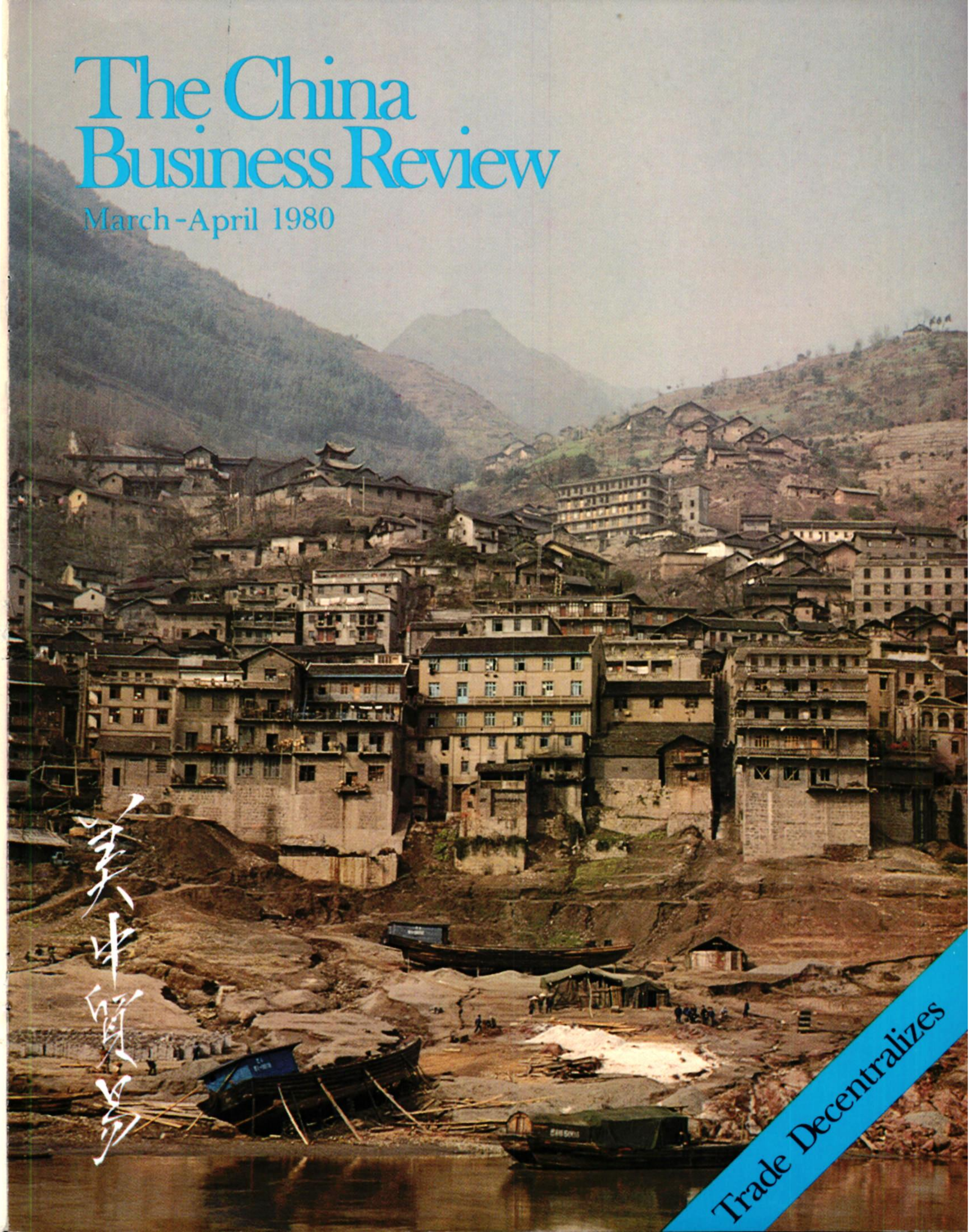
The China Business Review

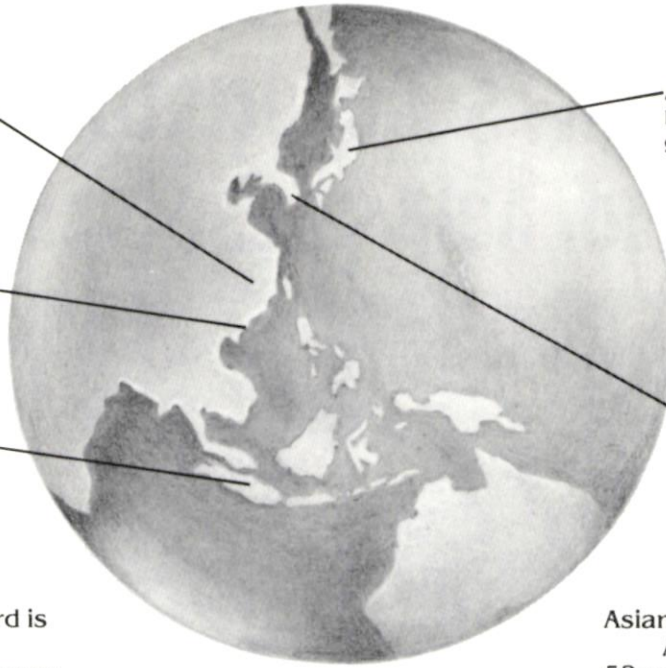
March-April 1980



美中貿易

Trade Decentralizes

ASIA'S MULTIBILLION DOLLAR BOOM.
(And how to get your share of Asia's growing markets.)



All across Asia, the word is growth. And opportunity beckons. In the booming economies of Japan, Hong Kong, South Korea, Taiwan, the Philippines, Malaysia, Singapore.

THE FUTURE IS ASIA.

More and more companies are looking to Asia for growth. And to the new weekly publication that helps you understand Asia today—and tomorrow.

The Asian Wall Street Journal Weekly.

From Dow Jones and Co., Inc., publishers of The Wall Street Journal (which serves more than 4 million U.S. readers every business day.)

THE COMPLETE PICTURE.

The Asian Wall Street Journal Weekly brings you all the important business, financial and political news you need to cash in on Asia's explosive economic growth.

With exclusive reports from the expert staff of Asia's top business daily, The Asian Wall Street Journal. Plus two full pages of news in each issue from The Japan Economic Journal, the English-language weekly of The Nihon Keizai Shimbun, Japan's leading business daily. And special news, too, gathered by our own U.S.-based staff.

THE INSIDE STORY.

Each week, the vital news of Asia is reported *from* Asia. Then edited and published in the United States to serve the special interests of readers in North America and Europe who live *outside* Asia.

The Asian Wall Street Journal Weekly is designed so that you can find the news you need without wasting your time. Indexed by subject, country, and even by company.

OUR OFFER?

If you'd like your share of Asia's booming markets, you should be a regular reader of The

Asian Wall Street Journal Weekly.

A full year's subscription—52 weekly issues—is only $78. And you have this guarantee:

If at any time you feel The Asian Wall Street Journal Weekly isn't providing the kind of vital information you need, just tell us to cancel and you'll receive a full refund for the balance of your subscription—no questions asked.

SUBSCRIBE NOW.

Just fill out the coupon below, and mail today. Or call—toll free—800-648-5311. Our operators will enter your subscription immediately and we'll be happy to bill you later.

Mr. William J. Beardsley CBR
General Business Manager
THE ASIAN WALL STREET JOURNAL WEEKLY
22 Cortlandt Street, New York, NY 10007

Yes, I'm interested in Asia and The Asian Wall Street Journal Weekly.

☐ Please enter my subscription for a full year.
☐ United States, $78. ☐ Canada, US$ 136.
☐ Europe, United Kingdom, and Ireland, US$ 168.
☐ Payment enclosed. ☐ Bill me.
☐ Please rush me complete advertising information.

Name

Title

Company

Address

City State Zip

THE ASIAN WALL STREET JOURNAL WEEKLY

The news from Asia. About Asia. Written and edited for the reader with an interest in Asia.

The China Business Review

The Magazine of the National Council for US-China Trade
March-April 1980 Volume 7, Number 2

TABLE OF CONTENTS

THE CHINA BUSINESS REVIEW is published bimonthly by the National Council for US-CHINA Trade, 1050 17th Street, NW, Suite 350, Washington, DC, 20036, USA. The National Council is a nonprofit organization incorporated under the laws of the District of Columbia. THE CHINA BUSINESS REVIEW is published principally for members of the National Council. Controlled circulation postage paid at Washington, DC. The magazine is available for subscription in the US and Canada at $60 per year; elsewhere at $75 a year including airmail postage.

The National Council for United States-China Trade is grateful to His Excellency Huang Zhen, Minister of Culture, The People's Republic of China, for the calligraphy on the front cover of THE CHINA BUSINESS REVIEW.

China Calendar

PORTLAND, OREGON, March 26–June 11

The World Affairs Council of Oregon is sponsoring a spring lecture series on "Seeing China Whole." Contact (503) 229-3049.

GUANGZHOU, CHINA, April 15–May 15

China is holding its 47th biannual Export Commodities Fair. Contact the Council's Importer Services, (202) 828-8370.

WASHINGTON, DC, April 23–May 21

The Textile Museum and the Washington Center of the Asia Society are sponsoring a five-part lecture series on "Chinese Textiles and Rugs." Contact the Textile Museum, (202) 667-0441.

WASHINGTON, DC, May 1

The China Council of the Asia Society will sponsor a symposium on "The Social Context of China's Modernization." Contact (202) 378-6500.

ATLANTA, GEORGIA, May 5

Nicholas H. Ludlow, National Council Executive Director of Publications, Research, and Planning, will be the study-group leader for a lecture on China sponsored by the Southern Center for International Studies. Contact Mr. Holmes, (404) 261-5763.

WASHINGTON, DC, May 13

DOC will sponsor a seminar on doing business with China. Contact PRC Affairs Division, DOC, (202) 377-3583.

NEW HAVEN, CONNECTICUT, May 21

The Southern New England Regional China Council will sponsor a Finance and Trade Conference on the People's Republic of China. The conference will focus on the practical aspects of doing business with the PRC. Contact Mr. John Bryan Starr, (203) 436-4422.

BUFFALO, NEW YORK, May 22

Suzanne S. Lotarski of DOC will speak on doing business with China at a seminar sponsored by the Tri-City Conference. Contact PRC Affairs Division, DOC, (202) 377-3583.

WILLIAMSVILLE, NEW YORK, May 22

Norman Getsinger, Director of Exporter Services at the National Council, will speak on doing business with China at a conference sponsored by the Buffalo World Trade Association. Contact Mr. Frank L. Wodzicki, (716) 852-6457.

LITTLE ROCK, ARKANSAS, May 23

Robert Dollison of DOC will speak on trading with China at a conference sponsored by the Arkansas Exporters' Roundtable. Contact PRC Affairs Division, DOC, (202) 377-3583.

WASHINGTON, DC, June 4

The National Council will hold its Seventh Annual Meeting at the Mayflower Hotel. Details on speakers and the agenda will be sent to members.

DETROIT, MICHIGAN, June 9

National Council President Christopher H. Phillips will speak on "China's New Economic Revolution—A Preview of the 1980s" at the 1980 Business/Professional Advertising Association's International Conference sponsored by McGraw-Hill Publications Company. Contact Mr. Richard J. McGurk, (313) 352-9760.

NEW YORK, NEW YORK, June 20

The American Management Association will sponsor a conference on "Barter Principles in the People's Republic of China." Contact AMA Registrar, (212) 246-0800.

DOING BUSINESS WITH THE PEOPLE'S REPUBLIC OF CHINA SEMINAR

Sponsored by: Business International Institute/Asia. One-day seminars held in the following cities:

Sydney, May 20	Calcutta, June 2
Jakarta, May 23	Bombay, June 5
Singapore, May 27	Manila, June 13
Bangkok, May 30	

Write: Business International Institute/Asia
301-305 Asian House
One Hennessy Road
Hong Kong

CHINA WIRE

THE SIXTH FIVE YEAR PLAN (1981–85) TAKES SHAPE

As decentralization, revitalization, and reassessment go on in the PRC, solid plans for the next ten years are shaping up. At national meetings in Beijing in March and April, officials from China's commissions, ministries, and authorities discussed the next ten years, deciding on the following draft targets—Industrial output: 8 percent yearly average growth through 1985, at least 7 percent in heavy industry, 9 percent in light industry. Agricultural output: target in 1985 for grain output—400 million metric tons, requiring an ambitious growth of 4 percent per annum from last year's 315 million tons. Fuller details are given on page 6. The plan will be finalized in October.

But expect the reassessment to go on. Xu Dixin, member of the Standing Committee of China's National People's Congress said on March 7, prior to the Beijing conference,that "the development of China's economy in the 1980s may be divided into two periods: 1980–1982 and 1983–1990." Xu referred to the first period as one of readjustment, describing the plans as follows:

—In agriculture, grain won't be given "sole prominence"—irrigation, increased chemical fertilizer supplies, stepped-up farm mechanization, more electrification, and pesticides will be emphasized. Greater stress will be laid on forestry, animal husbandry, sideline occupations, and fisheries. But note that Zhao Ziyang, proponent of economic experiments and, as of April 16, vice premier (along with Wan Li), has deemphasized agricultural mechanization.

—In industry, coal and oil production will "not go forward very rapidly in the next few years"; and iron and steel output will not increase much either, although steel quality will improve. Light industry will be pushed.

—No eating out of the "same big rice pot": industrial enterprises will increasingly be directly affected by their own profits and losses; each will have "to do its best to find markets for its products."

—Big technology imports won't happen until the last seven years of the 1980s: that is, wait till 1983 for the next big Chinese purchasing cycle—the third year of the Sixth Five Year Plan.

Following the planning meetings, China joined the IMF (April 17)—see CBR, Jan.–Feb., p. 55.

