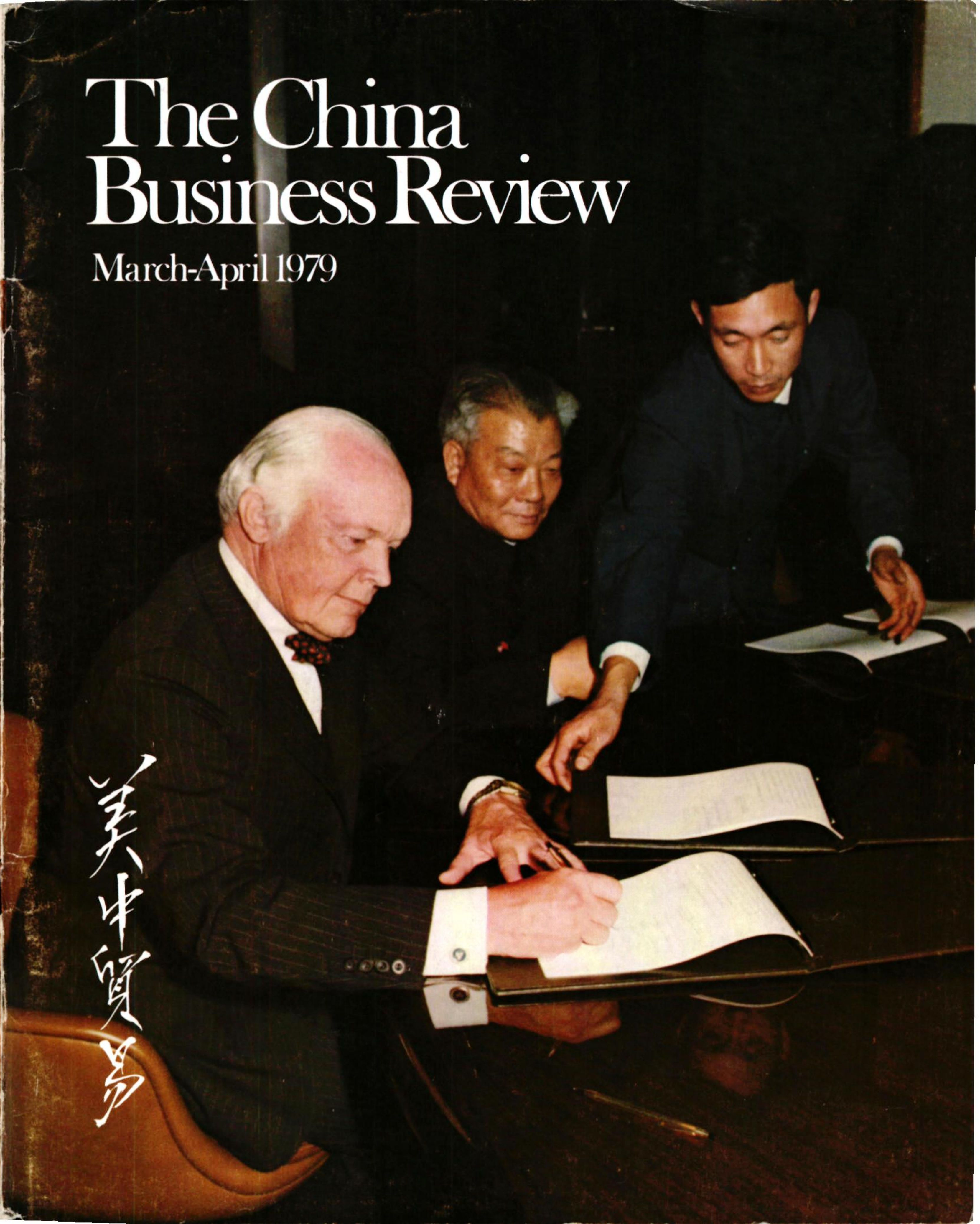
The China Business Review

March-April 1979



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The China Business Review

March-April 1979—Volume 6, Number 2

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The National Council for United States-China Trade is grateful to His Excellency Huang Zhen, Minister of Culture, The People's Republic of China in Washington, for the calligraphy on the front cover of the China Business Review.

China Trade Events

NEWARK, NEW JERSEY, April 5
"How to do business with China," sponsored by the US Department of Commerce. Contact Stephan Wasylko, (201) 645-6214.

TROY, MICHIGAN, April 6
The Michigan Office of Economic Development and the Michigan China Council will cosponsor a conference on trading with the PRC. Contact Lillian Kumata, (517) 353-1680.

ATLANTA, GEORGIA, April 6
The past, present, and future of US-China trade, a seminar sponsored by the Southern Center for International Studies. Contact Bob Holmes.

FORT COLLINS, COLORADO, April 7
"Chinese agriculture" conference cosponsored by the Colorado China Council and Colorado State University. Contact Alice Renouf, (303) 492-7741.

HONG KONG, April 10–11
Business International seminar on China trade. Write Business International Institute/Asia, 301 Asian House, 1, Hennessy Road, Hong Kong, Att: Mrs. Lois Dougan Tretiak.

DALLAS, TEXAS, April 10–11
National Council President Christopher H. Phillips will address a conference sponsored by the Center for International Business. Contact Mark Winchester, (214) 742-7301.

PHILADELPHIA, PENNSYLVANIA, April 12
Christopher H. Phillips will speak at a seminar sponsored by the DOC Regional Export Council.

NEW YORK, NEW YORK, April 17–18
A forum on international trade and credit by the Chase World Information Corporation. Contact (212) 552-3238.

PANAMA CITY, FLORIDA, April 30
John Dewenter of the National Council will speak at the semiannual meeting of the Gulf Ports Association on trends in US-China trade.

HERSHEY, PENNSYLVANIA, April 29–May 1
Session on the PRC will highlight the 1979 Pennsylvania International Trade Conference.

NEW YORK, NEW YORK, May 2
Various speakers will address a China conference sponsored by MABCO.

WASHINGTON, DC, May 4
John Dewenter of the National Council will speak at a seminar cosponsored by the Food Processing and Package Machinery Supply Association and the Packaging Machinery Manufacturers Institute.

BEVERLY HILLS, CALIFORNIA, May 7–8
The Bureau of Business Services and Research of California State University will sponsor a conference on trade and finance issue for the 1980s. Paul Speltz of WJS will speak.

MIAMI, FLORIDA, May 16–18
"Trade with China" is the topic of the annual meeting of the American Apparel Manufacturers Association.

WASHINGTON, DC, May 17
The National Council will hold its Sixth Annual Meeting at the Mayflower Hotel. Details on speakers and the agenda will be mailed to members.

EAST LANSING, MICHIGAN, May 22
National Council Vice President Stanley Young will speak at a seminar sponsored by Michigan State University. Contact Richard Boales, (517) 355-3449.

LOS ANGELES, CALIFORNIA, May 30–31
Harcourt, Brace, Jovanovich will sponsor a seminar on doing business with the PRC. Contact (213) 624-1000.

NEW YORK, NEW YORK, June 21–22
Stanley Young of the National Council will speak at a seminar sponsored by Chase World Information Corporation. Contact Alice Hammerly, (212) 552-3238.

CHICAGO, ILLINOIS, June 28–29
Conference on China trade sponsored by MABCO.

HONG KONG, October 10–11
Business International will hold a second conference on China trade.

CONFERENCE FOR CORPORATION EXECUTIVES

May 22–23, at the Johns Hopkins School of Advanced International Studies in Washington, DC

Cosponsors: Johns Hopkins School of Advanced International Studies
International Management and Development Institute
National Council for US-China Trade
The Asia Society
The Southern Center for International Studies

Topic: Key issues and opportunities in this year's Asian business outlook, with a focus on how companies can assess and take advantage of the opening of the China market.

Contact: Danelle K. Simonelli, (202) 785-6800.

CHINA WIRE

CHINA'S NEW PRIORITIES—SCALED-DOWN TARGETS, SUITABLE TECHNOLOGY, INFRASTRUCTURE FIRST, CONSERVATION AND EXPANSION OF EXISTING RESOURCES—BACK TO BASICS

Beijing, reassessing its economy since November-December last year, is no longer trying to do it all at once. China's new, as yet unpublicized plan features, as of late April:

—Agriculture, light industry emphasized over heavy industry. Chinese farm productivity to be doubled by 1985; farmworkers now producing enough to feed three or four people are to feed six to eight people seven years hence.

—Iron and steel, chemicals, plans and plant purchases de-escalated. Jidong budget given over to more pressing needs.

—Infrastructure development now seen as key to economic growth beyond 1985. Energy—coal, oil, hydro, and nuclear—construction and communications are new priorities, to receive immediate attention.

—Stabilization rather than out-and-out growth is next economic slogan. Consolidation and rationalization of present economic system, expansion of existing assets, stress on industrial support facilities—business management, raw materials supply, and technical training, cancelation or revamping of uneconomic projects, are new orders of the day.

—Conservation of natural resources, in particular fisheries and forestry, plus new antipollution measures, being stressed.

—New emphasis on social sciences: economic management training for future generations of now undereducated bureaucracy and party members will be pushed to provide unerpinning for post-1985 expansion. Chinese Academy of Social Sciences to have key role in long-term development of efficiency, technocrats . . . MIT's Sloan School, among others, to take Chinese students.

—Pragmatic assessment of foreign technology needs: stress will now be on the most suitable technology for China's needs, rather than on the most moderntechnology available. New invention law, official statements suggest both innovation and reproduction of foreign technology at China's design institutes will be encouraged. Foreign companies (asked to inject massive new technology too rapidly into China's system through joint ventures, countertrade) are somewhat relieved at new Chinese pragmatism, interest in practical technology, and longer-term cooperation.

—Foreign trade of PRC may expand 20 percent yearly "if plan succeeds." Export development efforts, including Ministry of Foreign Trade and FTC study missions worldwide, will increase.

MEANWHILE, IN SINO-US TRADE ARCO IS HISTORIC DOUBLE FIRST

Atlantic Richfield, on March 17, 1979, became the first US oil company to sign a direct contract with the Chinese for seismic survey work in offshore waters. It may lead to bigger things. The precedent-setting inking—featured on the front cover of this issue—was also the first major US contract signed directly with a Chinese end-user, the Petroleum Corporation of the PRC, as opposed to a trade corporation. The contract was signed during a National Council-sponsored visit. But Britain's BP earlier signed a similar agreement with the same Chinese delegation, involving other US majors (see page 66).

WHO'S ALLOCATING WHAT FOREIGNS EXCHANGE? CLAMPDOWN AHEAD?

With new kinds of business (joint ventures, cooperation arrangements, cost-plus contracting, etc.) and new business relationships, (FTCs increasingly billed as agents of China's ministries) the question is Who Now Authorizes the PRC Foreign Exchange Allocations? The Bank of China apparently has not been closely enough consulted in some of China's purchase commitments, creating embarrassment. Chinese corporations other than the BOC have recently been cited as quarantors for foreign contracts: when it comes to a guarantor, how much can an entity other than the BOC guarantee a contractual arrangement? China's new General Administrtion for Exchange Control may be one way to keep the lid on. But why, at this juncture, has China assumed over $1 billion worth of Eurodollar commitments at rates higher than that already offered by government-insured export credit banks? (Page 64)

MFN AND INDUSTRIAL MANAGEMENT: WHAT WILL SECRETARY KREPS BRING HOME? MFN BY END-1979 FOR CHINA AND US?

Armed with a bundle of draft agreements, maritime, aviation, and trade, Secretary of Commerce Juanita Kreps' party to Beijing in May will include six management consultants, and the National Council's President, Christopher H. Phillips. Will the Secretary return with a trade agreement initialed? At time of writing, claims/assets agreement is unsigned, nor has the textile agreement been initialed. Traders, however, are as bullish as some US officials, predicting China will have MFN by the end of 1979. For exporters this will mean they too will benefit from Column 1 at the Chinese end: China's own MFN that applies to countries with whom the PRC has trade agreements and protocols (see page 6).

LATEST FROM CHINA

Chinese made nuclear products, and light aircraft on display at Spring Canton Fair. Canton Fair now run by Canton Municipality; struggles with unprecedented attendance. Meanwhile, in Peking, taxi drivers go on strike, inconveniencing many tourists and businessmen.

China slows the clock in its race for economic modernization: Shanghai billboard

China Readjusts

"There is no change in the basic plan, but some individual adjustments will be made"
—Li Xiannian,
Vice Premier and Minister of Finance, 3-10-79

This reference to China's scaled-down economic goals was made by Vice Premier Li Xiannian in a March 10 interview with an American delegation from the United Nations Association-USA, led by former National Council Board Chairman, William Hewitt. Also present was National Council President Christopher H. Phillips.

The main thrust of Li's remarks was that too much haste had led to unbalanced economic development in recent years and this forced the government to moderate the pace of its ambitious 8-year development plan (1978–85). "Work in the last two years has not been done well. We must improve our efforts." But he also observed, "We cannot move too slowly or there would be disenchantment among our people."

According to the vice premier, energy was a weak sector of the economy which needed immediate attention. In this connection, he stressed the importance of coal, oil, and hydroelectric development. He also mentioned construction and communication facilities as areas which needed greater attention. Agricultural development, he said, would continue to have the highest priority. Steel was not mentioned among these new priority sectors. (On March 9, *Beijing Review* revealed that invesment in iron and steel would be reduced to free resources for the above-mentioned sectors as well as for light industry, housing, and school construction.)

In keeping with the government's effort to deflate the expectations of foreigners and Chinese alike, Li denied that China's investment budget through 1985 was as high as $600 billion. "That must be the guesswork of well-meaning foreign friends. That is much too high," he said. The $600 billion figure originally appeared in the *Japan Economic Journal* last October.

When asked if China would borrow $25 billion from Western banks between now and 1985, Li replied, "If we find we are able to repay this amount, we will borrow this amount, but it is better to be cautious." He said the government had not assessed its financial needs through 1985, in any event. Such a sum was only "an aspiration."

Whether bond issuing would be used to raise money in foreign capital markets, Li said he "had not thought of that yet." But he added that China might join the World Bank, and direct government to government loans would be accepted.

A future growth rate of 20 percent per year in China's foreign trade was possible: "If the plan succeeds, we may be able to achieve that much." The vice premier also acknowledged that "the Japanese got very nervous" when China unilaterally postponed nearly $3 billion worth of Japanese contracts signed after mid-December, including the $2 billion Baoshan deal with Nippon Steel for the construction of an integrated steel mill near Shanghai. No cancellations of deals is under consideration—"We wanted to negotiate delayed payments or loans," he explained. Li admitted that "We did not pay enough attention to their advice," referring to Japanese businessmen who urged China to use loans instead of cash payment for some of these deals.

Turning to US-China relations, Li suggested that product buyback schemes are the most promising area for cooperation, especially in oil and nonferrous metal development. "US investors are not likely to be interested in joint ventures," he said. The discouraging tone of this comment may reflect Li Xiannian's realization, and that of his government as well perhaps, that American firms may decline to enter joint ventures unless profit remittances are assured. But he indicated that the extent of a company's investment in joint ventures is a matter to be negotiated individually. (The above is based on the personal notes of Christopher Phillips. For more details on China's mid-plan reassessment see p. 55). 完

Steel and heavy industry will be taking a back seat to agriculture in China's scaled-down plan

The Way Ahead:

MFN Status for China This Year?

The US and China have already exchanged drafts of a trade agreement, which will be discussed during the May visit to Beijing of Secretary of Commerce Juanita Kreps. Clearly the Administration's goal is to sign a trade agreement with China before the end of 1979. Officials hope that the other outstanding issues, such as shipping, aviation, and textile agreements, will also be resolved by year's end.

A Sino-US trade agreement, under the terms of the US Trade Act of 1974, including most-favored-nation (MFN) tariff status for China, could come as early as October 1, 1979, says one US government official. This date would be particularly appropriate because it is China's 30th National Day and because it comes two weeks before the opening of the large fall fair in Guangzhou (Canton). But passage by this date presumes few objections by the Chinese and quick approval by Congress, neither of which is assured.

Talks with the Chinese on the trade agreement are still in a preliminary stage.

The US Trade Act requires that a bilateral agreement with a socialist nation shall—

- be limited to an initial period of three years, renewable, upon review, for additional three-year periods, provided that a satisfactory balance of concession in trade and services has been maintained, and that reductions in US tariffs and non-tariff barriers have been satisfactorily reciprocated;
- provide for suspension or termination at any time for national security reasons;
- include safeguard arrangements providing for consultations whenever imports cause or threaten market disruption and include safeguard arrangements authorizing the imposition of such import restrictions as may be appropriate to prevent such market disruption;
- provide patent and trademark protection not less than the rights specified in the Paris Convention for the Protection of Industrial Property;
- provide copyright protection not less than that afforded by the Universal Copyright Convention;
- provide arrangements for the settlement of commercial differences and disputes;
- provide arrangements for the promotion of trade, which may include establishment of trade and tourist promotion offices, facilitation of activities of governmental commercial officers, participation in trade fairs and exhibits, the sending of trade missions, and the facilitation of entry, establishment, and travel of commercial representatives;
- provide for consultations for the purpose of reviewing the operation of the agreement and relevant aspects of relations between the United States and other party; and
- provide such other arrangements of a commercial nature as will promote the purposes of the Act (such as mutual exchange of information on production and consumption of, and demand for major agricultural commodities).

Other areas of cooperation under the Commerce Department's bailiwick will be discussed, including cooperation in meteorology, oceanography, fishing science, patents and trademarks, and standards. Separate codicils on Sino-US exchanges in these areas may be signed by Secretary Kreps in Beijing as annexes to the S & T agreement. (For full details for requirements for a trade agreement with China see "China and the Trade Act of 1974," *CBR*, Vol. 2, No. 1).

POSSIBLE SCENARIO

Implementation of a trade agreement by October 1 would necessitate the following scenario:

1. Secretary of Commerce Juanita Kreps would initial a trade agreement during her visit to China May 7–17;

2. The agreement would be submitted to Congress soon after her return, presumably with a Presidential statement concerning China's emigration practices;

3. Congress would pass an approval resolution before summer recess.

Several of these points are far from certain, and at least one government official says that the odds of Secretary Kreps signing an agreement during her visit are "very, very remote," as are the odds that Congress will approve the agreement before summer recess.

However, a trade agreement with China seems to have good chances of eventual passage by Congress, at latest by mid-1980. Aside from conservative opposition, the central debate over it is likely to concern the Administration's policy of evenhanded treatment of the Soviet Union and the PRC. If the two issues are linked in one bill, the trade agreement may well get bogged down. Two possibilities for evenhanded treatment include:

—a waiver on emigration requirements for both China and the Soviet Union;

—modification of the Jackson-Vanik amendment.

If the Chinese do provide assurances that they have eased their emigration restrictions, they may qualify for MFN status and US government credits under the existing Jackson-Vanik amendment (section 402 of the 1974 Trade Act).

On the other hand, if the Stevenson-AuCoin bills, submitted in the House and Senate in February, were to be passed, then it would be possible for the President to extend a waiver to the Chinese without receipt of assurances on emigration. In that case, the President would only have to determine that Chinese emigration policies will "lead substantially to the free emigration objectives of section 402."

SEQUENCE OF OTHER TRADE ISSUES

Progress on other outstanding governmental issues with the Chinese includes:

Claims/Assets: An agreement on private claims and frozen assets was initialed, but not signed, on March 2 in Beijing by Secretary of the Treasury W. Michael Blumenthal. Final signing of the agreement is expected to take place in Beijing before May, with Ambassador Woodcock signing for the US. On October 1, 1979, the initial Chinese down payment of $30 million is due, with five yearly installments of $10 million each in following years.

Public Sector Claims: These issues, involving Exim Bank, the post office, and consular properties, will be discussed with the Chinese by the Kreps team.

Textile Agreement: The Chinese and US teams reconvened in Beijing April 11 to continue discussions on a textile agreement, started January 22. There is some chance that an agreement will be signed in China before the US team leaves on April 21.

Maritime Agreement: An interagency working committee in the US government is finalizing details of a proposed shipping agreement with China. It is hoped that the proposal will be ready for Secretary Kreps to take to China in May for discussions and possible signature (see Exporter's Notes).

Aviation Agreement: An agreement with the Chinese on civil aviation is a high priority, particularly with Secretary Blumenthal. In February the State Department mailed a model aviation document to the PRC, and officials hope to see action on it during April and May (see Exporter's Notes).

Exim Bank: If and when Congress approves a trade agreement with China, including a waiver of the emigration requirement, China will be eligible for Exim Bank credits. However, Congress also must appropriate funds for the PRC in the Exim Bank budget before China can receive such credits.

Stevenson-AuCoin Bills: These two bills are now in committee, with no hearings scheduled yet. The AuCoin bill is in the House Ways and Means Committee and in the House Banking, Finance, and Urban Affairs Committee; the Stevenson bill is to be considered sequentially by the Senate Banking Committee and Finance Committee. Congressman Les AuCoin is working on collecting cosponsors for the bill and mustering up support in the international business community. The earliest date that hearings might begin would be this summer.

The AuCoin Bill

96TH CONGRESS
1ST SESSION

H. R. 1908

To amend the Export-Import Bank Act of 1945 with respect to credit to Communist countries, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 8, 1979

Mr. AUCOIN introduced the following bill; which was referred jointly to the Committees on Banking, Finance and Urban Affairs and Ways and Means

---

A BILL

To amend the Export-Import Bank Act of 1945 with respect to credit to Communist countries, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Export-Import Bank Act of 1945 (12 U.S.C. 635 et seq.) is amended—

(1) in section 2(b)(2), by striking out "$50,000,000" and inserting in lieu thereof "$100,000,000";

(2) by adding at the end of section 2(b)(2) the following new sentence: "The Bank shall not have out-

I—E●

Advertising in China

John Kamm

Advertising in China is not only new for Chinese producers, but very new for foreign companies. Now foreign firms can advertise in PRC papers and magazines. This article, by the National Council's Hong Kong representative, John Kamm, explains what is going on in Shanghai and other parts of China—and whom to contact to place your ads.

There are mounting signs that China is fundamentally rethinking its attitude toward product advertising as a means of promoting trade. Advertisements placed by local Chinese corporations and factories have begun to appear in China's provincial newspapers amid signs that foreign advertisements—for both industrial and consumer products—will soon be permitted. At least one high-ranking official has spoken out in favor of the establishment of a new national Foreign Trade Corporation to handle all aspects of media advertising—including television and radio.

As one might expect, Shanghai is in the lead in what has become a veritable revolution in product promotion in the PRC. A full 40 percent of China's import-export trade flows through Shanghai, a city of nearly 11 million people. In the first six months of 1979, as many as six foreign product exhibitions are set to take place there.

In mid-1978, the municipal authorities decided to reactivate the Shanghai Advertising Corporation (SAC). Prior to the Cultural Revolution, the SAC had specialized in handling product ads in local newspapers and technical journals. An article in Shanghai's *Wen Hui Bao,* one of China's most popular dailies with an estimated circulation of 700,000, related that the corporation—which apparently kept functioning as a research body during 1966–1977—began handling advertisements for Chinese export commodities in some 100 publications in Asia, Africa, Latin America, and Europe. SAC has developed relations with 23 Foreign Trade Corporations in China, and has been especially helpful to two provincial corporations in neighboring Jiangsu Province by pushing sales of brushes and rubber-soled shoes, the article revealed.

The February 12, 1979, piece in the *Wen Hui Bao,* which ran opposite a page-three advertisement for SAC, and above an advertisement placed by the local CHINATEX Silk Branch, concluded by noting that the company is undertaking—in unison with "China's foreign trade publications, magazines, radio stations, and television stations"—the handling of foreign advertisements in China. Advertisements for foreign films—including the immensely popular United Artists' release "Convoy"—have been appearing in Shanghai's newspapers for several months. At the time of this writing, in late February 1979, an unconfirmed report is circulating that an advertisement for recently readmitted Coca-Cola has already been run in a Shanghai magazine.

The Final Debate

A brief scan of China's provincial press reveals that the final debate regarding the use of advertising took place in January 1979. On January 14, an editorial on the second page of the *Wen Hui Bao* supported the publication and screening of domestic and foreign advertisements in Shanghai's mass media as "a means of promoting trade, earning foreign exchange, and opening the eyes of the masses." On the same day, the

Ad in *Wen Hui Bao*, February 13, 1979

SHANGHAI ADVERTISING CORPORATION

Shanghai Advertising Corporation
97 Yuen Ming Yuen Road
Shanghai, China
Cable: ADVERCORP SHANGHAI

At the time of writing, information on rates, frequency discounts, and other terms and conditions for foreign advertisers has not been released.
Contact with SAC can be made directly or through:

China Advertising Company
Star House
Kowloon, Hong Kong
Tel: 3–672902, 3–672981
3–688408, 3–689086

Tianjin Daily ran an ad placed by the Tianjin Toothpaste Factory, a plug described by the China News Agency as "promoting various high-class toothpaste products . . . clear and beautiful in design."

On Chinese New Year's Day—January 28, 1979—product advertisements returned to Shanghai's media when the *Liberation Daily*—organ of the Municipal Revolutionary Committee—ran ads for musical instruments, "Wu Hsu" swords, embroidered articles, "Lucky-brand cola, "Kwangming" brand beer, and two medicated herbal wines. For four consecutive days, the *Liberation Daily* carried locally placed advertisements for 35 products manufactured by a total of 22 factories.

Following a hiatus of 10 days during which no advertisements appeared in the Shanghai press, product promotion reappeared in the *Liberation Daily* on February 10. A survey of the *Liberation Daily* advertisements through February 15 appears in overleaf.

Both industrial and consumer products have been advertised, indicating that appeals to both wholesale and retail customers are deemed acceptable. The advertisements for the "Wu Hsu" (martial arts) swords advises that the factory accepts orders by mail and is also willing to make products according to submitted samples. Nevertheless, the emphasis is clearly on reaching Shanghai's consumer market through sales in department stores and other retail outlets. Of the 38 factories which placed product advertisements in the *Liberation Daily* in the period from January 28 to February 15, only 6 provided their address and telephone number—essential information for commercial bureaus and other wholesale bodies wishing to procure the goods.

New Promotional Infrastructure

The reactivation of the Shanghai Advertising Corporation marks the creation of a new promotional infrastructure in the PRC. The SAC is working closely with the PRC-owned China Advertising Company in Hong Kong, a firm which places advertisements for Chinese goods in the colony's media and organizes exhibitions at the Chinese Export Commodities Exhibition Hall. China Advertising began contacting foreign publications—including a well-known business weekly—in late 1977 to inquire into their rates and other terms and conditions for advertising.

There is no evidence to suggest that either the *Liberation Daily* or the *Wen Hui Bao* is utilizing China Advertising's expertise to upgrade the design and general appearance of the Shanghai ads; recently placed advertisements in both dailies refer to the Shanghai Fine Arts Corporation as the designer.

Rounding off the newly emerging service section are translation companies which will undoubtedly be utilized to translate foreign advertisements into au courant Chinese. A New China News Agency release of December 23, 1978, described the establishment, in mid-1978, of the Jiangsu Province Technological Materials Translation and Duplication Company. The Nanjing-based corporation, whose 200-odd employees translate and disseminate technical publications imported into Jiangsu Province, successfully carried out the translation of more than six million words of foreign text in the latter half of 1978.

Paralleling developments in the printed media, an AFP report published on February 7 claimed that a message promoting pharmaceutical products had already appeared on Shanghai television.

Ad in *Jiefang Ribao*, January 28, 1979

Other Parts of China

Shanghai's experimentation with product promotion will soon spread to other parts of China. In Guangzhou, the authorities may soon start publication of the *Yang Cheng Daily*—the city's most popular pre-Cultural Revolution newspaper which specialized in carrying product advertisements. A February 21 Letter to the Editor from the Light Industrial Bureau of Chaoching—a city 100 km. west of Guangzhou—urged the *Nan Fang (Southern) Daily* to begin accepting advertisements "to better the understanding of consumers and facilitate sales" by factories and commercial departments.

In Beijing, Foreign Trade Corporations are using advertisements to promote both procurement and sale of export commodities. The Beijing Branch of the

SURVEY OF SHANGHAI ADVERTISING IN JIEFANG RIBAO 1979

Date	Position	Advertiser	Product
1/28	p. 2	3 factories under the Shanghai Municipal Arts and Crafts Industrial Corporation	
		(1) Shanghai Min Zsu Musical Instruments Factory No. 1 Address: Xin Zhuang, Min Hu Road, Nanjing Phone: 397601 x 426 Cable: 4544 Service Department: 114 East Road, Nanjing Phone: 213869	Musical Instruments
		(2) Shanghai Municipal Theatrical Props Factory Address: 259 East Road, Nanjing Phone: 22125 Cable: 2703	Wu Hsu Swords
		(3) Shanghai Embroidery Factory Address: 584 Jiu Jiang Road Phone: 223615 Factory Address: 1700 West Road, Nanjing Phone: 565117	Embroidered goods
	p. 3	3 factories under the Shanghai Municipal Foodstuffs Industrial Corporation (no address)	'Lucky' Cola 'Kwangming' Beer Sze Chuan Dah Poo Wine Shen Qi Poo Wine Food Flavoring
1/29	p. 2	Shanghai Municipal Herbal Medicine Corporation (no address)	Shen Jung Tablet Shen Qi Pu Jiang Dang Shen Tablet Shen Kuei Jiu Hu Gu Mu Gua Wine Wen Nien Chun Wine
1/29	p. 3	Shanghai Radio Factory No. II Address: 174 Wu I Road, Shanghai Phone: 523309 Cable: 0407	'Flying Happiness' Amplifiers
1/30	p. 3	8 factories under the Shanghai Municipal Towel Industrial Corporation (no address)	'63.66 Empress' Towel 'Bell' Towel 'Triangle' Towel 'Big Character' Bed Sheets 'Min Kwang' Bed Sheets 'Ship' Bed Sheets 'Hu Fang' Woolen Blanket 'Deer' Woolen Blanket

Arts and Crafts Corporation (ARTCHINA) placed a small ad on page 4 of the February 10 edition of the *Beijing Daily* listing four procurement stations—with addresses and telephone numbers—ready, to buy pearls, gems, jade carvings, diamonds, and crystal.

A senior official of the China Council for the Promotion of International Trade told a National Council delegation in September 1978 that the body is considering translating foreign technical materials on a fee basis, and a colleague in the Publicity Department related that several foreign companies had written to inquire as to how they might place advertisements in the CCPIT's bimonthly magazine, *China's Foreign Trade*. And an authoritative source in Hong Kong states that Beijing may soon establish a national advertising company based on the Shanghai model. 完

SURVEY OF SHANGHAI ADVERTISING IN JIEFANG RIBAO 1979

Date	Position	Advertiser	Product
	p. 3	3 factories under the Shanghai Daily Necessities and Cosmetics Corporation (no address)	'Phoenix' Pearl Cream 'Spring Thunder' Medicated Hair Cream, Perfume 'Butterfly' Hair Dye Cream 'Peony' Facial Cream
1/31	p. 2	6 factories under the Shanghai Municipal Pen and Pencil Industrial Corporation (no address)	'Zhung Hua' Pencil 'Three Star 369' Red/Blue Pencil 'Yung Shan' Pen 'Hero' Pen 'Hero' Ball Pen 'Shanghai' Ball Pen 'Fung Hua' Ball Pen 'Zhung Hua' Ball Pen
2/10	p. 3	Shanghai Municipal Knitting Industrial Corporation (no address)	'Sunflower' Clothing 'Chrysanthemum' Cotton Shirt 'Golden Chrysanthemum' Shirt 'Goose' Shirt
2/11	p. 3	Shanghai Municipal Telecommunications Instruments Industrial Bureau Address: 212 East Road, Nanjing Phone: 217127, 213607	Resistance Potentiometer, Capacitor, Transistor (including Controller), Electronic Tube, Connector, and Loud Speaker
	p. 3	3 factories under Shanghai Municipal Herbal Medicine Corporation Distributor: Wah Tung Chinese Medicine Shop 766 Beijing East Road, Shanghai	Su Ping Ti Pill Fu Feng Dan Shen Tablet Zhen He Ling Tablet
2/15	p. 3	8 factories under Shanghai Municipal Thread & Belt Industrial Corporation (no address)	'Rose' Embroidery Thread 'Flowery Phoenix' Laces 'Golden Cup' Elastic Cord 'Flying Wheel' Thread 'Sailing Boat' Thread 'Torch' Protective Pads 'Great Wail' Cordon 'Double Horse' Fire Hose 'Whale' Water Tube

The Council's first construction equipment delegation in Great Hall of the People with Gu Mu and other Chinese officials

Gu Mu on China's Construction

Gu Mu, Chinese Vice Premier and Chairman of the State Capital Construction Commission (SCCC), met with members of the National Council's first construction equipment delegation to the PRC. The SCCC is charged with responsibility for construction of the 120 major projects in China's grand plan, including railroads, ports, mines, and plant.

Following are excerpts from the discussion, focusing on the state of China's construction industry today and on possibilities for closer contacts with US industry. The meeting was held on December 9, 1978, only six days before the historic announcement of normalization of relations between the US and China.

Identified in the interview is Stewart Roberts of Clark Equipment Co., leader of the delegation and chairman of the National Council's Construction Equipment Committee. Also present was Leonard Woodcock, chief of the US Liaison Office in Peking, now Ambassador at the new US Embassy.

Mr. Gu: I would like to express our welcome to our American friends. This is the first time for us to act as hosts to a US construction equipment delegation. This is a giant delegation.

Mr. Roberts: Yes, there are 605 years of experience represented by the gentlemen here.

Mr. Gu: I think the reason for such a big delegation is because you have concluded that for the People's Republic of China to complete four modernizations, it needs much equipment. After visiting sites, I think you will gain some knowledge about the state of backwardness in the Chinese construction equipment area. As a matter of fact, the level of mechanization you have seen at construction sites cannot be considered low in China.

Of course, there are certain industrial projects for which the mechanization level is higher than those you've seen. Some of our equipment is both too big and too clumsy. Our equipment is backward and sometimes we have to lay rail tracks for cranes. In addition, in some civilian projects, for living quarters, much of the work is done by hand.

In order to accomplish the four modernizations, what we need to do is to improve our technical equipment and raise the level of mechanization in China.

In this respect there are broad prospects for technical cooperation between China and friendly countries. I can say that, so far as your construction equipment delegation is concerned, we have not yet received any one as large as yours, so in this respect you are ahead of the others.

I wish to meet all the delegation, and also hear any observations you have to make.

Mr. Roberts: Thank you. I would like to relate to you observations made by various members of our delegation.

First, it is mentioned that China's construction industry is backward. That is not the proper word. China's industry is moving forward and quickly. It is just a matter of gaining more technology to move ahead more quickly.

During this visit, we've had many productive seminars with your technicians and engineers. Through these exchanges we have learned some of the areas of concern in which they wish to improve technology. These exchanges have given us some initial insight into the desires of China, particularly in the construction industry.

Many of our delegates feel this is just the beginning, however.

Mr. Gu: Just as Mr. Roberts has put it, this is only the beginning of our contacts. It is required that each of our two sides know more about each other.

In my view, there are many areas in which our two sides can cooperate in the field of construction equipment and machinery. We can buy some equipment from you, and also some patent rights of advanced technology. In the future we can explore the possibility of having your assistance in our factories to raise the technical level. We can also explore the possibility of cooperation in building some new projects.

We can consider adopting all the methods in use internationally, so far as economic and technical exchanges are concerned. There is a suggestion that more American specialists come to China to meet end-users. We will also send specialists to the US to gain insight there.

All in all, I'm sure that positive results can be achieved if our two sides maintain contacts and continue to explore all the ways of technical and economic cooperation.

We are aware of the technical level possessed by our US friends. We know it is a high level. So far as prices are concerned, I'm sure you're very competitive.

Kato backhoe at work at Shanghai site

Many of our comrades involved in the technology exchange are very enthusiastic about their study nowadays, because we are keenly aware that the low level of our science and technology and management are our main problems on the road to modernization. Of course, there are other problems as well.

That's why we're adopting measures to raise science and technology in China, and to train as many technicians as possible. I think you must have noticed in your contacts with our people that they're eager to learn advanced technology and work hard.

I have heard some good comments from our American friends. Let us continue to maintain our contacts. As it has been agreed upon that we welcome more American friends to China and send Chinese to the US to study technology, I am sure that continuing contacts between us will lead to good results in cooperation in trade regarding construction equipment. 宪

Construction plan emphasized: Poster on Nanjing Road in Shanghai

THE ROLE AND FUNCTIONS OF CHINA'S COMMISSIONS

STATE PLANNING COMMISSION (SPC)

Minister: Yu Qiuli
Date established: November, 1952

The SPC, directly under the State Council, is China's highest planning authority. It establishes broad budget parameters for each component of the economy, and engages in both long-range and annual planning. In the words of a senior official, the SPC "makes policy," while other planning bodies draw up plans in conformity with the SPC's policy. The official added: "We have made plans to the year 2000, but it is not ready to be published yet."

