THE MAGAZINE OF THE NATIONAL COUNCIL FOR US-CHINA TRADE MAR-APR 1975

NO. 2 VOL. 2

U.S. CHINA BUSINESS REVIEW

TRANSLATION SERVICES OF THE NATIONAL COUNCIL

The National Council provides translation services for member companies and other firms wishing to have material translated into modern, simplified Chinese characters.

In all business contacts with the People's Republic of China, having correspondence, brochures, and other information translated into the script presently used in China facilitates communications with China's trade organizations. This is because China has limited translation resources: information received in China in Chinese can be disseminated and responded to much faster than if the correspondence is in English.

It is very important for the Chinese characters used in correspondence with Chinese trade authorities to be clear, fluid, and well-drawn. It is important to recognize that present terminology and style of business correspondence used among overseas Chinese differ considerably from that now in use in the People's Republic of China.

Services Offered

The National Council offers a translation service, with strict quality control, for all companies involved in business with China for translation of:

- Correspondence
- Business Cards
- Brochures and Pamphlets
- Summary of Technical Data
- Advertisements
- Catalogues
- Any other form of communication required

These services also include review, revision and correction of translations, both written and oral, made via other agencies in the U.S. and elsewhere, and referral to printing houses possessing modern Chinese ideographic forms.

As information that companies wish to convey to the Chinese normally includes technical terms, the Council's services also include a reference system of leading Chinese-speaking authorities in the U.S. in all major technical fields. These include those of applied mathematics, physics, biochemistry, civil engineering construction, electrical engineering, medical technology, metallurgy, statistics, computer sciences, heavy engineering, textile machinery, electronics and petroleum technology.

The Council also has an extensive set of reference works available including specialized dictionaries, atlases, and recent literature from China.

In the preparation of Chinese script, the following processes are involved: initial translation, research for technical terms, reference to specialized dictionaries, calligraphic copying, and final checking of contents.

To insure strict quality control, the translators used by the Council have been screened by authorities on modern Chinese usage. The services made available by the Council are also often recommended by the Washington Liaison Office of the People's Republic of China.

Charges

Translation charges depend on the type and extent of translation involved. Charges are increased for work needed at short notice. Fees are based on an hourly charge, plus additional cost if additional translation consultations with specialists are involved. There is a reduced hourly rate for members of the National Council. Non-members pay a higher rate. Estimates may be obtained in advance without charge. All services are provided in the strictest confidence.

VOLUME 2—NUMBER 2—MARCH-APRIL 1975

U.S. CHINA BUSINESS REVIEW

Design
Louise Levine

TABLE OF CONTENTS

Front Cover: Madame Han, leader of the Chinese Textile Delegation is greeted with flowers at Washington's National Airport, February 15, 1975, by the National Council. Left to right: Madame Han, Christopher H. Phillips, President of the National Council, Lena Phipps, daughter of Mrs. May Li Phipps, and Mrs. Phipps, Director of Translation Services at the Council.

The U.S. CHINA BUSINESS REVIEW is published bimonthly by the National Council for US-China Trade, 1100 17th Street N.W., Suite 513, Washington, D.C. 20036 USA. The National Council is a non-profit organization incorporated under the laws of the District of Columbia. The U.S. CHINA BUSINESS REVIEW is published principally for members of the National Council. Second class postage pending at Washington, D. C. The magazine is available for subscription in the US and Canada at $60 per year; elsewhere at $75 a year including airmail postage. Single copies are available only to members.

The National Council for United States-China Trade is grateful to His Excellency Huang Chen, Chief of the Liaison Office of The People's Republic of China in Washington, for the calligraphy on the front cover of the U.S. China Business Review.

COUNCIL CALENDAR

NEW YORK, March 6

George Driscoll, the Council's Director of Business Advisory Services, addressed a World Trade Institute seminar on "US-China Trade Relations."

WASHINGTON, March 21

George Driscoll addressed a seminar at the Foreign Service Institute on the "State of US-China Commercial Relations."

PHILADELPHIA, April 3

George Driscoll will address the Philadelphia World Trade Association on "US-China Trade: Problems and Prospects."

MANILA, PHILIPPINES, April 5

Eugene Theroux, Council Vice President, will address the Asian Pacific Council of American Chambers of Commerce (APCAC) on the "Outlook for US Trade with China."

KWANGCHOW, April 15-May 15

Eugene A. Theroux and Arne de Keijzer will represent the Council at the 37th Chinese Export Commodities Fair. The Council will be assisted in its support activities at the Fair by AMCHAM Hong Kong.

HOUSTON, April 16

President Phillips will speak at the First Annual World Trade Conference on doing business with the People's Republic of China.

CHICAGO, April 17

George Driscoll will speak at the American Marketing Association's 58th International Marketing Conference on "Marketing to the People's Republic of China."

WASHINGTON, D.C., May 2

The National Council will join Hong Kong AMCHAM representatives presenting a program on US-China trade at the annual APCAC Washington seminar to be held under the auspices of the Chamber of Commerce of the USA.

MILWAUKEE, May 14

President Phillips will address the World Affairs Council of Milwaukee.

WASHINGTON, D.C., June 2

The National Council for U.S.-China Trade will hold its second annual meeting at the Mayflower Hotel.

USLO
Your Men in Peking

The US Liaison Office compound in Peking. To the left is Ambassador Bruce's residence. The entrance to USLO offices is on the right

One of the executive's first stops in Peking should be the United States Liaison Office (USLO), located at 17 Guang Hua Road in the new diplomatic quarter on the east side of city.

The Liaison Office is headed by the Honorable George Bush, who lives on the USLO compound. Ambassador Bush is happy to meet Americans visiting Peking, as his schedule permits.

Three commercial officers are assigned to the LO, though at any given time one of these is likely to be away from Peking. One of their principal functions is to aid US businessmen in the Chinese capital. To keep abreast of a particular firm's progress with the Chinese, USLO encourages companies to send them a copy of all correspondence with FTCs.

Office Hours and Appointments

Office hours are 8:30 to 12:30 and 1:30 to 5:30 Monday, Tuesday, Thursday and Friday, and 8:30 to 12:30 Wednesday and Saturday. Appointments may be made by phoning 522033. The atmosphere is informal and USLO officers are usually happy to meet at the convenience of the visitor. Appointments may also be made in advance via the PRC Desk (EA/PRCM-Economic/Commercial Unit) at the US State Department in Washington, D. C. (202/632-2656).

Though Liaison Office officials themselves do not normally accompany business delegations to their meetings with FTC representatives they are happy to provide guidance through consultation and discussion.

Business correspondence may be sent to an individual care of the Liaison Office but communicating directly with the addressee's hotel is usually faster. USLO does not have a telex number at present. Letters can take from five days up to two weeks to arrive in Peking via international airmail.

At present USLO's stock of business equipment is limited and its use restricted to diplomatic personnel. Secretarial services may be provided by USLO secretaries on their own time, but this is a matter for individual negotiation.

Sending Cables

Cables may be sent to commercial officers at USLO or to business executives care of USLO by two means: either through normal commercial channels in the US, addressed to U.S. LIAISON OFFICE, PEKING, PRC, or under special circumstances facilities of the State Department's Communications Center in Washington may be used. All such messages must be cleared in advance by the Department's PRC Desk and there will be a charge for sending these cables. In a genuine emergency situation arising outside of normal working hours, the State Department's Operations Center may be contacted (202/632-1512).

The USLO has published a Chinese/English restaurant and shopping guide for Peking (useful for taxis) which is free to visitors. In addition the Office maintains a small lending library of about 400 paperbacks and receives the *International Herald Tribune*, *Stars & Stripes*, *Time* and *Newsweek*, though these arrive four days to two weeks late. 完

Consumer goods displayed in a Shanghai suburban area by staff of the Consumer Goods Purchasing and Supplying Center in Shanghai to gauge consumer response and sell new products. Hsinhua, December 1974

THE MARKET IN CHINA FOR FOREIGN CONSUMER GOODS

John T. Kamm

So long as people of one country make goods to sell to others, so long as ships cross the ocean and international trade exists, the golden illusion of the sales which may be made to China's industrious millions will always be an intriguing one. No matter what you may be selling, your business in China should be enormous, if the Chinese who should buy your goods would only do so.

Carl Crow, Four Hundred Million Customers, *1937*

Do not hesitate to buy skirts. These are not articles from the West. Our skirts are made in China and were created by the revolutionary masses.

Poster in front of a clothing goods store, Shanghai, 1975

Businessmen whose countries reenter the China market after many years' absence all seem to share a common experience. The initial euphoria which accompanies the reopening of trade is fuelled, to a large extent, by visions of profits derived from the sale of consumer goods to '800 million customers.' Chinese adherence to the principle of self-reliance, coupled with well-planned and executed purchasing strategies, invariably serves to dampen the initial enthusiasm. The word spreads that China isn't buying consumer goods.

Yet, despite the fact that China's imports overwhelmingly consist of agricultural produce, raw materials, and machinery, limited quantities of industrial consumer goods continue to enter the PRC. Imports of such goods are a fraction of the pre-1949 levels, when foreign products flowed into China's urban markets and were readily available in large areas of the rural interior. In this period, a recent Chinese news release contends, China became "a dumping ground of the various industrial powers which inundated its markets with consumer goods of every description." (NCNA, Shanghai, September 20, 1974.)

China reportedly purchased considerable quantities of consumer items from the Soviet Union and East Europe in the early and mid-50s. Imports from the West grew during the period, peaking in 1957 when China purchased an estimated \$50 million of West European consumer goods, including \$31 million worth of watches and \$13 million worth of medicinal and pharmaceutical products.

Imports of processed durables and non-durables declined steadily after 1957, falling to an average annual value of only \$10 million in the late 60s and

---

John Kamm, a graduate of Princeton now studying at Harvard, specializes in Chinese socioeconomic developments. In 1974 he worked as a part-time copy editor at Business Asia *in Hong Kong, and has also spent time in Macao. The opinions in this article do not necessarily reflect those of the National Council.*

This Hsinhua Photo shows television sets for sale in a Shanghai store.

70s. While China suddenly increased its purchases of these commodities in 1973, total expenditures still account for less than one percent of China's import outlay. Supply and distribution of these commodities, which include watches, cameras, sewing machines, television sets, and medicines, is carefully regulated by the state. The PRC currently has no intention of using scarce foreign exchange to purchase foreign consumer goods for mass consumption.

But while insignificant in quantity, assessing the flow of consumer goods into China is important for two reasons. In the first place, changes in the market for these commodities constitute yet another index for measuring Chinese flexibility in interpreting the principle of self-reliance. Secondly, in the unlikely event of a major policy change, increased importation will probably follow the current pattern of trade.

Increasing Demand for Consumer Goods

Since the founding of the People's Republic, the purchasing power of individual and collective units has increased steadily. Wages have risen, rents have remained stable, and prices of many necessities (including food staples and medicines) have actually fallen. In 1956, according to statistics published in China, the typical Chinese factory spent nearly 60 percent of his income on food and shelter; today, the same worker spends less than 40 percent.

As a result, demand for consumer goods has risen sharply. Sales of radios reportedly showed a 100 percent increase in 1972 over 1971 figures; 56 percent more television sets were sold during the same period. According to a recent article in *China's Foreign Trade,* retail sales of many consumer items (including fabrics, footwear, washbasins, watches, sewing machines, radios and television sets) rose 10-20 percent in 1973.

Chiná now produces virtually every kind of domestic appliance. Shanghai's department stores, according to one NCNA report, are stocked with over 35,000 different varieties of products; rural supply and marketing cooperatives provide their customers with over 3,000 different items. Nearly all products are Chinese-made. Marketing research—"to enable light industries to constantly improve design and quality" and advertising are also on the upswing.

While light industrial production has shown impressive gains since the Cultural Revolution, progress in this sector has been notably slower than that registered by heavy industry and agriculture. In recent years, reported percentage increases of retail sales have far outstripped percentage increases in industrial output. Moreover, large quantities of Chinese-produced consumer goods never enter the domestic market; exports of domestic appliances, furniture, clothing, and processed foods are an increasingly important part of China's trade with Southeast Asia and Japan. Recent Chinese broadcasts and editorials indicate that policymakers have become aware of the need to "correct the relationship between agriculture, light industry, and heavy industry."

Western firms will continue to be called on to assist in this development. The West is a major supplier of the raw materials and chemical products, including textile fibres and yarns, skins and hides, rubber, and plastics, utilized by China's light industry. Interest in foreign technology, particularly in advanced electronic telecommunications equipment, is high. In 1973, several firms reported Chinese requests for technical assistance in constructing completely integrated color television tube plants. In July of that year, China approached three Japanese companies (Dai Nippon Printing Co., Nippon Screen Manufacturing Co., and Tokyo Shibaura Electric Co.) to purchase a shadow mask manufacturing plant capable of producing 20,000-30,000 tubes per month. US firms, including RCA, were also approached.

Despite considerable progress, several problems continue to plague China's consumer goods market. Though rationing has largely been eliminated, 1974 prices were relatively high: 20 yuan * ($10.86) for a pair of trousers, 30 yuan ($16.31) for a radio, 50 yuan ($27.18) for a camera, 60-110 yuan ($32.61-$59.79) for a watch, 150 yuan ($81.53) for a bicycle or a sewing machine, 300 yuan ($163.07) for a 9-inch black and white television set, 600 yuan ($326.14) for the 16-inch version, and 900 yuan ($489.21) for a refrigerator. Most items are substantial investments for workers and peasants: the estimated average monthly wage for urban factory workers is 60 yuan. In order to enjoy these luxuries, he must save for months or participate in communal ownership. For at least some items, administrative approval of a purchase is required; this can have the effect of rationing without the name. Furthermore, while quality is improving, standards of most products are not yet equal to those produced in the West.

Demand for higher quality, less expensive goods obviously exists among the Chinese populace. Similarly, if the PRC obeyed the laws of market theory, it would benefit by producing some goods and obtaining others through trade. China, however, is a planned economy in which market forces play subsidiary roles. Thus, as we shall see, liberalized quotas and restrictions on the importation of consumer goods has not led to a substantially increased foreign presence in the marketplace.

Supply of Foreign Consumer Goods

Processed durables and non-durables enter China by three methods: Direct importation, that is, goods purchased by state trading corporations abroad; Indirect importation, purchases of reexports by agents in Hong Kong; and thirdly, unorthodox supply, such as parcels and hand-carried gifts from overseas Chinese and compatriots in Hong Kong and Macau.

* All yuan conversions are at the December 31, 1974 median rate of one yuan: 54.3566 US¢.

Direct Importation

Western Europe and Japan are the major suppliers of consumer items purchased by state trading corporations. Exports of selected commodities from these countries for 1970-1972 are given in Table I.

While complete statistical breakdowns are not yet available for 1973, figures published by individual countries indicate a dramatic increase in Chinese purchases of these commodities during that year. Total purchases from Western countries exceeded $35 million, and included nearly $3 million worth of pharma-

CLOTHING PRICES FROM A SHANGHAI DEPARTMENT STORE IN 1973

Women's Clothing	**Price Range in US $**	
Bathing suit	from 2.93 to	3.75
Sweater	6.44 -	10.73
Woolen scarf	2.68+	
Cotton blouse (rationed)	1.61 -	2.68
Cotton skirt	1.88+	
Cotton trousers	1.61 -	4.29
Undershirt	.54+	
Underpants	.54 -	1.02
Socks	1.07 -	1.60
Brassiere	0.42 -	0.70
Polyester blouse	3.75+	
Cloth shoes	1.88	
Sandals	1.34+	
Leather shoes	4.24 -	4.88
Cotton jacket (rationed)	4.29 -	8.04
Padded jacket (rationed)	13.41	
Plastic raincoat	1.07 -	1.88
Men's Clothing		
Cotton shirt	2.95	
Polyester shirt	5.36+	
Cotton trousers	4.83 -	8.58
Cotton shorts (rationed)	4.24 -	4.83
Cotton jacket (rationed)	4.29 -	9.12
Padded jacket (rationed)	13.00+	
Straw hat	0.72 -	3.60
Cloth hat	0.54	
Socks	1.07 -	1.61
Cloth shoes	1.88 -	2.50
Leather shoes	8.60 -	10.75
Overshoes	2.20 -	4.42
Sneakers	4.30 -	5.90
Sandals	2.42 -	2.69
Undershirt	0.64 -	0.86
Undershorts	0.64 -	0.86
Other Goods		
Sewing machine	80.44 -	160.88
Quilt	41.83 -	60.60
Blanket	10.73 -	16.09
4 towels	3.22+	
Cotton blanket	4.29+	
3 meters brocade (36″)	4.01	
3 meters wool	12.23	
3 meters cotton cloth 45″ (rationed)	0.80	

Prices converted at going rate

绮年华有限公司
Eterna Ltd

地址：CH-2540 Grenchen
电话：065/82171
专线电报：34499
电报挂号：ETERNA

男用手表
眞正防水（2个大气压）、自动、长秒针、不锈钢表壳、白色表盘

Part of Eterna's page in the Swiss Industrial Technology Exhibition Catalogue: the firm displayed in this show in Peking, August 1974. Its products are available in Chinese department stores.

ceuticals and medicines, $17 million worth of clocks and watches, and $600,000 worth of cameras, lenses, and accessories. Brazil also announced sales of $10 million worth of instant coffee, and increased purchases of foreign wines were also registered. According to Japanese trade statistics, 1004 color television sets, worth a total value of 78 million yen ($275,000), were purchased by the Chinese in 1973.

Available statistics for 1974 support the hypothesis that China is diversifying and increasing her limited imports of consumer goods. First quarter figures released by Western governments reveal increased Chinese purchases of watches, cameras, and medicines. According to one Swiss trade official, sales of pocket and wrist watches to the PRC are expected to grow 5-10 percent over 1973. The Organization of Economic Cooperation and Development's foreign trade statistics show that China's purchases of photographic equipment from Germany during the first quarter were equal in value to the total purchases of similar items from that country in the whole of 1973.

US Commerce Department figures, which show negligible Chinese imports of medicines, office equipment, and sporting goods from US sources, are not an accurate measure of the volume of US goods entering China. The PRC seldom purchases consumer goods directly from US sources, tending to prefer to deal with foreign subsidiaries of US multinationals or with third parties abroad. Nevertheless, US firms sold China directly in 1974 a number of possible consumer items, including "watch movements, clock and watch parts," "radio and TV broadcast parts and accessories," musical instruments, ballpoint pen refill ink cartridges, men's dress shirts and wrenches. In 1973 US consumer goods sales to the PRC included photographic and motion picture supplies, movie film, "phonographs, tape recorders and similar machines," and "baby carriages, toys, sports goods etc." American tobacco is known to have been blended in Chinese cigarettes.

One well-known US firm with considerable experience in exporting processed non-durables to the PRC is attempting to channel all sales and distribution through its Hong Kong regional headquarters. In so doing, the company takes advantage of the reexport structure described below, while at the same time maintaining greater control over the product in Hong Kong. Though, at present, the Chinese market is relatively small in comparison to others, sales of this firm's products—which consist chiefly of items such as film, petrochemicals, and photo paper—have been substantial.

The experience of this company, coupled with statistics which show increased purchases of German and Japanese cameras, points to rising Chinese interest in Western photographic equipment. One prominent China trader who recognizes this trend is currently developing plans to market light movie cameras and accessories to hospitals, schools and factories.

The PRC is known to purchase substantial quantities of Albanian cigarettes and Cuban cigars. One representative of a foreign trading house recently back from extended residence in Peking believes that China may soon increase her purchases of selected consumer goods produced by 'friendly' socialist and Third World countries. In this analysis, the recent Brazilian coffee deal and purchases of Thai medical products, totalling nearly $300,000 in the first three months of bilateral trade, are initial attempts at wooing these countries by encouraging the development of their light industries.

Swiss pocket and wrist watches

China began importing time pieces in the early 50s, and the trade has continued without interruption since then. Major suppliers include Switzerland, Japan, France, Germany, and the UK. Switzerland is by far the largest supplier of watches and clocks; of the $17,200,000 worth of Chinese imports of these items registered in 1973, Swiss products accounted for $13,600,000.

Several Chinese foreign trade corporations and agencies engage in buying pocket and wrist watches. In 1969, for instance, the China National Foreign Trade Transportation Corporation, the China National Machinery Import and Export Corporation, and the China National Light Industrial Products Import and Export Corporation, (INDUSTRY) all placed orders for time pieces and movements at Swiss outlets. INDUSTRY, which is responsible for distributing the watches to department stores throughout China, is the largest single buyer. Purchases typically consume 60-70 percent of China's outlay for Swiss watches, and include orders for over 25 brands.

The Chinese only place orders after careful inspection of each model. The Swiss credit them with virtually eliminating the problem of counterfeit watches entering the market.

While confident of increasing sales to China, Swiss manufacturers are not taking the market for granted. Considerable space was devoted to a comprehensive showing of watches and clocks at the Swiss Industrial Technology Exhibition held in Peking during late 1974. While exact details are not yet available, several substantial deals were reportedly negotiated.

Indirect Importation

China purchases a wide variety of reexported consumer goods from Hong Kong. Table 2 gives details of selected commodities for 1972-1973.

The figures support the trend observed in direct imports, that is increased expenditure by China on a wider variety of consumer goods. In the first ten months of 1974, sales of refrigerators jumped to HK$318,883 (US$63,523) while camera sales advanced to HK $137,000 (US$27,291). China's purchases of television sets and watches in Hong Kong increased substantially.

Purchases of reexports all follow a similar pattern. The transactions are overseen by Hong Kong agents of the state trading corporations; the two most active buyers are from China Resources and Hua Yuan Co. Orders are typically placed with sole distributors of foreign brands in Hong Kong. China Travel Service is responsible for shipping the order to end-users in the PRC.

Some examples

In the summer of 1974, Hua Yuan Co., agent for INDUSTRY in Hong Kong, approached several distributors of washing machines to buy equipment for two new laundromats in Peking. Davie, Boag (Eng) Ltd., agents for Westinghouse, successfully secured the bid in late November. The contract calls for delivery of HK$160,000 (US$32,000) worth of coin-operated machines, including washers, dryers, dry cleaners and other units.

Other recent deals include orders from China Resources and Hua Yuan for German cameras (Leicas) and American refrigerators (Philco) and air-conditioners. The Leicas were reportedly destined for the New China News Agency, while several Philco units

HOW HASSELBLAD SELLS TO CHINA

One of the companies involved in selling cameras to the PRC is Sweden's Hasselblad. The account below, reproduced from Business International's "Doing Business with the People's Republic of China," gives some insight as to the process of making sales of this kind of product to China.

Selling is airfreight: Hasselblad

Hasselblad, the Swedish camera manufacturer, has made regular deliveries to the PRC for a couple of years. The volume is not large—it totaled some $50,000-$60,000 in 1972—but it is steady and devoid of problems. The procedure could not be simpler. The company gets an inquiry from the Light Industrial Products Import and Export Corp., makes an offer by mail, and gets a contract by mail. The whole process takes about two months. Occasionally, an order comes by cable. The usual terms are cash against documents, but occasionally there is a request for 30 days' credit. Payment is by letter of credit in Swedish crowns.

Contracts consist of a simple, one-page document, usually in English, occasionally in both English and Chinese. Instruction manuals in English are sent with each delivery.

What makes Hasselblad unique in terms of China trade today is that it occasionally makes deliveries, not to the standard f.o.b. Swedish port, but c.&f. airfreight, via Air France. These deliveries are made to the Shanghai branch of the trading corporation. The company gets orders not only from Peking, but from the corporation's branch offices in Shanghai, Dairen, and Tientsin. It finds that the ordering system is consistent within each branch, but differs slightly in delivery and payment terms. Shanghai, for example, always requests airfreight, while the other corporation branches ask for delivery by ship or even by parcel post.

The firm participated in the Swedish exhibition in Peking and sold all the equipment on its stand. It was the first time a company representative had been in China. The exhibit equipment was sold at a discount of 3-4%, but the firm made it clear that this discount would not apply to subsequent sales. It has since sold products of standard prices.

have been sited in such places as the new wing of Kwangchow's Tung Fang Hotel. Orders for foodstuffs, beverages, cutlery, and glassware are often placed in Hong Kong by the diplomatic community in Peking.

Unorthodox Supply

Importation through the mails

The PRC considers postal traffic a means of importing and exporting consumer goods. The Ministry of Foreign Trade issues regulations concerning all parcels, classified as weighing 2-20 kgs, and small packets, under 2 kgs, entering and leaving China. The Maritime Customs is responsible for inspecting and levying appropriate taxes on articles contained in the packages.

The most recent set of regulations concerning parcels and small packets came into effect on December 1, 1970, shortly after resumption of parcel post service to the PRC (service was frequently halted during the 60s). 'Reasonable' amounts of daily necessities may now be sent to relatives and friends in the PRC. Each parcel or small packet may not exceed a total value of 20 yuan ($10.86). Each family may receive no more than 100 yuan ($54.36) worth of goods each year.

Relatives and friends may annually receive up to 24 kgs of foodstuffs including 'high-quality' items with values less than 5 yuan ($2.72), nine square meters of silk and 40 square meters of cotton fabrics, 3 kgs of woolen or knitted clothing, 'reasonable' amounts of medicine, and small amounts of fishing line, flints, knitting needles, etc. Prohibited articles include watches, radios, bicycles, and cameras.

If the package exceeds regulated weight or value, or if it includes prohibited articles, the customs will return it to the sender. If the sender neglects to include his return address, or if the recipient is unable to pay the duties imposed by customs agents, the package becomes the property of the state.