MEANWHILE, DECENTRALIZATION ACCELERATES

As a part of this issue of CBR indicates, PRC decentralization is proceeding apace on so many fronts that enterprising foreign firms are wondering whom to deal with next, whom to get the best deal from, and who commands the ¥2 billion in foreign exchange allocated to provinces and municipalities for capital construction projects in 1980.

—Beijing, Tianjin, Shanghai, and the provinces, following consolidation and rationalization of their factories, are opening up to foreign business as never before (see p. 14).

—Advertising in China is wider open than ever (see p. 48).

—China's Special Export Zones (SEZs) are developing spottily and on an individual basis. How will they tie in to a national investment implementation code? (See p. 28).

—The Yangzi River has opened China's inland provinces to direct international trade (see p. 13).

—Faced with a severely reduced state capital construction budget this year (p. 6), China's construction companies now form armies of labor for export (see p. 36).

BUSINESS DEVELOPMENTS—JOINT VENTURES, PATENTS, TRADEMARKS

Now that the Bank of America, FNB of Chicago, Morgan Guaranty, and Wells Fargo have paid up their assets (by establishing US accounts for the Bank of China), and serious direct banking can begin for the BOC's 47 correspondent banks in the US, what business is there?

Joint-venturers, as of April 1, are now subject to 35 percent corporate income tax according to Ren Xianjin of the CCPIT, despite the 30 percent rate set for the China Schindler Elevator Co. Ltd. j-v. The contract, which has not been approved by the FICC (see p. 12), features a 5 percent local tax, 10 percent withholding on dividends, assurance of reasonable profits (20 percent net on net investment or 15 percent net on net sales), two boards of directors and management, each with Chinese chairman, Swiss arbitration under ICC rules, and a 20-year term during which time wages will begin at ¥2040, increasing 60 percent over the first five years, thereafter remaining steady. The contract is for elevator production at two factories in Shanghai and Beijing to increase from 500 to 1,000 by 1985, and 2,000 by 1990, presaging a decade of higher rise in China's cities.

The CCPIT will soon publish a trademark gazette, is readying its own printing house. Japanese marks registered in the PRC, at over 3,000, far outnumber American marks. And as soon as the patent system is in place, the Science and Technology Commission will be ready to issue the regulations, based on "US, German, and Japanese systems, with China's own needs taken into account."

Watch out for . . . Serious steps toward regional planning in China, China's first nationally integrated computer network using IBM equipment (including the creation of the new State Administration of Computer Industry) and increasing competition between FTCs, provinces, and ministries, for your business.

–NHL 宪

China's Five and Ten Year Plans: 1981–1990

China is currently preparing its 1981 annual plan, sixth 5-year plan for 1981–85, and 10-year plan spanning the decade 1981–90. A March-April meeting of the State Planning Commission, ministries, and local authorities is preparing the draft five- and ten-year plans, which must be finalized by October. The following report is based on interviews with State Economic Commission officials in Beijing and local planning officials in Chengdu, Chongqing, and Wuhan, conducted by Nicholas H. Ludlow and James B. Stepanek during March 17–April 3, 1980.

1980 PLAN: China's current annual plan calls for 1980 growth of 5.4 percent in heavy industry output, 6.8 percent in light industry, and a 6.0 percent overall growth in the gross value of industrial production (GVIO). This represents a decline from 1979 growth rates of 7.7 percent in heavy industry, 9.0 percent in light industry, and 4.0 cent overall. China's GVIO in 1980 is expected to reach about ¥487 billion.

The 1980 grain output target is 325 million metric tons, up 3.8 percent over 1979.

Light industrial products such as watches, bicycles, and sewing machines are expected to increase by 8.6 percent, 14.0 percent, and 8.5 percent, respectively. Other 1980 plan targets:

KEY ECONOMIC INDICATORS, 1979 RESULTS AND 1980 TARGETS

	1979	1980
Gross value of industrial output (1970 constant yuan, billion)	459.1	486.6
Of which:		
Heavy industry	265.8	280.2
Light industry	193.3	206.4
Grain output (million metric tons)	315.0	325.0
Total direct state investment (billion yuan)	36.0	24.0
Local investment (billion yuan)	3.2	15.0
Of which:		
Loans administered by the People's Bank of China and Construction Bank	NA	(4.0)
Enterprise depreciation fund	NA	(5.0)
Funds administered by provincial finance bureaus	NA	(6.0)
Of which:		
Foreign exchange component	NA	[2.0]
Domestic currency	NA	[4.0]
Residential construction (million square meters)	56	104
Light industry production (million units)		
Watches	17.42	18.92
Bicycles	10.00	11.40
Sewing machines	5.87	6.37

Sources: State Statistical Bureau, State Capital Construction Commission, and State Economic Commission

1981 ANNUAL PLAN: The draft plan now being prepared calls for an increase in output of 7.2 percent in heavy industry, 9.0 percent in light industry, and about 4.0 percent in grain output. These targets represent an increase in the economic growth rate of the nation from about 5 percent this year, to around 6–7 percent in 1981.

SIXTH FIVE-YEAR PLAN, 1981–85: The draft five-year plan now before the State Planning Commission has set production targets through 1985 for 100 major industrial product categories and about 15 agricultural products. The industry and grain targets for the next five years are subject to change, but tentatively project an annual rate of growth of industrial production of about 8.0 percent and grain production of over 4.0 percent. Heavy industry is targeted to increase by at least 7 percent per year and light industry by 9.0 percent.

Grain output is expected to reach 400 million metric tons by 1985. This is the same target announced by Chairman Hua Guofeng in his address to the Fifth National People's Congress on February 26, 1978, and was originally part of China's now-defunct Ten-Year Plan (1976–85). The plan was effectively terminated in 1979 when China adopted the course of planning only on an annual basis during the "three years of readjustment" (1979–81). Population growth is planned to decrease from 1.2 percent per year in 1979 to 0.5 percent by 1985.

Emphasis in foreign trade will be on expansion of energy exports, of petroleum and coal; foreign trade expansion will be faster than economic growth as a whole. Local investment during the next five years will increase significantly, while the level of central government investments, which was cut by 33 percent in 1980, will reportedly remain constant through 1985.

Other goals of the former ten-year plan, to increase industrial output by 10 percent per year and steel output to 60 million tons by 1985, have been sharply scaled down under the new plan:

CHINA'S SIXTH FIVE-YEAR PLAN TARGETS, 1981–85

	1981	1982	1983	1984	1985
Gross value of industrial output (1970 constant yuan, billion)	525.5	567.5	612.9	661.9	714.9
Of which:					
Heavy industry	300.3	321.9	345.1	370.0	396.6
Light industry	225.2	245.6	267.8	291.9	318.3
Grain output (million metric tons)	338	352	367	383	400

Source: State Economic Commission

TEN-YEAR PLAN, 1981–90: A second five-year plan for the period 1986–90 is concurrently under preparation, but it is a "program" plan which only sets percentage rates of increase for key industrial and agricultural items, numbering only 20–25. Together, the two five-year plans form a ten-year-plan package which will give top priority to agriculture and light industry, with rapid expansion of foreign trade by means of increased exports of petroleum, coal, and manufactures. Imports must be paid for by exports, and not by foreign credits, Chinese officials emphasize. 完

US Frees More Support Equipment for Sale to China

Karen A. Berney

Washington has inched closer toward forging a military alliance with Beijing by making close to 30 types of support equipment designated in the US Munitions Control List available for licensed export to the PRC. In Munitions Control Newsletter No. 81 (March 1980), sent to 1,500 American suppliers of high technology, the State Department indicated that sales opportunities to China now include products in six of the list's nineteen categories.

Category	Specific Types of Equipment
Tanks & Military Vehicles	Trucks, trailers, hoists, skids for firearms, rockets, bombs, grenades, torpedos, depth charges, land & naval mines, demolition blocks & blasting caps; mobile repair shops, recovery vehicles.
Aircraft & Spacecraft	Helicopters; cargo aircraft C-45-118 & C-121; liaison, personnel & lighter-than-fuel aircraft; launching, arresting & recovery equipment.
Military Training Equipment	Flight simulators; radar, instrument, navigation trainers.
Military & Space Electronics	Search radar; fathometers; underwater telephones; weather navigation, guidance, object-locating devices; telemetering & communications systems.
Auxiliary Military Equipment	Aerial & special purpose cameras for photo interpretation, stereoscopic plotting; photogrammetry equipment; underwater diving & breathing apparatus.
Technical Data	Pertaining to all of the above.

US companies contemplating the sale of any generic item identified on the list must submit an export license application to the State Department. Cases already being considered by the Office of Munitions Control in conjunction with the Pentagon's Office of Research and Engineering will further clarify the support items suitable for export. But in an effort to extend "evenhandedness" to every US company, the intent is to examine the technology question for each case individually.

The View from Beijing . . .

The US still insists that it will not sell lethal armaments to the PRC. But the latest expansion of exports will undoubtedly enhance China's military capabilities by offsetting its inferiority in certain technical support areas such as air and ground mobility and long-distance command, control, and communications. The radar and camera equipment will be of particular interest to Chinese defense planners who place a high value on detailed reconnaissance in light of the PLA's weapons gap.

US actions should ease China's dissatisfaction over the lack of tangible results following Defense Secretary Harold Brown's January visit to the PRC. In talks with two lecturers from the Japanese Defense Academy, Chinese Vice Minister of Defense Su Yu remarked that "Until now, the US has only proposed to offer Ford vehicles to China," (March 13, 1980). Apparently, this message did not fall on deaf ears.

The visiting Japanese instructors were in Beijing to address five Chinese technicians from a company related to the Fourth Ministry of Machine Building on the American development of semi-automatic air defense systems and the use of computers in aerial battles.

The decision to supply China with militarily useful equipment is also complementary to Beijing's foreign buying strategy. Economic realities have limited Beijing to a slender resource base for military modernization, $12.9 billion for the year, or about 18 percent of planned government expenditures.* The lack of skilled manpower and a strong industrial infrastructure for the assimilation of sophisticated hardware technologies are no less important as reasons for Beijing's restricted procurement program.

In spite of numerous arms-purchasing missions abroad, Beijing's top priority is the upgrading of its domestic scientific-technical base for design, operation, and development at home. Hence its interest in joint licensing and coproduction arrangements for the manufacture of the kinds of dual-use and military support items the US is now prepared to sell.

. . . and Impact on US Vendors

In the area of computer technology, one US company, Electronic Associates Inc., has been awaiting a decision on an export license for over two years. EAI executives are now optimistic about receiving a swift approval for shipment of a $4 million combined analog and digital computer to the Harbin Engineering Institute, which is eager to launch a study of jet engine airtake systems. This hybrid computer, the EAI-700 with a SEL 32-bit word digital machine, is being used as a modeling tool for the development of space, submarine, and aircraft weaponry by the Pentagon.

Lockheed C-130 transports, essential for the US Air Force's battlefield supply operation, and its C-131, C-140 models are of major interest to the People's Liberation Army which is sorely deficient in supply maneuverability. McDonnell Douglas DC-10s, Grumman E-2 early warning aircraft, and Ford trucks equipped with Rockwell International's military axles are also high on Beijing's potential acquisition list.

Now that the US and China have finalized agreements for the sale of a Landsat D ground station and launching of a broadcast communications satellite, negotiations are underway between a few US companies and the European Space Agency for the acquisition of technology to enable China to construct payload and warhead-launching spacecraft.

US Competitors Move in on Electronics Opportunities

Other foreign vendors have lost no time in taking advantage of the liberalization of Western strategic trade policy toward the PRC. Starting in July, Yokogawa Electric Works Ltd. of Japan will license the manufacture of 30 models of electrical measuring instruments to a 4,300-member Chinese factory in Xian. The 10-year licensing agreement calls for running royalty payments based on annual production expected to climb to 30,000 units. The instruments are aimed at the Chinese market and for eventual export to Japan and other countries.

On the heels of Yokogawa is the Sord Computer System Inc. of Tokyo which is getting ready to send semiconductors and other components to the "Red Star" factory in Tianjin for assembly into core memories, and cathode-ray tube display monitors and other parts for small computers. Sord will import the parts to build and market the computer in Japan but plans to entrust the entire operation to the Chinese if the first arrangement of its kind proves successful.

The emerging picture is one of limited military modernization for the time being, bolstered by quick fixes of transport equipment and communications gear. The most striking evidence for this twin proposition lies, not in Beijing's policy statements or shopping missions abroad, but in the performance of the Chinese economy itself. The electronics and precision instruments industries have continuously received preferential treatment in the allocation of R&D resources and are beginning to produce significant achievements. Shanghai Radio Plant No. 7, for example, was recently acclaimed by the Fourth Ministry of Machine Building for innovating an ECL ultra-high-speed integrated-circuit series for performing 20 million operations per second; that "is up to the advanced level of similar foreign products." 完

Blueprint for High-Technology Sales: A Guide to Major PRC Clients

The matrix opposite indicates dual-use technologies, military support equipment, and weapons systems that the Chinese have frequently shown an interest in or actually purchased. Each item or category is matched with the Chinese ministry that is either an end-user (E) or producer (P) of the item. In each case the ultimate end-user is a particular enterprise or research institute affiliated with a ministry.

The list is derived from the US Commodity Control List, Munitions Control List (military support items), and numerous Chinese and US press reports. Nearly all of the items must be reviewed on a case-by-case basis by COCOM for export to the PRC.

Despite rumors of HOT missile and Harrier sales to the PRC, what and how much Beijing will actually buy is an open-ended question. The machine-building industries, 1–8, supervise the production of military hardware with R&D guidance from the National Defense Scientific and Technical Commission. But the current drive is to have these ministries "set up specific agencies for managing, designing, and marketing products for civilian use." American high-technology manufacturers should shy away from anticipating China's military hardware purchases and, instead, concentrate on identifying the critical areas of the Chinese economy with the greatest demand for Western technology, such as the energy exploitation and transport sectors.

