthen the Party's credibility.

Although Party leaders announced the anti-corruption drive in August 1993, the movement did not reach the highest echelons of the Chinese leadership until early this year. Until then, the campaign focused mainly on local officials with little or no connection to high-ranking Party members. The movement, however, has gained momentum. Reports allege that a family close to Deng Xiaoping was involved in an illegal fund-raising scheme at Shougang Concord Grand, Ltd., a subsidiary of the Capital Iron and Steel Corp. Earlier this year, reports surfaced that the Party secretary of Guizhou Province was dismissed from office and later killed himself after his wife was executed on charges of fraud and taking bribes. The anti-corruption campaign reached the top of the Chinese leadership in April, when Chen was forced to resign from his post as Beijing CCP secretary following the suicide of one of the city's executive vice mayors, Wang Baosen, who was under investigation for financial improprieties.

The campaign appears to be continuing quietly, and Beijing is reported to have issued circulars detailing "guidelines" for initiating and proceeding with corruption probes at the central and provincial levels. Several other indictments against provincial officials have occurred since Chen's April 27 resignation. In Hebei Province, the chief judge of the provincial higher court was removed from his position for "illegal use" of provincial property. Several anti-corruption teams reportedly have been sent to the Shenzhen Special Economic Zone, and the State Council and CCP have jointly issued a set of regulations requiring all senior Party and government officials at or above the county level to disclose their incomes.

Some China watchers suggest that the recent shake-up in Beijing and the other high-level cases are attempts by Jiang to solidify his support in the first salvo of the post-Deng power struggle. By forcing Chen's resignation, Jiang has effectively removed an alleged opponent and made room for more of his political supporters within top government levels. He has also sent clear signals to other provincial and municipality leaders of the repercussions of abusing political position. Finally, some China watchers suggest that the removal of Chen establishes the groundwork to blame an isolated group within the leadership for the violent actions taken against demonstrators in June 1989. Chen, along with Premier Li Peng, was thought to be the figure most responsible for the government's response to the Tiananmen protests.

—Anne Stevenson-Yang

Anne Stevenson-Yang is director of the Council's Beijing office.

Letter from the Editor

After five years in the co-pilot's seat, it's my turn at the helm. I can't thank former editor Pam Baldinger enough for all her support, and wish her well in her new position as the Council's Hong Kong director.

In this issue, we hope you will find interesting reading: our goal, as always, is to provide something for everyone. Our focus, China's airline sector, surely affects each and every business traveler to the PRC—check out what's in store for both airlines and airports. Traders and investors alike may want to read about the Special 301 outcome (p.20), the Administration's pledge to help US companies sell to China and other "Big Emerging Markets" (p.24), and the latest word on setting up a single entity to oversee all of a foreign company's China activities (p.34). For expatriates looking for the perfect Beijing abode, read about the recent tribulations of one American apartment hunter (p.55). And be sure not to miss our feature on the right way to host *your* CEO in China—do your homework before the corporate jet lands in Beijing (p.38)!

I welcome all comments on this issue of the magazine and hope to hear from you on the topics you want us to cover in the future.

Best wishes,

Vanessa Lide Whitcomb

Vanessa Lide Whitcomb

SHORT TAKES

Busily Making Toys

China's first toy market open to foreign buyers, an estimated 4 million sq ft facility, is now under construction in Shenzhen. With relatively inexpensive labor and land resources, the PRC is home to the factories of 60 percent of Hong Kong-based toy companies. Following Hong Kong's lead, American, European, and Japanese toy manufacturers have also begun to establish factories in China.

Over 1.3 million people now work in China's toy factories, producing $2.6 billion of wooden, plastic, and battery-driven creations annually for export. Chinese-made toys comprise 80 percent of the Australian market, 60 percent of the Italian market, 33 percent of the US market, and 30 percent of the British market.

Domestic sales are expected to exceed $1.3 billion this year. The China Toy Industry Association hopes to continue the industry's success, urging members to produce more technically advanced toys, such as computer games and motor-driven toys. The association has also encouraged toy manufacturers to target infant and handicapped sectors of the domestic and international toy markets and focus on educational products.

—*TLK*

Pricey Pooches

Americans and other foreign nationals living in Beijing are lobbying for defeat of a municipal government proposal that would prohibit ownership of large dogs (those taller than 35 cm) within the city and institute a ¥5,000 ($600) registration fee for each small dog effective July 31. Beijing's canine colony increased almost four-fold from 1986-92, totaling 75,000 dogs in 1992, vexing city officials already overwhelmed with satisfying the basic needs of the city's 11 million residents. Unconvinced that a compromise will be reached or that the government will relent, many expatriates have sent their pets home, while Chinese dog owners have been packing their pets to relatives in the countryside.

—*TLK*

THE CHINA BUSINESS REVIEW

The magazine of the US-China Business Council

美中商贸评论

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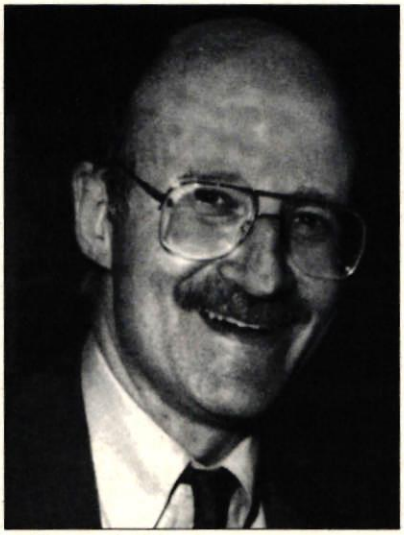

Robert A. Kapp

Midsummer Malaise

US business must remain an active participant in putting US-China relations back on track

At the end of his engrossing account of the failed US-China encounter of the 1940s, *Two Kinds of Time*, Graham Peck tells of setting sail for home from Shanghai in 1946 with a US army major. As the lights of China fade away, the officer muses, "Funny place, China, wasn't it? It fascinated me; look at this jade ring I bought my wife. But I'm sorry I was only there for three months. One month more, and I really would have understood it." Fifty years later, the foreign affairs editor of the *Washington Post* has just informed us that "China is complicated only if you make it complicated, as Western diplomats, trade negotiators, and lobbyists do." Have we made progress in five decades, or haven't we? June 1995 makes one wonder.

A June to remember

June is always a rough month in US-China relations. Each year since 1990 we have endured the dreary coincidence of June 3 (Most Favored Nation [MFN] Announcement Day) and June 4 (the anniversary of Tiananmen), with their attendant domestic and bilateral tensions.

This June also saw the visit of Taiwan leader Lee Teng-hui to the United States; we now confront its acrimonious aftermath. The decision to admit Lee, after a deft and successful campaign to exert congressional pressure on the White House, represents a change in practice, if not in formal US policy. While the scriptural texts of contemporary US-China relations (the Shanghai Communiqué of 1972, the Normalization Announcement of 1979, and the US-China communiqué on arms sales to Taiwan of 1982), make no mention of the subject, successive administrations of both parties had not allowed such visits from 1979 until now. Only weeks before the decision to admit Lee, Clinton Administration witnesses had told Congress that the visit would not be permitted because of the damage it could cause to US interests in a stable relationship with Beijing. For its part, Beijing had warned publicly and privately for months that it would view a decision to admit Lee to the United States as a violation of the commitment to "one China" contained in the key communiqués.

> Beijing had warned that it would view a decision to admit Lee to the United States as a violation of the commitment to the One China policy.

The US government billed the trip as private, and took pains to reassure Beijing that it represented no change in the official One China policy. Nevertheless, the visit was a media extravaganza. US and Hong Kong reporters joined hundreds from Taiwan. In Ithaca, a number of US senators and representatives, including some of Taiwan's oldest and most powerful friends and some of the PRC's most vitriolic critics, made clear what they thought of the Administration's "private visit" pledge. Lee's Cornell speech was a ringing call for the further enhancement of Taiwan's international status.

China's response has been bitter. A number of visits and bilateral negotiations in defense, telecommunications, and weapons proliferation have been canceled or postponed. The rhetoric in official Chinese publications has been harsh, portraying the United States as a hostile power chronically interfering in China's domestic affairs. Having warned the United States, in language reminiscent of an earlier and more confrontational era, not to "play with fire," China has now called its ambassador home from Washington for consultations. Hints of further retaliation abound.

A bad spell or a turning point?

Time will tell whether June 1995 was a bleak spell or a turning point in US-China relations. US-PRC ties have never been placid. Leave aside the hostilities and animosities of the 1950-72 period; they matter, but can't be detailed here. Since the Nixon-Mao opening of 1972, the two nations have enjoyed brief periods of near-euphoric friendliness, but have endured longer periods of disagreement and tension. The Taiwan problem has been central from the start.

America and China have surmounted crises in the past: bitterness over weapons sales to Taiwan in 1982 and 1992, textile trade in 1983, the tragedy of 1989, and lesser issues has often been sharp. China, moreover, has faced similar crises with other countries, notably France (over Mirage jet sales to Taiwan) and the Netherlands (over the sale of a submarine to Taiwan); in both cases it retaliated diplomatically and economically for a period of time before resuming normal relations.

Perhaps this latest burst of bitterness in US-China ties will pass as well; certainly, many in the United States are banking on it. Optimists—including many friends in China—point to a perceived natural affinity of Americans and Chinese for one another; to the crucial economic importance of the United States to China's development hopes and to China's growing importance to US producers and consumers; to the historical fact that the United States was less predatory toward China in pre-PRC days than were Japan and the major European economies; to the notion that China will always worry more about near neighbors like Japan and Russia than about the United States; and to the education and training of tens of thousands of young Chinese in US schools and universities. All these factors augur well for continued cooperative relations between the two countries, they point out.

Increasingly, however, reports suggest that the two countries could be entering a cycle of deteriorating relations, as each side reacts to the perceived offenses of the other with actions that make things worse.

US business perspectives

If the foundation of US-China rapprochement in the 1970s was a shared concern about the USSR, the key to positive and growing US-China relations today is the commercial tie. From a few billion dollars in trade in 1979, merchandise trade between the two countries has grown to nearly $50 billion today—unbalanced, but growing in both directions. US firms have invested billions in China, on the basis of 30- or even 50-year strategic plans, because they understand the magnitude of China's transformation and the prospective value of Sino-American engagement for both sides. The US business presence in China has furthered technical and managerial changes of far-reaching economic and social significance in China. While the Chinese business environment remains challenging, few Americans with long experience there would deny the gradual improvement of the business climate as China modernizes both commercially and intellectually. The successful effort, led by an aroused US business community, to preserve unconditional MFN trade with China in 1994 was an indicator of how seriously American international firms take their commitments and their opportunities in China.

> Our message is that major US interests require stable US-China ties.

In recent months, US business concerns have been at the center of major US-China disagreements: the intellectual property dispute of early 1995, and the continuing stalemate over China's accession to the GATT/World Trade Organization (WTO) reflect US firms' serious concerns, and their determination that China's global trade posture continue to approach accepted worldwide standards. While the WTO issue is not resolved and other issues loom, however, the record shows that the two nations are able to reach satisfactory resolutions of contentious disputes when the arguments are focused, finite, and pursued without undue loss of face to either government.

Strangely, in this most recent outburst of ill will, the US-China commercial relationship has not been addressed. When the US-China Business Council goes to Capitol Hill to meet with legislators and staffers on the subject of continued MFN trade, the dimensions of our economic ties are front and center. But as the larger edifice of US-China relations feels the impact of the US-China political imbroglio, the claims of commercial engagement are obscured.

Business needs to be heard on this broader threat, as it is heard on MFN. Our message, to all in public life who can affect the course of US-China relations, is that major US interests require stable US-China ties. US-China relations are not the cheap, disposable byproducts of other priorities. Their maintenance and improvement requires of both sides a clarity of purpose and a constructive commitment that today appears ominously to be lacking.

Failure to get this message out will have a price. Bombast won't work. Urgent but patient explanation and illustration, to political veterans and newcomers alike, is essential. The Council is playing its part in this, and will expand its effort. But individual businesses have voices, too, and in the face of the current dilemma, they should use them. 完

FOCUS

Flying Higher

Foreign investment should help China's airline industry take off

Paul Woodward

The China Northwest Russian-made Tu-154M crashed eight minutes after taking off from Xian, killing all 160 passengers and crew on board. Investigations revealed that the accident—China's worst air crash of 1994—was entirely avoidable; the plane's auto-pilot had been miswired during routine maintenance.

The tragedy reinforced some of the basic preconceptions foreigners have about China's airline industry. Thought to be dominated by outdated Russian aircraft, the industry has often been cited by organizations such as the International Airline Passenger Association for its poor maintenance facilities and lack of safety controls. Moreover, as demand for air services has increased, new airlines have emerged, seemingly stretching Beijing's regulatory framework beyond its limits. Many industry analysts wonder if China's airline sector will be able to keep pace with these changes—and look to increased foreign investment in the sector to rectify most of the problems.

Research conducted by Asian Strategies Ltd. (ASL), however, suggests that some of these preconceptions are unfounded. Increased foreign investment will be helpful, but will not be a panacea for the aviation industry's ills. But as more aviation-related companies find their way to the China market, the added expertise should be a welcome boost to the industry's operating capacity. With increased demand for air services, the industry has a great need for training and maintenance assistance, presenting various opportunities for foreign investors to help improve the sector's safety and efficiency. Whether the political will exists, however, to apply international expertise where it is most needed—in the management of local airlines—remains to be seen.

■ **Paul Woodward, managing director of Hong Kong-based Asian Strategies Ltd., recently completed a study of China's leading airlines.**

Few empty seats

Like other modes of transportation in China, air travel has been in increasing demand in recent years. In the past, Party officials and foreign tourists occupied most of the seats, but rising incomes and mobility have meant a sharp increase in demand for air services from Chinese business and leisure travelers. The situation has changed dramatically in the last 10 years: average passenger traffic grew almost 21.5 percent yearly between 1983-93, and the number of commercial airlines in service now stands at 26. Numerous small, local, and privately owned airlines specializing in flights to the Great Wall, for example, also exist.

This rapid growth, however, has resulted in a great strain on the sector's ability to provide sufficient aircraft, airports, pilots, and maintenance engineers. In 1986, to encourage growth in the industry, central authorities began to deregulate the operating divisions under the General Administration of Civil Aviation of China (CAAC). Until then, CAAC had complete control of civil aviation and was responsible for the operations of all airlines and airports. In breaking up CAAC, Beijing's goal was to improve the efficiency of air service and encourage the development of private airlines. With more focused responsibilities, CAAC would be able to concentrate primarily on coordinating and supervising the industry's activities. In 1993, the industry was further restructured when the Ministry of Aerospace was replaced by two ministry-level corporations—China Aerospace Industry, in charge of the space industry, and the Aviation Industries of China, in charge of manufacturing aviation parts. This division gave each corporation more responsibility over its actions and was meant to encourage greater operating efficiency.

With these changes, CAAC is limited to the role of regulator for the time being. As recent domestic air crashes attest, air safety continues to be a justifiable concern within the industry, and significant pressures are being brought to bear on CAAC to improve its record. To meet this goal, CAAC is expected to crack down on substandard operations, both by improving enforcement of safety regulations and encouraging foreign involvement in crew training and aircraft maintenance.

Since the break-up of CAAC's monopoly, 12 airline companies have taken over the former CAAC fleet, and 14 other national airlines have been formed (*see The CBR*, May-June 1993, p.12). Although many of the airlines must still report to CAAC for approval to form joint ventures, most can make unilateral decisions regarding daily operations (*see* box).

China Southern and China Eastern are the two largest domestic carriers. Both are allowed to contract independently with foreign companies and both, like Air China, the PRC's flagship carrier, have subsidiary organizations to handle maintenance and other support activities. China Southern and China Eastern are also vying to become the first Chinese airline to issue international shares, on either the Hong Kong or New York stock market.

A firm hand

If recent actions are any indication, CAAC appears to be adapting to its new regulatory role. Although there has been a good deal of expansion in the industry, CAAC has been able to limit the number of new airlines to some extent while allowing increased passenger capacity and service to more cities. Since 1992, the number of Chinese cities with access to airport facilities has increased to 109, and nearly 500 domestic and international routes are now available to Chinese passengers. In contrast, the countries that made up the former Soviet Union began to deregulate the former Aeroflot fiefdom less than five years ago. These countries have several hundred airlines and face many of the same problems as Beijing, but to a much greater degree.

Because CAAC is responsible for managing airline routings but cannot independently increase the amount of airspace allotted to civilian aircraft, a chief concern of the agency is having too many planes in the air. CAAC still holds approval authority over all aircraft purchases and announced a ban on new aircraft acquisitions last year, despite the eagerness of Chinese airline executives to expand their operations. Whether the ban will be enforced aggressively is uncertain; given even the most conservative growth projections, a sustained prohibition of aircraft purchases is unlikely.

Judging from ASL's survey of the 26 national-level airlines in China, the human resource needs within the country's airline industry are staggering.

Training new fliers

One of the key implications of China's aviation expansion is a massive surge in manpower requirements. The newly established Chinese airline companies must find skilled crew to fly and maintain their aircraft. Concerned by recent widely publicized accidents, Beijing has placed added emphasis on pilot and crew training and has taken steps to encourage foreign cooperation in this endeavor (*see* p.12).

Judging from ASL's survey of the 26 national-level airlines in China, the human resource needs are staggering. These airlines anticipate a 50 percent increase in demand for pilots by 1997 and a 60 percent increase in the demand for maintenance staff by 2000.

The shortage of training facilities for flight and maintenance crews in China will make meeting these goals difficult. At present, most of the airlines rely on CAAC's pilot training school in Guanghan, Sichuan Province. But, with approximately 80 graduates a year, the school cannot meet the growing demand. The facility is not large enough to accommodate greater numbers of students and lacks qualified instructors.

Individual airlines have experimented with their own solutions. China Eastern, for instance, services its MD-11s in Zurich through an arrangement with Swissair. In an attempt to find alternate training sources, China Southern purchased a pilot training college in Australia to train its own personnel. In a separate experiment, the airline recruited overseas pilots to fly its planes, but because the project was not given CAAC approval, China Southern discontinued its recruiting attempts and released two Australian pilots from their contracts.

Rather than depend solely on foreign personnel and training facilities, CAAC has attempted to make use of existing Chinese facilities or build new ones. CAAC has, for example, encouraged major foreign aircraft suppliers to support air crew training programs in China in conjunction with aircraft sales. Using China's current position as the largest international buyer of civil aircraft as leverage, CAAC has obtained added services and equipment from foreign suppliers. (CAAC has also been known to use this leverage to advance Beijing's foreign policy agenda by approving or denying aircraft purchases from certain countries.) CAAC recently negotiated with The Boeing Co. and McDonnell Douglas Corp. to provide flight simulators in conjunction with aircraft purchases.

Given the lack of resources to expand China's airline training facilities adequately, another solution would be to allow foreign management participation in China's domestic airlines. Like many other countries, including the United States, however, China is wary of allowing too much foreign management in such a politically sensitive industry. With the possible exception of permitting participation by managers from Taiwan, if Taiwan-PRC air connections are established, Beijing is unlikely to open the aviation sector to significant foreign management for another five years. Until Beijing is willing to employ the expertise foreign-trained managers could provide the Chinese airlines, however, personnel and overall operational improvements are likely to be relatively small.

Looking west

Although international companies have been reluctant to provide large-scale training for Chinese pilots and crew, in many cases they have agreed to provide maintenance facilities in conjunction with aircraft sales. Indeed, most foreign investment in civil aviation in China has been in aviation maintenance joint ventures. In addition to expectations of large profits, foreign companies find maintenance joint ventures an affordable means to improve their image as a "friend of China." Moreover, because aircraft maintenance is a relatively labor-intensive business, foreign companies find labor costs in China more competitive than in some of the country's more economically advanced neighbors. Lufthansa Airlines, Lockheed Corp., and Hutchison all have established aviation maintenance joint ventures.

In the past, many foreign investors were slow to capitalize on opportunities in China because of the perception that airline industry regulations and investment guidelines were scanty. To clarify official policy, CAAC and the Ministry of Foreign Trade and Economic Cooperation in early 1994 promulgated regulations governing foreign involvement in aviation enterprises. The regulations allow foreign airline companies to invest directly in Chinese airlines by purchasing shares in existing companies or by setting up joint ventures in airport construction or ground service facilities. Joint-venture air-cargo facilities will likely also be permitted. Opportunities also exist for foreign investment in airline service sectors such as airport design, aircraft maintenance, on-board and ground-based computer systems, passenger service facilities, and all aspects of training and human resource management. Municipal airports, including the new Zhuhai Municipal Airport, are also trying to attract foreign investment (*see* p.16).

> Opportunities exist for foreign investment in airline service sectors such as airport design, aircraft maintenance, aviation computer systems, and passenger service facilities.

Nevertheless, several factors continue to delay the flow of foreign investment into China's airline industry. Requirements of a minimum 51 percent Chinese shareholding in airport construction joint ventures and a 35 percent cap on foreign-registered capital for air transport enterprises seem to have deterred many foreign investors. Investors are also wary of the 25 percent cap on foreign voting rights in air transport ventures and the requirement that the general manager in an airport construction joint venture be a local hire.

Coming trends

Regardless of the long-term prospects for increased foreign involvement in China's aviation sector, the industry must continue to adapt rapidly to correct safety problems and operating inefficiencies. CAAC's attempts to standardize regulations and enforcement mechanisms should help to improve the industry's record, although it is not yet clear how effective these mechanisms will be for smaller airlines. Limitations on the proliferation of new airlines, however, should help ensure that the situation does not get any worse.

In the final analysis, the true benefit of foreign investment and the extent to which it is integrated into the aviation sector's needs will depend upon Beijing's willingness to put the investment to optimal use. Short-term opportunities for foreign investors in the peripheral support areas in the aviation industry exist, but Beijing's desire to maintain strict control on foreign management and ownership will likely prove a stumbling block to substantial progress for the industry as a whole. Until authorities liberalize ownership regulations to allow considerable foreign equity or greater opportunities for foreign management, foreign investment in China's airline industry will be gradual at best. Most estimates suggest that such a genuine international opening will not occur for another 20-30 years. 完

An Airline to Watch

Founded in July 1984 by China Southern Airlines, Fujian Investment Enterprise Corp., and Xiamen SEZ Construction & Development Corp., Xiamen Airlines is testing the limits of Beijing's restrictions on foreign management control within the airline industry. With powerful supporters among its shareholders and ties to China Southern—which has perhaps the country's most competent local airline management team—Xiamen Airlines is currently the largest provincial carrier with more than 1,800 employees and 14 airplanes.