The number of parcels sent by Hong Kong Chinese to the PRC has increased steadily since 1970. From April 1973 to March 1974, 702,100 parcels were dispatched by the Hong Kong post office; during the same period in 1972-1973, 541,800 parcels were sent. Small packets numbered 5,600,000 during 1973-1974. Mailbags in transit from Overseas Chinese abroad showed even more impressive gains; last year, 100,252 bags of small packets (up 68 percent over the previous year) and 37,852 bags of parcels (up 59 percent) passed through Hong Kong. Each mailbag contains approximately 10 small packets or 5 parcels. These figures include neither parcels handled by the Macao authorities nor packages sent by shops through the China Travel Service.

Several stores in Hong Kong and Macao specialize in sending popular foodstuffs and medicines back to "friends and relatives" in the PRC. Shopowners are currently doing good business with high-grade antibiotics, vitamins, cold medicines, cod-liver oil, and condensed milk.

Gifts carried by hand

Travellers to China are divided, for the purpose of customs inspection, into two categories: 1) Hong Kong and Macao compatriots; and 2) Overseas Chinese, foreigners of Chinese descent, foreigners resident in China, and citizens of China travelling abroad. Different sets of regulations are issued by the Ministry of Foreign Trade to cover gifts brought into and out of China by members of the two groups.

Liberalized regulations concerning Overseas Chinese

THE FOREIGNERS' MARKET FOR FOREIGN CONSUMER GOODS

A thriving market for foreign goods exists, not surprisingly, among the small foreign community living in the PRC, and considering the international situation, potential growth is virtually assured.

Several supermarkets in Hong Kong maintain special departments to handle purchases of non-spoilable foodstuffs and household goods by foreigners in Peking. One of the most prominent is Overseas Supermarket Ltd., located a scant 100 yards from the Kowloon-Canton Railroad terminal in Tsimtsatsui. Orders are received and filled by the Peking Service Department, which then packs the goods in 100 pound wooden crates suitable for the long haul to Peking. China Travel Service oversees all details of the shipping.

The largest supplier of wine and spirits is Watson's. The Hong Kong-based firm, which counts most of the 50-odd embassies in Peking as customers, handles 3-4 major orders a week. Business has increased proportionate to growing diplomatic recognition. Interest has also surfaced among French technical advisors working at a newly-constructed petrochemical plant in North China.

"Tourism"

While interest in promoting tourism surfaces from time to time, the Chinese are not presently inclined to provide opportunities for purchasing non-Chinese goods. Unlike the North Koreans, the Chinese have not established duty-free shops at points of transit. Cigarettes and liquors from foreign countries other than Albania and Cuba are not available in hotels which specialize in handling foreign guests.

Friendship stores, which are present in several Chinese cities, reportedly stock small quantities of such goods as cameras, film, and watches. Access is limited to foreigners and Overseas Chinese. Foreign Ship Supply Corporations, located in all major ports, stock only Chinese goods. Some Seamen's Clubs, however, sell goods available at the Friendship stores.

Kwangchow Station, Chinese New Year 1974: Overseas Chinese are eagerly greeted.

were put into effect on August 1, 1974. Travellers of this category may now bring into China, free of tax, the following articles: over 60 clothing items (including specific quantities of coats, underwear, shoes, belts, and hats), bedding, 30 square meters of fabric, 50 kgs of foodstuffs, 600 cigarettes, four bottles of alcoholic beverages, 50 yuan of medicine, one watch, one bicycle, one sewing machine, and one radio. Gifts may be given to friends and relatives, or may be sold to retail outlets for a fair price.

Chinese department stores in Hong Kong have been quick to take advantage of the new policy. Chung Kiu, a large gift emporium-supermarket on Nathan Road, offers sizable discounts on all purchases by Overseas Chinese with validated visas.

More rigid rules apply to Hong Kong and Macao compatriots. The most recent regulations were issued on January 24, 1975. Each compatriot is allowed to bring into China 22 pounds of foodstuffs and 10 square yards of cotton fabric. Other permitted items popular with returning Cantonese include umbrellas, medicines, plastic tubs, and cooking utensils. All valuables are registered with customs officials and must be produced for inspection on return to Hong Kong.

The reason for this discrimination becomes clear on examining the departure figures for Lo Wu. In 1974, 811,984 departures by Hong Kong residents were recorded, a spectacular 300 percent increase over four years ago. All other departures amounted to approximately 44,000. As one Chinese economic journalist put it: "If compatriots were allowed the same privileges as Overseas Chinese, a very profitable, and virtually uncontrollable, trade would soon spring up."

What Role for Foreign Consumer Goods?

Identifying end-users of foreign consumer goods is a difficult task. The usual difficulties are compounded by recent Chinese statements that certain imports are reexported "for the sake of increasing variety and activating exchange between the home and foreign markets." (Ta Kung Pao, January 9, 1975.)

Assisting industrial production

Consumption of consumer commodities in the PRC differs from other countries in that many goods are collectively owned. It is common for factories, communes, offices, stores, hospitals, and schools to share television sets, washing machines, and refrigerators. Moreover, consumer goods often act as 'producer goods' in state enterprises.

Light industries and handicraft cooperatives are the probable end-users of the several thousand domestic sewing machines imported over the last few years. More importantly, China is known to import small 'samples' of Western products which are carefully investigated in the hopes of improving technology. Many observers have noted the remarkable similarity between certain brands of Chinese goods and their Western counterparts.

Evidence suggests that some foreign products are deployed in the 'services' sector. The equipping of the Peking laundromats with Westinghouse machinery

A cosmetics counter in Shanghai in the early 1970s.

is an outstanding example. Restaurants, hotels, and hospitals are know to employ some appliances, such as refrigerators and airconditioners, obtained from the West. Photographic equipment has been sighted in portrait studios and printing shops.

Outfitting China's cadres

As China's presence in the international arena grows, Peking is determined that members of delegations and government bureaus be outfitted with the highest quality equipment.

At a recent Export Commodities Fair, Sharp and Cannon electronic calculators were in evidence among trade officials. Many photographers of the New China News Agency carried German cameras loaded with top-grade color film. Foreign wrist watches were observed being worn by several cadres, including waitresses at the Tung Fang Hotel's restaurants.

When China is capable of producing goods of similar caliber, we are assured, foreign goods will be abandoned. Until that time, the PRC's state professionals will continue to provide a market for certain goods.

Private consumption

Travellers to China have given conflicting estimates of the quantity of foreign goods available in urban department stores. Barry Richman, in his reliable study of industrial life in China during the mid-60s, reports that one percent of the Shanghai General Department Store's stock consisted of foreign goods prior to the Cultural Revolution. These goods included cameras, film, and watches. On a visit to the same department store in 1971, Seymour Topping observed a "handful" of foreign-made items (New York Times, May 30, 1971).

Interviews conducted for this article, revealed that the most popular items currently available in China's urban department stores are watches, film, medicines, and "socialist" cigars and cigarettes. While articles of clothing appear from time to time, they are more likely to be found in new and used clothing outlets. The products are typically placed alongside Chinese brands, the only conspicuous difference between the two goods being the price tag.

On a visit in November 1974 to the Nan Fang Department Store in Kwangchow, a foreign visitor noticed Swiss and Japanese watches. Actual prices of the foreign-made watches at the store were—a silver Rolex at 918 yuan ($499.00), Omegas at 861 yuan ($468.00), 798 yuan ($433.76), and 630 yuan ($342.45), Movado 492 yuan ($267.43), Longines 462 yuan ($251.13), Eterna 328 yuan ($178.29), Citizen 205 yuan ($111.43), Luz Geneve 208 yuan ($113.06), and Hebe, Transglobe and Nivada at 208 yuan. The Chinese watches, of the Hungoi and Kuangzhou brands, all sold at between 100 yuan ($54.36) and 110 yuan ($59.79). According to one journalist just back from Peking, the Chinese government levies a 'consumption tax' of 100-200 percent on the wholesale value of Swiss timepieces. Swiss officials concur with his estimate.

The purpose of this consumption tax is to soak up excess purchasing power. Certain sectors of the Chinese population enjoy much greater monthly incomes than the average 60 yuan a month earned by urban factory workers. Dependents of Overseas Chinese, who receive remittances totalling over $200 million each year, are the most obvious group. Others with comparatively large incomes include workers with seniority (who often earn twice the average wage) and skilled technicians or university professors (some of whom reportedly earn over 300 yuan a month). To these groups, possession of a Rolex or Citizen wrist watch can be an important status symbol.

Any decision to further open China's markets to foreign goods will depend, to a large extent, on whether substantial growth of groups with high incomes occurs. In this regard, a recent decision by the US government to allow receipt of Social Security

TABLE 1
European and Japanese Exports of Selected Consumer Goods to China, 1970-1972, (US$'000)

Commodity	*1970*	*1971*	*1972*
Beverages	—	122	77
Pharmaceuticals, medicines	1,320	1,662	1,898
Sewing machines (domestic)	—	—	618
Television sets	—	—	167
Calculators	—	—	52
Clothing	704	1,142	102
Furniture	—	—	67
Cameras	155	187	177
Clocks and watches	5,451	4,757	6,050
Total	7,630	7,870	9,208

TABLE 2
Hong Kong's re-exports of Selected Consumer Goods to China, 1972-1973, (In Current US$*)

Commodity	*1972*	*1973*
Beverages	20,777	22,320
Cigarettes	3,935	4,298
Butter	31,952	140,339
Margarine	81,745	139,851
Medicines	22,959	106,497
Glassware	170,083	329,828
Sewing machines (domestic)	—	6,941
Refrigerators	3,343	28,485
Television sets	11,806	89,892
Cameras	8,873	25,256
Clothing	3,158	—
Clocks and watches	11,198	70,007
Tape recorders	12,677	11,532
Calculators	3,013	37,655
Toys, sporting goods, etc.	799	38,569
Total	368,318	1,051,470

* 1972: US$1.00=HK$5.70
1973: US$1.00=HK$5.09

Sources: Table I, OECD, Statistics of Foreign Trade Series C, 1970-1972.
Table II, Hong Kong Bureau of Census and Statistics.

checks by residents of East European countries could have important consequences. If American Overseas Chinese return to the PRC on retirement, and if Peking decides to encourage this move, a new community of high-income Chinese with an acquired taste for foreign goods will have to be provided for. Against this there is the fact that when many thousands of American Chinese returned to the PRC in 1949-56, their tastes did not make for changes in Chinese policies.

Policymakers will almost certainly not return to the practice of granting purchasing privileges to returnees. In the late 50s and early 60s, when China was encouraging increased remittances and resettlements, returnees and dependents were reportedly able to purchase several commodities, including some foreign goods, not available to the general public. This policy caused considerable resentment among the masses, and the Cultural Revolution put an end to most privileges. Foreign consumer goods carried by China's department stores, now and in the future, may be purchased by anyone, provided, of course, that he or she can afford the stiff prices.

Conclusion

Much evidence can be marshalled to support the contention that policymakers in the PRC have adopted a relatively lenient attitude towards consumption of foreign goods among certain sectors of the population. As noted, total purchases, both abroad and on the reexport market, surged dramatically after 1972. Moreover, customs regulations pertaining to the unorthodox importation of consumer goods have generally been liberalized.

It remains to be seen, however, whether or not these events relate to emerging forces which will change the nature of China's planned economy. Hence, it is as well to conclude this account with questions. What strategies will China adopt to regulate burgeoning purchasing power among the general populace? And to what extent will China's leaders permit growing demand for high-quality goods to "spill over" into conspicuous consumption? Answers to these and related questions will determine the future of this currently tiny but expanding market.

In the long term another question is reasonable to ask—If Chinese-made consumer goods, such as toys, clocks, musical instruments, and cameras, appear on more and more shelves of US stores, why should not there be a reciprocal flow of good foreign consumer products to Chinese shelves? In today's China, as is evident, some foreign consumer products are available, especially watches (perhaps suggesting that China values time as never before). Will there be a day when Chinese consumer products stand side-by-side with US products—both in China and the US—for customers of both nations to choose as they wish? 究

OBITUARY: HANS SCHNEIDER

Hans Schneider, known by many as the Dean of the China Trade, and who attended every Kwangchow Fair since its inception, passed away in his sleep on March 21, 1975 in Germany. The following is excerpted from a letter received from Julian Sobin, President of Sobin Chemicals Inc.

We were so proud and pleased with the story that you wrote about Mr. Hans Schneider in your *U.S. China Business Review* of September/October 1974. Now we have to report to you that Mr. Schneider has passed away in his village in Germany on March 21, 1975, at the age of 71 years.

You know yourselves how engrossed, devoted and dedicated Mr. Schneider was to the people-to-people commercial relationship not only between the United States and the People's Republic of China but also, as a bridge of friendship between the Western free enterprise system and the corporate State effort of the modern Chinese.

We at Sobin Chemicals, Inc., learned so much from Mr. Schneider and we had always thought of arranging a setting in which he could relive all his experiences through enlightenment of us because he was, in fact, an entire Schneider Institute of Humanistic Studies!

We saw that he was ill at the Spring 1974 Fair . . . when we all returned to Boston, we arranged for a thorough physical examination at one of our hospitals. Then we found out that Mr. Schneider was pretty ridden with malignancies in two dangerous areas.

We, along with so many others, who were fortunate enough to become disciples of Hans Schneider owe so much of our knowledge of China business, its nuances, subtleties and rewards to him and we are confident that the memory of so many of his experiences, told and untold, will help to expand our knowledge because we all still drink at the fountain of his wisdom.

—Julian Sobin

THE PROSPECTS FOR SINO-US AGRICULTURAL TRADE

In late January 1975, Cook Industries, a large grain export company based in Memphis, announced that China had cancelled contracts for 601,000 metric tons of US wheat scheduled for delivery between February and September 1975. This development followed by several months a curtailment of American corn and soybean exports to the PRC.

In mid February China informed another major grain dealer—probably Louis Dreyfus—that they would not be taking delivery of an additional 381,000 tons of American wheat, leaving only 7,400 tons still registered for shipment to the PRC in 1975. And on March 5, The American Cotton Shippers Association revealed that 200,000 running bales of upland cotton, nearly half the total set for delivery to China from the US in the current marketing year, had been cancelled by Peking's Textiles Corporation.

Total US agricultural exports to the PRC in 1975, as they now stand, could amount to $120 million, including miscellaneous agricultural items. Further cancellation of cotton contracts, a strong possibility, would reduce this figure to $60 million.

The agricultural cutbacks present two important questions: Why have the Chinese, after purchasing large amounts of American agricultural products for two years to suddenly, as it now appears, so completely, stopped? And is this Chinese trend away from US foodstuffs and cotton only temporary, or should American exporters of these commodities write off the China market for the long term as well?

Sales of corn, cotton, soybeans, and wheat accounted for approximately 80 percent of all US exports to the PRC in both 1973 and 1974. In 1974 the US exported to China wheat worth $234.0 million, cotton worth $185.6 million, soybeans worth $140.5 million and corn worth $95.7 million. Present contracts for 1975 now call for delivery of less than $80 million of cotton and little more than $1 million worth of wheat. The implications of the cutbacks for the volume of Sino-American trade in 1975 are clear: should a large part of the outstanding cotton contracts be cancelled or deferred, total trade between the two countries may dip to below $400 million. Even without cancellation or deferral, two-way US-China trade in 1975 will probably not reach $450 million, less than half of what it was in 1974.

The Current Situation

There is no single reason to explain why the PRC has withdrawn from the American agricultural market. Market conditions for wheat, corn, cotton and soybeans differ and political and economic considerations inject a number of intangibles into an already complicated situation. Among the factors involved are these—

China's need to import has declined—The PRC experienced another record harvest in 1974, producing perhaps more than 260 million tons of grain. This reduces the need for imports of foodstuffs on the same large scale as 1973, when a mediocre harvest necessitated a high volume of agricultural purchases.

The US is a residual supplier for China—Other traditional suppliers, such as Argentina, Australia and Canada, which have recognized the PRC and which have supply agreements with Peking, have priority over the US when China wants to purchase grain.

US quality has not met Chinese standards—The Chinese have objected to and in some cases rejected shipments of US wheat tainted with TCK fungus, one form of wheat smut. There is some evidence that Chinese wheat at one time was infected with smut, and this problem was overcome only after considerable effort, which would help explain Peking's sensitivity on this question. The Chinese have also expressed disappointment over the quality of American corn (citing unacceptable moisture content, broken kernels and the presence of foreign matter) and soybeans (objecting to the inclusion of datura seeds).

Peking is concerned with the Sino-US trade imbalance—The imbalance in Sino-American trade (in 1973, 11-1 in favor of the US, last year 7-1) has proved a continuing source of concern for Peking. With significantly reduced American agricultural exports this year's trade balance will be less than two to one in Washington's favor.

China may have been hedging purchases—On a more specific level, the swings of individual commodity markets and related factors have also had an effect on Chinese purchases of US foodstuffs. For example, large Chinese purchases of US wheat in the past closely followed even larger Soviet imports of American grain, and were coincident with inauspicious weather conditions in the PRC's northern wheat growing provinces lending uncertainty to the harvest. It is conceivable that China may have bought precipitously, afraid that the Russian wheat drain would send prices skyrocketing in the already tight market. In the case of corn, attractively low prices could have influenced China to buy more than she needed. In both instances, there is the possibility that the Chinese, fearful of domestic shortfall, hedged by buying (or overbuying) from the US to insure adequate supply.

PRC imports of US cotton followed a similar pattern. Large purchases followed the disappointing harvest of 1972, and overall imports from all sources for the last two years ran three to five times above normal levels. But with a good harvest in 1974, and softening demand for China's cotton based textiles on the world market, the need to look abroad for cotton is not so pressing. This will likely be reflected not only in smaller shipments from the US, but from other foreign suppliers including Egypt, the Sudan, Pakistan and Syria.

China may have foreign exchange shortages—Rumours of the PRC's foreign exchange difficulties have been circulating for months. Though there is certainly no unanimity of opinion on how severe the problem is, many observers cite lack of hard currency as a major factor in Peking's decision to reduce agricultural imports.

The Future

The American shippers involved in the wheat and cotton cancellations apparently feel they have been satisfactorily compensated by the Chinese, and some of them look forward to future dealings with Peking. Other exporters of US agricultural products to China however, now think that the problems of PRC port congestion, and what they regard as unduly harsh Chinese inspection standards, have introduced an element of costly uncertainty into the China grain trade. As a result, a few of these firms are re-evaluating their commitment to future participation in the trade.

These US exporters point out that the PRC, alone among their customers, objects to the level of TCK which has been present in China bound wheat. Corn shippers suggest that China misunderstood US corn grading standards, and should not have been surprised at the condition of the product when it reached the PRC. And soybean traders say that Japan has received the same datura tainted soybeans as China, but Japanese importers simply segregated the unwanted seedlings by use of a simple and inexpensive screen device, which the Chinese, they claim, did not employ.

While these complaints will probably lead some American grain dealers to withdraw from the China market (at least temporarily) many US exporters of agricultural goods still believe there is an excellent future for their products in the PRC. Some analysts of the Chinese agricultural scene have more sober expectations, but a considerable body of opinion supports the view that Peking will need substantial quantities of grain and cotton from abroad for quite some time to come.

These analysts cite reports that the Chinese have recently decided to double the size of their state grain reserve, from 40 to 80 million tons, which would likely mean increased imports over the next three to five years. Additionally, they say, transportation bottlenecks within the PRC are proving to be a persistent problem (it is widely believed that the bulk of agricultural shipments are delivered to Tientsin and Dalien in order to avoid moving grain inland, from the south and central parts of the country to the urban north) and deliveries to northern ports will probably continue at at least present levels until infrastructural difficulties are overcome. And finally they argue, increasing population pressures will compel China's planners to devote progressively more land to food producing crops, resulting in a static or negative growth situation for cotton, and the consequent need to accelerate imports of this commodity.

On the other hand, some observers forsee a massive breakthrough in China's overall agricultural production, following the construction of 13 turnkey fertilizer installations purchased by Peking during the last 28 months. All of this plant will presumably be onstream by 1977. Increased application of chemical fertilizer, the observers say, will result in improved yields, and a reduced volume of agricultural imports.

With this contradictory evidence, it is difficult to make any predictions. On balance though, it now appears that over the next three or four years PRC grain imports will hold steady at between 5-7 million tons annually, the quantity of the harvest being the single most decisive factor in determining the level of purchases in any given year. For American grain exporters the most important question is the proportion they can realistically expect to furnish.

At present, the Chinese have three-year grain supply agreements with Australia, Argentina, and Canada. The Canadian agreement signed in October 1973 calls for a minimum of 4.8 million long tons and a maximum of 6 million long tons of high quality red spring wheat to be shipped to the PRC between January 1974 and December 1976. Under the terms of the Australian deal, Canberra will deliver between 4.1 and 4.8 million long tons of standard white wheat (also known as f.a.q.—fair average quality) during the 1974-76 period. The Sino-Argentine pact provides Peking with three million long tons of grain during the 1974-76 period, in theory divided equally between wheat and corn, though a poor wheat harvest this past year may compel Buenos Aires to include more corn in its shipments than had been planned.

Both the Canadian and Australian agreements will very probably be renewed and a good possibility of renewal exists in the Argentine case as well. Among these three suppliers, Ottawa is probably the most eager and capable of expanding exports, particularly

China's Imports of Four Agricultural Commodities, Calender Years 1972-1976

	1972	*1973*	*1974*	*1975**	*1976**
WHEAT, million metric tons					
US	—	0.9	1.9	**	—
Canada	3.0	3.7	2.0	3.1	2.0
Australia	—	—	1.6	1.4	1.6
Argentina	—	—	0.2	0.5	0.5
France	—	—	0.2	—	—
TOTAL	3.0	4.8	5.9	5.0	—
CORN, million metric tons					
US	0.4	1.4	0.9	—	—
Argentina	—	0.1	0.7	0.5	0.5
TOTAL	0.4	1.5	1.6	0.5	—
SOYBEANS, thousand metric tons					
US	—	198	700	—	—
RAW COTTON, thousand 480 lb. bales					
US	—	635	800	33***	—
ALL SOURCES	—	1,700	1,600	—	—

* Estimate based on contracts already signed
** Less than 0.1
*** Already shipped

Source: NCUSCT based on USDA and Other Data

with the virtual disappearance of its once-important U.K. market. France, which last year sold the Chinese 250,000 tons of wheat, may also emerge as a continuing factor in the Chinese grain trade, though certainly not on the same scale as the Canadians or Australians, especially if recent reports of smut in French wheat are true.

US as Supplier

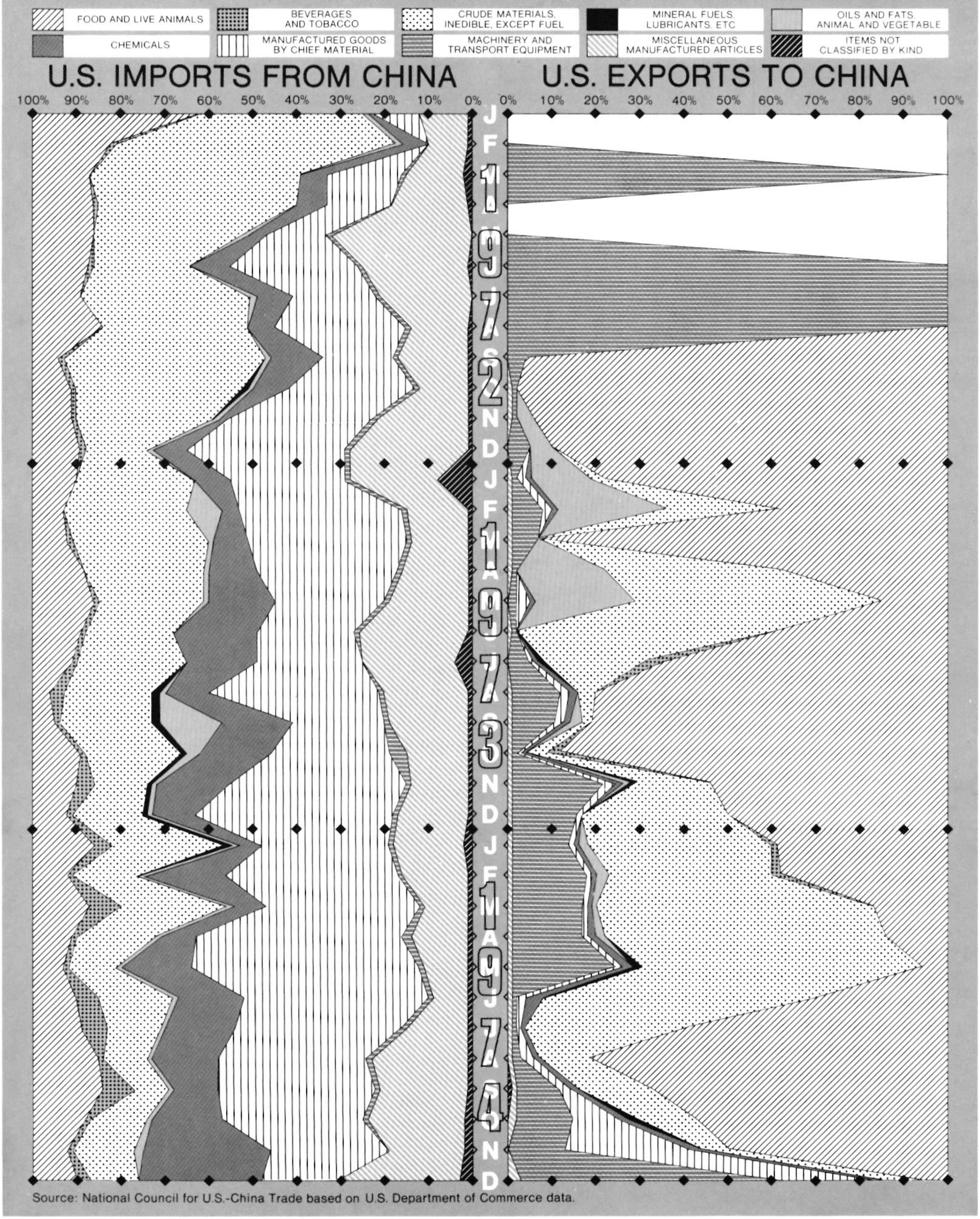
Despite this competition, the US could regain its position as a significant supplier of wheat to the PRC. In 1972, after curtailing all imports of grain for a year in order to pressure Canberra towards recognition, the Chinese, without the political quid pro quo they were seeking, bought more than 300,000 tons of Australian wheat. Even if this move was made out of economic necessity rather than any kind of political commitment, it clearly demonstrates the roles played by contingency and chance in China's agricultural trade.