The budgets of the State Capital Construction Commission, State Economic Commission, and the State Agricultural Commission must be approved by the SPC. Within these budgetary guidelines, the Commissions elaborate detailed plans.

In describing the SPC's involvement in foreign trade, a ranking official explained that "the two main responsible organs that direct the work of the Ministry of Foreign Trade are the SPC and the State Capital Construction Commission."

The SPC has bureaus for production, foreign trade, communications, agriculture, and construction, as well as other bureaus corresponding to each ministry. At the local level, the SPC is represented by provincial and municipal-level planning bureaus.

Historically, the SPC is the oldest of China's planning commissions, having been established in 1952, and placed under the State Council in 1954. It originally had 23 bureaus.

STATE CAPITAL CONSTRUCTION COMMISSION (SCCC)

Minister: Gu Mu
Date re-established: 1965

The main task of the SCCC is "regrowth of production power," defined as capital investments which raise production to higher levels. The SCCC is responsible for all investment projects above a certain size. These include the 120 key projects which are part of China's four modernizations program. In this capacity, it plans logistics for and oversees major capital construction work nationwide. The SCCC coordinates the work of various ministries—for example, the Ministry of Metallurgical Industry with regard to steel investments, the Ministry of Coal for energy supplies, the Ministry of Communications for roads, and so on.

Once the SCCC's budget receives SPC approval, it coordinates the investment plans of ministries and in turn approves their investment budgets. As with the SPC, the SCCC has liaison bureaus for each ministry, except for agriculture. These include bureaus for coal, petrochemicals, machine building, petroleum, railroads, metallurgy, and water conservation and power. The SCCC maintains branches at the local level.

STATE ECONOMIC COMMISSION (SEC)

Minister: Kang Shien
Date re-established: March 4, 1978

"The SEC is charged with implementing the production plans of the SPC," according to a top SEC official. Specifically, the SEC coordinates the details of annual and quarterly production plans for the industrial and communications sectors, and coordinates the supply and demand of industrial raw materials, energy, and other inputs. As a result, supply shortages in any given sector normally come to the SEC's attention first. If domestic sources are unavailable, it imports the necessary items to boost lagging sectors.

An example of the division of authority between the SPC, SCCC and SEC is provided by the Baoshan steel project. According to one official budgetary approval for this project was obtained from the SPC. "That is a necessary first step," although smaller projects may be approved by local offices of the SPC, he indicated. Construction at the Baoshan site is under the SCCC, and the SEC will take over when the steel mill becomes operational. A new factory normally comes under the SEC's jurisdiction once it is completed by the SCCC. The SEC also has local offices, which cooperate with SPC and SCCC members, and these have the same relationship to each other as at the national level.

The SEC imports raw materials and other industrial inputs from abroad needed to run factories, and places its orders through the Ministry of Foreign Trade. Plant and equipment orders are placed by the SCCC, not the SEC. Agricultural commodities destined for industrial use, such as cotton, may be imported by the SEC.

STATE AGRICULTURAL COMMISSION (SAC)

Minister: Wang Renzhong
Date established: January or February, 1979

The SAC is in charge of planning in the agricultural sector, and for setting policy guidelines during the year. The decision to import wheat is made by the SAC. The SAC has no nationwide administrative apparatus or local branches, as yet. It also comes under the SPC's authority in the area of budgeting and overall strategic planning. The SAC has no known predecessor agency, although in the past agricultural planning was normally under the SPC, SEC, or Ministry of Agriculture.

China's Joint Ventures

Terms Clarified, First Protocols Signed

China signed its first letters of intent, or "protocols," for joint equity ventures with several US companies in mid-December 1978. Negotiations for joint ventures began as early as last October, and the first firm contracts should be signed in June or July; these will undoubtedly clarify the terms China is seeking. Only recently has China's legal concept of joint ventures begun to emerge. The likely provisions of China's joint equity ventures, together with a discussion of the areas still requiring clarification, are given below.

Joint Venture Partners The first joint ventures with China will probably be undertaken with the Ministry of Railroads, First Ministry of Machine Building, the Ministry of Metallurgical Industry, or the State Capital Construction Commission. According to reports in Hong Kong, certain Chinese cities have also made proposals to foreign firms regarding joint ventures, which suggests that municipalities are potential partners, as well.

Equity Shares China appears to favor a 49:51 ratio, with foreign ownership limited to no more than 49 percent of the joint venture's total assets, but this ratio is still under negotiation. Foreign contributions would include machinery, equipment, technology, and working capital. The Bank of China may pay in cash for the foreign company's contribution of equipment that exceeds its 49 percent share. China's contribution would consist of land, infrastructure improvements, and the factory building. The value assigned these assets may be a potential point of disagreement, while the values US companies place upon their know-how and other intangibles present similar difficulties for Chinese negotiators.

The experience of US firms to date suggests that the valuation of assets is not a major obstacle, at least not as serious a problem as that of placing a value on labor, and other variable operating costs. For example, if China values labor on a par with hourly wages in Hong Kong, which is the position of Chinese negotiators in recent talks, then a firm's profit outlook would be adversely affected regardless of its equity share.

Management Control Voting rights with respect to management decisions will probably reflect the equity shares of the respective partners. Thus companies could not have voting shares over 49 percent. A problem arises in trying to equate the number of seats on the board of directors with the exact percentage of equity held by each partner.

Corporate Structure China has expressed interest in a Western-style corporate structure, according to which the majority shareholder exercises control. Under such a system, US companies would be wise to seek clarification on the rights of minority shareholders. The chief executive of a joint venture would be Chinese, while the deputy head would be a foreigner in a similar arrangement to Japanese 50:50 joint ventures. Since a Chinese manager typically has no authority to hire, fire, price, or market a product, nor any control over "profits," a major technical and financial question relates to exactly how much control the foreign manager has.

Repatriation of Profits The profits paid to US companies will be in proportion to their equity holdings, US companies have learned. But the proportion of profits that may be remitted abroad has not been clearly established. A letter received by a National Council delegation in December from an official of China's State Capital Construction Commission stated that profit remittances could be made "by all foreign companies," but added that the ratio of profits paid in foreign exchange would vary in individual cases. Moreover, China has agreed in recent protocols to compensate foreign companies if it transfers technology used in the joint venture to another Chinese enterprise.

Some US companies have tried to obtain guarantees of fixed annual returns for their investment, paid in hard currency. Other companies desire fiscal guarantees, such that at a set utilization of capacity both partners would earn the targeted return on investment. The concern of these companies is understandable, since future fluctuations in labor costs and raw materials would affect the venture's profitability.

To calm the fears of foreign investors, China may offer a rate of profit over 49 percent during the first phase of the joint venture, and reduce payments below 49 percent in later years to maintain a long-run 49:51 percent split, according to one source. Under such an arrangement, foreign companies would presumably recoup most of their investment during the early years of the joint venture. The foreign partner will handle the joint venture's exports, and obtain its return on investment from these foreign exchange earnings.

The portion of profits that are not earned from exports or repatriated, and accumulate in Chinese accounts, may be more convertible than is commonly believed. This would depend on China's future foreign exchange regulations, which are reportedly undergoing a thorough review, as is the entire body of China's economic law.

Taxes China's tax laws apply to joint venture projects. The Tax Bureau of the Ministry of Finance presently administers principally three types of taxes:

an Agricultural Tax levied in kind on grains and industrial crops, an Industrial and Commercial Consolidated Tax, similar to a turnover tax, and a progressive Income Tax levied on collectively owned enterprises, such as commune factories, that are not directly under state control.

The Consolidated Tax is paid at each stage of production; no credit provisions exist for taxes already paid, nor are deductions allowed for resale. According to Chinese tax schedules obtained in February by Jerome Cohen, director of East Asian Legal Studies at Harvard Law School, and Charles Stevens, a partner in Coudert Bros., daily consumer goods pay a low of 1.5 percent while a high of 69 percent is charged on luxury cigarettes. These taxes apply each time commodities pass between factories. As a result, US companies using highly processed Chinese goods may end up paying inflated prices for their inputs.

China's tax authorities are aware of this problem, and may exempt foreign companies from the consolidated tax altogether, or exempt goods imported by the foreign partner as well as the factory's exports.

China's maximum income tax rate is currently 55.2 percent, levied on income net of production costs, administrative expenses, and any consolidated tax which may have been paid. This rate is calculated by adding the current 60 percent uniform surtax to China's income tax tables, which range from 5.7 percent on small enterprises to 34.5 percent on enterprises in the highest income bracket. The maximum 55 percent rate, which joint ventures would presumably pay if they involve large projects, is a definite disincentive to US firms.

Income taxes paid in China may be credited against US taxes, which are now roughly 46 percent. In order to reduce Chinese taxes to US levels—thereby crediting the entire amount of Chinese taxes against US income taxes—China is considering legislation that would lower the tax on foreign companies to 50 percent, or even to 35 percent, according to Cohen and Stevens. East European countries apply the 35 percent rate, plus 10 percent on profits remitted abroad.

Foreign investors are hopeful that the new tax legislation to be released by October 1 will also contain other provisions designed to attract joint ventures. These may include tax holidays, and reduced income tax rates for factories in priority sectors. China's Tax Bureau already waives taxes on infant industries, as well as certain types of agriculture-support industries run by communes; thus a domestic precedent exists for both categories of exemptions.

China is also considering imposing individual income taxes on foreign residents. These are likely to be "nondiscriminatory," applying to Chinese and foreigners alike. If they are highly progressive, only foreigners would be affected since their earnings would probably be higher than those of Chinese.

The new tax codes may appear as a comprehensive statute, or in sections, each issued by a separate government unit, such as the investment code for hotels that China's tourist authorities are believed to be drafting. Other units may issue specialized laws covering other areas.

Guarantees The two main guarantees US companies wish to obtain appear to be guarantees for the repatriation of profits, and against nationalization. Political risk insurance against nationalization for US firms doing business in China is available from the American International Group, Inc., through its member company, National Union Fire Insurance Co. of Pittsburg. US Government-sponsored risk insurance provided by the Overseas Private Investment Corporation (OPIC) is still not available due to the unresolved government claims issue that also bars US Exim Bank credits to China.

In preliminary talks with foreign businessmen, the Bank of China has agreed to guarantee in cash any joint venture proposal, so that if some arrangement fell through after the foreign equipment went to China, the Bank of China would reimburse the foreign partner in full.

Some foreign companies are also seeking guarantees from their home governments in order to safeguard their investments. However, the guarantees US firms are most likely to receive are those insisted upon in the joint venture contract, which should contain safeguards to ensure profit repatriation.

Dispute Settlement China has agreed to outside arbitration in commercial matters in the past. Therefore, similar provisions may be included in joint venture contracts, although a strong tradition exists on China's part to settle disputes amicably without resort to formal arbitration. Companies that consent to arbitration inside China are indicating a greater willingness, at least in Chinese eyes, to reach a settlement through conciliation. The decisions of China's Foreign Trade Arbitration Commission are final and cannot be appealed, however.

Duration of Joint Venture China is expected to insist upon the gradual takeover of joint venture enterprises. One source mentions a 10–15 year period. Prudent companies should amortize their investment prior to the termination of the joint venture arrangement. Provisions for the termination of joint ventures are still under discussion.

Product Distribution The Ministry involved will distribute and market products domestically, while the foreign partner will market products abroad.

Tariff Exemptions China's two-tier import tariff system will probably not apply to imported products and parts used in joint ventures. China is also considering similar exemptions from export duties in order to stimulate export growth. 充

Members of PRC telecommunications team debate facsimile transmission quality at WUI offices in New York

Council Activities

The National Council's unique position at the vortex of US-China trade was clearly demonstrated during the early months of 1979 by requests from the Chinese to host more than a dozen trade missions to the US in 1979. In response to those pleas for assistance, and requests from the Council's rapidly growing membership, the Council has added several new staff members and acquired additional office space.

DELEGATIONS DEPARTMENT: PHONES NEVER STOP RINGING

"Mr. Glover, your department is already so busy. Nonetheless, we have another delegation that we would like the National Council to handle."

That's what an official from the commercial section of the Chinese embassy recently told Richard Glover, co-director of the Council's delegations department—and it's something that Glover will probably be hearing a lot more in the future. As of late March, the Council was already scheduled to host 17 trade missions from China and to send 10 delegations to the PRC.

The delegations from China include eight groups primarily interested in selling to the US market. These missions—canned goods, cotton and wool piece goods, silk, minerals and metals, tung oil, down, tea, and light industrial goods—are handled by the Importer Services Department. For further information on them, see Importer's Notes.

The exporter delegations handled by Glover and Co-director Stephanie Green that had already arrived as of the end of March were interested primarily in wood processing, computers, herbicides, telecommunications, and petroleum. Petrochemical and shipping delegations arrived in mid-April, while nonferrous mining and agricultural machinery missions are expected later in the year. The Ministry of Communications, the State Economic Commission, and the State Capital Construction Commission will also be sending delegations later this year.

PETROLEUM DELEGATION: ARCO BECOMES FIRST US OIL COMPANY TO REACH AGREEMENT WITH PRC ON OFFSHORE SEISMIC SURVEY

The highlight of the Chinese Petroleum Corporation's three-week visit to the US occurred on March 19 when PCC President Zhang Wenbin signed an agreement with the Atlantic Richfield Company (ARCO) on a geophysical reconnaissance program in China's offshore waters. Also signing the accord was Santa Fe International, ARCO's partner in the venture. The agreement is the first between US companies and the Chinese, though most of the other companies visited by the delegation are expected to be

PRC Petroleum Corporation Chief Zhang Wenbin with Council VP Stanley Young

invited to China to conclude similar deals in the coming months.

The primary purpose of the delegation, which also visited Great Britain and Brazil before coming to the US, was to continue with some companies, and to initiate with others, discussions on offshore production arrangements. The group also looked at seismic data processing and exploration and research centers. Besides the expected additional survey agreements, the mission is also likely to bear fruit in the form of Chinese purchases of advanced equipment for offshore exploration, such as atmospheric chambers for subsea completion and floating production platforms.

The Chinese visited the following companies during their March 3–24 visit to the US: Allied Chemical, Amoco, Arco, Caltex, Cameron Iron Works, Coastal States, Continental Oil, Exxon, Global Marine, Gulf, Hunt-Sedco, McDermott, Mobil, Murphy Oil, Natomas, Occidental, Pennzoil, Phillips Petroleum, Pre Corporation, Shell Oil, Tenneco, and Union Oil.

The National Council gave a welcoming banquet for the delegation on March 4 in Washington, while the Council's Petroleum Production and Processing Committees co-hosted another dinner for the Chinese in Houston on March 8. Stephanie Green escorted the delegation.

PETROCHEMICALS MISSION

The National Council's Petroleum Processing Committee is currently hosting a 20-member petrochemicals delegation from the China National Chemical Construction Corporation. The delegation, led by CNCCC Managing Director Qin Zhongda, is interested in fertilizers, petrochemicals, process plant equipment and machinery, petroleum re-forming and cracking, as well as phosphate, potash, and sulfur mining. A senior mission composed largely of administrators and supervisory personnel rather than technical people, the group is interested in such aspects of enterprise management as production technology, product quality, maintenance, safety, personnel training, storage, transportation, and environmental protection.

The group, which arrived in Washington April 12 and will leave the US from Los Angeles on May 10, was expected to visit the following companies: Agrico Chemical, Amoco, Champlin Petroleum, Dow Chemical, Dupont, Fluor, Frit Industries, General Welding Works Inc., Goldkist Inc., Goodrich, International Minerals and Chemicals Corp., C. E. Lummus, Phillips Petroleum, Pullman Kellogg, Transamerica Delaval Inc., UOP, Union Carbide, and Union Oil.

Ernest Staber is escorting the delegation.

MINISTRY OF FOREIGN TRADE MISSION

The development of a long-range export strategy is the prime concern of a Ministry of Foreign Trade team that the National Council is currently hosting. The delegation, led by Yang Wei, a bureau director of MOFT, is seeking information on US government regulations pertaining to Chinese imports. In addition, the mission is studying US government export promotion techniques in the hope of picking up some useful points for possible emulation.

The delegation, which includes two representatives each from the State Planning Commission and the Ministry of Finance, met with the National Council's Banking and Finance Committee and Importer's Steering Committee on April 17 in New York. The group also met with such companies as Merrill Lynch, Rockwell International, and Young & Rubicam, as well as various importers and retail outlets. The delegation met with National Council President Christopher H. Phillips at the National Council's Washington headquarters on April 6.

STATE ECONOMIC COMMISSION

The National Council will host a 12-member mission from China's State Economic Commission for five weeks beginning May 8. The SEC is charged with implementing the plans developed by the State Planning Commission so far as production targets of China's enterprises and factories are concerned. The delegation, to be led by Song Ligang, director of the SEC's Technical Department, will study research and development practices of large companies in the steel, machinery, machine tool, and metal processing industries; US government policy concerning technical innovation; and the work of the US Bureau of Standards and other government organizations. The group is particularly interested in the development of high quality steel and metal processing equipment.

TEXTILE INDUSTRY SURVEY DELEGATION

An 11-member team from the Ministry of Textiles, CHINATEX, and the State Economic Commission arrived in Washington March 25 for a five-week tour.

The purpose of this high-level mission is to study technology and machinery used in producing synthetic and cotton fabrics and garments. National Council escorts were Suzanne Reynolds and Steve Watson.

SHIPPING MISSION

Coinciding with the arrival of the first PRC vessel to dock at a US port, a six-person team from the China Ocean Shipping Company (COSCO), arrived in the US in mid-April for 11 days to study port development and prospects for future shipping relations between the two countries. The *Liulinhai* arrived in Seattle April 17 and was welcomed by top officials of the US government and the Chinese embassy, as well as the COSCO delegation.

The group, led by Peng Deqing, vice minister of the Ministry of Communications, was co-hosted by the National Council and the Lykes Shipping Co. A Lykes vessel recently became the first American ship to call on a Chinese port in three decades (see Exporter's Notes). Besides the Port of Seattle, the delegation's itinerary included San Francisco, Houston, New Orleans, New York, and Los Angeles.

Other recent delegations from China included telecommunications, computer, and herbicides groups. The telecommunications mission, led by Jiang Xikui of the China National Posts and Telecommunications Appliance Corp., is expected to result in purchases ranging from satellites to switching equipment.

The computer delegation, which visited the US for about three weeks beginning February 26, was interested in small- and medium-scale computers, networking, and microprocessor technology, as well as image display systems and alphanumeric display systems. The delegation was composed of officials from the Yan Shan Corporation, which was formed last fall and is responsible for planning and implementing a nationwide computer network for compiling and retrieving a variety of economic and demographic data.

Companies visited by the mission included Aydin Controls, Aydin Energy Systems, Digital Equipment Corp., Fyrnetics, Hewlett-Packard, Honeywell, Memorex, Optronix, and Piedmont. Discussions between the companies and the delegation were postive, and substantial sales may result. The delegation also visited NASA.

UNA-USA Association delegation in Beijing

DELEGATIONS TO CHINA

The first National Council construction delegation of 1979 has already returned from China, while a second group arrived in the PRC in late March. A third construction group will be going to China in mid-May, and a fourth in June, while a mining delegation will be going in late April. Other National Council delegations going to China this year include: petroleum—mid-June; pharmaceuticals and medical devices—late July; animal husbandry and crop protection—early September; and petrochemicals—mid-October.

EXPORTER COMMITTEE MEETINGS

The following meetings of National Council exporter committees have been scheduled: Transportation, Seattle, April 17; Food Processing, Washington, DC, May 3; Pharmaceuticals, Washington, DC, May 24. In addition, the Mining Committee and the Telecommunications and Electronics Committee were expected to meet in April, while the officers of the Banking and Finance Committee will meet in May.

NATIONAL COUNCIL TO SPONSOR BUSINESS CONFERENCE

The National Council will sponsor a conference on doing business with China this November. The conference, which will probably be held in Washington, will focus on how China's proposed new commercial code will affect joint ventures, licensing, cooperation agreements. The National Council will publish a book on the subject prior to the conference. Nicholas Ludlow, director of publications and research, will organize and coordinate the conference.

GUANGZHOU FAIR BRIEFING

The Council's Importer Services Department sponsored a briefing on the Guangzhou (Canton) Trade Fair for 100 businessmen in New York City on March 20. The briefing was aimed primarily at newcomers to the China trade, though it also served to update veteran traders on recent developments, particularly the impact of normalization. George Krieger, chairman of the Importers Steering Committee, served as moderator for the briefing, which included a panel discussion on China's Foreign Trade Corporations.

A. Jackson Rich, an international trade specialist with the Department of Commerce, discussed prospects for China obtaining most-favored-nation status. Suzanne Reynolds, director of Importer Services, coordinated the briefing, with the assistance of Carolyn Brehm and Irene Vlitos.

COUNCIL MEMBERSHIP SKYROCKETS

Normalization has brought many changes to the Council—more delegations, more requests for information, and many more members. As of March 8, Council membership stood at 542, an increase of 23 percent over the 441 members as of November 28. The increase in China trade activity, combined with normalization, has thus brought about a 45 percent increase over last April 21's figure of 374.

PHILLIPS: CHINA COMMUTER

If and when a shuttle service between Washington and Beijing is ever established, National Council President Christopher H. Phillips is certain to become a regular customer. Phillips, a former deputy ambassador to the United Nations, traveled to China in March with a China study panel from the United Nations Association for the USA. The panel, headed by former Council Chairman William Hewitt also included former Pennsylvania Governor William Scranton.

During its stay in Beijing, the panel met with Vice Premier Li Xiannian, who is China's chief economic planner, Foreign Minister Huang Hua, Hao Deqing, chairman of the Chinese People's Institute of Foreign Affairs, and other leading Chinese officials. Ambassador Leonard Woodcock briefed the group, which visited both Hong Kong and Taiwan after departing China. The mission met with officials of the Japan External Trade Organization and Ambassador Mike Mansfield in Tokyo during a short stay in Japan prior to entering China.

Phillip's next trip to China will occur May 7, when he will accompany Commerce Secretary Juanita Kreps for the Beijing leg of her China swing. After Kreps completes her talks in Beijing on May 12, Phillips will hurry back to Washington for the National Council's annual meeting at the Mayflower Hotel on May 17, at which Treasury Secretary Michael Blumenthal will be the featured speaker. Then on June 2 Phillips will accompany the National Council's Board of Directors on their biennial visit to the PRC. John Kamm, the National Council's Hong Kong representative, and I-chuan Chen will also accompany the directors.

Also traveling to China this spring was National Council Vice President Stanley Young. In Beijing for the first 10 days of April, Young held talks with officials of the National Council's Chinese counterpart, the China Council for the Promotion of International Trade (CCPIT), regarding delegation exchanges, the holding of exhibitions, and the September visit to the US of the State Capital Construction Commission. Young also discussed with the Chinese the possibility of a Bank of China mission to the US under National Council auspices. In addition to meeting with representatives of CCPIT, the Ministries of Petroleum Industry and Chemical Industry, Young spoke with TECHIMPORT officials about proposals made by US companies for technical seminars in China. Young's agenda also included preparatory work for the Board of Directors' mission in June. Young then traveled to Guangzhou to staff the National Council office at the Guangzhou Fair for two weeks. Suzanne Reynolds and John Kamm will also staff the National Council office at the Fair. 文

NEW STAFF

The increasing demands on the Council as a result of normalization have prompted the hiring of several new professional staff members since January 1. James Stepanek, a Ph.D. candidate in economics at Columbia University, joined the staff of the *China Business Review* in February as finance editor.

Kenneth Bowman, who recently completed a master's degree in economics at Columbia, has joined the Publications and Research Department as a research associate, while Karen Berney, a Ph.D. candidate in Political Science at the University of Michigan, was recently hired as a publications and research assistant. Dori Jones, a graduate student at the Johns Hopkins School of Advanced International Studies, is a part-time research assistant.

The Council's expansion has also resulted in new assignments for several veteran staffers. I-chuan Chen, formerly with the now-independent translation service, is now an assistant director of the Delegations Department and serves as the Council's official interpreter.

Sheila Burke is now Promotion Manager for *CBR*, while Meleen Harben, who previously served in a dual capacity as administrative assistant to Publications and Research Director Nicholas Ludlow and copy editor of *CBR*, is now devoting full time to the latter position.

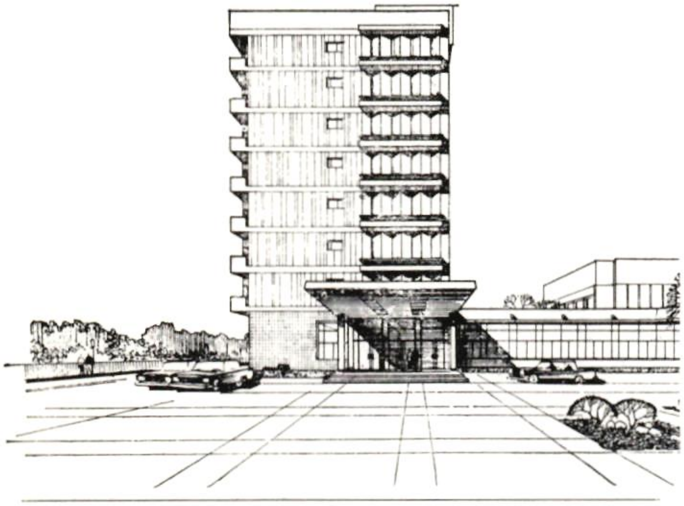
TRANSLATIONS MOVES OUT; PUBLICATIONS MOVES UP

The now-independent National Council for US-China Trade Translation Services, Inc., has moved into new quarters at 1700 K St., NW., Suite 901, Washington, DC 20006. The telephone number is (202) 296-3244. Meanwhile, the staff of *CBR* has moved into the sixth-floor office at 1050 17th St., N.W., formerly occupied by the translations staff. Mail for *CBR* should still be addressed to the Council's main office, Suite 350, 1050 17th St., N.W., Washington, DC 20036. The *CBR* telephone numbers are (202) 659-1456 and (202) 659-4181

LIBRARY EXPANDS

The acquisition of additional space has enabled the National Council's library to move into new quarters that are 50 percent larger than the old library space. The new space will enable Council librarian Marianna Graham to accommodate substantially more visitors from member companies.

TOURISM: The Hotel Deals



Blueprint for PRC built Dingshan Hotel

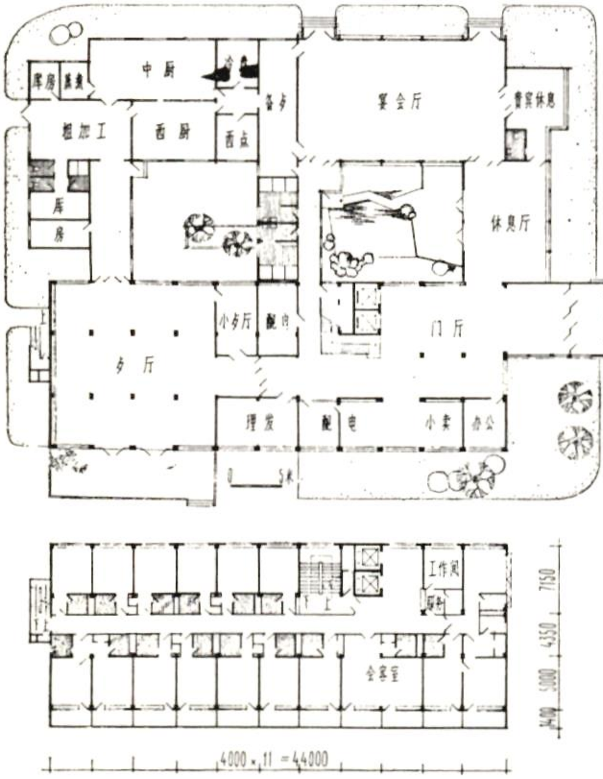


图 5 底层、标准层平面

China, negotiating at last count on April 1 for more than 35,000 hotel rooms ranging in cost from the lower cost of $30,000 a room to the luxury class $80–100,000 a room, is taking a second look at its tourist accommodations program. Amid a general review of financial commitments for all industrial purchases, China is weighing the pros and cons of hotel expenditures versus potential foreign exchange revenues from tourists. And the picture is not as clear-cut as it seems.

What has happened to the giant hotel contracts with China? Four months ago they were touted, one after the other, in the wake of Intercontinental's announcement of a long-term, $500 million "deal" to set up a new hotel infrastructure in as many as six Chinese cities.

A number of these announcements were premature, however, and the expected avalanche of contracts has stopped in midair. Or, according to reports from some quarters, the hotel contracts are falling into place, but more slowly than originally anticipated.

Still another viewpoint is that the architects of China's hotel plan have locked onto a concept of small is beautiful. Foreign contractors are being asked to scale down their first drafts, tailored to the grand scale that Beijing apparently desired at first. Pushing through an overall reduction of the plans could have significant impact on the scope and price tag of the deals currently under consideration—but also on the earning power of the product China ends up with.

"A healthy debate is going on now as to the type of hotel that should be built," claims one observer, a party to the Intercontinental negotiations. From the Chinese point of view, little has changed. In the March 16 issue of *Beijing Review,* construction programs in five cities were revealed as well as plans to build hotels in seven more cities before the end of 1980. There has been no shift in the original target to add enough rooms to take 1,000,000 visitors annually by 1985 (estimated at 30,000–50,000 rooms).

Until the debate is over, however, many a hopeful principal is feeling far from well about the current state of affairs.

Intercontinental: Back to the Drawing Board

The first to announce its contract, Pan Am's Intercontinental was the only company, as of mid-March 1979, with a documented agreement in hand. Intercontinental's protocol with the General Administration of Travel and Tourism (GATTPRC) of the PRC spells out the proposed number of rooms (5,000), and the scope of Intercontinental's involvement.

What was left out of the protocol—detailed costs, sites, and methods of financing—is proving a thorn in the company's side. One set of draft blueprints from the engineering contractor, Bechtel Corporation, has been returned for revision, and final decisions have yet to be made on sites. Even the number of rooms, according to a source close to the deal, is negotiable. "The [Intercontinental] protocol is detailed, but that doesn't mean a hell of a lot. They're up for negotiation no matter what it says."

The current focus of negotiations is on room cost per square foot. Within the last few months, China has become newly interested in economy hotels, and Bechtel, for one, is working on a new set of proposals less ornate, and with smaller rooms, than the first, presented to the Chinese in March.

"They didn't actually say they wanted smaller rooms," says Peter Batt, member of Bechtel's China Project Group, working on the Intercontinental contract. In Batt's view, the Chinese are uncertain yet as to precisely what they want. "It's more than a straight cost exercise," he says; hanging in the balance are the greater marketability and income-earning power of the luxury-class hotels, and the diminishing returns that will set in with relatively low room-size dimensions.

Peace Hotel on Shanghai waterfront

Is Beijing Duck anything like Peking Duck?

(Interestingly, the enthusiasm for smaller room sizes shown by the Chinese side in recent talks is in accord with guidelines presented in the Fall issue of *Jianzhu Xuebao,* China's leading architectural journal—see Box).

The real battle is yet to come. When Intercontinental's Chairman Paul Sheeline first reported that it had been designated by the Chinese to seek "long-term financing for the hotels from external lending institutions" in November 1978, US banks rushed to put in their bids despite the legal difficulties of extending loans to the PRC prior to resolution of the claims/assets problem. Among these the leading contenders were First National Bank of Chicago and Bank of America. Financing, though, is now shaping up as a major sticking point to realization of the deal.

The question is who will take out the loan. Intercontinental's version is that they should arrange a loan with a banking consortium on China's behalf, but that it is then up to the Chinese side to handle payments. In principle, it has been agreed that payments will be made for the most part out of tourist revenues.

China, on the other hand, is hoping to get the hotel operator to enter into the loan arrangement in its own name, in order to avoid putting any of its cash in foreign exchange, badly needed elsewhere, on the line. Another alternative that has been voiced is to establish the deal on equity terms, with the foreign partner sharing in a specified share of the risk.

"Their attitude is not normal in the business," says Batt. According to Batt, $5 million is the limit of equity the average hotel company can afford. "There's just too much risk in assuming the total financial burden. We might admit a moderate amount of financing on a short-term basis to show we're in with them, sharing the risks. But they are in control of letting tourists in. They can change the rules and regulations any time."

To an extent, these feelings are a factor of normal jitters prior to settling financial terms of a contract. Intercontinental planned to send its third team to China in April to talk turkey on costs and financing, and official spokesmen expressed confidence that the project would be off and flying by midyear.

Hyatt: The Big Fizzle

Compared to Hyatt, whose November predictions of the possible scope of their contract topped Intercontinental's best by almost $500 million, Intercontinental is doing spectacularly well.

The Hyatt deal "has fallen to pieces," flatly states one observer. His view is shared by other sources, who describe the course of the Hyatt talks as "rocky" and "difficult," although Hyatt officials would admit only to slower progress than initially expected.

Hyatt's contract, originally engineered by Hong Kong financier and textile businessman Y. L. Yang, apparently collapsed in January with a policy decision from Beijing to have all Hong Kong proposals consolidated in the form of an investment company under PRC control. According to reliable sources, the internal cohesion of Yang's Chiaomei Group, involving I. M. Pei and Partners, Turner Construction Company, and First Boston Corporation of New York on the US side, at this point disintegrated.

I. M. Pei's firm, however, is proceeding with work on blueprints for one low-rise hotel of "several hundred rooms," to be located in the Xinxiang Mountains 25 miles west of Beijing. According to company spokesman C. C. Pei, the firm will send its first design team to China in April to review their preliminary work, as well as present a list of questions on which the architects need more information in order to proceed.

Guarded optimism is the keynote sounded by the prominent American architectural firm. "We are starting out with a few hundred rooms only so we can learn how to do it," explains C. C. Pei. Thinking within the firm on the proposed style of architecture leans to the fully Westernized, as close to Hyatt standards maintained elsewhere than China as possible, with complete business facilities.

Questioned about the source of funding for the work proceeding now, C. C. Pei declined to comment. According to a reliable source, the Pei firm was contracted by Y. L. Yang independently after the original scheme fell apart. The blueprints presented by the Pei team in April, to be lead by I. M. Pei himself, in this version of the story will be used as the basis for a new round of negotiations, involving possibly a different set of players.

Western International, Ramada Inn, Marriott: Promising

Insiders to the market claim that out of a total of more than 50 proposals presented to the Chinese since last year, only four are in the running for big-size projects. Intercontinental is clearly #1. With Hyatt out of the running, at least for the time being, Western International may be in second place. Third- and fourth-ranking bids are a matter of guess work: usually reliable sources claim that a proposal from Ramada Inn has caught the buyer's eye, while a high degree of interest is being shown in Marriott's intentions by hotel supply companies that stand to gain a good deal from accurate forecasting.

Hilton and Sheraton, according to the same source, have failed to reach a serious point of departure for discussions. Amherst, Sky Caravan, and Holiday Inn negotiations blazoned in the media at one time or another are dragging.

Why Western International? Rumor has it that the WI parent company, United Air Lines, has White House connections that are being brought to bear. The importance of the hotel catch in the ongoing corporate rivalry between UAL and Pan Am, Intercontinental's parent, is another factor. Soon after Intercontinental made its announcement in November 1978, UAL Chairman Edward Carlson let it be known

CHINA'S LAGGING TOURIST INDUSTRY NEEDS EFFICIENT MANAGEMENT AND MORE SPACE

China could increase its current tourism intake by twentyfold and earn $1.5 billion a year in foreign exchange if it were as efficient as Hong Kong in hotel management. A recent Chinese report (2/16/79) noted that China, with 30,000 hotel beds throughout the country, accommodates only 100,000 visitors a year, whereas Hong Kong, with just 24,900 hotel beds, handles more than 1.7 million tourists annually. Ironically, the report follows an earlier article (1/12/79) describing the shortage of hotel accommodations as the main bottleneck in the development of China's tourism industry.

While each report emphasizes different solutions, it is clear that the Chinese have adopted a coordinated approach to the accommodations problem. In the short run, the Chinese hope to improve the utilization rate of existing hotel facilities by establishing schools for hotel management. Meanwhile, China is negotiating to double its present hotel capacity from 30,000 to almost 60,000 beds by 1981. The following table provides a summary of both finalized and proposed hotel construction contracts between China and international companies. It covers 1978 and the first few months of 1979.

As of mid-March 1979, however, few of these negotiations had been finalized.

that his company would be involved in a project to build 1,200 rooms in Shanghai and 1,000 rooms in Beijing, depending on the development of a "mutuality of interests."