* This figure, hovering around 10 percent of GNP, is not comparable to Western expenditures since it is not known which items are covered or excluded. The convertibility of defense resources to civilian use is probably high.

Dual-Use Technology: Manufacturers and End-Users in China

E = End-User
P = Producer

	Agricultural Machinery	Agriculture	CAAC†	Chemical Industry	Coal Industry	Commerce	Communications	Construction Materials Industry	Education	Electric Power	Finance	Foreign Trade	Forestry	Geology	Light Industry	Machine Building Industries	(1) Civilian Machinery	(2) Nuclear	(3) Aircraft	(4) Electronics	(5) Conventional Armaments	(6) Shipbuilding	(7) Missiles	(8) Space technology(?)	Metallurgical Industry	*National Defense	Petroleum Industry	Posts and Telecommunications	Public Health	Railways	State Farms and Land Reclamation	State Seismological Bureau	Textile Industry	Water Conservancy
Aerial and Space Cameras		E			E								E	E						P						E	E	P				E		
Air Traffic Control Systems			E																	P						E								
Aircraft, Commercial, and Military Transport			E																P							E								
Anti-tank and Anti-aircraft Weapons																					P					E								
Armored Fighting Vehicles																					P					E								
Array Transform Processors														E						P			E	E		E	E	P/E				E		
Artillery/Rocket Launchers																		E				P	P/E	P/E		E								
Chemical Plants and Processes				P/E	E			P					E		E												E						E	
Coaxial Cables										P										P								P/E						
Cryptographic Technical Data																		E	E	E		E	E	E		E		E						
Computers—Hybrid, Analog, or Digital; Microprocessors			E	E	E	E	E		E	E	E	E		E	E		P/E	E		P	E	E	P	E	E	E	E	P/E	E	E		E	E	
Construction Equipment		E	E	E	P/E		E	E		E			E	E			P					E			P/E	E	E	E		E	E	E	E	E
Diesel Motors ≥ 1500 h.p.	P/E	E			E					E							P				E	E				E	E			E				
Display, Telemetering, and Tracking Equipment			E															E		P			E	E		E		P						
Earth Ground Stations			E																	P			E	E		E		P/E						
Energy Conversion Devices				E	E		E			P					E		P	E							E	E	E	E		E			E	
Engines—Piston, Internal Combustion, Turboprop	P/E																P		E		E	E	E			E				E				
Explosive Chemistry		E		P/E	E		E			E				E				P			E	E	P	P		E	E			E	E	E		E
Flight Simulators, Other Training Equipment			E																	P						E		P						
Gas Liquefying Processes and Equipment				E	E												P										E							
Gas Turbine Blades and Generators										P/E												E				E								E
Geophysical and Mineral Prospecting Equipment					E									E			P	E		P					E		E					E		
Helicopters		E	E				E												P							E								
Hydrofoils							E												P			P				E								
Inertial Navigation, Weather, Guidance Systems			E															E	E	P	E	E	E	E		E		P						
Instruments—Industrial and Scientific				E				E		E				E	E		P/E	E	E	P/E	E	E	E	E	E	E	E	P/E	P/E	E		E	E	
Integrated Circuits			E							E				E	E			E	E	P/E	E	E	P	E	E	E		P/E		E				
Locomotives and Railcar Parts		E			E	E	E						E				P									E		E		E				
Microwave Technology			E												E					P			E	E		E		P/E						
Numerically Controlled Machine Tools	E			E	E			E		E					E		P/E	E	E	P/E	E	E	E	E	E		E	E					E	
Particle Accelerators																		P/E					E	E		E								
Radar—Early-Warning, Weather and Navigation			E																E	P	E	E	E	E		E		P						
Radio and Television Transmitters and Receivers			E						E						P/E					P						E		P/E						
Forging, Foundry, Cutting, Woodworking Machinery	E			E	E			E		E			E		E		P/E		E	E	E	E	E	E	P/E			E					E	
Satellites—Communications and Reconnaissance		E	E											E									P	P		E		E				E		
Telephone Switching Systems																				P						E		P/E						
Tractors	P	E											E																		E			E
Trucks, Trailers	P	E			E			E					E				P									E					E			E

Table prepared by Karen A. Berney and Kenneth I. Bowman

*(People's Liberation Army)
†General Administration of Civil Aviation

The *New York Times's* Exhibition Supplement is examined by (r. to l.) Gilbert A. Robinson, chairman of the US-China Business Development Corporation; Christopher Phillips, president of the National Council for US-China Trade; and Ambassador Chai Zemin.

Council Activities

Christopher H. Phillips, president of the National Council, issued an urgent appeal to all Council members on March 7 to write directly to President Carter on the importance of authorizing Exim Bank credits for China in fiscal year 1980–81. This action followed President Phillips's testimony on behalf of National Council members at February 22 hearings on Exim Bank financing held by the Senate Banking Committee.

Ambassador Phillips visited China (April 13–May 5) to touch base with 20 Chinese organizations in Beijing and Shanghai with whom the Council has established relations.

Nicholas H. Ludlow, *CBR* editor, and James Stepanek, managing editor, visited China March 17–April 3, hosted by the State Economic Commission/China Business Management Association. The two visited Beijing, Chengdu, Chongqing, Yichang, and Wuhan during their trip. Highlights of the visit were a ride through the Yangzi gorges and a visit to the Gezhouba construction site, China's largest hydro project.

TEXTILE ACTION

Members of the Council's Textile Import Committee, concerned over what will happen on the first day of the new quota year (June 2), are compiling a position paper to be submitted to the Chief Negotiator of the Office of the US Special Trade Representative.

The immediate issue concerns the procedure for releasing the goods currently under embargo and what kind of action the US government will take in the different textile categories after the expiration of the quotas. To gain a voice in the government, the Textile Committee is considering electing one of its members as a representative to the Department of Commerce's Importers and Retailers Textile Advisory Committee.

On April 9, the Telecommunications and Electronics Committee of the Exporter Services Department briefed members of the US National Telecommunications Information Agency which will meet with Chinese Minister of Posts and Telecommunications Wang Zigang during a two-week tour of China. The National Council has extended an invitation to host Minister Wang on a visit to the US.

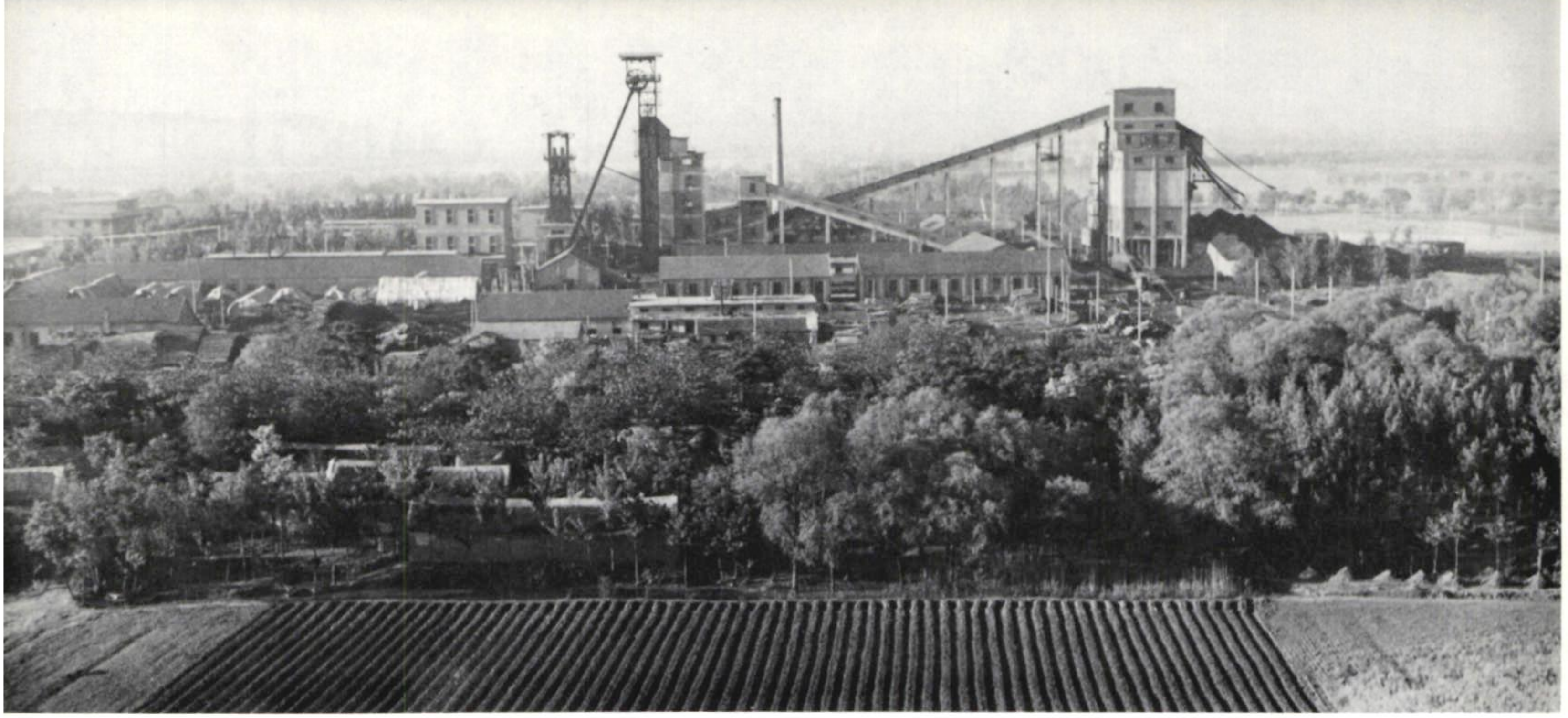
The Exporter Services Department is considering the formation of two new committees in petroleum processing and industrial machinery. A third new committee, the Engineering Construction and Services Committee, will have its first organizational meeting in mid-May. Exporters interested in joining any of these committees should contact the Exporter Services Department.

1980 DELEGATIONS

The Delegations Department has received concrete news on five visiting Chinese delegations for the spring: a diesel generator group (no Council escort), and a National Council–escorted delegation from the People's Bank of China, hosted by the Federal Reserve System in April; a nonferrous metals and a coke delegation from the Ministry of Metallurgical Industry, arriving in May; and a Bank of China team headed by its chairman, Bu Ming. The Council will also be hosting five delegations related to US imports of herbal medicines, dried nuts and vegetables, bamboo, textiles, and frozen foods.

On the way to China this April are an exhibitions and port operations delegations, to be followed by an agricultural group in May and two mining delegations—underground and surface—in June.

The Delegations Department will release their first newsletter along with the one being issued by Exporter Services on May 1. 完



Credit—Xinhua

Industry on the North China plain: CCPIT reveals income tax rate on joint ventures set at 35 percent.

The PRC's Investment Control and Import-Export Commissions

China's Office of Foreign Economic Affairs

With the decentralization of China's foreign trade, the establishment of municipal and provincial export-import commissions (see story on "Doing Business in China's Three Great Cities"), and the increasing number of equity joint ventures reported to be under discussion, many companies have been wondering about the destiny of China's Foreign Investment Control Commission. Known also as the Import-Export Commission, the functions of this powerful, but relatively unpublicized, office which controls China's foreign economic relations are described here, based on discussions recently held by CBR's *Nicholas H. Ludlow and James B. Stepanek in Beijing.*

The Foreign Investment Control Commission (FICC) and Import-Export Commission (IEC) together form an advisory office of foreign economic affairs of China's State Council, established in August 1979, following the publication of the joint-venture law in July. The principal task of the office is the oversight of joint ventures and export-import matters. Originally its principal departments were the Foreign Investment Control Commission (or bureau) and the Export-Import Commission, both headed by Vice Premier Gu Mu.

Gu Mu also heads the State Capital Construction Commission and wears a number of Communist party hats. As head of FICC/I-EC, Gu Mu oversees the work of the Ministry of Foreign Trade, the Ministry of Economic Relations with Foreign Countries, and the China International Trust and Investment Corporation (CITIC). FICC's alternative name, the Import-Export Commission, signifies that it is also the parent body in charge of the import-export commissions in China's municipalities and provinces.

Vice Minister under Gu Mu is Wang Daohan. Seven other senior officials, including two from the State Planning Commission (SPC) and one from the Bank of China (BOC), form a working directorate, in charge of a staff that numbered about 90 in April 1980. The seven officials are: from the SPC, Gu Ming and Gan Ziyu; from the BOC, Bu

Ming; and Jiang Zimin, Ma Hong (SEC vice chairman), Zhou Jiannan, and Wang Daohan.

While the full authority of this new office is still not clear, its impact has already been felt nationwide and its policies are taking on increasing importance. FICC's responsibilities are broadranging, as its bureaus indicate. Interestingly, all its bureau heads can speak English.

Overall Planning Bureau This bureau, staffed by ten people as of late March 1980, is responsible for balancing of exports and imports and foreign currencies, and for advising on foreign economic policies. It is headed by Luo Baoyi.

Technology Acquisition Bureau Staffed by 20, and headed by Chen Yang, previously deputy head of TECHIMPORT, this bureau approves all plans and contracts relating to imports of foreign technology, such as licenses and technical packages or systems.

Import and Export Bureau This bureau or "commission," with a staff of seven, approves annual and long-term export and import plans. It balances exports and imports, performing some tasks that were transferred from the State Planning Commission. Its head is Yang Wei, previously general manager of CEROILFOODS and deputy director of the Ministry of Foreign Trade's Export Bureau.