But if American grain exporters are interested in long term and stable supply arrangements with China, both sides will have to reach agreement on quality standards. Some preliminary steps in this direction have already been taken. But further progress, particularly on the questions of improved United States Department of Agriculture inspection procedures on outgoing grain, and in the case of wheat, guarantees that shipments will not emanate from TCK-affected areas, is clearly necessary. Cotton alone among major US agricultural exports to China has been untainted by charges of poor quality. For this reason, its future in the PRC will be primarily a function of the marketplace.

There is little doubt when feasible and desirable, China utilizes the medium of commercial relations to convey political messages. The curtailment of wheat imports from Australia in 1971 was designed principally to show Canberra the importance Peking attached to diplomatic recognition. With a number of unresolved issues still clouding the Sino-US diplomatic picture, and a Presidential visit to the PRC set for later this year it is fair to suppose that Chinese cutbacks of American agricultural products may be a part of Peking's pre-summit maneuvering.

But whatever the outcome of President Ford's visit, the future of American agricultural products in the PRC market will be limited until an accommodation is reached on the question of quality standards. In the final analysis, the degree of compromise the two sides are willing to show will go a long way in determining the volume of US agricultural exports to China in the coming years. PDW 完

SINO-U.S. TRADE COMPOSITION 1972-1974



Source: National Council for U.S.-China Trade based on U.S. Department of Commerce data.

TEN LEADING US EXPORTS TO THE PRC, 1974
By Seven Digit Schedule B Category

	$	Percent of All Exports
Wheat, unmilled, except relief	234,014,893	28.5
Cotton upland, 1 inch to 1⅛ inch	157,411,015	19.2
Soybeans	140,482,966	17.1
Corn, unmilled, except seed and popcorn	95,671,435	11.4
Aircraft, passenger carrying, commercial, 33,000 pounds and over	33,695,195	4.1
Aircraft, passenger, transport 33,000 pounds and over	16,179,200	2.0
Cotton, upland 1⅛ inch and over	15,226,079	1.9
Cotton, upland, under one inch	12,963,345	1.6
No. 1 heavy metal steel scrap except sheets	9,044,207	1.1
Tallow, inedible	7,538,854	0.9
Total Leading Ten Exports	722,227,189	88.0
Total All Exports	820,479,497	100.0

TEN LEADING US IMPORTS FROM THE PRC, 1974
By Seven Digit TSUSA Category

	$	Percent of All Exports
Piece Shirting NES White Cotton, not fancy, bleached or colored	11,364,491	9.9
Tin other than alloys, unwrought	9,395,564	8.2
Rosin, nonspecified	7,876,325	6.9
Antiques, nonspecified	6,764,925	5.9
Bristles, crude or processed	5,925,012	5.2
Shrimps and prawns, shell on	5,269,761	4.6
ABC Sheeting, White Cotton, not fancy, bleached or colored, ordinary	4,314,100	3.8
Silk, raw in skeins, etc. NES	2,576,034	2.2
Cigarette, leaf, not stemmed Burley	2,575,776	2.2
Twill NES White Cotton, not fancy, bleached or colored, ordinary	2,490,902	2.2
Total Leading Ten Imports	58,552,890	51.1
Total All Imports	114,689,406	100.0

REVISED SINO-AMERICAN TRADE FIGURES 1971–1974
($ Million)

	1971	1972	Percent Change	1973	Percent Change	1974	Percent Change
US Exports	0	63.5	—	739.7 [1]	1064.9	820.5 [2]	10.7
US Imports	4.9	32.4	561.2	63.9	97.2	114.7	79.5
Total	4.9	95.9	1857.1	803.6	738.0	935.2	16.2

[1] Includes $50.6 million worth of cotton transshipped through Canada.

[2] Includes $11.7 million worth of soybeans transshipped through Canada.

Source: NCUSCT based on East-West Trade Bureau Data.

The Textile delegation with four generations of Blums, of Blum International, and Suzanne Reynolds of NCUSCT.

CHINESE TEXTILE MISSION VISITS THE US

Following a telegram received on January 22 from Peking, a five-person delegation from the China National Textiles Import and Export Corporation arrived in the United States on February 15, 1975, at the invitation of the National Council. The mission was the first broadly-representative delegation from a Chinese foreign trade corporation to visit the US.

Madame Han Fan-yu, Deputy Director General of the Textile Corporation, led the delegation. Other members of the mission were Wang Ming-sheng, Vice Manager of the Silk Department, Tsung Wen-tse, with responsibilities for grey goods and piece goods, Ma Hung-sheng, a garment specialist, and Huang Tsien-mo, with general responsibilities. Mr. Huang, who is well known to Americans at the Kwangchow Fair, acted as Madame Han's interpreter.

The purposes of this business-oriented visit were principally to improve the corporation's understanding of the US market and to meet some of their customers. Most of the seventy or so companies visited by the Chinese have been involved in buying from or selling to the Textile Corporation, and were "old friends" to the Chinese visitors.

A major presentation, arranged by the Textiles Subcommittee of the Importers Committee of the National Council, was held at the World Trade Institute in New York to introduce the Chinese to the US textile market and problems of importers of Chinese textile goods. This presentation, by leading members of the US textile and banking community, included a run-down of the economic state of the industry, the nature of the market, financing textiles, inspection, technological development, distribution, and the characteristics and development of consumer demands. Since the mission was characterized as a "market study group" by the Chinese, major emphasis was placed on how the textile market operates in the US, with a special presentation on the meaning of Fashion as it relates to the US retailing industry.

Briefings were also arranged for the delegation with the American Textile Manufacturers Institute and the National Cotton Council of America, in Washington, D.C., with the American Importers Association in New York, and later at the National Bureau of Standards, part of which was given by the American Society of Testing and Materials in Maryland, organized in conjunction with the Commerce Department. The Chinese visitors were also welcomed by the US State Department, hosted by Deputy Assistant Secretary Lester Edmond, at a small meeting at which there was an exchange of views on aspects of the US textile industry.

Range of Companies Visited

During their visit the Chinese met with a range of large and small companies involved in all areas of the US textile industry, including manufacturers, importers, wholesalers, and retailers. Most of the mission's time was spent in New York, with brief visits to Philadelphia, Baltimore, Charlotte, St. Louis, Los Angeles, Bakersfield, and San Francisco. Time was also spent in Washington, D.C. The trip took six weeks.

On arrival in New York, the textile delegation was greeted by Suzanne R. Reynolds of the National Council Staff who accompanied the group throughout their stay and made arrangements for the trip, Arne de Keijzer, the Council's representative in New York, who assisted in arranging activities in New York, and Veronica Yhap of the Textiles Subcommittee (who coordinated mill visits and the Textile Seminar). Welcoming the group on their arrival in Washington, D.C., following a connecting flight, were Christopher H. Phillips, President of the National Council, Eugene A. Theroux, Vice President, Nicholas H. Ludlow, who coordinated the trip from the Council's Washington office, May Li Phipps and Peter D. Weintraub. Also present were Judith Lubman, of the Textiles Subcommittee, and her husband Stanley, of the Importer's Steering Committee. Greeting the visitors from the Chinese Liaison Office in Washington were Chang Tsien-hua, Commercial Counsellor, and Wang T'ien-ming, Third Secretary of the Commercial Section. Mr. Wang accompanied the group through much of their stay in the US.

Harold Potchtar, a Council Director, and other members of the Importer's Steering Committee later greeted the delegation on their formal arrival in New York City.

Three receptions were held by the Council for the Chinese visitors for member firms and those involved in the trip. The first was held in Washington following the arrival of the delegation in the capital; the second was arranged by the Importer's Steering Committee in New York (by David Cookson) as an opportunity for Council importer members to meet the Chinese; the Council also invited all New York area members and those firms involved in hosting the delegation to a reception at the River Club. The Council endeavored to give all members the chance to meet with the visitors as far as circumstances would permit.

The delegation reciprocated with a reception at their UN Mission in New York. All the firms and organizations met by the Chinese in the New York area were invited as well as Christoper H. Phillips and Chang Tsien-hua. The reception was held as a token of appreciation for the hospitality given the delegation while they were in New York.

The National Council thanks American Express, a member firm, which provided complimentary meeting and assist arrangements throughout the trip.

What the Mission Accomplished

Generally the textile group was concerned with four things—discussing problems with customers, doing business (both buying and selling), learning about the US textile market, and learning about the US economy. The accomplishments of the trip for the Chinese included the "deepening of friendships", improved understanding of the market, and a much improved understanding of the companies with which they do business—and the needs of those firms. Perhaps the most worthwhile aspect of the visit is that it established a rapport between the US firms and the China Textiles Corporation that can only be beneficial in the long term.

For US firms the mission accomplished several things. Companies now have a better idea of what China has available for export, what is feasible to import from China and, in some cases, of what China is interested in buying; firms have been able to discuss problems on the spot, and in some cases resolve misunderstandings; they have been able to improve their understanding of how the Textile Corporation, and its divisions, operates; and they have been able to represent matters of mutual concern to all importers of Chinese goods.

Among the concrete results of the trip were the following—

Dollar denomination of contracts It was possible to denominate some contracts for textile imports from China signed during the trip in dollars, rather than in Chinese currency. While this was possible only under certain conditions and in various textile product areas on an individual basis, it was an appreciated step forward.

Improvement in shipping time Following strong representation at the Council's seminar and by individual importers, the Textiles Corporation will take further steps to improve shipment time to the US. Shipment may now take 45 days from Shanghai to the US East Coast by means of a direct monthly service recently inaugurated.

Private Labels The Corporation is now taking the matter of private labels into serious consideration. In future, single, private labels, rather than double labels with both the Chinese and US brand names as has been possible since August 1974, may be agreed to by the Chinese. This was raised by many firms during the visit.

Selling to China The delegation spent some time discussing purchasing synthetics and cotton with firms they had been negotiating with prior to their visit. They bought some synthetic fibers during the trip. Cotton in the process of being delivered to China was seen coming out of warehouses in Bakersfield, California, where the Chinese met representatives from the

MATTERS RAISED BY FIRMS VISITED

Among the matters raised with the Chinese mission by the firms visited, besides those raised at the seminar arranged by the Council, were the following—

• *Widths.* Standard widths in the US are wider than those from China. Silk widths over 36" are particularly in demand.

• *Sample lengths.* Longer sample lengths were requested by US garment manufacturers; Five yards is normal.

• *Needs of US importers* include easy-care garments and fabrics, and treatments of fabrics for flammability, permapress, etc.

• *Shrinkage.* US firms require low shrinkages for cotton fabrics. (Less than 3% on the outside for denim compared to 5-8% available from China, for example.)

• *Late shipments.*

• *Shorter lead times.*

• *Earlier invitations to the Kwangchow Fair* since scheduling is usually arranged 6-10 months ahead for most large corporations.

• *Labels.* The importance of private labels.

• *Retail/wholesale differential.* The delegation gained a clear understanding of the differences between wholesale and retail operations and prices.

• *Factory visits.* One of the most important topics raised by US firms was their desire to visit Chinese factories to have access to finished goods prior to shipment—a common international practice.

• *US Government Regulations.* US Government regulations were discussed with several firms. Although China does have its own testing facilities, it was able to see the US industry's most advanced testing equipment.

four cotton cooperatives which make up AMCOT. Following expressions of interest in continued business by the cotton growers (and at an earlier meeting with Cotton Council), Madame Han said this interest was appreciated, especially in view of the fall in cotton prices. She said that China may continue to buy from the US according to requirements and "possibilities," in the spirit of the Shanghai Communique.

Generally, US firms expressed a strong interest in continuing and expanding their business with the Textiles Corporation. Chinese cotton greige and piece goods were lauded for their excellent quality; garments finished in China were also praised; and silk piece and embroidered goods were considered fine by everyone. Column II duties, however, remain as a considerable obstacle.

Toward the end of the visit, the Deputy Chief of the Liaison Office of the People's Republic of China, Han Hsu, invited officials of the National Council, the State Department and Department of Commerce to a luncheon as an expression of appreciation to the Council for hosting the visit.

Before their departure, in saying farewell to Christopher Phillips and members of the Council staff, the delegation asked the Council to convey their appreciation to the US firms they had met for their hospitality "We enjoyed our stay in the US very much." Madame Han noted several times that the delegation was pleased to visit the US in the spirit of the Shanghai Communique. The only regret of the delegation was that they were unable to visit all the people who wanted to see them due to the limited time available.

President Phillips expressed the hope that future, reciprocal industry exchanges of this kind will be possible.

POINTS OF THE NATIONAL COUNCIL'S TEXTILE PRESENTATION

Among the major points at the presentation sponsored by the National Council in New York on February 20, 1975, were the following

Marketing Textiles in the US

• The textile business is one of the most competitive in the US, placing a high premium on originality of design, product development and marketing skills. Bounded by fashion, seasonal requirements and weather conditions, plus the fact that fabrics must be designed twelve-to-eighteen months before they appear at retail level, success goes to those who have the most desirable products available at the right place, at the right price, and in the right quantities. (Spiro)

• New ideas are introduced to the consumer every six weeks. It is very important that, when a change in trends is contemplated, an understanding and knowledge of current trends be considered. (Ziegler)

• Technology has an ongoing impact in the textiles market, for instance in the ease of home care, long-term performance, aesthetics, and reduction in need for repair. (Norwick)

• Consumers looking for textiles value look for, first, aesthetics (fashion, appearance, touch—but most important, color); second, price (can he or she afford it?); and third, performance (ease of care, packing, etc. are final considerations; goods must be properly labeled according to law, and identified by a responsible resource). (Spiro)

Present Textiles Market in the US

• The current emphasis is on the "carefree," the "colorful" and the "youthful" look, reflecting the new life-style of people who now have more time for leisure and pleasure. Fifty percent of our total population of 230 million is under 35 years of age. (Sharoff)

• Fabrics end use in the US in 1973 was as follows—43 percent went to apparel, 21 percent to industrial needs, and 36 percent to home furnishings, on a square yard basis. Fiber producers will add to existing capacity at a slower rate than planned because of the decline in textile demand expected to last till late 1975. The most significant increases in capacity will be in polyester staple and filament. Price competition between imports and domestic yarns will become sharper as foreign suppliers seek a market for production which their own domestic manufacturers cannot absorb. (Werner)

• "Unfortunately during the past twelve months, the general textile business slowed down considerably, actually in advance of the slowdown of the general economy. Demand dropped much faster than prices and many goods that were purchased with the hope that they would be sold prior to arrival, remained unsold, creating substantial inventories at higher than prevailing market prices." (Goldberger)

The Importer's Situation

• It would be important for the Corporation to be more flexible in the constructions they produce. While the Corporation has a great variety of fabrics, not all are suitable for the market, and many times sales are lost because of our inability to quote the fabric a customer requires . . . This and the other problems do not matter greatly in a firm or rising market, but under present conditions they may mean the difference between placing an order with China or giving the business to other countries. (Goldberger)

• "The importers have worked very hard to help you establish your fabrics in this market and are continuing to do so. We are always ready to lend you all assistance . . ." (Goldberger)

Financing Textile-Related Imports and Exports

• For the American exporter, the fact that the Bank of China's (BOC's) Letters of Credit (L/Cs) are unconfirmed and payable in China means that the risk of loss in transit of the documents is for his account . . . But no case of loss of documents has been registered until now. The same fact also means that the US exporter must wait some 15 to 20 days before receiving his money (normally by telegraphic transfer). (Cassinari)

• For the US exporter, documents could be negotiated in New York by the Bank that has advised the BOC's credit, but this is made, under both a technical and credit risk points of view, more difficult by the fact that the BOC's L/Cs are not governed by the Uniform Customs Practice for Commercial Letters of Credit as established by the International Chamber of Commerce. This means that what is not a documentary discrepancy for us could be one for the Bank of China; in practice, that the checking of the documents in New York would never be done on a sound, common ground. (Cassinari)

• For the American importer, who has normally to deal in Renminbi, the problem is how to cover the exchange risk. The only way to hedge seems to be to purchase in advance the RMB he will later use to pay his invoice. But it is an expensive course, and the importer will certainly want to weigh the cost of dollars he is "freezing" against the cost of the possible, yet not certain, actual loss of exchange. (Let me add that we have never been requested to hedge this way, and if requested, would first approach the BOC to ascertain whether it would be possible.) (Cassinari)

• The period of time which a L/C opened by a US firm is outstanding directly affects a company's ability to finance trade. In the case of China, where often an L/C must be open 30 days before the shipping period, and the shipping period itself covers two months, an importer may have important lines of credit tied up for periods of three months or more. (Arndt)

• Factoring, which provides credit facilities and money availability for a fee based on sales processed, is a major element in the financing of the US textile sector. Contact with factors may be very useful to potential exporters to the US concerned with local credit conditions for the importer. (Hickox)

• Discounts are often given in the textile industry for early payment, so that the rapidity with which payments can be made could affect the costs of its conduct. (Arndt)

• Dollar denomination of contracts is the most important financial suggestion importers have. At present, import contracts from China are denominated and payable in RMB. By the time an importer's documents are presented in Peking, the RMB rate may have changed and wiped out what small mark-up the importer is selling at. Sales in dollars would create long-term contracts for China since the importer would be able to sell futures without a foreign exchange risk. (Shamash)

• Letter-of-credit terms of at least 60 to 90 days would facilitate financing for the small importer; these terms are normal from most countries and regions selling similar merchandise. (Shamash)

Textile Shipments from China

• Shipping on time is the single most important element in planning imports from China. Arrival of goods on time gives importers and their customers the confidence to be able to plan accordingly. Anything longer than ten days delay creates problems. In addition, the longer the delay the longer an importer's credit is tied up in L/Cs. (Shamash)

• Transshipments via Hong Kong create serious problems of timing. "We never know which steamer is bringing in the cargo or whether it will be again transshipped or the time of arrival. These transshipments have taken as long as three or four months to arrive at East Coast US destinations, resulting in a potential loss of season which could mean holding merchandise for a year. This is particularly aggravating if an importer has paid a large amount out in cash." (Shamash)

• Minibridge shipments—by boat to the West Coast of the US, thence by rail to internal points and the East Coast—speeds up delivery time by at least two weeks. Japan delivers products to New York in three weeks this way, while shipments from the PRC take at least six-to-eight weeks. (Shamash)

• If China could ship by container from Shanghai and other points to Hong Kong for direct shipment to the US, the saving would be enormous for the importer. For instance, 100,000 yards of cotton delivered from the docks to the warehouse cost \$500-\$1,000 by other methods, whereas a container with 100,000 yards of material costs only \$100-\$125. China would also save since case packing would not be required and other savings in freight and transshipment costs could be made. (Shamash)

• Inspection can only be beneficial to both importer and exporter of textile goods; it includes factory examination, sampling, analysis, pier verification, loading supervision, verification of claims and documentation. (Prifer)

The presentation was arranged by the Textile Subcommittee of the Importers Committee of the National Council, and took place at the World Trade Institute. Christopher H. Phillips, President of the National Council, and Sidney Schachter of the World Trade Institute, welcomed the Chinese delegation, which was accompanied by Wang T'ien-ming of the Liaison Office of the People's Republic of China in Washington, D.C. Also present were National Council Staff Nicholas H. Ludlow, Suzanne R. Reynolds, and Arne J. de Keijzer who was MC.

Presentations were given by Arthur Spiro, Chairman, Textile Distributors Association; Braham Norwick, Joseph Bancroft & Sons; Erwin Prifer, Superintendents Company; Jack C. Werner, Werner Associates; Lois Zeigler, J. C. Penny Co.; Arnold Hickox, Manufacturers Hanover Trust; Richard Morgan, Morgan Guaranty; Paul Goldberger, C. Tennant, Sons; Jack Shamash, Shamash and Sons; Kenneth Arndt, Chase Manhattan; Carlos Cassinari, Banca Nazionale del Lavoro; and Walter Sharoff, M. Lowenstein & Sons.

TECHIMPORT SENDS APPRECIATION OF AMERICAN INDUSTRIAL REPORT

American Industrial Report, a bimonthly magazine in modern, simplified Chinese published by China Consultants International, a member firm of the National Council, has been steadily improving its standing among its Chinese readers. The magazine, whose principal purpose is to introduce American products and companies—including US importers—to the Chinese, has received expressions of appreciation from Chinese corporations in recent months. These letters may be of interest to members of the National Council.

One, dated November 23, 1974, is from the Kwangtung Branch of the China National Machinery Import and Export Corporation, which states that "Our corporation and end-users are interested in *American Industrial Report.*" The letter goes on to say that ". . . because of the relatively large number of our end-users, the number of copies we have received is insufficient for full distribution . . . It would be ideal if you could mail us 200 copies of each subsequent issue . . ."

The second, from the China National Technical Import Corporation in Peking on November 25, 1974, is also explicit: "With reference to your publication, the *American Industrial Report,* sent over periodically, we have distributed them in time among the industrial departments concerned and also readers who are interested in. (sic)"

The letter continues "We as well as our readers appreciated very much your service and efforts in improving the standards of your publication and wish to express our thanks . . . Best wishes in a new year!"

The publication, which is just over a year old, and which is the only American-based, Chinese language technical publication circulating in the PRC, has slowly gained ground among official agencies in China, and has now clearly made its mark.

Lower Rates

In another development, the *AIR* has reduced its advertisement rates for color pages and special positions, from US\$2,440 for a four-color full page to \$2,080, and from 100% extra for the back page to 50%. Frequency discounts remain the same.

Advertising and space in the magazine may now be arranged via China Consultants International, Ltd., in Washington, D.C. at (202) 338-2388, and in the Midwest and South at Rogers International Trading, Lexington, Kentucky, at (606) 266-4806. Contacts for the magazine may also be made in Hong Kong at American Industrial Report, 53, Printing House, Ice House Street, Hong Kong.

The magazine is now completely American: in October 1974 its directors approved purchase of one-sixth of the shares held by a German participant in American Industrial Report, Ltd. This took place before the end of the year.

Copies of the magazine are freely available to members of the National Council, which receives a shipment of each issue at its Washington office. For samples of any issue write Barbara O'Hara at the Council.

In Seattle

National Council Cosponsors Two Conferences

New York

On February 25, the National Council sponsored a day-long seminar in New York City in cooperation with its New York member banks: Bankers Trust Company, The Chase Manhattan Bank, Chemical Bank, First National City Bank, Manufacturers Hanover Trust Company, Marine Midland Bank and Schroder International. Invitations to attend the seminar, entitled "Doing Business with the People's Republic of China," were sent to the financial officers of corporations that are important clients of the banks and who are interested in trading with China.

Some 70 coporate representatives were joined by interested officers of the host banks in the Chemical Bank auditorium on Water Street. After welcoming remarks by Richard LeBlond, Vice-Chairman of Chemcal Bank, Ambassador Christoper H. Phillips, President of the National Council, characterized the state of US-China trade relations as proceeding slowly but surely toward a projected two-way volume of $2-3 billion by 1980, with the machinery component accounting for growing share of US exports to China.

Professor Michel Oksenberg of the University of Michigan then gave a political perspective on China which culminated in an analysis of the recent People's Party Congress in Peking and China's commitment to building a powerful modern socialist state by the end of the century. This political overview was followed by an analysis of China's economic development and its relation to foreign trade by Professor Dwight Perkins of Harvard University, who stressed the continued importance of China's agricultural sector as the major determinant of that country's economic development plans, and the key to understanding the composition of China's imports and exports, which are for the most part directly or indirectly related to what happens in the agricultural sector.

At noon the banks hosted a luncheon at Delmonico's restaurant, after which participants were treated to a most knowledgeable and interesting review of the political and legal issues in US-China economic relations by Charles Freeman, a foreign service officer at the US Department of State, who is currently on official leave as a Visiting Fellow in Asian Legal Studies at the Harvard Law School.

Participants then returned for a presentation on China's financial institutions and their role in foreign trade by Kenneth Morse, Manager of Schroder International, Limited. This was followed by a two-hour panel discussion on commercial negotiations with the PRC, moderated by Eugene Theroux, Vice President of the National Council. Each of the panelists focused on the practical details associated with his special area: Kenneth Arndt, Vice President, The Chase Manhattan Bank discussed the mechanics of financing transactions with the PRC; Stanley Lubman, a Washington based attorney, reviewed the legal aspects of trading with China; Harvey Plonsker, Manager of Corporate Planning with Universal Oil Products illustrated the successful, step by step approach employed by his firm in selling to the People's Republic and Robert Belsky, Chairman of the Board, E. Yuen (USA), Limited shared his experience and thoughts as a successful American importer of Chinese goods. These presentations were followed by a question and answer period.

Seattle

On February 27, the National Council cosponsored another conference on China trade with still another of its members, the Port of Seattle. Some 130 executives from across the country, though primarily from the states of Washington, California and Orgon, paid $100 each to attend this day-long perspective on China at Washington Plaza Hotel.