The first WI bid did not pan out; but another one in the works is thought likely to succeed. The company now has in its stable architect Henry C. K. Liu who, as consultant to the PRC General Administration of Travel and Tourism, was one of the original channels used by the Chinese to publicize its plans. Liu has been instrumental in cementing the Intercontinental agreement (still in process).

WI's second proposal is similar in broad outline to Intercontinental's, according to those associated with it. Officially, the company has admitted only to expressing an interest in assisting China in its devel-

CHINA'S MAJOR HOTEL PROJECTS

Country and Firm	Date Contract/Proposal Signed (S) or Negotiated (N)	Contract Details	Completion Date	Cost US$ Millions
US–Intercontinental Hotels Corp. (Pan Am)	S: 11/9/78	Design, construct, operate*, finance 5-6 1000-room hotels in China's main cities.	1981	$500
Hong Kong Consortium, New World Dev. Co., Hopewell Holdings Ltd., Tai Shing Dev. Co., Sun Hung Kai Securities Ltd.	N: 11/78 Finalized Agreement expected April 1979.	Build, finance, manage 4 1000-room hotels; 2 in Peking, 1 in Shanghai and Canton.	First hotel in Canton by 1980	$40
US–Hyatt International	N: 11/78	10 1,000-room hotels in 9 major cities.	NA	$1,000
US–Amherst Group of Companies	N: 12/14/78 Finalized Agreement expected in March 1979.	Design, construct, finance 5 500-room hotels in major cities; one 200-room hotel in Lhasa, Tibet.	1 in 1979; 5 by mid-1981.	$135 (Unconfirmed)
US–Sky Caravan International	N: 1/11/79	Build hotels in 13 cities.	NA	$200
France–Air France's Meridien Hotel Subsidiary	N: 1/79	Construction of hotels in 9 major cities.	NA	NA
US–Western International (United Airlines)	N: 1/79	Build 1200 rooms in Shanghai; 1100 rooms in Peking.	NA	NA
Australia–Great Sincere Pty. Ltd.	S: 1/24/79	Construct 8 small prefabricated 110-room two-story motels in north and south China.	End of 1979	$20.6
Japan–Dai-ichi Hotel and Takenaka Komuten	N: Agreement with China International Travel Service in late Jan. 1979.	1 1000-room hotel in Peking, possibly others.	NA	NA
Japan Air Lines Development Corp.	Proposal presented 12/78; N: 2/6/79	Construct and manage 1 1000-room hotel in Peking, Shanghai, and Canton; 500-room hotels in seven regional centers.	3½ years after approval date	NA
US–Honolulu-based architectural firm of Wimberly Whisen and Allison Tong and Goo Architects Ltd.	N: 2/79	One 38-story 1,250-room hotel in Shanghai; one 12-story 600-room facility in Kweilin.	Construction to begin in 1979	$70
Hilton International, ITT Sheraton Corp., Hong Kong Entrepreneurs	Have made proposals, but have not signed letters of intent.	Construction of 1,000 or 1,500-room hotels.	NA	NA

Total funds agreed upon or under negotiation: About US $2.0 billion.

Total number of hotel rooms (where available): 35,230+ (China would like between 25 and 50 1000-room hotels by 1981).

* All agreements seem to envisage an arrangement that provides for Chinese ownership and management of the hotels. However, the Chinese want the foreign companies to be responsible for raising funds and managing the hotels while training the Chinese staff that would eventually take over the operation of the hotels.

opment projects. In a telephone interview from Seattle, Washington, WI Vice President Ken Malloy told *CBR* that a group had been formed in readiness for contract negotiations. Contractors for WI will be Dillingham Corp., a $900 million Honolulu-based firm, while John W. Galbraith Co. will serve as development and construction managers and Morgan Stanley as financial consultants.

Other than the fact that WI would like to build first-class hotels for the PRC, Malloy declined to elaborate on the proposal. The company has requested to send a team to China in April but, according to Malloy, were turned down. According to one source, WI corporate has been having second thoughts about the original numbers proposed to the Chinese.

Why Ramada Inn? In about the same league as WI in terms of gross sales ($263 million in 1978), Ramada offers the added virtue of having under its wing a company specializing in computer services for the hotel industry, an area in which the Chinese have shown keen interest. As consultant for its China program, Ramada Inn has enlisted Henry Liu, who will be accompanying a company team to Beijing in April.

Why Marriott? Only time will tell, but the $1 billion, Washington-based hotel conglomerate is known to be testing the wind.

Intrigues: Amherst, Holiday Inn, Sky Caravan

With the settling of dust since November 1978, a few deals that looked solid have turned out to be fly-by-night affairs. Others are simply confused.

The Amherst Group, a Bangkok-based association of overseas Chinese firms under the guiding genius of Abe J. Leider, president of Amherst Management Systems, Inc., of New York, announced in December 1978 that two agreements had been signed, one to cooperate on hotel development and a second to develop a national telecommunications network and electronics facilities.

Both proposals staggered the imagination, the hotel deal alone involving an outlay of at least $135 million. The 23-man delegation that signed the agreements, led by former Thai Foreign Minister Chatichachi Choonhaven, arrived in Beijing in a private Boeing 707 that in itself established a new benchmark in lavish display by businessmen courting Beijing.

The terms of the "agreements" were never revealed. In March, a spokesman for the New York headquarters of Amherst Management Systems said that the current Amherst proposal involves the enlargement of two existing 1,000-room hotels. According to the spokesman, this project was the upshot of the Group's second China mission in February. The company expected to return to China on April 1, to present designs and cost estimates prepared by Amherst's Hong Kong confederates (among the partners in Hong Kong are Sun Hung Kai Properties, Hopewell Holdings, New World Development, and Sun Hung Kai Securities).

CHINA'S HOTEL REQUIREMENTS

For companies seeking to refine hotel construction and engineering design proposals for China, a recent article written by the Design Research Institute of the Architectural Science Academy, a unit of the State Capital Construction Commission, may be of use. The guidelines presented in this article are in line with those received by companies directly from the General Administration of Travel and Tourism.

- Space: Three categories of hotels are established: large (800–1,000 beds); medium (300–500); and small (below 300).
- Height: In China's scenic cities, the article recommends imposing a height ceiling of 4–5 stories. For larger cities, the recommended height is between 20 and 30 stories, with the majority being at least 10–20.
- Room specifications: Gross floor space per bed of 34–40 square meters; net floor space of single bedrooms in the 7–10 sq.m. range; and net floor space of double or twin bedrooms at about 15 sq.m. The authors call for an increase in the percentage of single rooms to total accommodations, with a reduction in floor space and room height compared to China's existing hotels. Single rooms should comprise 10–15 percent of the total, while double bedrooms should take up between 80 and 85 percent of the room space, according to the authors.

If the article's recommendations are implemented, new hotels in China will be taller, and the rooms appreciably smaller, than existing ones. Between 1973 and 1977, some 6,436 beds were added to China's inventory of hotel rooms for foreign tourists (China reckons hotel space by number of beds rather than rooms in the Western fashion). The most ambitious of PRC domestic projects has been the Bai Yun Hotel, in Guangzhou, with 1,194 beds, completed in 1977. *Source: Jianzhu Xuebao* ("Architectural Journal"), No. 4, 1978.

Because of the Group's dispersed corporate structure and flashy style, they are distrusted by some members of the hotel community. Says one consultant, "They approached me, but they couldn't make known to my satisfaction where their money was coming from." The financial responsibility for the project, in fact, rests with the US side of the Group. A company spokesman said that it was likely that they would arrange financing out of Hong Kong if the deal comes to fruition.

Sky Caravan's $700 million contract to build economy hotels for the ethnic Chinese market is another balloon that has apparently sunk. The story could make a classic case for the dangers of publicizing contracts based on inadequate information.

When James Ying, the New York businessman behind the Sky Caravans scheme, first proposed building hotels designed for overseas Chinese tourists in 13 Chinese cities, both the Chinese and their US representative Henry Liu were interested. Liu became briefly involved with the project, and assisted Ying in getting an invitation to Beijing.

Once Ying arrived in Beijing, however, the Chinese rapidly lost interest when they learned that his own role in the project was to be that of an agent, rather than a principal. From afar, Ying had looked like a wealthy investor looking to do his bit for the Old Country. Up close, he was one consultant too many.

The demise of the Sky Caravans project by no means spells the end of China's interest in economy-line hotels. One company that has had its share of both ups and down in this market is Holiday Inn.

Confusing though it may seem to outsiders to the hotel chain business, Holiday Inn has chartered its franchises to move forward on negotiations with China independently of the head office. This allows the company to keep its options open, while the franchise operators assume the risk of having their proposals shot down.

The company's methods have already turned up at least one promising proposal and perhaps two. According to a reliable source, a Hawaiian operator has begun discussions on building an 800–1,000 room hotel in a location as yet to be determined. The same source reported that discussions had been held on one other Holiday Inn franchise proposal, so far without results. A great number of other proposals have been submitted, the source said.

At the same time, the company has been plagued by franchise operators claiming headquarters endorsement of penny-ante projects. The loosely structured nature of the Holiday Inn initiative has given free agents, according to sources including the son of the former Holiday Inn board chairman, carte blanche to wheel and deal with the company's name. In some cases, Holiday Inn's Memphis head office has had to notify the Chinese about unauthorized proposals, much to the confusion of the Chinese side.

Cooking: US-designed Hotel School for China

One viable spin-off of the defunct Hyatt deal may be a proposal to set up a school for hotel managers and policymakers by the University of Hawaii.

Originally contacted by Y. L. Yang, Professor Chuck Gee, dean of the School of Travel and Industry Management at the University, traveled with the Hyatt team to China in November 1978 to present seminars on hotel administration in the US.

Gee's seminars, which he describes as "mini-lessons in how to develop an educational program," attracted hundreds of listeners in Shanghai and Hangzhou, possible sites for China's new hotel-training centers. "They were very hungry for information and eager to learn," reports Gee. Among others, he met with the individual likely to head up the school planned for Shanghai.

According to Gee, until China's construction plans are finalized, thinking on the school project is being held in abeyance. The immediate job is to train people responsible for managing existing hotels. Eventually, China will need facilities to operate short-term courses for thousands of new managers, Gee says, along the lines of the community college system in the US.

The school will be affiliated with the University of Hawaii and Hawaii will assist in its day-to-day operations, Gee stated in a telephone interview from Honolulu. In the first phase, Hawaii will supply information on the level of language proficiency needed by students, square footage requirements, and other basic specs.

Besides the school, China has indicated interest in UH offers to establish a visiting-scholar program designed for hotel teachers and administrators. In addition, UH may arrange seminars on specific topic areas to help keep the Chinese up to date on market trends and developments in the software area.

Trends: Municipalities Moving In

One conclusion shared by nearly all companies that have been involved with the General Administration of Travel and Tourism in recent months is that its monopoly of the hotel business is on the verge of breaking up. The large urban areas, in particular, are showing an interest in raising their profiles with the foreign hotel chains.

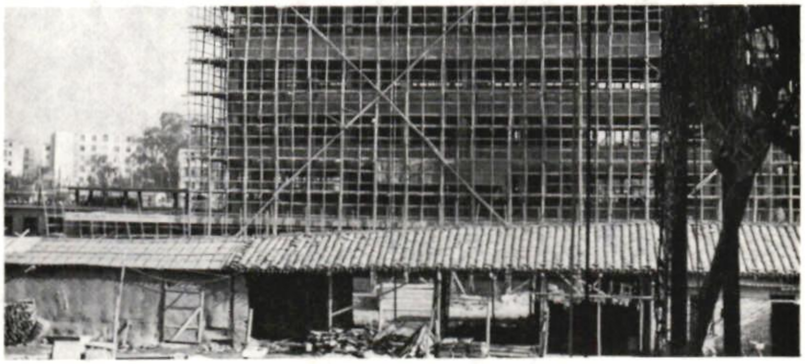
The Beijing Municipality, for example, has contacted I. M. Pei to discuss developing a long-range plan for construction development in the capital city. Possibly as many as five more Chinese cities may be interested in Mr. Pei's design cooperation.

According to some reports, a conflict is developing between the tourism authorities signing the contracts and the municipalities, which own the land where the foreign-built hotels are to rise. The crux of the dispute, according to one source, is that GATTPRC has asked the cities to participate in the project risks but not the profits. One reason why decisions on hotel sites have been so slow to emerge, according to this source, is because of this local controversy.

Another Link

In a statement released in early February, the Honolulu-based architectural firm of Wimberly, Whisenand, Allison, Tong & Good disclosed a design contract with China. The company said it had been selected to design hotels in six Chinese cities, including a 1,250-room, 38-story hotel in Shanghai, and a 600-room, 12-story facility in Guilin. Other hotels are to be built in Beijing, Guangzhou, Suzhou, and Wuxi, in association with the Hong Kong firm Kuok Travel Service, which will provide technical and managerial input. According to a reliable source Kuok is owned by Singapore interests, and the deal has been signed on the understanding that the firm will be spending its own money on the design and preparatory work.—ET 完





Counterclockwise: CITS Building; OCTS Building; Interior of CAAC Building, Guangzhou

BUILDING COSTS IN CHINA

Pan Am's Intercontinental, and other US companies, are being asked by the Chinese to discuss construction costs based on Hong Kong wages, five times higher than those in the PRC. How much does it cost the PRC to erect buildings? The National Council's Construction Equipment delegation had a rare opportunity in Canton on December 14, 1978, to discuss building costs in the PRC.

The group visited three almost completed buildings grouped around a courtyard near Canton's railway station, that were under construction for the Chinese Civil Aviation Administration (CAAC), the China International Travel Service (CITS or Luxingshe) and the Overseas Chinese Travel Service (OCTS). The costs of erecting these buildings were given as follows:

	Stories	Sq. Meters	Cost (Yuan)	¥/Sq. M	$*/Sq. M
CAAC	6	5,160	750,000	145.35	89.65
CITS	7	7,050	900,000	127.66	78.14
OCTS	5	3,560	380,000	106.74	65.84
Canton City	—	650,000	52,000,000	80.00	49.00

* At ¥1.6213:$ rate prevailing

The OCTS and CAAC buildings were being constructed by the Canton Muncipal Construction and Engineering Company which has just under 20,000 workers. The Guangdong Province Engineering Company was in charge of the CITS building. About 200 workers, probably averaging ¥60–65 in wages a month, were employed to build the CAAC building. While CAAC's six stories have no elevator, future office buildings with six stories in Canton will include them—but not residential buildings.

Site preparation was carried out by the Municipal Earthmoving Engineering Company. Building construction was heavily manpower-oriented. Little machinery and equipment was used—two Chinese-made cranes and some lifting facilities were available for the whole site. The machinery needed was not owned by the construction company, which characterized itself as a contractor, but hired from the pool of equipment maintained by the Guangdong Province Mechanical Engineering Company for construction.

The total costs of building construction in Canton City in 1978 were given as ¥52 million (¥80/sq. m. for about 650,000 square meters built), equivalent to about $32.1 million.

In 1978, 28 million square meters of new building space was erected in all of China, according to official sources. At the cost given in Canton, China's total building budget in 1978 was $1.37 billion. Interestingly, the taxes China received from cigarette sales in 1978—about $2.4 billion—more than covered the cost of China's building budget.

American tungsten specialists at Zhuzhou Tungsten Carbide Factory, 1979

China's Tungsten Pricing Strategy...

Why the PRC Has Reduced Its Supplies

C. Suan Tan

China is a leading producer and exporter of tungsten, a critical commodity for the industrialized world. But China's role in the tungsten market has not been clearly understood. World tungsten traders and consumers wonder why the PRC, perennially in need of hard currencies, has permitted its share of earnings from the world tungsten trade to fall and, instead of taking advantage of rising prices, has reduced its available supplies of the rare metal. In this analysis of China's tungsten pricing policies, C. Suan Tan, an expert on the world tungsten market, provides some answers to what at first seems a curious trade pattern.

Her (China's) consistent policy is to establish trade relations with all countries on the basis of equality and mutual benefit. . . In her trade with other countries, China always seeks to achieve a balance between imports and exports on a barter basis in accordance with her principles of equality and mutual benefit. . . A policy of fair prices as opposed to the exchange of unequal values is another characteristic of China's trade.

Wen Liang, "China's Foreign Trade: Its Growth and Some Basic Principles," Beijing Review, *September 22, 1959.*

To ensure that foreign trade develops along the socialist road, China has consistently pursued a policy of controlling and protecting trade. A series of measures was adopted in foreign trade . . . [which] effectively . . . ensured that China's foreign trade was carried out in accordance with the established principle and policy and the economic plan.

Wang Yao-ting, Chairman, CCPIT, "China's Foreign Trade," Beijing Review, *October 11, 1974.*

Tungsten, whose ores occur geologically as wolframite and scheelite, is a vital element in the modern industrial economy. Because of its metallurgical properties, tungsten is used mainly in the production of high-speed steel, allied tool steels, tungsten-containing alloys, and in tungsten-carbide tools and dies. China is known to have the largest proven deposits of tungsten ores in the world.

Yet, although tungsten is China's most important export metal, the country does not appear to be maximizing its export, given the level of its tungsten production.

The World Tungsten Economy

The chief features of the world tungsten economy are as follows:

Concentration of supply in a few countries. The chief world deposits of tungsten ore are in Bolivia, Brazil, China, South Korea, and the US. Wide production cost variations exist between these countries, depending on mine conditions and methods of extraction, the country's social system, and local wage rates. Production is controlled by relatively few suppliers so that marginal costs may be irrelevant in supply considerations within a certain price range.

Concentration of demand in industrialized countries. Japan, Western Europe, and the US together accounted for about 90 percent of world tungsten consumption between 1960 and 1976. They continue to dominate demand.

Concentration of ore converters/traders. Because tungsten must first be converted into intermediates of ferrotungsten and tungsten carbide prior to its use in industry, processing creates a time lag between tungsten production and consumption. Tungsten trading is conducted chiefly by the few ore converters.

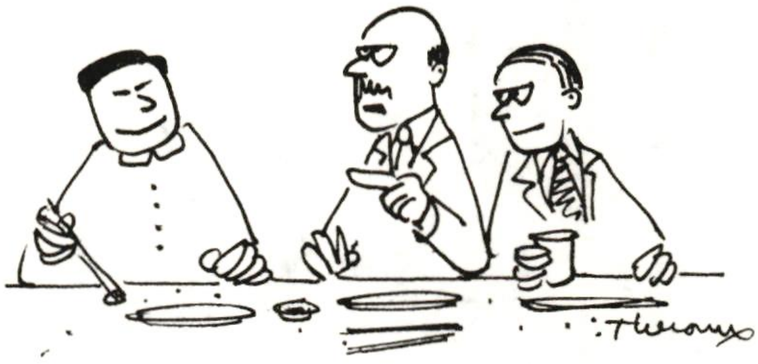
World trade in tungsten is therefore conducted in a market approximating bilateral oligopoly (in which both supply and demand are in relatively few hands). Price formation of tungsten is ultimately resolved by a test of bargaining strength determined by:

- the short-term inflexibility of supply;
- the positions of industrial consumers in the business cycle at any point in time; and
- the priorities of socialist supplier countries.

China's policy and priorities in the conduct of the tungsten trade thus further complicate the price formation process in this market. For long-term contracts, pricing remains aligned with London *Metal Bulletin* (LMB) prices. Forward trading may also be based on LMB quotations.

The LMB-related pricing plus the concentration of trading widens the scope for price manipulations through spot trading, since losses from small lots of spot tradings can easily be offset by gains achieved for larger lots purchased under long-term arrangements for which pricing has been preformulated. However, when spot trading covers the tungsten needs of the industrial nations substantially, instead of marginally, the higher proportion of spot trading vis-a-vis long-term contracts results in a freer interaction of market forces.

A consequence of the Sino-Soviet rift in the early sixties is that a line of demarcation about 1964 may be drawn to distinguish two periods corresponding to the different trade strategies adopted by the two socialist suppliers and their influence on the world tungsten market. The tungsten market during 1960–1964 reflects its narrowness and a discussion of the effects of a particular sales strategy on tung-



Don't try to beat down our price, Mr. Wang, we're not as euphoric as you think!

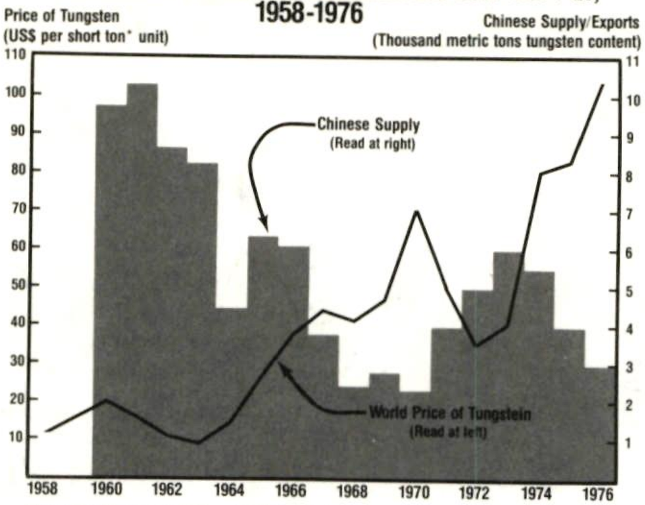
US DELEGATION IMPRESSED BY CHINA'S TUNGSTEN INDUSTRY

A delegation of tungsten specialists representing the American Refractory Metals Association, recently returned from China, reports that the PRC's tungsten industry is well developed and almost comparable to Western standards. The association was invited by China's National Metals & Mineral Import & Export Corporation to discuss methods for improving tungsten mining and tungsten carbide manufacturing practices.

The group visited the Xihua Shan tungsten mine in Jiangxi province. The mine is a sizable operation, providing the infrastructure for 3,000 employees and producing 2,500 metric tons of tungsten ore annually, of which 3,000 tons per day is processed underground. The mill is of Russian design and has two stages of hand sorting, including normal stages of crushing (gyratory crusher, Simons crusher), boring, jakes, and 144 tables. The end of the process employs magnetic and electrostatic separators.

The delegation also toured the Zhu Zhou tungsten carbide plant in Hunan province. The factory employs 2,000 workers and produces 1,000 metric tons of tungsten carbide tips and inserts per year. These products are used in oil drilling, mining, and metal cutting. The fully integrated plant processes tungsten concentrates into tungsten carbide powder which is then made into parts. As generally described by members of the delegation the plant facilities are well managed, very clean and almost up-to-date with Western tungsten manufacturing technology.

FIGURE 1:
TUNGSTEN PRICE AND CHINESE EXPORT SUPPLY, 1958-1976



*US$/short ton times 1.10231 equals US$/metric ton

Source: See Table 3, Columns CHS and P

sten price provides an understanding of the posture adopted by China towards tungsten trading in the years that followed.

The Weakening of Tungsten Prices, 1960–1964

The behavior of tungsten prices for the period 1958–1976 is shown in Figure 1. Two factors explain the pre-1960 prices: the cessation of US government subsidies to domestic producers of tungsten in 1958, so that prices ceased to be supported artificially; and the entry of the Soviet Union into the world tungsten market in 1959, thereby easing the existing tight supplies in the West. Tungsten prices therefore began to soften, as of 1958.

Between 1959 and 1964 the USSR imported large amounts of tungsten from China, deliveries which very possibly represented repayments of Soviet loans to China. Table 1 gives tungsten statistics for these two countries. Comparing the volumes of Soviet tungsten imports from China and exports to the West during 1960–1965, and the quality differences in ores produced by the two countries, it appears that Chinese ores of better grade were retained for Soviet consumption and Soviet ores exported instead.

The Soviet sales strategy was characterized by a strict preference for long-term contracts. Furthermore, because of the USSR's lower grade ores, which required wider tolerances for ore specifications used in these contracts, Soviet sales were also lower than Western prices. It was through this strategy that the USSR came to dominate the market.

Under normal circumstances, where there is a relatively even spread in supply between long- and short-term contracts, the volume of purchases under long-term contracts is insufficient to prevent free interaction of supply and demand. But the long-term Western contracts signed with the USSR during this period covered sizable volumes, leading to a loss for European traders on a considerable part of tungsten transactions. The result was an apparent decline in global demand; prices subsequently weakened because of market inelasticity, and additional tonnages released in spot lots narrowed the market further.

Assuming that the Chinese deliveries to the USSR were based on London prices and that Sino-Soviet exchange agreements were in value terms, the Soviet sales strategy was apparently to lower the London prices by selling relatively smaller quantities in the market than those obtained from China, thus depressing the reference price and obtaining larger tonnages of tungsten from China at lower cost.

Another factor contributing to the weakening of prices during 1960–1964 was the introduction of supplies from Czechoslovakia, Britain, and China. Czechoslovakia began selling large quantities of ores probably acquired in previous years from the Soviet Union and China as part of some barter agreements. During the same period, the British government decided to release government stocks held over from the Korean War period. In 1963 China began direct trading of tungsten with the West.

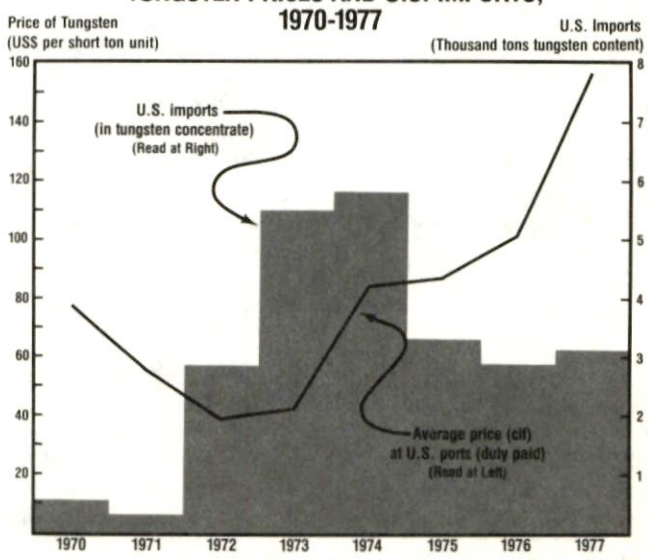
The crisis in tungsten prices during 1960–1964 led to the shutdown of many Western mines. Only well-equipped and particularly high-grade mines, such as those in Portugal and South Korea, maintained production, albeit at a reduced level. The Bolivian miners' call for an international solution led to the establishment of the UNCTAD Committee for Tungsten. The committee convened its first conference on tungsten in January 1963.

By the end of 1964, the massive sales by the Soviet Union ceased, as exports fell off in the wake of the Sino-Soviet rift. The Chinese maintained tungsten trade with the West, but shifted from a tungsten supply program to the technique of limiting sales and hence shorter-term supply. The disadvantages of long-term supply contracts covering huge tonnages were brought home to the Chinese, as they saw how their bargaining strength and pricing strategy had been weakened under the former policy.

Beijing Optimizes Earnings

The relative importance of Chinese tungsten exports in the world market is shown in Table 2. China's tungsten output represented an estimated 18 to 35 percent of world production from 1960 to 1976, but Chinese exports declined, noticeably, from 70.2 percent to 11.6 percent of world exports in the same period.

FIGURE 2:
TUNGSTEN PRICES AND U.S. IMPORTS, 1970-1977



Source: *Mineral Commodity Summaries, 1978* (U.S. Bureau of Mines)

Table 1

TUNGSTEN STATISTICS FOR CHINA AND THE SOVIET UNION, 1960–1965
Tungsten Content (Metric Tons)*

Year	World Imports of Tungsten of Chinese Origin	Soviet Union[a] Domestic Production	Soviet Union[a] Imports from China	Soviet Union[a] Exports to West (incl. Japan)
1960	9,752	2,140	8,710	2,200
1961	10,360	2,200	9,000	2,400
1962	8,648	2,400	6,610	2,300
1963[b]	8,227	2,400	5,120	2,000
1964[c]	4,540	2,500	2,860	1,600
1965	6,364	2,700	2,860	1,550

* 1 Metric ton = 2,204.6 lbs. of tungsten content

Notes:

(a) Source: C. Barbier, *The Economics of Tungsten*, (Metal Bulletin Books Ltd., 1971), p. 101. The conversion factor of 0.4758 was used in converting the given statistics in tons tungsten ores to tons tungsten content.

(b) Year in which China began direct trading of tungsten with the West.

(c) Year in which Chinese exports to the Soviet Union started to fall.

Table 2

PRODUCTION AND EXPORT OF TUNGSTEN FOR SELECTED YEARS, 1960–1976
Tungsten Content (Metric tons)*

Year	China	Rest of the World	Total
Production[a]			
1960	10,800 (34.8)	20,000 (65.2)	31,200 (100.0)
1965*	8,000 (29.4)	19,200 (70.6)	27,200 (100.0)
1970	6,000 (18.2)	27,200 (81.8)	33,000 (100.0)
1971	7,000 (19.2)	29,500 (80.8)	36,500 (100.0)
1972	7,500 (19.6)	30,800 (80.4)	38,300 (100.0)
1973	8,000 (21.3)	29,600 (78.7)	37,600 (100.0)
1974	8,500 (22.7)	28,900 (77.3)	37,400 (100.0)
1975	8,980 (23.2)	29,720 (76.8)	38,700 (100.0)
1976	9,000 (22.1)	31,800 (77.9)	40,800 (100.0)
Exports[b]			
1960	9,752 (70.2)	4,140 (29.8)	13,892 (100.0)
1965*	6,364 (51.7)	5,939 (48.3)	12,303 (100.0)
1970	2,319 (11.6)	17,763 (88.4)	20,082 (100.0)
1971	3,958 (18.5)	17,442 (81.5)	21,400 (100.0)
1972	4,975 (21.8)	17,825 (78.2)	22,800 (100.0)
1973	6,000 (25.2)	17,800 (74.8)	23,800 (100.0)
1974	5,500 (23.9)	17,500 (76.1)	23,000 (100.0)
1975	4,000 (18.4)	17,800 (81.6)	21,800 (100.0)
1976	3,000 (14.1)	18,300 (85.9)	21,300 (100.0)

Source: *UNCTAD Quarterly Bulletin of Tungsten Statistics*, Vol. IV, No. 1, 1970; Vol. VIII, No. 3, 1974; Vol. X, No. 4, 1976; Vol. XII, No. 3, 1978.

Notes: (a) Figures for China were estimated by the US Bureau of Mines.

(b) Measured by total imports from China and the Rest of the World respectively.

* Year in which European (notably German, French, and Swedish) and Japanese buyers shifted their purchases from the Soviet Union to China.

(Figures in parentheses denote percentages of corresponding totals)

* 1 metric ton = 2,204.6 lbs. of tungsten content

Table 3

DATA USED IN THE ANALYSIS

Year	CHS	P	E_T	X	M
1960	9,752	19.30	26.16	1,960	2,030
1961	10,360	15.36	22.11	1,530	1,495
1962	8,648	10.65	12.80	1,525	1,150
1963	8,227	8.79	10.05	1,570	1,200
1964	4,450	14.82	9.26	1,750	1,470
1965	6,364	26.10	23.08	2,035	1,845
1966	6,134	37.20	30.87	2,210	2,035
1967	3,779	43.85	23.03	1,945	1,950
1968	2,416	41.05	13.78	1,945	1,820
1969	2,786	46.63	18.05	2,030	1,830
1970	2,319	70.43	22.70	2,050	2,240
1971	3,958	49.52	27.24	2,415	2,305
1972	4,975	35.42	24.49	3,085	2,835
1973	6,000	40.32	30.20	4,895	4,975
1974	5,500	80.13	47.70	6,560	7,415
1975	4,000	83.37	40.80	7,000	7,400
1976	3,000	104.17	34.35	6,900	6,000

Notation	*Variable*	*Unit of measurement*
CHS	Chinese Supply/Export	Tungsten Content in Metric Tons
P	Tungsten Price	US Dollars per Short Ton Unit (× 1.10231 = Dollars Per Metric Ton Unit)
E_T	Chinese Tungsten Earnings	Million US Dollars
X	Chinese Total Exports	Million US Dollars
M	Chinese Total Imports	Million US Dollars

Although world output rose only 30.8 percent between 1960 and 1976, world trade in tungsten shot up 53 percent. The PRC's exports, 90 percent of its estimated production in 1960, fell to 33 percent of output in 1976. An analysis of the PRC's behavior in the tungsten market, based on data for the years 1960–1976, is given in Table 3. Alternative regressions were made of Chinese tungsten exports against price of tungsten, China's balance of trade (both current and lagged), and lagged Chinese tungsten exports representing capacity constraint.

The analysis consistently shows Chinese tungsten exports as a negative function of price and also as a negative function of her current trade balance. In other words, China's export tonnage of tungsten did not increase in concert with world prices, nor even with China's own rising foreign trade. The capacity constraint represented by lagged Chinese exports also proved insignificant in explaining the PRC's declining export trend.

As a result of the inverse relationship between exports and price, Chinese tungsten supply is thus characterized, in economic terms, by an unusual backward-sloping supply curve: as prices have risen, Chinese supplies have fallen. Bearing in mind the bilateral oligopolistic structure of the world tungsten market, the backward-sloping supply curve indicates the bargaining strength and hence, price leverage, that China exerts through a limited sales strategy.[1]

China's inability to exploit its comparative advantage in the tungsten trade must be viewed against the pattern of stockholding of processed tungsten by the major consuming countries, the narrowness of the world tungsten market, the profit-maximizing behavior of the other chief exporters of tungsten in the West, the formation of the biweekly LMB price quotations, and the general alignment of tungsten trading to LMB quotations.

Notwithstanding production bottlenecks, the PRC's tungsten-trade behavior appears to be the outcome of *tâtonnement* (bidding) processes conducted at the biannual Canton Trade Fairs where Chinese tungsten sales are usually negotiated at prices invariably higher than LMB quotations for parallel periods.

China's tungsten trade strategy can be better understood within the context of the PRC's overall foreign trade planning and policy. It is generally argued that Chinese national economic planning is not taut, there being some flexibility to allow for adjustments and/or modification as the plan is being implemented. Under the Chinese economic system, such flexibility would also pertain to the foreign trade sector. Given this flexibility and the PRC's small foreign trade ratio, exports can always be maintained by reducing consumption in the short run.

How can we explain China's tungsten pricing policy?

The hypothesis that China has limited sales to camouflage production bottlenecks and supply shortages appears untenable, given—

(a) the element of flexibility in China's planned system;

(b) the ease with which tungsten ores can be mined by labor-intensive methods, the recent increase in domestic tungsten output, and the ease with which rare metals, including tungsten, can be transported;

(c) the slow growth in China's domestic steel production and the relatively huge amounts of tungsten not exported. Between 1970 and 1976, Chinese annual retained tungsten output averaged 3,242 tons tungsten-content; by comparison, the average annual tungsten consumption in steel-producing Japan for the same period was only 2,411 tons tungsten-content; and

(d) the failure of capacity constraint to explain the Chinese tungsten sales.

It is commonly known that China's foreign trade involves a national material and budgetary balancing process. Once import requirements are identified, exportable products are then sought to provide the foreign exchange requirement of the import bill. Given the very small and declining share, averaging one percent during the 1965–1976 decade, of tungsten in total Chinese export earnings since 1963 when the PRC first began direct trading in tungsten, and the margin of trade flexibility allowed for by Peking's planners, China's tungsten trade policy appears to be the outcome of a "constrained optimization" procedure in which China has consciously withheld supplies to optimize earnings to meet a specified foreign exchange requirement.

Beijing's objective has apparently been to maximize tungsten prices by minimizing sales as long as tungsten export earnings meet the specified target. Consideration of tungsten as a depletable resource may also have entered into the setting of earnings targets.

China's tungsten policy is an instance of economic "rules" for optimal behavior under certain market structures running counter to trade specialization under comparative advantage. To counter the existing market structure, China has selected a trade strategy to serve two closely related objectives: namely, to optimize tungsten export earnings subject to some stipulated foreign exchange requirement, and at the same time to achieve bargaining strength, through price leverage, in a bilateral oligopolistic international market dominated by relatively few consumers in the industrial West.

Chinese tungsten trade strategies appear to have fulfilled the non-economic objectives of her foreign trade policy while at the same time maximizing economic gains. In the present world clamor for a new international economic order, commodity trading and its stabilization are key issues. An understanding of China's behavior in the tungsten market is useful since the salient features of the tungsten market are not peculiar to tungsten but common to many primary commodities that are crucial to the modern industrial economy and important for many developing countries. 完

Footnote:

1. This has been substantiated by an earlier econometric study of the world trade in tungsten where the volume of Chinese tungsten exports is a key factor in the determination of tungsten prices. (For further details, see the author's "Econometric Model of the World Tungsten Economy," *Resources Policy*, December 1977.)