Hoping to place itself in a strategic market position once direct flights between Taiwan and the mainland are approved, Xiamen Airlines recently signed a management contract with the Swire Group's Cathay Pacific. Further, the Swire Group has established the Taikoo Aircraft Engineering Co. to help maintain aircraft in Xiamen, promising to give the group substantial influence in Xiamen Airlines' operations.

In addition to strong ties with foreign entities, Xiamen Airlines sets itself apart from its competitors by taking advantage of the financial muscle and relative independence of its key shareholder, China Southern. Together with China Southern, Xiamen Airlines is pursuing an aggressive growth strategy by developing its own subsidiary structure. In 1993, Xiamen Airlines invested in Fujian Airlines, which is based in the provincial capital of Fuzhou. The airline also hopes to acquire at least 12 more airplanes and double its staff by the year 2000.

—*Paul Woodward*

Spreading its Wings

■ Elizabeth Keck

From communications links to airspace management, CAAC is trying to keep pace with the growth in air travel

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As Northwest Airlines Flight 1 makes its way from Minneapolis to Beijing, its pilots work with as many as 25 different air traffic controllers in the various countries en route. Once in Chinese airspace, however, Northwest's pilots are navigating in a very different air traffic control environment. Unlike the situation in the United States—where all airspace is managed by the civil-run Federal Aviation Administration (FAA)—more than 95 percent of China's airspace is controlled by the military and reserved for military purposes. All foreign and domestic commercial aircraft in China must fly in very narrow routes within the airspace designated for civilian use and managed by civilian air traffic controllers.

But reform is visiting many corners of present-day China, including air traffic control. Negotiations between the General Administration of Civil Aviation of China (CAAC) and the Chinese military over changes in airspace management have industry observers hopeful that greater route flexibility is in sight. CAAC has also been upgrading its operations over the past five years, installing radar, communications, and navigation equipment on major air routes and at its busiest airports, and is training controllers in radar use, maintenance procedures, and English. Given CAAC's drive for modernization, there likely will continue to be major sales opportunities for US air traffic equipment suppliers, both with CAAC and with the airports slated for upgrading.

Dual control

China's current aviation system, in which military and civilian air traffic control systems operate side by side, is not unlike that found in the United States 50 years ago. Just as the United States outgrew that system during the 1950s, Beijing is realizing the need for a more flexible and efficient aviation system to meet rapid growth in the demand for air travel. China's current air traffic management system consists of four corresponding levels within the civil and military structures: CAAC manages civilian air traffic control through its Beijing headquarters, regional bureaus, provincial bureaus, and local airports; the military hierarchy consists of People's Liberation Army Air Force (PLAAF) headquarters, control regions, control sub-regions, and airfields.

Because dual management of airspace increases the chances for mid-air collisions, the need for wider civilian control is becoming increasingly apparent in Beijing. Currently, civilian air traffic flies in "pipelines" of airspace 8-20 km wide and of variable height—above, below, and on either side of this space is military airspace. Military craft can also fly in these narrow civilian routes, increasing the likelihood of accidents because military planes in these routes are controlled by PLAAF air traffic controllers instead of CAAC controllers.

Recognizing the restricted nature of the civilian airspace, Northwest Airlines, Delta Airlines, and other US carriers flying in Chinese airspace advise their pilots not to deviate from the pre-determined routing, except when cleared by Chinese air traffic control. Bad weather, however, can put civilian aircraft in a tight spot, as limited communications between CAAC and PLAAF controllers makes obtaining clearances to fly into non-civilian airspace to avoid turbulence almost impossible. "If there's a big thundercloud ahead and we're having communications problems and can't get clearance to go around the storm, it presents a big problem," says Bob Buley, Northwest Airlines manager for flight operations development. As a signatory to the International Civil Aviation Organization (ICAO) convention, however, China recognizes the ICAO principle that the captain has responsibility for his aircraft and the authority to take whatever action necessary to ensure flight safety. Most international carriers find that the PLAAF has tolerated, though not necessarily cleared, deviations into military airspace.

Apart from being dangerous, the dual management of airspace in China creates flight inefficiencies. Flights from Tokyo to Beijing, for example, take an extra hour because the CAAC routing requires planes to fly by Shanghai before turning north to Beijing, instead of flying a more direct route. This, in turn, results in higher airline costs and higher passenger ticket prices.

Change in the offing

Recognizing the problems of their air traffic control regime, Chinese authorities began 10 years ago to explore ways to improve the system. In 1986, the State Council formed the National Air Traffic Control (ATC) Commission to coordinate CAAC and PLAAF air traffic policy. The commission, headed by Vice Premier Zou Jiahua, has overall responsibility for air traffic policy management and mandates that the civilian and military air traffic management structures hold regular meetings at all levels to coordinate their operations. The commission's 17 members are senior civilian and military officials who review and make final decisions on major air traffic problems and development plans, direct air traffic control reforms, and resolve conflicts between civilian and military controllers.

In 1994, CAAC was elevated to ministerial-level status, bolstering its position somewhat. Within CAAC, air traffic control is the responsibility of the Air Traffic Management Bureau, whose current director general, Chen Xuhua, reports to CAAC Vice Minister Li Zhao. CAAC currently manages 58 international and roughly 400 domestic routes, as well as more than 125 airports. At present rates of air travel growth, the Beijing, Guangzhou, and Shanghai airports together will handle more than 500 flights per day by the year 2000. Airports in six other major cities—Chongqing, Hefei, Shenzhen, Xiamen, and Xian—together will handle more than 300 flights a day.

> At present rates of air travel growth, the Beijing, Guangzhou, and Shanghai airports together will handle more than 500 flights per day by the year 2000.

Dramatic growth in China in air travel and cargo has tested the limits of the air traffic control regime. Recently, CAAC made some headway in its negotiations with the PLAAF to expand the amount of civilian-controlled airspace. At a US-sponsored aviation symposium in March 1995, the deputy director of the ATC Commission's executive office, Qu Yongxiu, reported that by the year 2000 CAAC will manage all civilian air "slices"—the airspace from the ground up to 24,000 feet along present routes—expanding the physical space from the narrow pipelines it currently controls. The expansion from pipelines to slices of airspace will allow civilian craft to change altitude as necessary without CAAC controllers having to first obtain PLAAF clearances. The longer-term goal is to have one agency, be it civilian or military, controlling all aircraft in a given corridor of airspace from the ground up to a certain altitude, eliminating the current situation in which military aircraft flying in civilian routes remain under PLAAF control.

Efficiency gains on the way

In addition to negotiating organizational reforms, CAAC has been taking steps to increase the technical levels and efficiency of air traffic management. CAAC has already purchased radar and ground navigation equipment for airports in eastern China, which handle 80 percent of the country's air traffic, and is focusing upgrades on the Beijing-Guangzhou-Shanghai triangle. The PLAAF has also ceded control to CAAC of the country's busiest route—Air Route A461 between Beijing and Guangzhou—as well as a second approach route to Beijing Capital International Airport. Access to this second approach route doubles the airport's landing capacity.

These upgrades have meant substantial opportunities for foreign sales, consulting, and training. Foreign participation in the aviation sector's upgrading process has consisted of both equipment sales and personnel training. The Joint Air Traffic Services (JATS) task force, a 1993 partnership between CAAC and The Boeing Co., has provided one-week intensive English classes to more than 400 Chinese controllers, trained 250 controllers in a two-week radar procedures class, developed a certification program for air traffic equipment technicians, and redesigned the approach routes into the Beijing, Guangzhou, and Shanghai airports to accommodate more landings. Other aspects of the air traffic control system, such as the development of a corps of professional air traffic controllers, must be left for Chinese authorities to resolve. High turnover currently plagues CAAC due to the skewed pay scales of aviation personnel—the Beijing airport's air traffic controllers earn less than the clerks selling passenger tickets at the Air China counter.

According to Jim Boone, Boeing's JATS project manager, CAAC controllers now use radar to track planes between Beijing and Guangzhou, enabling planes to fly closer together. With the new radar capability, distances between aircraft have been reduced from 10 minutes to 5 minutes, allowing more aircraft to fly the route. CAAC intends to have radar in use on the Beijing-Shanghai and Shanghai-Guangzhou air routes by the end of 1995.

Air-ground communications links are also being upgraded. Until recently, all flight plans in China were transmitted from the airport of origin and the pilots en route to the destination airport via relatively unsophisticated telephone and radio links. CAAC's purchases of satellite technology are eliminating these less reliable links. CAAC recently awarded a contract to Hughes Corp. for 97 very small aperture terminals, which will provide satellite communication between air traffic control facilities. CAAC also has installed new AT&T very high frequency (VHF) air-to-ground radio equipment at four air traffic control centers and reportedly plans to purchase more.

Representatives from Chinese and US airlines are encouraging installation of an air-ground data link, a system that allows computers on aircraft to transmit the craft's position and altitude via VHF radio to computers in the air traffic control centers, thereby reducing errors due to miscommunication.

Though CAAC is rapidly acquiring new communications, surveillance, and ground navigation equipment, it has yet to integrate them into one system.

Though CAAC is rapidly acquiring new communications, surveillance, and ground navigation equipment, it has yet to integrate them into one system. The communications equipment, for example, needs to be integrated into a network that sets off alarms when a line goes down and allows CAAC to switch between satellite and land-based lines, depending on the specific problem. The FAA, in bilateral policy discussions with CAAC, has offered systems engineering assistance, as have numerous American companies with systems integration expertise, but CAAC has been slow to accept the offers.

To fund the various upgrades it has planned, Beijing has employed numerous techniques ranging from welcoming foreign aviation equipment suppliers to China to increasing revenues from international over flights—flights that pass over but do not land in a given country. CAAC now receives over-flight fees, for example, from Delta Airlines, which shaved one hour off of the previous Los Angeles-Hong Kong flight time by taking a recently opened route over China from Khaborovsk, Russia to Hong Kong.

New frontiers

The US government has been an active proponent of air traffic modernization in China. During State Council delegation visits to the United States in 1985 and 1993, the FAA and Department of Defense provided tours of both civil and military air traffic facilities and gave detailed briefings on the US aviation system. Most recently, this dialogue resulted in the Air Traffic Control Initiative under the US-China Joint Defense Conversion Commission, chaired by Defense Secretary William Perry. Aimed specifically at providing Chinese aviation officials with practical models for resolving civil-military air traffic dilemmas, the initiative has spurred a flurry of exchange visits by aviation experts to address civil-military air traffic control issues.

Though most of China's acquisitions to date have involved the installation of ground-based air traffic equipment, foreign observers see China as a prime candidate to implement the next generation of air traffic technology—extremely accurate satellite navigation, communications, and surveillance systems using a satellite system of the kind developed by the US military. China has the opportunity to leap forward by using state-of-the-art satellites, which would be particularly appropriate

Taking on Safety

The rapid growth in the size of China's commercial aviation fleets has put excessive stress on the safety infrastructure of the General Administration of Civil Aviation of China (CAAC). A spate of domestic accidents in 1994 further cast a critical light on China's aviation system. One step CAAC has taken to address this situation was to establish a partnership with the US Federal Aviation Administration (FAA) in December 1994 to develop commercial aviation operational and maintenance regulations and systems.

Under the terms of the new partnership, the two agencies have begun to review the core of the CAAC regulatory regime, the Chinese Civil Aviation Regulations, with the aim of expanding and strengthening the safety codes governing commercial air carriers. Government-to-government exchanges are also taking place: in mid-April, a delegation of FAA regulatory experts traveled to Beijing to discuss the development and implementation of plans for a new aviation regulatory system; a CAAC delegation is scheduled to visit FAA facilities in the United States this summer to observe the FAA's relationship with US commercial carriers; and an FAA delegation will follow up on the Chinese visit to review and strengthen CAAC oversight of commercial carriers.

—Elizabeth Keck

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for western China, where there are few ground systems and the harsh climate makes maintaining equipment difficult.

The US military set the standard for integrated satellite systems with its Global Positioning System (GPS), a network of 24 highly advanced satellites whose signals allow extremely precise navigation of aircraft. Though the United States has officially made the GPS system freely available to the world aviation community, Beijing has been reluctant to configure the PRC national aviation system to the GPS because the technology is controlled by the US military.

Despite China's refusal to commit its national air traffic control system to reliance on GPS technology, US and Japanese companies are working with CAAC on smaller-scale GPS applications. When the CAAC-Boeing JATS task force completes its upgrades of the Beijing, Guangzhou, and Shanghai airports, it plans to implement satellite-based communications, navigation, and surveillance systems on two routes that would be heavily used for international over flights. Avionics and other high-tech companies have already begun to stage flight demonstrations in China using off-the-shelf GPS technology that could be integrated into China's present aviation systems.

CAAC also is considering installing a ground-based air traffic control station in cooperation with Japan that would allow Chinese air traffic controllers to access signals from a Japanese aviation satellite to be launched in 1999. Meanwhile, Chinese agencies such as the Commission on Science, Technology, and Industry for National Defense are conducting their own research and development activities for the aviation industry which could result in the launch of China's own satellites for aviation purposes.

A little help from foreign friends

Traditionally, CAAC has chosen to buy air traffic control and communications equipment from foreign vendors due to concerns about the reliability and quality of Chinese-made systems. As a result, China's aviation sector has provided an abundance of sales opportunities for foreign suppliers of radar, ground navigation equipment, communications networks, and fiber optics.

The Chinese buying pattern has been to distribute contracts among companies of various nationalities. With price a prime consideration of CAAC, European firms such as Italy's Alenia Corp. have managed to win numerous contracts by underpricing US competitors in the international radar equipment industry. US firms have scored some recent victories, however, including Raytheon Co.'s sale of a radar system to be used by Beijing Capital International Airport and Westinghouse Electric Corp.'s reported sale of a Mode S system to CAAC.

> China's aviation sector has provided an abundance of sales opportunities for foreign suppliers of radar, ground navigation equipment, communications networks, and fiber optics.

The efforts underway in China to modernize the country's aviation industry are significant, but with air traffic in China increasing at such a fast clip, the Chinese government must establish a clear set of priorities for the country's aviation sector. A sampling of these priorities might include high-level support for CAAC in its jostling for airspace management authority with the PLAAF, opening more international over-flight routes to provide hard currency for the sector's modernization, and incentives to attract and retain professional air traffic controllers. While the ebb and flow of China's domestic politics certainly will be a factor in the outcome of China's air traffic control reform, a strong relationship between CAAC and FAA can keep the modernization process on track. 完

Bursting at the Seams

■ Madelyn C. Ross

China's airports are struggling to keep up with demand for air travel

China's air traffic has been growing by leaps and bounds, averaging almost 20 percent increases in the level of passengers and cargo transported each year since 1980. Even if this rate of growth "slows" to only 15-18 percent annually during the remainder of the decade, China's aviation sector will remain among the fastest growing in the world.

The rapid increase in air traffic has put enormous pressure on the country's airports, where the lack of modern runways and passenger facilities has become a stumbling block to further aviation development. Poor airport facilities are also hindering economic development in some regions, which are eager to expand trade with other regions of China and the world through the opening of new air cargo routes. China also has an urgent need to improve the safety of air travel. A record number of hijackings and fatal air crashes occurred in 1993, and the country's aviation authorities are anxious to prevent another wave of such disasters by improving airports and ground-based infrastructure.

Many of the new air routes and other improvements will have to wait, however, for airport development to catch up. As of the end of 1994, China had only some 115 operating airports, including about 10 under joint civilian/military control. Most of these have only a single runway and only about a dozen of China's airports can accommodate Boeing 747s or other large jets. Located in major metropolitan areas or tourist destinations in China's eastern corridor or along major east-west routes, the PRC's 40 busiest airports handle more than 95 percent of the nation's air passengers and almost all of its air cargo.

The General Administration of Civil Aviation of China (CAAC) reports that 60-70 airport projects are scheduled for the remainder of the decade, including some form of upgrading or expansion at most of the nation's top 40 airports and construction of about 20 new airports. These improvements present an array of opportunities for foreign suppliers of airport equipment, construction and design, and other services.

The country's three largest airports—serving Beijing, Guangzhou, and Shanghai—together handle more than a third of the nation's air passengers. Not surprisingly, China's most ambitious airport projects over the next decade will be aimed at alleviating airport congestion in these three gateway cities. Provincial capitals come next in order of priority, and numerous smaller projects at feeder airports also appear on the various lists of airport projects released by Chinese officials.

Targeting Beijing and Shanghai

China's flagship airport, Beijing Capital International Airport, is undergoing its fourth major expansion since 1958. Al-

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ready the busiest airport in China, having handled 11.6 million passengers in 1994, the airport will add a new 240,000 sq m terminal as well as cargo, parking, and other facilities, which are expected to double the airport's capacity. Japanese government loans will cover about $300 million of the total $750 million cost. Much of the terminal services and related equipment is to be procured through international bidding. In December 1992, Lockheed Air Terminal won the competition to design the new terminal and construction is expected to begin by the end of 1995.

Other projects in northern China include an airport expansion project recently completed in Shijiazhuang, Hebei Province, 250 km southwest of Beijing, that may occasionally be used to back up the Beijing facility. To Beijing's northeast, Taoxian Airport in Shenyang, Liaoning Province was granted international status last year and is actively lobbying for more air routes.

Furthermore, the impending expansion of Harbin's Yanjiagang Airport in Heilongjiang Province in preparation for the 1996 Asian Winter Games holds particular commercial promise for American firms, as it is one of six Chinese airports designated as targets for US-China cooperation (*see* box). The Export-Import Bank of the United States has pledged to support the Harbin project. ARINC, an American firm, has signed a $29.9 million contract to act as prime contractor and expects to involve about 30 other US firms in the project. Many US firms are hoping that this type of arrangement will become a model for the development of other airports in China.

Moving down the coast, a potential conflict between two proposals aimed at meeting Shanghai's air traffic needs—one for expanding the existing Hongqiao International Airport and one for a new airport east of the city in Pudong—was defused in early 1995, when the central government approved a major new airport in Pudong, about 35 km from downtown Shanghai. According to the ambitious three-phase construction plan, Shanghai Pudong International Airport should be able to handle 50 million passengers and 3 million tonnes of freight per year by 2020. The first phase, to be completed by 2000, calls for facilities to handle 12 million passengers.

The long-term fate of the Hongqiao facility remains unclear. As it eventually plans to do with many other airports in China, CAAC recently relinquished management control over Hongqiao International Airport to the local government. This change in management has fueled speculation that the local government may eventually close the airport, located just west of the city, to allow municipal authorities to benefit from commercial land development of the Hongqiao area once the Pudong airport project is operational. For at least the rest of this decade, however, Hongqiao—which handled 8.72 million passengers in 1994—will continue to serve Shanghai. To meet Shanghai's short-term needs, the Hongqiao terminal is undergoing a $30 million expansion to be completed by the end of 1996.

> At the heart of the Pearl River Delta region, Guangzhou is going forward with its plan to build a brand-new facility.

Up river 250 km from Shanghai, Nanjing is building a new airport. Work on the $240 million Nanjing New Airport in Lukou, which will eventually replace Nanjing's existing airport, began in early 1995 and is expected to be completed in about three years. Like Harbin's airport, this project has been targeted by Chinese authorities for investment by US firms. Greiner International won the bid to design the Lukou terminal, which is expected eventually to handle about 8.6 million passengers per year. Also within close range of Shanghai, the popular tourist city of Hangzhou plans to build a new airport to replace its older facility, although this project is still only in the preparatory phase.

South China's profusion of airports

The growing economic competition between Hong Kong and the metropolitan regions in neighboring Guangdong Province, heightened by the impending political transfer of Hong Kong and Macao to Chinese sovereignty, is in part responsible for a glut of large airport projects in the region. In Guangdong Province alone, three major airports now exist side by side within a 100-km radius —in Guangzhou, Shenzhen, and Zhuhai. A fourth, which will be the largest of the province's airports, is just beginning to be constructed outside of Guangzhou. Meanwhile, the Portuguese territory of Macao will unveil its own airport by early 1996 and in nearby Hong Kong, the huge airport at Chek Lap Kok is striving for a 1997 opening.

This situation has already generated winners and losers among the competing airports, and the stakes will climb even higher as new airports come on line. On the winning side, the airport in Shenzhen that opened in 1991 is slated for a major $480 million expansion, despite the greater competition it will eventually face from the airports now under construction in Hong Kong and Guangzhou. Already the fourth busiest in China in 1994, the Shenzhen airport has derived its success from the political disputes between Beijing and London that have delayed construction of Hong Kong's new Chek Lap Kok airport.

Among the early losers in airport development is Zhuhai, which opened its state-of-the-art airport early this year on the west bank of the Pearl River estuary. The airport has attracted few scheduled flights and will likely be forced to operate at a fraction of its 12 million-passenger capacity for the foreseeable future. Concerned by the Zhuhai airport's surplus capacity and the prospect of even more excess airport capacity in the region, the central government recently asked Guangdong provincial officials to re-evaluate the province's overall airport development plans.

At the heart of the Pearl River Delta region, Guangzhou is nevertheless going forward with its plan to build a brand-new facility and eventually close Baiyun Airport, a familiar point of entry for foreign travelers to China. Currently, Baiyun is China's second-busiest airport after Beijing, handling about 10 million passengers each year. In early 1995, Beijing approved plans for a new airport serving Guangzhou at Huadu, about 30 km outside the city. The proposed $2 billion investment makes Guangzhou New International Airport at Huadu the most expensive airport project currently underway in China. Authorities are undertaking feasibility studies and are planning the resettlement of some 13,000 people who will be displaced by the project. The first phase of the project, to be completed in 2005, calls for the facility to accommodate 27 million passengers and 740,000 tonnes of cargo each year.

CAAC and the Guangzhou municipal government will provide about one third of the funds for Guangzhou New International Airport. Land development at the Baiyun Airport site is expected to supply another third of the money for the new airport, provided that civilian and military aviation authorities, both of whom have some claim to Baiyun Airport, can work out an agreement over how to share revenues from land sales. The State Council is expected to help settle the civilian/military dispute over Baiyun later this year. Authorities will seek the rest of the needed development funds from foreign investors.

> The inland regions of China are also struggling to keep up with the national air travel frenzy.

Also in southern China, two new airports on Hainan Island will help meet the demands of the island province's economic and tourist boom. The island's southern city of Sanya opened its international airport in 1994, while Haikou, in the north, is planning a major new airport to replace the small existing facility.