After introductory and welcoming remarks by Merle Adlerm, President of the Port of Seattle Commission and Hugh Smith, President of the Seattle Chamber of Commerce, Ambassador Phillips outlined the role and activities of the National Council in developing our commercial relations with China. He was followed by William Gleysteen, Deputy Assistant Secretary of State for East Asian and Pacific Affairs, who reviewed US-China political relations to date and reminded participants that the Shanghai Communique remains the

Prohibition on use of 16mm movie cameras

The National Council learned in late March that the PR now prohibits use of 16mm motion picture cameras inside China. Persons arriving at the border with 16mm cameras and film will have film sealed by Customs officials to prevent use while traveling in the country. Prospective travelers may wish to keep this regulation in mind to prevent inconvenience when arriving at the China border.

basic document for understanding our current relations with the People's Republic of China. Even as the normalization of relations between our countries proceeds he said, the "essential difference, between China and the United States in their social systems and foreign policies" may be expected to continue. However, "the decisive factor in our new relationship is the perception on both sides that it can serve the fundamental national interests of both countries." In reference to China's goal of becoming a powerful, modern socialist state by the end of this century, in accord with Premier Chou En-lai's pronouncements at the recent Fourth National People's Congress, Mr. Gleysteen said "there need be no conflict between the aim stated by Premier Chou and the interest of the United States in a peaceful, strong and independent China."

Mr. Gleysteen's remarks were followed by an economic overview of China's economy by Professor Dwight Perkins. After establishing the fundamental importance of agriculture in China's economy and foreign trade, Professor Perkins make the following observations: (1) China's GNP, currently estimated to be \$150 billion (\$40 billion of which is investment) is expected to advance at 7% (real terms) a year for the immediate future, with foreign trade growing at the same rate (2) China's foreign trade is relatively small as is true with other large countries, principally because of its broad resource base, lower transport costs for domestically produced goods and its difficulty in increasing exports; (3) given that China's trade ratio is small, few of its major problems are going to be solved through foreign trade; (4) the basic point about the commodity composition of both Chinese exports and imports is that well over half are determined directly and indirectly by what happens in agriculture.

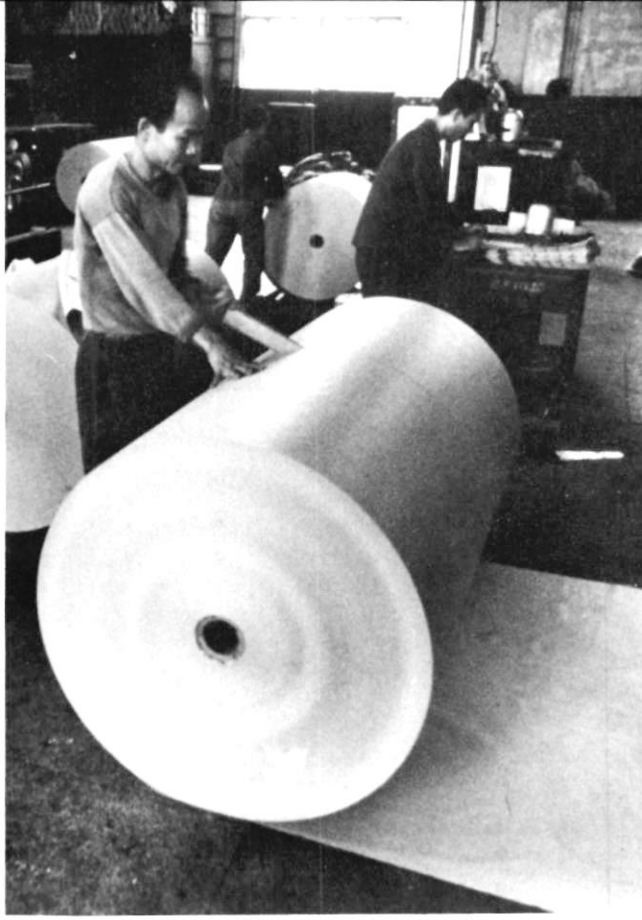
As part of the day's program, participants at the Seattle conference were treated to an interesting and stimulating address by Daniel J. Evans, Governor of the State of Washington. The Governor's speech dealt with his impressions of China, resulting from a May 1974 visit there as head of a delegation of US governors, as well as with Washington State's efforts to promote commercial relations with the PRC.

Following lunch, participants returned for the afternoon session which was comprised of first an export and then an import panel, both of which were chaired by J. Eddson Opheim, General Manager of the Port of Seattle and moderated by Eugene Theroux, Vice President of the National Council. The subjects addressed by panelists reflected the product areas of greatest interest to those in the Pacific Northwest. Mr. Richard Goodman, Associate Administrator of the Foreign Agricultural Service, US Department of Agriculture reviewed the sale to date of agricultural commodities to the PRC and outlined the prospects for the future. Mr. William Allen, Chairman Emeritus of The Boeing Company and the man responsible for Boeing's earliest effort to sell aircraft to the PRC, shared some insights gained during his many years experience. William Clarke, Director of the Division of PRC Affairs at the US Department of Commerce, described the mechanics of how one establishes contact and begins importing goods from the PRC. The next speaker, George Krieger, Vice President of ACLI International and a member of both the National Council and the American Importer Association Steering Committees on Importing from China, gave an unusually interesting account of negotiating purchases from the PRC based on his first-hand experience.

Given Seattle's claim to being "the Gateway to the Far East" and cosponsorship of the conference by the Port of Seattle, the words of next speaker, Richard Bank, Director of the Office of Maritime Affairs, US Department of State were followed with special interest. After discussing shipping and past development in the PRC, Mr. Bank described China's international maritime activities including its negotiation of nine bilateral maritime agreements with western countries since 1972. He concluded his talk by discussing US-PRC shipping relations and stating that "the US Government would welcome the establishment of normal shipping arrangements between our two countries at an appropriate time." A two hour workshop followed the presentations by panelists. 完

DIRECTORY OF US COMPANIES INVOLVED IN TRADE WITH CHINA

The Council has in preparation a catalogue of US firms doing business with China which will be translated and printed in modern, simplified Chinese and distributed in China. Over 80 firms have so far sent material for this directory, which will be indexed by company and product, and which will also be available as separate, self-contained leaflets for each company. If your firm is interested in being in this first US Company Directory, please contact Mrs. May Li Phipps Director of Translation Services at the National Council, who is supervising the project. Material should be received by the Council at the latest by mid-June, preferably during May.



A VISIT TO KWANGCHOW PAPERMAKING MILL

As many American participants at the Kwangchow Fair have already discovered, one of the most interesting and educational leisure time opportunities available during the Fair is a visit to a factory or commune in the Kwangchow area. Paul W. Speltz, President of New York's IDC Marketing, a Council member and veteran China traveler, spent the better part of a day during last Fall's Fair, touring the Kwangchow Papermaking Mill. He saw a plant that exported ten percent of its output, used both Chinese and foreign-made equipment and some foreign produced material, and provided an environment for its workers reminiscent of that of some Japanese companies. Speltz's impressions—reprinted below—of the mill's industrial and social organization, represent the first in a series of UCBR *firsthand reports on economic enterprises in the PRC.*

Unlike factories in the US, the Kwangchow Papermaking Mill represents a total living environment for its employees and their families. Of the more than 3100 workers, 90 percent live within the 800,000 square meter confines of the mill. Without leaving the plant's grounds a worker can eat, sleep, be entertained, obtain medical care and even have his children educated.

The mill runs around the clock on a three shift schedule to produce its daily output of 200 metric tons of newsprint, 50 metric tons of corrugating medium paper and 25 tons of bleached sulphite paperboard. The sulphite waste is manufactured into adhesive, vanillan [for pastry, medicine and cosmetics], and industrial alcohol. The raw material from which these products are derived is the indigenous Kwangtung pine or Pinus Massonia, transported to the mill from the surrounding countryside.

Upon arrival the trees are sawed into manageable 4-foot lengths and after a prolonged soak in a softening solution, are fed into a drum 25 feet long and 14 feet in diameter where they are churned at high speed to peel off the bark. From that point the men and women of the factory sort the wood onto two conveyors.

One conveyor carries the logs through a series of giant cement and brick rollers which crush and shred them into pulp. The pulp is then separated into large and small sizes after passing over a shaking screen. Finally it is steamed, washed, and fed through a giant wringer.

The other conveyor takes the logs through a different process, feeding them into large shredders from which they are spun in a tank with multiple layers of screens. The screens serve to feed the shredded chips back into the shredder until they are all of a uniform small size. These pulverized chips are then moved into an oven where they are steamed into pulp and finally washed.

ARRANGING YOUR FACTORY OR COMMUNE VISIT AT THE FAIR

Every Sunday during the Fair, the Fair Liaison Committee offers foreign businessmen one day excursions to factories and communes in the Kwangchow area. Several days before the weekend, signs appear in the lobbies of both the old and new wings of the Tung Fang Hotel advertising four or five different trips. Interested visitors are instructed to register at the Fair Liaison Office on the Tung Fang's new wing 48 hours prior to departure, where buses and a departure time are assigned. In most cases buses will leave between 7:30 and 8:00 a.m., returning at about 4:00 p.m. Lunch is served enroute, and the entire trip is free.

The pulp destined to become newsprint is processed through one of five machines, three of which are of Finnish manufacture. The Finnish models, all built by Wartsila in 1955, run at 450 meters per minute and turn out newsprint 4.5 meters in width, weighing 51 grams per square meter. Each of these machines has 50 dryers and utilizes Valsmet rollers.

The Chinese built machines run at 220 meters per minute, turning out 3.14 meter wide newsprint, weighing the same as the Finnish processed paper. Some of this is mixed with dry pulp imported from Scharins in Sweden to produce a newsprint of superior quality. About ten percent of the total newsprint output is exported, probably to Hong Kong.

The paperboard produced ranges in size from 33 inches up, though the majority is of this smallest size. The finished rolls weigh approximately 394 kilograms and the weight of the paperboard itself is about 120 grams per square meter.

Organization

The mill's work force of 3100 is derived from about 1300 families. As elsewhere in China, both husbands and wives work. Bus service is provided for the small number of workers who do not live on the factory compound.

The mill has a school and a kindergarten/day care center for the benefit of unattended children. More than a thousand children attend the school and the day care center has an enrollment of about 400 younger children and babies. Leisure activities for workers are provided by a club room with ping pong, billiards and television, as well as recreational areas for soccer and basketball. Movies are shown two or three times a week.

The average worker earns 66 yuan [a ¥ currently equals 56¢] a month for a six-day week at eight hours per day with some workers earning as little as 40 yuan or as much as 120 yuan. Housing rents are approximately 5¢ for a square meter [an average family occupies 25 to 30 square meters] and food costs range between 12 and 15 yuan per person per month. A family with two children might spend about 54 yuan per month on food, making it the single most expensive item in the budget.

Workers pay nothing for medical care and hospitalization, and dependents pay only 50 percent of the normal charges. The mill's clinic employs a staff of 50 including 19 doctors and 13 paramedics, or as they known in China, barefoot doctors. These barefoot doctors work within the various buildings of the mill every day.

Holidays [National Day, May Day, New Year's, etc.] give workers seven days off a year but there are no regular paid vacations, except in the case of workers separated from their spouse or single people living a considerable distance from their parents. In these instances two weeks paid leave is provided.

Women are granted 56 days maternity leave [more if necessary] and in the event of a serious family illness or death of a close relative, three days off are given. In both of these cases, full wages are paid for the days off.

In addition to this time off, sick leave compensation is offered at a rate 50 to 100 percent of the workers regular salary, depending on the individual case [length of service at the mill is an important consideration] for as long as he is ill.

Retirement comes at age 60 for men and 50 for women though persons performing hazardous work within the mill may request early retirement. Pensions run from 50 to 70 percent of salary, depending on longevity, with 15 years service necessary for the upper limit. Heads of the mill probably receive more than this, possibly as much as 100 percent of salary. Upon retirement, workers retain all benefits [housing, medical, etc.] which they had while employed. 完

HONG KONG'S PAPER IMPORTS

The paper mill visited by Paul Speltz—with its exports to Hong Kong—is one of the reasons China has displaced Japan to become the second leading supplier of newsprint to Hong Kong after Canada. Over the past three years some 36,000 tons of newsprint worth HK $43 million ($8.6 million) have been imported to feed the presses of Hong Kong's three English and 68 Chinese language newspapers as well as 28 other publications which are printed twice weekly, weekly, or fortnightly. This tonnage represents 24 percent of the territory's newsprint imports. Canada's newsprint exports to Hong Kong over the past three years have totalled 53,000 tons, about 35 percent of the market.

American Arbitration Association Meets With Chinese Counterparts in Peking

"We are here to exchange information and ideas, to learn and perhaps to teach—but not to negotiate". With those words Donald B. Straus opened the first meeting of a mission to China devoted to discussion of arbitration and other techniques for resolving commercial disputes which may arise in US-China trade. It was the first US mission ever devoted exclusively to that subject.

The delegates from the United States were Mr. Straus, who is President of the Research Institute of the American Arbitration Association, and Howard M. Holtzmann of the law firm of Holtzmann, Wise & Shepard, who is Chairman of the AAA's International Arbitration Committee and Past Chairman of its Board of Directors. The AAA is consultant to the National Council for US-China trade which initiated the arrangements for the trip.

The US delegates met in Peking over a two-week period in January with representatives of the China Committee for the Promotion of International Trade (CCPIT) and, particularly, with experts active in the work of its Foreign Trade Arbitration Commission (FTAC). The Chinese delegation was headed by Mr. Hsiao Fang-chou, Chairman of the FTAC and Vice Chairman of the CCPIT. Legal and technical discussions were led by Mr. Jen Tsien-hsin, Director of the CCPIT's Legal Affairs Department and Secretary General of the FTAC. Mr. Tang Hou-chih, who heads the arbitration section of the CCPIT's legal department, and Mr. Shao Shun-yi, who heads its research section, also took part in the discussions along with several other FTAC members and staff experts.

A report of the meetings is being prepared and will on the first instance be made available to the Legal Committee of the National Council. Meanwhile, US corporations which desire information about resolving commercial disputes with Chinese trading companies are invited to contact Mr. Straus at AAA headquarters in New York. He and Mr. Holtzmann will be pleased to share information concerning the use of arbitration in US-China trade.

As is well known, the Chinese believe that it is best to settle disputes through "friendly negotiation". The function of the FTAC in promoting friendly negotiation and the actual practices and specific techniques which are used in such negotiations were explored in detail during the meetings. On the basis of the discussions in Peking, it is understood that the FTAC will, when requested, assist parties in friendly negotiations even if the contract does not provide for arbitration under FTAC rules, and a request to it for such assistance does not constitute submission to FTAC arbitration jurisdiction. The FTAC also indicated that, in the interest of US-China trade, it would welcome the collaboration of the AAA in aiding parties to resolve disputes through friendly negotiation. The AAA is prepared to lend its good offices in such efforts and this may well provide valuable new conciliatory procedures and bridges to understanding in situations in which American corporations have difficulty in settling differences with Chinese trading companies.

Eight three-hour meetings were held at the headquarters of the CCPIT. First, at the request of the Chinese hosts, the US representatives provided information concerning both American and international arbitration practices. As background for this presentation, the American representatives had submitted extensive materials in advance of the meeting. The FTAC is conducting research on the subject of international arbitration practices and expressed active interest in the information presented.

Next, the Chinese representatives provided frank and comprehensive information concerning the basic principles which guide the work of the FTAC and also the actual practices which are followed. Answers were given to the questions which had been submitted in advance by the American representatives as well as to those which arose during lively discussions.

During the discussions it was explained by the Chinese side that the great majority of cases handled by the FTAC are resolved by friendly negotiation in which the FTAC staff acts as a third-party conciliator. However, it is considered appropriate for a party to resort to formal arbitration when friendly negotiations fail to produce a settlement in a reasonable period of time. In this connection, two recent arbitration cases handled by the FTAC were analyzed in depth. In one of those cases a Chinese trading company was the claimant and in the other a foreign corporation was the claimant. In both cases arbitration awards were made after a hearing, the foreign party winning in one of the cases and the Chinese party in the other.

In the course of the discussions it was made clear that there is no Chinese policy which requires Chinese trading corporations to provide in contracts for arbitration only under FTAC rules in Peking. Chinese trading companies and foreign firms may mutually agree upon arbitration outside China and there are a number of such agreements. The Chinese and American representatives agreed at the close of the meetings that the discussions had been mutually beneficial and further meetings are expected to be held. 宠

HOW JAPAN FINANCES TRADE WITH CHINA

Alistair Wrightman

For US firms, financing trade with China, both imports and exports, presents many difficulties. Perhaps the most important problem is the lack of a forward market for China's currency, in which most Chinese export contracts are denominated, or indeed any arrangement for hedging. Whereas some European countries are able to buy renminbi forward at premiums set by Peking, this facility is not available in the US, where all transactions with the PRC are carried out via Third Country banks. Recently US firms have been able to denominate purchase contracts in dollars, which has helped to ease matters. In Japan, which has had financial agreements with Peking since August 1972 (see UCBR, *Vol. 1, No. 3, pp. 34-35), and which is China's top trading partner, the problems of lack of futures and unilateral rate setting by the Chinese have been especially acute for both importers and exporters. The ways in which Japanese firms have looked to resolve these difficulties is the subject of this article by Alistair Wrightman, an American writer specializing in business and trade matters resident in Toyko. The opinions in this article do not necessarily reflect those of the National Council.*

Japan's trade with China has been progressing smoothly since 1972 when the two countries normalized diplomatic and trading relations, but this year is likely to prove a difficult period for the Japanese, despite predictions of a 20 to 30 per cent increase in bilateral trading.

The Japanese are bedeviled by a growing favorable imbalance in trade with the Chinese, due to falling demand in their domestic market, as a direct result of the economic recession. This problem certainly could cause trouble between Tokyo and Peking in the months to come.

Experienced observers of Japan-China trade are expressing fears that this situation could constitute a major barrier to much further expansion of two-way trading despite a report recently released by the Japan External Trade Organization (JETRO).

In the JETRO report it was revealed that Japan-China trade amounted to the equivalent of $3.29 billion in 1974. This was a 63.4 per cent increase over the previous 12 months and seemed to indicate that China is emerging as Japan's second most important customer, after the United States.

Problems between the two countries because of the imbalance probably will be hidden this year due to agreements signed in 1974 calling for export from Japan of five industrial plants. Nevertheless, the Chinese are not happy about the $680 million imbalance favoring Japan and may do something about it.

Put another way, unless China can ship much more crude oil to Japan this year there may be practically no chance for an improvement of the large trade imbalance. Although Peking has promised to ship 160,000 barrels of oil per day to Japanese ports in

1975, this does not appear to be sufficient to put a large dent in the imbalance statistics.

Only significant improvements in the Japanese economy by this summer, which could sharply increase demand for Chinese products, seems to be the answer. But private economists are now claiming that such a recovery can't come until late autumn.

Yet the threat of troubles in the business field with China does not frighten the Japanese as much as it might have under somewhat different circumstances. China, which operates on a totally planned economy, is an extremely difficult country to do business with and, as a result, is not such a profitable trading partner as might be supposed.

Japanese steel and fertilizer industries, for example, would appreciate long-term sales contracts with China, preferably of the three to five year range. These two industries, however, are held to six-month contracts by the Chinese and the financing arrangements are hardly the best to be desired.

Use of Third Currencies

Tokyo most certainly would like China to approach deferred-payment contracts with a much more flexible attitude and to agree to greater use of other currencies than the Japanese yen and the Chinese renminbi yuan. The authorities in Peking have shown some movement in this regard but not nearly enough, according to Japan's business and financial leaders.

The Bank of Tokyo and the Bank of China signed a new yen-yuan exchange rate agreement in Peking on August 8, 1973 which was automatically extended last summer for another year. The pact called for the exchange rate between the Japanese yen and the Chinese renminbi yuan to be decided on the basis of actual market forces. Yet, so far, the rate has been decided unilaterally by Bank of China officials in Peking.

Although the agreement allows use of either currency in settlement of transactions between the two nations, the yen has mainly been used in remittances from Japan and the yuan in remittances from China. These transactions involve not only the Bank of Tokyo but also all other commercial banking institutions in Japan.

There had been hope in Japan for more realistic arrangements during the talks on a long-term bilateral trade agreement. However, when the three-year trade pact was signed in January last year in Peking the agreement giving both countries most-favored-nation treatment provided for settlements in Japanese yen or the Chinese yuan "or other currencies which could be converted into the two currencies"—yet the situation was not changed much.

Recent Settlements

Despite signs in early 1975 that the Chinese might soon show a conciliatory attitude toward a Japanese proposal for settlements in dollars and of prices quoted in terms of the U.S. dollar, only a few examples of such a change are available:

Teijin, Ltd. announced in January that prices and payment would be in US dollars on an order placed by China for 2,400,000 square meters of polyester and rayon blended fabric worth $3 million. It was the first textile deal to be concluded on the base of dollar price and settlement.

That same month, a group of nine chemical companies signed a contract to export 2,000 tons of resin materials and high-density polyethylene to the China National Chemicals Import and Export Corporation. Once again the agreement provided for the contract value to be denominated in US dollars and for the Chinese to make their payments in the American currency.

Then in February, a Japanese trade mission to Peking found the Chinese willing to accept import of fertilizer (ammonium sulfate and urea) valued at approximately 50 billion yen between now and the end of June on the basis of dollar pricing and payment—and cash settlement on delivery. The past pattern had called for pricing and payments to be in Chinese renminbi yuan.

Also in February, Nichimen Company disclosed it had contracted with China to import Chinese silk fabrics worth an estimated 400 million yen but denominated in West German deutschmarks. Payment settlement is to be made in that same currency. In

JAPAN-PRC LONG TERM OIL AGREEMENT

In a development which may have far-reaching economic and political consequences, Japan has reached agreement with the PRC on securing Chinese crude oil on a long term basis. Zenji Kumagai, Deputy Director-General of Japan's Agency of Natural Resources and Energy, announced the accord, after returning to Tokyo following the first government-to-government oil talks between the two countries in Peking.

Japan's previous imports of Chinese petroleum—1 million tons in 1973 and 4 million tons last year—were accomplished on an individual contract basis with no long term arrangements. The PRC has been attempting to woo Japan away from plans to capitalize Soviet development of Siberian oil resources, and at the same time provide a steady source of foreign exchange through revenues generated by its own petroleum exports. This new pact is expected to achieve, at least in part, both of these goals.

Kumagai said that Japan and China would hold additional talks to iron out details of the agreement. Peking's oil exports to Tokyo in 1975 will probably range between 8 and 12 million tons.

addition, and even more significantly, Japan's Kokusai Sekiyu contracted to buy 5.4 million tons of Chinese crude oil at $12.10 per barrel FOB during 1975. This contract, signed February 19th, calls for settlement in dollars for the first time. Previous contracts had been denominated and payable in RMB.

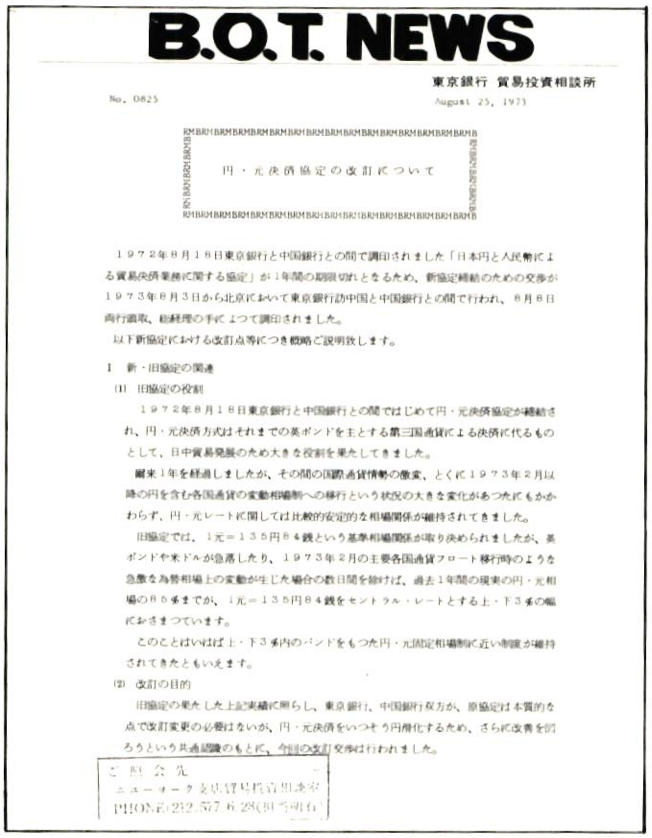
If Peking widens application of settlement terms in the future to larger numbers of transactions it could greatly assist Japanese imports of Chinese goods because costs of such products in the past have proven relatively higher than imports of similar items from other countries where settlement was on a dollar basis.

Under the yen-yuan formula still being used, however, the yuan's spot quotation has been set by China and there have been frequent and sharp changes complicated by trouble with the country's shortages of foreign exchange despite various use of the pound sterling and French franc on occasion over the past few years.

Behind China's latest relaxation of its previous method of doing business may be the country's deteriorated foreign exchange holdings plus the realization that the yuan conversion rate climbed by nearly 10 per cent between the spring of 1974 and the end of the year.

As a result, Japanese importers of a rising number of Chinese goods, especially oil and mineral raw materials, cancelled their contracts when they experienced problems in opening letters of credit. Japanese exporters were in trouble due to yen-yuan exchange difficulties. They often have had to resort to increased prices to allow them to absorb exchange losses.

The Bank of Tokyo announces its agreement with the Bank of China, August 1973.