TUNGSTEN SPECIFICATIONS FROM MINMETALS, 1978

Metal Tungsten Powder Specifications:

Grade	Average size Microns	Chemical composition: Tungsten	Chlorinated residue	Oxygen
1	2–4	99.9% min	0.05% max	0.5% max
	2–4	99.0% min	0.10% max	0.5% max
2	1	99.0% min	0.10% max	1.0% max

Note:
Impurities of iron, molybdenum are not included in chlorinated residue.
Uses: For making alloys, tungsten products, tungsten compounds, plasma spraying, etc.
Packing: In iron drums or plastic drums with inner plastic bags of 20 kilos approx. net each.

Tungsten Carbide Powder Specifications:

Type	Average size Microns	Total carbon	Chemical composition: Free carbon	Chlorinated residue	Iron
I	1–2	6–6.12%	0.1% max	0.18% max	—
II	2–4	6–6.12%	0.1% max	0.18% max	—
III	4–8	6–6.12%	0.1% max	0.18% max	—
VI	20 min	6–6.12%	0.1% max	0.18% max	0.25% max.

Note:
Total carbon content may be determined in accordance with requirements by users.
But total carbon must be allowed with a tolerance + 0.1%.
Uses: For manufacture of cemented tungsten carbide.
Packing: In iron drums or plastic drums with inner plastic bags of 20 kilos approx. net each.
Source: China National Metals and Minerals Import and Export Corporation Delegation to the US, July 1978.

Exporter's Notes

Briefly:

• Chase Manhattan signs Beijing Foreign Trade Center deal, squelching Japanese initiative

• Upbeat Arco wins first oil exploration contract with China over Exxon, Phillips, Pennzoil, and the rest

• Ministry of Metallurgy to send representative to the US on long-term visit

• China puts the screws on potential partners to win best possible terms on import deals; meanwhile, companies ponder the semantics of protocols as some of them vanish into thin air

• US Government looking at possible formulas for grain agreement, shipping and aviation pacts, while initialled claims agreement hangs fire

• Chilton signs on not only PRC consultant, but ministries to translate, typeset US industry guide

GENERAL

Waaaaaaaaay Off?

In boardrooms and hallways, businessmen were scratching their heads and muttering in low voices about the sudden and dramatic slowdown in China's import plans. But so far, the US has suffered far less than China's Japanese erstwhile copartners. With the exception of a few protocols for iron and steel projects that turned out to be not-so-firm as expected, US companies have received nothing like the slaps in the face delivered to the Japanese.

In rapid succession, Japan has lost the Baoshan Steel Mill contract, $2.2 billion worth of additional plant contracts, and, perhaps most crushingly, the deal for a Japan Trade Center that was to rise proudly over Beijing.

The Japan Trade Center is now a US Trade Center, with Chase Manhattan Bank leading a group of construction and design firms in one of the first bank-organized building consortia with the PRC.

And the steel contracts with US companies may not be lost, either. One of the most significant developments of a month-long tour of the US by the PRC Minister of Metallurgy was the announcement that a PRC steel industry official would be posted permanently to the US.

US companies were crowding up towards the finishing-point of a year-long race to land themselves spots on Chinese offshore oil fields, with Arco reeling in the first contract of many that may be assigned to the US. While details of the negotiations were unavailable in early April, if China follows the strategy used with the Japan National Oil Corporation, it will probably ask the companies to assume all risk until finds are made.

As far as governmental relations were concerned, March and April represented a transitional phase. Points of agreement on the claims problem, shipping, aviation, and the grain trade reached earlier ran into some stumbling blocks as talks began in earnest. The claims agreement, initialled, but not signed, in early March is indicative of the sensitivity of the negotiating climate apparently stalled for reasons of broader political relations between the two countries.

Secretary Juanita Kreps was expected to begin talks leading toward a US-China trade agreement on her May visit to the PRC, and possibly sign shipping and aviation agreements as well. But President Carter appears to have cancelled plans to make a China trip in June.

Despite political fits and squalls arising from US-Taiwan relations and China's 'limited war' in Vietnam, however, the forward momentum to US-PRC trade has not been lost. Trends to watch:

• Endusers are signing contracts: The first oil exploration contract signed between China and a US company had the PRC Petroleum Corporation, not MACHIMPEX, as client (See Financial Notes)

• US firms are hiring Chinese technicians and consultants, and the Chinese are asking to be paid at Hong Kong rates. Next: Inflation in China?

• US companies are being granted permission to open full operational offices in Beijing, and, though space is short, the banks may be opening branches, too, before long

• Over 40 delegations monthly are visiting the US, according to the State Department, and nine tenths of them are pushing for technology, not hardware, or joint ventures

• More Chinese enduser corporations and ministries may lodge themselves in US offices before long. Watch for a PRC oil representative in Houston, Bank of China offices in New York, and shipping representatives in Seattle. And watch Shao Xiaoshi, soon-to-arrive PRC steel rep!

US GROUP TO DESIGN, BANKROLL BEIJING TRADE CENTER: MORE TO COME?

In the first breakthrough on negotiations to build badly needed office quarters for foreign businesses in China, a US consortium led by Chase Pacific Trade Advisors and its parent corporation, Chase Manhattan Bank signed design and financing contracts on the Beijing World Trade Center in late March.

Just down the street from the Friendship Store in Beijing, the center will be located at the intersection of Jianguo Avenue (which continues off Changan Avenue), and Dongchuan Bei Road, which leads to the airport. The site is presently occupied by a construction materials factory which will have to be relocated to the countryside.

JAPAN DEAL DOWN THE CHUTE

The announcement came like a bad April Fools' joke to the Japanese, who have been dogging the contract since it was opened for bidding in September 1978. Great fanfare attended the signing of a Japan-China protocol on the trade center shortly after it was announced that Japanese companies would be allowed to open business offices in Beijing in late September.

First in, last out, is the lesson the Japanese have learned from this encounter. The protocol apparently has been allowed to lapse, although some sources speculated that China had other plans in mind for its Japanese friends. Unnamed French companies, which gave the Chase consortium strong competition in the last rounds, are said to have their eye on a contract for a similar office complex in Shanghai.

The finance agreement signed by the Chase group marks the first time ever that a loan has been made to a Chinese entity other than by, through, or to the Bank of China. The Ministry of Foreign Trade has authorized those working on the project to borrow from Chase and guaranteed repayment, thus precluding the need for a Bank of China guarantee.

The Chase Manhattan Group, formally dubbed the "China Foreign Trade Center Development Group," also signed a protocol on the construction phase of the project. It was understood that the actual building contract would not be signed until wrap-up of the first phase, estimated to take a total of ten months. The designers have been asked to put together a "competitive" cost budget that may or may not win them the right to proceed; other US companies, aware of this, have also been in Beijing hot on the track of the building contract.

A TRADE CENTER IS BORN

Signing ceremonies took place on March 30, 1979 (on the construction protocol and loan commitment), and April 1 (on the design contract). A delegation led by Richard J. Boyle, senior vice president in charge of Chase's real estate department, and the Ministry of Foreign Trade's "Preparatory Committee for the China Foreign Trade Center", headed by Committee Vice Chairman Liang Zhanxiang, officiated.

On the US side, the group assembled by Chase includes Gerald D. Hines Interests of Houston, Texas, a real estate developer; Kaiser Engineers of Oakland, California, a Raymond International subsidiary; and Turner International Industries, Inc., a subsidiary of Turner Construction Company, New York. The Chinese "Preparatory Committee" is a body of 100 officers and other members of the Ministry of Foreign Trade. It is chaired by Vice Minister Zhao Changchun.

The idea for the center was planted during November and December when Kaiser Engineering and Chase Manhattan, respectively, visited Beijing. On January 24, the Ministry of Foreign Trade invited Chase to put together a consortium for the center. On February 12 the consortium arrived and held talks for three weeks. On March 24 the consortium returned to Beijing, confident of signing the contract, and reached agreement one week later.

The contents of an average city block in the US are to be poured into the trade center. Besides offices, the complex will have shops, exhibition space, conference rooms, health spas, and restaurants. A hotel unit adjacent to the office tower will serve needs of businessmen on short-term assignments, while businessmen stationed in Beijing on longer projects will be able to bring their families to a planned residential area.

The trade center will be truly international, and the waiting list of prospective tenants is building up quickly, according to Chase Pacific Trade Advisors. Two days after the agreement was signed, at least two tenants were waiting to get in. Chase Pacific was not willing to disclose prospective rents. As the space is leased out, the trade center is expected to pay for itself.

FIRST US LOAN TO PRC

The financing contract won by the US group is the first official buyers credit extended by any US bank to the PRC. The $30 million loan has an 18-month due date, but sources at the bank were confident that the loan would be repaid out of proceeds of a larger credit for the construction phase of the project, yet to be awarded. As of early April, interest rates and the disbursement schedule of the loan were still under negotiation.

The loan will fund design, site surveys, construction related to both, materials, economic studies, and temporary work areas and equipment. The project architects left for Beijing in early April to begin drafting blueprints and lining up construction requirements and timetables.

Negotiations on the loan were begun last December when Chase Manhattan President Willard C. Butcher visited Beijing. At that time, Butcher stated that facilities were already in place for direct lending to China (see *CBR* 5:5 p. 35). The fact that financing was on line for the project may have been a major consideration swaying the Ministry of Foreign Trade when it decided to approve the Chase group's bid on the office project.

The total 325,000 square meters which the trade center will take up may ultimately require an outlay of between $200 million and $325 million, at approximately $1,000 per square meter. Under terms of the construction protocol, the design phase is to be completed before March 1980, with a hoped-for completion date of May 1982 for the entire project.

The Ministry of Foreign Trade and the US group will set up a joint office in Beijing to oversee the entire project. In the first phase, among other things, the office will be responsible for collecting all the data necessary to establish the construction schedule, ma-

Highrise construction on outskirts of Beijing

terial supplies requirements, and transportation needs. The building to house the project headquarters, which the Chase group will erect, will be the first office outside the Peking Hotel to be occupied by a US company.

Other features of the unique deal include:

• An arrangement to pay Chinese technicians and workers at Hong Kong rates;
• An arrangement to clear the site of an existing factory and relocate it with assistance of the US companies, which may build part of the new installation.

Providing the glue to hold the project together is Chase Pacific Trade Advisors, a subsidiary of Chase Manhattan Bank. Chase Pacific President Kenneth Morse traveled to Beijing with Butcher in November 1978, when the negotiations began, and since then has helped bring into the arrangement many of the present members of the "China Foreign Trade Center Development Group." Since late February 1979, Morse has been in Beijing almost full-time shepherding the contract home.

On March 31, in a meeting with Foreign Trade Ministers Li Qiang, Morse learned that his company's application to open an office in Beijing had been fully approved. Until the new world trade center is completed, Chase Pacific has elected to stay within the Peking Hotel, but its staff will be fully operational there. Newly assigned room numbers are 1522 and 1524. Chase Pacific will retain its old suite, (Room 1201), spokesmen of the company said in April.

(The National Council's Hong Kong representative, John Kamm, contributed to this article.)

ARCO IN LEAD, BUT OTHERS CLOSING FAST IN RACE FOR PRC OIL PROJECTS

Bouncing the giant oil companies temporarily off the headlines, Atlantic Richfield Co. (Arco) unexpectedly became the first to win a wholly US contract for exploring China's underwater oil resources.

Apart from announcing the signature ceremonies in Los Angeles on March 19, Arco was not saying much about its contract or its coup. Some oil industry insiders grumbled that the Chinese had given the deal to Arco in order to increase their bargaining power over the rest of the pack. The chief contenders—Phillips, Union Oil, Pennzoil, and Exxon—had representatives in Beijing months before Arco initiated its bid.

Maybe dark horses run faster. Arco first emerged as a serious contestant last September, when it hosted an important PRC oil industry delegation at its Los Angeles headquarters. The results were favorable enough to land Arco a return invitation to visit the PRC in October 1978 and early 1979.

Finally signed during a US tour by top executives of the China Petroleum Corporation (see Council Activities), the contract commits Arco to a geophysical reconnaissance program in Chinese waters.

Other US companies bidding on development areas in the South China Sea will very likely conclude their negotiations by May 1979. Three American companies, Union Oil, Exxon, and Phillips, have already entered into a "group shoot" exploration contract with British Petroleum, Shell, and Elf-Acquitaine to conduct seismic surveys in the Yellow Sea. British Petroleum is serving as chief operator in that deal.

It was not disclosed what kind of timetable the Chinese were giving US companies to work with. The three-pronged tour by the Petroleum Corporation delegation, which signed the British Petroleum contract during a 10-day visit to the UK and spent two weeks in Brazil before coming to the US, aroused considerable speculation.

The Chinese are apparently comparing different models of offshore development in order to make a final decision on their own method. What they decide may effect the scheduling of exploration, development, and production phases, as well as the reward the companies can expect to get. In both Britain's North Sea fields and Brazil, foreign companies are asked to assume all risk until a field is proven. Britain, unlike Brazil, allows compensation in oil, while Brazil's national oil company, Petrobras, assigns foreign companies cash compensation as "rewards."

Meanwhile, US companies are angling their way into "group shoot" schemes, where several companies conduct tests under the directions of another, or individual parcels like Arco's.

Other oil developments

Armco Chairman William Verity said that the company was "exploring the possibility" of accepting oil in payment for 10 drilling rigs purchased by the PRC in 1978 (1/29/79). • Hunt Oil Company and Sedco, Inc. have formed a joint company to apply for offshore drilling rights in China (3/3/79). • Imodco Inc. has submitted a proposal to supply China with its offshore single-point mooring systems (SPMs) (3/1/79). • The China National Oil Corporation delegation visiting the US in March expressed interest in cooperating in production of ethylene, nylon 66, rubber from petroleum gas, and LNG as well as offshore oil development in its three-week visit.

PRC STEEL MINISTER PAYS VISIT TO US—IS US STEEL INDUSTRY READY TO PARTNER CHINESE?

It has been little more than eight months since Tang Ke, head of China's Ministry of Metallurgy, paid a visit to Europe with four vice ministers in tow. That trip resulted in contracts that may ultimately earn British and West German firms as much as $14 billion in steel plant and related consultancy services.

Tang Ke's first visit to the US coinciding with the formal inauguration of diplomatic relations between the two countries, was somewhat less star-studded than the European tour. Only one vice minister, Lu Da, accompanied him. Others on the mission included Lin Hua, bureau chief for Capital Construction for the Ministry; Wang Jindong, director of the General Engineering and Research Instiute for Iron and Steel; He Jin, deputy director of the Planning Department; and Li Dongying, deputy director of the General Research Institute for Nonferrous Metals. Three staff members, Qian Mingcai, Chang Lunkai, and Li Yuan, and Yang Xingjian, deputy director of the Department of Foreign Affairs of the Ministry made up the complement of 10.

Despite the lack of vice-ministerial representation, it was clear that the mission was far from being just another shopping trip. One surprise that emerged from talks held with company and US Government officials was the group's strong interest in exploring nonferrous metals production and export development as well as talking with potential suppliers of steelmaking technology. US Steel, which signed letters of agreement in January on a contract potentially worth $1

TOP TWELVE US EXPORTS TO THE PRC, 1978

Category	Value (million US $)	Percent of Total US Exports to China	PRC's Share of Total US Exports
Wheat	250,175,410	30.5	5.88
Cotton (not carded and other)	157,275,992	19.2	10.5
Corn	111,725,822	13.6	2.1
Polyester fibers	44,299,341	5.4	45.0
Oil/Gas drilling machinery	44,468,647	5.4	3.0
Soybean oil, crude degummed	26,117,742	3.1	6.2
Diammonium Phosphate, fertilizer	19,748,952	2.4	3.7
Soybeans	15,300,134	1.9	0.29
Urea fertilizer	15,174,623	1.8	10.5
Tallow, inedible	11,657,449	1.4	2.2
Diesel, engine, 100 1–1500 h.p.	4,506,455	0.55	16.0
Copper, unalloyed		0.53	3.3
TOTALS	704,819,372	85.7	

TOTAL VALUE US EXPORTS TO PRC, 1978: $818.2 million

billion, was principal host, but important stops on the itinerary included Alcoa, a potential supplier of aluminum production technology, and General Electric, a potential importer of nonferrous metals from the PRC.

No less intriguing was the dramatic announcement, soon after the minister arrived in the US, that the huge $1.2 billion Baoshan Steel Mill contract with Japan's Nippon Steel Corporation had been postponed. At least one knowledgeable observer contends that the slowdown on the Baoshan deal is linked directly to Minister Tang's interest in an American alternative.

CONSULTING FIRM SELLS CHINA ON NEW STEEL INDUSTRY PLAN

A plan proposed by the Cleveland-based firm Parker-Hannifin Corporation, which manages US Steel's Mesabi range, is said to have changed the minister's thinking on the development program for the steel industry. While the initial proposal is said to concern the steel industry alone, the company is readying another which covers development priorities for the metal-producing industry in China as a whole.

Company officials were unavailable for comment on the specifics of the proposal, but confirmed that a project was under study. There has also been speculation that US Steel was selected by the PRC ministry as the official host of the mission because of its special relationship with Parker-Hannifin, and the importance of a systematic approach to building up basic metals industries to China now that some of the more ambitious targets announced early in 1978 are being scaled down.

Late last year, a Parker-Hannifin team spent two months in Beijing at Chinese expense, discussing aspects of the company's operations and proposals.

Whether or not US Steel owes its good fortune to Parker-Hannifin's ingenuity, the company was able to give the Chinese minister an overview from research to production lines, and is thought to be a likely beneficiary of a change in plans of the PRC steel industry. At least 10 US Steel production sites were visited, including the company's Clairton, Irvin, and National Works. Discussions with the US metal-making industry were kicked off in August 1978 by a National Council delegation from the China Society of Metals led by Vice Minister of Metallurgy Xu Zhi; the delegation broached for the first time the possibility of US assistance to the PRC steel industry.

In late January, US Steel Chairman David Roderick disclosed that the company was bidding on steel making contracts in concert with a number of companies manufacturing blast furnaces and other steel mill equipment. In the first two months of 1979, at least two "expert" teams went to Beijing. At least some of the companies included in the minister's itinerary are thought to be among those working with US Steel as a group, including the Terex Division of GM, the Mesta Machine Company, Blaw-Knox, and possibly Minntac.

Also in January, US Steel announced the sale to China of 100,000 tons of steel products of which some 93,000 tons represent oil well casings to be produced at US Steel's National Works in McKeesport, Pennsylvania. Product lines of other segments of the order were not revealed for "proprietary reasons," according to US Steel spokesman Andrew Staursky.

TANG KE: EYE ON US MARKETS FOR NONFERROUS METALS

Early on in the visit, the delegation embarked on discussions on topics other than steel and imports. Meeting with Department of Commerce officials, the delegation seemed "bored" by presentations on the US steel industry, according to one official who was present at the talks. They woke up, however, when the subject changed to nonferrous metals. An extra day of discussions was requested to go into the state of the US nonferrous metals industry in more depth. Not only copper and aluminum, but rare earths, molybdenum, lead, zinc, and gallium were areas of keen interest to the delegation.

For the first time, the Chinese side indicated that supplies of nickel were available for sale from the PRC;

TRADE-RELATED DELEGATIONS FROM CHINA

Date	Purpose (Number of Delegates)	Chinese Sponsor	US Primary Host
January 1–mid-February, 1979	Agricultural Machinery Survey Purchase group (8)	NA	John Deere & Company
January 4–March 9, 1979	Digital Computer delegation (7)	NA	Digital Equipment Co.
January 6–March 8, 1979	Szechiayang and Nan Fen Mines project (12)	NA	Kaiser Engineers
January 6–January 27, 1979	People's Daily Survey Group (14)	NA	National Committee on US-China Relations
January 14–February 10, 1979	Second International Delegation on Mars (3)	NA	Jet Propulsion Lab (CALTECH)
January 14–February 7, 1979	Malaria Research delegation (2)	NA	Rockefeller University
January 14–mid-February, 1979	High Energy Physics delegation (8)	NA	Department of Energy
January 15–March 17, 1979	High Energy Physics Bubble Chamber Design group (6)	NA	Stanford Linear Acceleration Center
January 20–March 20, 1979	Inground Drilling Rod Testing Tools group (8)	NA	Johnston Co.
January 21–February 21, 1979	Linear Electrostatic Accelerator group (9)	NA	High Voltage Engineering Co.
January 22–February 22, 1979	Textile Norms group (3)	NA	Department of State
January 24–February 18, 1979	Fluorine Chemistry delegation (3)	NA	Kansas State University
January 24–March 24, 1979	Aeromatic Hydrocarbon Training group (10)	NA	Universal Oil Products
January 25–February 17, 1979	Survey of technology and equipment for production of plywood, particleboard, and fiberboard (14)	TECHIMPORT	NCUSCT
January 27–February 24, 1979	Synthetic Rubber and Tire survey group (14)	China National Chemical Construction Corporation	WJS
January 27–March 1, 1979	High Energy Physics Experimentation Zone Designing survey group (6)	NA	Brookhaven National Laboratory
January 28–February 27, 1979	Delegation to the Sixth Conference on Compound Transistors (3)	NA	NA
February 2–February 16, 1979	China Space Flight Society delegation (5)	NA	American Institute of Aeronautics and Astronautics
February 8–March 7, 1979	Leather-Shoe delegation, led by Ma Quangcheng, General Manager of the Shanghai Leather and Leather Products Corporation	CHINATUHSU	Genesco, Inc.
February 10–March 1, 1979	China Electronics Society (5)	NA	Institute of Electrical and Electronic Engineers
February 21–March 18, 1979	Seed delegation, led by Liu Xigeng, Deputy Minister of Agriculture (12)	China National Seed Corporation	US Department of Agriculture, American Seed Trade Association
February 22–March 25, 1979	Computer delegation (10)	Yan Shan Corporation	NCUSCT

TRADE-RELATED DELEGATIONS FROM CHINA—Continued

Date	Purpose (Number of Delegates)	Chinese Sponsor	US Primary Host
February 22–April, 1979	Telecommunications delegation (10)	Ministry of Posts and Telecommunications	NCUSCT
February 26–March 23, 1979	Metallurgical Industry delegation, led by Tang Ke, Minister of Metallurgical Industry	Ministry of Metallurgical Industry	US Steel
February 28–April 2, 1979	Herbicides delegation (12)	China Chemical Construction Corporation	NCUSCT
March 3–March 24, 1979	Petroleum delegation, led by Zhang Wenbin, President of PRC Petroleum Corporation (9)	China Petroleum Corporation	NCUSCT
March 6–March 19, 1979	CEROILS delegation, led by Zhang Jianhua, General Manager of CEROILS	CEROILS	Continental Grain Co.
March 11–September, 1979	Native Produce Animal By-Products delegation (3)	CHINATUHSU	NCUSCT
March 11–April 10, 1979	Canned Foodstuffs delegation (4)	CEROILS	NCUSCT
March 23–May, 1979	General Light Industrial survey delegation (7)	LIGHT INDUSTRY	NCUSCT
March 23–April, 1979	Silk trading group (6)	CHINATEX	NCUSCT
March 24–April 24, 1979	Textile survey group (11)	CHINATEX, Ministry of Textiles	NCUSCT
March 30—May, 1979	Cotton and Wool Piece Goods delegation (6)	CHINATEX	NCUSCT
April, 1979	Mining delegation, led by Sun Daguang, Director of State Geology Bureau	NA	US Geological Survey
April, 1979	Petroleum delegation	NA	American Association of Petroleum Geologists
April 12–May 10, 1979	Petrochemical delegation (20)	China Chemical Construction Corporation	NCUSCT
April 16–April 28, 1978	China Ocean Shipping Company delegation (6)	Ministry of Communications/China Ocean Shipping Company	NCUSCT/Lykes Shipping Company
April 16–May 16, 1979	Chinese Academy of Social Sciences delegation, led by Hu Qiaomu, President of the Chinese Academy of Social Sciences (11)	Chinese Academy of Social Sciences	Committee on Scholarly Communications with the PRC
April 28–May, 1979	Delegation to attend Offshore Technology Conference	China National Chemical Construction Delegation	WJS NL Industries
May 10–June 20, 1979	Down group	CHINATUHSU	NCUSCT
May, 1979	Foreign Trade study group	NA	National Committee on US-China Relations
May 8–June 13, 1979	State Economic Commission delegation (12)	State Economic Commission	NCUSCT
Mid–1979	Food Trade Commission	NA	NA
September 9–October, 1979	State Capital Construction Company delegation	State Capital Construction Commission	NCUSCT
October, 1979	Business Management study group	State Economic Commission	National Committee on US-China Relations
Fall, 1979	State Economic Commission delegation	State Economic Commission	NCUSCT

TRADE-RELATED DELEGATIONS TO CHINA

Date	Purpose (Number of Delegates)	US Sponsor	Chinese Primary Host
December 27, 1978–January 14, 1979	House Banking Committee, led by Representative Thomas Ashley	House Banking Committee	NA
January 4–January 21, 1979	Bank study group (20)	Committee on International Savings Banks Cooperation	NA
January 15–January 29, 1979	Tungsten delegation (10)	Refractory Metals Association	MinMETALS
February 12–February 24, 1979	Oregon delegation, led by Congressman Les AuCoin (12)	NA	Institute of Foreign Affairs
March 2–March 17, 1979	Construcion delegation (20)	NCUSCT	CCPIT
March 6–March 20, 1979	UNA-USA National Policy Panel	UNA-USA National Policy Panel	People's Institute of Foreign Affairs
March 16–March 25, 1979	Select agricultural market development delegation, led by Dale E. Hathaway, Under Secretary of Agriculture (13)	US Department of Agriculture	Ministry of Agriculture
March 22–April 2, 1979	House Ways and Means Subcommittee delegation, led by Committee Chairman Al Ullman (11)	NA	NA
March 31–April 14, 1979	Construction delegation	NCUSCT	CCPIT
Mid–April 1979	National Oceanic and Atmospheric Administration delegation (8)	National Oceanic and Atmospheric Administration delegation	NA
April 16–May 6, 1979	International House of New Orleans delegation (32)	International House of New Orleans	NA
April 28–May, 1979	Mining delegation	NCUSCT	CCPIT
May 11–May 30, 1979	American Society for Personnel Administrators (24)	People to People Program	China International Travel Service
May 12–May 26, 1979	Construction delegation	NCUSCT	CCPIT
June 6–June 26, 1979	Mayor delegation (10-12)	United States Conference of Mayors	Institute of Foreign Affairs
Mid–June, 1979	Petroleum delegation	NCUSCT	CCPIT
July, 1979	Pharmaceuticals and Medical devices delegation	NCUSCT	CCPIT
July, 1979	Technology study group (11)	SRI International	Chinese People's Association For Friendship with Foreign Countries
September, 1979	Animal husbandry and crop protection delegation	NCUSCT	CCPIT
Mid–October, 1979	Petrochemical delegation	NCUSCT	NA

China's nickel supply has previously been estimated to be minimal, certainly not great enough to support exports.

Reflecting the delegation's concern with nonferrous metals, its first visits after leaving Washington were to Alcoa, Westinghouse, and General Electric. Alcoa, reportedly hosting a delegation from China concurrently with the US Steel party, signed a letter of intent to conduct feasibility studies on two integrated aluminum plants in China in early February. General Electric has been in discussions with China since summer of 1978 on compensation arrangements in which the company has proposed importing metal wire from China in exchange for sales of finished products. Westinghouse may be working on a similar arrangement.

The Ministry of Metallurgy delegation also visited Bethlehem Steel and Fluor Corporation to continue discussions on well-publicized contracts for iron and copper ore exploitation.

That the first PRC minister to come to the US traveled under the auspices of a company, rather than the US Government, is indicative of the new, down-to-business approach of the industrial ministries, which have been sprouting trading units to cement import and export contracts with foreign companies thick and fast in recent months. On the other hand, according to Commerce Department officials, the US Government is still somewhat leery of hosting frankly commercial exchanges. Until Secretary Kreps travels to the PRC in May, little or no commercial exchange is expected to take place under government aegis, although a number of missions have already transpired designed to promote technical transfer between US and PRC government agencies.

KEY LINK FORGED BETWEEN US, PRC STEEL INDUSTRIES

Getting to know Mr. Shao Xiaoshi may call for special foot-in-the-door tactical training programs for company executives. But the investment will be well worth the while to get the ear of the newly appointed emissary to the US metals industry.

News of the appointment was learned in March 1979 during the US tour of PRC Minister of Metallurgy Tang Ke. Shao will be charged with "answering any questions that US companies may have about their relative position in the development of China's metals industry," Lin Hua, a member of the delegation from the State Capital Construction Commission, told companies. According to Lin, Shao will stay in the US for a considerable period of time."

As of early April, it was not yet known whether Shao would have authority to negotiate contracts. However, it was assumed that he would be actively entering into contract discussions as well as helping to implement contracts already signed. Shao will probably stay initially at the PRC Embassy in Washington before seeking a permanent post.

The move illustrates the growing integration of US and PRC industries across the board. Tied in with the opening of export promotion offices in the US by the FTCs, the steel liaison officials may be only the first of many ministry agents to set up shop.

NONFERROUS METALS: FLUOR ASCENDANT

"Our work seems to be going ahead very smoothly. They're paying their bills. I call that smooth."

Such a comment from Fluor Corporation's Eric Kalkhurst is not to be taken lightly. Fluor's Beijing representative, Kalkhurst has spent almost a full year in Beijing coordinating Fluor's marketing effort there. Out of five negotiations undertaken by Fluor in that period of time, he has seen three to a successful conclusion, and assisted Fluor Mining and Metals teams on copper-mine negotiations that have resulted in some of the larger contracts on record between China and a US company.

Fluor's most recent contract, announced on March 12, is a $400,000 engineering-financial study for a larger copper complex in Jiangxi Province. This study is to develop an overall plan for exploitation of Jiangxi's considerable copper reserves, of which Fluor has already been assigned one chunk. (In December, the company announced a contract for initial work on two copper mines and a concentrator, known as the Dexing project and part of the Jiangxi complex. Ore output of the project is estimated at 190,300 tons daily.)

The complex as a whole, when fully developed, will have an annual production of 400,000 tons of copper metal. A major part of the initial study, according to Fluor Mining and Metals President Edwin J. O'Connell, is a financing plan. With the eventual cost of the Dexing project alone running at $800 million, working out the detailed cost estimates, and the practical aspects of the reimbursable-cost formula Fluor plans to use, will be of crucial importance. The Chinese are seeking financing in US dollars, according to a formal statement released by the Fluor subsidiary.

"Jiangxi seems to have a lot of copper but we don't know quite how much there is," says Kalkhurst. Fluor already has personnel on assignment in China performing the drillwork and sample-testing that will lead to firmer answers. But, according to Kalkhurst, the entire Fluor program in China has yet to reach a level of definition commensurate with the size and scope of the programs in which they are becoming involved.

While China is currently overcommitted in the steel sector, nonferrous metals are still a relatively open field. Kalkhurst anticipates many more projects ensuing from the Fluor study in Jiangxi. In seeming confirmation of this, Fluor has become the second US company to be awarded the convenience of a direct telex line in Peking, to be installed in April. The first was Pullman Kellogg.

BETHLEHEM STEEL: LIMBO

Bottom-line fever is setting in as companies try to work out an approach to the new policy of self-reliance Beijing is shaking out in the steel industry. The contracts will go to whoever can best solve the problem of how to expand China's steel output without adding new plant. Meanwhile, Beijing is showing signs of pulling out of talks with companies that only want to show them the top of the line.

Bethlehem Steel's proposal to develop a complete iron-ore mine in Hebei Province is one that seems on shaky ground in the light of recent developments. Visiting China in February, a company team learned that the timetable for the project had been pushed back indefinitely.

Despite fears for the future, the company is proceeding with work on the first two parts of the four-part program, for which contracts were signed in December 1978. But the idea

ENCYCLOPEDIA OF CHINA TODAY, Frederic M. Kaplan, Julian M. Sobin, and Stephen Andors, eds. (New York: Harper & Row, 1979) 336 pp., $25.

This volume will be a useful guide to any student or business man interested in China. Divided into nine chapters, the book is undoubtedly the most comprehensive survey of contemporary China. The main focus is on the economy and government, though the book also contains chapters dealing with geography, education, medicine, art and culture.

Particularly useful to those who have never been to the PRC is a chapter on travel and tourism, which tells the reader how to apply for a visa and also provides information on the Guangzhou (Canton) Trade Fair and travel inside China. Still another useful chapter tells the reader how to go about getting additional information on the PRC.

Undoubtedly of greatest interest to the businessman, however, is the chapter on the economic system. The longest chapter in the *Encyclopedia,* it is divided into 12 sections, including planning, infrastructure, agriculture, industry, banking, and foreign trade. Contributors to this chapter include such well-known authorities as attorney Stanley Lubman and Commerce Department China specialist William W. Clarke. The reader should find the more than 30 tables contained in this chapter particularly helpful.

Though of less interest to the businessman, the chapter on government, law, and politics offers brief histories of China's domestic politics and foreign relations since 1949, as well as descriptions of the central and local government, the judicial system, the military, and the Communist Party.

Brief biographies of more than 50 individuals who have achieved political prominence since the founding of the People's Republic in 1949 are contained in another chapter. The problem with this chapter, and the major shortcoming of the book as a whole, which was basically completed a year ago, is that the events of 1978 have already rendered it somewhat out of date.

Besides a very readable style, the *Encyclopedia* also offers maps, charts, tables, and chronologies that present important information in an easily grasped format, while the appendix contains the 1977 Communist Party Constitution and the 1978 PRC Constitution.

One serious problem, however, is that the political map uses the old Wade-Giles tranliteration system, while the text uses the new pinyin system. Serving to alleviate the confusion a bit is a glossary of place names in the appendix that correlates the new and the old romanization systems, so that the determined reader will be able to find a province or city on the map if he first consults the glossary. Somewhat inexplicably, the text uses the Wade-Giles transliteration system for personal names, in contrast to pinyin for place names. It would have been much simpler if the editors had stuck to one system throughout.

This criticism aside, the editors, including veteran China trader Julian M. Sobin, have done a highly commendable job, with the assistance of some 30 contributors. The *Encyclopedia* is an outstanding source for those seeking a better understanding of China today. John S. Service, a diplomat in wartime China persecuted during the McCarthy era for his objective assessment of the Communist movement and criticism of the Nationalist regime, wrote the introduction. 完

of losing a construction deal potentially worth above $100 mililon is not a happy one to Bethlehem's corporate planners.

Speculation about a possible downfall of the Bethlehem deal began in late March, when the rumor mill in Hong Kong started to grind out ideas about which contracts would be the first to go in Beijing's belt-tightening program.

One of the chief candidates for dismissal, according to the Hong Kong press, was a $14 billion steel mill contract under negotiation with the German consortium of Schloemann-Siemag. Because they are both located in the same deposit area, observers concluded that a pullout on the steel mill project would have a domino effect on Bethlehem Steel's mine scheme, on which a protocol for the entire four-part project was signed in December at the same time as the formal contracts.

Based on initial talks in December, the company had assumed that the full construction contract would be signed in March. Company officials are admittedly disappointed but work is proceeding on the contracted phases.

For the advisory and sample-testing services the company has carried out so far, the Chinese are paying cash on the line. The commitment to date is valued at a "couple of million dollars" by a company spokesman.

FOUNDRY-MAKERS TO PRC

Other companies that have been plugging their steelmaking wares in the PRC in recent months include Cleveland Crane and Engineering Company and Midland-Ross. Cleveland C&E led a group visiting China in December 1978 that conducted seminars on high-speed, automatic-molding foundry operation. Representatives from National Engineering Co., C-E Cast Equipment, a division of Combustion Engineering, Lectromelt Corp., a subsidiary of Pennsylvania Engineering Corp., and Shalco Systems, an Acme-Cleveland Company, were included in the team.

Midland-Ross President Edward C. Gendron announced in late January that his company was involved in negotiations on a possible $10-$40 million sale of blast furnaces to China. A team from the company's thermal systems group visited China earlier at the invitation of the Chinese.

AGRICULTURE: SHAKING THE ROOST—CHINA-US GRAIN PACT IN OFFING?

China's late March cancelation of a 300,000-ton wheat contract and deferral of 100,000 tons of corn rocked the US farm community. Valued at $40 million, the wheat contract alone represents almost 5 percent of total US exports to the PRC in 1978.

Joining the long line of businessmen whose feathers have been creased by China's reduced import plans, farmers should have known better than to count their chickens before they hatched. As early as February, when China signed its fifth and largest grain pact with Canada, it was evident that the import share informally granted to US suppliers might be reduced.

The Canadian agreement brings China's total committed import bill over the next three calendar years to approximately $900 million for some 7 million tons of grain; together with informal commitments to the US, the total may come to $1.4 billion for 13 million tons. But China's grain needs are estimated by independent analysts at only 10–11 million tons.

Although USDA officials describe the blighted orders as an "adjustment," privately they admit that China may have overextended itself through long-range grain import agreements with Canada, Argentina, and Australia. "The cancellation is not a major thing unless we start to see a trend," one USDA economist says.