Inching along in the interior

Though less frequently visited by foreign businesspeople, the inland regions of China are also struggling to keep up with the national air travel frenzy. In Sichuan, Chengdu's Shuangliu Airport—already the largest airport in southwestern China—is the site of a major expansion project that will add a new 60,000 sq m terminal building and a new taxiway, as well as expand other facilities. Another destination feeling the pressure of economic development and eager to attract visitors is the city of Urumqi, China's western gateway in the Xinjiang Autonomous Region. An expansion of Urumqi's Diwopu Airport, expected to be completed by 1997, will add a new runway and a 47,000 sq m terminal.

In the central province of Hubei, expansion of Tianhe Airport in the industrial city of Wuhan was completed at the end of 1994. The province will also add a major new airport in its western region in Yichang to promote economic development of the region and support construction of the massive Three Gorges hydropower project on the Yangtze River. Construction of this airport's 12,000 sq m terminal is to be completed in 1996.

Finding the cash

Although CAAC cannot begin to fund all of the nation's many airport projects, it will support about a dozen projects in the next two years, giving priority to airports serving international and trunk passenger routes. A CAAC mandate in the 1980s turned much of the responsibility for airport development over to local authorities, leaving them with the difficult challenge of attracting outside development funds. Because few of China's airports actually turn a profit and most rely on government subsidies to operate, they currently present a less than attractive opportunity to foreign investors.

But the outlook for the airport sector is not all bleak, as economic develop-

Chinese Airports Seek US Involvement

In August 1994, the General Administration of Civil Aviation of China (CAAC) and the US Department of Commerce signed a letter of intent pledging to "cooperate in promoting the participation of American companies and relevant organizations in the construction and financing of various airports in China." The document further identified six Chinese airports as targets for investment by American companies. These airports are:

- Guangzhou New International Airport
- Shanghai Pudong International Airport
- Fuzhou Changle International Airport
- Hangzhou International Airport
- Harbin Yanjiagang Airport
- Nanjing New Airport

Greiner International has already been chosen to do design work on the new Nanjing terminal. ARINC has been selected as the general contractor for the Harbin Yanjiagang Airport project, with the support of the Export-Import Bank of the United States. Searching for additional financiers and suppliers, CAAC hopes to send a delegation to the United States in August 1995 for discussions on these and other. projects.

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ment and expansion of cargo traffic may make Chinese airports more economically viable in the near future. In addition, the emergence of a real estate market in many parts of China during the 1990s has allowed some local authorities, like those in Zhuhai, to finance airport projects through land sales. Plans for the new airports in both Guangzhou and Shanghai include provisions that a portion of the project funds be generated from land sales at the older airport sites. Other localities have gone to the State Planning Commission seeking extra funds or are raising funds through taxes or the formation of local investment groups.

A growing share of funds for airport development is coming from foreign government loans. In the 1980s, a Kuwaiti loan to develop the Xiamen airport in Fujian Province was among the first of such loans. Since then, Kuwaiti government-to-government loans have also helped finance two smaller airports in Jiangxi Province, while Japan's Overseas Economic Cooperation Fund has allocated funds to a number of airport projects, including those in Beijing and Wuhan. The French government supplied funds for Hainan Island's Sanya Airport. As foreign commercial competition in China's airport development heats up, foreign governments are becoming increasingly involved in making concessional or tied loans to specific airport projects to support their country's equipment and service providers.

Prospects for foreign involvement

In a move to attract private foreign investment, CAAC issued the nation's first guidelines for foreign investment in airports and other aviation projects in the summer of 1994. These new rules theoretically allow joint ventures in flight areas including airport runways, taxiways, aprons, and lighting systems, and require the Chinese partner(s) to hold at least a 51 percent stake in the investment.

With special government approval, foreign entities can also invest in "land-side" facilities, including passenger terminals, freight storehouses, ground services, aircraft maintenance and catering operations, guesthouses, restaurants, and fueling operations. These new rules are disappointingly vague in a number of areas, however, and fail to clarify whether foreign investors in the aviation sector will receive the same treatment as foreign investors in other sectors or the same treatment as domestic aviation entities. As a result, the regulations have elicited only mild interest and few concrete foreign initiatives to date.

Foreign governments are becoming increasingly involved in making concessional or tied loans to specific airport projects to support their country's equipment and service providers.

Although foreign response to Beijing's invitation to invest in airports has been tepid, sales by foreign companies to airports in China have begun to pick up speed. Recent deals include Shenzhen's $470 million contract with a Dutch airport consulting company to design expansion plans for the airport and a $150 million contract between CAAC and a Swedish firm to construct a hauling system for Guangzhou New International Airport. Intergraph Corp., an American firm, recently sold a $4 million automated flight information processing system to Beijing Capital International Airport that will become the center of a flight information network covering all the nation's civilian airports. According to CAAC, in 1994 China imported $34.5 million dollars worth of airport ground equipment, including ground power units, loaders, airfield buses, deicers, and fire-fighting equipment. Other good prospects for sales in the near term include airport construction and design services, communications and air traffic control equipment, and equipment and expertise in the areas of cargo handling, fueling operations, and airport safety and security. 完

The Close of Round Two

■ Arthur Wineburg

China and the United States sign a last-minute agreement, but adequate protection of intellectual property rights will depend on further cooperation

On February 26, 1995, the final bell sounded, marking the end of another round of heated discussions between the United States and China over pirating of US intellectual property rights (IPR). In its opening punch last June, the United States threatened to impose stiff tariffs to retaliate for lost US sales due to copyright infringements. Beijing returned the blow by charging the United States with trying to impose its Western, developed-economy standards on China.

After months of negotiations, China eventually conceded to US demands, though it remains to be seen whether the final agreement constitutes a knockout of IPR piracy. Needing US support in its bid to accede to the World Trade Organization (WTO) and eager to avoid a nasty and expensive trade war, China agreed to shut down 29 factories where millions of compact discs (CDs) were being pirated each year. In the February agreement, Beijing also promised to ease restrictions on Chinese imports of legally produced audiovisual products from the United States, improve border enforcement, share enforcement effort data with the United States, and establish a system of permits and licenses as a further check against piracy.

For its part, Washington promised to work with Beijing to improve China's ability to protect IPR. As recent publicity over the re-opening of some of the infringing CD factories suggests, the long-term success of the agreement will depend on China's ability to follow through on regulatory reforms and remain committed to enforcing IPR protection.

Why invoke Special 301?

US trade policy regarding IPR protection provides for swift, strong action. Under Section 301 of the 1974 Omnibus Trade Act, the United States Trade Representative (USTR) can lodge a complaint against any country it believes is conducting unfair trade practices. The Special 301 provision of the law addresses trade problems specifically related to IPR violations by setting rules, requirements, and deadlines that ostensibly limit the executive branch's discretion in determining retaliatory measures—and the foreign country's ability to delay or defer protecting US IPR.

Since it was first employed in 1988, the blunt club of Special 301 has prompted many countries, including China, to enact IPR laws. But in countries where the laws are promulgated merely to avoid US trade sanctions, the commitment to enforce these laws and secure true IPR protection is often lacking. USTR viewed this lack of commitment to be a problem in China. Although Beijing signed a bilateral Memorandum of Understanding (MOU) in January 1992 and began promulgating IPR laws, the absence of adequate enforcement rendered the laws ineffective.

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Because Special 301 views inadequate IPR protection as a market barrier to US exports, countries that fail to protect US IPR could be denied access to the US market. If USTR judges a country to be a prime offender of IPR—a "priority country"—the country has 180 days after USTR's final ruling to accede to US standards or face retaliatory trade measures, usually in the form of punitive tariffs.

Estimates quoted by USTR Mickey Kantor suggest that illicit copying and lost sales in China cost US businesses more than $1 billion each year. The figure does not include sales to third-country markets which purchase Chinese exports of counterfeit goods. As China's trade surplus with the United States continues to grow, US tolerance for such losses is diminishing. US producers and USTR demand that China provide the same degree of IPR protection and access to domestic markets for US exports as the United States provides Chinese goods.

Slow progress

Despite Special 301's provisions for encouraging IPR protection, individual laws alone often cannot stem the pirating of US-produced goods in China. If Beijing hopes to accede to the WTO, however, it must begin to follow the Trade Related Aspects of Intellectual Property Rights (TRIPs) guidelines set forth by the Uruguay Round (*see The CBR*, March-April 1995, p.25). China's progress on this front has been slow, however, for three main reasons: a conception of IPR at odds with US views, vested interests in maintaining the status quo, and the lack of a strong judicial system.

In China, private rights historically have been subordinate to what is considered to be in the public's interest. Whereas Western societies tend to respect individual innovations as private property, Chinese society views innovation as a public good. Traditionally, copying individual works has been a legitimate way to learn and share knowledge. Copying is not deemed to be morally wrong. Given this belief, many Chinese officials have failed to understand the urgency of protecting IPR.

A second obstacle to IPR protection is not necessarily culturally derived, but has its basis in the vested interests of PRC officials. Especially during the economic reform period, government officials have profited from allowing or even encouraging IPR violations. News reports suggest that 90 percent of government offices use pirated US computer software, for example, and that some officials are involved in ventures that illegally reproduce films, sound recordings, and computer software. With their own financial interests at stake, local officials are apt to ignore IPR laws. Until officials can be convinced of the importance of protecting IPR, enforcement will be shallow and IPR will remain a source of friction.

Beijing has promised to create an effective border enforcement system.

Moreover, the lack of a strong, independently functioning judicial system also presents problems for effective IPR protection. Although China's Patent Office has tried to augment the courts' ability to handle IPR cases by establishing a special intellectual property tribunal, personal relationships between judges, lawyers, and IPR offenders often impede unbiased rulings. Beijing has, however, attempted to strengthen existing laws and has begun to allow involvement by non-government-owned patent law firms to represent the rights holder. In recent months, authorities began instituting criminal penalties for trademark violations and revised a previous Chinese law to recognize information collected by foreign rights holders or their representatives as evidence in infringement cases. Previously, only information collected by government-authorized investigators was permitted (*see The CBR*, November-December 1994, p.9).

Moving ahead

The February 1995 agreement seeks to eliminate these systemic barriers to adequate IPR protection by boosting enforcement mechanisms. Though the January 1992 MOU with the United States required China to extend patent rights to pharmaceutical products and chemicals and to extend copyright protection to computer software, films, and sound recordings, the MOU proved ineffective because it lacked an enforcement regime. Chinese producers by and large ignored the stipulations of the MOU and continued to pirate goods (*see The CBR*, March-April 1992, p.9).

This year's agreement established a Special Enforcement Period effective through September 1, 1995, as an immediate instrument to counter the piracy problems. The Chinese government has agreed to close down factories and destroy any machinery "primarily used to produce infringing products" during this period. Because the ultimate authority to carry out anti-piracy raids lies with local governments, the implementation of these measures will depend on cooperation by local officials, who are not required to report their actions to central-level authorities.

Under the agreement, China also agreed to promote greater access for US exports by reducing import barriers. Prior to the 1995 agreement, PRC quotas and other trade restrictions limited the importation of legitimate goods; sales of pirated goods thrived by filling the shortfall in supply. In a letter to USTR Kantor, Minister for Foreign Trade and Economic Cooperation Wu Yi confirmed that China will lift many of these protective barriers and will permit the establishment of Sino-US joint ventures in computer software and audiovisual products. China will allow these ventures immediately in Shanghai, Guangzhou, and several major cities and will allow such ventures in 13 other cities by the year 2000. Beijing did not indicate which criteria will be used to determine where computer software and audiovisual joint ventures can be established.

Finally, to promote enforcement of IPR infringement, a 21-page Action Plan for Effective Protection and Enforcement of Intellectual Property Rights was promulgated (*see* box). China hopes to follow this plan over the next three years to transform existing laws into effective controls on commercial conduct and practices. Although Beijing has provided a long list of steps it will take to protect IPR, the true extent of this commitment is still in doubt: though USTR immediately provided an English-language version of the plan, Beijing apparently has no plans to issue a Chinese version.

Long-term goals

In addition to addressing present concerns regarding piracy and IPR protection, the Action Plan contains measures aimed at creating institutional structures and activities to enhance IPR enforcement capabilities. None are foolproof, but each sets the foundation for further developments. The long-term elements of the Action Plan include:

■ **Institutionalizing IPR protection** To focus IPR enforcement efforts, a State Council working conference was established to formulate future IPR policies and oversee their implementation through the State Science and Technology Commission. Similar working conferences will be coordinated at the provincial and local levels. These groups, comprised of representatives from the National Copyright Administration, State Administration for Industry and Commerce, Patent Office, Customs Administration, and local police units, will form task forces to implement legislation and regulations and carry out enforcement efforts. The task forces will be allowed to enter and search any premises, review books and records for evidence of infringement, and seize suspected goods and materials. In addition, they will be authorized to impose fines and enjoin production. If audiovisual piracy is suspected, the task forces are also authorized to revoke the factory's production permits.

The effectiveness of the task forces will depend on local officials' willingness to carry out the working conferences' orders. Some local Chinese officials who stand to gain from continuing piracy may choose to ignore the decrees. Moreover, although any rights holder may petition a task force to investigate alleged IPR infringements, there does not appear to be

A Plan for Action

The following is an excerpt of the Action Plan for Effective Protection and Enforcement of Intellectual Property Rights which appeared as an annex to the US-China IPR Agreement concluded on February 26, 1995.

Since infringement of intellectual property rights (IPR), including copyright privacy, patent infringement, trademark counterfeiting, and unfair competition, is prohibited in China, the State Council's Working Conference on Intellectual Property has developed this Action Plan to effectively crack down on infringement of IPR in China. The people's governments of provinces, directly administered municipalities, autonomous regions and cities (hereinafter "sub-central levels"), as well as government ministries and departments are to participate in the substantial reduction of IPR infringement through effective implementation of this Action Plan.

This Action Plan sets forth both immediate and longer-term projects for the effective enforcement of IPR through the exercise of existing and expanded authority. The key short-term projects of this Action Plan include the institution of a special enforcement period. During this period, intensive action will be taken to investigate and punish infringement of IPR, targeting efforts on areas with high-level infringement and actions against the manufacture, reproduction, and distribution of infringing products.

Long-term (3-5 years), sustained enforcement will be carried out by the State Council's Working Conference on IPR, other working conferences on intellectual property, enforcement task forces, and ad hoc groups, which will coordinate and work together to provide effective enforcement of IPR and punishment of infringement within each sub-central level and among them. Administrations, including the Chinese Customs, State Council departments, police, and other relevant agencies will also participate in providing effective enforcement of IPR.

The Working Conference is comprised of the State Council's departments in charge of science, technology, foreign trade and economic cooperation, foreign affairs, press and publication, culture, broadcast, film, television, justice, public security, patent, copyright, industrial and commercial administration, and Customs, as well as the departments in charge of relevant industries. It will direct and coordinate the work of intellectual property working conferences so that effective enforcement is achieved throughout the country.

The State Council Working Conference will issue directions to the sub-central levels coordinating and guiding IPR, to formulate action plans and work programs in their own localities for effective enforcement of laws on IPR, as well as plans on providing information and education on IPR. Each plan or work program shall provide for effective law enforcement, eliminate interference by local protectionism, and ensure complete and effective implementation and enforcement of the laws and regulations on IPR in the respective locality.

Each participant in a task force shall give assistance to ensure effective enforcement and is not allowed to refuse to provide such assistance. The people's governments at each level shall give necessary guarantees in terms of personnel, working expenses, and conditions to implement this plan.

All sub-central level intellectual property protection and enforcement authorities participating in the enforcement task force will undertake aggressive ex officio actions (actions on their own authority without request from a right holder) against all types of infringement of IPR and investigate all complaints from right holders, their representatives or their exclusive licensees filed with the relevant administrative agency.

Foreign and domestic right holders may submit petitions for investigations and enforcement actions to an enforcement task force by addressing them to the contact person at that task force. Petitions shall be accepted according to published, uniform criteria that are limited to determining whether there is reason to believe that the petitioner is the right holder and there is reason to believe or suspect that a right has been or may be infringed. Within 15 days of the receipt of the petition, the petitioner must be notified that the petition has been accepted or, if it is not accepted, notified in writing of the specific reasons for its refusal.

a deadline for action once a petition is accepted.

In addition to the working conferences, the Action Plan created an elaborate system of multi-layered vertical and horizontal bureaucratic groupings to discourage IPR infringement. Within each group, specific industries are responsible for a given area of IPR protection, but responsibility among the groups is diffuse. No one organization is completely responsible for IPR infringements if and when they occur. Central-level authorities have no jurisdiction over the IPR-related enforcement activities of local officials.

If recent actions are any indication, however, individual agencies are doing their share to promote IPR protection. For example, as the principal organization overseeing registration and protection of patents, China's Patent Office has impressed most foreign observers with its professionalism and progress in coordinating the country's patent registration procedures. Much credit for the office's success belongs to Director General Gao Lulin and his efforts to create a legally sound method for investigating infringement cases consistent with international conventions (*see* p.30).

■ **Enhancing border enforcement** In accordance with the Action Plan, the United States will provide technical assistance to China's Customs Administration to monitor border transfers of suspected pirated goods. Beijing has promised to create an effective border enforcement system as stipulated by the TRIPs agreement. The new agreement authorizes PRC Customs officials, like the local task forces, to make final determinations of infringements and forfeitures at the border without due process. Holders of IPR are still required to bear any border enforcement costs, which may entail paying for the investigation and posting a bond equal to the value of the confiscated goods. Whether effective enforcement will be applied if the IPR offender offers local officials a higher sum remains to be seen. Regulations explicitly requiring China's Customs officials to prohibit the import and export of articles violating IPR became effective in September 1994, but few localities seem to have taken notice.

■ **Identifying illegal products** Finally, the Action Plan defines measures to identify pirated audiovisual and computer software products. A "unique identifier" must be imprinted by all legitimate manufacturers of CDs, laser discs, and CD-ROM products, and any company failing to comply with this requirement will be punished. Further, the Chinese government will require companies that reproduce or publish foreign-originated audiovisual products or computer software in CD-ROM format to register their contracts and obtain a registration title and permit. Factories without relevant permits, identifiers, and licenses will be closed.

If Beijing follows through on the longer-term steps of the Action Plan, it will meet most of the TRIPs-related requirements for WTO accession. While under WTO rules China would have at least five years to implement TRIPs, it remains to be seen if WTO guidelines alone will be stringent and powerful enough to prevent infringements. The guidelines address only the legal structure and due process for enforcement once an infringer is identified, and do little to promote an inherent respect for IPR.

Too soon to tell

By increasing the responsibility of individual government officials to improve IPR protection and reducing the economic benefit to infringing companies, Beijing is trying to establish lines of accountability and erode the vested interests that seek to allow such piracy to continue. Western observers and holders of intellectual property should remember, however, that IPR is not a concept that fits easily into Chinese society. Although the Action Plan represents a significant advance in IPR protection efforts in China, it fails to address many of the inherent obstacles to effective IPR controls.

The path to full IPR protection in China has many steps, and the success of much of the Action Plan and other aspects of the February 26 agreement will depend on how well they are implemented and enforced. The agreement should certainly reduce the economic benefit from infringement, increase the need for individual government officials to provide improved protection of intellectual property, and enhance the Chinese government's efforts to educate its citizens on protecting the benefits of individual rights to intellectual property.

Because of the inherent obstacles that remain, breaches to the agreement will no doubt occur, perhaps leading to new rounds of discussions. As long as Chinese society places the public interest over private rights such as IPR and as long as government and other officials accrue economic benefits from infringement, the effectiveness of the Action Plan cannot be guaranteed. Until these obstacles are overcome, protection of IPR will continue to be a source of friction between the United States and China. 完

Competing to Win in the Global Marketplace

■ Jeffrey E. Garten

The Clinton Advocacy Plan

■ Jeffrey E. Garten is under secretary of commerce for international trade. These remarks are excerpted from a speech delivered before the Silicon Valley World Forum on February 1, 1995.

From the beginning, the Clinton Administration has put trade at the center of its domestic and foreign policy. We have made support for US companies fighting to win markets abroad a critical component of our overall approach to trade. In 1993, when we first began preparing a national export strategy, Commerce Secretary Ron Brown, as chairman of the effort, pressed us to realize America's full potential for increasing exports through a systematic program of active support, a strategy we came to call "advocacy." In essence he said, "Go to bat for US companies competing abroad, and aim for one thing—home runs."

Why advocacy is important

For the Clinton Administration, advocacy is not just an activity; it is also a pervasive attitude. Advocacy is not just a strategy of the Department of Commerce; it is a preoccupation throughout the Administration. Advocacy is important because it can help US firms clinch deals that produce US exports, which is important in creating jobs and raising our standards of living. All the data indicate that somewhere between 15,000-20,000 US workers are supported by each billion dollars worth of manufactured goods we export.

Continued importance of exports

We will need a sustained export drive not only to provide jobs but also to offset ever-increasing imports. America has become much more competitive over these past several years. But so have many other countries, particularly the Big Emerging Markets (BEMs) [Argentina, Brazil, the Chinese Economic Area (China, Hong Kong, and Taiwan), India, Indonesia, Mexico, Poland, South Africa, South Korea, and Turkey]. The Chinas, the Brazils, and the South Koreas will be enormous markets for us, to be sure, but they will also be supplying an increasing portion of the goods and services we use.

So far, however, US exports appear to be on the right track. Economic recovery in Europe and Japan, strong growth in Asia, the continued openings of markets in Latin America—this all bodes well for US exports, which could increase by 11 percent this year, compared to 8 percent in 1994. Some Administration forecasts show exports growing three times faster than any other component of US national income over the next decade.

The stakes of not competing aggressively abroad are high—very high. The Asian Development Bank, for example, has estimated that approximately $1 trillion will be spent on infrastructure development in the Asian region by the year 2000. In the next seven years, the governments within the Chinese Economic Area plan to spend approximately $560 billion on infrastructure-related equipment, technologies, and expertise.

These demands are particularly intense in areas in which US firms are strong competitors—power generation, oil and gas, air and surface transportation, telecommunications, and environmental technologies.

It is important that US companies get a share of this enormous market to which the quality of their goods and services should entitle them. It is also vital that our firms get in early and first, so that they can gain the critical experience of being in on the ground floor, understand the foreign market, and build the all-important relationships with customers and government officials that will allow them to win other projects. Nothing so drove home this lesson to many of us last year as the competition to build the first metro in China in which American firms lost to their German counterpart. It is possible that our rivals will not have the inside track in all the subway stations in China—where there are likely to be more systems built in the next two decades than in all of Europe and North America combined.