B.O.T. NEWS

東京銀行 貿易投資相談所

No. 0825

August 25, 1973

円・元決済協定の改訂について

１９７２年８月１８日東京銀行と中国銀行との間で調印されました「日本円と人民幣による貿易決済業務に関する協定」が１年間の期限切れとなるため、新協定締結のための交渉が１９７３年８月３日から北京において東京銀行訪中団と中国銀行との間で行われ、８月８日両行頭取、総経理の手によつて調印されました。

以下新協定における改訂点等につき概略ご説明致します。

I 新・旧協定の関連

(1) 旧協定の役割

１９７２年８月１８日東京銀行と中国銀行との間ではじめて円・元決済協定が締結され、円・元決済方式はそれまでの英ポンドを主とする第三国通貨による決済に代るものとして、日中貿易発展のため大きな役割を果たしてきました。

爾来１年を経過しましたが、その間の国際通貨情勢の激変、とくに１９７３年２月以降の円を含む各国通貨の変動相場制への移行という状況の大きな変化があつたにもかかわらず、円・元レートに関しては比較的安定的な相場関係が維持されてきました。

旧協定では、１元＝１３５円８４銭という基準相場関係が取り決められましたが、英ポンドや米ドルが急落したり、１９７３年２月の主要各国通貨フロート移行時のような急激な為替相場上の変動が生じた場合の数日間を除けば、過去１年間の現実の円・元相場の８５％までが、１元＝１３５円８４銭をセントラル・レートとする上・下３％の幅におさまつています。

このことはいわば上・下３％内のバンドをもつた円・元固定相場制に近い制度が維持されてきたともいえます。

(2) 改訂の目的

旧協定の果たした上記実績に照らし、東京銀行、中国銀行双方が、原協定は本質的な点で改訂変更の必要はないが、円・元決済をいつそう円滑化するため、さらに改善を図ろうという共通認識のもとに、今回の改訂交渉は行われました。

ご照会先
ニューヨーク支店貿易投資相談室
PHONE 212 577 6 28

The Japanese do not like the way in which the People's Bank of China unilaterally announces the renminbi yuan exchange rate arbitrarily against 15 convertible world currencies, often on a daily basis, in broadcasts monitored in Tokyo. To resolve the problem, Japanese have requested that Peking deal in futures as well so they can hedge their risks.

Japanese companies complain that they do not know for what reason the exchange rates of the renminbi yuan go up or down since there is no exchangeability for the RMB. Peking, however, claims they decide the exchange rate based upon the relationship of the RMB and the pound sterling's worth in the markets in London and New York.

Commercial banks in Japan, on the other hand, say that when they calculate the changes announced in Peking on the relationship between the RMB and the yen on the same basis they come up with different figures.

Arriving at a Forward Rate

Officials of the Bank of Tokyo, who, by the way, have developed their own six-month future rate for the RMB for their own purposes, calculate the yen-yuan rate by arbitration, taking the rate between the RMB and the pound sterling in London, the rate of US dollars and pounds in New York, and the yen-dollar rate in New York, and then the rate between the RMB and the yen is more or less established.

But even then the rate between the RMB and the yen is different every day from the rate announced by the People's Bank of China. It is not surprising, therefore, when the Japanese financial experts report they cannot fully understand how the Chinese arrive at their own rate.

Yet this problem is not as serious as the inability of the Japanese companies to buy forward RMB.

Most of the Japanese exporters, therefore, wish to have some third currency in which they can arrange the finance operation or usance. This may change to some degree if the Chinese finally decide to quote a forward rate. They are quoting a number of forward premiums against in European currencies, such as sterling, the West German deutschmark and the French franc.

But these forward quotations in RMB are generally restricted and applied only to transactions between Peking and European centers such as London, Bonn and Paris. For the Japanese there is no way to avoid risk with regard to the yen and the RMB, at least not at the moment.

Apparently the Chinese are reluctant to quote forward rates because of the volume of exchange risks they would have to assume. It clearly would be too large in the case of Sino-Japanese trade.

Not surprising, then, is the hope in Japanese trading circles that the Chinese will agree to more US dollar and deutschmark contracts as a way to resolve the problem. One official of a big Tokyo bank explained that adoption of such contracts "would enable us to find our course freely through our commercial banking system to cover the forward risks in other currencies than RMB."

Hedging . . . in a Fashion

A few major Japanese banking institutions are managing to hedge in a fashion. Explained one Tokyo banker: "We are hedging forward exchange risks to the US dollar, for instance. Still we do have the risks between US dollars and RMB. Of course Peking is not quoting forward rates between dollars and the RMB, so it could be via the pound sterling or other currencies even though Japanese banking foreign exchange operations are mainly in the American dollar.

"It is easier for us to cover by the US dollar forward currency, so we have covered this though not, theoretically, in the correct way. But this is the way we can somehow minimize the risks at present, although we cannot truly say we are actually covering the forward risks at the moment in this style."

The basic agreement between the two countries is that the buyer is to select the trade settlement currency, but most transactions are made both ways in yen currently. This is because if Japanese exporters made contracts in RMB it might prove difficult to obtain financing for major business from the Export-Import Bank of Japan.

Deferred export credits for plants and large-scale shipments, such as major orders for construction equipment, have been done on a five-year basis at 5.5 per cent per annum. However, in recent months the interest rate has gone up to 7.5 per cent.

In January 1975, for example, the Ex-Im Bank extended a loan of 7.6 billion yen to Toyo Engineering Company and Mitsui Toatsu to finance the sale to China of a urea plant valued at 13.6 billion yen. The suppliers are to pay an interest rate of 6 per cent to the Ex-Im Bank and much higher rates to the commercial banks involved.

Japanese companies have signed 15 contracts for plant exports to China since diplomatic relations were established with the People's Republic of China; five were made since last September. In such cases the usual down payments are for 20 to 25 per cent and sometimes 30 per cent, with the remainder financed as deferred payments by the Ex-Im Bank and the commercial banking institutions. Payments of this type are spread out over five years.

The financing is done through the suppliers in all cases. The Chinese always insist on supplier credits in plant purchases where long-term financing is required, refusing to deal directly with the Ex-Im Bank. But in all cases joint financing involves one or more commercial banks in Japan.

Ex-Im Bank credits so far have always been extended at an interest rate to the suppliers of the plants of 5.5 to 6 per cent. Commercial credits for much smaller proportions of the financing are provided at a higher rate, bringing the total cost to the suppliers up to around 6.5 or 7 per cent and often much more.

Bank of China Becomes Guarantor

In these instances, the Bank of China becomes the guarantor of the Ex-Im Bank loan to the supplier by offering some type of guarantee. In other cases, the Bank of China actually endorses the notes for the deferred amount which are issued by the Japanese exporters and accepted by the Chinese importers.

Suppliers generally approach the Ministry of International Trade and Industry (MITI) and the Ex-Im Bank authorities to discuss and even negotiate the terms of the sale to China. Later, after everything has been more or less agreed upon in Japan, the supplier representatives begin negotiating with the Chinese directly on the basis of what was agreed upon with MITI and Ex-Im Bank officials.

Not infrequently, the Japanese suppliers charge the Chinese know-how fees in plant sale contracts. Everything is included in the actual contract itself, including the deferred payments and anything else which the suppliers think they can load into it to help provide a hedge against exchange losses and to offset the overall cost of financing the sale.

As can be imagined, such a process requires time, twice as much time as would be taken up in negotiations with businessmen in other countries. Less time is necessary when the deferred payment period is under six months, however, because MITI does not require a license and neither does the Ministry of Finance have to concur.

But deferred payments above six month terms usually involve sales made on a yen basis rather than in RMB if the Ex-Im Bank is providing the financing. The minimum rate for Ex-Im Bank credits over five years is 7.5 per cent. Generally speaking, the suppliers must obtain between 20 and 30 per cent of the necessary credits from their own commercial bankers.

This is important in that letters of credit and trade settlement arrangements do become direct transactions later on between the Bank of China and the commercial banks in Japan. Such dealings take place in Tokyo, Hong Kong and even London, especially where transactions in currencies other than the yen or RMB are involved.

Some Swapping

When currencies of a more convertible type are used in Japan's trade with China some swapping can be done. Yet even in the case of the RMB some if not all

Japanese commercial banks have arrangements with the Bank of China which permit balances in RMB in accounts in the Bank of China to be sold against the pound sterling. Yet the rate, once again, is Peking's spot quotation.

Japan's commercial banks are able to make the exchange of RMB into pound sterling only after the Chinese currency arrives in Japan. This is a sort of forward transaction to some extent, yet the exporters cannot ask their bankers to apply the exchange rate of the pound sterling when they bring in the RMB export documents—they must wait until the cash actually arrives.

This means that the Japanese exporters are assuming the risks of the forward rate, since it takes about 20 days for the RMB cash to arrive in the case of an at-sight contract. This is why, in the instance of a major plant export the contracts are in Japanese yen; although even when the yen currency is used as a contract currency the Bank of China insists on purchasing the yen based on the quotation rate established by themselves in Peking.

When Nippon Steel Corporation recently drew up a steel mill contract in a deal with China the arrangement was made in Japanese yen. All the same, the company was not entirely happy with the sale, knowing full well that it was not quite free from the serious exchange risks entailed.

This is the reason why—among others—that immediately after receiving endorsed notes from the Chinese in sales involving the non-convertible RMB the Japanese suppliers usually take them to their commercial banks to borrow money, using the notes as collateral.

Due to China's scarcity of foreign exchange in 1974, the amount of usance involved in Japan's trade with that country increased to something above $300 million worth. Mainly involved in this type of settlement are Japanese imports from China, but some exports are also settled in this fashion. The overall amount is considered relatively small but it is expanding at present.

The Chinese, as a result, have been asking for and receiving as much as 180 days usance for both imports and exports. Until recently, however, the usance for exports was four to six months and four months for Jananese imports; particularly where iron and steel products and fertilizers were being sought by China, usance was a factor. Now it is becoming a problem for Japan, posing heavy costs for the companies involved.

Explained one high-level official of Japan's Ex-Im Bank: "Even with our recent experience these costs are not being correctly calculated by us because we cannot find any true forward rate. So in some cases we actually have to pay the shippers just a tentative amount and then settle only after all the foreign exchange risks have been covered—usually at the end of three or four months or more."

In other words, with the Chinese refusing to allow triangular trade using RMB, and dead set against switch trading or volume-type swaps on a continuing basis, the exporters being paid in RMB are assuming all the exchange risks. It can prove expensive.

As mentioned before, the exporters often try to build this into their prices, but the Chinese are such good bargainers that it is doubtful that much is achieved in this fashion by the Japanese companies. The usual assumption is that small profits from this trade is better than no profits.

The Prospects

In the Japanese view, there is no prospect that Peking will approve the use of RMB in Tokyo's trading with third countries. Since the Chinese hold a great volume of Hong Kong dollars, the Japanese have suggested that they use these in paying for imports from Japan. There has been no response so far.

Authorities of the Bank of China manage the way in which the RMB is used by Japan fairly well. With Japanese banks keeping RMB in correspondent accounts with them, the Bank of China officials must be asked to exchange the RMB for pound sterling amounts when these accounts become overloaded. The sterling later can be sold for the US dollar or other currencies, of course, but such movements are not very large, presumably for political and other various reasons which the Japanese bankers understand extremely well.

Undoubtedly, if China's trade volume with the West and Japan increases progressively in the future, the RMB held by the major commercial banking systems throughout the world will expand too. Whether this would ever solve the problems brought about by a lack of a forward rate, no triangular trade, miniscule RMB markets, and a general non-convertibility is a matter of conjecture.

From the Japanese point of view at this moment, however, as far as global dealings in RMB is concerned, the belief is fairly strong that the best that can be expected is much greater use of more popular third country currencies in trading with China. 完

ANOTHER THIRD COUNTRY BANK THROUGH WHICH TRANSACTIONS WITH THE PRC MAY BE CARRIED OUT.

Banca Commercial Italiana
555 South Flower Street
Los Angeles, California 90071
(213) 624-0440

Banca Commercial Italiana
280 Park Avenue
New York, N.Y. 10017
(212) 661-8500

A tapestry carpet at the Tientsin Fair.

The Chinese Carpet Fair-Tientsin, 1975

A Better Way to Buy from China

For the importer of Chinese goods a new era may be dawning. Early in 1975 China has mounted four separate Fairs, in Tientsin, Peking, Shanghai and Kwangchow, to which foreign buyers were invited to buy goods on the spot and sample a much wider range of products in each area than is normally available at the Kwangchow Fair.

Those importers attending the new, long awaited product Fairs have reacted positively, for the events have added up to a much better way to do business with the PRC than has been possible before. So far these new Fairs seem to have been held on an experimental basis. But they differ from earlier specialized events held sporadically, mainly for Asian foodstuffs and textiles buyers, in that they have been consciously mounted in concert to boost Chinese exports.

The question now being asked is Will the Kwangchow Fair decline in importance? One answer, given by the Chinese, is that the Chinese Export Commodities Fair will not be affected because it has been successful for many years and there is no reason for it to stop. The specialized fairs, rather than compete with the Kwangchow Fair, complement and add to it. Hence, the carpets portion of the Kwangchow Fair will continue, providing another opportunity for foreign rug buyers to do business. More can now be accommodated.

But it is also possible that, if the specialized Fairs are held all year round, as well as between the Kwangchow Fair periods as at present, that the Kwangchow Fair complex itself will eventually become more specialized, giving more space to fewer types of products. In addition, as both import- and export-oriented Fairs proliferate in China, it is possible the Kwangchow facilities may be used for both types if the pressure on them as a twice-yearly venue for foreign buyers is reduced. This would also take some of the pressure off China's other exhibition halls in Shanghai and Peking.

The National Council was invited to the Tientsin Carpet Fair: Its representative, Dr. C. J. Wang of the International Corporation of America, based in Arlington, Virginia, and his wife, were treated courteously by their Chinese hosts and were honored by being seated at the head table at the Fair Banquet. Chinese officials at the Fair expressed their appreciation of the Council's efforts to promote two-way trade and indicated they were confident that, with continuing efforts of both sides, Sino-US trade will have a bright future provided both sides try to develop it on the basis of equality and mutual benefit.

For US buyers, there were a number of significant aspects of the Tientsin Fair—

Custom-made designs Welcomed Trade officials welcomed designs from buyers, but reserved the right to accept or reject. Chinese artists and rug experts will work with foreign firms to produce carpets reflecting both the wishes of the customer and the Chinese tradition, a lengthy process, involving visits to Chinese factories. No minimum price or size was quoted but any custom-made item must be ordered in "worthwhile quantity," representing a reasonable amount of business.

New designs Highlighted In contrast to the generally conservative and traditional designs and colors at the Kwangchow Fair, the Carpet Fair in Tientsin was a showplace for many new designs. All rugs available were handmade. Especially visible were the hanging wall carpets, dominated by a twenty-five-by-fourteen foot "tapestry carpet" of the Great Wall into which more than five hundred shades were woven. (The weave was 110 to 120 lines.) Other examples of these handknotted tapestries included depictions of the Temple of Heaven, a sheep scene—"Pastures in the Tienshan Mountains," classical paintings, landscapes and flower designs. The Chinese would not put a price on the Great Wall tapestry, but others were for sale:

typically, a Belgian buyer bought one for thousands of dollars reasoning that the rug represented a million dollars worth of publicity. Most exhibition display carpets were sold during the first half-day of the Fair, with experienced Japanese and Europeans buying without ascertaining prices. By the second day, all display rugs had been sold.

More complete display For foreign buyers Tientsin, China's most important carpet production center, provided a much more complete display of Chinese carpets than usually available at the Kwangchow Fair. Thus every type, quality, and size of Chinese carpet was adequately displayed, and all major Chinese carpet centers were represented, including Peking, Tientsin, Shanghai, Tsingtao, Dalien, and Kiangsu, as well as minor centers such as Sinkiang. More than forty types of carpet were available including, besides woolen carpets, handwoven cotton, goat wool, silk and velvet types.

The two-story Industrial Exhibition Center of Tientsin opened apparently only months ago, had rugs stacked in about twenty piles around the hall, revolving display panels with eight rugs each, carpets displayed on the walls with more piles of rugs and displays at the foot on small raised platforms, and a storeroom at the back. Everything, save for certain tapestry rugs, was for sale.

Warehouse stock readily available for Faster Delivery Fair officials had warehouse stock opened up for spot purchases, allowing buyers to make immediate selection from a broader range than before, and have purchases shipped directly. Warehouse space was also seen in Peking.

Special Concessions for US Buyers Chinese officials were particularly cooperative so far as American buyers were concerned, realizing the special nature of the US duty problem. (Handmade woolen rugs for instance have a Column 2 rate of 45 percent versus 11 percent in Column 1.) The price structure was the same as at the Fall 1974 Kwangchow Fair, and prices remained at the same level. But special concessions, consisting of discounts of about 15 percent, were made to Americans, with the proviso the carpets must be sold in the US and nowhere else. Contracts, however, continued to be denoted in RMB, not in dollars.

Among the Americans invited to the Fair were, besides Dr. Wang, Paul Speltz of IDC Marketing, Charles Rostov of TransOcean, Ray Pace of Baker Trading, Albert Moomjy of Einstein Moomjy Rug Company, George Moomjy of Middle East Rug Company, and representatives of Los Angeles' East and West Carpet Company and Commercial Carpet Corporation.

Doing Business was Easier Because negotiations could be carried out on the spot, with the goods there, doing business was a lot easier than at the Kwangchow Fair. (In Kwangchow, Chinese officials might spend days, perhaps a week, obtaining replies from factories and FTC branches.) The time of officials and buyers at the Tientsin Fair was used to the best advantage of both. As a result, business was brisk. Most buyers were able to complete the bulk of their transactions in two days and all of the specially-made rugs on exhibition, with the new designs, went in the first 48 hours. By the third day deliveries already stretched to November-December 1975.

Negotiating, which took place in private rooms located off the main hall, was subject to predetermined price policies by the Chinese. This policy could not be bent, since it requires a group decision on the part of the Chinese to change their rules. (There were, incidentally, no special catalogues or literature printed for the Fair. The newest available design books and catalogues were distributed.)

Carpet Factories Could be Visited. The management of the Fair made factory visits available to whoever wanted to go. As enough people signed up, buses were organized to transport people to carpet factories in Tientsin city. Visits were spread over several days and lasted half-a-day each. Buyers could see carpet making, from the raw wool, through spinning, dyeing, weaving, sculpturing, finishing, chemical washing and drying.

Chinese officials themselves seemed to be pleased with the results of the Fair. They commented as follows: "Results at the Fair are better than results of the Kwangchow Fair so far as carpets are concerned. More carpets have been sold than at previous Kwangchow Fairs in general. The carpets that have been sold have gone to the people in the carpet business, specialty buyers."

The Chinese saw this, over the long term, as beneficial: "Business of this type (with professionals) will be characterized by more stability, continuity and growth potential. This contrasts with the Kwangchow Fair where many buyers are of the here today-gone tomorrow type. At the Tientsin Fair one can rely on professionals who buy when the times are good—and also buy when times are bad."

Arranging to Go

The two-to-three hundred businessmen from over twenty countries and places, including Hong Kong and Macao, received their invitations in early January from the China National Native Produce and Animal By-Products Import and Export Corporation Headquarters in Peking. These invitations had been requested following information about the Fair made known at the 1974 Fall Kwangchow Fair and, in some cases, as a result of the appearance of the information in the November-December *US China Business Review*. In the US, approaches, besides being made directly to the Corporation in Peking, were made to the Liaison Office in Washington, D.C. Americans made their way to Tientsin in at least three ways—via Paris and Karachi, via Tokyo, and via Hong Kong and Kwangchow.

The Organization of the Fair

The Fair was organized by a special interagency committee formed under the aegis of the Native Produce Corporation. Foreign businessmen were met at the airport in Peking by representatives of the China International Travel Service (CITS) who had lists of names prepared by the Native Produce Corporation. The CITS arranged transportation to Tientsin by train.

On arrival, the Fair's Welcoming Committee greeted visitors and took them to their hotel. Rooms had been assigned by the Committee. US businessmen stayed at the Number 1 branch of the Tientsin Hotel across from the local Friendship store. The Welcoming Committee comprised members of the local branches of the trade corporation, the China Council for the Promotion of International Trade (CCPIT) which has a special department concerned with exhibitions, and the CITS.

The Fair itself appeared to be organized as a joint venture between the CCPIT and the Native Produce Corporation, with the CCPIT nominally running the show. The Fair Committee was chaired by Shang Su-tzu, Chairman of the CCPIT Tientsin Branch. The corporation asked CITS to arrange tickets, travel permits, and accommodations. (Visitors paid expenses on the spot).

Hotel Services

Services were arranged akin to those at the Fair in Kwangchow. The courteous and hospitable Welcoming Committee provided a Liaison Office at the Hotel, open twenty-four hours a day, to make any arrangements required by the visitors, including onward travel, factory visits, taxis and so forth. It was possible to arrange to see arts and crafts works, a bicycle and metal parts factory (whose workers were blind or handicapped) and other sights, as well as the carpet factories.

There was a doctor's clinic at the Hotel, on twenty-four hour standby, at which medicine and services were dispensed free of charge. At least three Americans made use of this clinic during their stay. A post office and telegraph office was established in the Hotel for the duration of the Fair. (Telex was not not available.) The Bank of China sent its people to the Hotel for the convenience of visitors, providing a small bank on the premises. Regular buses ran to and from the Fair building, about ten-to-fifteen minutes away, and taxis were available if required.

Two banquets were held at the Fair, one on the first day, the other on the last, at the main Tientsin Hotel. The banquets began with receptions, at 6 p.m., followed by a meal prepared by the best chefs from locals hotels, each of whom prepared their specialties. The evenings ended with entertainment; at the first banquet this was provided by acrobats a la Shenyang.

Conclusion

The conclusion must be that the Fair, the first of its kind, was a success on a number of counts. It may thus be the forerunner of regular yearly Chinese Carpets Fairs and sets a useful precedent for other types of products. Will the Tientsin Industrial Exhibition Center be open all year round to export Fairs? Or alternate import and export Fairs? It is hard to imagine that, having held such an event, China will retreat to the sole occasions of the Kwangchow Fair. As China's foreign trade expands and the number of foreign businessmen trading with China increases, having additional negotiating venues than the Kwangchow Fair is now a necessity. 梵

CHINA'S EXPORT FAIRS

Chinese Fur Products Fair, February 20-March 5 in Peking, on the ground floor of the Nationalities Palace next to the Min Tzu Hotel, sponsored by the Native Produce Corporation. Products—sheep, fox, and a wide range of other furs. About thirty businessmen were present from Japan, Western Europe and elsewhere. No Americans were invited to this Fair. But Chinese officials indicated that some Americans may be invited if the Fair is held next year. (The US currently prohibits import of seven furs from the PRC—ermine, fox, kolinsky, marten, mink, muskrat and weasel—under a law passed in 1951.)

Chinese Partial Forestal Products Fair, February 21-March 2 in Kwangchow, sponsored by China National Native Produce and Animal By-Products Import and Export Corporation branches in Peking, Tientsin, Shanghai, Kwangtung, Kwangsi, Fukien, Hunan, Shantung, Talien and Hupeh. Products—various kinds of bamboo and wood products, fireworks, firecrackers, handcade papers, candles, and small hardware. Americans attended. (Also known as the Dry Goods Fair.)

Chinese Carpets Fair (1975), February 25-March 5 in Tientsin, sponsored by Native Produce branches in Peking, Tientsin, Shanghai, Shantung and Talien. Products—carpets and rugs of every grade, size and type. This was the first of its kind. Americans attended.

Garments Exhibition (including ski-wear), March in Shanghai, sponsored by the China National Textiles Import Corporation. This small-scale Fair is aimed primarily at the Japanese Market and Japanese businessmen were main invitees. It has been held for a number of years.

Garments Exhibition, Kwangchow, sponsored by the China National Textiles Import and export Corporation. The Fair, held usually in a hotel, is primarily for businessmen from Hong Kong, Macao and Singapore for textile products suited for the Southeast Asia market. Not held on fixed dates, it has been organized twice annually for some years.

Foodstuffs Fair, Kwangchow. Small Fairs for Hong Kong and Macao buyers have taken place in Kwangchow for some years.

MEI GUO TUNG FANG NEEDS YOU!

Mei Guo (US) Tung Fang, a US China trader's gathering inaugurated December 20, 1974, wants you to participate in basketball, soccer and other social activities at the Fair. Details will be announced.

JOBS WANTED

- *Specialist in Chinese* language and area studies seeks position in business or trade organization as a resource person and researcher in specialized Chinese topics. Extensive training. Three years of residence in Hong Kong and other Asian locales. Knowledge of people and customs.
- *International marketing executive,* fluent in Mandarin Chinese, German, and Russian Languages, with a proven sales and marketing record, very strong technical background, a self starter, well organized, seeks a challenging assignment with a US firm.
- *American Computer Systems Designer,* fluent Chinese, with over 15 years technical and management experience in computer technology and agricultural chemicals seeks opportunity with firm having interests in PRC and Far East. *Write NCUSCT for details.*

CHINA NATIONAL EXPORT COMMODITIES PACKAGING CORP.

Some of the mystery surrounding the so-called China National Packaging Corporation has now been cleared up. According to China's Ministry of Foreign Trade the Packaging Corporation, thought by some to be a new Foreign Trade Corporation, apparently became confused with the China National Export Commodities Packaging Corporation (CNECPC), which is not an FTC.

CNECPC is charged with evaluating packaging needs for all of China's export products, assaying production capabilities of the country's packaging industry, and undertaking research and development to improve the quality of the PRC's packaging efforts. The Corporation is temporarily headquartered within the Ministry of Foreign Trade Building and does not itself engage in foreign commerce.

China traders interested in discussing packaging questions with the Chinese should write directly to the Foreign Trade Corporation concerned, attention Packaging Division. All FTCs, with the exception of the Technical Import Corporation, maintain a packaging division which is responsible for insuring that the corporation's exports are packed to withstand the rigors of long distance shipping.