In the Senate, blocking that trend is becoming a major concern. In mid-March, the Senate Subcommittee on Foreign Agricultural Policy convened a meeting with Agriculture Secretary Bob Bergland to discuss ways and means of formalizing China's intentions toward the US grain market. Without a formal grain pact, warned Sen. Richard Lugar (R-Ind.), US-China trade will be an "on again, off again," affair as it has been in recent years.

Although the Administration is not convinced that nuptial rites are in order, Bergland has charged USDA staffers to develop an agenda for possible discussions on a grain pact. Prior to news of the canceled order, he told the subcommittee that US agricultural sales to the PRC in 1979 were expected on the order of $1 billion, with contracted deliveries already exceeding $500 million for the year.

Cooperators Come Back Crowing—Poultry, Swine Units for China. $10 billion worth of US agricultural exports in 1985?

"The timing could not have been more appropriate," says Darwin Stolte, one member of the first USDA Cooperators mission to the PRC. Greeting them on their arrival in China on March 15 were *People's Daily* headlines blazoning a new policy to restore agriculture to its rightful primacy in China's Grand Plan. Coincidence or not, the US group was among the first to make contact with the State Agricultural Commission which will be steering China's agriculture into the year 1985 and beyond.

As yet not completely organized, this body will be headed by Wang Renzhong, a newly appointed vice premier. The ministers of Agriculture, Land Reclamation, Commerce, Conservancy and Electric Power, and the First Ministry of Machine Building will sit together in what Stolte, who met with Wang and others from the commission, describes as a "super-agency."

The contact bodes well for the future of US-China cooperation in the mechanization of agriculture, which the Cooperators set out to establish. The mission served to further define potential links between Chinese and US agriculture, particularly in the areas of livestock and poultry production. This summer Vice Premier Wang will visit the US to finalize the procedures for technical and manpower exchange. According to Stolte, he may also consider bringing with him PRC officials in the feed milling industry to get a firsthand look at the wide range of hardware and technology available from the US industry.

Stolte, who is president of the US Feed Grains Council, sees US technology, rather than hardware, as the most promising export growth area for the US. Based on discussions he held with MACHIMPEX while in China, the Chinese would definitely prefer to bypass third-country licensors of US technology and go directly to the source.

On the commodities side, Stolte is optimistic, but estimates that China will need three to five years to develop an infrastructure commensurate with its import needs. With better management of the livestock industry, development of the compound feed industry, and improvements in transportation, he sees China exerting a demand for as much as $10 billion worth of US agricultural products by 1985, one-fifth of total projected US agricultural exports for that year.

The US Feed Grains Council and other participants in USDA's Cooperator Program will be helping to develop this infrastructure. Livestock production will be the particular niche of the US Feed Grains Council; the association has been asked to help set up 200,000–1,000,000-bird-per-unit poultry operations and 90,000-head-per-unit swine farms. In the compound feed production industry, China wants US assistance in laying out the format and structure of a modern feed industry and advice on the kinds of equipment needed.

"This opens up a whole panorama of imports," says Stolte. His association has already begun plans to send an independent mission to China, while further groups from the Cooperator Program are slated for this fall. And, while in China, the US Feed Grains Council may have recruited a manager for its China program, Chinese-American Roland Hsu, cur-

US Cooperator mission with new PRC Agricultural Commissioner

rently acting as advisor to the Chinese government in poultry production.

Roland Hsu: Country-Fried Chicken, Chinese Style

Visiting in Guangzhou, the Cooperator group found Los Angeles consultant Roland Hsu feathers-deep in an ambitious program that may revolutionize China's poultry industry.

Hsu is starting small with a 460,000-bird farm on the outskirts of Guangzhou, but already "Study Roland Hsu" is becoming a well-worn motto in Guangdong Province and beyond. Starting from scratch in the summer of 1978, Hsu is now working with 230,000 broilers and layers each, a number which he expects to double in two years' time and triple in three.

Construction costs have been high in the Hsu project, as a result of heavier-than-usual investment in weather protection for the coops. Bird costs per unit run $5.00 as opposed to $1.25 in the US. Hsu, however, is confident of amortizing the building costs within three to five years. According to Darwin Stolte, President of the US Feed Grains Council, who visited the Guangzhou farm, eggs and broilers produced at the farm are being sold as fast as they can lay them, literally so fast that they don't bother to grade the eggs.

Twenty to thirty such operations may be set up within the next few years, Hsu reported to the Cooperators. Figures for annual consumption of feed grain on the Hsu farm were unavailable, but Hsu did reveal that the rations he used, 60 percent corn, were largely imported from abroad.

Hsu will complete the Guangzhou project in December 1979, when he plans to return to the US. According to some sources, however, he has been asked by the Chinese government to plan not only poultry, but swine and dairy operations for the PRC on a nationwide basis.

Funds for equipping Hsu's model farm reportedly came from two Hong Kong businessmen. The land and buildings were contributed by Guangdong Province, while Guangzhou city footed the consulting bill.

Agriculture: Other Developments

As of March 4, 1979, the PRC had made new purchases of 144,000 running bales of cotton, bringing the total for the marketing year (August–July) to 550,000 running bales. • As of March 31, corn purchases amounted to 2.9 million tons for the marketing year (October–September), following the deferral of 100,000 tons to the 1979/80 marketing year. • As of March 4, soybean contracts totaled 118,000 tons, with 61,000 tons purchased in January making the only significant addition to sales in marketing year 78/79 (September–August. • The total for soybean oil in the current marketing year (October–September) rose to 20,000 tons with a new 19,000-ton purchase in January. • The International Farmers Association for Education is sponsoring a group of 12 PRC farmers for a 13-month training program that will take them to farms around the US. The farmers arrived in the San Francisco area in March.

REACHING A MARKET: CHILTON, WITH A LITTLE HELP FROM ITS FRIENDS, WILL TRANSLATE, TYPESET IN PEKING

Faltering though the pace of the four modernizations may be at times, the program has led to the resurgence of many once-familiar institutions on the Chinese scene. Soon, US and other companies may sport office addresses on the Shanghai Bund and Beijing's Xijiao. And, though China's hiring of Western consultants may be more in the news at present, Chinese have also begun to serve as consultants and doers for Western companies interested in reaching the mostly uncharted PRC consumer market.

One of the first business deals reported to involve Chinese consulting services is a contract signed in early February by Chilton International, an American Broadcasting Corporation subsidiary. Not surprisingly, the contract is for publishing a Chinese-language series on US industries. The difficulties of producing high-quality translations outside of China has made the printed media one of the most difficult markets to crack in the PRC.

Chilton's agreement includes arrangements with four separate Chinese organizations. The principal one of these is the China Council for the Promotion of International Trade (CCPIT), which will provide the middleman or coordinator for the project. The English-speaking CCPIT appointee will liaise between a Chilton production team supervising printing of the series by a Chinese printing house and the two end-user organizations which will do the translating of Chilton manuscripts in English.

Chilton International Publisher Roland DeSilva is justifiably pleased with the results of the three weeks he spent in Beijing in January working out the details of the agreement. Initially, he hoped to obtain feedback from potential end-users of the Chilton technical series which would help the company get a better fix on the contents desired by the Chinese. Letters on marketing the series in the PRC were exchanged between Chilton and CCPIT in July 1978, and an outline of the proposed contents submitted for review.

The end-user response to the series outline far exceeded the company's expectations. Over 200 suggestions were turned in to the Chilton editors. "We'll be able to fit their needs like a glove with these," exults DeSilva.

The best was yet to come, however. In the first example of a Sino-US publishing joint venture, one of China's major printing houses agreed to print and typeset the entire series. End-user organizations in the PRC petroleum and building industries agreed as well to provide complete translation services for the first two volumes, on the US oil and gas and US construction industries. The CCPIT coordinator

SINO-AMERICAN TRADE BALANCES, 1971–1978 ($ millions)*

1971	1972	1973	1974	1975	1976	1977	1978
−4.9	+31.1	+675.3	+704.4	+145.2	−65.6	−31.4	+499.5

*Positive figures indicate US surplus, negative figures indicate US deficit

NORMALIZATION AND BEYOND

China and the US: Normalization and Beyond, by Harry Harding, Jr. (published by the China Council of the Asia Society and the Foreign Policy Association) 32 pp. $1.50.

Written by one of the outstanding young China scholars in the US, this illustrated booklet puts President Carter's normalization decision in the context of past American policy toward China and provides an objective assessment of the key issues in the new relationship between the US and the PRC, including the future of Taiwan and trade. The latter section includes discussions of the claims/assets problem, US export controls, and trade prospects. This work is particularly helpful because it raises a host of thoughtful questions—even though the anwers lie in the future. Available from the Foreign Policy Association, 345 E. 46th St., New York, N.Y. 10017, Tel: (212) 557-8724.

has responsibility for proofing the Chinese against the English original. Chilton's editorial input will cease at the point at which its staff has achieved the best possible English-language product.

The CCPIT appointee, who will continue to work for the CCPIT, will be on the Chilton payroll only for the part of the working week he spends on the project. As of mid-March, the issue of whether to set the coordinator's salary according to US or Chinese rates had not been resolved.

Whatever the salary finally settled on him, the coordinator's job will be a challenging one. His charter will include production as well as editorial responsibilities, and he is expected to be with the project from start to finish. The relationship is expected to last a minimum of two years: DeSilva does not set an upper limit, however, describing the arrangement as an open-ended one.

The terms DeSilva was ready to disclose call for a total production of 125,000 copies of five Chilton volumes between 1979 and 1980. The first two volumes are scheduled for distribution in November 1979. Volume I will be a technical review of the US oil and gas industry; Volume II, a similar report on the US building and construction industries. 1980 deadlines have been set for Volume III, on the US metalworking, metal finishing, and metal producing industries; Volume IV, on the US mining industry; and Volume V, on the US agricultural, forestry, fishing, food, and food packaging industries.

Since the proposal to market the series in the PRC was first announced in July 1978, the National Council has lent its full endorsement to the project.

Copyright protection is not a major concern to Chilton, according to DeSilva, even though the PRC's existing copyright system provides no commercial guarantees to authors or publishers. After the initial run of 25,000 copies of each volume (somewhat above average for a medium-use technical publication in China), Chilton's proprietary rights to the product will cease as far as publication in China is concerned. Chilton rights to the series in the rest of the world will be maintained. "Trust," says DeSilva, "is always important in a business relationship with the Chinese, and even more so when it comes to printed matter."

CLAIMS SETTLEMENT: SURPRISES AHEAD?

The PRC has delayed the ending of a 29-year old drama. But this was not the least of the surprises in the negotiations on the claims/assets issue, the first confrontation on a government-to-government level since the establishment of full diplomatic relations between the United States and China.

• **Surprise No. 1:** Quick settlement—Initialed, but not signed, at 4 A.M. on March 2, 1979; negotiators came to terms after only three days of (round-the-clock) discussions.

• **Surprise No. 2:** Form of the settlement—To the dismay of those who placed odds on the Litvinov formula as a settlement approach, the negotiators hit upon a quid-pro-quid concept that on paper, at least, made it possible for the Chinese to pay off their US debt with their own frozen funds. (The scheme, however, is fully within parameters of the Foreign Claims Settlement Act).

• **Surprise No. 3:** Cash settlement—No one thought they would, but the Chinese did agree to settle the US claims in cold cash, in a move calculated to win over even the most die-hard of Congressional critics.

• **Surprise No. 4:** Favorable Congressional response:—So far as can be ascertained, no one on the Hill is discontented with the settlement ratio of 41¢ on the dollar, 1¢ less than the Czechoslovakian settlement that led to disruption of that agreement by independent legislative action in 1974.

If the agreement goes ahead as planned, China will pay US claimants a total of $80.5 million, the exact amount of PRC assets in blocked accounts in the US according to the latest census. The assets will be unfrozen on the same day as the initial $30 million down payment is received, October 1, 1979; thereafter the balance is due in five yearly installments of $10 million each.

This easy-credit plan looks like a giveaway, but in fact, since an estimated $50 million worth of the blocked PRC assets are subject to litigation by competing, non-PRC nationals who have laid claim to the accounts, the picture is not so simple. Treasury officials predict that China will be able to reclaim at the most $30 million, and that only by recourse to US courts, an involvement which the Chinese may not yet be ready to risk.

Another wrinkle is that since the enactment of a new Treasury regulation, the longer the PRC assets stay blocked, the more they will be worth. The new regulation, effective on the same day as the claims settlement was initialed, calls for transfer of all blocked assets of foreign nationals to interest-earning accounts (see *CBR* 5:6, p. 30, for background).

As long as the agreement remains unsigned, the Chinese retain a bargaining edge if only because it involves their money, which the Administration wants since the cash settlement will improve its image in Congress, and Congress wants for the sake of constituent relations.

In April, the suspense was building on just when the signing of the agreement would take place. Treasury official spokesmen continued to report that signature would take place routinely as soon as the English and Chinese versions of the text were brought into conformity. But in Beijing, Ambassador Leonard Woodcock has said the Chinese are not just dilly-dallying, but have made a policy decision not to go ahead with the agreement. Reasons given? The conference bill providing security guarantees to Taiwan presently under consideration by both Houses.

DAYS OF THE CHINA CLIPPER: A ROMANCE RENEWED?

The resumption of Sino-US diplomatic ties has opened the way for direct shipping and air links. A few problems remain to be solved: formal aviation and maritime agreements are needed to establish vessel protocol, and a claims agreement to prevent property seizure. But this once most glamorous of trade routes is well on the way to becoming once again a superhighway for business and travel.

Even before the last loose ends are tied, Chinese and US vessels have begun the traffic. In mid-March, the first US vessel visited China, while in April, the first PRC vessel, the *Liulinhai,* docked in Seattle, leaving a few days later with a cargo of US corn. And prior to signing of an aviation agreement, the charters have flocked to China's capital in increasing numbers.

At the governmental level, formal negotiations were proceeding slowly, as both sides bargained for the best possible deal among competing interests. The final form of the shipping agreement may depend on the resolution of differences between US shipowners and US exporters; while what the Chinese are prepared to give in the negotiations on an air agreement may depend a great deal on what they have already given to carriers of other countries. Both agreements, it was hoped, would be ready to sign when Secretary Juanita Kreps visits China in May 1979.

FAST BOAT TO CHINA—SINO-US FLAGSHIP SHIPPING BEGINS

Amidst the popping of champagne corks, there were few questions asked. But if the first two ships to ply direct US-China trade routes in 30 years were rebels with applause, they were still rebels.

Sailing right through the legal ambiguities of the situation, both the *S.S. Letitia Lykes,* docking in Shanghai on March 18, and the China Ocean Shipping Company (COSCO) liner *Liulinhai,* arriving in Seattle's Puget Sound on April 17, were reputed to have special protection. Other companies, however, may want to test the water carefully before they take similar risks.

Lykes, which has signed its own shipping agreement with the China Ocean Shipping Company, claimed protection under the Sovereign Immunity Act, which assures the property of states recognized by the US freedom from attachment by US citizens with outstanding property claims. As of early April, a claims agreement which would preclude efforts at seizure had still to be signed.

Yet more serious, the lack of a formal governmental shipping agreement handicaps the trade. Such an agreement would establish port procedures, routes and possibly rates.

The First Step: Media Blitzkrieg

The *S.S. Letitia's* first voyage up the Huangpu River to Shanghai, taking the daring first step to renew US-China shipping links, was an all-star event, with a reception committee including Wang Xiping, PRC Vice Minister of Communications, US Ambassador to Beijing Leonard Woodcock, and Lykes Chairman Joseph Lykes.

The New Orleans-based Lykes Bros. Steamship Co., a subsidiary of Lykes Corporation, planned the trip even before negotiations on the claims/assets agreement began. Based on the findings of Lykes representative Attorney Stanley H. Barer, the Letitia was sent to China full steam ahead, with, according to Lykes public relations spokesmen, a full load of general cargo.

The cargo, as much as the ship itself, symbolized what Lykes hopes to see as an emerging direct bulk cargo and liner trade in which Lykes will play a leading role. Contrary to company reports, however, some sources said that the ship was loaded with ballast and left with the same.

The 38,500 deadweight ton *Liulinhai,* a Norwegian cargo carrier built in 1971 and sold to the PRC in 1977, arrived in Seattle empty on April 17. But after a two-day layover, it left with a cargo of that most pregnant of symbols of the renascence of US-China trade: American grain.

The media treatment for the *Letitia Lykes* pales by comparison with that for the *Liulinhai.* When it arrived in Seattle, the Chinese vessel was met by Treasury Secretary Brock Adams, Senators Jackson and Magnuson, and a press armada. The party the *Liulinhai* discharged was no less luminary: PRC Vice Minister Peng Deqing, the manager and deputy manager of COSCO, and the head of COSCO's shipping department.

After two days in Seattle, prospectively a major transit point for US-China trade, 15 hours closer to Shanghai than any other US port, the delegation left for a series of visits and discussions with US port and government officials. The itinerary, arranged at Chinese request by Lykes and the National Council, included stints at San Francisco/Oakland, Houston, Dallas, New Orleans, New York, and Los Angeles/Long Beach.

The focal point of the visit in the eyes of many, however, were the two days spent in Washington. Here the delegation met with the Federal Maritime Commission, the Commerce Department's Maritime Administration, and State Department officials to set off potentially troubled negotiations on a US-PRC shipping agreement.

SHIPPING AGREEMENT: A BIG BITE FOR THE SHIPOWNERS

In late March, an interagency working committee in the US Government was finalizing details of a proposed shipping agreement with China. It was hoped that it would be ready for Secretary Kreps to take with her to China in May.

As it stands currently, the proposition may be hotly contested not only by the Chinese but by a large segment of the US exporting community as well.

The agreement calls for cargo sharing and rate schedules for liner and bulk cargo trade based on the costs of US carriers. Because US shipping is among the highest-priced in the world, some exporters fear that the agreement would add a sufficient mark-up on their basic prices to drive Chinese buyers to other markets. Grain traders are particularly nervous; growls one executive, "The minute that a ton of grain costs 10c more or a fraction of 1 percent more, the US will become a supplier of last resort."

Advocating the agreement are the shipowners, who may thereby gain a stake in a market which would otherwise price itself out of their reach.

The contested clauses of the proposed agreement are:

• **Rate schedule in the bulk trade:** To be established on the basis of average costs per ton/mile of US carriers, these rates, though periodically renegotiated, would increase freight costs of US exporters considerably. According to some exporters, the lack of suitable US bulk carriers could drive rates up even higher in conjunction with a cargo preference arrangement.

• **Cargo preference in the bulk trade:** The Administration is proposing a 30-30-30 cargo sharing scheme, with 30 percent of the cargo in the bulk trade going to US carriers, 30 percent to PRC carriers, and the remainder unallocated. With US-China trade currently balanced in favor of the US, the Chinese would have to pick up most of the increased freight costs, which many exporters think would lead them to choose other markets.

• **Rate schedules for liner trade:** The proposal is to base rates in the liner trade on the nearest applicable conference system of rates. This could have helpful as well as harmful effects, if the Chinese complied with normal conference rules ensuring carrier schedules and quality as well as rates. But it would not make US exports more competitive, unless the rates were discounted for the purpose of the shipping agreement.

Since US ships are already protected by PL 664, which guarantees them up to 50 percent of US import and export traffic, further restrictions may be unnecessary.

CHINESE READERSHIP SENDS COMMENTS AND REQUESTS DIRECTLY TO *AMERICAN INDUSTRIAL REPORT*

In a significant development, the Chinese government is now permitting direct end-user response to advertisements and technical papers in *American Industrial Report (AIR)*, a Chinese-language journal published by McGraw-Hill in cooperation with the National Council. These responses are forwarded to *AIR* offices in Hong Kong on a monthly basis by the China Council for the Promotion of International Trade (CCPIT) through its Center for Introducing Samples and Literature of New Foreign Products.

AIR editor Thomas Gorman reports that "feedback has increased dramatically, including many specific suggestions for technical articles readers would like to see appearing in future issues." Gorman adds that *AIR* "will definitely be looking to National Council exporter members to supply technical and product news to fit the specific requests of our readers."

Among the articles published during 1978 which prompted specific requests from the Chinese for additional information were the following:

• The state-of-the-art of motor technology for application in cranes and metallurgical industry; and the technology of shielded motor pumps.

• An effective fungicide for wheat and other crops (p. 8 of Agro/Chem Special Issue, June 1978, Uniroyal Chemical).

• Refrigeration systems for blood bank, electrical refrigerator, and low-temperature processing.

• MAXI PRESS, its serial numbers and technical specifications (p. 13, May 1978, National Machinery).

• Monarch Machining Centers Bulletin (p. 26, May 1978, Monarch).

• Hydraulic Pumps and Fluid Motors Brochure (p. 26, May 1978, Eastern Industries).

• Different types of spraying and tests used in orchards; automatic spraying equipment in orchards (p. 18, May 1978).

• New Short Neck TIG Welding Torch (p. 40, May 1978, Ferrex International).

• Eliminating Empiricism in Screw Design (p. 30, May 1978).

• Extel Automatic Tele. Receiver Printer (p. 10, May 1978).

The Chinese also asked *AIR* for articles on:

• The current status of the rubber industry with regard to machinery production, application, and the level of automation.

• The latest welding technology.

• VHF television tuner with diode tuning.

• Technical problems in the manufacturing process of the explosion-proof electric motor.

• Forging machines and equipment for forging shops; i.e., cranes, ram-type oil pumps, portable superheating units.

• Continuous rubber calendering processes.

• Waste-conversion into energy to operate an indoor agricultural system (a follow-up on the Geniponics article, p. 31, June 1978).

Special Issues and Circulation Up

In response to a request from the PRC, *AIR* began publishing on a monthly basis in January 1979. The magazine is publishing the following special issues: February—Medical instruments; April—Mining; June—Heavy equipment (mining, construction, drilling); August—Chemicals; October—Transportation; and December—Petroleum. The regular issue in May will also carry a special agro/chem section.

And at the request of the Chinese, *AIR* will be increasing its circulation by 25 percent. *AIR* will send 20,000 regular issues and a minimum of 10,000 special issues to the PRC during 1979.

AIR is also joining with the *Engineering News Record*, a McGraw-Hill publication designed to serve the construction trade, in a new annual publication called the *US-China Construction Report*, a Chinese-language "in-depth view of the American construction industry." This publication is intended to stimulate sales of American construction equipment to China, with only US manufacturers allowed to buy advertising space. The circulation is expected to be 12,000.

Additional information about *AIR* can be obtained from Robert Christie or Jane Sharp, c/o McGraw-Hill, 1221 Avenue of the Americas, New York, N.Y. 10020, phone (212) 997-6730 or 997-6920.

The other side of the story is that China's merchant marine has already far outstripped US capabilities. Unless cargo preference is written into a US-China shipping agreement, warns Irwin Heine, a specialist on PRC shipping, US flag ships may play no more than a "minimum role" in US-China trade. In a recent paper published by the Transportation Institute, Heine draws attention to the rapid upgrading of the PRC dry cargo fleet and rumored Chinese goals of ending all chartering of foreign vessels by 1980.

"Given the indifferent state of international shipping and the availability of huge tonnages of laid-up dry-cargo ships and tankers, along with deliveries from their own shipyards and those on order from foreign shipyards," Heine says, "the Chinese could readily acquire the tonnage to meet their prospective goals."

AVIATION AGREEMENT: PENDING

It seems like everyone's flying into Beijing these days: the Boston Symphony, Pan Am's Board of Directors, the Amherst Group—not to mention the board of directors of the Frst National Bank of Chicago, which announced in late March that its 50-strong top executive team would hold its annual meeting in the Chinese capital from May 28 to June 6.

The unusual thing about these trips is that they are using American carriers to get there. Spot-charters, under US law, are exempt from restrictions that apply to all other carriers. Until a US-PRC aviation agreement is signed, however, regular service is prohibited.

Since late 1978, pressure has been mounting on the US Government to supply the industry with the means to begin air traffic with the PRC. Nearly every major carrier has filed a route application with the Civil Aviation Board. According to State Department officials, the Chinese have been slow to move ahead, even though they indicated basic commitment to signing an agreement at discussions in January.

What may be giving the Chinese second thoughts is a model aviation agreement document which the State Department mailed off to the PRC in February. Unlike agreements China has with other countries, the US wants relatively few restrictions on air traffic. Specific clauses proposed to Chinese include:

- The right to name more than one airline as an official carrier (the Chinese would prefer to name just one airline, as they have with other countries; according to the State Department, the Chinese would probably select Pan Am—a decision which is not theirs to make, in the State Department's view)
- No limitation on number of charters
- Charters should be allowed to any place in China open to international service
- Rates to be left to individual airlines, with government intervention under limited circumstances only
- Number of flights should be left to individual airlines and not be subjected to government intervention

In general, the American Plan for air traffic is as liberal as the proposal on shipping is restricted. At the State Department, the chief argument for reducing regulatory control of US-PRC air traffic is that the experience with a highly-restricted relationship with the Soviet Union has gone sour. Meanwhile, as a matter of policy rather than law, the Civil Aviation Board is refusing to approve any route applications before an agreement is signed.

Services, Communications: Other Developments

• CTI-Container Transport International, Inc., has agreed to participate with the PRC and a Hong Kong businessman in construction in China of two $12 million factories to produce steel containers for shipping cargo. CTI has exclusive rights to buy production of the two facilities, in Guangzhou and Tianjin, at fixed prices for five years. • Geosource Service Corp. of Houston, Texas, has sold the first US vessel to China based on recent liberalization of rules against such transactions by the Maritime Administration. The 154-foot offshore supply boat, built in 1966, was sold to MACHIMPEX for an undisclosed sum. • Sea Containers Inc. revealed that negotiations were underway in mid-January to supply China with marine container equipment and services on an "exclusive" basis. It was unclear whether or not the negotiations had been preempted by the contract won by CTI (announced on March 8). • The first shipment of US fish to China in 30 years debarked from San Francisco in late February, in a story that is no red herring. The contract, held by Pacific Sea Pro, Inc., was valued at $1.3 million. An unusual feature of the deal from the company's point of view is that the fish, fresh herring with the roe in place, made use of the entire fish as a food item without the usual recovery losses associated with the roe market only. Destined for Qingdao, the shipment is the first of several deliveries out of fishing areas in Seattle and Alaska, according to Pacific Sea Pro President Hidy Hosokawa. • Conference Service Bureau, Inc., will sponsor a delegation from the PRC Society of Naval Architecture and Engineering visiting the US in May. In late June, a US delegation on naval architecture, shipbuilding, and marine engineering has been invited by the Society to present technical seminars in China, also under sponsorship of Conference Service Bureau, a New York firm. 完

Old and new in Shanghai's Huangpu River Port

Importer's Notes

Briefly:

- ***Record-breaking numbers invited to spring Guangzhou Fair; surprises in store for traders.***
- ***Earlier time frame for MFN unveiled—maybe fall 1979.***
- ***Resumption of textile talks in Beijing on April 11.***
- ***Flood of delegations from CHINATEX, LIGHT INDUSTRY, CHINATUHSU keep importers busy; CEROILS trade mission reveals new policies.***
- ***Nine more low-acid foods registered with FDA boosts list to 57.***

PUSH FOR LIGHT INDUSTRY TO DEVELOP AT RAPID PACE

New emphasis placed on the development of the light industry sector in China over past months is exemplified in an editorial in the February 20 edition of the *People's Daily* which urges the rapid modernization of light industry. In conjunction with the big push, China National Light Industrial Products Import and Export Corporation sent a Light Industry Survey delegation to the US. The Council-sponsored group of seven persons is presently traveling throughout the country to investigate the market for INDUSTRY products here, to learn how the American retail market is organized, to study quality control, delivery, and other aspects of merchandising, and to sell their products.

The *People's Daily* editorial states that the growth of light industry is necessary to support the rapid development of the four modernizations. Since light industry requires smaller investments, spends little foreign exchange, but has the capacity to earn a great deal of foreign exchange, the push is on to develop this sector and expand exports. One of the problems, the *People's Daily* claims, is that in the past, priority was placed on output and the value of output which resulted in poor quality items and lack of variety.

The editorial recommends that China import "complete production lines, single machines or technical patents" and use compensation trade, cooperation agreements, and joint ventures as means of modernizing the light industry sector. Competition among "enterprises" (meaning branches of INDUSTRY and production units) is encouraged to improve production and eliminate poor quality. It urges the commercial department to "foster the viewpoint of serving production," "organize commercial networks and centers," "improve commodity supplies," and "actively expand sales."

The Light Industry Survey delegation, anxious to learn about the US market in order to expand INDUSTRY exports to the States, is visiting Washington, DC, New York, Boston, Chicago, Los Angeles, and San Francisco. Meetings with old customers have been interspersed with visits to department stores, chain stores, and supermarkets.

At a showroom in New York City, the delegation showed samples of their products available for export, including nonleather footwear, musical instruments, toys, cosmetics, sporting goods, glassware, cutlery, stationery items, alarm clocks, padlocks and other general merchandise.

Mr. Xiong Yaohua, Deputy Managing Director of the Light Industrial Products Corporation, Beijing Head Office, leads the group. Other members are Mr. Wang Tsien, Manager, Export Department, Beijing Head Office; Mrs. Liu Guifang, Official, Beijing Head Office; Mr. Xu Pengxing, Vice Manager, Shanghai Branch; Mr. Shen Guoliang, Vice Manager, Third Commodities Department, Shanghai Branch; Mr. Yang Yuanfu, Official, Jiangsu Branch; and Mr. Li Jindiao, Vice Manager, Guangzhou Branch.

TEXTILE TALKS RESUME IN BEIJING

Textile talks between US officials and representatives from CHINATEX reconvened in Beijing on April 11 after an eight-week break.

During their visit in Washington, DC in late March, the Textile Industry Survey Delegation, with representatives from the Ministry of Textiles and CHINATEX, met with Mr. William Barraclough, Deputy Assistant Secretary, Bureau of Economic Affairs at the Department of State, to discuss the textiles situation. Both the Administration and the Chinese were pleased with the outcome of the meeting and expect a mutually satisfactory agreement to be reached.

No further information on the progress of the talks was available at this writing.

SURPRISES IN STORE FOR TRADERS AT SPRING 1979 CANTON FAIR

Changes at last fall's Canton Fair reflected the beginning of a new era in Chinese trade practices with the advent of more flexibility, more purchasing by the Chinese at the Fair, and negotiations for cooperation agreements with foreign firms.

Normalization of relations, coupled with the new pragmatism associated with the push for modernization, promises to make the Spring Fair bigger and better than ever. Substantial changes are predicted and, as a Chinese Embassy official put it, fair-goers should beware of more surprises.

• Record Number of US Invitations

560 invitations to the Canton Fair were issued to US companies this spring, an unprecedented increase from the Fall 1978 Fair when 360 US companies were invited. The Chinese warn that more US attendees will result in keener competition for US companies. An Embassy official estimates that ARTCHINA invited approximately 160 companies, CHINATEX close to 100, CEROILS 70, and INDUSTRY 120. As in the past, major buyers, especially CHINATEX cus-

PLANNED FOREIGN EXHIBITIONS SPONSORED BY THE CHINA COUNCIL FOR THE PROMOTION OF INTERNATIONAL TRADE, 1979

Exhibition	Location and Date	Products
Economic & Trade Exhibition (solo)	Bangkok, January 1979 (no specific dates given)	Agricultural and Light Industrial Products and Textiles
Spring Leipzig International Fair	Leipzig March 11–18	Agricultural, Light and Heavy Industrial Products
28th Casablanca International Fair	Casablanca April 26–May 13	Agricultural, Light and Heavy Industrial Products
6th International Spring Fair (TIBACO) '79	Bucharest May 4–12	Agricultural and Light Industrial Products and Textiles
Zagreb International Autumn Fair	Zagreb September 14–23	Light Industrial Products and Textiles
Indian International Trade Fair	New Delhi November 10–December 9	Agricultural, Light and Heavy Industrial Products

Source: Saul Poliak of Clapp & Poliak, Chairman of National Council Exhibitions Committee.

tomers, received two invitations per company.

• Increased Availability of Products

FTCs may have made larger quantities available for their US customers due to improved relations since normalization. Traders may also find a greater variety of products to buy than at previous Fairs and more Chinese corporations to deal with, such as newcomers EQUIPEX (China National Machinery and Equipment Corp.) which first appeared at the last Fair, and INSTRIMPEX (China National Instruments Import and Export Corp.).

• Competition Among the Branches

The FTCs are under tremendous pressure to earn foreign exchange. This eagerness to sell is reflected in the branches which have more autonomy and, for the most part, are dealing directly with their customers. In some FTCs, even the production units are contacting customers directly.

More incentives have been given to branches to sell and the branches in turn give the factories incentives to increase production—such as new machinery, better working conditions, raises in salary, and better housing for workers.

• More Flexibility

The emphasis on selling has resulted in more flexible terms given to US customers in every aspect of doing business. There is a new willingness on the part of the Chinese to adapt to international market needs. Fairgoers will see more usage of the buyers' raw materials and greater consideration in manufacturing goods to the buyers' specifications. Old customers will be granted more favorable terms of payment. Some old friends are already being offered 60 or 90 days L/Cs and for certain commodities, document upon payment. Now permissible are inspection clauses written into contracts and visits to factories.

• More Cooperation Agreements

Compensation arrangements may be the talk of the Spring 1979 Fair. Guangzhou in particular has been selected to become a model province and experimentation in all types of cooperation schemes, especially involving Hong Kong, will be evident.

• Almost Like Home

The Chinese have made an effort to make available some of the comforts of the West to their foreign friends in Canton. Hoards of hungry fairgoers can imbibe Coca-Cola to round out their fast-food meals of hot dogs and hamburgers at the Dong Fang (an innovation at last fall's Fair). Complaints lodged by traders concerning tourists taking up coveted hotel rooms at the Dong Fang at past Fairs may be heeded by the Chinese in time to accommodate all the sightseers at the Bai Yun instead. There is also talk of dancing on top of the Dong Fang.

• Shortened travel time to Canton

Reaching the Fair is less cumbersome these days with the initiation of the Hong Kong-Canton air and hover-ferry service last Fall. As of April 4, express train service will speed traders to Canton in 3 hours, eliminating the train change and luncheon stop at the Lowu-Shumchun border. One express train will run daily each way and can accommodate 600 passengers.

SILK HAS BRIGHT FUTURE ON SEVENTH AVENUE

The first Chinese delegation devoted exclusively to the sale of silk arrived on March 30 for a one-month visit with old customers in New York, Los Angeles, San Francisco, and Seattle. The CHINATEX delegation is capitalizing on the increased demand for premium silk from the US fashion industry.

The six-member delegation, led by Mr. Wang Zuangmu, manager of the Silk Department, Beijing Head Office, met with S. Shamash and Sons, Gerli and Company, Inc., Blum International, Rudolph Desco, and others.

US imports of raw silk from China have been climbing substantially from \$3.03 million in sales in 1976, \$3.95 million in 1977, to \$4.52 million in 1978. US silk fabric imports from China experienced a slump in 1977 at \$1.23 million after \$1.43 million sales in 1976, but bounced back in 1978 at

$1.54 million in total sales.

With silk as a hot item on Seventh Avenue for the upcoming summer and fall seasons, US importers say they can't get enough. Big fabrics are the lightweight silks for summer and heavier weight for fall and winter wear in silk shantung faille, poplin, jacquards, spun silk taffeta, burlaps, and a new silk denim.

COTTON PIECE GOODS GROUP FROM CHINATEX ARRIVES

A cotton and wool piece goods delegation from the PRC followed suit, arriving on March 30 for a one-month selling tour. In Washington, DC, New York, and Chicago, the delegation paid visits to many of their old customers. Ms. Lue Xuewen, deputy manager of the Cotton Yarn department, Beijing Head Office, was the leader of the mission. Other delegates were Mr. Guan Qingtai and Mr. Li Longkun of Beijing Office, Mr. Luo Minglin and Ms. Lu Meijun of Shanghai Branch, and Mr. Zhang Yinong of Guangdong Branch.

AND MORE DELEGATIONS TO COME

A three-person delegation from CEROILS is scheduled to arrive within the next 3 months to sell tung oil. . . . In late May, a MINMETALS group is slated for a one-month, combination import-export mission. The delegation's nine members will discuss the export of nonferrous metals, rare earth oxides and hardware for construction, visit plants which manufacture aluminum profiles and copper sheets and coils, and hold technical seminars.

RECORD-BREAKING NUMBER OF TRADE MISSIONS MAKE SPRING SOJOURN TO US

The National Council's Importer Services is hosting six export-oriented delegations representing various Chinese FTCs, all in a two-month period. This record-breaking number of selling missions exemplifies the enormous increase in activity in the export departments of the FTCs and the emphasis China is placing on exports to the US as a means to finance its modernization program.