How advocacy works

The Administration's plan of advocacy is designed to help American business meet this goal. It would be a great advantage to US firms if all the contracts abroad were awarded by merit alone. But we all know this is not the case. In the BEMs, selection of the winning bid is made with heavy involvement by host governments—overtly and behind the scenes. This is almost always the case in the large infrastructure projects and in the projects where governments are selling government-owned companies to the private sector—the two transactions that constitute the bulk of significant deals in the BEMs.

It would be naive to think that competing foreign firms can win without support from their governments. In fact, the absence of demonstrated interest on the part of a "home" government in a project is a disadvantage when every other government is in there fighting for its companies. The Clinton Administration's advocacy strategy addresses this hurdle.

As part of the national export strategy, we have created an Advocacy Network composed of representatives from each of the 19 US government agencies that have a role in export trade promotion. The network meets at least every month and is chaired by an assistant secretary of commerce in the International Trade Administration (ITA). Members of the Advocacy Network are able to reach the highest levels of their agencies for quick response to advocacy requests from American business. The mandate of the Advocacy Network includes the following:

> Administration forecasts show exports growing three times faster than any other component of US national income over the next decade.

■ **Strategic planning** This interagency group is a forum that keeps the docket for all the projects we are considering. At these sessions we can discuss how to react to an emergency situation, but we can also ask one or two agencies to keep ideas on projects with a longer gestation period. At times, other US government agencies are brought into the network process—for example, the Nuclear Regulatory Commission for nuclear power projects or NASA for satellite projects.

■ **Information gathering** Gathering accurate and up-to-date information on projects is, of course, critical. We rely heavily on the US Foreign and Commercial Service, but also draw from numerous other sources in all 19 agencies. For example, the Federal Aviation Administration at the Department of Transportation regularly interacts with aviation authorities around the globe (*see* p.12). This provides a valuable source of information on aerospace infrastructure projects. The principal supplements to Department of Commerce sources are those provided by the State Department and the financing agencies—the Export-Import Bank of the United States (Ex-Im Bank), the Overseas Private Investment Corporation (OPIC), and the Trade Development Agency (TDA).

■ **Project vetting** One of the major functions of the Advocacy Network is to assist in the determination of whether it is appropriate to advocate a particular project—particularly those that may raise environmental or workers' rights questions. As you can imagine, many policy issues can arise when we consider whether to support a particular project. We may have a question about whether to back a nuclear power project, for example. Or there may be an issue relating to the appropriateness of any commercial activity in a country where we have serious foreign policy problems. Through the network, we have an interagency sounding board. If a particular policy issue is highly sensitive or controversial, we will kick it up to the National Economic Council or the National Security Council.

■ **Financing** The ability to finance US exports is an obvious key to US success in gaining business abroad. For the first time, we have created a forum where programs of Ex-Im Bank, OPIC, TDA, and the Department of Treasury can be used to supplement one another to the benefit of American business.

For example, Ex-Im financing of the export content of a project has on several occasions supplemented OPIC guarantees or insurance on the investment portion. One case is the Dabhol power project in India where Ex-Im Bank is providing limited-recourse financing and OPIC has signed an agreement to provide $100 million in all-risk guarantees of debt financing and $200 million of political risk insurance for equity and debt financing. In some of these cases the feasibility studies for the projects were initially financed by TDA. Agencies of other governments have long worked together on financing packages. Now, through the Advocacy Network, for the first time we do, too.

■ **Performance measures** The Advocacy Network has also been active in formulating the performance measures necessary to assess the scope and direction of our advocacy effort. Typical quantitative measures include the export content of contracts secured and the number of jobs supported by those exports. Data is gathered to help the Administration continually evaluate its efforts. A summary of this information is included in annual reports to Congress on the national export strategy.

A new advocacy facility

The Clinton Administration isn't the first to help US companies, of course. It is the first, however, to mount such an aggressive and systematic export promotion strategy and to infuse the entire cabinet with such consciousness for the need to do commercial battle in this fiercely competitive global marketplace.

When the Administration first started to look at an export strategy, one of the glaring deficiencies was the lack of a "nerve center" for this activity. Advocacy tended to be rather ad hoc. There were several different agencies involved, including the White House. But nowhere was the process institutionalized and conducted as an ongoing function. Disparate offices were unconnected both physically and in terms of communication. There was no repository of data, and no institutional memory so that the government might learn from its experience or measure results. There was no sense of the need to have the capacity to mobilize resources for the ongoing battle. There was no dedicated cadre of people whose sole purpose was high-intensity advocacy.

To address these problems, last year we set up a permanent "war room" which we call the Advocacy Center. The center has undergone quite a transition in the last year. At first, it was just a few people crammed into a dim government office. As the team became overwhelmed by requests to handle multiple projects and sought to prepare Secretary Brown and others for high-level advocacy trips, it expanded, still without adequate facilities, including computers and software. Then, after the resounding success of several advocacy efforts, we decided to make the "war room" what it should be, what it must be: a sizable operation, more akin to a Wall Street trading floor than the office you would find in a typical government building.

And that's just about what we are now. The new facility is located in the ITA. We have expanded the staff to around 20 people. The center is staffed partly by industry specialists, so that we can marshal the requisite expertise for specific deals. It is tied into all parts of the Commerce Department, including our industry and country desks, foreign and domestic commercial services, the Office of Business Liaison, the General Counsel, the Technology Administration, and the Bureau of Export Administration. It is linked to all the departments and agencies of the Advocacy Network, with the same assistant secretary of commerce having immediate oversight of both the Advocacy Network and the Advocacy Center.

Here's how it works. A project comes in from one source or another. It could be through the Advocacy Network. It could be from a US ambassador abroad or a CEO who has called Secretary Brown or another cabinet officer. It could be an alert from Ken Brody at Ex-Im Bank or Ruth Harkin at OPIC. It could be direct contact from a senior company official. It doesn't matter how the project initially comes to our attention, however, since we are all on the same team, and the most critical issues quickly find their way to the Advocacy Network and Advocacy Center.

> By the turn of this century, the 10 BEMs will be importing more from us than either Japan or the European Union.

A new focus

The Administration, of course, seeks opportunities to promote US sales and support American jobs wherever we find them throughout the world—without rigid, preconceived notions of geography and sector. The key issue is that a US firm comes to us for help, the playing field is not level because of another government's involvement, and the project is important to the US economy. Nevertheless, given scarce resources and the need to build expertise, we do need a combined geographical and industry focus.

Our primary country focus is the BEMs. Our calculations indicate that by the turn of this century—less than five years away—the 10 BEMs, as a group, will be importing more from us than either Japan or the European Union. By the year 2010, their imports of US goods could well exceed those from *both* Japan and Europe combined. In fact, during the 1990-2010 period, the BEMs could account for $1 trillion in incremental US exports. Our exports to the BEMs totaled $106 billion in 1992, approximately a quarter of our exports. We expect that BEMs will more than double their share of world imports, as well, rising to nearly 27 percent by 2010. No other category of market shows such dramatic growth potential.

In our in-depth studies of such BEMs as Indonesia, China, Argentina, and Brazil, we have formulated a vision of the areas where their imports are likely to be greatest. This, in turn, leads to our sectoral focus for the advocacy strategy.

Several clusters of industries are high on the list. They include:

- **Information technology**, including telecommunications, computers, and software;
- **Environmental technology**, including pollution control equipment and consulting services;
- **Transportation**, including aviation, automotives, and the services and equipment needed to build modern rail systems and airports;
- **Energy technology**, especially for the soaring demand for electric power;
- **Health care technology**, including advanced medical equipment, pharmaceuticals, biotechnology, and hospital management services;
- **Financial services**, including banking, insurance, and the securities business.

CONTACTS

For More Information

US exporters can contact the Department of Commerce Trade Information Center for general information regarding the Advocacy Center, other export programs, and contact numbers for district offices of the Department of Commerce.
Tel: 800/872-8723.

Companies can also contact the US Foreign and Commercial Service in Beijing:

US Foreign and Commercial Service
US Embassy
3 Xiushui Bei Jie
Beijing, China 100600
Tel: 8610/532-3831
Fax: 8610/532-3178, 3297

As in the BEM category itself, these "Big Emerging Sectors" are illustrative; they are not our exclusive focus, and priorities may change. We also have a great interest in advanced materials, in the chemical industry, and in industrial machinery, for example, all of which could be added to the initial list.

Indeed, a sectoral focus should not be equated with an "industrial policy" of any kind. It does not involve picking winners and losers, but rather it supports those industries where we know, without doubt, that markets abroad are expanding, where the United States is already doing well but could clearly do better. A sectoral focus is driven by a careful assessment of market potential in each BEM. It is, however, important to have a starting point for our advocacy approach, even if it is just that—a point of departure.

Advocacy efforts in China

I want to describe a specific example of our advocacy efforts. The US government itself did not win this deal nor does it deserve credit for the contract. It was the US firm that invested the time and resources. If a contract was won, it is because the firm had the best product. But as I said before, when the playing field is artificially tilted because other governments are weighing in, it helps to have Uncle Sam on the company's side.

On September 2, 1994, Secretary Brown concluded a Presidential Business Development Mission to Beijing, Shanghai, Guangzhou, and Hong Kong. A variety of deals were concluded, aggregating to approximately $6 billion. He had a clear mission—to promote deals sought by US firms.

A centerpiece of every discussion he had was the deals sought by US firms. He brought these up in big meetings and small. He talked details. These discussions took place with the president of China, the premier, two vice premiers, and several ministers. Our ambassador was following up on the heels of every discussion. Not everything happened on the trip itself. In fact, from the minute his plane returned to Washington, Secretary Brown led an intensive push to close some of the deals that were still open.

One of these was a major aircraft sale to China by McDonnell Douglas. The firm had an existing agreement with China to deliver 40 aircraft beginning in 1997 with options that would allow for an additional 130 planes by the end of the decade. The total value of the 40 aircraft exceeded $1.2 billion. The contract would be worth as much as $7 billion when 170 planes are delivered. However, Beijing wanted the planes built in China.

When the playing field is artificially tilted because other governments are weighing in, it helps to have Uncle Sam on the company's side.

Last November, months after the mission, Chinese Vice Premier Li Lanqing, with whom Secretary Brown had long discussions on the project in Beijing, came to Washington. While he was here, McDonnell Douglas signed an amendment which modified the pre-existing agreement by specifying that the first 20 aircraft would be produced in Long Beach, California instead of China. The benefits to the economy of California should not be overlooked.

Reflections on the future

In 1994, the Clinton Administration was involved in providing advocacy on transactions—where US companies got the business—with a US export content of some $20 billion. That is export content. The value of the transactions themselves is estimated at somewhere around $46 billion. Twenty billion dollars of exports is estimated to support some 300,000 US jobs.

This is not a bad record for one year. We have had to make up for many years when other governments recognized the nature of international competition—and took operational steps to deal with it—while we were preoccupied with other things. But in 1993 and 1994, we have made great strides in catching up. 完

Another Good Year

More than 150 US-China Business Council members convened in Washington on June 8 for the Council's 22nd Annual Meeting. Coinciding with Taiwan President Lee Teng-hui's visit to the United States and with the recent decision by President Clinton to renew China's Most Favored Nation (MFN) trade status, the meeting emphasized the primacy of business to the US-China relationship.

Council Chairman Maurice Greenberg opened the meeting by declaring the Council a healthy, growing organization, and praised Council President Robert A. Kapp for the active role the Council has taken over the past year in promoting the interests of member companies. Greenberg noted that recent events have weakened US-China relations, but commented that "friends work out differences."

Kapp reported to the membership on the Council's dynamic growth in 1994 and the opening of a full-fledged Hong Kong office in June. Kapp renewed the Council's commitment to service member company requests, lobby members of Congress on China-related legislation, and remind Congress, Chinese officials, and the American public that "business is the core of the US-China relationship."

Richard Drobnick, director of the Center for International Business Education and Research at the University of Southern California, analyzed China's business environment from a regional perspective. Drobnick attributed the economic success of East Asian nations to their use of managed trade, rejecting the view that free trade alone is the basis for strong Asian economies.

Calling China and her neighbors part of "America's near West," Drobnick exhorted US businesses to explore opportunities in Asia, expressing his confidence that China will continue along the path of economic growth and liberalization. He noted that China's GNP in 1995 will probably fall on the upper end of the region's expected 6-10 percent growth rate, with US exports to China expected to increase by 16 percent this year. Drobnick attributed China's incredible economic transformation to changing ideas, technologies, telecommunication capabilities, and the country's integration into the international economy.

Representative Philip M. Crane (R-IL) discusses congressional attitudes on MFN.

Despite his optimism, Drobnick enumerated five potential risks that could threaten the pace of the country's reform: recessionary collapse precipitated by restrictive monetary policies; uncertainty over the post-Deng era and continued support for reforms; social unrest caused by major migration, inflation, and/or corruption; regionalization of authority; trading penalties imposed on US firms in retaliation for anti-China legislation; or, conversely, US-imposed penalties on PRC exports.

Congressman Philip M. Crane (R-IL), chairman of the House Ways and Means Committee's Subcommittee on Trade, closed the morning session with a discussion of US-China trade, particularly the upcoming debate over the President's extension of China's MFN trade status. Despite bipartisan support for free trade, Crane said that defeat of Representative Frank Wolf's (R-VA) resolution of disapproval on MFN before Congress recesses in early July is uncertain. Given the large number of first- and second-term representatives, Crane exhorted Council members to join the pro-MFN lobbying effort and to alert other members of the business community to do the same. Characterizing US business as a "positive, constructive influence" in China, Crane argued that extension of China's MFN

Council's Board Grows

At this year's annual meeting, the Council added 5 more directors, increasing the number of directors from 25 to 30. Member company delegates elected a total of 9 new representatives to the Council's board of directors. Elected for three-year terms expiring in June 1998 were: George M. C. Fisher, chairman, president, and chief executive officer, Eastman Kodak Co.; Carla A. Hills, chairman, Hills & Co.; Michael H. Jordan, chairman and chief executive officer, Westinghouse Electric Corp.; John M. Kucharski, chairman, president, and chief executive officer, EG&G, Inc.; James A. Lawrence, chief operating officer, Asia/Middle East/Africa, Pepsi-Cola International; Harry J. Longwell, senior vice president, Exxon Corp.; Robert W. Reynolds, corporate vice president, International Operations and Development, Monsanto Co.; George W. Sarney, president, The Foxboro Co.; and Lawrason D. Thomas, vice chairman, Amoco Corp.

A full list of the board of directors appears on p. 2.

trade status would allow the United States to continue contributing to China's economic development.

During the luncheon, Duan Yongji, president and chief executive officer of Stone Group, a leading PRC electronics conglomerate, presented a different perspective on business in China by contrasting private- and State-owned enterprises. Non-State-owned enterprises that operate with full financial autonomy from the government, including township or village enterprises, privately owned businesses, collectives (such as Stone), and foreign joint ventures, have been enormously successful. Stone Group is one of China's largest such enterprises, with 3,500 employees and sales of over $500 million last year. According to Duan, these enterprises as a group averaged growth rates of 21.4 percent in 1994. Duan characterized these enterprises as "clay rice bowls," because they incorporate private enterprise business practices but must provide for employee welfare.

After lunch, members attended workshops or went to Capitol Hill to lobby congressional staff on the importance of China's MFN renewal for US business. In one workshop, "Communicating with Your China Office," participants learned how to expand data networks and take advantage of recent technological advances in China's communications system. Speakers provided members with a general overview of the current level and type of communications technology available in China. William Ohnsorg of AT&T China described a "China Manager's Survival Kit," giving members the basic ingredients for building an efficient trans-Pacific communications link. George Grimes of Sprint International discussed China's regulatory environment, explaining that the Ministry of Posts and Telecommunications oversees phone linkages and access to data communications and networks. Only two networks provide public access to the Internet from China.

To give members a snapshot of a communications project in the making, Reuel de la Rosa of IBM's Advantis briefed members on the progress of IBM's involvement in the Jitong Project. In addition to providing domestic connections for banking, telephone, and data communications, the Jitong Project will upgrade existing data network capability to provide greater access to the Internet from China. A fourth speaker, Ross Stapleton-Gray of TeleDiplomacy, Inc., explained the difficulties posed by present regulations on China's public Internet access and addressed security issues associated with Internet communications.

At the "China Market Research Strategies" workshop, Michael van Buskirk of Gallup China Ltd., Yuan Liu of China Economic and Trade Consultants Corp. (Consultec), and Christopher Brown of AMF Bowling, Inc. presented different approaches to conducting market research in China. Van Buskirk emphasized the importance of using well-trained interviewers to collect primary data. He also stated that Gallup China, with 31 satellite offices in the PRC, conducts "pantry checks," or house visits, in 10 percent of all interviews when collecting primary data. Liu explained that Consultec, an agency of China's State Economic and Trade Commission, relies heavily on its contacts within the ministries to obtain data for its clients.

Brown emphasized that market research projects, conducted in-house or by an agency, should strive to incorporate the needs of corporate decisionmakers. He maintained that projects aimed at knowing to whom a firm should market its product or service, rather than where or how to market, produce the most "bang for the buck," and merit a company's time and resources.

The Capitol Hill lobbying visits, meanwhile, enabled Council members to voice their support for renewal of China's MFN status to members of Congress who were still undecided on the issue. The group formed five teams, each with a handful of Council members, to visit representatives from districts where member companies have factories that manufacture products for export to China. Council members had the opportunity to impress upon the members of Congress and their staff that without MFN, thousands of citizens in these districts would lose their jobs and that billions of dollars in US exports would be lost.

Chemical Minister Lays Out Industry Priorities

The Council co-hosted a dinner on May 1 with the Chemical Manufacturers Association in honor of Madame Gu Xiulian, head of China's Ministry of Chemical Industry. Gu was in Washington participating in the first formal working group of the Joint Commission on Commerce and Trade (JCCT) Chemicals and Allied Products Subgroup. During her evening speech, Gu emphasized the importance of foreign imports for China's chemical industry and announced plans to restructure the industry and invite greater levels of foreign investment.

According to Gu, the ministry's priorities during the Ninth Five-Year Plan (1996-2000) include improving energy conservation in chemical manufacturing; increasing chemical fertilizer production; and developing food additives, agrochemicals, and easily applied pesticides. In addition, the ministry plans to establish chemical industry zones, develop export-oriented plants, incorporate imported advanced technologies in the manufacturing process, and strengthen environmental protection within the industry by dismantling plants that emit excessive pollutants. To support these goals, Gu stated that the ministry will encourage chemical joint ventures and actively import foreign capital and technology, ceding a certain portion of China's domestic market to chemicals produced by foreign-invested enterprises (FIEs). Currently, 1,554 FIEs in the chemical industry are operating in China.

Commerce Deputy Under Secretary for International Trade Raymond Vickery also attended the dinner, praising the progress of the Chemicals and Allied Products Subgroup talks and announcing bilateral initiatives for trade promotion and technology exchange. Further talks and a US technical mission to China are scheduled for September.

Project Finance Moves Forward

On May 23, during a half-day meeting co-sponsored by the Export-Import Bank of the United States (Ex-Im Bank) and the US-China Business Council, State Planning Commission (SPC) Vice Minister Gan Ziyu briefed Council members on China's views toward project finance. This new Ex-Im program allows for limited-recourse financing and accepts the project's anticipated returns as a guarantee (*see The CBR*, March-April 1995, p.39).

In the morning session chaired by former United States Trade Representative Carla Hills, Gan noted that approval for some of the projects has been slow because much confusion exists in China over the scope of project finance and how it and other financing models such as build-own-transfer can best be applied to meet China's investment needs. Gan stressed, however, that there is no political opposition to the idea of project finance, stating that the SPC will begin approving projects soon, once the Ninth Five-Year Plan (1996-2000) is underway. Gan encouraged US investors hoping to avail themselves of Ex-Im's project finance program to identify their investment as a project-financed deal from the very beginning.

In response to questions concerning equity caps on foreign investment, delegation members reiterated Beijing's stand that foreign participation in power grids is prohibited. Nuclear, hydroelectric, oil, gas, and public utilities will be held to majority PRC ownership, though thermal power plants and coal mining ventures can be majority foreign-owned. Delegation members also noted that foreign exchange balancing for project-financed projects will be conducted as it is with other FIEs—plans set forth in the project's feasibility study will be used to determine access to foreign exchange.

China's Patent Director Briefs Legal Committee

The Council's Legal Committee hosted a series of meetings in Washington, DC and New York with Gao Lulin, director general of China's Patent Office, to discuss the recent Sino-US agreement on enforcing US intellectual property rights (IPR) in China. Gao also offered suggestions for member companies who are dissatisfied with China's protection of IPR for their products and discussed developments in China's patent policy since the signing of the February 1995 agreement (*see* p.20).

Specifically, Gao explained attempts by the Patent Office to computerize its records of the more than 230,000 patents currently held in China and to train judges and auditors on detecting IPR violations. The overhaul of the Patent Office is necessary to accommodate the dramatic increase in the number of patent applications submitted, Gao explained. In 1985, the Patent Office received approximately 17,000 applications; in 1994, it collected more than 77,000. Gao advised companies to try to resolve IPR disputes first through "peaceful negotiation" with the offender, before bringing the case to administrative organs within local branches of the Patent Office or to a Chinese court. Gao assured member companies that either method would adequately address their concerns.

In the Next Issue of *The CBR:*

- **Chinese Consumer Behavior**
  An analysis of the results of a national consumer survey.
- **Distribution Networks**
  A look at ways to get goods into consumers' hands.
- **Cosmetics Industry**
  Cosmetics use—and suppliers' earnings—are soaring.
- **Government Procurement**
  China's accession to GATT may require fewer "local content" regulations for government contracts.
- **Leasing Office Space**
  The first test for doing business in China—landing office space.
- **Internet in China**
  A look at China's place in the global telecommunications village.

Picking the Winners in Profitability and Productivity

■ Shaomin Li, Yuxian Gao, and Guangqin Ma

A new directory allows a closer look at Chinese firms

■ Shaomin Li is staff manager and Guangqin Ma is a senior analyst at AT&T Business Operations Analysis in Basking Ridge, New Jersey. Yuxian Gao is president of the All-China Marketing Research Co. in Beijing.