RMB: DOLLAR RATES 1975

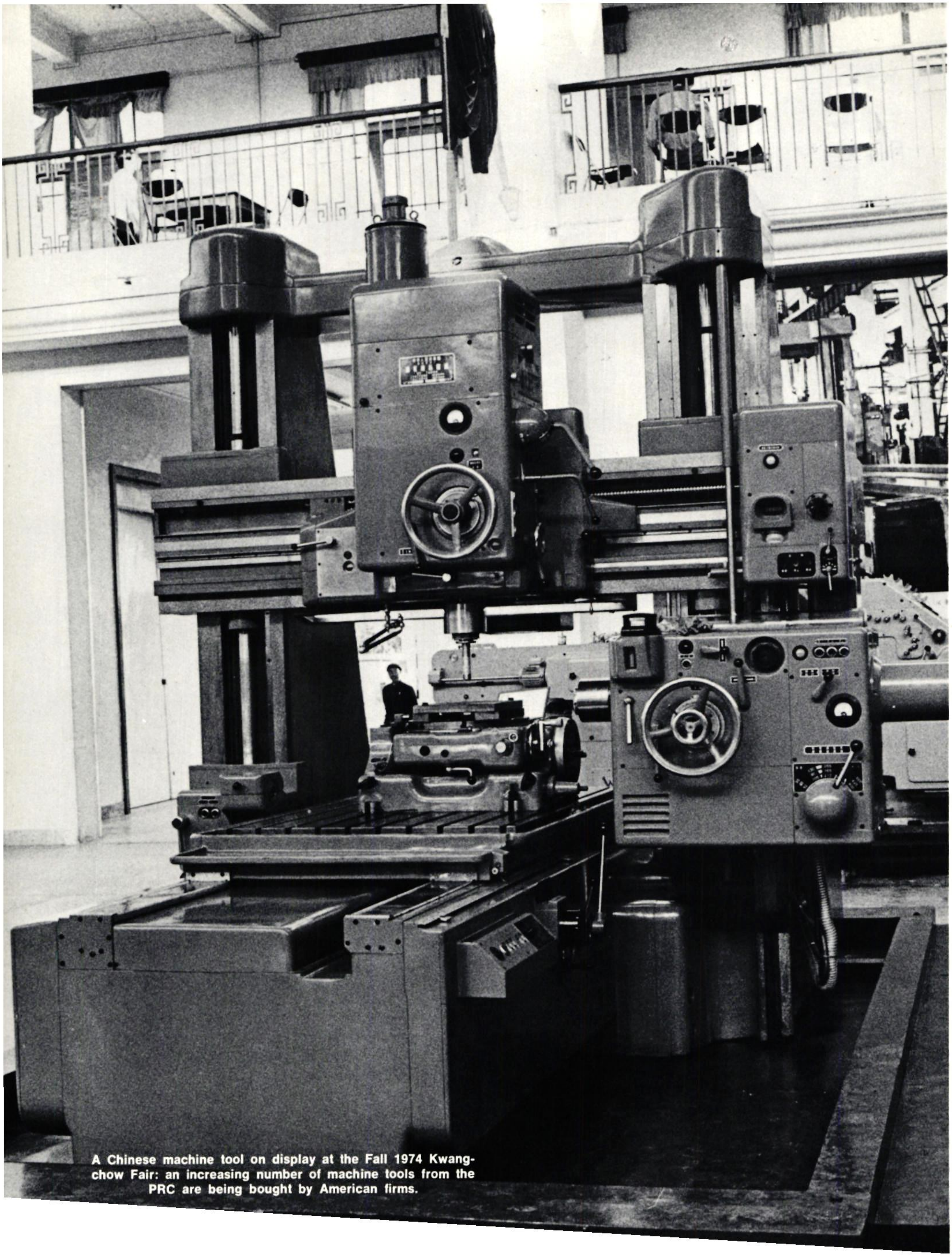
Date		*RMB: $*	*US¢/ RMB*	*Change %*
January 3	Bid	1.8498	54.0598	
	Offer	1.8406	54.3301	
	Median	1.8452	54.1946	−0.30
January 4	Bid	1.8406	54.3301	
	Offer	1.8314	54.6030	
	Median	1.8560	54.4662	+0.50
January 7	Bid	1.8242	54.8185	
	Offer	1.8150	55.0964	
	Median	1.8196	54.9571	+0.90
January 15	Bid	1.8332	54.5494	
	Offer	1.8240	54.8245	
	Median	1.8286	54.6866	−0.48
January 22	Bid	1.8167	55.0448	
	Offer	1.8077	55.3189	
	Median	1.8122	55.1815	+0.90
January 23	Bid	1.8076	55.3219	
	Offer	1.7986	55.5987	
	Median	1.8031	55.4600	+0.50
January 24	Bid	1.7986	55.5987	
	Offer	1.7896	55.8784	
	Median	1.7941	55.7382	+0.50
January 25	Bid	1.7896	55.8784	
	Offer	1.7806	56.1608	
	Median	1.7851	56.0192	+0.50
January 28	Bid	1.7716	56.4461	
	Offer	1.7628	56.7279	
	Median	1.7672	56.5866	+1.01
January 29	Bid	1.7787	56.2208	
	Offer	1.7699	56.5003	
	Median	1.7743	56.3602	−0.40
January 30	Bid	1.8001	55.5524	
	Offer	1.7911	55.8316	
	Median	1.7956	55.6916	−1.20
February 5	Bid	1.8181	55.0024	
	Offer	1.8091	55.2761	
	Median	1.8136	55.1389	−1.00
February 14	Bid	1.7874	55.9471	
	Offer	1.7784	56.2303	
	Median	1.7829	56.0883	+1.72
February 21	Bid	1.7766	56.2872	
	Offer	1.7678	56.5674	
	Median	1.7722	56.4270	+0.60
February 25	Bid	1.7589	56.8537	
	Offer	1.7501	57.1395	
	Median	1.7545	56.9962	+1.01
February 27	Bid	1.7519	57.0808	
	Offer	1.7431	57.3690	
	Median	1.7475	57.2246	+0.40
March 8	Bid	1.7729	56.4047	
	Offer	1.7641	56.6871	
	Median	1.7658	56.5450	−1.20
March 12	Bid	1.7552	56.9735	
	Offer	1.7464	57.2606	
	Median	1.7508	57.1265	+1.03
March 14	Bid	1.7622	56.7472	
	Offer	1.7534	57.0320	
	Median	1.7578	56.8892	−0.42

Source: NCUSCT based on data supplied by the Chartered Bank

FIRST AIR CARGO CHARTER BETWEEN THE US AND CHINA

In another first for the China trade, 70,000 pounds of seismic surveying computer equipment for oil and gas exploration, ordered by Techimport from Houston's Geo Space Corporation, was airlifted direct from the Texas city to Peking on January 25. This shipment represents the initial use of a jet freighter to transport commercial cargo from the US to the PRC. Door-to-door delivery was accomplished in forty hours, including a refueling stop in Anchorage and an overnight layover in Tokyo, aboard a Japan Air Lines DC8-F. The flight was chartered by the China Foreign Trade Transportation Corporation. Geo Space's $5.5 million contract for the oil equipment was signed on October 8, 1973. The company is a subsidiary of the Applied Magnetics Corporation of Goleta, California. 究

Top: Some of the 100 Peking-bound cartons of oil and gas exploration equipment loading aboard a JAL DC8-F at Houston. Center right: Minutes after arrival in Peking, ground crew prepares to unload the 70,000 lbs of equipment. Center left. A hoister marked wth the winged crest of CAAC, China's airline, lifts the cargo aboard truck at Peking airport. Left: Cargo is removed from aircraft in four hours. Geospace V-P Raymond Cox, who helped negotiate the sale in September-October 1973 observed proceedings.



A Chinese machine tool on display at the Fall 1974 Kwangchow Fair: an increasing number of machine tools from the PRC are being bought by American firms.

FORECASTING CHINA'S TRADE OVER THE LONG TERM

Dwight H. Perkins

Economic forecasting is an art that has not fared well anywhere during the past two years. In the United States even the fourth quarter of 1975 remains shrouded by uncertainty over national policy, oil prices, and the possibility of another Middle East war. It is with trepidation, therefore, that one sets out to forecast what will happen to China's foreign trade over the next five years or so. The specific targets of China's five-year plans are closely held state secrets and fulfillment of these targets is conditional on China passing smoothly through this period of transition in its top-level leadership. On the other hand, China's economy is comparatively insulated from some of the international events that have so disrupted planning and forecasting elsewhere in the world. An attempt at prediction, therefore, is not completely foolhardy.

The forecasts made here differ significantly from those derived from conventional econometric models. Some published Chinese economic statistics exist, but not enough to estimate econometrically the relevant structural features (the parameters) of the Chinese economy. With enough data (a many sectoral input-output table, etc.) one could project China's demand for various kinds of steel over the next five years, compare that demand with planned domestic supplies of steel, and come up with a gap (or surplus) that would serve as an estimate of probable steel imports (or exports). What follows instead are a series of conditional statements much less precise although not necessarily less accurate than those derived by more formal techniques. If one makes certain assumptions about the progress of research undertaken by Chinese agricultural scientists, for example, one can anticipate a decline some years hence in China's demand for imported chemical fertilizers and chemical fertilizer plants, but one cannot date the timing of that decline with any precision or come up with a precise quantitative estimate of the level of imports in the interim. Nor can one state with complete certainty that China during the next several years will fail to make breakthroughs that would make possible the efficient use of far greater quantities of fertilizer per hectare than now seems feasible and hence provide the basis for a continuation of large scale imports.

The first step in this forecasting exercise is to break down China's foreign trade into categories that can be meaningfully related to underlying

Dwight Perkins, Professor of Economics at Harvard, is a leading authority on China's economy. His books include "Market Control and Planning in Communist China" and "Agricultural Development in China 1368-1968." Professor Perkins is a member of the National Council's Academic Advisory Board and has written numerous articles on aspects of China's trade and economy.

Table 1
The Commodity Composition of Chinese Trade
(million of U.S. dollars)

	1959		1965		1970		1973	
Exports								
Agriculture Related [1]	1,950	(87.4%)	1,420	(69.8%)	1,570	(76.6%)	3,535	(72.2%)
Manufactures [2] (excluding textiles)	190	(8.5%)	430	(21.1%)	360	(17.6%)	1,090	(22.3%)
Other	90	(4.0%)	185	(9.1%)	120	(5.9%)	270	(5.5%)
Total	2,230	(100.0%)	2,035	(100.0%)	2,050	(100.0%)	4,895	(100.0%)
Imports								
Agriculture Related [1]	182	(8.8%)	895	(48.5%)	740	(33.0%)	1,684	(33.8%)
Industrial Inputs [3]	558+	(27.1%)	380	(20.6%)	860	(38.4%)	1,915	(38.5%)
Machinery and Equipment	980	(47.6%)	330	(17.9%)	395	(17.6%)	855	(17.2%)
Other	340	(16.5%)	240	(13.0%)	245	(10.9%)	521	(10.5%)
Total	2.060	(100.0%)	1,845	(100.0%)	2,240	(100.0%)	4,975	(100.0%)

1. See Table 2 for breakdown of this category.
2. Miscellaneous manufactures plus metals.
3. Ferrous and non-ferrous metals, rubber, and other crude material imports (except textile fibers). See Table 3 for a further breakdown of this category.

Source: Most of the data in this table were taken from various U.S. government publications.

trends in China's domestic economy. This is done in Table 1. On the export side, the first major category includes commodities that are from agricultural or depend heavily on agricultural inputs (cotton textiles being the most important example of the latter group). Similarly on the import side, one-third of all imports are either substitutes for Chinese farm output (grain, cotton, and synthetic fibers) or inputs purchased in order to raise domestic Chinese farm output (fertilizer). Over half of China's total trade, as a result, can only be understood in the context of the present condition and likely future development of Chinese agriculture.

The other major category on the export side is manufactured exports whose inputs do not depend on agriculture. A rough approximation of this category's size was obtained by subtracting textiles from total manufactured exports. On the import side, a useful division is between crude materials for industry and certain intermediate products (ferrous and non-ferrous metals), on the one hand, and machinery and equipment on the other. The latter category often receives the most attention, but it accounts for less than 10 percent of China's total foreign trade.

Each of these categories will be taken up in turn beginning with the largest, exports and imports related to agriculture. Limits of space, however, make it impossible to deal at length with any single commodity or group of commodities. Throughout the discussion there is an implicit assumption that China's trade in real terms will continue to rise as it has during the past five years. If political disturbances should disrupt the current development program thus slowing trade growth, much of what is said would still be valid, but the changes forecast might be longer in coming.

Forecasting Exports

Like many less developed countries, China for the past century and more has exported agricultural products. In a nation short of both capital and familiarity with modern technology, "surplus" farm output produced by labor intensive means could be exchanged for the capital and technology intensive products of the industrialized world. In the 1950's, for example, China relied almost entirely on agriculture-based exports if one is willing to include processed foods and cotton textiles under this heading. The 1959 figure in Table 1 for this category, of 87 percent of total exports, is typical of the period. A further breakdown of these agricultural exports is provided in Table 2.

The bad harvests of 1959–1961, however, began to call this strategy into question. Did it make sense to continue to rely so heavily on farm-based exports when it meant that domestic supplies of key commodities had to be cut to the bone? At the height of the crisis, for example, the domestic cotton cloth ration per person had fallen from a high of around 20 feet of cloth a year to only 6 feet. And was it a rational policy to continue to export agricultural products when an increasing share of the import bill was being devoted to farm products designed to raise domestic farm output?

The answer to these questions in 1960's and early 1970's was that it did continue to make sense to rely on farm-based exports because there were no easily implemented alternatives. China's industries that did not use agricultural inputs were still in their infancy and hence produced items of comparatively low quality at high cost. In addition, the export of many goods produced by these new industries would have required China to develop methods of penetrating new foreign markets. For standardized commodities such as grain or ores, marketing is no problem. But for bicycles, radios, and other consumer products of this type, effective marketing depends on finding outlets abroad to sell and service the product and a willingness on the part of the manufacturer to adjust his designs, packaging, and brand names in accordance with the requirements of those outlets. Many less developed nations have overcome these problems with ties of various kinds to the large Western and Japanese companies that already dominate these markets, but such solutions were, for the most part, anathema to the Chinese on political grounds.

A central issue in forecasting the future of Chinese exports, therefore, is whether China will devise ways of pushing manufactured exports not dependent on agriculture so that the nation can reduce its dependence on farm exports. Certainly the pressure to reduce farm exports is real enough. In spite of a major shift in Chinese investment priorities toward agriculture beginning in the early 1960's, farm output has only just managed to keep up with population growth over the entire 1953–1974 period. During the past four years in particular, grain output appears to have risen by less than 10 percent although a precise figure for 1974 has not yet been published.

Briefly put, the problem with Chinese agriculture is that the nation lacks readily cultivable land and the land that can be cultivated is already being exploited with a high degree of intensity. Where water supplies are adequate, Chinese yields are approaching such highly productive regions as Japan or Korea. Where water supplies are inadequate, obtaining more water is taking time and is proving to be extremely expensive. It is unlikely, therefore, that China during the next five years will achieve major agricultural breakthroughs that will fundamentally alter this situation. Put differently, China's comparative advantage no longer lies in producing a surplus of farm products and exchanging them for manufactures using such inputs as steel and plastics. Something like the reverse is becoming true over time.

To say that China's comparative advantage is changing, is not the same as saying that China must give up agricultural exports in the near future. The centralized state control of foreign trade together with the marketing of agricultural products makes it possible for the government to continue to squeeze out an agricultural surplus for export almost indefinitely. Furthermore, the recent worldwide shift in prices in favor of agriculture has probably increased the attractiveness of an agriculture-based export strategy to Chinese planners. But, in my opinion at least, Chinese planners are likely to find this source of foreign exchange less and less attractive. This is particularly likely to be the case if trade in real terms continues to expand as it has recently, thus making it necessary to squeeze an ever larger surplus out of agriculture.

If the share of farm-based products in exports is likely to decline over time, what will fill the void? The current candidate receiving the most publicity is petroleum. Certainly if petroleum prices hold up, there is little doubt that China

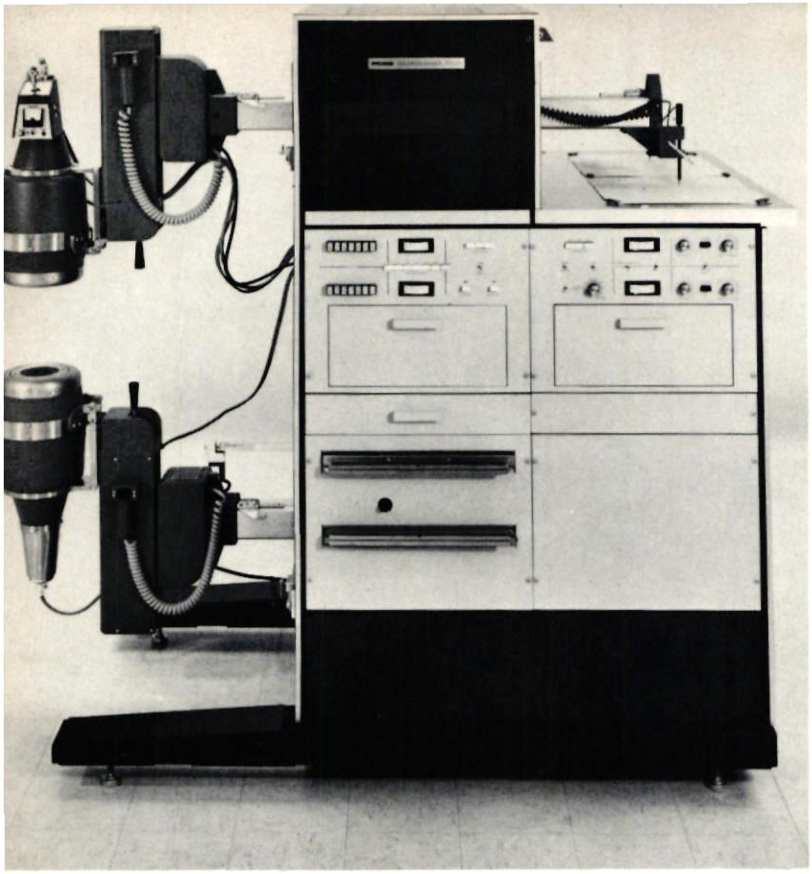
Table 2
The Role of Agriculture in China's Trade *
(million U.S. dollars)

	1959	*1965*	*1970*	*1973*
Exports				
Food	835	530	645	1,595
Textiles (mainly cotton)	620	485	495	1,070
Crude Materials**	495	405	430	870
—Subtotal	1,950	1,420	1,570	3,535
—As % of Total Exports	87.4%	69.8%	76.6%	72.2%
Imports				
Food	20	520	355	1,000
Textiles and Fibers	92	230	155	464
Fertilizer	70	145	230	220
—Subtotal	182	895	740	1,684
—As % of Total Imports	8.8%	48.5%	33.0%	33.8%

* Traded commodities related to agriculture include traded farm products, imported inputs for agriculture (e.g. fertilizer), substitutes for agriculture products (e.g. synthetic fibers), and manufactured exports, a high proportion of the value added of which are agricultural inputs (e.g. cotton textiles).

** This category is mainly oil seeds, textile fibers, and crude animal materials, but it also includes some crude materials unrelated to agriculture.

Sources: Most of the data in this table were taken from various U.S. government publications.



In the long term China will almost certainly continue to be interested in many different types of high technology equipment from abroad. Shown here is a Dual Magna Scanner, model 500/D bought by the Chinese from Picker Corporation of Cleveland, Ohio in 1974 for installation at Shantung Medical College, Tsinan. The Scanner is a dual probe scanning system that detects and displays distribution and concentration of radioactive pharmaceuticals in the human body. Also bought from Picker by the Chinese in a sale totaling $225,000 were a Dyna Camera 2C, an improved scintillation camera embodying advanced techniques in gamma image display; an omniview, which expands the Camera's field of view from 30 cm diameter to any size up to 24 x 76 inches; and an Image Enhancement System, an advanced processor of scintillation camera image data.

will cover a significant portion of its foreign exchange requirements through the sale of oil to Japan and elsewhere. Preliminary estimates suggest that China will earn U.S. $400 million on exports of 4 million tons of petroleum to Japan in 1974 and lesser amounts from exports to other areas in Asia. By 1980, at the same prices, foreign exchange earnings from petroleum could reach several billion dollars annually and account for a third or more of China's exports. But a note of caution is in order. Not only could prices fall, but China's demand for petroleum is certain to rise rapidly, cutting deeply into the surplus available for export. As indicated below, oil is expected to supply China's own expanding transport sector and to feed the rapidly growing demand for fertilizer and artificial fibers. If coal production continues to lag and act as a brake on expansion elsewhere, domestic supplies of petroleum could also be diverted to the generation of electric power. China will not soon become another Saudi Arabia if for no other reason than that 850 million people can make good use at home of large petroleum resources whereas 8 million people, the population of Saudi Arabia, cannot.

The gap between foreign exchange requirements and the earnings of petroleum and a declining agricultural share will most probably be filled by a rising share of exports of manufactures that use non-agricultural inputs. In many ways, China is in a position rather like Japan between the two world wars when that nation was best known for its export of cheap industrial consumer goods of many kinds. The difference is that China has been much more reluctant to take the steps necessary to penetrate foreign markets for these commodities than was Japan. Despite this reluctance, however, these manufactures are likely to constitute a rising share of total exports because China can expand their output and hence the surplus available for export far more readily than it can agricultural commodities. It is also reasonable to assume that machinery and other producer goods will join consumer goods in contributing to this rising export share for manufactures.

Five years from today, therefore, the commodity composition of Chinese exports is likely to be quite different from what it is today. Chinese planners could delay this shift in composition beyond five years, but the cost of over-reliance on agricultural exports will continue to rise. The process could also be delayed by political action such as that of the Cultural Revolution that slowed both economic development and the growth of trade. With total export requirements stagnant or growing slowly, the pressure to reduce the dependence on farm exports would be less.

Imports and Agriculture

It is apparent from both Tables 1 and 2 that the agricultural crisis of 1959–1961 referred to above brought about a sudden, dramatic shift in the composition of Chinese imports. Where before 1960 imports of food and fertilizer were small, after 1960 they dominated the import bill for a time, and continued to play a major role into the 1970's. The issue of concern here is whether China will continue to improve these items in comparable or larger amounts in the future.

A few commodities are comparatively easy to forecast. Long staple cotton will continue to be imported because China needs it to mix with its own short staple variety. There is also reason to believe that China will continue to import grain in varying amounts depending on the quality of the previous year's harvest. China could eliminate grain imports quickly without seriously jeopardizing its development program. Five to 8 million tons a year, after all, is only a tiny fraction of a total domestic supply of around 250 million tons (unhusked). But Chinese planners over the past 14 years have given no indication that they plan soon to eliminate grain imports in either good years or bad.

Chinese officials state that they import wheat because they export rice and, world prices being what they are, they make money on the exchange. Although true enough as far it goes, the statement is misleading because China could continue to export rice and gain from its high price without continuing its purchases of wheat. Importing grain, among other things, is a way of reducing pressure on Chinese railroads by substituting foreign ships. More important, the net import of 3 to 5 million tons a year means that that much less has to be extracted by means of compulsory quotas from Chinese farmers and the lower are these compulsory quotas, the greater are the farmers' incentives to raise grain output. Of a total figure for marketed grain of something over 50 million tons, perhaps 20 to 30 millions tons would not reach the market in the absence of compulsory delivery quotas. Five million tons is a small share of 250 million tons, but it is a substantial fraction of 20 or 30 million tons. Since, as indicated above, there is no reason to anticipate any dramatic leaps in Chinese grain output during the next several years, there is also no reason to believe that China will be able to obtain anytime soon the grain it needs for its cities without resort to compulsory quotas. Thus the rationale for importing grain during the past decade will remain in effect. It does not follow that China will have to continue to purchase grain abroad, but it is a reasonable presumption that it will. Only a sustained rise in grain output at a rate well above the increase in population or continued increases in the relative price of wheat would make importation economically unattractive.

Fertilizer and fertilizer plant imports are less likely to remain at a high level indefinitely into the future. The principal reason is a simple one. The yield response to ever greater applications of chemical fertilizers declines as the amount applied per hectare and at some point it no longer pays to raise per hectare applications any further. Comparisons of per hectare chemical fertilizer applications between China and Japan or Korea, however, would seem to indicate that China has a long way to go before reaching this point of saturation. But such comparisons are misleading. If the nutrient content of organic fertilizer is added to that of chemical fertilizers, China today is using on the average around 100 kilograms of nutrient per hectare and urea and ammonia plants already purchased should raise that figure by 50 percent or more. Furthermore, unlike Japan or Korea, over half of China's cultivated acreage is unirrigated and much of that unirrigated area is extremely dry thus limiting the use of fertilizer. Under these circumstances, a nationwide average of 150 kilograms of nutrient per hectare may indicate that areas with plentiful supplies of water may soon be using over 200 kilograms per hectare or amounts approaching saturation levels given existing technology.

The time may not be very far off, therefore, when importation of fertilizer and fertilizer plants will no longer receive a high priority. One should not expect such a decline within the next five year period, but it could well occur within the next ten years. Two events, however, could postpone this decline. If Chinese agricultural scientists were to develop new seeds that could make effective use of far larger amounts of fertilizer than is the case elsewhere in the world, imports might continue at a high level. But the findings of a recent delegation of American plant scientists to China suggest that no such breakthroughs are likely soon. Chinese planners might also decide to begin phasing out small scale plants and the use of organic fertilizers, but these measures are not likely to occur soon either.

Finally mention must be made of Chinese efforts to expand domestic production of chemical fibers designed to free the textile industry from dependence on the slowly growing cotton harvest. Since domestic textile supplies are far from ample and a breakthrough in cotton output is not in sight, it is likely that China will rely ever more heavily on an expanding chemical fiber industry and will continue to import the plants necessary for this expansion. As domestic chemical plant design capabilities improve, reliance on imported plants will decline, but such a decline does not appear likely within the next few years.