Foreign Investment Bureau This bureau or "commission" is the body that must approve or disapprove all joint ventures, 100 percent foreign investments, and Chinese investments overseas. The seven-person bureau, headed by Feng Tianxun, has two departments for:

a) industrial joint ventures;

b) nonindustrial joint ventures.

The bureau is presently studying how multinationals deal with joint ventures in developing countries. Legal and economic, rather than technical, aspects are of prime interest to the FICC.

According to a spokeman on March 20, the government's main interest is in establishing pilot joint ventures before issuing the critical supplemental regulations—regulations that, according to this offiical, are not likely to be issued soon.

As of April 23, five formal applications for approvals under the joint-venture law were granted. The applications, which had to be processed within 60 days according to the law, were (a) three hotels by E-S Pacific in Shanghai (1) and Beijing (2); (b) a Xinjiang wool factory, with Tung Yang Fang (East Sea Textiles); and (c) an airport catering service for Boeing 747s.

Legislative Bureau This seven-person bureau, headed by Zheng Lu, is responsible for laws and regulations as well as the drafting of all regulations and coordination of all drafting.

Research and Investigation Department This bureau investigates everything related to foreign economic relations. Its staff of twelve, headed by Han Yungu, was transferred from the State Planning Commission where, prior to the drafting of the joint-venture law, it researched the joint-venture laws of other countries.

General Administrative Office This administrative office has four departments, headed by a Mr. Li, for (a) foreign affairs, liaison; (b) personnel; (c) accounting; and (d) automobiles.

Advisors Office This office, established in early March and presently staffed by only three people (including a Columbia Law School graduate), consists of specialists brought in to advise various FICC bureaus, such as professors to advise on specific types of technology, or foreign experts to comment on aspects of investment. In charge of the office is Xie Shuangqiu.

The address of the foreign investment and legislative bureaus is Xi Yan Hotel, Beijing, PRC, telephone number 895502. All other bureaus may be addressed care of the Office of the State Council, Beijing.

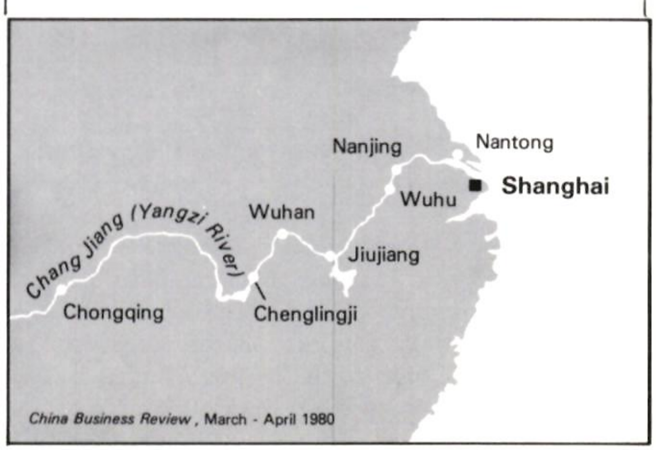
CHINA'S SEVEN NEW INTERNATIONAL INLAND PORTS

On April 1, China opened up seven inland ports to direct international trade for the first time as part of the ongoing process to decentralize and expand China's foreign trade. As of that date, China's General Administration of Customs was officially established in Chongqing (Sichuan Province), Chenglingji (Hunan Province), Wuhan (Hubei Province), Nanjing (Jiangsu Province), Jiujiang (Jiangxi Province), Wuhu (Anhui Province), and Nantong (Jiangsu Province). All of these ports are on the Yangzi.

This means that international vessels may now go directly to these ports and that goods exported from these inland cities will not have to be off-loaded at Chinese "port cities" for customs purposes. Previously, for example, export cargos from Hubei Province were shipped down the Yangzi from Wuhan, along the coast, then transshipped at Guangzhou to go through customs. The first ocean-going vessel to leave Wuhan under the new system was a 3000-dwt Hong Kong–registered freighter bound for Hong Kong, Singapore, and the Philippines with a cargo of cement and thermos flasks on April 17.

In addition, China's foreign-trade corporations can apply, as of the same date, to import Taiwanese goods or export products to Taiwan free of duties, according to other new regulations issued by the General Administration of Customs, now directly under China's State Council.

As of 1980, the Customs Administration is maintaining China's foreign-trade statistics on an SITC basis; a major step forward in standardizing the PRC's trade figures with those of the rest of the world.



Vice Mayors Han Zheyi of Shanghai (second left) and Ye Lin of Beijing (second right) with PRC economist Sun Shangqing and NCUSCT's Chen I-chuan, visit DeKalb Agresearch farm in Liberal, Kansas, November 1979.

Doing Business with China's Three Great Cities

Edith Terry

If you haven't yet mastered "CITIC" or even "MINMETALS," a word of caution is in order: soon you will be coming across TITIC, BIMPEX, SFTC, and other acronyms now popping up all over the China trade map. China's three great cities and other local authorities have established local foreign organizations with authority over most local trade and investment decisions over $1.9 million. Though their names, acronyms, and spheres of responsibility may cause initial confusion among foreign businessmen, the local trade organizations are likely to be a significant force in China's foreign trade for some time to come. The following article spells out the new foreign-trade policies at the municipal level and details the organizations which have been created to implement them.

We must carry out reforms in the structure of economic management step by step so as to give full play to the initiative of the central departments and local departments concerned, as well as of the enterprises and workers. . . . The scope for decision-making in economic affairs in the localities will . . . be appropriately broadened under the unified central leadership.

Ye Jianying, National Day address, September 29, 1979

The central authorities have demanded that Beijing, Tianjin, and Shanghai municipalities proceed faster than the others.

Ye Lin, vice mayor of Beijing, report to the Beijing Municipal Conference on Imports and Exports, November 1979

Introduction

In Chinese, they are called *san da shi,* the "Three Great Cities": Beijing, with its power brokers and industrial showpieces; Shanghai, the bad old foreign-trade concession, now top foreign-exchange-earner on behalf of the revolution ($3 billion in 1979); and Tianjin (Tientsin), China's oil gateway to the world.

In power and size, they challenge the world's major cities. Shanghai, with some 11.1 million people, has been the world's largest city since 1973, while Beijing, with 8.49 million people, and Tianjin with 6.05 million, compare with such US cities as Chicago and Philadelphia.[1] These municipalities have the administrative rank of provinces and govern large agricultural areas as well as industrial infrastructure.

Now, the "Three Great Cities" are rapidly expanding their foreign trade capabilities under the impetus of directives from the PRC State Council. Chairman Hua Guofeng's February 1978 exhortation to give "active support . . . to the local authorities in undertaking what should be put in their charge" led by early 1980 to the creation of a panoply of municipal foreign-trade bodies. According to unpublished State Council decisions, the three cities and the two provinces of Guangdong and Fujian each are to have decision-making bodies under local governments and over branches of the national foreign trade corporations (FTCs). These will handle municipal import and export trade, joint ventures, and investment capital from abroad. (Guangzhou, a municipality within Guangdong Province, will also establish new foreign-trade organizations, according to reports from Hong Kong.)

The direct jurisdiction of the cities over trade and investment has an RMB 3 million ($1.9 million, at the March 19, 1980 exchange rate) cutoff point. Thus, major plant and sales and investment decisions over that threshold will be referred upwards through the various rungs of the national foreign-trade supervisory bodies. Once a project has been approved, however, local agencies will be in full control of discussions with foreigners. Foreign firms interested in catching wind of upcoming projects should approach the municipal investment organizations, which serve as brokers on behalf of the city in locating suitable foreign partners. There is no limit on the value of projects the cities may discuss with foreigners.[2]

Developments, on the surface, are fragmentary. New product trade organizations have been created by Shanghai and Tianjin. All three cities have new investment corporations, but only Beijing has a new "council" on managing imports and exports. And there are still other foreign-trade-oriented corporations of diverse service and industry affiliations.

Not only these corporations, but the end-users they represent, the municipal industrial bureaus, and the specialized corporations under them, are becoming directly involved in foreign trade. Municipal industrial bureaus and their corporations are sending delegations abroad—including a recent one from the Shanghai Automobile and Tractor Corporation hosted by Wabco. They have the authority, working through the municipal foreign trade bodies, to sign contracts.

The State Council's decision to toss three new municipal chips on the foreign-trade table has its fans and its opponents among foreign businessmen. Among those who like the new developments are Wabco and Sord Computer System, Inc., a Japanese firm that announced in February 1980 its plans to produce minicomputers in Tianjin in cooperation with the municipal government. Other companies negotiating with municipal authorities have found the new system a "muddle" that puts more distance than ever between the businessman and the Chinese end-user.

The enthusiasm of foreign businessmen for the new system comes from sales and from having more immediate access to municipal organizations; what disenchantment there is probably comes from the normal problems encountered as a new set of institutions shakes itself out. China's municipal leadership is as much engaged in testing the boundaries of their recently assumed powers as are their (sometimes) bemused foreign business partners.

Pro or con, any company seeking to enter China's municipal marketplace should seek hard answers to some urgent questions. A foreign company should know not only which municipal organization to approach, but how it relates to other Chinese institutions. It should understand the relationships between the municipality itself and national commissions and industrial ministries. And lastly, it should be prepared to recognize and react to differences between analogous institutions in the three cities. The last may be the key to doing business with them.

The review of new municipal institutions and their interrelationships below should acquaint the reader with the first and third of these issues. The second is covered in a detailed review of the internal approval process for contracting with foreign companies in the latter half of the article.

THE NEW MUNICIPAL FOREIGN-TRADE SYSTEM—THEME AND VARIATIONS

As reconstructed from fragmentary press reports and discussions with municipal officials, the new municipal foreign-trade structure calls for a tri- or quadripartite structure in the cities to assume local foreign-trade policy and implementation responsibilities.

In broad outline, the local municipal systems will each have municipal import-export control commissions overseeing the affairs of product trade or import-export corporations and municipal investment corporations, with branches of the national Foreign Trade Corporations answering to the former. The municipal investment corporations serve as liaison with municipal industrial corporations for plant imports and investment, while the import-export corporations represent the local producing and using organizations for product imports and exports. Under ordinary circumstances, foreign businesses deal only with the working-level "corporations" below the import-export control commissions, which are review and policy-making bodies.

Municipal Import-Export Control Commissions (IMPECs)

At the apex of the system is an import-export administrative or management commission (*jinchukou guanli weiyuanhui*). The counterparts on the local level of the State Import-Export Commission, established August 1979 and chaired by Vice Premier Gu Mu, the municipal import-export control commissions review all debts committed by the city and coordinate foreign import, selling, and investment proposals with the other major municipal commissions: planning, economic, and the governing or people's commissions formerly known as "revolutionary committees." The municipal capital construction commissions are not involved in the process, though they are involved with implementation of foreign plant construction and other projects.

Like the State Import-Export Commission, whose chief, Gu Mu, concurrently heads both the Foreign Investment Control Commission and the State Capital Construction Commission, each local import-export body is made up of many of the same individuals who sit on its companion municipal commissions. Members of the commissions may have the habit, disturbing to Westerners, of referring to decisions made by any one of the commissions by the ambiguous, if royal, "we." Proposals on foreign trade and imports are approved by the import-export, economic, and planning commissions in concert (either through joint review or by one of the commissions acting as organizer and collecting the recommendations of others). They are then submitted to the governing committee through the mayor's office.

The municipal import-export control commissions appear to have the closest relationship of all to the municipal economic commissions. Lower-level foreign-trade organizations in Beijing report to the Beijing Economic Commission, apparently in the interim until the Beijing Import-Export Corporation (BIMPEC) becomes fully operational.

Beijing's import-export control commission, formed in October 1979 with an initial staff of ten, is the only one of the three that has been publicly announced in a Xinhua report of December 7, 1979. In Shanghai, the Municipal Office of Foreign Trade (*duiwai maoyi banshichu*) reportedly fulfills this function, while Tianjin also is not known to have established a separate office at the top municipal level to coordinate foreign trade, and is lagging behind in this respect.

Beijing's Municipal Investment and Import-Export Corporation (ITICs and IMPEXs)

Though the decision to establish municipal import-export commissions was not made until late 1979, trade and investment bodies below them appeared as early as December 1978. This was when the Beijing Economic Development Corporation (BEDC) was formed; shortly thereafter BEDC began a mail-order campaign to contact potential customers and business partners (see *CBR* July-Aug. 1979, p. 48). Apparently the Beijing International Trust and Investment Corporation (BITIC) was formed at the same time and shares the 15-man BEDC staff. As of early December 1979, this double-gauged body was reporting to the 160-person Beijing Economic Commission rather than the fledgling BIMPEC.

A third new foreign-trade organization under BIMPEC is the Beijing Import-Export Corporation. Not publicly announced as of March 1980, and presumably not yet functioning as such, this corporation (BIMPEX) will carry out the present functions of the Beijing Foreign Trade Bureau plus supervision of branch agencies of FTCs, which are not presently under the bureau's direct jurisdiction.

Initially, BEDC, as the sole external trade representative of the city, handled a wide range of functions to be divided between BEDC and its counterpart organizations as the system geared up: BIMPEX for product trade; BEDC for compensation trade, technical and service purchases, and turnkey plant and equipment contracts; and BITIC for loans and negotiating joint ventures (the latter are referred to the Foreign Investment Control Commission for final approval). Neither BITIC nor any other of the municipal investment corporations is linked directly with CITIC, the China National Trust and Investment Corporation. The municipal investment corporations broker local investment and joint venture opportunities only; it is not known whether they supply information on local prospects to CITIC on any but an informal basis.