For years, Beijing treated even routine statistical data on China's industrial assets as State secrets, making it difficult for foreign investors to conduct market research or make informed decisions about potential joint-venture partners. Recently, however, the government has begun to allow new, quasi-private consulting arms of various government organs to compile and sell statistical information. Though this type of information is commonly available free of charge in some countries, foreign investors generally welcome these efforts by the PRC to shed more light on China's business environment, regardless of the cost.

In 1993, the State Statistical Bureau (SSB) began to provide business-related information through a consulting agency, the All-China Marketing Research Co. (ACMR). One of ACMR's products, *China's Top 100,000 Companies* (*Zhongguo Dalu Shiwan Jia Gongshang Qiye Xinxi Daquan*), provides for the first time detailed information on leading firms in China. Compiled from a 1993 SSB census of over 400,000 firms in China, the report is available in Chinese and in printed and computerized formats.

The database, which contains all the companies included in the 1993 survey, lists company variables such as assets, revenues, and major products. While investors can use the database to learn more about individual Chinese firms, the database also affords some interesting analysis of overall industrial trends in China. Manipulating the data, for example, allowed us to assess firm productivity and profitability in relation to type of ownership, location, industry, size, and age. The analysis looked at State, collective, domestic, and foreign-funded companies in eight major industry categories: natural resource extraction; utilities; food; textile and light industries; chemicals and drugs; construction and metal smelting; machine manufacturing; and electronics, computers, and automation equipment.

We classified a firm's size as "small," "medium," or "large," based on the average number of employees. Depending on the industry, a large firm could have anywhere from 3,000 to 19,000 employees. Similarly wide ranges characterize the number of employees in medium (700-2,300) and small (180-600) enterprises. Young firms were defined as those established after 1977, middle-aged as those established between 1949-77, and old firms as those established before 1949.

The results of our analysis show that the most profitable and most productive firms in China tend to be small, young, located in coastal areas, and foreign owned. Firms on the lower end of the productivity and profitability scales tend to be large, old, State-owned, and located in the inland regions.

Examining productivity

These general conclusions may come as little surprise to most investors in China and, indeed, correlate with other reports on foreign investment by the SSB and Ministry of Foreign Trade and Economic Cooperation. Our in-depth analysis suggests that foreign- and overseas Chinese-funded firms have by far the highest labor productivity, defined as total revenue divided by total number of employees (*see* Table 1). Some factors contributing to the high productivity of Sino-foreign joint ventures and wholly foreign-owned enterprises include the higher concentration of capital and advanced technology, clearly defined ownership rights, and ability to select business partners. High-productivity firms tend to be concentrated in the food industry, which includes liquor and tobacco, because these firms have higher average revenues to offset the higher taxes levied on their products.

Table 1
Firm Productivity

Type of Ownership	Percentage of Total Firms	Average Labor Productivity (1,000 ¥)
State owned	42	45
Collective owned	51	47
Domestic joint venture	2	57
Foreign funded	2	130
Overseas Chinese funded	3	114
Overall*	**100**	**50**

Source: *China's Top 100,000 Companies*
* Overall average is weighted by the percentage of firms in each category.

Table 2
Firm Profitability

Type of Ownership	Percentage of Total Firms	Average Percentage Return on Investment (ROI)
State owned	42	8.8
Collective owned	51	16.3
Domestic joint venture	2	12.8
Foreign funded	2	11.8
Overseas Chinese funded	3	10.3
Overall*	**100**	**12.6**

Source: *China's Top 100,000 Companies*
* Overall average is weighted by the percentage of firms in each category.

Table 3
Performance of Foreign-Funded Firms by Firm Age*

Year Founded	Percentage of Total Firms	Average Labor Productivity (1,000 ¥)	Average Percentage Return on Investment (ROI)
1992	10.1	108	13.5
1991	17.6	114	8.0
1990	18.7	119	8.1
1987–89	36.7	125	11.7
1982–86	15.2	132	14.4
1978–81	1.7	104	10.9
Overall**	**100.0**	**121**	**11.0**

Source: *China's Top 100,000 Companies*
* Foreign-funded firms include overseas Chinese-funded firms.
** Overall average is weighted by the percentage of firms in each category.

On the other end of the spectrum, the least productive firms are older, State-owned companies, particularly those involved in natural resource extraction. State-owned enterprises suffer from low productivity because ownership rights are poorly defined at these firms. As a result, workers lack the incentive to work as hard as their counterparts in non-State-owned firms and management cannot lay off unproductive workers. The low-productivity firms are mainly concentrated in the Northeast or were established in the planned economy era between 1949-77.

Looking at profitability

Highly productive firms, however, may not be highly profitable. We defined profitability, also known as return on investment (ROI), as the ratio of total pretax profits to total fixed and current assets. Of the 400,000 firms in the database, collective-owned enterprises tend to be the most profitable, with an average ROI of 16.3 percent (*see* Table 2), which may be due to their greater reliance on labor rather than capital.

Further, collective-owned firms that are young, small, and located in coastal areas and the Southwest are the most profitable. Those involved in natural resource extraction, food, and utilities (water, electricity, and heating) also appear with high frequency among the most profitable firms. Because many utilities companies are small collectives that operate outside of State pricing regulations, they can charge higher fees and achieve larger profit margins.

State ownership is common among the least-profitable types of firms, which are likely to be in the Northeast, large or medium-sized, and established before 1977. Because of their age, State-owned firms generally have a larger percentage of older workers and retirees for whom they must provide pensions and other social services, thereby diminishing their profits. Somewhat surprisingly, the natural resource extraction firms appear in both high- and low-profitability profiles, suggesting that some industry sectors in China are not inherently profitable or unprofitable.

How foreign firms stack up

A subject of great concern to the international business community, of course, is the performance of foreign-funded firms in China. Examining the performance of these enterprises by age, we found that the older a foreign-invested enterprise (FIE) is, the more productive it is likely to be (*see* Table 3); FIEs that are less than a year old or more than 10 years old are exceptions to this trend. Older firms may be generally more productive because they have established efficient production operations and have captured a significant share of the market. Firms that are more than 10 years old, however, are noticeably less productive than their younger counterparts. In contrast, firms that are less than a year old received unexpectedly high productivity marks, which may be due to any number of factors, from good organization to pure luck. Because FIEs are relatively young—almost half of these firms were founded after 1990—and because they tend to be less productive in their early years, the analysis may underestimate the performance of foreign-funded firms as a group.

In terms of profitability, FIEs established after December 1992 show an unusually high average profit, perhaps because these firms tend to be joint ventures with a high degree of capitalization and advanced technology (*see* Table 3). Nonetheless, excluding these "newborn" firms, a trend similar to that of the FIE productivity scale emerges—profitability tends to increase with a firm's age.

Two caveats, however, must be kept in mind when drawing conclusions about the relationship between a FIE's age and its productivity or profitability. First, the high productivity and profitability of foreign-funded joint ventures compared to other types of firms may be explained by the fact that the foreign partner will generally seek an established, relatively strong company to be its local partner. Second, our analysis may underestimate the profitability of FIEs because foreign-funded manufacturing firms receive tax exemptions for the first two years after showing a profit and a 50 percent tax reduction for the subsequent three years. Some foreign-funded manufacturing firms have adopted certain accounting practices that understate their profits so that they can benefit from reduced tax rates for as long as possible.

Reading the numbers

Our analysis of the data in *China's Top 100,000 Companies* reveals that "small is beautiful"—small firms in China almost always outperform large firms in terms of productivity and profitability. This result may be due to these firms' fewer layers of management, their ability to keep abreast of market developments, and flexible production arrangements that enable them to adjust to changes in demand.

Another important finding is that enterprises with defined property rights tend to be among the most productive and most profitable. Firms with clearly defined property rights—such as collective-owned and foreign-funded enterprises—have finite budgets, face market competition, and can go bankrupt. Their State-owned counterparts, which do not face the same budgetary constraints or survival pressures, fared the worst in our analysis, probably because their workers and managers are not held accountable for the quality or quantity of their output and therefore are not motivated to be efficient.

For investors looking for a sound partner or hoping to carve out a market niche, the analysis of *China's Top 100,000 Companies* is food for thought, but suggests only overall trends and offers no guarantee that a venture with a specific partner or in a certain locale will be successful. In the near and short term, government policies will continue to have a strong impact on business, and foreign firms that establish operations in preferred industries and locations stand to benefit from Beijing's priorities. For example, Beijing recently prioritized investment in agriculture, seeking to boost both foreign and local investment. New investment incentives should make it easier for Chinese firms involved in the agricultural sector to be productive and stay in the black. As every journey begins with a single step, foreign investors in China should first take note of all regulations pertaining to a prospective venture and examine historical trends to gain a better understanding of the types of firms that tend to flourish in China's investment climate. 完

Umbrellas Unfurled

■ Helena Kolenda

New investment company regulations provide the stays for a streamlined structure

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The ranks of foreign firms with multiple China projects have been growing in recent years, with many firms lining up at the Ministry of Foreign Trade and Economic Cooperation (MOFTEC)'s gates to negotiate approvals for a single investment vehicle to integrate all their China activities. Until April, however, no formal regulations existed on the establishment of what is referred to as an "investment company" (*touzi gongsi*), also known as a "holding" or "umbrella" company. In April, foreign investors gladly received MOFTEC's Interim Provisions on Investment by Foreign Businesses in Companies of an Investment Nature (the Provisions), which formally set forth the requirements and procedures for the establishment of such a vehicle. While the Provisions are vague or silent on certain aspects of investment company functions, they offer some guidance to the many foreign firms that seek to coordinate their China operations.

Despite the lack of formal regulations, more than 50 investment companies had received MOFTEC approval by the end of 1994 on the basis of a minimal set of internal guidelines (*see The CBR*, May-June 1995, p.49). While many of the stipulations contained in the Provisions are similar to the internal guidelines, the Provisions raise the stakes for forming an investment company, in an apparent effort by MOFTEC to restrict the use of this vehicle to firms with a proven track record and large corporations with ambitious China plans.

Making the grade

Defined as a limited liability company established by a foreign investor to engage in direct investment, an investment company can take the form of a wholly foreign-owned enterprise (WFOE) or Sino-foreign equity joint venture (EJV), but cannot be a Sino-foreign contractual joint venture. To form an investment company, all investors, whether foreign or Chinese, must be able to demonstrate proof of "good credit" and "economic strength."

According to the Provisions, Chinese partners to prospective EJV investment companies must have a minimum total asset value of ¥100 million. Foreign applicants for WFOE or EJV investment companies must meet one of two sets of criteria. The first set of conditions is threefold: the foreign investor must have had a minimum total asset value (which is undefined in the Provisions) of $400 million in the year prior to its application to establish an investment company; have established one or more foreign-invested enterprises (FIEs) in which it has actually contributed at least $10 million in registered capital; and have obtained approvals (*lixiang*) for three additional FIE project proposals. Applicants meeting this first set of conditions have the option of establishing an investment company in the name of a wholly owned subsidiary rather than in their own names, which may offer some comfort to foreign investors who want to insulate corporate headquarters from direct exposure to liabilities in China.

Alternatively, the second set of conditions stipulates that the foreign investor must have established in China a minimum of 10 FIEs engaged in manufacturing or infrastructure construction to which it has actually contributed at least $30 million in registered capital.

An applicant must show evidence that it meets one of these sets of conditions by providing a reference letter from a bank certifying its creditworthiness, evidence of its due incorporation or business registration, copies of approval certificates, business licenses and capital verification reports for each existing FIE, and balance sheets (whether these must be audited is not specified in the Provisions) of each investor in the investment company for the previous three years.

The investment company itself must have registered capital of at least $30 million—a significant increase from the $10 million required under the internal guidelines. Although the Provisions do not specifically so provide, MOFTEC has taken the position that registered capital must be in new cash; in-kind contributions, such as transfers of interests in existing FIEs, land use rights, or equipment, cannot be included in the calculation of registered capital for this purpose. Also not stated explicitly in the Provisions, but confirmed in conversations with officials, is MOFTEC's insistence that the $30 million be used for new investments rather than for the purchase of existing investments.

The Provisions require registered capital to be contributed within two years of the issuance of the investment company's business license. In the case of the foreign investor, this must be in the form of a freely convertible currency. A Chinese party to an EJV investment company, however, may make its capital contribution in *renminbi* (RMB), leaving open the possibility that its contribution could be in-kind or in a currency other than RMB.

Deciding to apply

The new requirements, which clearly favor large corporations able to commit a significant amount of capital within a relatively short time period, will cause many investors to weigh more carefully whether an investment company is worth the expense and effort. It should be noted, however, that a foreign investor meeting the asset value and invested capital thresholds in the first set of conditions need not necessarily bring to completion the three additional FIEs for which it has obtained *lixiang*, which are based on non-binding letters of intent only. A MOFTEC official has confirmed that the breakdown of negotiations for one or more of these proposed projects will not derail approval of the investment company. The underlying assumption seems to be that no investor would inject $30 million or more unless it had serious plans for utilizing such funds in the short term.

As under the internal guidelines, to begin the investment company approval process, the foreign investor first submits an application and supporting documentation to the local counterpart of MOFTEC in the jurisdiction where the investment company will be located, which will then forward the application to MOFTEC for final approval.

In addition to providing the general documents for an investment company, a foreign investor needs to include the standard set of documents for establishing an EJV or WFOE. An EJV investment company application package should include a project proposal, feasibility study, joint-venture contract, and articles of association. A WFOE investment company application should contain a project proposal, WFOE application form, feasibility study, and articles of association. Although the guidelines for a standard WFOE do not call for a project proposal, the project proposal required in the WFOE investment company application process, according to one MOFTEC official, should simply summarize the basic terms of the investment company arrangement that are detailed in the feasibility study and need not be submitted separately to the local planning commission. MOFTEC may also require additional documentation.

An investment company applicant is also required to provide a letter guaranteeing that it (or its wholly owned subsidiary if the investment company will be established through such an entity) will make any registered capital contribution or technology transfers to which the investment company commits itself under contract, in the event the investment company fails to do so. Through this mechanism, MOFTEC effectively keeps the offshore parent company "on the hook," preventing it from simply limiting its liability (and obligation) to its registered capital contribution to the investment company.

Once established, an investment company will be subject to annual reporting requirements. In the first quarter of each year it must submit a report to MOFTEC detailing investment activities undertaken in the previous year.

The Provisions state that the term of an investment company will be determined in accordance with relevant FIE laws and regulations and on the basis of the types of projects in which the investment company invests. Legally, both WFOEs and EJVs may have perpetual terms. In practice, perpetual terms are rarely granted by MOFTEC or its local counterparts. Investors can make the argument that an investment company's term should be unlimited, since it can continually invest in new projects, each with a different term. Some investors report, however, that local-level officials are reluctant to approve a term of more than 100 years.

Do's and don'ts

Many foreign investors had hoped that the Provisions would expand the areas of permissible investment company activity. Although not expanded significantly, the list of permitted and prohibited activities in the Provisions removes the uncertainty foreign investors faced under the internal guidelines. The Provisions explicitly allow an investment company to invest in industry, agriculture, infrastructure, and energy projects. An investment company may also provide consulting services for its *investors*. The intent of this last provision is unclear, but at least some government authorities are taking the position that consulting services should be related only to the investment, not trade, activities of the investors. If this interpretation holds, an investment company will not be able to undertake all the functions of a traditional representative office, thus making it less attractive.

The Provisions reiterate MOFTEC policy that an investment company, like all other FIEs, may not import finished products on behalf of its offshore parent or affiliates for direct sale in China. Although the Provisions do not so state, MOFTEC has confirmed that an investment company cannot be established as, or converted into, a foreign investment company limited by shares. This prohibition will limit one of the means by which an investment company can finance its investment activities. MOFTEC has also stated that, at present, an investment company cannot buy publicly listed shares of PRC issuers.

An investment company may furnish a range of services to its subsidiary investments, subject to the limitations described below and provided that it has been authorized to do so through unanimous approval of the board of directors of any such subsidiary. The Provisions also stipulate that all transactions between an investment company and its subsidiaries are to be handled as business transactions between independent enterprises, presumably meaning that they are to be conducted on an arms-length basis on commercially reasonable terms.

The services that an investment company may provide are:

- assisting in personnel recruitment;
- providing technical training, market development, and consulting assistance;

> Although not expanded significantly, the list of permitted and prohibited activities in the Provisions removes the uncertainty foreign investors faced under the internal guidelines.

- assisting in borrowing funds, including the provision of guaranties;
- assisting or "acting as an agent for" (*daili*) subsidiaries in the procurement, domestically or abroad, of machinery and equipment, including office equipment to be used by the subsidiaries, and raw materials, components, and spare parts necessary for subsidiary production processes;
- assisting or acting as an agent for subsidiaries in the sale, domestically or abroad, of subsidiary products and providing after-sales service for such products;
- balancing foreign exchange among subsidiaries, with the approval of the foreign exchange authorities; and
- providing financial support services to subsidiaries, with the approval of the People's Bank of China (PBOC).

Accompanying the list of permissible activities are restrictions on relations between an investment company and its subsidiaries. Without special approval from MOFTEC, investment company services can only be provided to subsidiaries in which the investment company (alone or with other foreign investors) holds at least a 25 percent interest, either through a direct capital contribution or the purchase of an interest. Moreover, foreign investors that seek FIE status for investment company subsidiaries, thereby affording the subsidiaries the tax and other privileges available to FIEs, must ensure that at least 25 percent of each subsidiary's registered capital is in foreign currency (*see* box).

To the disappointment of many foreign investors, the Provisions follow established precedent by prohibiting investment companies from freely balancing foreign exchange among subsidiaries. The same rules that apply to FIEs regard-

Investment Companies and Taxation

Three months prior to MOFTEC's release of the Interim Provisions on Investment by Foreign Businesses in Companies of an Investment Nature, the State Tax Administration (STA) issued the Notice on Certain Tax Issues Concerning Foreign Investment Enterprises that Engage in Investment Business (Tax Notice), which clarifies a number of questions on the tax treatment afforded investment companies.

The Tax Notice confirms that an investment company will not be taxed on dividends it receives from subsidiaries; rather, it will be taxed on any income other than received dividends from subsidiaries, such as service fees and sales proceeds. Investment companies that do not manufacture, but only engage in investment and service activities, will not be eligible for tax preferences available to "productive" FIEs under the 1991 Income Tax Law of the PRC on Foreign Enterprises and Enterprises with Foreign Investment (Income Tax Law). Thus, the income that an investment company receives from subsidiaries for services rendered or from its sales of subsidiary products will be taxable at the full rate (generally 33 percent).

The Tax Notice allows investment companies established as wholly foreign-owned enterprises (WFOEs) to be treated in the same manner as foreign investors with respect to the reinvestment of profits. If a WFOE investment company reinvests dividends received from subsidiaries in the manner stipulated by the Income Tax Law, it can receive a tax refund ranging from 40-100 percent of the amount of income tax previously paid by the subsidiary on the reinvested portion.

Although MOFTEC has stated that the minimum $30 million registered capital required to create an investment company may not include the transfer of a foreign investor's interest in an existing FIE to the investment company, most foreign companies will eventually seek to bring such enterprises under the investment company umbrella. In such event, foreign investors can expect PRC tax authorities to levy a 20 percent tax on any gain realized by a foreign company upon the transfer.

Even though MOFTEC takes the position that any subsidiary with at least 25 percent of its registered capital in foreign currency and traceable to an investment company and/or other foreign investors will be treated as an FIE, STA will only grant FIE status for tax purposes if the 25 percent interest exists in the subsidiary from its inception. Thus, for example, if an investment company purchases a 50 percent interest in an existing PRC company limited by shares, the purchase itself will not entitle the investment company to FIE tax privileges.

—Helena Kolenda

ing foreign exchange balancing apply to investment companies; investors must use the foreign exchange swap centers and gain approval from the foreign exchange control authorities in the respective localities of both the subsidiaries and the investment company (*see The CBR*, September-October 1994, p.52). Thus, the only advantage an investment company has over a standard FIE in this regard is its ability, in exercising common control over two or more subsidiaries, to initiate a swap that the subsidiaries might not otherwise know is possible.

Although the Provisions permit an investment company to provide loan guaranties for subsidiaries and assist them in borrowing funds, the investment company itself cannot make loans to subsidiaries without PBOC approval, since only financial institutions are permitted to lend funds.

MOFTEC and other officials have been discussing allowing the establishment of special-purpose finance company subsidiaries that would provide financial services to the family of companies under an investment company umbrella. Contrary to earlier reports, no finance company subsidiary has been approved to date. The PBOC is now drafting a policy document on finance company subsidiaries—likely to be the basis of future regulations—for which it has sought input from certain multinationals with established investment companies.

The stipulation that unanimous approval of a subsidiary's board of directors be obtained before the parent investment company can render it services could also be a stumbling block in the EJV subsidiary context. A Chinese co-investor may fail to see the advantages of such services or may be wary of being integrated into a national structure that includes subsidiaries with other Chinese investors that may have been—or still are—competitors.

Forging ahead

Most of the investment companies set up pursuant to the internal guidelines or the Provisions are of relatively new vintage. Foreign investors are just beginning to test the waters on how useful these new entities will be in practice. Especially since the cost of establishing an investment company has now tripled, any foreign investor seriously contemplating establishing an investment company should first consider its goals for the investment company and investigate how realistic these goals are given the current business and legal environment in China. It would also be prudent in any negotiation for a proposed EJV subsidiary to discuss with the Chinese partner the relationship envisioned between the investment company and the subsidiary and incorporate any agreements reached between the negotiating parties in the EJV contract.

Although the Provisions are a marked improvement over the internal guidelines, they are principally procedural and leave many questions unanswered, especially regarding how much flexibility will exist both in the negotiation process and in the actual operation of investment companies. It is uncertain whether the business scope of an investment company can include activities that fall outside of the black letter, but within the general ambit, of those listed in the Provisions. The Provisions are unclear on whether the furnishing of accounting and administrative and management support falls within the broad category of "consulting" permitted by the Provisions. The Provisions fail to specify which entity, the investment company or the subsidiary, holds the title to products being sold when the investment company is acting as an agent for the subsidiary. Foreign investors already have reported difficulties in obtaining the approvals necessary to convert existing representative offices into branches of their investment companies. Some investors also may be concerned that no guidelines exist for liquidating an investment company.

Central planning by an investment company may be difficult to accomplish. The logistics of formulating a rational human resources structure for an investment company and its subsidiaries will be challenging, in light of the regulatory changes occurring in the PRC's social insurance system. Setting up a national distribution system, if this is a goal, may prove thorny due to the lack of cooperation of different Chinese subsidiary partners, regional competition, bureaucratic procedure, or insufficient contacts of the investment company at the local level.