Imports of Crude Materials and Metals

In recent years, imports of crude materials and metals for use as inputs into industries with little or no connection with agriculture have surpassed agricultural related imports (see Tables 1 and 3). Many of these items are perennials in China's import bill. Like most countries, China imports rubber and will continue to do so. Certain non-ferrous metals and other crude materials are in a similar position. Again, like most nations, China is not equally well endowed in all minerals and metals and hence imports such items as copper, nickel, and lead. Because geological surveys of China prior to 1949 were wholly inadequate, known reserves of Chinese natural resources have risen, often dramatically, as a result of newer surveys. In the

Table 3
Imports of Intermediate and Crude Material Inputs to Industry*
(million U.S. dollars)

	1959	*1965*	*1970*	*1973*
Iron and Steel	248	145	390	930
Non-ferrous metals		50	210	400
Rubber	109	70	80	165
Petroleum	118	0	0	0
Other Crude Materials (except textile related)	83	115	180	420
—Subtotal	558	380	860	1,915
—As % of Total Imports	27.1%	20.6%	38.4%	38.5%

* These materials are also used as inputs to construction, the military etc. The point is that, for the most part, they are not inputs to agriculture.

Source: The data for 1965-1973 are from various U.S. government publications. The 1959 figures are from Alexander Eckstein, *Communist China's Economic Growth and Foreign Trade,* p. 107.

1940's, for example, China was thought to have few reserves of petroleum and in the 1950's China imported most of its needs, whereas by 1974, with domestic demand higher, China had become an exporter of petroleum. Other minerals and metals may no doubt experience similar shifts from the import to the export side of the ledger. But over the next five years at least, it is a reasonable assumption that China will continue to import minerals and metals much like in the past. There is not enough space here, however, to attempt to spell out the specific variables that will determine the level and change over time of each mineral or metal.

Steel requires separate treatment because China is both a major producer (23 million tons in 1972) and importer (see Table 3). Furthermore, in the 1960's and early 1970's, imports rose rapidly while domestic production more or less doubled. The problem, of course, is that while China meets most of its own demand for many kinds of steel, it is short of steel rods, pipes, thick plate, and sheets and China's own capacity to design rolling mills to produce these items is inadequate. The solution to this problem, of course, is for China to follow a classical import substituting strategy and that is basically what China is doing. Negotiations with the West Germans for a steel rolling mill began in the mid-1960's but the contract was held up by the Cultural Revolution. Today, however, China is in the process of importing a large steel rolling and casting complex from West Germany and Japan costing roughly U.S. $550 million. This complex will presumably reduce China's demand for steel (mainly imported from Japan) for a time. But, because steel is such an essential commodity for industrial development, it is likely that new shortages of special steels will appear in the future and be met for a time by imports. When imports become large enough, however, China will probably again go abroad for a new plant unless Chinese design capacities by that time have progressed to a point where they can build their own.

Imports of Machinery and Equipment

Most discussions of China's trade begin with the role of machinery and equipment and machinery is more important than its share in China's total trade (see Table 1) would indicate. The purchase of prototype machines and plants abroad is one way in which China imports the advanced technology of the already industrialized world.

One of the most important parts of this category, the importation of complete plants, has already been discussed. With the exception of a few thermal electric power plants, virtually all of these complete plants for a decade and more have been involved with chemicals and petroleum or steel. Much of the rest of the machinery and equipment category is made up of transport and mining equipment. With petroleum supplies assured, China has been importing trucks, aircraft, ships and construction vehicles in considerable quantity. The number of trucks being purchased abroad each year would seem to make this area a prime candidate for an import substituting complete plant in the near future. Commercial aircraft and many kinds of specialized vehicles, on the other hand, are not being purchased in sufficient quantities to justify producing them domestically anytime soon except where military considerations intervene.

Other items in this category include such things as communications equipment and any number of other small products (in terms of value). It is these that give China its reputation for importing a few prototypes only to use them to develop a domestic capacity in the same line. Attempting to forecast the specific components of this category is out of the question in this short article except to say that China is interested in many different kinds of high technology equipment and will remain so indefinitely into the future.

Conclusion

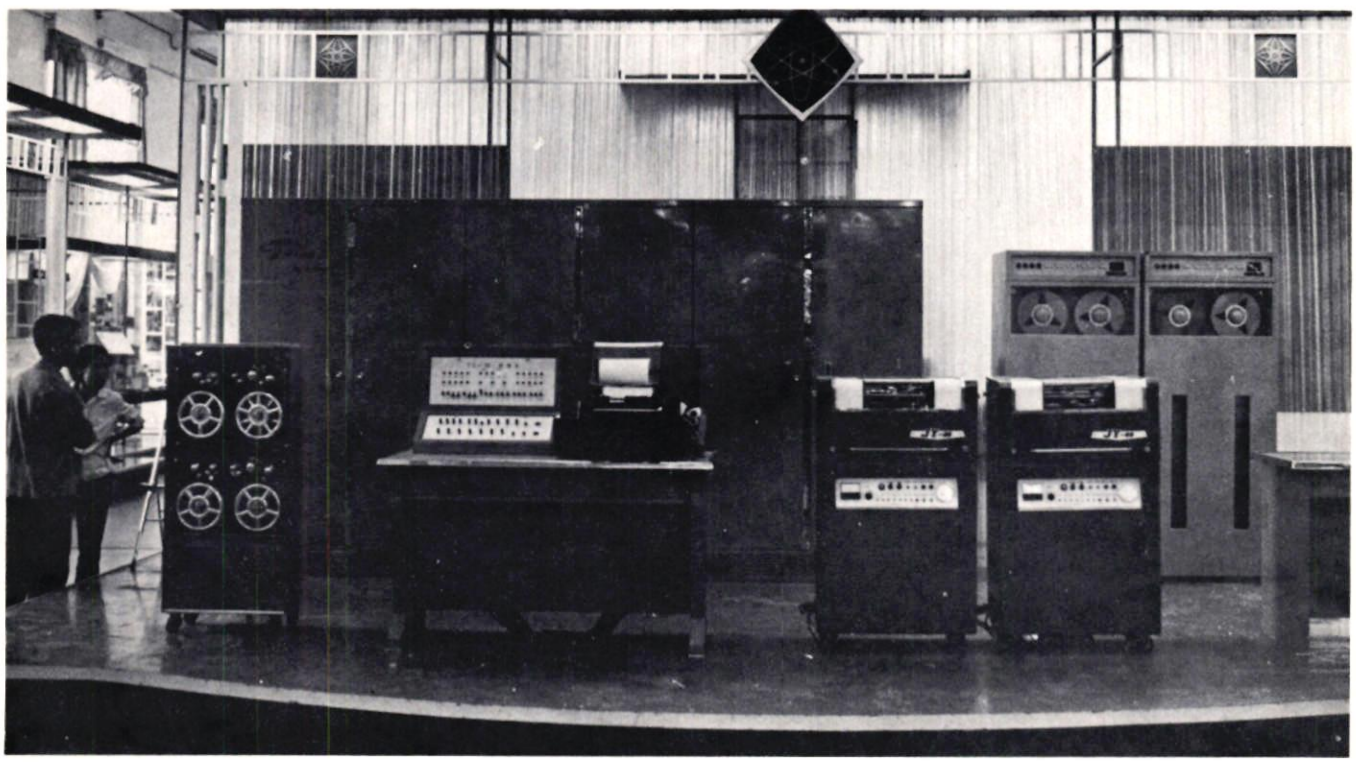
If the above analysis is essentially correct, the evolution of China's trade over the next five years and longer will be the product of several different kinds of considerations. On the one hand, there are the perennial items such as long staple cotton and rubber which China has imported year in and year out because they are essential and cannot be produced domestically, at least not at a reasonable cost. On the other hand, there are long term trends at work to change the composition of China's trade on both the export and import side. The most notable of these trends is the lagging performance of agriculture resulting from China's poor land endowment. With evidence that the capital-output ratio in agriculture has now risen well above that of even some of the most capital-intensive industries, it is difficult to believe that Chinese planners will continue to find it attractive to finance imports by squeezing a surplus out of agriculture. It will take time to develop substitutes for farm-based exports, however, so the changeover will not occur overnight. If petroleum exports continue rising rapidly, on the other hand, China's export bill five years from now should look very different from what it does today.

On the import side, several additional criteria will determine what China purchases over the next 5 years or so. In certain sectors, notably steel and chemicals, China follows an import substitution strategy. Purchases abroad of the final product (chemical fertilizer, steel plates, etc.) are allowed to rise for a time until demand reaches a level that justifies purchase of complete plants that will reduce or even eliminate for a time the importation of the final product. China has pursued such a strategy since the early 1950's, the only difference being that China now substitutes for chemicals and steel imports rather than machinery and steel as it did earlier. During the next five years, China will continue to substitute for various kinds of chemical imports and may also attempt to reduce its dependence on foreign transport equipment.

China's appetite for high technology imports is really a variation on the import substitution theme. Except for such items as commercial aircraft, China does not want to become dependent on foreigners for products essential to its national defense and to the development of its own advanced technology capabilities. Instead China imports for a time while it attempts to develop its own substitutes. Finally, like all countries, China imports in order to overcome short term bottlenecks. Currently, for example, the mining sector appears to be lagging thus holding back key industries and China has been purchasing large amounts of mining equipment. Short term bottlenecks, of course, frequently turn into longer term shortages a which point they become candidates for import substitution.

China, it is clear, has followed a reasonably consistent foreign trade strategy over the past two decades and there is no evidence that they plan to depart fundamentally from this strategy anytime soon. But a consistent strategy does not mean that the commodity composition of Chinese trade has or will remain the same. As indicated above, substantial changes can be anticipated on both the export and import side over the next five to ten years. 完

A Chinese computer on show at the Kwangchow Fair in 1974.



CHINA INDUSTRY SURVEYS-CHEMICAL SECTOR

Business International Asia/Pacific Ltd.
Asian House, One Hennessy Road, Hong Kong
P.O. Box 385 Tel: 5-276524-7, 5-276621

The chemical industry is an important sector of the economy of China and an important market for exports of plants and technology to China. In 1973, all but one of the reported 21 plant sales to China were for the chemical industry. The Business International *China Industry Surveys—Chemical Sector* is a welcome addition to the library of background market information on this growing industry.

It is hard for one to comprehend the extreme difficulty in obtaining good data on the Chinese economy unless one has personally tried to do some market research. As the report prefaces, the almost total lack of official, good, economic statistics especially since 1958 means that background and forecasts on Chinese industry are quite uncertain and tenuous. The reader, therefore, should look cautiously for the broad trends to assess the business opportunities. He should also remember that much of what he expects to find in a good market analysis and forecast is simply unavailable.

The Business International (BI) report is organized into chapters which serve to divide the Chinese chemical industry as follows: Origins of the Industry; Fertilizers; Insecticides and Fungicides; Industrial Chemicals; Synthetic Fibers, Plastics, Detergents, Synthetic Rubber; Dyestuffs, Pigments, Paints; and China's Imports of Chemical Plant.

Some of the broad conclusions of the BI report are: the chemical industry of China is in its infancy being many years behind the West in technology and plant size; the industry is decentralized perhaps for defense reasons or inadequate transportation; agriculture is the foundation of China's economy, and the chemical industry has a prominent role supporting agriculture with fertilizers, pesticides, etc.; China is the world's largest importer of chemical fertilizer; in the past few years, China has become a major buyer of chemical plants and technology; and Japan is China's biggest chemical supplier.

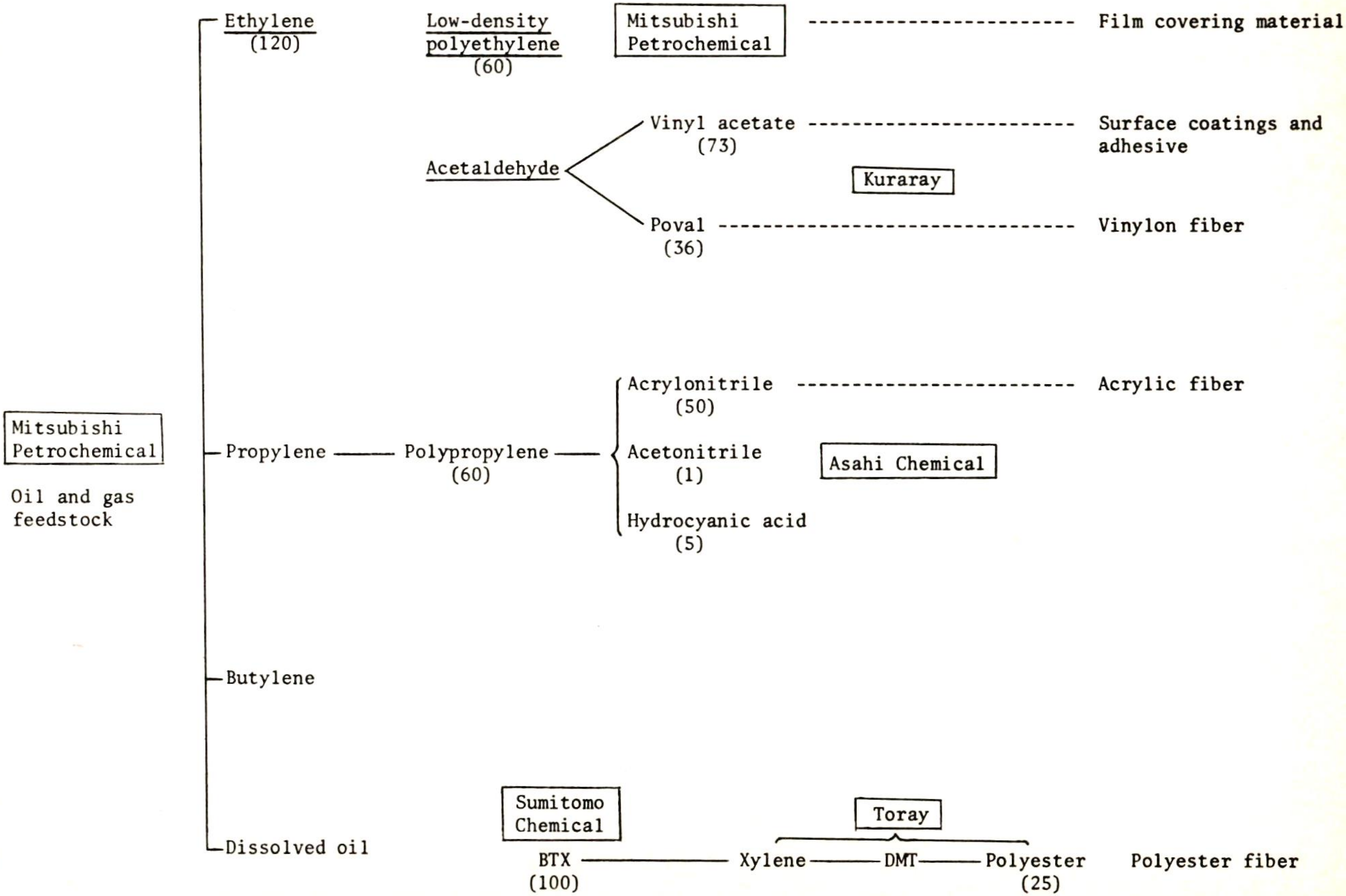
Some conclusions of the BI report to each sector of the Chinese chemical industry are: *Fertilizers*—Although China continues to use extensively natural manure fertilizers, increasing production of chemical fertilizers is occurring together with increasing imports of complete fertilizer plants and technology; *Insecticides and Fungicides*—The use of insecticides and fungicides is being promoted together with a broad research program; *Industrial Chemicals*—China is apparently self-sufficient in basic chemicals and their production technology; *Synthetic Fibers, Plastics, Detergents, Synthetic Rubber*—Cotton acreage is being converted to rice production leading to increasing imports of synthetic fibers, their raw materials, as well as complete plants and technology; *Dyestuffs, Pigments, Paints*—China is apparently self-sufficient in dyestuffs, pigments, and paints with respect to production and technology; and *Imports of Chemical Plant*—China's purchases of complete plants and technology have varied in response to the political climate. In the past few years, the extensive plant purchases by the Chinese appear to fall into a pattern of creating modern, integrated chemical complexes. One such complex is described in the BI report on page 66 and is reproduced opposite, with permission.

The weakness of the BI report is the general absence of analysis of the future market potential and business opportunities supplying the Chinese chemical industry. It would have been valuable to the reader if an estimate of the chemical products and plants on the Chinese "buy" list had been included in the report. For readers who are unfamiliar with the PRC government structure for foreign trade, inclusion in the BI report of a description of the relevant organizations would have been useful. In view of the close relationship between oil refining and petrochemicals, it is unfortunate that the report did not have a chapter on the Chinese oil refining sector. Summarizing the Business International Report, it consolidates the past data, a difficult task, and provides some good background.

—Harvey R. Plonsker

CHART I

(Figures show annual output in '000 tons)



CHINA ECONOMIC NOTES

From Chinese Media Reports

ELECTRONICS

Laser Measuring Equipment—The Peking No. 8 Machine Tool works in cooperation with research workers from the Peking Machine Tool Research Institute and the Chinese Institute of Meteorology have developed China's first laser lead screw automatic measuring machine. Utilizing the laser interference technique the equipment automatically measures the pitch errors of various high precision lead screws up to 2 metres.

Radio Telescope —China has developed a new radio telescope which will be used for high resolution observation of the sun at the long decimetre wave length. The device was described by New China News Agency as a 459 MHz compound radio interferometer.

Computers—The Shanghai Municipal Computer Technology Institute, established in 1969, has lent its efforts to a variety of scientific research and practical work. Workers at the institute have recently been involved in programming activities to predict tides and water levels in shallow channels of Shanghai harbor. Additionally, the Shanghai Hutung Shipyard has computerized certain aspects of shipbuilding and the Shanghai Miniature Electrical Machinery Works is using computers in problem solving work.

Electromagnetic Accelerator—A 25 MeV electromagnetic induction accelerator for industrial fault detection has been put into operation at the Harbin electrical machinery Works in Heilungkiang Province. This new piece of equipment, designed and manufactured in China, provides a high energy source of radiation and can be used in fault detection for steel castings and welded joints of 100-500 mm. thickness.

Third Generation Computers—China has developed an integrated circuit electronic computer capable of a million calculations per second. Applications include processing seismic data in petroleum prospecting, calculating equations in predicting weather, and designing complicated engineering projects. This computer follows manufacture of vacuum tube and transistor models and is the first in the third generation of China's computer production.

Television Production—More than 1,000 enterprises are working together as China bids to speed the development of its nascent color television industry. Already camera control consoles, transmitters, receivers and television relay equipment are being manufactured in China. One of the side effects of the development of a color television capability is emphasis on black and white production. Hong Kong's *Economic Reporter* points out that black and white sets are now being manufactured by neighborhood factories, where previously only a few large enterprises could produce them.

Test Stand for Oil Pump—Members of the Institute of Physics in the Sinkiang Uighur Autonomous Region, in conjunction with the peasants of Hailon commune produced for trial a fully electronic controlled test stand for high-pressure oil pumps. The test stand, says New China News Agency, is simple, economical and cuts oil consumption on tractors.

Planer Speed Regulator—A planer speed regulator with silicon-controlled rectifiers was developed by the Sinkiang Engineering College in cooperation with the Bureau of Machine-Building Industry. The regulator works for a variety of processes and, reportedly, reduces the amount of electricity used.

POWER GENERATION

Extra-High Voltage Line and Power Station—China has announced completion of its first 330 kV extra-high voltage power transmission line. The route of the line stretches some 534 kilometers from the PRC's largest hydroelectric station at Liuchiahsia on the upper reaches of the Yellow River to Tienshui in Kansu Province and the Kuanchung Plain in neighboring Shensi. The line has a transmission capacity of 420 MW and operates through two major substations along its route. The Liuchiahsia station, only recently completed itself, is equipped with five water turbine generating sets, including one of China's first 300,000 kilowatt models with inner water-cooled stator and rotor. Total generating capacity is 1.225 million kilowatts, generating 5,700 million kilowatt hours of electricity a year.

Water Turbine Generating Set—The Harbin Electrical Machinery Plant, located in Northeast China's Heilungkiang Province has designed and manufactured a 300,000 kilowatt water turbine generating set which is now the largest in operation in the PRC. The Harbin generator set utilizes new techniques and structures and as a result is smaller than other sets with less capacity, thereby saving materials and reducing overall cost.

OIL AND GAS

Offshore Driling—China's first domestically manufactured offshore oil rig recently drilled a sucessful well in the southern part of the Yellow Sea. The rig was constructed at the Shanghai Hutung Shipyard by piecing together and remodeling sections of cargo ships. Underwater drilling equipment was made by the Shanghai Drilling Equipment Plant in conjunction with more than 30 other enterprises.

ADDRESSES OF CHINA'S SHIPPING AGENCY HEADQUARTERS

China Ocean Shipping Company
6, Tung Chang An Street
Peking, China

Cable: "COSCO"
Telex: CPC PK 329
Telephone: 553710

China Ocean Shipping Agency
6, Tung Chang An Street
Peking, China

Cable: "PENAVICO"
Telex: CPC PK 329
Telephone: 553424

China Marine Bunker Supply Company
Fu Sin Men Wai
Yang Fang Dian
Peking, China

Cable: "CHIMBUSCO"

China Ocean Shipping Tally Company
Fu Sin Men Wai
Yang Fang Dian
Peking, China

China National Foreign Trade Transportation Company
Erh Li Kou
Hsi Chiao
Peking, China

Cable: ZHONGWAIYUN PEKING

China National Chartering Corporation
Erh Li Kou
Hsi Chiao
Peking, China

Cable: ZHONGZU PEKING

New Oil Port—The port of Chinghuangtao, in Hopei, formerly a coal outlet on the Pohai Bay, has been transformed with the completion of the 1,152 km oil pipeline running from the Taching field in Heilungkiang. The latest addition to the port's facilities is an oil loading terminal. The terminal is 1,500 meters in length and includes a pier, a connecting bridge and two berths for 20,000 ton oil tankers.

Methane—According to Hunan Radio, many communes in that provice have become involved in the production of methane. A recent broadcast stated that 75 counties and municipalities have established methane trial points and the entire province has almost 10,000 methane pools already built or under construction.

Tankers—The Taching No. 61, a 24,000 ton oil tanker was recently built and put into service by the Hungchi Shipyard in Talien. Construction took only eight months, according to *Peking Review* two months less than the previous average time for 15,000 ton tankers. The Talien shipyard began vessel production in 1958, at the time of the Great Leap Forward.

Air Compressors—The Pangpu Air Compressor plant in Anhui Province has produced its first batch of 24 large air compressors for use on oil fields. The compressors have already been utilized in the Takang and Shengli fields and according to a New China News Agency report functioned well at a height more than 5,000 metres above sea levels and at temperatures well below zero.

Oil Drilling Equipment—The Paochi Petroleum Machinery Plant in Shensi, northwest China has trial produced three light weight instruments for use in oil drilling rigs—links, elevators and pipe tongs. Manufacture of these three items required special steel of high intensity, plasticity and toughness.

AGRICULTURE

Wheat-Rye Hybrid—NCNA reports the acclimatization of a wheat and rye hybrid, high in protein and rich in yield on different types of land 1,800-2,600 metres above sea level on the Yunnan-Kweichow plateau in the southwestern part of the country. This hybrid, technically known as a tritacle, is expected to increase grain output in mountains and arid alkali land.

Self-Sufficiency—Hopei Province, a traditional grain deficit area in the northern part of China, has, according to New China News Agency, achieved self-sufficiency in grain. The agency says that over the last 10 years Hopei's grain output has increased at a rate of 4.7% annually, and that yields now exceed 3 tons per hectare.

Irrigation—Areas along the banks of the Yellow River have become the beneficiary of significantly improved irrigation facilities with the completion of the first stage of the Yellow River pumping project. In some places water is pumped from the river to arid land more than 200 metres above river level. This is accomplished by means of a two stage pumping effort utilizing electric motors totalling 19,000 kw in capacity. Pumping installations near the river are movable so as to cope with fluctuations in water level. They pump water to a sedimentation pond where the silt settles and clean water is moved to a pumping plant installed with 24 sets of 680 kw. electric motors plus pumps. From there the water is lifted 193 metres through six 880 mm. calibre pipes.

Surveying—One important development in China's agriculture during the past year was the use of hydro-geological surveying. Hydro-geological survey was intensively carried out in the 17 arid provinces and municipalities of North China. The surveying efforts resulted in discovery of new ground water sources in bedrock mountain areas and on loess highlands.

Herbicide Applications—Rice growing provinces in China's south and southwest have been employing herbicides in increasing volume with beneficial results, according to *Peking Review*. The *Review* states that in treated areas yield has increased substantially, and valuable manpower has been saved. In some parts of Yunnan Province for example per hectare yield has increased 350-780 kilograms and millions of work days have been saved with the application of weed killers.

Canal—The Tachiang Canal, a major irrigation project in the Hsiangyang region of Hupei Province, was recently completed and put into operation. The canal is part of the huge Tankiangkou water control project on the upper reaches of the Hankiang River. With the canal's completion, almost 150,000 hectares of farmland will be freed from the threat of drought.

TRANSPORT

Shipbuilding—Chiukiang Boatyard in Kiangsu has recently completed construction of its first 500 passenger-cargo boat made from reinforced concrete. The boat, which is designed to navigate the Yangtze River, can carry 60 tons of cargo in addition to its passenger load.

Locomotives—The Talien Rolling Stock Plant in northeast China has put into batch production a 4,000 h.p. single diesel locomotive. The locomotive can operate smoothly at 120 k/hour pulling passenger cars, and its oil consumption is 10 percent less than that of the 2,000 h.p. locomotive previously manufactured by the plant.