Shanghai's Approach

In Shanghai, things are always different from anywhere else in China. Shanghai's "we can do anything" spirit is reflected in the diverse functions of its investment arm, the Shanghai International Trust Service Corporation (SITSC), which promises immediate response to mail orders and inquiries on compensation trade, as well as welcoming "material contributions" from overseas Chinese (*CBR* Jan.-Feb. 1980, p. 83). Like BEDC/BITIC, SITSC serves as broker for foreign firms seeking investment or construction opportunities in Shanghai.

Shanghai's new import-export corporation was inaugurated in January 1980 with full-page ads in the *Beijing Review* (January 21, 1980) and elsewhere. The new corporation, like BIMPEX, handles the city's foreign trade but, unlike the latter, appears to be a spin-off rather than a transformation of the Municipal Foreign Trade Bureau (see Box "Shanghai's Municipal Trade Organizations," p. 27). The Shanghai Foreign Trade Corporation (SFTC), as it is called, has also reached a different accommodation with local branches of the national FTCs, of which there are 14 based in Shanghai. SFTC handles import business, while customers for China's exports are directed to the branch FTCs.

Tianjin Tries Harder

Tianjin, like Beijing, started out with an umbrella municipal trade corporation that has since spawned three specialized bodies. The Tianjin General Foreign Economic and Technical Service Company (TIGFETS), which began business on December 13, 1979, according to PRC media reports, was initially responsible for managing engineering contracts with foreign companies, labor exports, and "handling of joint-investment projects and economic and technical cooperation with foreign countries." Two months later, the corporation's joint-venture powers were apparently transferred to another organization, the Tianjin International Trust and Investment Corporation (TITIC). Xinhua News Service reported on February 23, 1980, that TITIC would "guide, absorb, and use foreign funds to import advanced technology and equipment under the law on joint ventures by Chinese and foreign firms and related decrees and regulations."

An interesting feature of TITIC is the composition of its 44-person board of directors. Representatives of Hong Kong and pan-Chinese organizations have been brought in, including the president of the Hong Kong Chinese Import and Export Businessman's Association, Zheng Donglin.

On March 1, 1980, Tianjin set up a municipal import-export corporation (TIMPEX) which established yet another variation from the Beijing norm. According to an inaugural ad which appeared in the February 29, 1980, *People's Daily*, the corporation handles such specific import and export trade as textiles, stationery, light industrial products, sporting goods, arts and crafts, native produce and animal by-products, carpets, cereals, oils, foodstuffs, metals, minerals, chemicals, machinery, and transportation items (but apparently not instrumentation, electronics products, or technical imports). TIMPEX is also in charge of packaging and advertising on behalf of the municipality. Its first act was to stage a promotional fair for Tianjin products at the Tianjin Export Commodities Exhibition Hall from March 25 to April 5, 1980.

Interlocking Directorates?

The BEDC and BITIC are not the only new municipal trade organizations that share tasks and bodies. A deputy director of the Shanghai Foreign Trade Bureau, Xu Penxei, told the National Council in February 1980 that he was simultaneously involved with the local branch of the China Council for the Promotion of International Trade (CCPIT), as a director, and with the Shanghai Foreign Trade Corporation.

TIGFETS and TITIC may similarly share Zhou Shutao and Wang Guangying, named as TITIC chairman and vice chairman, respectively. In Beijing, Xiao Yang, the head of BEDC, is also a vice chairman of the Beijing Economic Commission which, as noted above, is in charge of foreign-trade affairs until BIMPEC is fully mobilized.

Coordination from Above

Beijing and Shanghai both have high-level municipal officers tracking foreign-trade operations of the newly created municipal trade corporations (MTCs). Their attention is intended to ensure that the welter of overlapping personnel and responsibilities stays snarl-free. In Shanghai, it is Vice Mayor Zhao Xingzhi, known to US businessmen from a January 1980 tour under the auspices of the City of San Francisco, Shanghai's US sister city. Under him are the various figures described in PRC media reports as central in the changeover: Shen Gentuo, director of the Shanghai Muncipal Import-Export Office; Sun Zhengzhu, "head of the office for Shanghai's import and export work"; Jia Zhenzhi, director of the Shanghai Foreign Trade Bureau, and others.

Beijing's Mayor Lin Hujia, a member of the Central Committee and former vice chairman of the State Planning Commission, takes close personal interest in Beijing's foreign-trade developments, though Vice Mayor Ye Lin seems to have operational responsibility. (Vice Mayor Ye, currently secretary to the municipal Communist Party Committee, was a vice chairman of the State Planning Commission in the 1950s during the chairmanship of Gu Mu, now a vice premier.)

Mayor Lin is one phenomenon the three cities have in common. In the last three years, he has emerged as one of the ruling elite's chief "fixers" in the foreign-trade arena. As secretary to the municipal Communist Party Committee in Shanghai, Lin was a key figure in negotiations on the Baoshan Steel Mill with Japan's Nippon Steel Corporation, at a cost of $1.2 billion, China's largest import to date.

In June 1978, Lin was brought in to "take charge" of Tianjin, replacing a Gang-of-Four protégé. In the four months of his tenure there, he apparently turned

"YOUYI" MEANS HELP—IF YOU WRITE IN ADVANCE

Beijing has its Friendship (Youyi) Commercial Service Corporation and a construction company as yet little publicized, Shanghai its advertising corporation. These have purely external functions or are designed to assist foreigners in China. Their rate structures, if not always their services, are based on similar institutions abroad. A new service corporation of particular interest to foreign businessmen and -women residing in Beijing is described below.

The Beijing "Youyi" Friendship General Commercial Service Corporation (FRIENDCORP) is the first Chinese service corporation to extend support services to other than "foreign friends" of the diplomatic corps. The new corporation, which opened for business in early December 1979, answers to the Beijing Municipal Trade and Finance Office. Though its aim is to provide clerical, Chinese interpretation, secretarial, and other support services to "foreign commercial firms in Beijing" and for "joint commercial enterprises with foreign firms in China or abroad," it restricts its efforts largely to companies requiring help on a long-term basis. It will provide temporary help if the foreign firm writes well in advance.

Types of Support Staff Available: Interpreters; Chinese secretaries; typists; office workers; teachers of Chinese language, musical instruments, and calligraphy; drivers; and cooks.

Fees: RMB 400/month for unskilled workers with little foreign-language capability; RMB 600/month for workers with some English but no technical skills; RMB 800 plus/month for workers with some English and clerical-technical skills.

Rental Equipment: The corporation has none available presently but is interested in buying equipment from abroad on a compensation-trade basis, paying for the equipment out of rental proceeds.

Contact: General Manager Xiao Disheng or Manager of the Domestic Service Bureau Liu Zhanghong, at Number Two Qian Men Dong Da Jie, Beijing, the People's Republic of China, telephone number 754651.

MORE POWER TO THE CITIES

An Interview with the Vice Mayors of Beijing and Shanghai on the Expanded Role of Municipalities in Foreign Trade

Last year China's government extended greater foreign trade powers to the municipalities of Beijing, Shanghai, and Tianjin and to selected provinces (Guangdong, Fujian). Yet, though the municipalities now are "in command of foreign trade, their autonomy will operate within prescribed limits, as Vice Mayors Ye Lin of Beijing and Han Zheyi of Shanghai pointed out in this interview with CBR.

Which municipal organizations are in charge of foreign trade?

Under the municipal government there is the Import-Export Control Commission. . . . Beneath it are the Economic Development Corporation and the Foreign Trade Corporation. The latter is in charge of import and export of products. The Economic Development Corporation is in charge of projects, capital construction, and loans. All major questions go to it; it is not in charge of ordinary, everyday affairs. (Ye Lin)

Where would a foreign company start in negotiating a technical or turnkey plant sales agreement with the municipality?

If an American company wants to discuss a major project, all it has to do is come to my organization, the Beijing Economic Development Corporation . . . the company must report simultaneously to the Trust and Investment Corporation. After the Americans see me, our Beijing Economic Development Corporation will take it to the municipal planning commission and economic commission for discussion. . . .

It doesn't matter how large or small the project is. It may be as much as RMB 10 million. . . . The Economic Development Corporation does not have the authority to approve the project; it simply makes a report. . . . In summary, all projects, regardless of their size, must go through the Beijing Economic Development Corporation, which reports to the municipal import-export commission. If the project exceeds RMB 3 million, it must be reported to the State Import-Export Control Commission. (Ye Lin)

What are the limits of the city's authority over imports?

The limits of our authority to conduct import trade and to purchase foreign technology are based on our ability to borrow, that is, our ability to repay.

Projects of RMB 3 million and less can go through, if they are approved by Beijing. But projects costing more than RMB 3 million must go through the State Planning Commission and the State Import-Export Control Commission. Such projects must be correlated with the plan. . . . If loans must be obtained from abroad, the project must go through the State Import-Export Commission. This system may yet be changed.

If the State Council authorizes it, you can borrow. After borrowing, you must accept the responsibility to make good the debt. The city government approves any project that can generate foreign exchange sufficient to cover repayment within three to five years. (Ye Lin)

What forms of guarantees can the municipalities provide to foreign lenders?

There are three kinds of situation: The earliest companies (to investigate loans to China) wanted Bank of China guarantees. A case in point is the Xiangshan (Fragrant Hills) Hotel, [whose vendor] received such a guarantee. In other projects . . . the Bank of China provided vouchers. In yet other projects, the Beijing Economic Development Corporation itself provided the guarantee. The reason for this development is that people began to trust the corporation after it had developed a certain reputation. (Ye Lin)

What is the position of the municipalities on new types of trade—joint ventures, compensation trade, and so on?

China has established a Foreign Investment Commission whose charter is to run factories requiring foreign exchange or under joint management. This commission was set up very recently; it belongs to the State Council. The State Council appointed the members of the commission. It is studying how to run joint ventures and how to set up export processing zones.

We don't call them export processing zones, but rather, special export zones. In these special areas foreigners will be allowed to run factories. Total investment by foreigners is possible. One hundred percent.

But this is not possible just anywhere! Now it is basically just for Guangzhou, Fujian, Shanghai, and Beijing—all districts.

But at present the law has not been formally issued. Foreigners may not even believe it's true. No one has done it yet! There are still no joint ventures; at present they are just negotiating. (Ye Lin)

What are the conditions for setting up processing of imported materials outside the special export zones?

All you need is materials to process—anyone can do it. The Chinese firm undertaking the processing of imported materials and the foreign firm first engage in joint research. If it involves processing textiles, and the Textiles Bureau (under the municipality) approves it, the project can go ahead. If you're making refrigerators, the Machinery Bureau can approve it. There's no need to come to us (the vice mayor's office).

If a foreign company wishes to examine a [prospective export processing] factory, this is the affair of the Foreign Relations Office (of the municipality). They give me a phone call, and if I say it's all right, they can come. For the most part, this is just fine. (Han Zheyi)

Which of the municipal bureaus handles compensation trade?

The small deals are done with the [municipal] bureaus. The large ones must be reviewed by the mayor to see whether or not they are appropriate. Then he decides if it is to be approved or not. (Han Zheyi)

How do you determine which organization will be the principal in a joint venture on the Chinese side?

If a factory is with one of the central ministries, the Foreign Investment Commission will run it, through the ministry. For example, prospecting for oil in the South Sea would be done with the Ministry of Petroleum and under its administration. A factory operated with Beijing Municipality would be under the administration of Beijing. (Ye Lin)

Who are the principals in the municipality in joint ventures formed with foreign companies?

If the factory is in Beijing, then Beijing must be in charge of it. The factory management may be shared with foreigners. A board of directors is established to manage it. It is not managed by Beijing Municipality; the Beijing Governing Committee cannot assign people to it. The government does not make such assignments. [Yet] the board of directors must receive the approval of the Beijing Governing Committee.

How is this approval given?

We just approve it. This does not include [writing or approving] the contract articles. It is done following a review of the letter of agreement. (Ye Lin)

Will joint ventures be subject to local regulations?

[Joint ventures] will be independent of Beijing's laws. They will not be managed as Chinese factories are. The management system must be based on international law. We can't just go by Chinese methods; another law must be formulated. (Ye Lin)

What is the relationship between the municipal import-export corporations and branch corporations of national foreign trade organizations?

The three great cities have foreign trade bureaus which have now become general import-export corporations. Branches of the central foreign trade organizations are grouped under it. . . . The general foreign trade corporations of the central authorities may provide guidance. But they play an auxiliary role; they are there to assist us. In the past, they were in charge and we were secondary. If they said something, that was it. We just submitted recommendations. They listened to some of them, and turned others down. Now it is the city that is in command, and we make the decisions. (Ye Lin)

Will branches of the national foreign trade corporations be merged with local trade agencies?

These other organizations will continue to exist, but they will be transferred administratively to the foreign trade bureaus. By contrast, in the past, branches of the foreign trade corporations in the municipalities were agents of the national organizations.

Now it has been changed. The foreign trade bureaus have become general corporations, and the branch corporations are under their leadership. The relationship with the Ministry of Foreign Trade is one of dual leadership under command of the city. (Ye Lin)

When will the local government organizations fully assume their new powers?

The local government organizational law has not yet been published. At the second session of the Fifth National People's Congress, Hua Guofeng reported that a local government organizational law would be issued. But since this law establishes a basic precedent, it will require a constitutional amendment before it can take effect. Only subsequent to a constitutional amendment will it be possible to work out a law. So the National People's Congress must pass an amendment first. . . .

The Beijing municipal government is now holding a people's government conference, ending in November 1979. Other Chinese cities and local governments must hold the same meeting before the end of December. The purpose is to work out concrete details of the organizational changes in local government that will follow from the planned constitutional amendment.