The verdict is still out on how beneficial investment companies will be in the short term. Many foreign investors are establishing investment companies with long-term goals in mind and are prepared to experience growing pains and encounter occasional obstacles. MOFTEC sources have stated that they are already in the process of drafting a detailed explanation of the Provisions to ensure a consistent response to investor inquiries. Reports differ on whether this supplemental document will be published, but the foreign investment community, which gladly welcomed the promulgation of the Provisions, certainly hopes it will not become yet another internal guideline. 完

Top Brass

■ Kirsten A. Sylvester

A CEO visit to China means pulling out all the stops

The groundwork for an overseas business trip is always important, but never more so than when the company representative traveling overseas is the chief executive officer (CEO). The importance of hierarchy and ceremony in the PRC, moreover, puts visits by high-level foreign corporate officials to China in a class by themselves. Planning a successful CEO visit requires a China-based manager who is well-versed in cultural as well as commercial nuances and able to handle banquet etiquette, logistics, and media operations.

No amount of preparation, however, can salvage a mission that lacks a clearly defined purpose. A trip by a senior executive to China requires solid justification—random visits by senior executives may cause Chinese associates to question the foreign firm's seriousness about the China market. Companies should use CEO visits "sparingly and strategically," according to Scott D. Seligman, senior vice president and director of China operations for Burson-Marsteller. Yet, while the CEO should not undertake an idle fishing trip to China, neither should he or she be traveling just to negotiate contract specifics.

Typically, CEO visits have one or more of these objectives: to lobby for Chinese government support for a project, to promote the company's image in China, or to "jump-start" stalled negotiations. A CEO visit for the purpose of market research, though not out of the question, is generally discouraged since this activity is better left to subordinates.

In the last few years, the Chinese requirement that all foreign delegations to China have a "host organization" (*jiedai danwei*) to look after the group during their time in China has faded. Though foreign companies who intend for their CEO to meet with ministerial-level officials still should have a Chinese host organization for the visit, other delegations need not, says Serge Dumont, president for Greater China of Edelman Public Relations Worldwide. Typically, the host organization is the Chinese partner to a venture or, for a wholly foreign-owned enterprise in China, the ministerial department under whose supervision the venture falls.

Foreign companies can also approach an influential Chinese organization to serve as the host for the CEO visit, if the company seeks to make use of the organization's status and contacts (*guanxi*) within the Chinese bureaucracy. A CEO should realize, however, that a request to meet with a minister or vice premier may be cast aside if it comes from a host organization that ranks relatively low on the Chinese bureaucratic pecking order.

Initial considerations

If a CEO visit is in the offing, the company's China-based staff will need to invest significant resources to plan and prepare the visit, since the home office will find it very difficult to ensure that the red

■ **Kirsten A. Sylvester is an assistant editor of *The CBR*.**

carpet for a CEO is rolled out in China. Preventing face-losing situations such as a failed negotiation or the denial of a request for a high-level meeting is possible only if the China staff does its homework well before the CEO's plane lands. Ideally, the China staff will need roughly two months to make the multitude of arrangements for the visit, though if the CEO will be making a multi-city tour in China, more lead time may be necessary.

Executive visits should be timed to coincide with a banner event, such as a contract-signing ceremony, product unveiling, high-profile conference, facilities tour, or office opening, according to Steve Drake, general manager of Fleishman-Hillard Scotchbrook Link in Beijing. The CEO's presence at such events serves the dual purpose of sealing the event's impact and demonstrating the company's commitment to its China operations.

At the outset, the foreign company needs to evaluate whether outside assistance will be necessary to execute the visit with the desired panache. Among the possible events to be arranged are meetings with Chinese officials, plant tours, at least one banquet, and press briefings. If the company chooses to contract a public relations firm, many of which handle one or two CEO visits a month for clients, the China staff still will need to bear responsibility for the overall planning process. If the foreign firm chooses to handle the visit in-house, its China staff or host organization must be able to maneuver through government agencies and hotel offices to make sure all the details are covered.

Whether it hires a PR firm or taps in-house resources, the China staff also should decide on a communications strategy for the CEO visit. Dumont advises that publicity for the CEO visit should emphasize the contribution the company has made to China, such as developing the country's human resources or fostering the growth of a new industry.

Calling on officials

Arranging meetings between the CEO and Chinese officials should rank high on the China staff's priority list. Though the level of influence of the officials with whom the CEO will be meeting in China is likely to be a primary concern of the CEO, Dumont counsels that "higher is not necessarily better." Rather, it is important to target officials whose responsibilities are relevant to the foreign firm's operations. If approached in this way, gaining an audience with influential Chinese officials should be easier than simply requesting a meeting with a vice premier, whose sway over issues relevant to the company's projects might be slight at best.

Confirmation of meetings with Chinese officials is a frequent source of tension between the home and China offices.

To win meetings with appropriate Chinese VIPs, the company's China staff will need to mobilize its forces of influence. If the company has had no previous contact with the particular official or organization, it will almost certainly need a third-party introduction before the official will agree to a parlay in person. After the introduction, the China staff should request a meeting in writing, provide information about the company and reasons for the requested meeting, and generally establish its credentials.

Because Chinese officials dislike surprises, they often will request beforehand information regarding the format, talking points, and participants in the proposed meeting so that they can prepare their stand on issues. For the foreign company, supplying detailed materials ensures that the Chinese side will recruit the most appropriate people to attend the meeting. In drawing up official lists of the names of the CEO delegation members, it is important to list names not alphabetically but in order of rank, since the Chinese are likely to assume that the first individuals listed are the most important.

Confirmation of meetings with Chinese officials is a frequent source of tension between the home and China offices. That the China office is often unable to confirm a meeting with a particular official is most often due not to incompetence, as the home office may falsely assume, but to Chinese scheduling practices. According to Seligman, the Chinese official's staff may agree in principle to a meeting with the CEO, but will often resist fixing the time and avoid making a final commitment, especially if the foreign delegation has not yet arrived in China—anything can happen in the interim, the thinking goes. Consequently, it is not uncommon for the Chinese side to wait until as late as one day prior to the scheduled meeting to confirm the time and officials for a meeting. To avoid intra-company conflict, the China office should stress to the home office at the outset that meetings with Chinese officials are never guaranteed.

The CEO delegation should arrive at meetings with Chinese officials and associates neither early nor late, but on time, as punctuality is considered a virtue. Any delay requires an apology when the party arrives. The highest-ranking guest enters the meeting room first, and others follow roughly in order of decreasing rank. The principal host shows the principal guest to his or her chair, which will be to the immediate right of the host's own seat.

In general, if the foreign side has requested the meeting, the Chinese will let the guests set the framework for discussion. A few caveats apply for the CEO regarding acceptable behavior in meetings. Chinese dislike frequent interruptions or having the speaking floor seized from them, and they dislike being challenged to divulge information they are unwilling to discuss or to reverse their position on a request they have already rejected. Finally, the CEO should resist the temptation to address his or her remarks to the interpreter rather than to the principal Chinese representative. Not focusing on the principal Chinese negotiator because of a communication gap, while an easy trap to fall into, will be seen as poor form.

Getting the word out

Once the foreign company, or PR firm if one has been contracted, has defined the message of the visit, the legwork can begin. An effective communications strategy should contain several components. The China staff or PR firm will need to target the appropriate audience—Chinese officials, the international business community, Chinese consumers, or stockholders, perhaps—prepare press releases and briefings, and possibly arrange interviews between the CEO and Chinese reporters.

Because press briefings can take various forms, the China staff or public relations firm must choose the forum that best matches the overall objective of the CEO's visit. A company that seeks to promote its image among Chinese consumers may choose a general press conference, while a company that brings a CEO to China to lobby government officials may arrange a smaller briefing with a group of selected reporters or schedule a one-on-one interview between the CEO and a Chinese reporter.

The China staff should also provide Chinese reporters with press kits that include background information and supporting materials for the message the company is seeking to convey, and should give Chinese members of the press plenty of advance notice of the scheduled event. Foreign companies should consider holding separate briefings for Chinese and Western press, so that Chinese reporters will not be "elbowed out" by Western reporters, says Drake. As more foreign firms and multinational corporations invest in China, Chinese reporters frequently have invitations to cover several banner events at once—gone are the days when Chinese newspapers would print a CEO's speech verbatim. For this reason, Drake advises China staff to establish ongoing relations with Chinese reporters, rather than scout for one-time coverage for a CEO visit.

Thinking Chinese

In addition to strictly business-related arrangements, the foreign company must concern itself with issues of Chinese protocol. Because gift-giving carries much weight in Chinese culture, the China staff must give ample consideration to the selection of gifts for their Chinese hosts. Foreign delegations commonly give one large gift to the Chinese organization, or a combination of a large gift for the principal Chinese host along with smaller gifts for other Chinese hosts. The foreign company should make sure that whatever gift it presents can be given in a public manner and will not be construed as a personal gift. A highly valuable gift given to an influential person in private, while not uncommon, is risky and puts the reputations of both the recipient and the foreign company in jeopardy. Especially in the current period of anti-corruption fervor, which has caused some officials to take strong measures to avoid accusations of impropriety, lavish gifts can leave the recipient in an awkward position.

China staff should establish ongoing relations with Chinese reporters, rather than scout for one-time coverage for a CEO visit.

Suitable gifts might be objects of art, such as silver or crystal ornaments from the home country, a computer for the organization, or a book—either a large picture book or one on a topic relevant to the Chinese organization's mission. When giving out company mementos, the China staff should be careful to plan on one for each Chinese or foreign participant. At one US firm's banquet in Beijing, for example, the foreign company left sterling silver name-card holders on the chairs of all 75 guests.

Certain items are considered taboo as gifts in China. To give a clock, when rendered in Chinese, is a homonym for "to send someone to his or her grave," and for this reason the China staff should avoid selecting clocks and watches as gifts. Another faux pas would be to give green caps to Chinese men. On one Chinese delegation's visit to the United States, the American sponsor gave green baseball caps sporting the company logo to delegation members, and was disappointed to find that none of the 30 men wore them on their cross-state tour. When the sponsor inquired, he discovered that Chinese popular lore holds that men whose wives are unfaithful wear green caps.

Nailing down the banquet

Another standard element in greasing the wheels of business is the Chinese dinner banquet. In Beijing, five-star hotels that have large banquet rooms—the China World, the Great Wall Sheraton, Jing Guang New World, the Palace Hotel, and the Shangri-La, to name just a few—are frequent sites for CEO wining and dining soirees. For CEOs who will be meeting with officials at the vice ministerial level and above, or for foreign companies interested in impressing Chinese associates from the provinces, the Diaoyutai State Guest House and the Great Hall of the People are good choices. Company planners should note, however, that Diaoyutai and Great Hall of the People, while impressive, lack staff trained to attend to details to the same degree as five-star hotels.

Typically, 150-200 guests attend banquets for foreign CEOs, though banquets for 500 participants are not unusual. Guests are served up to a dozen courses, tea, and alcohol at a cost of roughly $50 per person in major cities, though prices in Shanghai tend to be about $10 more per person and any banquet bill increases when such delicacies as monkey brain and sea turtle are included. Added touches include a banner made for the occasion (roughly $200) and flower centerpieces (roughly $10 per table). Some Western companies, impatient with the formality of Chinese banquets, have tried to host cocktail receptions for their CEO visit, mostly with resounding failure. For those bold enough to try, however, cost is hardly an incentive—the Diaoyutai recently quoted one firm a price of $100 per person for a cocktail reception.

The foreign company or PR firm should maintain a centralized guest list that combines the invitees of the company, host organization, and other guests suggested by the public relations firm. The host organization is likely to invite representatives from all organizations that the CEO delegation has met in the city or will meet in the course of the trip. The Western practice of responding to an invitation is not followed in China. Rather, invitees, Chinese and Western, are generally asked to accept or decline an invitation over the phone before an invitation card is actually sent out, and only those who accept will receive invitations. Generally, invitation cards—written in Chinese and English—are hand-delivered as late as a couple of days prior to the scheduled event.

As banquets are not inexpensive, the company should insist that whichever organization is managing the affair—PR firm, host organization, or China staff—provide a head count one or two days in advance of the event. Place cards for all likely attendees should be made, as well as corsages for the VIPs.

The banquet holds its own set of priorities and pitfalls for the CEO uninitiated in the ways of the Middle Kingdom. Dumont emphasizes that the proper greeting of Chinese VIPs—identifying them when they arrive, presenting them with a flower corsage, and escorting them to their seats—is expected. Seating arrangements resemble those of the business meeting, with the principal guest placed on the host's right and the head table situated furthest from the door. Chinese guests are generally open to lighthearted talk, though they are not averse to business-related conversation as long as it is cordial and face is preserved throughout, according to Seligman. Putting a Chinese guest in a position of having to refuse a request would be a major breach of etiquette.

A CEO delegation looking to unwind over cocktails after the day's talks should be forewarned that tea is as strong as it gets before a Chinese-style banquet. Drinking begins during the meal when the host offers a toast, generally lasting one to five minutes, to the entire group. Typically, Chinese toasts stick to general platitudes and words of welcome, though more substantive discourse is not out of the ordinary. While guests need not toast with the powerful sorghum wine (*mao tai*) typically used for toasts, the CEO should know that switching mid-meal to a softer beverage may be construed as a sign that the guest has taken offense to some aspect of the event. In the exchange of gifts that may occur at a banquet, the CEO delegation should not be surprised when the Chinese do not open the gifts presented to them. Because the act of giving is symbolic in itself, opening a gift to see what is inside is considered to be in poor taste.

Touching down in China

CEOs will know immediately that they have arrived in China when they catch sight of the formal welcoming party at the airport. Chinese take the reception and send-off of guests seriously, so the CEO should disembark knowing how to identify and greet the head of the Chinese delegation. The welcoming party sent by the Chinese host organization usually consists of, at a minimum, a person of equal or immediately lesser stature to the CEO within the organization, an interpreter, and a "liaison officer" to whom both sides voice concerns, changes in plans, or requests. The official welcome may include the serving of tea, luggage collection, and a brief exchange of formalities, after which the foreign guests are whisked off to their hotel.

A more technical consideration in planning for the CEO's arrival is transportation (*see* box). For the executive with a tight meeting schedule or special security concerns, the China staff can arrange a police escort. Foreign companies commonly have police escorts for CEO jaunts from the airport into the city, from the hotel to the Chinese leaders' compound at Zhongnanhai, and to the Great Wall. To arrange an escort, the foreign company or its host

The banquet holds its own set of priorities and pitfalls for the CEO uninitiated in the ways of the Middle Kingdom.

Chartering Flights to China

For the intrepid corporate delegation intending to arrive in a private company plane in China, close contact with the US embassy in Beijing is a must. The application for landing clearance should be submitted two weeks prior to the flight's scheduled departure to the economic section of the embassy, which will attach a diplomatic note before passing the application to the Chinese Ministry of Foreign Affairs (MFA) and the General Administration of Civil Aviation of China (CAAC). The foreign company must be prepared to submit full details of its visit, including information on the aircraft, fuel requirements, proposed routing, and passengers and crew. The company submitting the application must have a Chinese sponsor for the delegation, who also must contact MFA with details of the visit. After reviewing the application, Chinese authorities notify the embassy by phone of their decision to allow the charter flight.

Though regulations state that China has a strict anti-sabotage policy prohibiting private charter flights to land at more than one point within the country, Chinese authorities evaluate each application separately and flights may be approved for travel to more than one city. Foreign firms are advised that fewer, but no more than, the original number of people who arrive on a corporate plane can depart on the plane. When justifying the purpose of landing a private plane in China, companies are advised to avoid citing "convenience;" rather, companies might state that corporate policy requires the use of private planes for senior executives in order to minimize the possibility of terrorist acts. —*KAS*

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US Embassy in Beijing
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organization will need to certify to the Chinese Public Security Bureau that the visitor is a bona fide VIP—and pay for the services of traffic personnel.

Gauging the results

When the CEO has made the rounds in China and is packing for the trip back home, he or she may wonder whether the trip was successful. The send-off ceremony is one way to read how the Chinese side perceived the exchange. If all went well from the perspective of the Chinese side, the same high-ranking official, or someone of approximately equal stature, who met the group coming into China will appear at the airport to see them off. If the Chinese side viewed the overall outcome of the visit as negative or was offended in some way, then a significantly lower-ranking representative will see the CEO delegation off.

Once the CEO departs, the firm's China staff faces the job of cementing the impact of the visit through follow-up discussions and contacts made with officials. Having met certain high-level officials under whose purview the foreign company's activities presumably fall, the China staff should send thank-you letters that reiterate or craftily state any requests or proposals.

While any whirlwind CEO tour to China is unlikely in and of itself to guarantee the success of the company's China operations, if nothing else it will almost certainly introduce the CEO to the landscape of China's rapidly changing economy. What it will not elucidate to the CEO are the rigors the China staff faces on a daily basis, since the red-carpet treatment—police escorts, fine dining, and appointments with high-level Chinese officials—hides the more vexing aspects of running a successful business operation in China. One company representative in Beijing commented that to educate his CEO about conditions outside of China's affluent eastern cities, his company takes the CEO by car, train, or boat to places far off the beaten track. 完

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Emerging Patterns of East Asian Investment in China from Korea, Taiwan, and Hong Kong

edited by Sumner J. La Croix, Michael Plummer, and Keun Lee. Armonk, NY: M.E. Sharpe, 1995. 316 pp. $60.00 hardcover, $22.50 softcover.

Emerging Patterns of East Asian Investment in China from Korea, Taiwan, and Hong Kong addresses the politics behind the tenfold increase in foreign direct investment (FDI) in China over the past 15 years. Of particular interest to those involved in China business are the chapters on Beijing's perspective on FDI, as well as sections on investment from Asia's individual newly industrialized economies (NIEs). Other chapters analyze the implications of growing FDI in China and forecast the political impact of these flows on the "China Economic Region," the area encompassing Taiwan, Hong Kong, and the provinces of Fujian and Guangdong.

The book caters to both academic and business concerns. The multi-disciplinary work by economists and political scientists includes data that illustrate the quantity and types of capital flows between China and the other East Asian economies and details some of the structural changes that have resulted from NIE investment strategies, such as the tendency among developing country economies to shift domestic production away from primary products and toward more labor-intensive goods. Given these changes and the continued need for FDI to carry out these projects, the authors conclude that growth in the China Economic Region—and throughout all of China—will depend greatly on events on the mainland and on Beijing's continued commitment to economic reform.

For businesspeople, the compilation of essays provides practical examples of past project successes along with caveats for beginning investors. For example, one chapter gives case studies of Taiwan-PRC joint ventures in Jiangsu Province; another looks at the operational structure of a successful Sino-Korean toy company.

Although *Emerging Patterns* is not a step-by-step guide to investing and does not address specific questions on joint-venture start-up in China, the book's organization makes it a convenient reference on the current investment climate in China. Most investors will find the snapshots of individual projects and the general overview of trends and issues facing foreign businesses in China compelling reading. In addition, the comprehensive reference section provides a lengthy bibliography for readers needing more specific information.

—MCV

China After Deng Xiaoping

by Willy Wo-Lap Lam. Singapore: John Wiley & Sons, 1995. 497 pp. $34.95 hardcover.

It is a question on everyone's mind—"What will happen in China after Deng Xiaoping dies?" Willy Wo-Lap Lam, currently China editor for the *South China Morning Post* and a long-time reporter on mainland politics, answers that Deng's historical contribution will prove to be anything but a pluralist democracy. Having failed to initiate a process of political reform, Deng contributed to the country's political stagnation. Though the leadership "troika" of Jiang Zemin, Li Peng, and Zhu Rongji will probably remain in place during the first 1-2 years after Deng's death, Lam believes that a new core group of liberal-minded leaders could emerge by the end of the decade.

Lam concentrates heavily on backstage accounts of political happenings of the last five years, with special emphasis on Deng's 1992 "journey to the South." He delves into several aspects of China's recent political history, including the expanding influence of the People's Liberation Army, market-oriented reforms, Mao's legacy, and the post-Deng leadership dilemma. Lam predicts that the force for ringing in the new China after Deng leaves the scene will emanate not from any single leader but from a strong civil society, the roots of which have taken hold in the form of free enterprise and exposure to international trends.

In choosing to focus his analysis on the five years between 1989 and 1994, Lam implies that this period has been especially important to the future of China. In Lam's view, the student demonstrations of 1989 offered Deng the chance to cap his career and complete his legacy as a political and economic reformer, but instead he turned his back on that path—and on the students. Instead of bestowing on China constitutional guarantees that would establish an independent judiciary and clearly divide the roles of party, State, and military, Deng will leave behind a system increasingly dominated by those whose vested interests are to maintain the status quo.

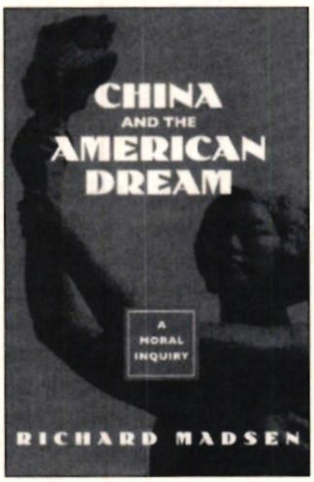
The book should prove especially apt for serious students of Chinese politics; indeed, the level of detail in *China After Deng Xiaoping* makes it an ideal primer for anyone concerned about the future political stability of the world's most populous country. Lam's flashy style is a welcome change from the more plodding tone that characterizes much contemporary analysis of Chinese politics. Those shopping for neatly packaged predictions will come up short reading Lam's book—but the bargain is in the journalistic scoops.

—KAS

China and the American Dream: A Moral Inquiry

by Richard Madsen. Berkeley, CA: University of California Press, 1995. 262 pp. $27.50 hardcover.

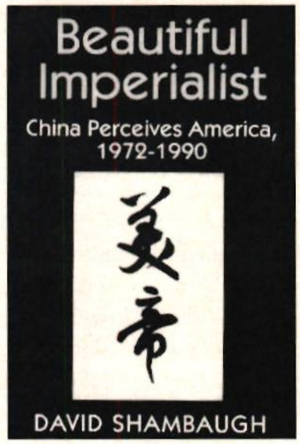
Americans doing business with Chinese operate in a world of mutual perceptions, preconceived notions, and categories of understanding that we seldom stop to ponder. As businesspeople we are constantly assessing what is happening in China and why, but most of us fail to think much about the cultural baggage we carry as Americans into our encounters with China. Even fewer of us examine the baggage borne by our Chinese counterparts.