The FTCs appear to be under pressure to sell. Most of the recent delegations are concentrating on traditional export items—silk, cotton, down and feathers, minerals and metals, while several groups are exploring sales to the US in relatively undeveloped market areas such as leather footwear and canned foods.

Following the pattern established by several 1978 selling delegations, the dual purpose of recent US visits by FTC officials is to sell and study the US market conditions for their products. The Chinese are hungry to learn more about the marketing of goods, styles, trends in fashion, labeling, packaging and pricing.

A newer trend is the import-export-oriented delegation, sent to the US to sell Chinese goods and investigate the purchase of US wares through direct buying or compensation trade.

SHOE DELEGATION NEGOTIATES COMPENSATION AGREEMENT

A leather-shoe delegation from CHINATUHSU's Shanghai Branch visited Genesco, Inc., of Nashville, Tennessee, and other shoe manufacturers from February 8 to March 7.

Mr. Ma Quangsheng, General Manager of the Shanghai Leather and Leather Products Corporation was accompanied by the manager of the Shanghai No. 2 shoes plant, the Director and Engineer of the Leather Research Department, an official from the Hides and Skins Department, and an interpreter from China Native Produce and Animal By-Products.

After a visit to a shoe exhibition in New York City, the group headed to Genesco headquarters to continue discussions on a multi-million-dollar compensation deal. According to the delegation, the agreement was not finalized during their visit to Nashville. Under the terms of the proposed agreement (the first compensation arrangement involving footwear), Genesco will supply machinery to the Shanghai factory in return for a percentage of the 6,000 to 7,000 shoes to be produced per day.

DOWN DELEGATION SEEKS TO PLUMP UP US SALES

Fluctuating prices combined with the ever-present high duties made for slow sales at the Feather and Down Fair in Shanghai this past January. Few US companies attended the CHINATUHSU event despite the improvements in quality of the finished garments and reduction in prices of down reported at $20 per pound (depending on quality and size of order) in comparison with the early 1978 prices of $35 per pound.

In a drive for increased sales, CHINATUHSU is sending a down delegation to the US in May for a 6 week visit. The trading group will meet with down importers and major down apparel importers including Eastern Mountain Sports, Inc., Eddie Bauer, Sears, Roebuck and Company, and K Mart Corporation.

A new welcome for Canton fairgoers

Textiles men see London Fog raincoats

CHINATUHSU SURVEY GROUP ARRIVES FOR SIX-MONTH STAY

An unprecedented six-month visit by three CHINATUHSU officials indicates the seriousness on the part of the Chinese to really understand the American market. Mr. Feng Guangshun, veteran of past Native Produce delegations, accompanied by Wu Wenan and Jin Meisheng, arrived on March 11 in Washington, DC. During the multi-purpose mission, Mr. Feng will negotiate business in native produce, animal by-products and tea and work to facilitate future visits of American customers to China and CHINATUHSU delegations to the US.

US lunch meat gets second look from CEROILS men

CEROILS WILL CAN US PRIVATE LABELS

CEROILS sent four canned foods specialists to the US in March to investigate US market conditions for Chinese canned goods, to learn more about the specifications and regulations affecting imports, to study the habits and buying patterns of US consumers and to sell their products.

The delegation arrived in San Francisco on March 10 (the first National Council-hosted selling group not to arrive in Washington, DC, first) and spent 40 days visiting Los Angeles, Seattle, Minneapolis, Chicago, Washington, DC, and New York.

In order to develop a market for Chinese canned foods in the US, the delegation studied the channels of distribution in the food industry from A to Z. They met with large, private label canners such as Del Monte, Hunt Wesson, Green Giant and Armour, supermarket chains such as Safeway, Super Value and Alpha Beta, food service and industrial suppliers like Sexton and Marriott, cooperative canning facilities such as Tri Valley Growers, importer-wholesalers and food marketing companies. Food and Drug Administration officials and Customs representatives briefed the Chinese on low-acid food regulations, canning and packing specifications, labeling requirements and USDA rulings on meat canning.

Through conversations with the delegation, significant changes were noted in CEROILS policy:

• Private Label Canning

The delegation indicated that China is ready to do private-label canning—the factory will use the buyer's label instead of the branch's brand name—for their US customers. One member of the delegation explained that private label canning is only lucrative for CEROILS if the amount of the order is substantial and, prior to normalization, the allotment of canned foods for export to the US was too small. The first private-label contract was signed by CEROILS with a European customer in 1965. The contract was subsequently canceled during the upheaval of the Cultural Revolution. Private-label canning for European countries resumed successfully in 1977.

• All Canned Food Contracts Now Signed With Branches

At a meeting in December 1978, the canned foods representatives from all branches of CEROILS conferred in Beijing to establish policy for the coming year. As of January 1, all branches began acting independently and were granted the authority to sign contracts. The delegation advises new customers to contact the appropriate branch directly and inquiries already sent to Beijing Head Office will be routed to the proper Branch.

• Permanent CEROILS Representative in US in the Future

A full-time, permanent representative of CEROILS may be stationed in the US in the near future and given full authority to negotiate, sign contracts, and authorize invitations to China. The delegation did not disclose a definite date.

• Incentives to Factories

Canned food factories in China are under the supervision of the Ministry of Light Industry and the canned foods for domestic consumption are handled by the Ministry of Commerce. CEROILS' role is to handle exports destined for foreign markets. The export departments of CEROILS branches submit orders for export to the factories and work closely with them to ensure quality control and proper labeling to comply with the importing country's regulations.

To boost export allotments, the branches are offering incentives to the factories in the form of new machinery or better housing for the workers, if production exceeds a certain quota. In addition, the export departments in the branches are responsible for introducing new products for the factories to can, which involves convincing the factory that the new product will be profitable.

• No New Factories Registered With FDA

CEROILS has registered only those canning factories with the FDA which produce export products for the US market. For instance, of the two canning factories canning export-destined products under the Shanghai branch, only the Maling Canned Foods Factory is registered. The other factory cans for the European and Chinese domestic markets.

Fujian has seven canning facilities, but only the Fuzhou cannery is FDA-registered. The delegation explained that the Fuzhou factory is biggest and, geographically, the closest to the Fujian branch office, which facilitates close regulation of the factory by CEROILS representatives. Between branch officials and China Commodities Inspection Bureau inspectors, products are regulated on a daily basis.

Fujian is building three new canneries, but CEROILS does not plan to register them with FDA. Only if the demand for Chinese canned goods in the US becomes greater than present production can handle will another factory be registered. According to the delegation, building canneries is very popular with city authorities in China at present because profits are quickly accounted for to offset initial costs.

• Interest in Compensation Trade

The canned foods group indicated a growing interest on CEROILS' part to discuss compensation arrangements in which modern canning machinery would be paid off in canned goods. Although this group's interest in canning machinery was only of an exploratory nature, a technical delegation from the corporation's industrial area will follow up with a visit to the US later this year. Reportedly, the grain delegation which toured the US this March stopped in Hawaii en route to Beijing to pursue a pineapple-canning arrangement with a major firm.

CHINESE CANNED GOODS GIVEN CRITIQUE

Canned foods in ample supply for export from China included mandarin oranges, pineapple, (both sliced, chunks, and some crushed), mushrooms, stringless green beans, water chestnuts and tomato puree. The delegation offered mackerel, asparagus, peaches, sliced apples, bamboo shoots, and lychees among other items in smaller quantities.

One San Francisco-based company presented the delegation with a critique of CEROILS products assessed from Chinese samples. The results were based on comparisons with competitive brands in the US market and judged on quality, appearance, taste, pack,

MORE CHINESE CANNED FOODS REGISTERED WITH FDA

Nine more Chinese low-acid canned foods were registered with the US Food and Drug Administration (FDA) in February 1979. The 48 previously approved foodstuffs are listed in CBR 5:5 and 5:6.

CEROILS Branch	Factory and FCE Number	Item	Can Size
Guangdong* (Kwangtung)	Kwangtung Canned Food Factory #06188	Mushrooms in brine, choice grade, whole, sliced, pieces and stems	77 x 114
Guangxi Zhuang* Autonomous Region (Kwangsi Chuang)	Nanning Canned Food Factory #07378	Peeled water chestnuts in water	86.5 x 113
		Mushrooms in brine, choice whole, sliced, pieces, stems	77 x 114
		Bamboo shoots in water, whole	86.5 x 113
Dalian* (Talien)	Luta Canned Food Factory #07377	Baby clams, whole, salt and water added	86.5 x 60
Fujian* (Fukien)	Foochow Cannery #07230	Winter bamboo shoots in water	102 x 116
Shanghai	Maling Canned Food Factory #06186	Fresh green peas in brine	77 x 103 77 x 114
Zhejiang (Chekiang) (Exporting through Shanghai)	Hangchow Canned Foods Factory FCE #07091	Water chestnuts, sliced, peeled, in water Water chestnuts, sliced, peeled, in water	156 x 178 156 x 173

Source: FDA, Data as of February 1979
Data in millimeters (1 millimeter= .03937 inch)

* Pinyin spelling. Labels not changed.

product cut, size, odor, and price. On the whole, water chestnuts, mandarin orange segments, mushrooms, and baby clams in water were found good to excellent. Canned meats, including pork luncheon meat, ham, corned beef and cooked ham, were all rated above average. Pineapple, asparagus, and fried oysters were rated substandard to unacceptable.

Leader of the delegation Song Ruizhang, Manager of CEROILS Canned Goods Department, Beijing Head Office, was accompanied by Tao Shitong, Deputy Chief, Guangdong Foodstuffs Branch, Canned Goods Section; Wang Chengming, Deputy Chief, Fujian Branch, Canned Goods Section; and Wang Yongkang, Staff Member, Shanghai Foodstuffs Branch. Mrs. Shang Zhixian, CEROILS representative from the Chinese Embassy, traveled with the delegation on the West Coast portion of their tour.

THINGS GO BETTER WITH LAOSHAN

Laoshan Mineral Water, China's answer to the popular French Perrier water, will hit the US market by June 1, according to scheduled plans of David Chen, a California-based importer.

Chen landed the exclusive distribution rights to Laoshan Mineral Water for the United States in an agreement mapped out with CEROILS Qingdao Branch in October 1978 and finalized in March 1979.

During his visit to China in March, Chen completed work with CEROILS on the design of the Laoshan label and a 6-pack carrying case. Both varieties of Laoshan Mineral Water, regular and the bubbly, alkaline type, will be available in 9½-oz. and 23-oz. bottles. The small bottles, packaged in a carrying case for six, will retail for $1.75, according to Chen. A new label had to be designed to conform to US FDA regulations, as the Chinese Laoshan label claims to treat "chronic affections of the urinary organs, gastric enteritis, gout, and other troubles of the stomach."

Chen maintains that CEROILS officials tested France's Perrier water and found that their native Laoshan tasted the same, but had a greater mineral content. The source of Laoshan Mineral Water is the same famous spring which is piped into the plant which brews and bottles Tsingtao Beer.

Still seeking a US distributor (7-Up handles Perrier), Chen estimates that Laoshan will be introduced to the East and West Coast markets first, followed by a nationwide advertising campaign.

ANOTHER EXCLUSIVE IN THE WORKS

Enterprise Manufacturing Company of Philadelphia expects to wrap up an agreement shortly after the spring Guangzhou Fair, which would give the company an exclusive agency for Chinese dish towels, dishcloths, pot holders, machine-embroidered tablecloths and napkins, and home textile products.

The contract, according to Steve Cohen, vice president of Enterprise Manufacturing Company, has been in the works for over six months. Initially, the branch of ARTCHINA, which Cohen did not disclose, agreed not to solicit new business for their home textile products in the US. Meanwhile, Enterprise worked with the branch submitting samples, colors, and designs. Cohen projects that, following the signing of the exclusive contract, Enterprise Manufacturing will sell $10 million worth of these domestic items in the next three years. 完

TOP 16 US IMPORTS FROM THE PRC, 1978

Category	Value (millions US $)	Share of Total US Imports from China	PRC's Share of Total US Imports
Print cloth shirting, with cotton, not fancy, colored, or bleached, nec *	20,218,536	6.2	76.8
Tin other than alloys	15,498,584	4.7	2.7
Feathers, not meeting federal standards	15,281,964	4.6	49.0
Fireworks	12,095,781	3.7	53.0
Antiques other than furniture or silverware	10,826,402	3.3	9.0
Downs, not meeting federal standards	9,851,653	3.0	28.2
ABC-class sheeting, white cotton, carded, not fancy, colored, or bleached	8,024,216	2.4	16.7
Bamboo baskets and bags	7,269,499	2.2	48.3
Bristles, crude or processed	7,016,426	2.1	87.5
Cashews, shelled, blanched, or otherwise preserved	6,599,621	2.0	7.0
Tungsten ore	5,832,284	1.8	8.5
Floor-covering pile, hand inserted, valued at over 66.27¢ per sq ft.	5,777,925	1.8	9.0
Men's cotton shirts	5,664,241	1.7	4.7
Cotton gloves, no fourchettes	5,559,495	1.6	41.6
Tea, crude or processed	4,762,665	1.4	4.1
Cassia oil	4,569,524	1.3	∂1.8
TOTALS	144,848,816	43.8	

*** TOTAL VALUE US IMPORTS FROM CHINA $323.95 MILLION**

China Economic Notes

BRIEFLY:

• Major revisions of China's economic plan postpone the National People's Congress until summer.

• Investments in new iron and steel plants have been trimmed, but coal and electric power investments will increase.

• Agriculture is now the highest priority sector.

• Some of China's 120 key industrial projects have been postponed, others will be not completed until after 1985.

• Confusion on the planning front has renewed interest in foreign management and planning techniques, and in widening the range of goods allowed to enter China's free markets.

• Peasants may now sell grain and oil on the open market, but under strict supervision.

• Foreign plants imported by China in recent years have been mainly concentrated in China's more advanced provinces, study shows.

• Chinese labor unions get real muscle for the first time, and are empowered by the All-China Federation of Trade Unions to close down unsafe plants.

GENERAL

China Cuts Steel Target, Postpones Work on 120 Major Projects

A critical reappraisal of China's economic plan was launched at the December plenum of the CCP Central Committee. Most recently, China's National People's Congress, which was scheduled to meet in March, has been postponed until after April possibly due to the drastic plan revisions still under discussion. The first authoritative summary of the leadership's current outlook, and what plan changes have resulted, recently appeared in the *People's Daily* and other government documents. Following are the key points:

• The proportion of investment in iron and steel will be reduced. Past investments showed poor results, owing to shortages of electricity, transport, and other supporting facilities. But as yet the target of 60 million tons output by 1985 has not been officially revised.

• Funds for harbor construction are still limited, according to a March 14 Shanghai Radio broadcast. Planned capacity of Shanghai harbor is 10 million tons of cargo by 1980, but the report did not indicate if the cutback in funds will postpone these objectives.

• Agriculture will receive first priority, a status it nominally held since the current 10 year plan began in 1976, but which excessive investment in heavy industry has undermined. Greater attention will also be paid to industries which support agriculture.

• Coal, electric power, oil, transport, and building materials will receive added infusions of capital in the next two years. Funds for these sectors increased in 1978—by 47 percent for electric power and by 63 percent for building materials in comparison with 1977 levels—but apparently these funds were still inadequate.

• Work has been postponed on some of China's 120 key industrial projects, originally scheduled for completion by 1985. Now only "a number of them will be completed and commissioned before 1985," according to the March 23 *Beijing Review,* while "the rest will be started sometime before 1985 and completed after that year." Apart from these major projects, 1,000 other significant projects were begun in 1978, of which a third have already been completed or partially completed. (See box).

• The Baoshan Steel Mill remains a top priority, even though the steel sector as a whole has had its investment budget trimmed. Over 20 backup facilities to support the Baoshan project were recently announced, including jetties, railways, coal mines, power plants, telecommunications and public utilities.

• Housing construction will accelerate. In 1978, new floor space far surpassed 28 million square meters, the amount of housing built in 1977, according to government sources.

• Light industry is now the government's main hope for rapid export gains in the short term. Within this sector, consumer goods output will get the biggest push in order to increase exports, as well as to satisfy rising domestic demand. Planners obviously regard light industry development as the best means to rapidly multiply China's investment funds—since investments in this sector yield relatively rapid returns—thereby increasing the resources available for slow-yielding investments such as the Baoshan project.

• Future investments must draw mainly upon domestic savings, not foreign borrowing. But when China does borrow abroad, "any internationally accepted practice will be adopted," according to a recent statement in the Chinese press by Han Guang, vice-minister of the State Capital Construction Commission.

• "Balanced" planning is the government's new watchword. Planning has been characterized by a lack of coordination between government departments, especially between banks and units engaged in production planning.

JAPAN: THE NEW MANAGEMENT MODEL—BUT MANAGEMENT CHANGES ARE STILL SLOW

Japan's management system is increasingly being held up by the Chinese government as a model for industries to follow. In the amount of coverage received, Japan has even eclipsed Daqing (Taching), the oil fields and petrochemical enterprise in Heilongjiang Province that for over a decade

As time goes on, will China pretty much stick to chopsticks?

was the preeminent success story industries were supposed to emulate.

The lesson of Japan's industrialization experience after World War II, according to Beijing's *Guangming Daily*, is that Japan not only imported Western factories, but also acquired the necessary management methods to make them run. At first Japanese businessmen did not appreciate the need to import Western management. Only when this mistake was corrected in the 1960s, the article notes, was the modern equipment that Japan had imported used efficiently. The article goes on to compare China's management system today with Japan's prewar system, and concludes that "importing management and technology should be undertaken simultaneously."

China's vice minister of Light Industry, Song Jiwen (Sung Chi-wen), in an outspoken interview with a *Liberation Daily* reporter after a trip to Japan, said that the "software" of foreign technology—referring to the West's management skill—would help China more than importing expensive capital goods. Recent Chinese delegations to the US have increasingly gone out of their way to seek management know-how.

Compared with Chinese enterprises, press reports depict the administrative structure of Japanese firms as being the essence of simplicity. The main difference is that lines of authority in Japanese firms are drawn clearly by Chinese standards, whereas in China factory managers serve at the beck and call of many administrative authorities that may expropriate a plant's truck for a few days, or demand workers to help carry vegetables to market. For example, Jiangxi Radio reported that whenever personnel shortages exist, provincial departments simply appeal to factories for "voluntary" manpower transfers, even for tasks such as running exhibitions, militia training, or repairing public squares. Not only are plans upset, but many factories are never recompensed.

The Kunming Iron and Steel Plant, which is under seven different authorities is a case in point. According to a recent Kunming Radio broadcast, the Ministry of Metallurgy supervises the plant's output, provincial authorities monitor profit, the city handles personnel matters, while bureaus of planning, construction, industry, and communications control other spheres of the plant's activity. Each authority sets targets, often without reference to what other agencies are doing. "In this way the plant is truly enduring multiheaded leadership," said the report.

Achieving the goals of the four modernizations under these circumstances is problematical, concluded the broadcast, since the decision to expand involves the most red tape of all—"A single capital construction project has to go through many hands, a process which may take as long as one year."

A February 19 editorial in the *People's Daily* urges factories to accept leadership from only one department, and to reject assignments not included in the state plan. Moreover, when plans are too vague, contracts should be signed to enumerate the obligations of one enterprise to another. Fines for breaking contracts have been reinstated, the editorial noted.

Banks are playing a leading role in the reform process. On January 25, a *People's Daily* editorial urged banks to withhold or recall loans from enterprises which place quantity over quality, and run at a loss year after year. The editorial said that banks suffer from the prevailing management disorder in China, too, since huge sums committed during the gang-of-four era are now tied up in unremunerative projects.

Some reformers are obviously dissatisfied with the slow pace of change. For example, in December 1978, a bonus plan was announced that permits factories to retain a portion of their profits equal to 5 percent of the wage bill, provided all state plan targets are met (for quantity, quality, output mix, profit, consumption of raw materials and fuel, productivity, and cost). Under the plan, only 3 percent of the wage bill can be retained if plants meet only the first four targets, and no bonuses are entitled if all eight targets are unmet.

Soon after the Ministry of Finance issued the plan, it was blamed for discriminating against well-managed enterprises. An official at the Wuhan Iron and Steel Company charged in a letter to the *People's Daily* that the profits retained under this scheme do not, in fact, accrue to the enterprise that earned them, but are turned over to the industrial bureau supervising the plan in order to subsidize other plants under the bureau that suffer losses.

CHINA TO INTRODUCE MARKET ECONOMY?

In addition to reforming management at the factory level, drastic reforms of the planning superstructure are also under discussion in China.

A meeting composed largely of theoretical economists recently met in Sichuan (Szechwan) Province to address the question "whether a market economy and planned economy can be combined." According to the February 4 Sichuan Radio report on the conference, the participants concluded that free markets could be accommodated within China's planning system, and, furthermore, that the introduction of competitive forces would go far in making Chinese enterprises more competitive both at home and in international markets.

The idea that China should expand the role of free markets, a heretical suggestion a few years ago, is clearly receiving serious consideration. The party cadres and professors at the Sichuan conference acknowledged that it is "absolutely impossible" for plans to cover all contingencies in view of the complexities of China's growing economy. Hence, "it is very necessary to organize a market economy covering a certain scope as a supplement." Presently, free markets in the industrial sphere are forbidden.

The main problem with the planning system today, according to a February 28 report by China's news agency, Xinhua, is that factories are out of touch with end-users of their products. As a result, useless goods are piling up in warehouses at government expense. The waste is attributed to plan targets which ignore the economy's real needs, and to the state's unrealistic price structure, which places supply departments in the untenable position of paying factories large sums for goods the state cannot sell.

The theorists hope that a more flexible price structure, together with freer markets especially in the consumer goods sector, will be implemented soon. Meanwhile, attention has focused on the efforts of Western countries to combine government planning with the free enterprise system, as in the French example. According to Xinhua, a national society based in Shanghai was recently formed to study these experiments.

But opinion on how to change the planning system is clearly divided. Some writers oppose "market socialism," preferring instead to overcome the present administrative logjam by decentralizing the planning system even further. This approach was first tried in 1957–58, when China scaled down the planning system borrowed from the Russians in the early 1950s, adopting instead a decentralized variant of the Soviet model which is still in effect.

A recent *Guang Ming Daily* article argues that further decentralization is administratively feasible. "We have many provinces, municipalities, and autonomous regions that, on the average, are equivalent in size to a major European country," the article said. It advocated that these units "should be given more autonomy in economic planning and in financial affairs and foreign trade."

The planning debate is far from over. As the range of opinion widens, it is not surprising that advocates of centralized, Soviet-style planning have reemerged. In February, Xinhua reporter Xu Zhankun wrote that China must return to orthodox planning, and "must coordinate all activities in the country as in a chess game."

AGRICULTURAL TRADE FAIRS LIBERALIZED

In a significant break with past policy, peasants may henceforth sell grain and oil in rural fairs at free market prices, according to a January 21 broadcast by Anhui (Anhwei) Radio. The main reason for this decision, which applies to districts in Anhui that have fulfilled their state grain and oil procurement quotas, was to improve distribution and raise peasant living standards. By increasing the range of items legally sanctioned on the open market, the government may also be testing the performance of markets as an allocative device.

Heretofore, free markets in China have been tightly controlled, limited exclusively to handicrafts and homegrown farm produce sold by peasants. Items such as grain and vegetable oil were rationed through state distribution channels.

The new ruling not only applies to peasants, but permits brigade and commune-level authorities to buy and sell on the open market, provided that grain and oil prices are never double the state procurement price for these items. To further restrict speculation, the report instructed local cadres to monitor market transactions closely.

The chief danger posed by this innovation, according to the same report, is that agricultural units may sell too much grain and oil if the price is right, thereby depleting the food reserves that communes and brigades are required to maintain. Units which make this mistake must buy back supplies from the government at the same price at which they were originally sold on the market, the report warned. Thus far, Guizhou (Kweichow) Province is the only other province to report a similar policy change.

CHINA REDUCES TAXES, IMPROVES TAX INCENTIVES

More Exemptions for Rural Small-Scale Industry

New tax rates issued by the Ministry of Finance, and approved by the State Council, substantially lower the tax burden of brigade and commune-owned industrial enterprises, according to a February 9 Xinhua announcement. The tax rate on these enterprises remains 20 percent, with these exceptions:

- Newly established brigade and commune industries that qualified for one to two years reduced tax, or tax-exempt status, are now granted two to three years. This provision does not apply to plants making cigarettes, alcoholic beverages, cotton yarn, or other products taxed at high rates.

CHINA'S FOREIGN TECHNOLOGY BUDGET, 1978–85 (billion US $)

Category	Contracted for in 1978*	Under negotiation** (Rounded estimates)
Iron & Steel	0.1	19.0
Coal	4.0	1.6
Other mining and processing	2.4	4.4
Ports	2.1	1.1
Petrochemical plants and equipment	0.5	2.3
Hotels	0.5	3.0
Shipping	0.5	—
Petroleum	0.4	3–5
Electronics	0.3	0.1
Agriculture-related plants and equipment	0.1	0.6
Power development	0.2	3.0
Fisheries	—	2.0
Aircraft	—	1.0
Other transportation	—	10–15
Construction plants and equipment	0.2	0.5
Textile plants and equipment	—	0.1
Miscellaneous machinery and machine tools	0.1	0.2
Total	11.4	52–59

Data as of April 15.

For previous projections see *CBR* 5.5, p. 65.

*Excludes approximately $2.6 billion in projects contracted after mid-December, 1978, which were postponed until financing is arranged.

**Some projects under negotiation will be completed after 1985.

Source: National Council publication, *Sales to China, 1978, and Negotiations for Sales*, April, 1979, and other private sources.

WHO'S WHO IN THE PRC

MEMBERS OF THE STATE COUNCIL*

March 1979

Premier:	
Hua Guofeng	Chairman, CCP Central Committee; Member Politburo
Vice Premiers:	
Deng Xiaoping	Vice Chairman, CCP Central Committee; Member, Politburo
Li Xiannian	Vice Chairman, CCP Central Committee; Member, Politburo
Xu Xiangqian	Minister of National Defense
Ji Dengkui	Member, Politburo
Yu Qiuli	Member, Politburo; Minister in Charge of State Planning Commission
Chen Xilian	Member, Politburo; Commander, Beijing Military Region
Geng Biao	Member, Politburo
Chen Yonggui	Member, Politburo
Fang Yi	Member, Politburo; Minister in Charge of State Science and Technology Commission
Wang Zhen	Vice Premier
Gu Mu	Minister in Charge of State Capital Construction Commission
Kang Shien	Minister in Charge of State Economic Commission
Chen Muhua	Alternate Member Politburo; Minister of Economic Relations with Foreign Countries
Wang Renzhong	Newly appointed Vice Premier; Minister in Charge of the State Agricultural Commission

* Rank order

- The minimum taxable income of brigade and commune enterprises is raised from 600 to 3,000 yuan. Income below the minimum is tax exempt.
- Beginning in 1979, new brigade and commune industries in "frontier-region and national autonomous counties and banners" are exempt from income taxes for the first five years of operation.

Poor Agricultural Units Exempt

Production teams with per capita grain rations below a minimum level—still to be established—are henceforth exempt from income taxes. The February 9 Xinhua announcement said that the new tax-exemption level will be decided jointly by provincial and local governments. Production teams with incomes above this level will continue to pay the same tax rates. According to most Western sources, the tax rate on agricultural output has fallen from about 12 percent in 1952 to 5 percent in 1975. Taxes are paid in cash or with an equivalent amount of industrial crops.

CHINA'S NEW INDUSTRIAL MAP

The sudden importation of new plants in recent years has ignited a controversy over the question of where these multimillion dollar projects should go.

The Ministry of Chemical Industry strongly favors building these plants in advanced regions that already possess well-developed facilities. The Ministry's own investigations, Xinhua reports, show that it takes 30 percent less time to build plants in advanced areas. Moreover, "by using old bases rather than choosing a new site, we can save about one-third of the investments."

The opposite viewpoint was recently aired in Beijing's *Guang Ming Daily*. The writer, Ma Meili, recommended that plants be distributed nationwide in a more equitable manner. "This will gradually change the big difference between the towns and countryside left behind by the old society." The writer comments favorably on the 13 Kellogg fertilizer plants bought by China in 1973, which "have been allocated to small cities and towns."

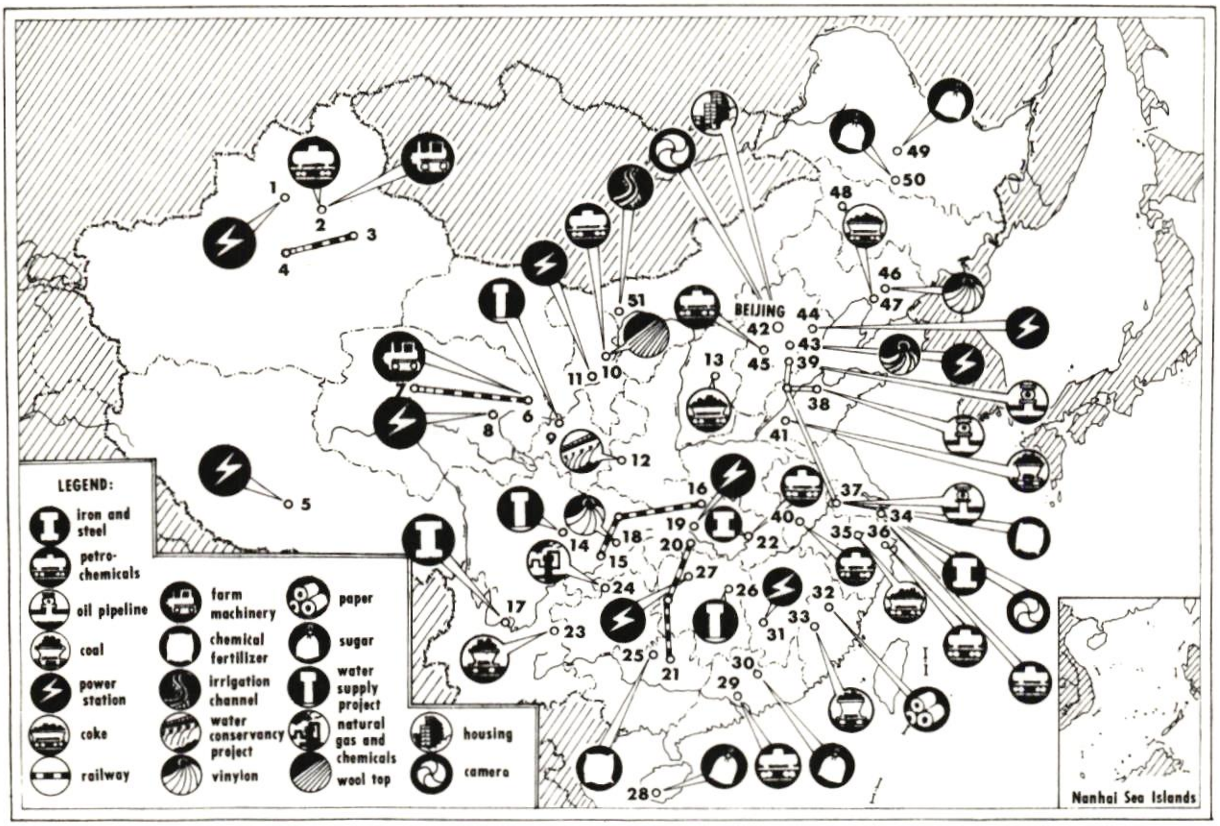
A study by Columbia University researcher Kenneth Bowman has examined where China's imported plants have actually gone. Based on a sample of 59 plants imported during 1972–77, he finds that coastal areas received 66 percent of the total. If ranked by the number of plants received, the six major recipients were Liaoning Province, Shanghai, Sichuan Province, Beijing, Hubei Province, and Tianjin. These areas already ranked among China's foremost industrial centers.

Among China's poorer regions, only Central South China received a substantial number of Western plants. This area encompasses five provinces, all of which are relatively backward industrially except for Hubei and Guangdong. This region received in the aggregate almost twice as many whole plant imports during 1972–77 as the seven provinces of East China. This up-and-coming area is called China's new industrial "rear area." It contains one-quarter of China's population, but in 1974 produced only 15 percent of the country's gross value of industrial output.

Southwest and Northwest China, including mainly Tibet and the Soviet border region, received few whole plant imports. The study notes that China's erstwhile policy of favoring underdeveloped areas, carried out during the First Five-Year-Plan period of the 1950s, is evident today only in the example of the government's heavy investment in Central South China.

SHORTAGES IN FOOD GRAIN, CONSUMER GOODS ACKNOWLEDGED

In the most candid discussion yet of the government's failings in agriculture,



MAJOR PRC CAPITAL CONSTRUCTION PROJECTS IN 1978

More than 1,000 major projects were started in 1978. A third has been completed or partially completed. The map shows a few of them.

1. Manas River Hydropower Station
2. Xinjiang Petrochemical Works
3. Turpan (Southern Xinjiang Railway)
4. Korla (Southern Xinjiang Railway)
5. Yangbajain Geothermal-Power Station
6. Xining (Qinghai-Xizang Railway)
7. Golmud (Qinghai-Xizang Railway)
8. Longyangxia Hydropower Station
9. Lanzhou water supply project
10. Wool top mill and oil refinery in Yinchuan
11. Qingtongxia water control project
12. Fengjiashan Reservoir
13. Coking plant of the Taiyuan Iron and Steel Company
14. Chengdu water supply project
15. Chongqing (Xiangfan-Chongqing Railway)
16. Xiangfan (Xiangfan-Chongqing Railway)
17. Panzhihua Iron and Steel Company
18. Sichuan Vinylon Mill
19. Gezhouba Hydropower Station
20. Zhicheng (Zhicheng-Liuzhou Railway)
21. Liuzhou (Zhicheng-Liuzhou Railway)
22. Wuhan Iron and Steel Company's 1.7-metre rolling mill and Wuhan Petrochemical Works
23. Housuo Coal-Dressing Plant
24. Chishui Natural Gas and Chemical Plant
25. Hechi Nitrogenous Fertilizer Plant
26. Changsha water supply project
27. Fengtan Hydropower Station
28. Yanglan Sugar Refinery
29. Guangzhou Petrochemical Works
30. Wengyuan Sugar Refinery
31. Wanan Hydropower Station
32. Nanping Paper Mill
33. Yongan Coal Mine
34. Baoshan Iron and Steel Complex, Shanghai Petrochemical Complex and Shanghai Camera Factory
35. Sintering plant of the Hangzhou Iron and Steel Works
36. Zhejiang Oil Refinery
37. Qixiashan Chemical Fertilizer Plant and Luning oil pipeline, Nanjing
38. Dongying (oil pipeline)
39. Cangzhou (oil pipeline)
40. Anqing Petrochemical Works
41. Yanzhou coal base
42. Housing construction and camera factory, Beijing.
43. Beidagang Power Plant and Tianjin Petrochemical and Chemical Fibre Complex
44. Douhe Power Plant, Tangshan
45. Renqiu Oilfield
46. Liaoyang Petrochemical and Chemical Fibre Complex
47. Coking plant of the Anshan Iron and Steel Company
48. Huolinhe Coal Mine
49. Anda Sugar Refinery
50. Zhaoyuan Sugar Refinery
51. Ancillary project of the Huanghe River irrigation area.

by Yang Zhaosan

Reproduced from: *Beijing Review*, March 23, 1979

TARGETS IN CHINA 1980–1985

SHANGHAI PORT AND FOREIGN TRADE*
(million tons handled)

During the visit of the National Council's Construction Equipment Delegation to China in December 1978, a number of target figures for the years 1980 and 1985 were released by various factories and the places visited. While the figures relate only to individual units, they indicate that targets have been set at local levels. These goals hint at performance expected in different industrial sectors.

	1977	%	1978	%	1979	%	1980
Shanghai Port	6.6	19.7	7.9	7.6	8.5	17.6	10.0
No. 10 Working District**	1.7	52.9	2.6	38.5	3.6	11.1	4.0

Data: December 12, 1978.
*Under jurisdiction of Ministry of Communications. Percent figures refer to percentage change between the years indicated.
**Before 1973 less than 1 million tons handled.