Every province and municipality will have a provincial people's congress standing committee—similar in structure to the standing committee of the People's Congress of the central government, of which Ye Jianying is the president. Local organization officials will be like city aldermen or state senators in the US. Ye calls this "transfer of power to local governments, business, and industry." There will be a clear distinction between the work of the central and local governments, with the power of the local governments increased substantially. (Ye Lin)

In the past, power was highly centralized. But China is a big country. Everything has to be reported to the central government for approval. A thing that under normal circumstances might take three months would take six months to a year. Even after six months you didn't know where you stood. (Han Zheyi) the city inside out. Upon departure, he was credited with exercising the "magic weapon" of his personality and a disciplined, cost-accounting approach to city management to clean up a variety of municipal problems—from improving public transport to putting fishcakes on the people's tables.[3]

In October 1978, Lin moved to Beijing as chairman of the then–Beijing Revolutionary Committee. He has taken a no-nonsense approach to restructuring Beijing's industrial management, promising to remove nonexperts from their posts; his program for increasing Beijing's export capabilities is based on taking a hard look at foreign systems, including those of the US.

Tianjin, after the departure of Lin, gained Chen Weida, previously second secretary of the Zhejiang Communist Party Committee and a deputy governor of the province. None of the Tianjin vice mayors has emerged as central to Tianjin's foreign-trade program, though Vice Mayor Zhang Huaisan traveled to the US in company with Beijing Vice Mayor Ye Lin in November 1979 in order to study American business practices. Tianjin Mayor Chen has pushed strongly for utilization of Tianjin's excess labor supplies in foreign contracting, by exporting labor or attracting such labor-intensive investment as the Sord minicomputer assembly arrangement mentioned above.

Municipal End-user Corporations

The whole array of municipal foreign-trade agencies has a single objective: to put industrial producers and end-users in the municipalities in closer contact with foreign companies. Each of the municipalities has incorporated manufacturing enterprises which may also take part in negotiations with foreign companies. Such corporations are under the jurisdiction of municipal industrial bureaus (of which there are 24 in Shanghai, 12 in Beijing). The Shanghai Tractor and Automobile Corporation, for example, is under the Shanghai First Bureau of Machine Building. The corporation, which sent a delegation to the US in March 1980, accompanied by representatives from its parent industrial bureau, the Shanghai Planning Commission, maintains its own Technology Acquisition Office, as do perhaps other municipal corporations on this level.

The scope of industry under the municipal industrial bureaus may be illustrated by the Beijing Electronics Instrumentation Bureau, which employs a total work force of some 80,000 employed in 135 manufacturing facilities in Beijing and suburbs. Under the bureau are specialized corporations including a Consumer Communications Company (24 plants, 13,000 employees); an Original Parts Company (21 plants, 11,000 employees); a Computer Company (12 plants, 8,000 employees); an Original Components Company (19 plants, 19,000 employees); an Instrumentation and Control Company (6 plants, 4,000 employees); an Optical Instruments Company (13 plants, 8,000 employees); and an Automation Company (20 plants, 11,000 employees). The bureau itself is planning to send a delegation with representatives of all of its subsidiary companies to the US in June or July 1980 under the auspices of a Dallas firm, China Consulting Group, Inc.[4]

These corporations are both the end-users on whom most foreign businessmen set their sights and the organizations on which the municipalities chiefly must rely to generate the foreign exchange that will enable them to bankroll various projects and service their debts. Under the new municipal trading system, the cities are allowed to retain percentages of foreign-exchange earnings provided that they meet their foreign trade targets. This profit "take" for the cities, though small, is not inconsiderable—for Beijing the figure is 40 percent, for Shanghai 30 percent, according to press accounts and private sources. These retained foreign-currency earnings are distributed among the factories, the municipal governments, foreign trade bureaus, and "other concerned organzations," Shanghai Foreign Trade Bureau Deputy Director Xu Penxei told the National Council in February 1980.

MUNICIPAL DECISION-MAKING IN FOREIGN TRADE

How do these municipal commissions, foreign trade and industrial corporations, and industrial bureaus coordinate with each other and with national agencies in making a business decision? This process, perhaps more than anything else, is important for the foreign company to know in order to develop a successful marketing approach. Knowledge of this process is also useful in gauging the meaning and forecasting the duration of the silences that frequently arise in the course of negotiations with the municipalities.

Below, the approval process and municipal agencies involved in a number of different kinds of business arrangements are detailed—equipment sales, credit extension, joint ventures, compensation trade, product trade, and turnkey plant sales.

Equipment Sales

The decision to purchase equipment for a factory out of its share of foreign-exchange profits is a joint one, as are other purchase decisions. Despite the liberalization that has made it possible for municipal industrial corporations to travel abroad and handle their own contract talks, no decision is made without routing a report and application for approval upwards through the ranks of municipal foreign-trade authorities. A brief illustration may indicate the constraints within which municipal corporations operate.

Case Example: How the Yanshan Petrochemical Corporation Buys a New Generator

The first step for the corporation, after determining its need for a foreign-made electric generator, would be to contact the municipal import-export commission. It might wish to obtain a preliminary reading from the highest-level official available, which it could do by phone, but eventually both the determination by the factory, and the reaction by the import-export control commission, must be in writing.

The municipal import-export control commission proceeds with its copy of the corporation's report to the municipal planning and economic commissions. The local planning commission reviews the impact of the planned purchase on the detailed long-range municipal development program, while the municipal economic commission is responsible for checking with the program set by the State Economic Commission to see whether the local enterprise's needs fit in with the import program set for the entire nation (which countries China may import from and which are "off limits"; which products may or may not be imported—for instance, whether computers below a certain speed may be imported; and which regions have priority for allocation of import funds).

If the project costs more than $1.9 million, proposals are forwarded to the State Planning Commission and the State Import-Export Commission. For the potential vendor, this naturally means prolongation of negotiations and the waiting period. However, approval may be semiautomatic for projects which can demonstrably pay for themselves within a three- to five-year time period.[5]

The municipal import-export commission, in other words, may make a decision in conjunction with the planning and economic commissions on the municipal level on imports in the RMB 1 to 2 million range, and routinely does, according to municipal officials.

A second de facto threshold exists at the RMB 10 million level. Projects of this magnitude are discussed at monthly municipal meetings prior to being referred to the State Import-Export Commission. Subsequent to the monthly meetings, members of the municipal commissions decide what to recommend on such proposals in their communications to the national bodies.

The Yanshan Petrochemical Corporation is unlike Beijing's other corporations in one respect; because of its size (6.5-million-ton-per-year petroleum refining capability), it is administered by the city directly rather than through an industrial bureau. For a corporation under, for example, the Beijing Electronics Bureau, the bureau rather than the corporation itself would take up its proposal with BIMPEC. The corporation's first job would be to convince the bureau director that its needs took precedence over, or did not conflict with, those of other corporations under the bureau's jurisdiction.

New billboards line a familiar street scene in Beijing.

The Yanshan Petrochemical Corporation is, in fact, undergoing a major expansion and renovation program, as was explained to the National Council by Beijing Vice Mayor Ye Lin during a visit to the US in November 1979. The two-stage plan calls for the construction of a 40,000-ton-per-year polymer-resin facility and another 40,000-ton-per-year synthetic-rubber plant, in the first phase, and a facility to match the corporation's existing 300,000-ton-per-year ethylene plant in the second. The first phase includes processing plants for such products as synthetic-fiber carpets, the film base for sound-recording tape, and plastic shoes.

Yanshan had already received approval for the first phase of the program as of the latter part of 1979, and was awaiting approval of phase two by the State Import-Export Commission. How, Vice Mayor Ye was asked, might a foreign company involve itself in this municipal project?

Once parts of the Yanshan project have been approved by the national authorities, he replied, BEDC is in full control of discussions with foreigners. Foreign firms interested in catching wind of upcoming projects should approach BEDC or its companion investment company, BITIC, for information. But the corporation may well approach a foreign firm directly, once it has received authorization from the municipality.

Following discussions and initial agreements with foreign firms, Yanshan and BEDC would draft together a preliminary contract and submit it to BIMPEC; BIMPEC submits it in turn to the State Import-Export Commission, which makes the final decision on whether the local corporation may sign a contract with its foreign counterpart.

The most appropriate contract for the foreign company with electric generators or other plant equipment to sell would be, then, BEDC, the Beijing Economic Development Corporation or, if it was approaching Shanghai or Tianjin, SITSC or TITIC. These organizations, because they represent local industry, are more likely than FTCs or the ministerial trade offices in Beijing to be sympathetic to a foreign proposal that promised local dividends through exports. However, though the new organizations make it possible to shave off several layers of bureaucratic proceedings, they are as little under a time limitation as the national bodies in making their judgments. As one municipal official puts it, "If there are conflicting opinions, there will be a corresponding delay. There's no saying how long this delay might last. It might be six, seven, or eight months. It is quite legal for our government to delay its approval."

For the foreign company marketing high-priced development projects or equipment to China's cities, there are only two means of exerting influence to simplify paperwork required before a sale can go through: either by proposing a foreign-exchange-generating project, with credit, or some form of countertrade.

Loans to Cities

With regard to loans, Beijing, Shanghai, and Tianjin may act as independent business units. As long as they can demonstrate a short-term (three to five years) repayment capability, they are allowed to operate outside the state plan. From the viewpoint of the foreign vendor bearing credit, this means that his proposal will not be submitted to detailed scrutiny by planning officials. Municipal officials, too, prefer to obtain credit from abroad over drawing from their own, avowedly slender, foreign-exchange funds.

Though any proposed foreign loan must be submitted to the State Import-Export Commission and, through the commission, obtain approval from the state Council, the only value limit on municipal borrowing is the city's ability to cover the foreign-exchange debt using local resources. The municipal governments will recommend the approval of any loan for a project that generates substantial foreign-exchange income, according to officials of the municipalities.

Hotels are one such income-generating type of project. The Beijing municipal leadership, facing a prospective $300 million expenditure on some 10 badly needed new hotels for the city, has been pushing vendors hard to accept room-sharing or preleasing arrangements to cover costs. Room-sharing allows the vendor to recover costs for a credit extended to the buyer directly through the rent fees. An example of this is a $19 million credit arranged by Hong Kong financier Y. L. Yang to provide construction funds for the Xiangshan (Fragrant Hills) Hotel in the outskirts of Beijing. The loan contract gives Yang the right to 30 percent of the rooms in the medium-sized facility until his cash (at a reported 20 percent interest rate) is repaid.

The pre-leasing formula has been proposed by vendors of mixed-use facilities to provide construction capital without getting into a massive debt burden on either the supplier's or the buyer's part. Office space rented out to interested foreign buyers prior to completion of the facility essentially pays for higher-cost hotel-rental space. (Vendors of the non-municipal mixed-use China Foreign Trade Center in Beijing are asking for $100,000 down, with $400,000 more on key delivery, for a five-year lease.)

Though Yang's credit was guaranteed by the Bank of China, and other loans have received at least a letter indicating that the municipal organization taking out the loan has the legal status to do so, the municipalities are concerned that their own organizations have stature as guarantors. The trend within Beijing, at least, is to have its own investment organization, BEDC, serve as sole guarantor for foreign loans.

Joint Ventures with Cities

Beijing, Shanghai, and Guangdong and Fujian Provinces have been authorized by the State Council to set up special export zones (SEZs), in Chinese *chukou techu*. Though the legal status of the SEZs has not yet been fully defined, they will invite foreign capital in whole or partial equity arrangements (see article, p. 28). The recently established Foreign Investment Control Commission is currently considering how to implement the SEZs and the prospective joint ventures within them (in the only operational SEZ at Shekou, Guangdong Province, a Hong Kong firm, the Merchant Steam Navigation Company, acts as joint venture partner and contract signatory).

Countertrade with Cities

Short of establishing a joint venture, however, foreign companies may enter into noncredit, delayed profit arrangements under the headings of *buchang maoyi* ("compensation trade") and *lailiao jiagong* ("processing with imported raw materials") with the three special cities, as well as many other local industrial authorities, with minimum marketing difficulties. Such arrangements with the special cities are carried out under the aegis of the municipal import-export commissions. They can clear any additional factory installation necessary without going through the municipal capital construction commissions.

Theoretically, *buchang maoyi* requires an exchange of production equipment for product, while *lailiao jiagong* is submission of product for processing in exchange for a fee. The difference, however, tends to blur over in practice, as Chinese factories frequently need extra equipment or technology to produce goods according to Western specifications, which are paid for through discounts in the processing fee.

Within the municipalities, industrial bureaus of the city serve as principals in negotiating with foreign firms. "All you need is materials to process—anyone can do it," says one optimistic Shanghai official. According to the same official, the industrial bureaus themselves may approve "small" deals, though big ones must be sent to the mayor for approval.[6]

Foreign companies wishing to examine possible subject factories are allowed to do so; but the bureau serving as host must report to the municipal Foreign Relations Office, which in turn checks with the mayor's office. Approval is generally routine.

Turnkey Plant Sales to Cities

Because of the $1.9 million value limit on purchases under municipal jurisdiction, foreign companies will not find that going through the municipalities will be any more of a direct route to end-users than going through the ministries, in the case of very large deals. The ministries are likely to be the principals in turnkey plant projects, with TECHIMPORT serving its traditional role as technical buying agent.

However, it is a matter of public record that China's municipalities and other local authorities will have greater influence on the course of major projects than previously. Chairman Hua Guofeng stated in in his historic February 26, 1978, Work Report to the Fifth National People's Congress: "Key enterprises and research and designing institutions that have a bearing on the economy as a whole should be put under dual leadership. The central departments in charge should assume the chief responsibility, but the provinces, municipalities, and some autonomous regions must shoulder some responsibility now."

What will foreign companies managing or negotiating turnkey plant sales to ministries confront in working with officials of areas such as the three cities, which have these new, ambiguously defined "responsibilities?" A pertinent example of "dual leadership" by ministry and municipality is the management of the Baoshan Steel Mill.