In *China and the American Dream*, sociologist and China specialist Richard Madsen offers a highly interpretive, engrossing analysis of what the author considers to be the American national self-perception in the context of US-China relations since the Nixon breakthrough. Madsen maintains that Americans have always loaded the Sino-American relationship with a heavy burden of moral and religious expectations, including the mistaken belief that, under US influence, China would move into line with American values. Madsen's book focuses on the effects of rapidly intensifying Sino-American contact on American ideals and self-perceptions, but he also captures extremely well the effects of the contemporary US-China encounter on Chinese society and social mores. Viewed against the backdrop of the contentious debates over Most Favored Nation trade status of recent years, and with the prospect of continued acrimony between the two countries on a variety of issues, Madsen's book is extremely interesting food for thought. Following a moving description of American resentment at China's failure to support values that many Americans perceive to be universal and an analysis of China's growing sense of cultural barrenness and crude obsession with getting rich, however, Madsen's concluding notes of hopefulness for mutual understanding have a limp quality that fails to inspire much confidence.

Beautiful Imperialist: China Perceives America

by David Shambaugh. Princeton, NJ: Princeton University Press, 1991. 326 pp. $17.95 softcover.



David Shambaugh's *Beautiful Imperialist*, on the other hand, analyzes how China's "America Watchers" perceive the United States. Drawing on the work of Chinese journalists, researchers, and foreign affairs specialists from the 1970s through the Tiananmen Square demonstrations of 1989, Shambaugh reveals the Chinese intelligentsia's views of American society, economic structure, politics, and China's foreign policy. Predictably, these America Watchers fall into two camps: Marxists and, since the 1980s, non-Marxists.

The Chinese perceptions that Shambaugh identifies do not add up to a particularly reassuring picture of the Chinese intelligentsia's penetration of the complex realities of the American experience. China's older America Watchers, who belong to institutions closely connected to the structures of party and government power, frame discussions about the United States in terms that many Americans would not recognize, such as whether American monopoly capitalism is on the brink of collapse. Shambaugh's book provides encouraging evidence, however, of an emerging core of Chinese intellectuals who are increasingly familiar with the daily realities of the United States and the West and are unwilling to force the American experience into the cubbyholes of Marxism-Leninism-Mao Zedong thought.

Though not "hard" business fare, an evaluation of cultural assumptions warrants businesspeople's attention, perhaps on one of those long, trans-Pacific business flights. The Shambaugh and Madsen volumes remind us of how much error, miscalculation, over-excitement, and, especially, disappointment, persist as more and more Americans and Chinese attempt to forge mutually beneficial relationships.

—Robert A. Kapp

Robert A. Kapp is president of the US-China Business Council.

China Today

by Donald and Constance Shanor. New York, NY: St. Martin's Press, 1995. 249 pp. $22.95 hardcover.

Covering a myriad of topics ranging from the treatment of ethnic minorities in China to the Most Favored Nation trade status debate, *China Today* provides an excellent overview of contemporary issues in China. Donald Shanor, a Columbia University journalism professor, and his wife, Constance Shanor, draw on their experiences living in China on three separate occasions since 1984 to provide useful background reading for foreign businesspeople new to China.

Those in search of an introduction to the investment climate and recent economic growth in the PRC will find anecdotes and commentary on topics from the Special Economic Zones to State enterprise reforms. The authors also provide succinct summaries of China's major economic and social policies and have recorded some intriguing interviews with Chinese people.

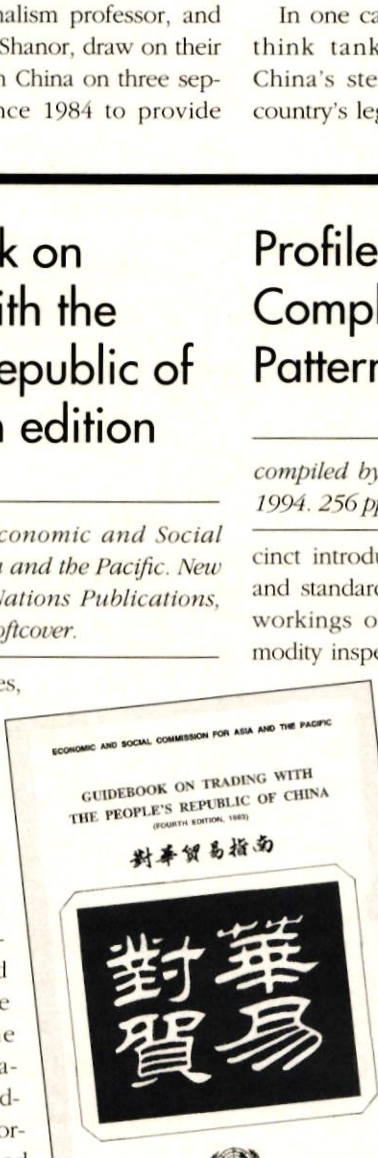
In one case, a researcher at a Beijing think tank concludes that despite China's stellar economic growth, the country's legal system needs to be more transparent in order to maintain a high level of foreign investment. In another interview, an official from Beijing's State agricultural institute counters that all in his field is manageable, boasting that reforms in Shandong Province have increased agricultural production, rural employment, and incomes for those who work in small enterprises and the services industry.

In short, the book's wide-ranging presentation of vignettes about daily life in China will likely motivate its readers to want to discover more about this East Asian powerhouse.

—TLK

Guidebook on Trading with the People's Republic of China, 4th edition

compiled by the Economic and Social Commission for Asia and the Pacific. New York, NY: United Nations Publications, 1993. 584 pp. $75 softcover.



As the title declares, *Guidebook on Trading with the People's Republic of China* is a basic primer on doing business in China. Much like a typical almanac, it is inconspicuous but packed with useful data. The book presents the data in a well-organized format, including introductory information on China and its economic and trading system, provincial profiles, and extensive statistical tables and contact information. Unfortunately, the figures in the latter section, vintage 1992, are already too old for practical business planning.

What distinguishes the book from similar volumes is a special section with succinct introductions to key organizations and standard business practices, and the workings of the PRC's Customs, commodity inspection, insurance, and foreign exchange systems. Though offering a limited recitation of legal requirements and little practical advice or "how to" tips, *Guidebook on Trading with the People's Republic of China* is a handy reference for companies new to the China market.

Profile of China Markets: Complete Market Data on Spending Patterns of 1.1 Billion Consumers in China

compiled by Hessler Lee. Vancouver, British Columbia: Hercules Publishing House, 1994. 256 pp. $45.50 softcover.

Profile of China Markets, another primer, provides ready reference to demographic, income, and consumption data at the national, provincial, and major municipality levels. The provincial profiles offer useful baseline information, but market researchers looking for detailed information will need to go beyond this volume. The book is divided into three sections—national, provincial, and major municipalities—each of which contains basic demographic data as well as statistical breakdowns of average household expenditures and retail sales.

Like the *Guidebook on Trading with the People's Republic of China*, the data in *Profile* are already somewhat outdated (1991-92). For current data, researchers will need to consult original sources, but this book's tables and statistics also lack specific source citations—only a general listing of sources appears in the book's introduction. A further drawback is that the book is without valuable time-series data that illustrate trends which are often more revealing than current-year numbers issued by China's statistical reporting organizations.

Although much of the data in *Profile* is also published in China's official English-language State Statistical Bureau yearbooks, the tables in this volume incorporate a broad range of information in each geographic section and can thereby save researchers the task of building tables from bits and pieces of scattered data.

—Richard Brecher

Richard Brecher is director of the Council's business advisory services.

Foreign Joint Ventures in Contemporary China

by Michael Franz Roehrig. New York, NY: St. Martin's Press, 1994. 117 pp. $49.95 hardcover.

Michael Franz Roehrig's *Foreign Joint Ventures in Contemporary China* outlines the history of the Sino-foreign joint venture since the initiation of the "open" policy in 1979. Roehrig is particularly interested in the negotiation process, concluding that successful joint-venture negotiations have become increasingly dependent on personal relationships (*guanxi*). Drawn from his doctoral research, Roehrig's study would benefit novice foreign investors unfamiliar with the broad framework within which Chinese business negotiations take place.

Roehrig draws his conclusions from observations and interviews with foreign investors in and around the industrial city of Wuhan in 1990-91. In addition to examining the role of *guanxi*, Roehrig examines other important variables that influence project negotiations, such as the soundness of the foreign investor's relationship with the Chinese partner's personnel and the length of time a foreign investor has been active in China. The location of a venture also can influence the tenor and outcome of negotiations, as officials in Special Economic Zones, Economic and Trade Development Zones, and High Technology Development Zones often are more lenient in their dealings with foreign investors than officials elsewhere. Roehrig also observes that Westerners' "corporate personality" often seems to detract from their ability to bargain effectively in China, implying that the foreign businessperson would do well to master some of China's cultural nuances before discussing investment specifics.

Roehrig's study reveals the degree to which negotiations in China include both a "foreign" and a "Chinese" side, but also involve local authorities, who can stave off interference from higher-level authorities in project approval and operations. Roehrig maintains that Sino-foreign negotiations also face the further complication of coming to a mutual understanding of contracts and law. The cause of many deadlocks in negotiations in China stems from China's history of emphasizing the "rule of man" (*renzhi*), rather than the "rule of law" (*fazhi*). As a result, Roehrig finds that Chinese businesspeople tend to prefer more ambiguous contract stipulations that allow for ongoing interpretation and negotiation, while the Western businessperson is accustomed to relying on documented agreements to resolve conflicts. For the seasoned negotiator of contracts in China, this book offers few hands-on tips. For the businessperson new to China, the book offers a general academic analysis of the bargaining process—a crucial component of doing business in China.

—*Piper Lounsbury*

Piper Lounsbury is an associate in the Council's business advisory services.

Guide to Pharmaceutical and Related Research Institutions in China, 1995 edition

by WiCon International. 251 pp. $500 softcover.

WiCon International, a pharmaceutical industry consultant based in Fort Lee, New Jersey, publishes this annual guide to China's pharmaceutical institutes. WiCon also co-publishes with IMS, Inc. *China Updates*, an excellent monthly pharmaceuticals newsletter.

The 1995 *Guide* lists some 320 specialized research institutions, university-affiliated research institutions, and research departments of major Chinese pharmaceutical manufacturing companies. Each entry lists the institution's founding year, director, total staff (including a breakdown of senior and junior researchers), address, phone number, main areas of research, and number of personnel by research division.

Though a good starting point for companies seeking to join forces with Chinese research institutes, the directory provides no strategic advice on forming joint ventures in this field. The index, which groups institutes by location, would be more useful if it provided cross-references for research fields and institutes. In the current edition, the reader cannot use the index to identify which Chinese research institutes specialize in, for example, cardiovascular drugs, but instead must read through all of the entries.

The guide's strength lies in the specifics it provides about the type of research conducted at each institution, be it research on enzyme engineering, genetic engineering, or biochemical drugs. The personnel breakdown also gives readers a sense of each institute's particular emphasis. Despite its lack of a comprehensive overview of joint venturing with Chinese pharmaceutical research centers, the book would make a useful addition to a pharmaceutical company's reference collection.

—*Daniel Martin*

Daniel Martin is manager of the Council's investment program

Working With China: A Six-Part Video Series

produced by Intercultural Training Resources, Inc., San Francisco, CA. 1995. $2,395 (full set of 6 videos), $495 (per video), $175 (five-day rental per video).

Amidst a plethora of specialized manuals, handbooks, investment guides, and other printed materials, this video series presents in an easy-to-assimilate format many of the basics of doing business in China. The series of six videos, each roughly 30 minutes long, is ideal background and training for China business development teams and corporate representatives preparing to relocate to China.

The first two videos provide an introduction to China and discuss the importance of developing *guanxi*, or contacts. While anyone with a modicum of China savvy may be bored by the introductory-level information, the use of bulleted lists and outlines makes the presentation clear and well organized. Tapes 3, 4, and 5 of the series jump into the dynamics of commercial negotiations in China. The producers emphasize that a knowledge of Chinese history, culture, society, and language can help a novice understand how Chinese and Westerners differ in their negotiating styles. The last tape of the series addresses how to handle simple matters that can be significantly at odds with Western practices, such as selecting a place to live from among the many options now available in China, dining and drinking, shopping, banking, and attending to health matters.

While the series fails to address such core investment concerns as how to select a joint-venture partner, conduct routine market research, or perform due diligence, these videos could be a valuable tool for a China business development team unfamiliar with that country's cultural terrain. The day-to-day details, too, should help prepare expatriates for life in China. Attractive graphics add further to the high-quality production. While the series is more expensive than a book on the subject might cost, it could prove an economical resource in training a freshman China team to avoid costly mistakes.

—Richard Brecher

Books Received

China: Modernization and the Goal of Prosperity: Government Administration and Economic Policy in the late 1980s edited and compiled by Kate Hannan. New York, NY: Cambridge University Press, 1995. 352 pp. $59.95 hardcover.

China's New Political Economy: The Giant Awakes by Susumu Yabuki, translated by Stephen M. Harner. Boulder, CO: Westview Press, 1994. 320 pp. $69 hardcover, $23.95 softcover.

Monetary Policy and the Design of Financial Institutions in China, 1978-90 by Leroy Jin. New York, NY: St. Martin's Press, 1994. 255 pp. $65 hardcover.

Money, Banking, and Financial Markets in China by Gang Yi. Boulder, CO: Westview Press, 1994. 311 pp. $49.95 hardcover.

Popular Protest and Political Culture in Modern China, Second Edition edited by Jeffrey N. Wasserstrom and Elizabeth J. Perry. Boulder, CO: Westview Press, 1994. 350 pp. $64.95 hardcover, $22.95 softcover.

Reform and Development in Rural China by Du Runsheng, edited by Thomas R. Gottshang. New York, NY: St. Martin's Press, 1995. 232 pp. $79.95 hardcover.

Rural Enterprises in China edited by Christopher Findlay, Andrew Watson, and Harry X. Wu. New York, NY: St. Martin's Press, 1994. 226 pp. $59.95 hardcover.

Tourism in China: Geographic, Political, and Economic Perspectives edited by Alan A. Lew and Lawrence Yu. Boulder, CO: Westview Press, 1995. 256 pp. $54.95 hardcover.

I Can Read That!

by Julie Mazel Sussman. San Francisco, CA: China Books and Periodicals, 1994. 161 pp. $8.95 softcover.

Outrageous Chinese: Guide to Street Language

by James J. Wong. San Francisco, CA: China Books and Periodicals, 1994. 124 pp. $9.95 softcover.

Business travelers to China are of two types: one type chooses to dive head first into China not speaking a word of Chinese; another type opts to study Chinese language and culture before traveling to China. Two recently published books, *I Can Read That!* and *Outrageous Chinese* are for the second type of traveler.

Instructional language cassette tapes abound, but anyone who has traveled in China knows that the ability to recognize Chinese characters can be extremely useful, if not mandatory. Julie Mazel Sussman's book, *I Can Read That!*, offers a guide to recognizing basic Chinese characters and phrases. The book introduces characters relating to size, people, numbers, vehicles, public buildings, and money. Accompanying the text are illustrations and photos depicting common characters such as exit and entrance signs, and phone booths.

Not only does *I Can Read That!* remove the mystery that Chinese characters hold for many foreigners, it offers pragmatic props for the traveler—such as how to recognize the characters for men's and women's restrooms. Though the book covers only 78 characters, when the characters are combined one with another, the reader is exposed to more than 150 words. Memorizing the meanings of 78 characters will likely prove time consuming for many readers, but the business traveler in need of a brief introduction to written Chinese will find this book a treat.

James Wang's study of Chinese street language, *Outrageous Chinese*, is for the traveler who has already studied Chinese and feels bold enough to begin using slang when speaking Chinese. Perhaps the warning on the book's cover summarizes the content best: "This book contains words that may be considered vulgar and offensive in Chinese or English" —hardly words that can be used during negotiations.

With a ribald sense of humor, Wang boldly goes where no other Chinese handbook has gone—his chapters cover "Love and Sex," "Expletives Undeleted," "Crime," and "Toilets." Some readers may consider Wang to have crossed the line of decency, however, and may blush at some of the phrases. If anyone ever thought that Western languages had a monopoly on lewd language, Wang's book proves them wrong.

Outrageous Chinese is not for the faint of heart. But armed with a repertoire of Chinese slang, the reader will perhaps understand street commentary. Although this book may not be the most practical purchase for business travelers, it offers useful insight into the Chinese language.

—Caitlin Stewart Harris

China Wakes

by Nicholas D. Kristoff and Sheryl WuDunn. New York: Times Books, 1994. 500 pp. $25.00 hardcover.

In *China Wakes*, *New York Times* foreign correspondents Nicholas D. Kristoff and Sheryl WuDunn give an enthralling account of their five-year posting at the newspaper's Beijing bureau. Rather than present a chronological history of their stay there, they introduce this land of 1.2 billion people through written snapshots of the people they came to know. The stories of each person—be it Tang Rimei, a participant in the pro-democracy demonstrations of 1989 who later fled to Shenzhen, or Wang Shou, a writer who has gained fame for his satirical accounts of the tribulations of the urban working class—make up a part of the mosaic of contemporary China.

Perhaps the most pervasive theme the couple found among the people they met and the stories they uncovered was a feeling of ambivalence about the current state of China. On the one hand, China is a land of promise and fortune, an economic success story. On the other, it is a country led by a government that is reluctant to allow social forces to express themselves. Although economic reforms are exposing the Chinese people to new ideas and values, Beijing—at least in the eyes of Kristoff and WuDunn—is unwilling to acknowledge the need for inherent change.

The result of these conflicting forces is a large number of Chinese people who are at once hopeful and cynical. These people see the potential created by the country's opening to the outside world, but feel the frustrations of not possessing the social and political power to make a change. The authors find that rampant corruption is dashing the hopes of many young people, influencing the way they see themselves and one another.

Kristoff and WuDunn also share their views of present US-China relations from a China-based perspective. In a chapter entitled "Taming the Dragons," WuDunn explains the inconsistent American response to the 1989 demonstrations and often tenuous US-China relations as a product of a lack of true understanding of China among US policymakers. She faults Washington for assuming that the United States can change China. Her message is that the United States should try to affect change, but it must be realistic in its expectations of the types of change it can achieve in China.

China Wakes provides readers a comprehensive view of different aspects of contemporary Chinese society. Although the book introduces various issues and problems facing China, the authors shy away from forecasting China's future, focusing instead on explaining the present social and political situation.

Though cynical of China's leaders, the authors' final assessment of China's future is optimistic. Kristoff and WuDunn look to relative improvements—increased incomes, growing independence, and greater confidence among individuals about their own status in society—and conclude that China has definitely "awakened" and will doubtlessly continue to both flourish and evolve.

—MCV

CHINA BUSINESS

■ Alan R. Kahn

The following tables contain recent press reports of business contracts and negotiations exclusive of those listed in previous issues. For the most part, the accuracy of these reports is not independently confirmed by *The CBR*. Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly 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 3, 1995
Foreign party/Chinese party **Arrangement, value, and date reported**

Accounting and Insurance

OTHER

Hartford Fire Insurance Co. Ltd. (US)
Opened representative office in Xiamen. 4/95.

John Hancock Mutual Life Insurance Co. (US)
Opened representative office in Beijing. 4/95.

Johnson & Higgins, an insurance company (US)
Will open branch offices in Beijing and Shanghai. 4/95.

New York Life Insurance Co. (US)
Opened representative office in Shanghai. 4/95.

Samsung Life Insurance and Samsung Fire & Marine Insurance, divisions of Samsung Group (S. Korea)
Jointly opened representative office in Beijing. 4/95.

Coopers & Lybrand (US)
Opened representative office in Dalian. 3/95.

Agricultural Commodities and Technology

INVESTMENTS IN CHINA

Marubeni Corp. (Japan), Satake Corp. (Japan)/NA (Beijing)
Will establish joint-venture flour mill. $8.52 million. 4/95.

Mitsui Corp. (Japan), Satake Corp. (Japan)/NA (Jilin)
Will establish joint-venture rice mill. $10 million. 4/95.

Satake Corp. (Japan)/NA (Hubei)
Will establish joint venture to produce rice-milling equipment. 4/95.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CNAIEC: 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.

Banking and Finance

INVESTMENTS IN CHINA

First Eastern Investment Group (HK), President Securities Group (Taiwan)
Formed President Securities (International) Ltd. joint venture to provide brokerage, corporate finance, and fund management services to domestic and international clients. 5/95.

N. Schlumberger & Cie (France)/Huaxu Golden Card Co. (Beijing)
Will establish joint-venture service center to develop integrated circuit cards, electronic payment terminals, and application systems. 4/95.

OTHER

Banque Francaise du Commerce Exterieur (France)
Opened representative office in Shanghai. 4/95.

Hypo Bank International S.A. (Germany)
Opened branch office in Shanghai. 4/95.

Internationale Nederlanden Groep (Netherlands)
Will open second Shanghai branch and representative offices in Beijing, Dalian, Guangzhou, Shenyang, Tianjin, and Xiamen. 4/95.

Raiffeisen Zentralbank Oesterreich AG (Austria)
Opened representative office in Beijing. 4/95.

World Bank
Approved loan and IDA credit to establish national tax administration. $50 million. 4/95.

Bank of Nova Scotia (Canada)
Opened office in Guangzhou. 3/95.

Dai-Ichi Kangyo Bank Ltd. (Japan)
Will upgrade representative office in Dalian to full branch office. 3/95.

SG Warburg Group (UK)
Will open office in Beijing. 3/95.

Western Union Financial Services International, a subsidiary of First Financial Management Corp. (US)
Began international money transfer service in Beijing, Dalian, Hangzhou, Nanjing, Qingdao, Shanghai, Urumqi, and Xian. 3/95.

Chemicals, Petrochemicals, and Related Equipment

INVESTMENTS IN CHINA

Praxair, Inc. (US)/Beijing Oxygen Plant
Established Beijing Praxair Inc. air separation plant. $47 million. 5/95.

Ciba-Geigy Ltd. (Switzerland)/Qingdao Dyestuff Plant
Established Qingdao-Ciba Textile Dyestuff Co. joint venture to produce textile dyes. $25 million. 4/95.

Exxon Chemical Eastern Inc., a division of Exxon Corp. (US)/SINOPEC International Gaoqiao (Shanghai)
Will form joint venture chemical plant in Shanghai to produce biodegradable detergents. 4/95.