CONSTRUCTION EQUIPMENT FACTORIES, SHANGHAI
(units)

	1978	%	1980	%	1985
Peng Pu Plant					
16-ton bulldozers	100–120	100–67	200	—	undecided
Shanghai Construction Machinery Works					
1 cu.m. backhoe excavators	200	50	300	67	500
Shanghai Construction and Installing Machine Factory					
5-ton hydraulic truck cranes	150	20	180 (1979)	11	200
16-ton cranes	5	0	(5?) (1979)	1500	200
4-ton cranes	2	0	2 (1979)	900	20

ELECTRIC POWER GENERATION, SHANGHAI
(kw)

	1978*	%	1980	%	1985
Ming Han Electric Power Plant	350	71	600	42	850

*Producing 7800 kw hrs/year

CHUNG LO TAN COMMUNE, NEAR CANTON
(units)

	1978	1980	%	1985
Trucks	15	—	—	NA
10–20 h.p. small trucks	113	—	192	330
60–80 h.p. medium trucks	12	—	125–442	39–65

Luo Weixiong of Beijing's Chinese People's University has revealed that peasant livelihoods have stagnated for twenty years. Speaking on Beijing Radio on February 14, the lecturer said that "between 1957 and 1977, the Chinese population increased by 300 million, but the amount of arable land was reduced by 100 million mou. The average amount of food grain distributed to each person in China is even less than in 1957." This bleak assessment is shared by US Government analysts, who estimate per capita grain output in 1977 at 290 kilograms, roughly what peasants received in the 1950s prior to Mao's Great Leap Forward.

Consumer goods output has also lagged woefully behind expectations. The cause, according to a February 20 *People's Daily* editorial, is that the high rate of investment in heavy industry in recent years has severely impaired the growth of light industries such as textiles which specialize in consumer goods production.

To redress this imbalance, the editorial calls upon cadres at all levels to restore the 1:8 ratio between investment in light industry and heavy industry which prevailed during the First Five Year Plan (1953–57).

TRADE UNIONS CHAMPION WORKER SAFETY RIGHTS IN THE PRC

Trade unions in the PRC are now empowered to stop the operation of newly built or expanded factories and mines that jeopardize the safety of workers. The new ruling by the All-China Federation of Trade Unions is being circulated to union organizations nationwide, according to a February 26 Xinhua bulletin. The ruling directs local trade union councils to demand improvements in any workpost "which seriously menaces the lives of the workers or damages their health." Furthermore, unions are urged to stop work "when improvements which can be made are not made."

The right to strike was guaranteed under Article 28 of China's 1975 constitution, as well as under Article 45 of the new constitution approved last March, but in actuality trade unions in China have traditionally lacked substantive authority.

As with unions in the USSR, Chinese trade unions include both workers and managers, and are organized along branch-of-industry lines. At the provincial land municipal level, these unions come under area-wide trade union councils.

Until recently, however, real power over labor matters was vested in state labor bureaus, which utilized trade union councils, and trade union committees in factories, merely as conduits for disseminating government policy to the rank and file.

Only in 1973 did the authority of trade unions begin to increase. On April 24 of that year the All-China Federation of Trade Unions, dissolved during the Cultural Revolution (1966–68), was revived.

This revival will probably continue, since unions once played an important role in monitoring capitalist managers during the era of joint public-private ownership which existed in China in the 1950s, and unions will undoubtedly serve a similar function when China begins joint ventures with Western countries. This is expected to occur by October.

AGRICULTURE

China places new emphasis on agriculture: grain production loses out to cash crops, forestry, and animal husbandry • China announces Forestry Act, the first of its kind • Agricultural mechanization moves closer to cities • New agricultural organizations arrive on the scene: Ministry of Agriculture and Forestry split • Two new ministries formed • State Agricultural Commission established • Agricultural Bank revived.

China Shifts Boost to Agriculture

In an attempt to restore balance to economic development plans, China has been reemphasizing the importance of agriculture while downplaying other sectors of the economy such as iron and steel. Within agriculture itself the production of food grains is now deemphasized along with a new stress on cash crops, forestry and animal husbandry.

This shift in emphasis can be expected to increase China's future demand for imported grain providing growing opportunities for western grain exporters.

Hints that a major policy shift is underway came in late February when the People's Daily (2/28/79) said: "At present there are great imbalances in the development of China's agriculture with grain production stressed at the expense of economic crops, forestry, animal husbandry, rural sideline industries and fishery." An earlier editorial (12/2/78) criticized Mao's dictum "taking grain production as the key link and insuring all-round development," and instead pointed out that Mao stressed the interdependence of agriculture, forestry and animal husbandry and said, "it is necessary to put the three on an equal footing."

At a planning session of the Chinese Communist Party's Central Committee convened last December a new develop-

CHINESE ECONOMIC INDICATORS, 1977–78

Key Indicators	1977	1978	Percent Increase (Preliminary) 1978/1977
GNP (billion 1977 US $)†	373	407	9.1
Population midyear (millions)†	983	1,000	1.7
GNP per capita (1977 US $)†	379	405	7.4
Grain (million metric tons)	285	290*–295**	1.8–3.5
Grain output per capita (kilograms)	290	290–295	0–1.7
Investment in capital construction	NA	NA	122
Production (million metric tons unless otherwise indicated)			
Total industrial output value	NA	NA	12
Steel	24	31.7	32
Iron	25	34	36
Coal †	547	605	11
Crude oil	90.3	104†	15
Refined oil	NA	NA	8
Natural gas (billion cubic meters)†	47	52	10
Chemical fertilizer	38	48	26
Cement †	56.2	67.8	21
Insecticides	NA	NA	22
Electric power (billion kwh.)†	141	162	15
Electric generating capacity	NA	NA	10
Metallurgical, mining, and power generating equipment	NA	NA	27–28
Cotton cloth (billion linear meters)†	10.0	11.1	11
Tractors (thousand 15-h.p. units)†	221.8	271.0	22
Foreign Trade (billion current US $)†			
Exports, f.o.b.	8.1	10.6	30.9
Imports, c.i.f.	7.1	10.7	50.7
US exports to China, f.o.b. (million US $)	171.3	818.2	378
US imports from China, c.i.f. (million US $)	202.7	324.1	60
Grain sales to China (million metric tons)	6.9	9.4	36.2

Sources: FBIS, SWB, and *Beijing Review*
*Preliminary USDA estimate
**Official NCNA claim
†US Government estimates

Excuse me, but there seem to be flower petals in my tea. . .

ment strategy, according the highest priority to agriculture was mapped out along with official announcements of major structural changes in the government. The broad outlines of the new farm policies formulated at the December session include:

• The confirmation of a renewed emphasis on forestry as evidenced by the promulgation of the Forestry Act of the PRC. Referred to "as China's first such act," it provides for the protection and development of China's forest resources and is being coupled with a massive afforestation campaign aimed at planting 1 million acres of trees in northeast China by the end of the year.

• The promotion of cash crops, animal husbandry, and rural sideline activities (as well as forestry) as the key trades for increasing agricultural production. China's original agricultural blueprint set a 1985 grain production target of 400 million tons, with yearly agricultural output an ambitious 4-5 percent—almost double the rate achieved during 1957–1977. By shifting resources to these quick-yielding areas and allowing farmers to sell more of their produce in the marketplace, China's planners hope to increase the cash income of rural communes and hence the total funds for reinvestment. As a further incentive to encourage corp production goods earmarked for the state are to receive higher prices.

A scaling down of mechanization to be confined to large-scale state farms and urban communes. According to the original 10-year plan "basic mechanization," i.e. seed improvement, more fertilizers, and expanded irrigation, of 85 percent of China's communes by 1985 was to provide the wherewithal for achieving 1985 agricultural targets. Now, scarce technical resources are to be concentrated in state farms, "with total cultivated acreage equal to a big province and millions of workers." Unlike rural people's communes which are split into smaller operations at the brigade and team levels, state farms are considered conducive to easy mechanization and scientific management.

New Structure

Beijing's new cost-benefit approach to economic development also coin-

MINISTRIES AND COMMISSIONS OF THE STATE COUNCIL
(In Protocol Order)
April 1979

Ministry/Commission	Leading Official
Ministry of Foreign Affairs	Huang Hua *
Ministry of National Defense	Xu Xiangqian *
State Planning Commission	Yu Qiuli *
State Scientific and Technological Commission	Fang Yi *
State Capital Construction Commission	Gu Mu *
State Economic Commission	Kang Shien
State Agricultural Commission [1]	Wang Renzhong *†
Nationalities Affairs Commission	Yang Jingren *
Ministry of Public Security	Zhao Cangbi *
Ministry of Civil Affairs	Cheng Zihua *
Ministry of Foreign Trade	Li Qiang *
Ministry of Economic Relations with Foreign Countries	Chen Muhua *
Ministry of Agriculture	Huo Shilian †
Ministry of Agricultural Machinery	Yang Ligong †
Ministry of Forestry	Lo Yuchuan †
First Ministry of Machine Building	Zhou Zijian *
Second Ministry of Machine Building	Liu Wei
Third Ministry of Machine Building	Lu Dong
Fourth Ministry of Machine Building	Qian Min
Fifth Ministry of Machine Building	Zhang Zhen
Sixth Ministry of Machine Building	Chai Shufan
Seventh Ministry of Machine Building	Zheng Tianxiang †
Eighth Ministry of Machine Building	
Ministry of Coal Industry	Xiao Han *
Ministry of Petroleum Industry	Song Zhenming
Ministry of Chemical Industry	Sun Jingwen

Ministry/Commission	Leading Official
Ministry of Power Industry	Liu Lanbo †
Ministry of Water Conservancy	Qian Zhenying †
Ministry of Textile Industry	Qian Chiguang *
Ministry of Light Industry	Liang Lingguang
Ministry of Railways	Guo Weizheng
Ministry of Communications	Zeng Sheng †
Ministry of Posts and Telecommunications	Wang Zigang
Ministry of Finance	Zhang Jingfu *
People's Bank of China	Li Baohua *
Ministry of Commerce	Wang Lei †
Ministry of Culture	Huang Zhen *
Ministry of Education	Jiang Nanxiang †
Ministry of Public Health	Jiang Yizhen
State Physical Culture and Sports Commission	Wang Meng *
Ministry of Land Reclamation **	
Ministry of Construction Materials **	

2

* Denotes members or alternate members of the 11h Central Committee of the Chinese Communist Party

† Denotes appointments announced at the sixth meeting of the Standing Committee of the Fifth National People's Congress (2/23/79).

** The formation of these two ministries was announced in late March. Ministers have not yet been appointed.

[1] At the Fifth National People's Congress in Feb., the following structural changes were announced: The Agricultural Commission was formed, the Ministry of Agriculture and Forestry was separated into 3 entities; Ministry of Forestry, Ministry of Agriculture, Ministry of Agricultural Machinery and the Ministry of Water Conservancy and Power was divided into the Ministry of Water Conservancy and Power and the Ministry of Power Industry.

SPECIAL AGENCIES OF THE STATE COUNCIL

Bureau	Director
Building Materials Bureau	Bai Xiangyin
Central Meteorological Bureau	Rao Xing * (leading member) Lu Xuchang *
Travel and Tourism Bureau	
Chinese People's Insurance Bureau	Feng Tianshun
Civil Aviation General Administration Bureau	Shen Tu
Foreign Experts Bureau	Chen Xudong (leading member)
Foreign Language Publications and Distribution Bureau	Jiang Muyue (leading member)
General Bureau for Industrial and Commercial Administration **	Wei Xingfei *
Geology Bureau	Sun Daguang
Government Offices Bureau	Gao Fuyou
Labor Bureau	Kang Yonghe
Museums and Archaeological Data Bureau	Wang Yeqiu
Oceanography Bureau	Shen Zhendong
Publications Bureau	Chen Hanbo (Acting Director)
Seismological Bureau	Cao Yu *
Standardization and Metrology Bureau	Yue Zhidian * (leading member)
State Farm Bureau	Shen Dieyuan
Supplies Bureau	Li Kaixin
Surveying and Cartography Bureau	Yang Derong
General Taxation Bureau	Ren Ziliang
All-China Federation of Supply and Marketing Cooperatives	Chen Guodong

* Denotes new appointments as of March 1979.
** Recently established Bureau.

cides with the following structural and administrative changes, a further indication of the renewed stress on agriculture.

• The breakup of the Ministry of Agriculture and Forestry into two separate entities: The Ministry of Agriculture under Huo Shilian and the Ministry of Forestry under Lo Chuan.

• The formation of a new industrial corporation, China National Forestry Machinery and Equipment Corp., to oversee the development of China's timber industry.

• The setting up of two new ministries: The Ministry of Agricultural Machinery with Yang Ligong as minister and the Ministry of Land Reclamation (minister not yet announced).

• The establishment of a new high-ranking body under the PRC State Council, the State Agricultural Commission, headed by Vice Premier Wang Renzhong. The new commission, working closely with the State Planning Commission, is responsible for planning and monitoring the implementation of agricultural policy.

• The revival of the Agricultural Bank, which disappeared on the eve of the Cultural Revolution. With an Agricultural Bank to regulate financial activities in the rural sector the state will increase its control over rural credit cooperatives (not presently integrated into the savings bank network of of 5,000 branches)—and tighten its supervision of land improvement and irregation projects.

CIA PROJECTS PRC GRAIN IMPORTS WILL STAY HIGH, COAL WON'T MEET TARGETS

A CIA report entitled *China: Demand for Foreign Grain* (ER 79–10073, January, 1979), projects China's grain imports at about 10 million metric tons annually through 1980. Of this total, 5–6 million tons are expected to come from the US. The high level of grain purchases is attributed to the leveling off of grain output in 1975–77, and indirectly to the general wage increase granted to three-fifths of China's urban workers in October 1977. Since then, food prices on China's free markets have increased sharply. The CIA estimates that urban Chinese spend over half of their income on food, and rising food demand may have prompted the government to increase imports.

Overall grain output is projected to increase by at least 2.2 percent per year, the historic norm, but probably not at a fast enough rate to achieve China's grain output goal of 400 million tons by 1985. This is because the 1985 target requires twice the historic growth rate in grain output for the next seven consecutive years, an unlikely prospect.

A CIA report entitled *Chinese Coal Industry: Prospects Over the Next Decade* (ER 79-10092, February, 1979), concludes that China's plans to produce 1 billion tons of coal by 1987 "are clearly beyond industry capabilities." The lack of modern equipment and of trained personnel are considered the major obstacles to fulfilling the coal plan. But the 11-page study notes that output over the last ten years grew by 10 percent per year, a respectable performance, and achieved 600 million tons in 1978. Estimated Chinese coal reserves are at least 1.5 trillion tons, third in size behind the Soviet and US reserves. The agency estimates these reserves are distributed as follows:

REGIONAL DISTRIBUTION OF CHINA'S COAL PRODUCTION AND RESERVES (Percent of 1975 totals)

	Reserves	Production
Northeast	2.7	22
North	70.1	28
Central	4.0	22
South	1.2	10
Northwest	18.7	9
Southwest	3.3	9

The coal study, unlike the CIA's grain study, lists sources. Both studies are available by writing to the National Technical Information Service, 5285 Port Royal Road, Springfield, Va. 22161. 完

Financial Notes

BRIEFLY:

• China has accepted medium-term credit facilities totaling $1.075 billion, as of early April. Six loans are involved, including a 5-year $175 million loan from Midland International Banks, Ltd., signed March 30, and a $500 million 3½-year loan from the Union des Banques Arabes et Francaises announced early in April. Both loans pay floating Eurodollar LIBOR interest rates, currently slightly under 11.0 percent, in addition to a margin of 0.5 percent above LIBOR. Also in April, Lloyds Bank International, National Westminster Bank, Midland Bank, and Standard Chartered Bank each agreed to lend China $100 million for five years reportedly at 0.5 percent over LIBOR. The UK loans are not linked to any specific project.

• The Bank of China's fourth overseas branch will open in Luxembourg in June. It is expected to handle China's Euro-deutschemark transactions, since China reportedly maintains a large portion of its reserves in DM. Bank of China branches already exist in Hong Kong, Singapore, and London. New York may be next.

• On April 24 Bank of China officials sign a $1 billion government-to-government buyers credit with Italy. Terms of the final agreement have not been released, but the original facility involved an 8-year credit denominated in US dollars at 7.75-8 percent fixed. The facility is mainly for $600 million Fiat agricultural machinery sales to China.

• Bankers Trust Co. in March became the fourteenth US bank to establish full correspondent relations with the Bank of China, and the eleventh since January first. (See box).

• The People's Bank of China may soon charge Chinese enterprises higher interest rates. The move is part of a policy to improve economic accountability by using bank loans for capital expansion projects, rather than by giving factories interest-free budgetary grants, as before.

• China now accepts Bank of America, Citibank, and American Express traveler's checks. Worldwide, 50 traveler's checks are now accepted by the Bank of China.

LOANS ARE IDEOLOGICALLY ACCEPTABLE, BUT CHINA STILL REMAINS A WARY BORROWER

Bankers have learned that selling credit to China requires ingenuity, but failing that, patience is a greater virtue. Despite roughly $11 billion in plant and equipment purchases in 1978—necessitating over $1 billion in cash down payments prior to December 16—the Bank of China still remains a financially conservative institution.

The experience of a 22-bank Japanese consortium led by the Bank of Tokyo is noteworthy. Since December, it has proposed to China alternative currency, maturity, and interest rate formulae in an exhaustive effort to reach an accord. The protracted negotiations were a testimony to Japan's unstinting salesmanship, and to tough bargaining by China. An agreement has yet to be signed, but the latest credit package under consideration involves two separate loans, a $2 billion 5-year credit at 0.625 percent above LIBOR (the Eurocurrency market London interbank lending rate, now around 11 percent for 6 months), and a $6 billion short-term loan, also dollar-denominated, at 0.375 percent above Eurodollar rates.

The latter stopgap credit would be repaid every half year, providing China with a permanent short-term revolving credit in the currency it needs most, US dollars. Such an arrangement is essential, given China's buying preferences for whole plants and huge engineering projects that entail substantial cash down payments.

Without this type of facility, China's debt service ratio would reach a maximum of 15 percent of hard currency exports in 1979, and fall off to around 8 percent by 1985. Such a repayment schedule is not optimal for a developing country, since the size of installments would decrease as the economy's repayment capacity increased, and China was wise to insist upon a short-term facility in the overall package.

World attention focused on these negotiations when China unilaterally postponed $2.6 billion worth of Japanese plant contracts signed after December 16, 1978. The action would have been unnecessary had credits already been in place, such as UK's 2.5 billion sterling line of credit guaranteed by ECGD that facilitates the £7 billion Sino-British trade agreement.

But credits were not actively solicited by China until it realized, apparently late last year, that it lacked the foreign exchange to pay for Japanese plants that China's foreign trade corporations had unwittingly agreed to purchase.

The postponement of so many multi-billion-dollar deals, which are the bread and butter of Japan's export-dependent economy, adroitly transferred to the Japanese banking community the anxiety to cover the yawning financial gap in Sino-Japanese trade. China's monetary authorities regained their poise, and may yet obtain the lower interest rate concessions they have held out for. A recent $500 million 3½-year loan to China syndicated by the Union des Banques Arabes et Francaises apparently carried an interest charge of only 0.5 percent above LIBOR, slightly below the most recent Japanese offer.

US Banks Forge Ahead Without EXIM Support

American banks have observed Japan's difficulties, and have hastily established closer financial ties with the Bank of China so that similar snags do not impede future US-China trade. The Bank of America and First National Bank of Chicago, the most active US banks thus far to enter the field, have opened accounts with the Bank of China following the establishment of full correspondent relations.

The amounts of these accounts are not known. If they are substantial, and leave a margin between the available deposits and what is actually utilized, then China will in effect have received dollar-denominated loans, akin to the mutual-deposit schemes pioneered by UK banks and the London Branch of the Bank of China. However, some US banks with full correspondent relations, such as Wells Fargo, have elected not to establish such accounts until trade increases.

The Bank of America and First National Bank of Chicago achieved another first when both received permission in March to open permanent representative offices in Beijing. A Citibank negotiating team is now pursuing a similar accord. But US branch banks are not likely to be permitted in the PRC, since savings and demand deposits are the monopoly of China's central bank, the People's Bank of China. The representative offices will perform liaison functions.

US banks have already proposed numerous loan schemes to China. These are of course in dollars, an advantageous selling point, but they lack US Exim Bank guarantees needed to provide the fixed-rate financing that China wants, and has obtained from European competitor banks.

Inside the Bank of China in Shanghai

The legal obstacles to Exim Bank credits have dwindled since the normalization of US-China relations in January. But problems remain, notably the government claims issue. This involves four unpaid Exim Bank loans valued at $26 million, net of accrued interest, dating back to before 1947, plus $600,000 in US Post Office claims since 1949 for mail services the PRC has not paid for, and about $11 million in consular and embassy property confiscated by the Communists in 1949. The last claim poses fewest problems, since the amount will probably be deducted from construction costs of buildings the US government plans to erect in China.

As matters stand, the claims issue prevents the Bank of China from making reciprocal deposits in US banks. Moreover, during Blumenthal's recent mission to China he initiated an agreement settling the private-claims issue, but, until it is signed, PRC assets in the US will continue to risk attachment by US claimants.

It is the US Treasury's task to resolve these outstanding government claims, and to hopefully lay to rest the private claims problem as soon as possible. Meanwhile, the President must still make a determination that Exim Bank finance for sales to China is in the US national interest. A last hurdle, as far as bankers are concerned, is the Jackson-Vanik Amendment to the 1974 Trade Act which precludes US government credit guarantees on behalf of countries restricting free emigration.

It was once thought that the Johnson Debt Default Act of 1934 was an obstacle to loans, and to buyers' credits in particular. But the Act is easily circumvented, since past Attorney Gen-

US BANKS WITH FULL CORRESPONDENT RELATIONS WITH THE BANK OF CHINA

	Bank	Date Full Correspondent Relations Established
		1978
1.	*First National Bank of Chicago	January
2.	Manufacturers Hanover Trust Co.	November
3.	Chase Manhattan Bank, N.A.	December
		1979
4.	Morgan Guaranty Trust Co. of New York	January
5.	*Bank of America	January
6.	United California Bank (Los Angeles)	January
7.	American Security Bank, N.A. (District of Columbia)	February
8.	First National Bank of Boston	February
9.	Rainier National Bank (Seattle)	February
10.	*American Express International Banking Corporation	February
11.	Chemical Bank (New York)	February
12.	*Citibank, N.A.	March
13.	Wells Fargo Bank, N.A.	March
14.	Bankers Trust Company	March

* Traveler's checks accepted by the Bank of China. First National Bank of Chicago traveler's checks will be accepted after November first.

Instruction poster for BOC customers, Shanghai

erals have ruled that it does not apply to private credits for commercial exports, nor to offshore lending by locally incorporated foreign branches of US banks.

China's 1979 Borrowing Outlook—Good News for US Banks

China's trade activity in 1979 appears to offer ample lending opportunities for US banks. First of all, the US government projects massive wheat purchases by China during 1979–81, with about half of the estimated total grain imports of 10 million tons expected to come from the US. These will probably involve 18-month credits for 75 percent of the contract price, the pattern established in past deals.

Large capital construction projects are also pending, many in sectors where US technology is a recognized leader. As of early 1979, China is still negotiating at least $52 billion in capital good and high-technology deals. US banks will undoubtedly finance some of these if American firms win the contracts, since China prefers to deal with banks of the exporting country. (By the same token, US banks may have difficulty participating in the 29 Japanese plant deals signed after mid-December that were postponed due to the need for financing.)

The PRC's balance of payments outlook also suggests a need for foreign loans. Hard currency exports increased by 31 percent in 1978, and these revenues were augmented by new investment schemes for overseas Chinese, and by a burgeoning tourist industry. But imports increased by 55 percent in 1978, and China had to dip into its reserves by at least $0.5 billion.

The Bank of China will probably try to recoup these reserve losses, and restore its previous ratio of reserves to imports of 15 percent, certainly prior to the conclusion of the current 8-year plan in 1985, which means cutting imports or boosting exports. Either option jeopardizes the 1985 development targets that China's leaders still tenaciously avow. Under the circumstances, the appeal of foreign loans should increase. Total loan drawings of $14 billion during 1979–85 are projected by the National Council.

CHINESE END-USER CORPORATIONS NOW SIGNING CONTRACTS DIRECTLY WITH FOREIGN COMPANIES—ARCO IS US FIRST

China's end-user corporations have now been authorized to bypass the Foreign Trade Ministry and China's Foreign Trade Corporations by signing contracts directly with foreign suppliers. The first such case directly with a US firm involved the Petroleum Corporation of China, whose President, Zhang Wenbin, signed a historic seismic survery agreement with Arco on March 19, 1979.

A four-member delegation from the Beijing Petrochemical General Corporation (also called the Yanshan Petrochemical Corporation), is visiting US industries in April and may be signing similar contracts. Company officials hosting the Chinese delegation have learned that the delegation is authorized to sign contracts and arrange its own financing. Its shopping list includes plastic, resin and fertilizer plants. Before arriving in the US, the delegation met with Hong Kong bankers, possibly to raise loans on international foreign exchange markets.

Contracts signed by this delegation are not guaranteed by the Bank of China, as is customary, but by the Bei-

TRAVELER'S CHECKS ACCEPTED IN CHINA AS OF March, 1979

- Algemene Bank Nederland N.V., Amsterdam
- Arab Bank Limited, Amman, Jordan
- American Express
- Amsterdam-Rotterdam Bank, N.V., Amsterdam
- Australia and New Zealand Banking Group, Ltd.
- Bank für Gemeinwirtschaft, AG., Frankfurt/Main
- Bank of America
- Bank of new South Wales
- The Bank of Tokyo, Ltd.
- Banque Bruxelles, Lambert, Brussels
- Banque Nationale de Paris
- Barclays Bank International, Ltd.
- Bayerische Vereinsbank, München
- Berliner Bank AG, Berlin
- Berliner Handels—und Frankfurter Bank, Frankfurt/Main
- Citibank
- Commercial Bank of Australia, Ltd.
- Comerzbank AG., Frankfurt/Main
- Fuji Bank
- Grindlays Bank, Ltd.
- Handels—und Privatbank AG., Köln
- The Hong Kong and Shanghai Banking Corp—Hong Kong
- Lloyds Banks
- Midland Bank, Ltd.
- The Mitsui Bank, Ltd.
- National Bank of Australia, Ltd., Melbourne, Australia
- National Westminster Bank
- Nederlandsche Middenstandsbank, N.V., Amsterdam
- Norwegian Traveler's Checks
- Rafidain Bank, Baghdad, Iraq
- The Royal Bank of Canada, Montreal
- The Royal Bank of Scotland, Ltd.
- Rural and Industries Bank of W. Australia, Perth, Australia
- Société Générale—Paris
- Société Générale de Banque, Bel.
- Standard Chartered Bank, Ltd.
- The Sumitomo Bank, Ltd.
- Swiss Bankers Travellers Cheque Centre, Berne
- Swiss Credit Bank
- Union Bank of Switzerland
- Swiss Bank Corp.
- Thomas Cook and Son, Ltd.
- Vereins—und Westbank, AG., Hamburg

Source: The First National Bank of Chicago jing Engineering and Construction General Corporation, which oversees all construction projects in the Beijing area. The chairman of this corporation is the mayor of Beijing, Lin Hujia, while the General Manager is Shi Yan, vice president of the Beijing Economic Committee, which appears to be the local branch of the State Economic Commission.

Members of the Chinese delegation indicated that in the future more US firms will be signing contracts directly with Chinese end-user corporations if the new arrangement proves to be successful.

The new policy has evolved slowly. Beginning in 1973, Tianjin banks extended foreign exchange loans to local enterprises for purchases of capital goods and raw materials from abroad, according to a November 28 Tianjin Radio bulletin. The actual imports were still handled by municipal Foreign Trade Corporations, but the approval process was apparently simplified. The FTCs also helped factories repay the principal and interest on their loans by arranging to export their output. Tianjin authorities have decided to expand this practice, the report added.

More recently, some Wuhan factories have been permitted to establish their own foreign exchange accounts from proceeds of their exports. According to Xinhua, these funds are for equipment and industrial supplies imported from abroad, to be used at the discretion of factories or their parent corporations. But in this case as well, the Ministry of Foreign Trade handles the foreign purchases.

RMB: DOLLAR RATES AS OF March 1979

Date		RMB/US$	US¢/RMB	RMB/US$ % Change
Jan. 5	Bid	1.5858	63.0597	
	Offer	1.5778	63.3794	
	Median	1.5818	63.2191	+0.30
Jan. 19	Bid	1.5857	63.0636	
	Offer	1.5777	63.3834	
	Median	1.5817	63.2231	−0.01
Feb. 8	Bid	1.5729	63.5768	
	Offer	1.5651	63.8937	
	Median	1.5690	63.7349	+0.80
Mar. 14	Bid	1.5776	63.3874	
	Offer	1.5698	63.7024	
	Median	1.5737	63.5445	−0.80
April 10	Bid	1.5840	63.1313	
	Offer	1.5760	63.4518	
	Median	1.5800	63.2911	+0.40

Source: Standard Chartered Bank, Ltd.

OTHER DEVELOPMENTS—

• Bankers Trust Co. established full correspondent relations with the Bank of China on March 19, becoming the eleventh US bank to establish such ties this year, thus bringing the total to 14 (see box).

• First National Bank of Chicago VISA traveler's checks will be accepted after November first. Wells Fargo and First National Bank of Louisville traveler's checks will carry the same VISA logo, and may be accepted as well.

• The Bank of China now acts as a selling agent of five traveler's checks, namely Citibank, Fuji, Sumitomo, Bank of Tokyo, and Barclay checks. China also issues its own RMB traveler's checks. These are popular among overseas Chinese visiting their relatives in China, since they can be cashed even at credit co-ops in rural villages.

• The Bank of China recently concluded two major loans, one a 5-year $175 million loans with Midland and International Banks, Ltd., signed March 30. The *Journal of Commerce* also reported a $500 million 3½-year loan with the Union des Banques Arabes et Francaises, announced in early April. Both loans pay floating Eurocurrency LIBOR rates, plus a margin.

• Regional directors of the People's Bank of China recently convened in Beijing to discuss raising interest rates, and ways to improve the work of the Bank of China, according to a March 17 Beijing Radio bulletin. The directors also decided to grant loans "only to those enterprises that fulfill state plans and economic contracts."

• Convertible foreign exchange zones? Purchases can now be made directly in US dollars and other currencies in the liquor store of the Peking Hotel.

• Corporate board members converge upon Beijing: the First National Bank of Chicago will hold its board meeting in Beijing between May 28 and June 6, according to William J. McDonough, the bank's executive vice president. In March, Pan Am executives also met in the Chinese capital. Last May, Bank of America's International Division held its board of directors meeting in Beijing.

• Ever on the lookout for new foreign exchange earners, China announced on March 26 that two construction companies, one specialized in highways and bridges and the other a general contractor, are already up for hire to work on overseas projects.

• A Chinese Agricultural Bank was recently established, according to a March 2 Xinhua bulletin. The new bank will be managed by the People's Bank of China, and is charged with coordinating all investment undertakings in the agricultural sector, as well as supervising rural credit cooperatives and state purchases of all agricultural and subsidiary products.

China's previous experiments in the area of special banks for agriculture have been short-lived; an Agricultural Cooperative Bank was established in 1951, but was replaced in 1955 by an Agricultural Bank, which survived only a short time. A third bank for agriculture was established in 1963, but closed in October, 1965. The main difficulty these three predecessor banks encountered is that their funds were derived from rural savings institutions, budget appropriations, and from short-term borrowing from the People's Bank, and in some years the latter two sources of funds were inadequate to support these banks. 完

China International Notes

PRC stuns Japan, first by walking out on offshore oil talks, then by suspending $2.5 billion in plant contracts • Beijing World Trade Center project may go to US contractors • $14 billion trade agreement with UK ups China's total two-way trade commitments through 1985 to $64 billion • China inks more compensation agreements, primarily in textiles • Sino-Japanese trade in 1978 exceeds $5 billion.

CHINA SHOKKU HITS JAPAN—"BEWARE OF GETTING DUPED WHEN DEVELOPING FOREIGN TRADE"

In one of the biggest surprises to hit Japan in a long time, China announced in late February that it was suspending some $2.5 billion in plant contracts that had been signed after last December 16. Technically, the Chinese were acting in compliance with the contracts, which gave them until 60 days after signing the deals to give final approval.

The Chinese subsequently hastened to reassure the Japanese that they would honor the contracts. Communist Party Chairman Hua Guofeng told Tokyo Governor Ryokichi Minobe that "we may postpone the contracts but we will never cancel them." Nonetheless, the "China shokku" certainly cooled the "China fever" that has swept the industrialized world since the PRC embarked on its massive spending spree last year.

Reflecting the new mood, West German industrialist Otto Wolff warned in mid-March, after a visit to China, that businessmen should keep in perspective earlier speculation about potential deals worth tens of billions of dollars. The euphoria that Wolff warned against was sparked by articles such as a January 7 *Japan Times* report that China was negotiating $79 billion in contracts with Japan, including $32 billion for four projected hydroelectric power plants.

One of the first projects that may be scuttled as the result of China's reassessment of economic priorities is the proposed $14 billion integrated steel complex at Jidong in Hebei. The West German consortium Schloemann-Siemag had an early lead in the race to win the contract for the 10-million-ton-per-year facility. The key factor in the suspension of the contracts appears to have been China's desire to draw up more realistic figures for the current 10-year economic plan than the targets announced one year ago by Chairman Hua.

Japan can unfreeze the contracts by agreeing to accept deferred payments, according to Japanese accounts of talks between Chinese Foreign Trade Minister Liu Xiwen and Masumi Esaki, Japan's minister for International Trade and Industry. A MITI spokesman quoted Liu as saying that China signed the contracts without making necessary arrangements for financing. Liu also indicated a willingness to compromise on the currency question, repaying the Japanese half in dollars and half in yen. Liu discussed the frozen contracts with Esaki during a mid-March visit to Tokyo, where he signed an agreement extending the Japan-China long-term trade pact to 1990.

Prior indication of China's desire to review its economic relations with Japan came on February 16, when Chinese negotiators abruptly walked out of talks with the Japan National Oil Corp. on offshore exploration in the Bohai Gulf.

The Chinese dealt the Japanese another sharp blow in late March when they signed contracts with several American firms for the design of a world trade center to be constructed in Beijing. Japanese firms still have a chance of doing the actual construction, though that seems unlikely since American companies will do the initial work. The contracts awarded to Turner International, Kaiser Engineers, and Gerald D. Hines must be particularly grating to the Japanese since it appeared last fall that a Japanese trade center in Beijing was a virtual certainty. A consortium from Hong Kong was also reportedly seeking a contract for a world trade center in Beijing, and it is possible that the Chinese may want more than just one trade center.

The Japanese can also take some comfort from the signing on March 19 of an agreement to extend the long-term trade pact inked in February 1978 from 1985 to 1990 and to increase the total value of two-way trade between the two countries from $20 billion to $40-60 billion.

The biggest deal affected by the contract suspensions is the planned 6-million-ton steel works at Baoshan in Shanghai. Nippon Steel Corp., which on December 23 signed contracts for 16 of 25 lots of equipment for the facility, was notified on February 22, under the 60-day terms, that the contracts were being suspended. Although Nippon Steel President Yoshihiro Inayama took the news calmly, officials of the Mitsui and Mitsubishi industrial groups admitted they were deeply concerned by the sudden Chinese move, which also prompted a sharp decline in the Tokyo stock market.

The Chinese will undoubtedly honor the signed contracts, but many of the plants earlier envisioned for completion by 1985 will probably be postponed until at least 1990 or even later. And, the Chinese will probably take a more cautious approach toward pending negotiations.

An indication of that new approach, particularly with Japan, was given in a March 7 article in the Hong Kong Communist newspaper *Wen Hui Bao.* The article entitled "Beware of Getting Duped When Developing Foreign Trade," cited the high price of Japanese goods and the large imbalance in

Sino-Japanese trade as impediments to the development of further trade between the two countries. The article cited difficulties experienced by unspecified oil-rich countries in the Middle East which "often import industrial equipment . . . incompatible with their domestic conditions" and warned that the same thing could happen to China.

"Because of her lack of circumspect deliberation before signing a contract, China may purchase industrial equipment which she does not need after strong persuasion by the other side, or else the other side may market to China older-generation equipment which is about to be replaced by its newer-generation counterpart." The article urged that China defend itself against such perfidious foreign tactics by immediately building up research and investigation teams proficient at world finance, trade, economic development, and international law.

Assuming that this article accurately reflects the current thinking in Beijing, Japanese and Western businessmen would do well to follow the advice of Otto Wolff and abandon any lingering euphoria, while remaining cognizant of the tremendous market that exists in China if they are prepared to devote the necessary time to approaching the Chinese.

CHINA FIXES LONG-TERM TRADE AGREEMENTS TO TEN-YEAR PLAN

With the recent signing of a $14.2 billion Sino-British trade pact, China has now, under terms of its agreements with Western countries, committed itself in principle to a minimum of $64 billion of intended trade during its current ten-year plan through 1985.

Intended Chinese imports under these trade agreements will average some $5.6 billion annually, equivalent to a massive 60 percent of China's foreign purchases in 1978. Theoretically, this would leave just a little over $4 billion to be dispersed among the rest of China's trading partners, including the US.