Case Example: Baoshan: Municipal-Ministry Partnership

One of the most immensely complicated projects in China's 1978–79 wave of turnkey plant purchases, and so far the most expensive, the 3-million-ton-per-year Baoshan smelting mill and related processing facilities comprise a major new industrial site rising upstream from Shanghai. The Japanese engineers and foremen supervising construction on behalf of Nippon Steel, the prime contractor, and its subcontractors, themselves occupy their own high-rise apartment building, while two new villages have been built for the 50,000 Chinese working on the project.

Five or six different ministries and commissions—including the State Capital Construction Commission, State Economic Commission, and the Ministry of Metallurgy—and three or more provinces supply resources or have administrative duties relating to Baoshan. In the middle of the vortex lies an organization appropriately called the Baoshan Command Post (*Baoshan zhihui bu*).

The Command Post embodies the dual leadership principle; the Post director comes from the Ministry of Metallurgy, his chief assistant from Shanghai Municipality—yet the agency functions semi-independently of both. Shanghai has access to project decisions through its Vice Mayor Chan Jinhua, who works as right-hand man to Ye Ziqiang, first vice minister of the Ministry of Metallurgy and assistant to Metallurgy Minister Tang Ke. Vice Mayor Chen not only helps in the operation of the Command Post, but also assisted in the negotiations with Ye, as second man on the negotiating team. Under Ye and Chen are ten assistant directors who have functional, as opposed to policy, responsibilities, including transport, labor, production, and food supply.

Baoshan directors report on all matters relating to planning to the State Capital Construction Commission, which is in charge of national projects. These would include the annual construction schedule, capital expenditure targets, and allocation of responsibilities between, for example, the First Ministry of Machine Building and the Ministry of Metallurgy.

On routine operational functions, however, the Command Post is on its own. It can draw down on funds allocated for the project without outside approval. It can make decisions on deployment of local Shanghai resources and coordinate with facilities outside Shanghai which supply needed inputs. The way one Shanghai official involved with the management of Baoshan describes the delegation of authority, "All they (the State Council) said when they gave us this project was, 'It must be a success. There is no alternative'."

Chen Jinhua serves as conduit to the Shanghai municipal government in all matters relating to use of local resources. The municipal government has already supplied a labor force and workers' housing for Baoshan. The decision to extend such services and material is made by the mayor's office, following a meeting with the principals. The mayor's office would become involved if Baoshan required additional residential quarters, extension of water pipes and other utilities, road construction or water control (Shanghai is built on sandy, waterlogged land which creates continual problems for builders). It would decide such things as the appropriate investment, materials, and design format, as well as the construction schedule and monitoring.

According to Shanghai municipal officials, the municipal government actually makes the decisions on all project inputs under its jurisdiction, sending the decisions on to its industrial bureaus under the name of the Command Post. Shanghai's "jurisdiction" includes not only facilities within the city limits but limestone mines in Jiangsu Province, coal plants in Anhui, and other facilities.[7]

Thus, if Nippon Steel encounters material supply or performance problems during the construction stage, the Japanese firm's sensitivities to Shanghai needs, its ability to work with Shanghai officials, may make a significant difference in the rapidity with which the problem gets solved. Nippon—and other foreign companies involved with turnkey plant sales located in Chinese municipalities—must also be prepared to adapt their basic engineering layout and construction program to technology and skills available locally. As one municipal official puts it: "We are not able to make turnkey plants on our own. But the countries which sell such equipment—Japan, the US, and others—will be expected to provide China with layouts that allocate tasks between China and the foreign country."

Product Trade with Cities

According to the formal national plan, product trade is to be subsumed under the municipal import-export corporations. Municipal officials of Beijing and Shanghai have explained that this means that the Branch FTCs will continue to exist, but no longer serve as agents on behalf of the Beijing headquarters operations. This, like the relationship between the cities and ministries on major construction projects, is described as "dual leadership." In the case of the branch FTCs, however, the leading leadership role clearly belongs to the city.

Since only two import-export corporations, the Shanghai Foreign Trade Corporation and TIMPEX, have appeared on the scene (as of March 1980), it is difficult to make generalizations about the way these bodies will operate. The Shanghai FTC branches seem to have held out for retention of their control over China's export trade, giving the city only the import half of their functions (already largely assumed by the ministries and TECHIMPORT). Other accommodations may be struck as Beijing, Guangdong, and Fujian get their import-export corporations going.

DOING BUSINESS WITH LOCAL AUTHORITIES: NEW SEA OF COMMERCE OR A MUDDLE?

US businessmen who have addressed commercial proposals to the municipalities have seen, so far, less streamlining than new devices of frustration in the new system. In one negotiation that began about a year ago, just as the municipalities were beginning to flex their new trading muscles, the firm's municipal partner has subjected it to successive demands for service fees, municipal surcharges, and rewriting of the basic contract. Why?

The ostensible reason for these snafus has been that the municipal organization concerned discovered unforeseen costs along the way, leading to the presentation of a variety of service fees. In fact, problems seem to have arisen as more powerful organizations discovered that the municipality had encroached on institutions in which they had a vested interest, or as local organizations competing with each other to earn foreign exchange discovered new opportunities.

If the three municipalities want to operate on their own, they must pay their own way—this is the message they are receiving from their superiors. Hence, the sometimes extravagant service fees. At the same time, local authorities must thread their way in between more powerful institutions that have a stake in local activities (the sense of bureaucratic vertigo is especially strong in Beijing, where ministries have offices and operate industrial facilities cheek by jowl with the city). Hence arise the delays, and fits and starts of negotiations, as ministerial or FTC rivals cut in and insist on their prerogatives.

Beyond a doubt, there will be more local Chinese organizations engaging in foreign trade, and soon. Among other provinces, Sichuan, Hebei, Liaoning, and Heilongjiang have urged local enterprises to engage in business with the outside world; Heilongjiang Province sent the provincial seed corporation on a buying mission to the US in April, and other corporations are bound to follow.

Whether the new system will be compatible with non-Chinese interests may depend, in the end, on whether local Chinese authorities can communicate to foreigners their limitations as well as their eagerness to do business, to rope in foreign exchange. And this will mean far greater disclosure of things that have until now been regarded as China's affair alone—how local and central authorities coordinate with each other to move China forward on the road to industrial modernization. 完

Notes

1. Population figures are from the following sources: **Beijing**—"Beijing, 1949–1978," Beijing, Xinhua, Sept. 7, 1979; **Shanghai**—"Shanghai's Population Growth Slows Down," Shanghai *Wenhui Bao,* Jan. 9, 1980; *Zhonghua Renmin Gongheguo Fensheng Dituji,* Oct. 1974; **Tianjin**—"Clothing, Food, Housing, and Transport in Tianjin," Hong Kong *Tung Hsiang* No. 2, Nov. 20, 1978; "Chen Weida Speaks at Tianjin Birth Control Conference," Tianjin City Service, Jan. 14, 1980.
2. Discussions with municipal officials of Beijing and Shanghai, Nov. 1979 to March 1980.
3. "Clothing, Food, Housing, and Transport in Tianjin," op. cit.
4. Beijing Electronics Instrumentation Bureau via China Consulting Group, Inc., January 1980.
5. Discussion with Beijing Vice Mayor Ye Lin, November 1979.
6. Discussion with Shanghai Vice Mayor Han Zheyi, November 1979.
7. Discussions with Shanghai municipal officials, November 1979 to March 1980.

MUNICIPAL TRADE ORGANIZATIONS IN SHANGHAI

The central government has recently granted increased independence in economic and trade matters to Shanghai and several other cities and provinces. As a result, Shanghai has created several new organizations to deal with foreign trade. A listing of these organizations follows. As many of them are quite new, their addresses and phone numbers are still uncertain, to say nothing of their specific functions and plans. Most are located on East Zhongshan First Road; that is, the Bund.

Office of Foreign Trade 对外贸易办事处

The coordinating body within the municipal government is the Office of Foreign Trade. It does not deal with foreign businessmen directly, but serves purely as a governmental agency.

Bureau of Foreign Trade 对外贸易局

This is also an agency of the municipal government that functions to make policy, issue decrees, and lead both the Shanghai branches of the National Import-Export Corporations and Shanghai's own corporations.

Address: No. 27, East Zhongshan First Road
Phone: 211220

Shanghai General Import-Export Corporation
上海进出口总公司

This has the same leadership as number 2 above but actually deals with foreign businessmen, whereas the former coordinates work on the governmental side. Address and telephone are the same. It is responsible for three corporations and an exhibition venue:

—Shanghai Machine Industry Import-Export Corporation 上海机械进出口公司

—Shanghai Toy Import-Export Corporation 上海玩具进出口公司

—Shanghai Instrument Import-Export Corporation 上海仪表进出口公司

These three are newly established and as yet have no fixed addresses or phone numbers. Interested businessmen may just write care of Name of the Corporation, Shanghai, PRC, and rest assured that the letter will reach the relevant authorities.

—Shanghai Arts and Crafts Trade Fair 上海手工艺品展销会

This fair was recently opened in a building within the Shanghai Industrial Exhibition complex and features goods on display but formerly not for sale at the Exhibition. It is reached via the Yanan Road entrance.

It has displays of carving, tapestry, embroidery, metalwork, folk handicraft, cultural articles, furniture, clothing, toys, and practical handicrafts. Goods on display are available for immediate purchase by tourists, and there are also officials on hand to discuss trade terms with interested businessmen.

Address: No. 1000 Central Yanan Road
Phone: 563037

Corporations jointly run by the China National and Shanghai General Import-Export Corporations

—Metals and Minerals Import-Export Corporation
Address: No. 27 East Zhongshan First Road
Phone: 211220

—Chemical Raw Materials Import-Export Corporation
Address: No. 27 East Zhongshan First Road
Phone: 212286

—Machinery Import-Export Corporation
Address: No. 27 East Zhongshan First Road
Phone: 215066

—Arts and Crafts Import-Export Corporation
Address: No. 16 East Zhongshan First Road
Phone: 212100

—Cereals and Oils Import-Export Corporation
Address: No. 23 East Zhongshan First Road
Phone: 216233

—Native Produce Import-Export Corporation
Address: No. 23 East Zhongshan First Road
Phone: 216896

—Animal By-Products Import-Export Corporation
Address: No. 23 East Zhongshan First Road
Phone: 215630

—Foodstuffs Import-Export Corporation
Address: No. 23 East Zhongshan First Road
Phone: 219760

—Clothing Import-Export Corporation
Address: No. 27 East Zhongshan First Road
Phone: 218500

—Silk Goods Import-Export Corporation
Address: No. 27 East Zhongshan First Road
Phone: 215770

—Light Industrial and Artworks Import-Export Corporation
Address: No. 19 Huqiu Road
Phone: 216858

These corporations can be contacted through Beijing or Shanghai. The first step, of course, is to determine which specialized area your business falls into. As there is obviously some overlap between central and locally run corporations, it is a good idea to compare prices and quality of goods; there is a difference. The services offered vary, as well, such as in shipment, and negotiating future deals.

Shanghai International Trust Service Corporation
上海投资信托总公司

Address: No. 521 Central Henan Road, 2nd floor
Cable: "Sintrust" Shanghai, or 0256
Mail address: Shanghai PO 3066

This is another recently established, 100 percent government-owned body that serves mainly as an official go-between to help arrange foreign investment in processing, assembling, or construction. It also handles small-lot trading by firms or individuals, in contrast to state corporations which deal on a larger scale and only with companies. —Tom Gold

Importing Some of Hong Kong . . . Exporting Some of China

Guangdong SEZs

John Kamm

To date, Guangdong's Special Export Zones (SEZs) remain, by and large, products of the imagination of Chinese economists and planners. Data on the nature and value of investments in the zones—two in Shenzhen, two in Zhuhai, and one in Shantou—are spotty and poorly defined. Nevertheless, a start has clearly been made, and, while Southeast Asia's export-processing zones are not yet feeling the pinch of investment funds due to the emergence of Chinese alternatives, Guangdong's SEZs are already attracting foreign capital and spurring the production of export commodities destined to compete strongly with output from other countries. This article by John Kamm, formerly the National Council's Representative in Hong Kong, details the emergence of the SEZs in the overall context of new trade opportunities in Guangdong Province.

In a State Council directive of July 1979, Guangdong and Fujian Provinces were authorized to take extraordinary measures—including the establishment of Special Export Zones (SEZs)—to develop tourism, foreign trade, and investment. In August of the same year, Shantou Municipality (Swatow), one of China's early foreign trade ports, was declared a "trade and investment zone."

In September 1979, Vice Premier Gu Mu declared, in Tokyo, that SEZs were to be established in Shenzhen and Zhuhai "where compatriots from Hong Kong and Macao, or foreign investors, may participate in joint ventures or run various enterprises independently." And, in December 1979, the Guangdong Provincial People's Congress passed a 30-article draft regulation governing SEZs.

Shenzhen and Zhuhai—Estimated $2 Million Threshold on Investment Decisions

In March 1979, the administration of Zhuhai and Baoan Counties was restructured by the Guangdong provincial government. The two areas were transformed into municipalities under the direct control of Guangdong Province, an essential step prior to the September 1979 creation of formal SEZs. The Shenzhen Capital Construction Committee was formed to plan infrastructural improvements and "work out measures to utilize the capital, technology, equipment, and raw materials of Hong Kong," according to press reports at the time of its formation.

In Zhuhai, the Foreign Trade Base Office became the municipal Import Office which administered operations of the then-export commodities production base. It was empowered to "act as a spokesman and serve as a liaison between foreign companies and domestic enterprises, witness and approve joint ventures and compensation trade agreements, arrange for factory sites, find labor, and report, at regular intervals, to provincial authorities in Guangzhou and central authorities in Beijing," according to a spokesman.