Albright & Wilson Ltd. (UK)/Hunan Resun Industrial
Formed joint venture in Changsha to produce surfactants. (UK:50%-PRC:50%). 3/95.

Bayer AG (Germany)/Shanghai Coatings Corp.
Formed joint venture to manufacture iron oxide pigments. $18 million. (Germany:67%-PRC:33%). 3/95.

Harima Chemicals Inc. (Japan), NA (Japan)/NA (Guilin)
Formed Guilin Harima Chemicals Co. Ltd. joint venture to produce and market industrial oil, resin, and other chemicals. $1.2 million. (Japan:45%, 5%-PRC:50%). 3/95.

Consumer Goods

INVESTMENTS IN CHINA

Casio Computer Corp. (Japan), Mitsubishi Corp. (Japan)/Zhubei Corp. (Zhuhai SEZ)
Established electric keyboard joint venture. (Japan:85%-PRC:15%). 4/95.

Osram Corp. (Germany), NA (HK)/Foshan Lighting Co. Ltd. (Guangzhou)
Formed joint venture to produce lighting fixtures. $65 million. (HK:10%, Germany:55%-PRC:35%). 4/95.

Matsushita Electric Co. Ltd. (Japan)/Wanbao Electrical Apparatus Co. Group (Guangzhou)
Formed Matsushita Wanbao Air Conditioner/Compressor Co. Ltd. joint venture. $296 million. 3/95.

Samsung Group (S. Korea)/Suzhou Xiang Xue Hai Electric Appliances
Formed Suzhou Samsung Electronics joint venture to produce domestic appliances. $42.5 million. (S. Korea:80%-PRC:20%). 3/95.

OTHER

Marks & Spencer, a retail group (UK)
Will establish representative office in Shanghai. 4/95.

Electronics and Computer Software

CHINA'S IMPORTS

FCX Systems Inc. (US)/Beijing Airport
Will sell solid state frequency converters. $5 million. 4/95.

Issi Co. (US)/Shanghai Belling Microelectronics Manufacturing Co.
Will sell electronic editing programming and read-only memory technology. 4/95.

System Software Associates Co. Ltd. (US)/Hongguang Industrial Joint-Venture Co. Ltd. (Sichuan), Automobile Gear General Plant (Shanghai)
Will sell business planning control systems. $1 million. 3/95.

INVESTMENTS IN CHINA

Acer Inc. (Taiwan)
Will establish wholly foreign-owned venture to manufacture computer keyboards and monitors in Jiangsu Province. $12 million. 4/95.

Matsushita Electric Co. Ltd. (Japan)/Beijing No. 2 Radio Components Factory
Established Beijing Matsushita Precision Instrument Ltd. joint venture to produce thin film condensers. $17.6 million. (Japan:60%-PRC:40%). 4/95.

Northern Telecom Ltd. (Canada), Philips' Gloeilampenfabrieken N.V. (Netherlands)/Philips Semiconductor Co. (Shanghai)
Will establish Shanghai Xianjin Semiconductor Manufacturing Co. Ltd. joint venture to produce microchips. $200 million. (Netherlands:38%, Canada:34%-PRC:28%). 4/95.

Motorola Inc. (US)/Leshan Radio Co. Ltd. (Sichuan)
Formed joint venture to produce semiconductors. $27.8 million. 3/95.

Seagate Technology Inc. (US)/NA (Jiangsu)
Will build facility to assemble hard disk drives. $30 million. 3/95.

WYSE Technology Inc. (US)/Beijing University Founder Group Corp.
Will jointly manufacture computer terminals and monitors. $50 million. 3/95.

OTHER

Apple Computer, Inc. (US)
Will provide technological assistance to UN Forum on Women meeting in Beijing. 3/95.

Compaq Computer Corp. (US)
Opened five maintenance centers in Beijing. 3/95.

Lattice Semiconductor Co. Ltd. (US)/Shanghai Communications University
Donated software to Fudan University for teaching and scientific research. $200,000. 3/95.

National Semiconductor Corp. (US)
Will open office in Shanghai. 3/95.

Oracle Corp. (US)/Ministry of Posts and Telecommunications
Will jointly develop software for telecommunications and postal network management. 3/95.

3 Com Asia Ltd. (US)
Opened office in Shanghai to service computer data networks and aid distribution. 3/95.

Engineering and Construction

INVESTMENTS IN CHINA

CRS Co. (Australia)/Tianjin Building Materials Supply Corp.
Established CRS Ready Mix Co. Ltd. joint venture to produce concrete. $47.5 million. 4/95.

Forest Overseas Co. Ltd. (Japan), NA (Japan)
Will build office building in Shanghai. $250 million. 4/95.

L&D Group (HK)/Beijing High Den Enterprises
Will jointly build Beijing Merchant's Club restaurant. $16 million. 4/95.

Owen Williams Consulting Engineers (UK)/Hebei Provincial Communications Planning and Design Institute
Established Hebei Jiwei Highway Engineering Consultants Ltd. joint venture to undertake highway projects in China and East Asia. 4/95.

Greater Asia Industrial Development Co. Ltd. (NA), Owens-Corning Fiberglass Corp. (US)/Shanghai General Building Materials Group Corp.
Established joint venture to produce glass wool products. $25 million. 3/95.

OTHER

Paul Wurth SA (Luxembourg)
Opened liaison office in Beijing. 4/95.

Environmental Technology and Equipment

INVESTMENTS IN CHINA

Metito Holdings Ltd. (Japan)/Beijing Shunyi Water Treatment Equipment Factory, Far East Electric Equipment Facility
Established Beijing Metito Laurel Water Treatment Co. joint venture to design and build water treatment plants. (Japan:70%-PRC:30%). 3/95.

Food and Food Processing

INVESTMENTS IN CHINA

Kirin Brewery Co. (Japan)/China Resources Snowflake Brewery Co. (Shenyang)
Will provide license to produce and sell Kirin-brand beer in China. 4/95.

Ariake Japan (Japan)/NA (Shandong)
Will build factory to produce condiments. $3.1 million. 3/95.

ASIMCO (US)
Purchased 60 percent stake in Wuxing Beer Brewery in Beijing. $100 million. 3/95.

Calcol Inc. (US)/China National Food Industry Corp.
Established Yanjiao Soft Drinks Co. Ltd. joint venture in Hebei Province to manufacture soft drinks. $30 million. (US:80%-PRC:20%). 3/95.

PepsiCo, Inc. (US)/Guangzhou Xinzhujiang Foodstuff and Beverage Group Co.
Established Guangzhou Pepsi-Cola Beverage Co. Ltd. joint venture to produce and sell soft drinks. $28 million. (US:60%-PRC:40%). 3/95.

OTHER

Bresler's Industries, Inc. (US), Asia Dynamics Group Inc. (US)
Signed license agreement to distribute Bresler products in Beijing, Guangzhou, Hong Kong, and Xian. 4/95.

Machinery and Machine Tools

INVESTMENTS IN CHINA

Atlas Copco AB (Sweden)/Changchun Electric Tool Co. (Jilin)
Formed Atlas Copco Changchun Electric Tool Co. joint venture to manufacture electric drills, hammers, saws, and other power tools. (Sweden:70%-PRC:30%). 3/95.

Ohayashi Manufacturing Co. (Japan)/Changzhou Forestry Machinery Plant, a division of China Forestry Machinery Corp. (Jiangsu)
Established Xiaolong Changlin Engineering Machinery Co., Ltd. joint venture to produce Japanese-designed WA-3 wheel loader series and parts. $30 million. 3/95.

Metals, Minerals, and Mining

INVESTMENTS IN CHINA

Australian Overseas Resources (Australia), The Boulder Group (Australia)/Guangzhou Iron and Steel
Established joint venture to manufacture stainless steel products. $61 million. 3/95.

OTHER

Inland International, Inc. (US)/Baoshan Iron & Steel Corp. (Shanghai)
Established Ryerson of China joint venture to provide industrial materials management services. 3/95.

Petroleum, Natural Gas, and Related Equipment

INVESTMENTS IN CHINA

Exxon Corp. (US)/China National Petroleum Corp.
Will jointly develop sites in Daqing, Heilongjiang Province and Qaidam Basin, Qinghai Province. 4/95.

Fortune Oil PLC (HK), Vitol Holding B.V. (NA)/China Aviation Oil Supply Corp.
Established South China Bluesky Aviation Oil Co. Ltd. joint venture to produce aviation fuel. $250 million. (HK:24.5%, NA:24.5%-PRC:51%). 4/95.

NA (US)/Maoming Fuel Development Shareholding Co. Ltd. (Guangdong)
Will establish joint center to store and transport liquefied petroleum gas. $70 million. 4/95.

Royal Dutch-Shell Oil Co. (Netherlands), Keppel Group (Singapore)
Will establish joint venture to supply and market liquefied petroleum gas. $40 million. 4/95.

Mobil Oil Corp.(US)
Will open lubricating oil factory in Tianjin. $30 million. 3/95.

Shell China Holding Co. (UK)/Qingdao Economic & Technology Development Zone
Established Qingdao Shell Oil & Gas Co., Ltd. joint venture to process and sell liquid gas. $10 million. (UK:80%-PRC:20%). 3/95.

OTHER

Mobil Oil PET Ltd. (US)
Opened exploration and production office in Beijing. 3/95.

Texaco China B.V., a unit of Texaco Inc. (US)
Opened branch office in Shanghai. 3/95.

Pharmaceuticals

INVESTMENTS IN CHINA

Ethypharm (France)/Shanghai Tianpin Medicine Plant
Will form joint venture to produce several types of drugs. $15 million. (France:60%-PRC:40%). 4/95.

Ports and Shipping

INVESTMENTS IN CHINA

Asian Infrastructure Fund (NA), Fairyoung Holdings (NA)
Formed Fairyoung Port Investment Holdings joint venture to develop port facilities in Xiamen and Nanjing. $50 million. (NA:49%-NA:51%). 4/95.

Samsung Heavy Industries Ltd. a division of Samsung Group (S.Korea)/Tangshan City (Hebei)
Will jointly establish Jingtang Port commercial center. $16.2 million. 4/95.

Evergreen Group (US), Singamas Container Holding Ltd. (HK)
Will jointly construct container depot in Ningbo. $1.5 million. 3/95.

CHINA'S INVESTMENTS ABROAD

Shanghai Zhenhua Port Machinery Co./Port of Tacoma (US)
Will build crane to accommodate over-sized ships for Evergreen Marine terminal. $5.6 million. 4/95.

Power Generation Equipment

INVESTMENTS IN CHINA

AMOCO-Anyuan Solar Energy Co., a unit of AMOCO Corp. (US)/State Science and Technology Commision
Will produce super-thin photoelectricity film and assist in feasibility study for solar energy power station. 4/95.

Fuji Electrical Machinery Co. (Japan), United Development Inc. (Israel), VPL (Austria)/NA (Guangxi)
Will build and operate joint-venture power plant in Guangxi. $750 million. (Japan, Israel, Austria:51%-PRC:49%). 4/95.

GEC Alsthom (France)/Tianjin General Power Equipment Factory
Formed Tianjin GEC Alsthom Hydropower Co. Ltd. joint venture to manufacture and sell hydraulic turbines, generators, and associated equipment. $36.5 million. 3/95.

CHINA'S INVESTMENTS ABROAD

Dongfang Electric Corp. (PRC)/Power Plant & Project Management Corp. (Iran)
Will sell four power generators with total capacity of 1,300MW. 3/95.

OTHER

Morrison & Foerster International Law Firm (US), PowerGen (UK), Price Waterhouse (US)
Won Asian Development Bank contract to introduce project finance techniques for power project in Shanghai. 5/95.

World Bank
Approved loan and IDA credit for dam construction, flood control, and irrigation equipment for the Yangtze Basin Water Resource Project. $210 million. 4/95.

French Power Co. (France)
Will open representative office in Beijing. 3/95.

World Bank
Will provide loan for three 600MW coal-fired plants and other power generating equipment for the Zhejiang Province Power Development Project. $400 million. 3/95.

World Bank
Will fund 25 percent of 500KV transmission network in Sichuan Province. $270 million. 3/95.

Property Management and Development

INVESTMENTS IN CHINA

Peninsular and Oriental Steam Navigation Co. (UK)/Shanghai CCPIT, Shanghai Hongqiao Economic and Technical Development Zone United Development Co. Ltd.
Established joint venture to operate Shanghai INTEX exhibition center. $22 million. 5/95.

Yee Wah Investment & Properties Co. Ltd. (HK)/Beijing Coal Co.
Will establish Beijing Gold Island Garden joint-venture real estate project. $80 million. 4/95.

Radisson SAS Hotels International Inc. (US)/NA (Shanghai)
Opened Radisson SAS Lansheng Hotel Shanghai. 3/95.

Waymax Development Ltd. (HK)/Zencheng Real Estate Development Group (Guangdong)
Will jointly build cultural and historical park in Guangzhou. $50 million. 3/95.

Telecommunications

CHINA'S IMPORTS

Turner International Inc. (US)/Chinese International Television Corp.
Will sell copyright for Cable News Network news programs to China's international channels. 4/95.

INVESTMENTS IN CHINA

AT&T (US), GTP Ltd. (UK)/Huaxun Communications Group (Beijing)
Will establish wireless phone network in Shijiazhuang, Hebei Province. 4/95.

Oy Nokia (Finland)/Beijing Telecommunications Equipment Factory
Will build Beijing Nokia Mobile Telecommunications Ltd. joint venture to produce and market digital cellular telecommunications products. $28 million. (Finland:50%-PRC:50%). 4/95.

Tadiran Telecom Ltd. (Israel)/Yunnan Industrial Co. Ltd., Yunnan Telecom Equipment Factory
Will establish Tadiran Telecom (Kunming) Co. joint venture to produce, market, and install telecommunications equipment. 4/95.

GPT Corp. (UK)/China National Posts & Telecommunications Appliance Co., a division of the Ministry of Post and Telecommunications
Will jointly install synchronous digital hierarchy telecommunications link between Wuhan and Shanghai. $22.5 million. 3/95.

3M China Ltd., a subsidiary of 3M Co. (US)
Will produce vinyl tapes and telecommunications products in Shanghai. 3/95.

OTHER

Compaq Computer Corp. (US), Microsoft Corp. (US), Royal Dutch-Shell Oil Co. (Netherlands)/Beijing TV-RXL Pulitzer, a Sino-US joint venture
Will sponsor development of new Beijing TV Education Channel. 5/95.

British Telecommunications PLC (UK)
Will open office in Beijing. 3/95.

Textiles and Apparel

INVESTMENTS IN CHINA

BASF AG (Germany)/China Huayuan Enterprise Ltd. (Shanghai)
Formed joint venture to produce and market polyamide carpet yarn and polyester chips. 4/95.

Inghirami Group (Italy)/NA (Shanghai)
Established Sage Dream Garment Corp. Ltd. joint venture to produce shirts and overcoats. $8 million. 4/95.

BASF Group (Germany)/China Textile International Science and Technology Industrial Town of Qingpu County, China Worldbest Development Corp., and Pudong Development Bank
Formed joint venture to produce nylon and nylon rug fiber. $200 million. (Germany:75%-PRC:25%). 3/95.

Far Eastern Textile Ltd. (Taiwan)/NA (Shanghai)
Will build integrated garment factory. $30 million. 3/95.

Transportation

CHINA'S IMPORTS

Boeing Corp. (US)/Hainan Airlines
Will sell four 737-400 passenger planes. 4/95.

Apollo Batteries Ltd. (Australia), a joint venture between Red Lion Resources Ltd. (Australia)/China Venturetech Investment Corp.
Will sell auto batteries to China. 3/95.

INVESTMENTS IN CHINA

Delphi Packard Electric Systems, a subsidiary of General Motors Corp.(US)/Shanghai Sanlian Automobile Harness Co.
Created Packard Electric (Shanghai) Ltd. joint venture to produce automotive power and signal distribution systems. (US:50%-PRC:50%). $18 million. 4/95.

Lufthansa Airlines (Germany)/Chengdu City Government
Will open City Center joint-venture office to sell air tickets for Lufthansa and several European airlines. 4/95.

Federal Express Corp. (US)
Purchased air route between China and the United States from Evergreen Airlines (US). 3/95.

FMT AB (Sweden)/CAAC
Formed joint venture to construct hauling system for international airport in Guangzhou. $150 million. (Sweden:40%-PRC:60%). 3/95.

General Motors Corp. (US)/Hebei Lingyun Machinery Plant
Formed joint venture in Zhouzhou City to produce front drive shafts for automobiles assembled in China. $14 million. 3/95.

General Motors Corp. (US)/Qinghua University (Beijing)
Jointly established Delphi Automotive Systems Technology Institute for research, development, education, and training in automotive components and subsystems. $120,000. 3/95.

Honda Motor Co., Ltd. (Japan)/Guangzhou Motor Group
Formed joint venture to produce motorcycles. (Japan:50%-PRC:50%). 3/95.

Indosuez Australia (Australia), Folkstone (Australia), Godfrey Spowers (Australia), John Holland (Australia), Rider Hunt (Australia), Peddle Thorp (Australia), VICC (Australia), members of Pacific Rim Construction Consortium (Australia)/NA (Beijing)
Will build Beijing-Great Wall Light Rail Project from Beijing to the Ming Tombs and Great Wall. $296.2 million. 3/95.

Supreme Properties, a subsidiary of Lion Land Bhd. (Malaysia)/Tianjin Automotive Industry Corp.
Established joint venture to produce and sell minivans and light trucks. $32.4 million. (Malaysia:50%-PRC:50%). 3/95.

Valeo International Holdings (France)/Shanghai Automotive Industry Corp.
Created Shanghai Valeo Automotive Electrical System joint venture to produce car generators and motors in Pudong's Zhangjiang Hi-Tech Park. $29.9 million. 3/95.

Miscellaneous

OTHER

Siemens AG (Germany)
Established agency to improve transport, communications, and other systems in Wuhan. 4/95.

A.T. Kearney, Inc. (US)
Opened office in Beijing. 3/95.

A Place to Call Home

Somehow, I found the dark, muddy deserted area on the outskirts of Beijing where I was to meet Rod, a native Missourian making a decent living renting apartments to the growing numbers of China-based expatriates. As we walked toward the apartment he was to show me, he gave me a short pep talk.

"The owners could ask you anything," he explained. "They might want to know if you are married, if you have boyfriends, what your job is, what time you get home. It can get pretty personal." He further informed me that renting a privately owned apartment in China wouldn't pose the same problem for me, a Caucasian, that it does for blacks, to whom Chinese landlords have been known to refuse rentals.

The apartment was on the fourth floor of a seven-story walk-up. Unlit, the halls were filled with bicycles, trash cans, and other household effects that made climbing the stairs no easy task. As it turned out, the landlord asked no personal questions—in fact, she wouldn't speak to me at all but instead directed a few perfunctory questions to Rod. Though the apartment itself was spacious—and a bargain for a foreigner in Beijing at $500 a month—the area was so desolate and the landlord so rude that I knew I could never live there. Outside, I bid Rod goodbye and found a cab to continue my search for an apartment in Beijing.

It took over two months and several such adventures to find a home, but my experience was quite typical of expatriates with mid-range budgets seeking conveniently located housing. Most foreigners who are free to choose their own housing in Beijing are company employees with budgets of $5,000-$15,000 a month for rent. It is only the few, like myself, who fall into the middle market for a conveniently located apartment with Western amenities for $1,000-$2,000.

The idea that it is difficult to find an apartment for $2,000 a month in a country where the average annual per capita income is roughly $470 is naturally a bit hard to grasp. Housing, however, is a precious commodity in this city of 9 million residents and 3 million "transients" who have come to Beijing from the provinces seeking work. Real estate built to Western specifications—with telephones, hot running water, bathrooms, kitchens, elevators, and satellite dishes—is in especially short supply and tends to be snapped up quickly by Western or Japanese expatriates.

But local residents are now permitted to lease privately owned apartments to foreigners once they have gained permission from the Public Security Bureau, according to one real estate agent. Privately owned, affordable apartments are still in very short supply, however, and the real estate agents willing to show them are even more scarce. Most real estate agents choose to deal in high-rent properties leased by foreign companies, and steer clear of the low-commission, hassle-laden job of individual apartment rentals. Those Chinese real estate agents who do take on the more cumbersome job of individual rentals are learning quickly how to market their properties. One realtor, for example, called me away from work with the promise of a spacious two-bedroom flat. When we arrived at the apartment, she showed me two small rooms.

"This is one bedroom and that is the other," she said, pointing at each of the rooms.

"Well, then where is the living room?" I asked.

"Oh," she responded innocently, "This apartment doesn't have a living room or dining room; it only has two bedrooms."

The paucity of realtors who handle housing for individuals demanded that I pursue any and all housing leads. I let an American friend's landlord introduce me to a Hong Kong businessman, who is planning to open a country club in Beijing. After paying a year's rent in advance, the businessman decided the apartment was below his standards and moved into a luxury hotel. Hoping to recover the rest of the year's rent, he was looking to sublet to a foreigner. The apartment, I discovered when I went to see it, was in a building maintained by the Chinese Air Force to house Russian helicopter repair specialists. It was filthy and cluttered with the businessman's belongings. When I suggested that I would only consider subletting the apartment if it were thoroughly cleaned, the businessman responded, "Oh, don't worry, they clean the carpets every three months. And my things—well these have to stay here. Obviously I cannot have such junk in a five-star hotel."

My persistence finally paid off when, with the services of an agent, I landed an apartment for $1,000 a month, excluding utilities. There are a few drawbacks, however. There is piped gas in the building, but the building managers will only turn the gas on when the occupancy rate reaches 70 percent, so until then my oven—a rare and valued commodity—will be superfluous and I will have to buy gas canisters for the stove. Since the apartment space itself was unfinished, I was able to negotiate such things as room dimensions and the installation of wood floors, but the landlord won't begin the renovations until he receives three months' advance rent in the form of a money transfer from the United States, which could take several weeks to complete.

Hopefully, I'll be ready for a housewarming party soon. After two months of living out of a suitcase with friends, I will take my new apartment's disadvantages in stride. The apartment is on the thirteenth floor of the building and the elevator only runs until 11:00 pm, but I have already bought a flashlight for those evenings when I have to navigate the dark stairway and am prepared to do what the other residents do—offer the elevator operator a bribe to work late.

—Sheila Melvin

Sheila Melvin is associate director of the Council's Beijing office.