The principal suppliers of China's technological imports thus far have been Japan and West Germany. The latest country to win a sizable share of China's expanding market is Britain. On March 4, China signed an economic cooperation agreement with the UK that sets a sterling target of $14.2 billion through 1985. France signed a similar agreement for $13.6 billion in trade last December.

China's long-term economic and commercial ties to the West indicate the seriousness of its intention to symbolize its long-term trade with the West. In a further effort aimed at creating a stable environment for international business, the Chinese are now drawing up a commercial code to facilitate the flow of foreign trade.

While the overall terms of the intended trade agreements appear to assure Western firms the lion's share of China's import trade, few major contracts have so far been finalized and signed. As a result, Western companies can expect the competition for a share of the Chinese market to stiffen and intensify in the near future.

SINO-JAPANESE TRADE SOARS TO OVER $5 BILLION IN 1978

Buoyed by a $600 million increase in steel exports to the PRC, Sino-Japanese trade last year jumped a whopping 57.3 percent, in current dollar terms, to almost the equivalent of $5.1 billion. Japanese exports climbed from less than $2 billion in 1977 to just over $3 billion last year, while imports climbed almost one-third, growing from $1.5 billion to $2 billion.

China's increase in steel purchases has pushed it ahead of the US to the top of the list of Japanese steel importers. It also shows just how seriously the Chinese, in 1978, took the edict that steel should be the key link in China's ambitious modernization program. Beijing has recently stated that it will deemphasize heavy industry in favor of agriculture and light industry. As a result, steel purchases this year may decline.

Steel accounted for 54 percent of Japanese exports to China in both 1977 and 1978. In terms of value, steel exports rose 56 percent, while the increase in quantity was only 24 percent, rising from 4.5 million tons in 1977 to 5.6 million tons in 1978.

Sheets and plates were the dominant steel exports in terms of both quantity and value. Sheet and plate exports in 1978 amounted to 2.5 million tons valued at $654 million, increases of 27 percent in terms of quantity and 48 percent in terms of value. Other leading steel exports were wire rods (689,003 tons); coils (636,892 tons); tubes and pipes (565,339 tons); alloyed steel and high carbon (392,739 tons); and bars (337,572 tons).

In the course of 1978, Japan also scored considerable export advances in all major machinery categories. Under general machinery, the category which saw the largest gains was machinery for minerals or ores. The value of these sales jumped from $4.7 million in 1977 to $41.6 million last year, while machine tool sales increased 284 percent in value to $9.2 million. Although negligible in terms of total machinery exports, an indication of China's interest in textile buyback deals was its 90 percent increase in purchases of textile machinery.

The value of transport machinery exports rose a healthy 157.5 percent to $297 million last year. The biggest factor in this change was the increase in the number of trucks, vans, or lorries

So, Mr. Bradley, we must go. We have another banquet upstairs with your Japanese licensee.

CHINA'S LONG-TERM TRADE COMMITMENTS, 1978–85

Country	Date Signed	Duration	Total Amount $US Billion (Foreign Currency Equivalent)	Intended composition of China's Imports & Exports: Imports	Exports	Average Value of Trade P/Year ($US Billions): Import	Export
Japan	2/16/78	1978–85	20 to cover first five years (¥ 4614 billion)	$7–8 billion worth of technology and plants; $2–3 billion worth of construction materials and machinery.	47 million tons oil, 5 million tons coking coal, 3–4.5 million tons steaming coal.	$2	$2
	3/19/79	1985–90	Extension accord 40–60 to cover 1983–90.				
EEC	4/ 3/78	1978–83	NVG	—	—	—	—
Canada	12/78	1978–85	10	Agricultural chemicals, equipment and products; Forestry, Construction, Geophysical, and Mining equipment and technology; Food, Petroleum, and Transportation equipment.	Metals, Minerals and Chemicals, Foodstuffs, Light industrial products, Textiles.	$0.72	$0.72
West Germany	9/22/78	—	4 (DM 8 billion)	West German companies to develop 2 open-pit coal mines; build 5 deep coal mines and a mining machinery plant; modernize an existing mine and 7 factories.	—	—	—
Brazil	11/ 1/78	1978–83	NVG	$500 million worth of Brazilian steel products over three years; 2.5 million tons of iron ore in 1979 and 1980; 150,000 tons of sugar p/year.	1 million tons of oil in 1979; 1.5 million tons in 1980.	—	—
France	12/ 4/78	1979–85	13.6 (FFr 60 billion)	2 900-MW atomic power plants at $4.5 billion. 11 proposed industrial projects: construction of 2–3 pipe plants; a thermal power station; steel units; sugar refineries. Discussions on: an aluminum oxide complex and the modernization of three truck factories. Protocols on information processing and electronics and telecommunications already signed.	Crude oil, Nonferrous metals.	$0.9	$0.9
Australian Wheat Agreement	1/21/79	1979–82	+0.8	2.5 million tons of wheat p/year.	—	$0.26	—
Canadian Wheat Agreement	2/26/79	1979–82	1.4	.5–10.5 million tons of wheat over 3 years.	—	$0.46	—
Britain	3/ 4/79	1979–85	14.2 (£7 billion)	Numerous contracts already signed and proposed in areas of: iron and steel, coal mining, aerospace, machinery and transportation.	Nonferrous metals	$1.4	$1.4
TOTALS			$64			$5.7	$5.0

sold from 4,161 in 1977 to 11,735 in 1978. Chinese imports of Japanese passenger cars increased from 268 to a still negligible 1,220 units. The value of electrical machinery imports by China rose 336 percent to $62.5 million.

These slides will eventually be seen by the entire Rotary in Milwaukee. . .

HUGE DROP IN CHINESE IMPORTS OF AMMONIUM SULFATE AND CHLORIDE

Although the value of Japan's chemical fertilizer exports rose 12 percent to $167 million, the quantity of these exports declined by 22.6 percent. The Chinese are apparently using urea produced by the eight Pullman Kellogg plants now in operation as a substitute for ammonium sulfate and ammonium chloride, while continuing to import high amounts of urea. Chinese fertilizer imports will drop even more sharply after 1980, when all 13 of the Pullman Kellogg plants contracted for in 1973 will be in operation. Chinese purchases of ammonium sulfate and ammonium chloride dropped 351,000 and 93,000 tons respectively.

The story with organic chemicals was similar—a respectable 15.5 percent increase in value, but an 11.8 percent decrease in volume. The key factor was a drop in Chinese benzene imports from 82,950 tons in 1977 to less than 20,000 tons last year.

Although the 57.3 percent increase in Japanese exports to the PRC last year looks very impressive, especially to envious Western businessmen, the increase would have been only 35.9 percent were it not for the drastic appreciation in the value of the yen, while the overall trade increase would have been only 24.3 percent. And Japanese imports of Chinese goods would have grown only 9.8 percent instead of 31.2 percent if the value of the yen had remained stable.

PETROLEUM, TEXTILES LEAD CHINESE EXPORTS TO JAPAN

China's $1 billion trade deficit with Japan last year is undoubtedly a source of great concern in Beijing, but it can hardly be blamed on the petroleum and textile sectors, which together accounted for more than 60 percent of Chinese exports to Japan. Petroleum exports increased from 6.8 to 7.5 million metric tons, while the value of Chinese crude oil flowing into Japan increased from $654.7 million to $758 million. In terms of the overall share of Japanese imports from the PRC, crude oil dipped from 42.3 percent in 1977 to 37.3 percent last year. China intends to double its petroleum exports to Japan to 15 million tons by 1982.

Reflecting both Japan's desire to achieve some balance in its trade with China and also a recognition of the PRC's lower textile costs, Japan significantly increased its imports of Chinese textiles last year. Textile imports increased 41 percent in quantity to 91 million tons, while the value of these purchases increased by 63 percent to $491 million. The eagerness of both Japanese manufacturers and the Chinese to strike compensation trade agreements should produce even more substantial increases in Chinese textile exports to Japan in the years ahead.

Animal products showed substantial gains last year, too, rising from $119.5 million to $212.1 million, thus accounting for a healthy 10.4 percent of all Japanese imports from the PRC last year. In terms of quantity, however, the increase was a mere 7.3 percent, indicating that price hikes were the main factor in the value increase. This was particularly evident with fish and shellfish, where a mere 0.2 percent increase in quantity brought a 105 percent increase in value to $140.2 million. Vegetable products inched up 11.5 percent to $245 million, while 772,237 tons of coal brought in $37 million in foreign exchange.

COOPERATION FEVER

Eager to acquire foreign technology at minimum cost, China has either signed or begun negotiations on more than a dozen cooperation arrangements in recent months. Such arrangements are generally characterized by a foreign firm supplying machinery and/or the know-how required to make a certain

Table I

JAPAN-CHINA TRADE, 1976–1978

(Unit: $1 million—seasonally unadjusted)

	1976	1977	% change	1978	% change
Japanese Exports	1,662.6	1,938.6	16.6	3,048.7	57.3
Japanese Imports	1,370.9	1,546.9	12.8	2,030.3	31.2
Total	3,033.5	3,485.5	14.9	5,079.0	45.7
Balance	291.7	391.7		1,018.4	

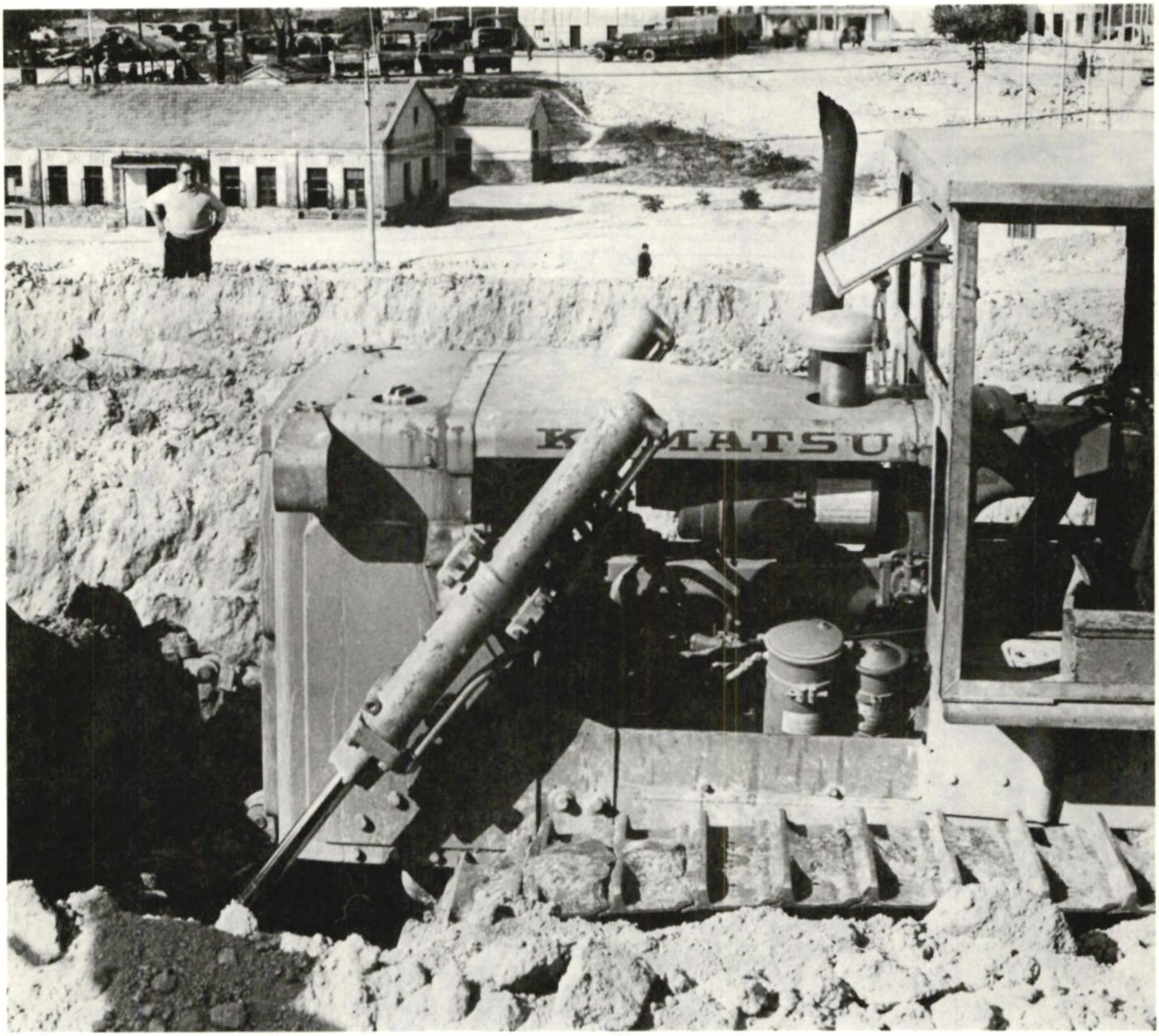
Source: Japanese Ministry of Finance.

COOPERATION AGREEMENTS SIGNED WITH CHINA 1978–1979

Foreign Partner	Chinese Partner	Product	Value Millions of US $ (Local Currency if Known **)	Sale (S) or Negotiation (N) Date Announced
Itoman	CHINATEX	TEXTILES Pajamas and blouses to be produced by China in return for advisory services, 100 industrial sewing machines, and higher-priced synthetic fabrics	$1.57 (value of goods to be produced)	S: Summer 1978
Nichimen	Shanghai's Nos. 1 and 5 garment factories	Slacks, shirts, and other apparel	$5.3	N: Fall 1978
Yamaki Co.	CHINATEX	Dress shirts and sport shirts (100,000 pieces per year)		N: Fall 1978
Konrad Hornschuch AG	NA	Two factories: one to produce polyvinyl chloride foils, the other to make artificial leather	$21 (Cost of 2 factories)	N: November 1978 (Basic Agreement)
Novel Enterprises (HK)	CHINATEX	Wool spinning mill; to produce 1.2 m. lb. annually	$1.5 (Cost of equipment	S: Fall 1978
Wacoal (Japan)	CHINATEX	Brassieres, lingerie	NA	N: January 10, 1979
AIC (Japanese import firm organized by five retail chains; Jusco, Izumiya, Uni, Chujitsuya, and Uneed)	CHINATEX	Men's cotton underwear	NA	N: January 1979
Sumitomo Shoji Kaisha and Doko Trading Co.	CHINATEX	Women's apparel; to be supplied to US retail chains	NA	N: (Agreement in principle), February 21, 1979
C. Itoh and Co.	CHINATEX	Gloves, foundation garments, dresses, shirts, and slacks	NA	N: (C. Itoh says only in initial stages), January 1979
Itoman	CHINATEX	Polyester suits	NA	N: (Agreement reported), Late 1978
Okamoto Riken Gomu Co.	INDUSTRY	Raincoats, 10,000 per month; Okamoto will supply fabrics	NA	S: January 1979
Prestige Sportswear (US)	CHINATEX (Dalian branch)	Prestige will supply steaming and fusing equipment in return for women's garments	(Less than $1 million)	S: November 1978
Oxford Industries (US)	Factory in Shanghai	Equipment for corduory men's suits	NA	S: November 1978
Glowry Union Investment (HK) and an unidentified Japanese firm	INDUSTRY (Guangdong branch)	Plant to assemble 100,000 radio cassette recorders per month	$4.25	S: August 1978

COOPERATION AGREEMENTS SIGNED WITH CHINA 1978–1979 (Continued)

Foreign Partner	Chinese Partner	Product	Value Millions of US $ (Local Currency if Known **)	Sale (S) or Negotiation (N) Date Announced
Genesco, Inc. (US)	Shanghai Leather Shoe Factory	Genesco will renovate factory and be paid in leather shoes	NA	N: January 1979
Fuji Trading Co.	MACHIMPEX	Construction machines, mining equipment, and valves	NA	N: September 1978
China Light and Power Co. (HK)	NA	China will supply coal for new power plant in HK, in return for electric power for Guangdong Province and/or British coal mining equipment	NA	N: Summer 1978
Marubeni and Hoko Fishing Co.	Five corporations in Guangdong Province	Fishing boats, refrigeration and processing apparatus, transport equipment, and other know-how to catch and process 200,000 to 300,000 tons of fish annually	¥300 billion ($15 million estimate)	S: November 1978
Dunbee-Combex-Mark (UK)	INDUSTRY	Toys; DCM will export know-how and technical expertise; will be paid back half in toys, half in cash	$50 million	S: November 1978
Harpers International (HK)	NA	Automotive assembly plant; to be located in Shum Chum, across the border from Hong Kong; will initially produce 200 buses annually, and eventually trucks as well; all vehicles will be sold in HK or Macao	NA	S: February 1979
Taiyo Fishery	Guangxi Province	Fishing trawlers; 30 shrimp trawlers to be paid for in shrimp	$0.02 (¥4 million)	N: January 1979
Container Transport International (subsidiary of Reliance Group, Inc.)	NA	Technical assistance in building marine container factory in Guangzhou (Canton). Contract gives CTI exclusive right to buy 50,000 containers, with output for first five years at a fixed price. CTI is negotiating final details of a similar contract for a factory in Tianjin, while the firm has also begun talks for a third plant at an undisclosed site.	$12 million per factory	S: February 1979



Komatsu bulldozer on line at construction site near Guangzhou, December 1978

product, with the Chinese agreeing to pay back the partner with the products produced.

The textile industry has been the focus for most cooperation arrangements thus far, and Japanese companies the principal overseas partners. Japanese firms are eager to enter such arrangements because they find that China can now produce items such as shirts, pajamas, and blouses for the Japanese market at significantly lower costs than traditional suppliers such as South Korea. But the practice is already prompting concern in Japanese government circles over the possible impact of such deals on the textile industry in Japan because of its vulnerability in the face of cheap foreign-made imports.

A typical arrangement enables the foreign partner to purchase the goods produced with its equipment at a significant discount. In most cases, the payback is to be completed within five years, after which time the foreign partner will have to pay the market price. Some deals also give the foreign partner an exclusive right to purchase such goods even after the payback is completed.

Thus far only two US firms, Prestige Sportswear and Oxford Industries, have signed cooperation agreements with the Chinese, though a third, Genesco, will probably complete a footwear equipment-for-shoes deal within the next few months. In all likelihood, however, there will be many more such deals during the coming months and years.

Cooperation arrangements afford the Chinese a venue for obtaining foreign technology without expending valuable foreign exchange, while foreign firms benefit by obtaining products at a discount. 宪

CORRECTIONS

A photo caption on p. 23 of the January-February issue of *CBR* incorrectly identified Ben Huberman, Associate Director of the White House Office of Science and Technology Policy, as Dr. Frank Press. We apologize for this error.

On p. 66 of *CBR* 6:1, LTV was incorrectly identified as a subsidiary of Continental Emsco. It should have been the other way around.

CHINA: 1979 SALES AND NEGOTIATIONS AS OF APRIL 1979

Company/Country	Product/Plant/Technology	Millions of US $ (Local Currency If Known**)	Sales (S) or Negotiation (N) Date Announced
Agricultural Commodities			
NA	Sugar, white (100,000 tons)	NVG	S: 1/24/79
Pesca Peru (Peru)	Fish meal (10,000 mt)	$3.7	S: 2/16/79 (March–April 1979 shipment)
(Canada)	Wheat (3 million mt for 1978–79 MY; 8.5 million mt–10.5 million mt over a 3-year period)	$1,250 (C$1.5 billion)	S: 2/27/79
(Australia)	Barley (100,000 tons)	NVG	S: 2/13/79 (1978-79 MY shipment)
Pacific Sea Pro, Inc. (US)	Herring	$1.3	S: 3/19/79
Central Soya (US)	Animal feed for beef and poultry production	NVG	N: 2/23/79
Chemicals			
Japan Urea and Ammonium Sulfate Industry Association (Japan)	Export agreement for urea (550,000 mt) Ammonium sulfate (200,000 mt)	NVG	S: 1/16/79
Ammonium Chloride Industry (Japan)	Ammonium chloride (115,000 tons)	NVG	S: 1/16/79
Anic (Italy)	Nitrogenous fertilizers and synthetic rubber	$16	S: NA
Cansulex (Canada)	Sulfate (300,000 tons)	NVG	N: 2/13/79
Shinto Paint Company (Japan)	Alkyd resin-based paints	NVG	N: 2/20/79
Chemical Plants and Equipment			
JGC, Asahi Glass, Asahi Electrochemical, Kashima, Mitsubishi Godo Sangyo (Japan)	Epichlorohydrin plant (32,000 mt/yr) Synthetic glycerin plant (15,000 mt/yr)	$52.6	S: 1/15/79
Chlorine Engineering Corporation (US)	Caustic soda plant (200,000 mt/yr)	NVG	S: 2/7/79
Shinetsu, Nichimen (Japan)	2 polyvinyl plant (200,000 mt/yr)	$180	S: 2/12/79
Mitsubishi Petrochemical Company (Japan)	Modern ethylene plant (115,000 mt/yr) for Shanghai petrochemical complex	$49.68 (¥10 billion)	N: 2/14/79
Montedison (Italy)	Melamine plant (10,000–20,000 ton/yr) Polypropylene plant (100,000–200,000 ton/yr) Pesticide manufacturing plant	$200	N: 3/14/79
Consumer Goods			
(Japan)	Small quantities of Japanese cigarettes for sale to tourists	NVG	S: 2/7/79
Philip Morris Asia Pacific Inc. (US)	Cigarettes	NVG	S: mid-February 1979*
Brown & Williamson, B.A.T. Industries (US, UK)	Cigarettes (Viceroy, Kool, Kent, Benson & Hedges, State Express 55, John Player, W. German HB brand)	NVG	S: 3/7/79
Electronics			
Matsushita Communication Industrial Company (Japan)	Transceiver sets for 500 taxi cabs, taxi radio dispatch center	$0.5 (¥100 million)	S: 1/23/79
Nippon Electric Company (Japan)	Digital microwave communications system (480-channel) for water control	NVG	S: 2/12/79
Sperry Univac (US)	Sperry Univac 1100/12 computer system for State Seismological Bureau in Beijing	$4.2	S: 2/12/79

CHINA: 1979 SALES AND NEGOTIATIONS AS OF APRIL 1979 (Cont.)

Company/Country	Product/Plant/Technology	Millions of US $ (Local Currency If Known**)	Sales (S) or Negotiation (N) Date Announced
Toho Denki Company (Japan)	Joint venture for production of tape recorders and other acoustic equipment	NVG (projection of plant output within 3 years is $100–$150)	S: 3/23/79
Tektronix (US)	Electronics equipment, telequipment scopes	$1.5	S: 2/6/79
Digital Electronic Automation (Italy)	6 coordinate measurement devices	$3.6	S: 2/19/79
Scientific-Atlanta, Inc. (US)	Transistor tester	NVG	S: 2/26/79
Baugh and Weedon (UK)	5 sets of ultrasonic thickness gauges	$0.012 (£6,000)	S: 2/14/79
Nippon Electric Company (Japan)	Mid-range ACOS 77/500 computer for Chinese Data Communications Research Institute	$4.97 (¥1 billion)	S: 2/15/79 (subject to COCOM)
Sperry Univac (US)	1100/11 model computer for Research Institute of Petroleum	$2.4	S: 2/16/79
Abacus Computers (UK)	Computer equipment, software, training	NVG	N: 1/18/79
GEO Metrics (US)	Computers and software for data processing, geological structures mapping (includes: G803 proton magnetometer, GR800 gamma-ray spectrometer, G714 data recorder)	NVG	N: 2/26/79
Food Processing and Packaging			
Mead Packaging (US)	Technical know-how for 3 packaging plants, overseeing construction of 20 corrugated-box plants	NVG	N: 2/19/79
TGI Corporation (US)	Technology for production of high-fructose syrup, construction of 4 fructose plants ($18 million each)	NVG	N: 3/1/79
Machinery			
Instron (UK)	Materials testing machines and systems	$3 (£1.5 million)	S: 1/79
Daihatsu Diesel Manufacturing Company (Japan)	16 BPSHTB 26D marine auxiliary diesel engines (1,040hp, 630kw)	$2.98 (¥600 million)	S: 1/26/79
Plint and Partners (UK)	Engine test beds	$1.2 (£600,000)	S: 1/29/79
Machine Tools			
Mitsubishi Heavy Industries (Japan)	Machining centers	NVG	N: 2/27/79
Metal Mining and Processing			
Charter CJB Mineral Services, Seltrust Engineering, Consolidated Goldfields, BP Minerals, Rio Tinto-Zinc, Davy International (UK)	Agreement for exploitation of mineral and metal deposits	NVG	S: 2/7/79
Fluor Corporation (US)	Engineering financial study for large copper complex in Jiangxi Province	$0.4	S: 3/13/79
Société Générale de Belgique SA (Belgium)	Framework agreement for exploitation of zinc, lead, and copper	NVG	N: 2/79

CHINA: 1979 SALES AND NEGOTIATIONS AS OF APRIL 1979 (Cont.)

Company/Country	Product/Plant/Technology	Millions of US $ (Local Currency If Known**)	Sales (S) or Negotiation (N) Date Announced
Mining Equipment			
ASEA (Sweden)	10 complete mine hoist installations	$7.9	S: 1/79
Fenner Group (UK)	Fenaplast solid-woven pvc conveyor belting with MRE fasteners, spares, and machines	$3 (£1.5)	S: 1/79
BICC General Cables Factory (UK)	Mining cables, couplers	$10.26	S: 1/79
(Finland)	Copper-ore processing and smelting equipment	$5.78 (23 million Finnish marks)	S: 1/8/79
Linden Alimak AB (Sweden)	Raise climbers, medium-sized drill jumbos, working platforms, hydraulically operated jumbo drill rigs	$5.7	S: 2/79*
Salzgitter (W. Germany)	Machines, drilling and blasting equipment for Kailuan coal mining complex near Beijing	$13.44+ (DM25 million+)	S: 3/22/79
Meyer, Roth and Pastor (W. Germany)	7 special machines for production of haulage chains (26 millimeter)	$2.31 (DM4.3 million)	S: 3/22/79
Nonferrous Metals and Products			
Asarco, Inc., Gerald Metals, Inc. (US)	Copper, refined (5,200 short tons)	$6+	S: 3/14/79
(Chile)	Copper and molybdenum	NVG	N: 2/16/79
Petroleum and Natural Gas Development and Refining			
Technica Italiana Petroli (Italy)	3 gas dehydration plants for Daqing oilfields	$15	S: 1/24/79
British Petroleum Company (UK)	Seismic survey for Southern Yellow Sea	NVG	S: 2/16/79
ARCO, Sante Fe International (US)	Agreement for offshore geophysical reconnaissance	NVG	S: 3/19/79*
Davy International (UK)	Engineering and supply of synthesis gas plant at Daqing (Texaco Development technology for partial oxidation)	$11 (£5.5)	S: 2/23/79
Imodco, Inc. (US)	SPM (single-point mooring system) for development of offshore oilfields for Gulf of Bohai	NVG	N: 1/79
Ports			
Hitachi, Mitsui (Japan)	Technological cooperation for dredging mouth of Changjiang River	NVG	N: late 2/79
Power			
Tokyo Electric Power Company, Kansai Electric, and others (Japan)	Construction of 4 large dams at Longmen and Daliushu on Changjiang River, Sanshia and Hsiangchiapa on Yangtze, 4 hydroelectric power stations (32,000 Mw)	NVG (total cost of project: $30,000)	S: 2/79
Scientific Instruments			
Medelec Company (UK)	Electro-medical equipment	$0.06 (£30,000)	S: 1/4/79
(Scotland)	Deer testicles for medicine and aphrodisiacs	NVG	S: 2/79
Messerschmitt-Boelkow Blohm G.m.b.H. (W. Germany)	Cooperation in the field of medical equipment, with emphasis on application of laser beams in medical treatment	NVG	S: 2/15/79*
Pfizer Pharmaceuticals (US)	Model 0450 and Model 0200FS CAT Scanners	$1	S: 3/14/79
Laser Analytics (US)	LS-3 laser spectrometer	$0.2	S: 2/79
Micrometrics Instrument Corporation (US)	8 lab instruments for study and development of catalysts	$0.3	S: 2/19/79
Chromatix (US)	2 laser photometers	NVG	S: 2/79

CHINA: 1979 SALES AND NEGOTIATIONS AS OF APRIL 1979 (Cont.)

Company/Country	Product/Plant/Technology	Millions of US $ (Local Currency If Known**)	Sales (S) or Negotiation (N) Date Announced
Shipping			
Nile SS Company Ltd., Silver Bulk Shipping Ltd. (subsidiaries of Dilver Line Ltd.) (UK)	Silverclyde (bulk carrier, 21,200 dwt, built 1970), Silvertweed (bulk carrier, 21,200 dwt, built 1970)	$6.6	S: 1/5/79
NA	Orania (motor carbulk carrier, 34,281 dwt, 20,742 grt, built Uddevalla, 1966)	NVG	S: 1/9/78
NA	Norbu (bulk carrier 30,700 dwt, built 1963)	$3.15	S: 2/1/79
Grandeur Carriers Inc. Venture Shipping Ltd. (Managers) (Liberia)	Best Venture (motorship, 18,279 dwt, 11,917 grt, built Muroran 1977)	NVG	S: 2/8/79
Geosource Service Corporation (US)	Dabney & Petty (offshore supply boat, 154-foot, built 1966)	NVG	S: 3/6/79
CTI-Container Transport International (subsidiary Reliance Group Inc.) (US)	Marine container factory in Guangzhou	Cooperation Agreement	S: 2/79
Mitsubishi Heavy Industries (Japan)	Conversion of Shang Fang Hai (ore carrier, 100,000 dwt, built 1968, formerly Kofukusan Maru) into transhipment vessel; work to include installation of conveyor belt, power source for new gears, reniforcement of mooring equipment	$7.5 (¥1.5 billion) payable in cash	S: 2/9/79
NA	Bulk carrier (78,000 ton, built 1967, Norwegian)	$5.5	S: 2/20/79
Taiyo Fishery (Japan)	15 trawlers and seiners	$0.2 (¥4 million)	N: 1/79
(Japan)	Newbuildings (ro-ro multipurpose cargo vessels, 13,000 dwt)	NVG	N: 2/9/79
Chicago Marine Containers Inc., Sea Containers Group, East Asiatic Co. (US, UK, Denmark)	Steel shipping container manufacturing plant	NVG	N: 2/12/79
Steel and Steel Products			
Johnson and Nephew (Ambergate) (UK)	Prestressing wire (2,700 tons)	$2 (£1 million)	S: 2/2/79
(India)	Pipes, galvanized and black (2,000 tons)	$18.2 (Re150 million)	S: 2/7/79
Steel Plants and Equipment			
Italimpianti (Italy)	Steel complex (10-million-ton capacity)	NVG	N: 3/9/79
Telecommunications			
Messerschmitt-Boelkow-Blohm G.m.b.H. (W. Germany)	Agreement on long-term cooperation in space technology; development of TV satellite system, primarily for educational programs	NVG	S: 2/15/79*
TII Industries (US)	Organization and direction of joint ventures on telecommunications systems	NVG	N: 3/22/79
Textile Plants and Equipment			
Neil and Spencer (UK)	Processing and finishing machinery for hand-made embroidery	$0.02	S: 1/14/79
Barmag (W. Germany)	HD2 two-for-one twisters	NVG	S: 1/79
Dunham-Bush Inc. (subsidiary Signal Companies) (US)	Equipment for removal of lint from air in textile equipment	$0.1	S: 2/21/79

CHINA: 1979 SALES AND NEGOTIATIONS AS OF APRIL 1979 (Cont.)

Company/Country	Product/Plant/Technology	Millions of US $ (Local Currency If Known**)	Sales (S) or Negotiation (N) Date Announced
Sumitomo Shoju Kaisha Ltd., Doko Trading Company (Japan)	Apparel factory in Shanghai to supply women's wear to US retail chains	NVG	N: 2/16/79
Compo Industries (US)	Artificial leather plant	NVG	N: 2/29/79
Tourism			
Wimberly, Whisenand, Allison, Tong & Goo Architects, Ltd., Kuok Travel Service (US, Hong Kong)	US: design of 2 hotels; Huashan Hotel in Shanghai (1,250 rooms, 38-story), Hotel in Guilin (600 rooms, 12-story). Hong Kong: joint venture; technical and managerial assistance	NVG	S: 2/26/79
Western International (subsidiary United Airlines) (US)	Construction of 1,200 rooms in Shanghai; 1,100 rooms in Beijing	NVG	N: 1/79
Meridien Hotel (subsidiary Air France) (France)	Construction of hotels in 9 major cities	NVG	N: 1/79
Hilton International, ITT Sheraton Corporation, Hong Kong Entrepreneurs (US, Hong Kong)	Construction of 1,000- or 1,500-room hotels	NVG	N: NA
Rust Engineering Company (US)	Hotel rooms (5,000) in modular precast concrete units to be managed by Holiday Inns	NVG	N: 3/79
Transportation Equipment			
Hong Kong Aircraft Engineering Company (Hong Kong)	Service contract: overhaul and repair of Boeing 707, other aircraft, aeroengines, and component parts	NVG	S: 1/79
Asahi Chemical Industry Company (Japan)	Nylon tire cord plant (13,000 mt/yr capacity) in Pingdingshan, Henan Province. Completion: end of 1981	NVG	S: 1/79
Harpers International Ltd. (Hong Kong)	Bus and truck assembly plant	Cooperation Agreement	S: 2/6/79*
(Hungary)	500 Csepel trucks and 200 Ikarus buses	$26.9	S: 2/7/79 (January–March 1979 shipment)
Vickers Scotwood (UK)	Aircraft dynamo meter	NVG	S: 2/12/79
Messerschmitt-Boelkow-Blohm G.m.b.H. (W. Germany)	Agreement for cooperation in helicopter technology and instrumental test flights	NVG	S: 2/79*
Bell Helicopter (subsidiary Textron) (US)	9 model-212 commercial helicopters (4 for petroleum exploration, 5 for geophysical exploration)	$13+	S: 2/22/79
Wilkins and Mitchell (Power Presses) Ltd. (UK)	6 presses for aircraft industry (3 400-ton, 2 600-ton, 1 750-ton)	almost $2	S: NA
Toyo Rubber Industry Company (Japan)	Construction of tire production facilities	NVG	N: NA
Tomos (Yugoslavia)	Cooperation in motor scooter factory in Chongging; long-term cooperation for export of technology and motor scooters to China in exchange for various materials and tools	NVG	N: 1/11/79
Isuzu (Japan)	Cooperation in expansion of small truck manufacturing plant in Nanjing	NVG	N: 1/22/79
Toyota Motors, Hino Motors, Isuzu Motor, Mitsubishi Motors (Japan), Fiat (Italy), Mercedes Benz (W. Germany)	Modernization and expansion of heavy-truck plant in Changchun	NVG	N: 1/79

CHINA: 1979 SALES AND NEGOTIATIONS AS OF APRIL 1979 (Cont.)

Company/Country	Product/Plant/Technology	Millions of US $ (Local Currency If Known**)	Sales (S) or Negotiation (N) Date Announced
Toyota Motor, Toyota Motor Sales (Japan)	Remodeling of Beijing automobile manufacturing factory	NVG	N: 2/12/79
American Motors (US)	Feasibility study for production of Jeep 4-wheel-drive commercial vehicles	NVG	N: 2/26/79
General Motors (US)	Protocol for production of railroad locomotives, earth-moving equipment for road-building, mining trucks, heavy and light-duty trucks, and passenger cars	NVG	N: 3/22/79
AS Volvo (Sweden)	Truck plant (50,000 trucks/year)	NVG	N: 23/23/79
Miscellaneous			
Mixuno Sporting Goods Company (Japan)	Remodeling of Beijing Workers' Stadium track, and another national stadium in Beijing	$1 (¥200 million)	S: early 1/79*
Hitachi Ltd. (Japan)	10,000 institutional air conditioners	NVG	S: 2/12/79
TII Industries (US)	Organization and direction of joint ventures on upgrading of water treatment systems	NVG	N: 3/22/79

Total Value of 1979 Sales Listed: $1.7 billion+
Total Value of 1979 Negotiations Listed: $0.25 billion+
Cumulative Total Value of 1979 Sales through April 1: $5.2 billion+
Cumulative Total Value of 1979 Negotiations through April 1: $2.0 billion+

NA—Not Available
NVG—No Value Given
* Date contract signed. All other dates are when the sale or negotiation was announced.
** Dollar conversions at month-end rates quoted in IFS (IMF).

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The new Pinyin romanization system is used throughout this issue as widely as possible. The old system of Wade-Giles, however, has been used in some cases where the Pinyin style could not be ascertained.

Front cover:

Historic moment for ARCO: Signing of first US contract for oil search in South China Sea—and first direct US contract with Chinese enduser corporation.

The cartoons in this issue are by Eugene Theroux.