Truck Tractor Platform Trailer—Peking Motor Repair Works has built a 400-ton truck tractor platform trailer. The 35 metre long truck trailer with a capacity equivalent to eight railway cars can be assembled and disassembled to meet particular requirements of the tonnage being lifted.

Passenger-Cargo Ship—The "Tung Fang Hung No. 11" China's largest inland river passenger-cargo ship has completed its maiden voyage. It is scheduled to sail between Shanghai and Wuhan and has a capacity of 1,180 passengers and 450 tons of goods. The ship is 113 meters long, 19.6 meters wide and has a displacement of 3,700 tons.

Ocean Freighter—*China Reconstructs* reports the maiden voyage of China's recently constructed Feng Qing. The ship recently returned from a 150 day trip to the Mediterranean. A 10,000-ton class vessel, the Feng Qing is capable of weathering force 8 gales.

CONSTRUCTION

Crane—After many months of intensive activity, the Shanghai Mechanized Building Company has produced a 50 ton travelling derrick crane for use in medium and large sized construction projects. Development of the crane stemmed from the unwieldiness and low capacity of other cranes manufactured by the company. The new machine has three jibs that handle different categories of weights and heights.

Floating Crane—Workers in the north China port city of Tientsin have manufactured a 500 ton floating crane, the first of its kind in China. The crane will be used in harbor construction and in the development of seabed resources.

Gantry Cranes—Workers of Shan Lai Kuan bridge girder plant in Hopei Province have built 38.6 metre high gantry cranes for dock use. Government authorities are presently testing the cranes and New China News Agency reports that results thus far have been satisfactory.

MISCELLANEOUS

Broadcasting—New China News Agency points out that China's rural broadcasting network has made substantial progress in linking even the most out of the way areas to the central broadcast system. NCNA says that basically all counties and municipalities have broadcast stations and that the vast majority of communes have set up amplification stations.

Consumer Products—Watches—The Shanghai watch factory is now producing more than 3 million watches annually, according to Shanghai Radio. The broadcast said eight different types of watches were manufactured, including a diver's watch and an automatic calendar watch. The watch industry in Shanghai now comprises four main factories, three parts factories, two materials factories and a machine repair factory.

Environmental Protection—A recent report from the official New China News Agency underscores the importance of anti-pollution activities in the PRC. According to NCNA, Shenyang, an industrial center in the Northeast, began in 1972 to eliminate industrial air pollution. By mid-1974 more than two thirds of the city's furnace kilns had been renovated and nearly three quarters of the smokestacks had been cleansed so they no longer emitted black smoke. The agency went on to point out that similar environmental protection efforts were underway in other cities including Peking, Shanghai, Kaifeng, Wuhsi, Changchun and Loyang.

Textile Machinery—Among the more than 2,500 technical innovations introduced by the Shanghai textile industry during the past year was the development of a reciprocal pneumatic presser rod for the spinning frame. This device is reportedly capable of raising present spinning rod output by as much as 10 percent.

Water Pollution—A general survey of water pollution in the Nanchang section of the Kan and Lo An rivers was conducted by staff members of Kiangsi Provincial hydrographic station. The survey reports progress in both preventing and disposing of industrial waste gas, liquid and residue.

IMPORTERS NOTE . . .

As in the past, commercial officials at the Chinese Liaison Office requested of the Council a list of American firms to whom invitations might be issued for attendance at the semiannual Chinese Export Commodities Fair in Kwangchow this spring. The original criteria employed in making these recommendations were that firms be able and willing to buy goods presently being exported by the People's Republic of China and that, if invited, these firms would go to Kwangchow with a serious intention to buy. In response to this request, the National Council has recommended some 30 firms for consideration relative to the 1975 Spring Fair.

INTERNATIONAL CHINA NOTES

China Buying Reports

Oil Technology. A top Japanese oil executive recently returned from Peking thinks China may be ready to accept foreign technology to develop her petroleum resources. Keisuke Idemitsu, Chairman of Idemitsu Kosan, says the PRC is now adopting a more flexible attitude on this question than was previously the case. Idemitsu pointed out that Chinese leaders no longer view the introduction of foreign technology to be used in conjunction with exploitation of national resources as violating the principle of self-reliance.

Fertiliser. Those off again on again Sino-Japanese fertiliser discussions have apparently been successfully concluded. The talks, which were recessed last December after Peking requested a one year deferment in paying for fertiliser imports, have ended with the PRC agreeing to a dollar settlement on the $200 million deal. The Japanese had reportedly pressed for resolution of the problem on that basis. At stake were 1.3 million tons of ammonium sulfate and 210,000 tons of ammoniom chloride.

Fabrics. Petrochemical products are not the only Japanese exports bound for the PRC which will be paid for in dollars. Two of Japan's leading textile manufacturers recently announced contracts with the China National Textiles Imports and Export Corporation calling for dollar settlement. Toray Industries will ship 2.6 million square yards of Tetroron rayon blended fabrics and 2 million square metres of Tetroron filament fiber fabrics to China before June. The price tag was put at 1.5 billion yen, or about $5.25 million. At the same time Teijin Limited said the Textiles Corporation had contracted to purchase some $3 million worth of its polyester-rayon blended fabric (60 inch wide). The 2.45 million metres involved is twice as much as the firm sold the Chinese in 1974.

Ethylene Plant. China's appetite for turnkey petrochemical plant, held in abeyance for the last several months, has reasserted itself with the announcement of a major deal between Techimport and the Mitsubishi Group. Under terms of a recently finalized agreement, Mitsubishi Petrochemical, together with Mitsubishi Heavy Industries, Mitsubishi Corp. and Western Japan Trading Co., will furnish the PRC with ethylene plant capable of producing 120,000 tons annually, a hydrogenation installation for cracking oil as well as related technology. The deal comes with a 9 billion yen ($31.5 million) price tag, payable over the next five years at six percent annual interest, on an RMB basis.

Smut Money. In an apparent reaction to wholesale cancellations of China bound wheat, several land grant universities in the Pacific Northwest have embarked upon a research effort aimed at eliminating TCK, the wheat smut disease many feel was an important factor in the cancellations. Some $85,000 has been earmarked to schools in Utah, Oregon, Montana and Washington this year, and over the next five years the amount may grow to $300,000. Funding for the first year was provided by state governments and the Pacific Northwest Exporters Association.

American Laundry. From the "It Can't Happen Here" Department comes word that the Westinghouse Electric Corporation has sold China equipment for two laundromat centers, which will be established in Peking. Westinghouse will export 21 nine pound washers, 4 twenty-one pound washers, 4 dryers, 2 water heaters and 2 dry cleaners, for a total of about $300,000.

Wheat. China, on the second leg of its three year supply agreement with Australia, will receive one million tons of wheat from Canberra in the current year. The price tag: $157 million.

Trucks. Two major Japanese truck manufacturers are bearish on China. Isuzu and Nissan feel that this year's level of truck exports to the PRC will probably not top last year's sales of about 5,000 units. However, both of the vehicle makers are confident that Peking's orders for replacement parts will increase to Y 1.6 billion ($5.6 million) from 1974's Y 1 billion. In the several years preceding 1974 Japan's annual truck exports to China ranged from 10,000 to 20,000.

Julian Sobin, organizer of a WTI China trade conference, addresses seminar in New York. George Driscoll spoke.

DO YOU WANT A COPY?

The CCPIT's provisional rules for general average adjustment (known as the Peking Adjustment Rules) were adopted January 1 in Peking. The CCPIT has established a Department for Average Adjustment to handle the new rules.

Basically these insurance provisions concern extraordinary loss or damage and reasonable extra expenses arising from measures properly taken for relieving a ship, cargo, etc. from common danger caused by natural calamities, accidents and/or other extraordinary circumstances in marine transport. To obtain a copy, write National Council publications.

Machine Tools. Japan's Sankyo Seiki Manufacturing Co. will export its first machine tools to the PRC with the last of three deliveries scheduled for completion by the end of May. The Y 600 million ($2.1 million) deal calls for the company to sell Machimpex four lines of transfer machines, five rotary machining tools, and four station type machines for camera manufacture.

Steel Mission. A Chinese delegation headed by Chang Tsu-chien, Vice President of the China National Metals and Minerals Import and Export Corp., recently arrived in Tokyo for talks aimed at setting the quantity and price of this year's Japanese steel exports to the PRC. The Chinese are reportedly seeking to purchase 1.5 million tons for the first half of this year, about the same as the comparable period in 1974.

Antipollution Device. A major Osaka trading firm, Sumitomo Shoji Kaisha, has announced that it is attempting to sell China a sophisticated Y 700 million ($2.45 million) system for controlling water pollution caused by oil spills. The system, developed by Sumitomo and other Japanese manufacturers, consists of equipment to prevent the spread of oil slicks, remove remaining oil from leaking tankers and collecting spilled oil.

Scales. West Germany's Mahlkuch Machine Factory has contracted to sell China 5 million marks ($2.18 million) worth of industrial scales. The equipment will be installed in 8 fertilizer factories and utilized in the automatic weighing and packing of the final product.

Cranes. China's Ambassador to the UK, Sung Chih-guang, recently visited Britain's Ransomes and Rapier's Waterside Works in Ipswich to mark the final shipment of 87 mobile cranes to the PRC by the British firm. Contracts worth more than £ 1 million ($2.4 million) were signed for the cranes in Peking, July 1973 and delivery began in December of that year. It is understood that the cranes will be deployed in various ports throughout China. Ransome and Rapier's, affiliated with Central and Sherwood Trust, Ltd., has been supplying the PRC with cranes since 1959 and has been dealing with China for almost 100 years. In 1876 the company sold China a railway locomotive complete with rolling stock.

Motor. A large, brushless synchronous motor has been ordered by Machimpex from GEC Machines of Rugby, England. The 3,730 KW motor will be used to drive a reciprocating gas compressor in one of the PRC's fertilizer installations.

Airplane Parts. Machimpex has awarded Lucas Aerospace of the UK contracts totalling £ 1.4 million ($3.36 million) for supply of spare units, components and test equipment to be used in conjunction with the Hawker Siddeley Trident airliners now operating in China. The British firm has already sold Machimpex some £ 2.75 million worth of equipment for the Tridents. Lucas systems for the Trident include generating systems and electrical equipment, flap and slat control apparatus, valves, air-starting equipment and ice-protection gear.

Irish Linen. Long a favorite in the US, Irish linen is finding its way into China. In 1974, the PRC purchased about £ 140,000 worth ($336,000), almost seven times the amount bought by Japan.

Coconut Oil. After the much heralded China visit of Imelda Marcos which was followed by the first PRC crude oil shipments to the Philippines, it was only natural that Manila would reciprocate with some oil shipments of its own to Peking. So few were surprised when the Philippines Department of Trade recently announced their approval of an oil export—albeit of the coconut variety—to China. The shipment, worth close to $3 million, will be undertaken by Legaspi Oil Company and the Philippines International Trading Corporation. Pan Pacific Commodities of Downey, California, represented Legaspi in the negotiations.

Automotive Bearings. Vandervell Products, Ltd., of the UK in conjunction with GKN International (Southeast Asia) Ltd., will supply China with VP bearings for imported vehicles from the Fiat to Volvo range. This is believed to be Vandervell's first sale to the PRC.

China Selling Reports

Cotton. For the first time in ten years, Chinese cotton is bound for Japan. Several major Japanese trading firms, including C. Itoh, Nichimen, and Tomen have signed contracts with the China National Textiles Import and Export Corporation to purchase 15,000 bales. News of this Sino-Japanese transaction comes just as the American Cotton Shippers Association revealed that almost half of the American cotton consigned for shipment to the PRC in the current marketing year—200,000 bales—was cancelled by the Textiles Corporation. Many observers believe that the remainder of the US cotton registered for export to China in 1975 will suffer a similar fate.

Silk. Talks which began last December between the Textiles Corporation and Nichimen & Co. on the sale of Chinese silk fabrics were concluded recently, with the Japanere firm agreeing to import some Y 400 million ($1.4 million) worth of silk. The deal is notable because for the first time in Sino-Japanese trade the settlement is to be made in German marks.

Oil Seeds. The dispatch of a mission to China by the Japan Oil Press Industrial Cooperative Association has led to speculation that Chinese oil seeds may once again find their way to Japan. In 1972 the Japanese purchased about 2,200 tons of vegetable seeds from the PRC but recently Canada has become a predominant supplier. Observers believe this China mission is an attempt by the Oil Press Association to diversify sources of supply in anticipation of an expected doubling of material requirements over the next five years.

Oil Price. The pricing dispute between China and Japan over PRC crude oil exports to Tokyo has apparently been resolved. Japanese demands that Peking lower its per barrel price from the equivalent of $12.94 in Chinese RMB resulted in the deferral of some 710,000 barrels registered for shipment in the final quarter of 1974, but under terms of the new Sino-Japanese agreement the deferred oil will be shipped in the first quarter of 1975 at $12.80 per barrel. In addition, it was agreed that petroleum slated for export in the first half of this year, would sell for $12.10 a barrel (on a dollar quoted basis) which undercuts Pertamina's price by 50¢. This is expected to put considerable pressure on the Indonesian company to lower their price. At the same time, realization of an oil agreement between Japan and Abu Dhabi may result in a new round of price cutting, involving both China and Indonesia.

Less oil to Japan. In early March Importer's Conference of Chinese Petroleum in Japan announced it would ask China to reduce its purchases of Chinese oil for 1975 to 60 percent of the 2.6 million tons originally requested.

Coal. Japan, which already has a long term agreement to import Chinese oil is apparently seeking a similar pact for coal. A Chinese mission from the Minerals and Metals Corp. recently arrived in Tokyo to begin discussions with Japan's Power Resources Development Corp. on the possible export of PRC coal for power generation. Chugoku and Tohoku Electric Power Companies have already used 100,000 tons of China's Huaipei coal on an experimental basis and have confirmed its low sulphur (0.3% or less) content. For Peking to become a significant supplier of coal to Tokyo, observers believe that the Chinese will have to overcome some infrastructure difficulties, including railway and port bottlenecks. This belief has led to speculation that as part of any long term coal deal, the Japanese will offer China technical and financial aid.

Highway. China has reportedly agreed to furnish Nepal technical and financial assistance in the construction of a 407 kilometer highway from the Pokhara Valley to Surkyet, adding to the already considerable Chinese-built road network in Nepal. The project, due to begin in July, will take four to five years to complete and cost $80-$90 million.

Friendship Diesel Oil. Thailand will buy 75,000 tons of diesel oil from the PRC for delivery in 1975, according to reports from Bangkok. While the actual price was not revealed, it was known to be well below current world levels.

Leather Goods. Recently released UK Customs and Excise statistics indicate that China is moving into a segment of the British market traditionally reserved for other European nations: leather goods. According to the figures, the PRC's exports to the UK of leather products in 1973 totalled £ 271,000 (about $650,000). Italy was Britain's leading supplier in that year with a 28 percent share of the market, representing more than £ 1 million in sales.

Anti-Dumping Among the eleven anti-dumping duties imposed by the British government in 1974 was a provision to limit the import of mechanical alarm clocks from the PRC. The government was concerned that large scale import of the Chinese clocks, priced at the equivalent of about $1.50 a piece, (60 p.), would have potentially disastrous effects on domestic manufacturers.

Shrimp to the US?—While the US representatives of a US shrimp importer resolved one major problem of Chinese shrimps rejected by the FDA (see UCBR Vol 2 No 1 p 45), another problem, also due to decomposition, has arisen since. For this importer the questions of further insurance, and of any further imports of shrimp, now appear to be answerable only in the negative. What will happen should another shipment of shrimp arrive from the PRC and are not up to US inspection standards?

LIBRARY ADDITIONS

Several additions to the National Council's China trade library will interest businessmen involved in trade with China. From the Bureau of East-West Trade in the Department of Commerce come market assessments for electric power and metal working equipment in the PRC, as well as a guide to financial practices in US-China trade (one of the continuing Overseas Business Reports series). Also newly available are a review of the fertilizer market in the PRC, published by the British Sulphur Institute, and an annotated bibliography on Science and Technology in the development of modern China, prepared by Genevieve C. Dean of the University of Sussex in the UK.

Air and Sea

Fishery Talks. A nine member Chinese government delegation arrived in Tokyo recently to negotiate a government to government fisheries agreement which would replace the present private pact. The fisheries agreement is the last of the four accords—trade, aviation and shipping agreements have already been signed—which the two sides pledged to negotiate at the time diplomatic relations were established in September 1972. Preliminary talks were held last May and June with some sharp disagreements registered over China's claim to a "sea defense zone" extending 100 miles from the coast in some areas, as well as one the issue of assessing marine resources. Unless these questions can be resolved the existing private fisheries agreement will have to be extended as a stopgap measure.

Royal Air Lao in China. Royal Air Lao, flag carrier of the only nation in Indochina to have successfully instituted a workable peace plan, has begun direct service to Canton, via Hanoi. The airline will maintain daily service, utilizing the French built Caravelle.

Maritime Agreement. China and the Netherlands have initialed an agreement on maritime transport, according to the official New China News Agency. The signing came at the conclusion of a visit to Peking, Canton and Shanghai by a Dutch Maritime transport delegation, led by Director General of the Ministry of Shipping, H. J. H. Janssen.

Air Talks. Government to government talks on a civil air transport agreement between China and the Federal Republic of Germany were recently held in Peking, but NCNA reports no final accord. The German team, led by Heinrich Faull, Director of the Air Law Section of the Ministry of Transport, travelled to Shanghai and Canton before returning home.

Maritime Transportation System. Three Japanese shipping companies affiliated with the Mitsui OSK Line—Daiichi Chuo Kiisen, Fuji Kisen and Kansai Steamship—in conjunction with their Chinese counterparts, are undertaking a comprehensive study of water-borne transport between Japan and the PRC. One of the questions under study relates to the use of large size oceangoing barges, which the two sides hope to put into service within two or three years. The Mitsui OSK Group accounts for 30 percent of the fertilizer and 55 percent of the steel moved from Japan to China.

Shipping Service. Under terms of the Sino-Japanese shipping accord signed last November, regular, shipping service between the two countries will be inaugurated this spring. In anticipation of this service, the 13,500 ton Yuhua, which China purchased from the Netherlands in December, recently arrived in Yokohama on a test cruise. The cargo-passenger vessel carried 2,600 tons of grain.

Mail. There is now registered mail to China. Effective March 6, 1975 postal union articles of all classes destined for China from the United States and elsewhere may be registered.

Exhibitions and Exchanges

Exhibition. A PRC economic and trade exhibition opened recently in the Sierra Leone capital of Freetown with many dignitaries from both countries in attendance for the inaugural ceremonies. The exhibition is divided into four sections: China-Sierra Leone Friendships, agriculture, light industry and heavy industry.

Tourists. The largest single group of Western tourists to yet visit China, a group of 535 aboard Cunard Lines' Queen Elizabeth II, recently arrived in Canton by train from Hong Kong. The group includes tourists from the US, France, West Germany, Switzerland, Japan as well as the UK.

Trade Committee Formed. NCNA reports the formation of a joint Sino-Italian Committee to promote and develop trade and economic relations between the two countries. This follows the provision in the Sino-Italian trade agreement. Chai Shu-fan, Chinese Vice Minister of Foreign Trade and Floco Trabalza, Italy's Ambassador to the PRC exchanged letters on behalf of their respective governments confirming the establishment of the Committee.

Trade Protocol. China and Sri Lanka have signed their 1975 trade protocol. Under terms of the agreement the PRC will sell Colombo 250,000 tons of rice at a rate below current world market price and will buy 70,000 tons of rubber at a price slightly above the rate quoted in Singapore. Li Chiang, PRC Minister of Foreign Trade who represented his country in the talks, was persuaded to raise the amount of rice exports by 50,000 tons over planned shipments in order to help alleviate a food shortage in Sri Lanka caused by severe drought.

China Books. Peter Weidhass, Director of the Frankfurt Book Fair, the largest and most important international gathering of bookmen, has announced that for the first time the PRC will participate in the Fair. China has reserved 1,614 square feet of exhibition space for the event, which this year runs from October 9 to 14. 完

Corrections: On page 12 of UCBR Vol 2 No 1, Mr. Robinson's title should have read "Under Secretary of State for Economic Affairs"; on p. 33 the correct name of the road is Liu Li Chang; in the list of US participants at the Fall 1974 Kwangchow Fair, pp. 18 and 21, Far East Bazaar Inc and Sid Segal Company have asterisks omitted denoting membership in the National Council; C. Tennant Sons, as a subsidiary of Cargill, should also have been asterisked.

CHINA'S CRUDE OIL AND PETROLEUM PRODUCTS FOR EXPORT

Reprinted from China's Foreign Trade No. 1, 1975

CRUDE OIL

China's crude oil comes in many varieties. Taching export crude is of excellent quality, low in sulphur and high in paraffin content, capable of producing various petroleum products.

The main features of Taching crude oil are: 1. Light distilled oil is ideal for making diesel oil of high cetane value and for making kerosene of good combustibility. It also is a fine-quality cracking material. 2. Heavy distilled oil is of low sulphur and nitrogen content and low in metallic impurities. It produces lubricating oil with high viscosity index, and is also catalytic cracking material for the production of high octane gasoline. 3. Sulphur content: 0.1% approx.; Paraffin content: 18% max; Asphalt content: <1%.

This crude oil is excellent material for making paraffin of high melting point (over 60° C) and petroleum coke of low sulphur and ash content. The export of crude oil is handled by the China National Chemicals Import & Export Corp.

LUBRICATING OILS

Lubricating oils exported by China come in the following varieties:

High-Speed Machine Oil Nos. 5 and 7: used for lubricating spindles; Machine Oil Nos. 10, 20, 30, 40, 50, 70 and 90: used for lubricating various high speed or low speed machine lathes; Gasoline-Powered Machine Oil Nos. 6, 10 and 15: used for lubricating vaporizer-type motors used in automobiles and tractors as well as for lubricating other gasoline-powered machinery; Diesel Machine Oil Nos. 8, 11 and 14: used for lubricating high-speed diesel engines and marine diesel engines, etc.

These clear and fine quality lubricating oils are made from refined base oil incorporated with a suitable amount of additives. Samples and leaflets are available upon request. Exporters: China National Chemicals Import & Export Corp.

PARAFFIN WAX

The varieties of paraffin wax exported by the China National Chemicals Import & Export Corp. have been increasing over recent years. Specifications available are as follows:

White Paraffin Wax (Fully-Refined):
- Oil content: 0.5% max.
- Melting point: 52°/54°C, 54°/56°C, 56°/58°C, 58°/60°C, 60°/62°C and 62°/64°C respectively;

White Paraffin Wax (Semi-Refined):
- Oil content: 1-2% max.
- Melting point: 54°/56°C, 56°/58°C and 58°/60°C respectively;

Yellow Paraffin Wax:
- Oil content: 2% max.
- Melting point: 54°/56°C and 56°/58°C respectively.

Paraffin waxes are widely used in the manufacture of candles, matches, waxed papers, waxed kraft papers, shoe-polish and carbon paper as well as in the rubber, textile and cosmetic industries. Paraffin waxes (plate form) are packed in 50 kilo polyethylene woven bags lined with plastic bags.

WHITE OIL

White oil is one of the by-products of the petroleum industry. In recent years, it has been widely used in the cosmetics, foodstuffs, tanning, plastic, paint and other industries. It also has important uses in the pharmaceutical industry.

White oil comes in two varieties, i.e., industrial white oil and pharmaceutical white oil. Industrial white oil, known as white mineral oil or paraffin oil, is a colourless, tasteless and transparent oily liquid. Pharmaceutical white oil, also called liquid paraffin is, too, a colourless and transparent oily liquid. Made from choice raw materials and processed by the latest methods, the quality of China's white oil is excellent and stable.

Industrial white oil is classified into Grade A and Grade B in the following specifications:

	Grade A	Grade B
Viscosity (Engler) 50°C:	1.78 min.	1.45 min.
Acid value (mg KOH/g):	0.05 max.	0.05 max.
Flash point (open cup) 0°C:	165 min.	145 min.
Congealing point:	below −1°C	below 0°C
Cloud point:	below 0°C	
Water soluble acid and alkali:	none	none

China also exports industrial white oil with a low congealing point of below −20°C for special purposes. Industrial white oil is also a lubricating agent for precision apparatus. Pharmaceutical white oil can be used as a laxative, a softening agent for ointments and an antiseptic for surgical instruments. White oil is exported by the Shanghai Branch of the China National Chemicals Import & Export Corp. Leaflets and samples will be sent upon request.

U.S. CHINA BUSINESS REVIEW

is Published by

The National Council for United States-China Trade

1100 Seventeenth Street, N.W., Suite 513

Washington, D.C. 20036

202/659-9693

FULL MEMBERSHIP

Membership in the National Council for United States-China Trade is open to American firms interested in doing business with the People's Republic of China. The principal categories of membership are (1) corporations or business entities with sales or gross income equal to or greater than $50 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are $2,500; (2) those with sales or gross income of between $20 million and $50 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are $1,000; and (3) those with sales or gross income of less than $20 million for the fiscal year immediately preceding the date of application for membership, for whom the annual dues are $500.

IMPORTERS AFFILIATE MEMBERSHIP

In a special effort to assist smaller American firms interested in importing goods from China, the National Council has a special category of affiliated membership. Companies engaged primarily in importing, and having sales or gross income of less than $10 million in the year immediately preceding the date of application for membership, may join the National Council upon payment of annual dues of $250.

Importers in the National Council constitute a special committee whose activities are designed not only to acquaint importers and potential importers with Chinese manufacturing, sales and trading practices, but also to aid the Chinese Foreign Trade Corporations in understanding the import regulations, consumer tastes and other market conditions in the United States.