By raising the status of the two counties to that of sub-provincial municipalities, the provincial authorities intended to eliminate a layer of bureaucratic paper shuffling (i.e., the prefectural governments) while making available larger—and more direct—budgetary allocations for infrastructure development. (Zhuhai's Import Office manages a ¥60 million, three-year development fund, while Shenzhen's capital construction spending in 1979 topped ¥70 million.)

Greater decision-making powers have also been granted. It is reported that counties in Guangdong Province may, under normal conditions, approve foreign investments up to $500,000 without seeking higher approval; for sub-provincial municipalities and prefectures, the usual ceiling is $1 million. By contrast, Shenzhen and Zhuhai's Import Offices may reportedly approve foreign investments with up to $2 million foreign equity.

The first full-scale SEZ was established in Shenzhen by order of the State Council in early 1979. Administered by the Ministry of Communications' subsidiary, China Merchant Steam Navigation Company of Hong Kong, provincial authorities have little jurisdiction over the so-called "Shekou Industrial Zone in Shenzhen" (which is actually located opposite Laufaushan at Shekou, though it lies within Shenzhen municipality). Representatives of the central ministry—"new breed" technocrats who brook no interference from the local authorities—oversee operations. Nevertheless, Shenzhen municipality was—and is—looked to for transport linkups and electric supply, and the Municipal Bureau of Commerce and Industry is the registration organ for all Shekou joint ventures.

Where did the SEZs come from in the context of China's centrally controlled economy? How did they emerge? What authority do provincial leaders have over their operations and activities?

Guangdong SEZs: By Their Bootstraps

These prospective centers of affluence and foreign influence are being located far from the areas of Guangdong Province where, in the words of one Guangdong official, "economic cooperation has already begun." Neither Guangzhou, which alone accounts for 20 percent of the total value of foreign investment in the province, Foshan, nor any of the wealthy county seats of the East and West rivers were chosen; instead the honor went first to Shenzhen and Zhuhai.

In these sandy and piney hinterlands of the delta, what little output derives from agricultural and fishery occupations is consumed locally by the indigenous Hakka and Tanka populations. In 1978, Zhuhai exported a bit more than US $10 million worth of fresh fruit, vegetables, fish, and flowers to Macao which, though small, outshone Shenzhen's total 1978 exports of about US $6 million (Shenzhen was then still Baoan County).

By contrast, four counties within a 100-kilometer radius of Shenzhen—Dongguan, Nanhai, Shunde, and Zhongshan—currently export more than US $67 million yearly. One of these more fortunate neighbors, Nanhai, sold more goods to overseas markets in 1979 than any other county in all of China. According to the PRC media, Nanhai gained more than $102 million in foreign exchange from exports last year.

The exposure of Guangdong Province as a whole to foreign businesses overshadows the newly established links with foreign companies in the SEZs as well. The value of foreign investment in the province as of December 31, 1979, is estimated by official sources at some US $600 to $700 million. Provincial media report 1,100 processing agreements calling for value-adding fees worth $400 million, more than 30 compensatory trade agreements under which the province is to import equipment valued at $23 million, and 17 joint equity ventures, with joint Chinese and foreign capital shares worth approximately $250 million.

Guangdong initiates trade drive under special mandate to attract investors.

Why, then, put the SEZs in Shenzhen and Zhuhai? One possible explanation is that the SEZs may give these poorer areas a boost that the province could not give them on its own, though the areas outside the SEZs in both municipalities are likely to be depressed still for years to come.

But an even more persuasive argument in the minds of Guangdong planners may have been based on the integrative nature of the zones themselves. Unlike isolated trials with compensation trade or processing arrangements in other parts of the province, the SEZs will be the staging places for a full-fledged economic experiment. At least on paper, they are designed to be self-contained, foreign-currency-earning enclaves. Tied to Hong Kong by a web of business connections, they are also intended to realize in miniature Hong Kong's dynamic mercantile spirit.

Hence, the SEZs' remote locations may be half safety measure as well as an item of developmental strategy. If something goes boom, the rest of the province may remain largely unaffected.

From Export Commodity Production Base to Special Export Zone: Gradual Revolution

The concept of the SEZ owes much to the earlier, less sophisticated notion of the export commodity production base, first advanced by Zhou Enlai in 1960 and established as policy in 1971–72, when the Ministry of Foreign Trade (MOFT) began to reassemble its national export procurement networks after the debacle of the Cultural Revolution.

The export bases were designed to be under firm central control. Planners called for the transformation of selected prefectures into special foreign trade zones. Local foreign trade bureaus (FTBs) and sub-branches of national foreign trade corporations (FTCs) would actively intervene in agricultural and industrial production within the zones in a concerted effort to stimulate export procurement as opposed to merely passively receiving output from them. Unified purchase contracts would be employed to commit factories and communes to the, at best, intermittently profitable export trade.

In 1973, China's first "unified export commodity production base" (ECPB) was established in Foshan prefecture, opposite Hong Kong and bordering Macao in the West River district of Guangdong Province. Foshan has been the most successful of the 16 ECPBs thus far established by the MOFT's Export Commodity Production Bureau. The value of goods supplied to the state for export by Foshan's 13 counties and municipalities has enjoyed an average annual growth of 26.5 percent over the last seven years and topped RMB 700 million in 1979.

Novel Enterprises: First Venture into China

When China first considered joint ventures with the West in early 1978, it looked first to Foshan and the adjoining peninsula of Macao as areas in which foreign investors would be permitted to erect their factories. In May 1978, the Ministry of Foreign Trade's Hong Kong representative, China Resources Company (CRC), initiated discussions with the National Council's Hong Kong Representative, John Kamm, on joint ventures with US firms. China's initial position was that factories owned by limited-liability companies in which firms of the two countries participated should be located in Guangdong Province. By July, the focus of official thinking had become specific: Macao, and that area "inside China" bordering on the Portuguese enclave (see p. 34).

At about the same time as CRC's talks with Kamm, an enterprising Hong Kong businessman, Raymond Chow, was negotiating what was destined to be Guangdong's first compensatory trade agreement. (Guangdong's first agreement for "processing with raw materials supplied by customer" was a watch assembly agreement between a Hong Kong merchant and a Shantou watch factory, concluded in March 1978.)

Chow's firm, Novel Enterprises, approached the Beijing Head Office of CHINATEX in May 1978 with a proposal to erect a modern, fully equipped, and air-conditioned factory to produce 120,000 lbs. of cashmere, angora, and lambs' wool a year. Detailed negotiations in Beijing ended in August 1978 with the conclusion of a general agreement under which Novel would supply and supervise the installation of machinery and equipment and receive, in return, a guaranteed source of yarn at discounted prices for a five-year period.

Reportedly only after the Beijing agreement was concluded was the choice of a site for the investment discussed. CHINATEX recommended that Novel contact its branch in Guangzhou and its agent in Macao, the state-owned Nam Kwong Company. A site was chosen in Zhuhai, just south of the county seat of Xiangzhou, and construction began in November 1978.

Zhuhai Blossoms

During the late summer and early autumn of 1978, Macao merchants negotiated a number of small compensation trade arrangements to produce woolen garments, handbags, and gloves on Qianshan and Wanzi communes immediately north and west, respectively, of the city. Participants in these discussions, on the Chinese side, were the Nam Kwong Company, the Foreign Trade Production Base Office of Zhuhai County (the unit charged with developing export production bases) and the commune/brigade leadership.

The Foreign Trade Production Base Office had been most active in developing agriculture (notably vegetable) and fishery production bases in Zhuhai. In these sectors, too, negotiations with Macao merchants took place in the summer of 1978. In August, the PRC's chief representative in Macao, He Yin, spoke of Guangdong's determination to build farms and pastures in Gongbei (Kungpak), and encouraged merchants sympathetic to the PRC to participate. At the same time, he handed over six motorized trawlers to the Zhuhai authorities under a pioneering agreement which introduced compensation trade to China's coastal fishing industry.

Continuing its drive to earn more foreign exchange through the easing of local border controls, Zhuhai County approved direct flower and vegetable trading by commune members living near the Macao border. More than 10,000 took advantage of the policy during the summer of 1978.

The Great Experiment—a Provincial Perspective

Sun Ru, president of the Guangdong Province Economics Society, presented the first comprehensive statement of provincial policy on the new SEZs at a recent conference in Hong Kong.

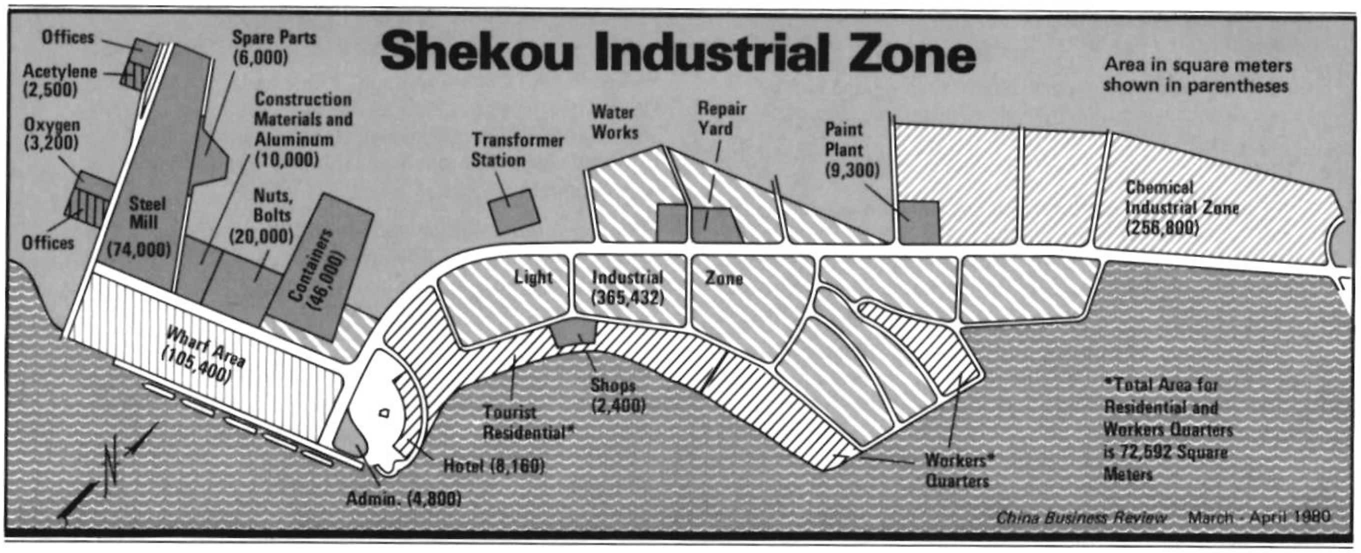
The SEZs are "certain areas of land where a more open approach is adopted toward administration than in other, inland areas—and where China may use various forms of economic cooperation with the industrial and commercial world, including foreign friends, overseas Chinese, and compatriots in Hong Kong and Macao."

In this area, foreign firms "may invest (in wholly owned ventures) or take part in joint ventures with China. . . . [They] are allowed not only to set up factories but also do service trades such as commerce, housing, tourism, and the like.. They may also invest in public utilities, such as roads, power stations, and so on."

Sun's definition was formulated on the basis of draft regulations governing SEZs passed at the Second Session of the Fifth Provincial People's Congress in December 1979, and which are now before the National People's Congress.

In five clearly demarcated trade and investment zones in Zhuhai, Shenzhen, and Shantou municipalities, Sun explained that cooperation with the capitalist economic system will proceed unhindered by ideological and administrative strictures. "We'll allow exploitation to a certain degree," he said. Yet Sun believes the SEZs will truly promote realization of the Four Modernizations as well as enrich China's capitalist clients.

Guangdong's SEZs should therefore be viewed as a carefully controlled experiment "in the new historical period" of China's economic development. Their establishment marks yet another step in the process of developing appropriate administrative structures and forms of joint ventures in the context of foreign investment's growing role in China's economy. 完



SHEKOU—TERMS AND CONDITIONS

The Shekou Industrial Zone (SKIZ), which falls under Shenzhen Municipality's expanded jurisdiction, is located on the eastern bank of the Zhujiang (Pearl River), 150 kilometers southeast of Guangzhou on a peninsula 20 nautical miles—45 minutes by hovercraft—from Hong Kong's Central District and 30 kilometers west of Shenzhen proper.

• **CMSN** Shekou's prime developer is the China Merchant Steamship Navigation Company (CMSN), a well-established Hong Kong–based firm with strong ties to the Chinese government; the State Council itself authorized CMSN to develop the district. Emphasis is to be put on joint ventures, with CMSN representing the Chinese side. Shenzhen Municipality is providing most, if not all, of the funds for infrastructure improvement, and the Bank of China will guarantee CMSN's share of joint-venture financing if required.

• **Infrastructure** CMSN has already spent US$20 million on filling in two "bay zones" and leveling other land to provide industrial acreage. In the first phase of development, scheduled to be completed by September 1980, an area of approximately 10 million square feet (1,030,000 square meters) is to be made available. Also scheduled for first-phase completion:

Docking Facilities A special-purpose 600-meter dock capable of handling 3,000-3,500-ton dwt ships has been under construction since last August. Two hundred meters of the dock is nearly completed.

Industrial Water Supply A 24-mile water pipeline linking the SKIZ to Xili Reservoir, 15 km to the northeast, is to be completed by July.

Land Connections The road to Nantou, 8 km in length and currently in poor condition, is to be improved, as is the main highway from Nantou to Shenzhen, the nearest rail terminus.

Electric Power In the initial stage, power will be supplied through Shenzhen by Hong Kong's China Light and Power Company at Hong Kong rates. A transformer substation is already under construction. Eventually, plans call for installation of two 125,000-kw generators, possibly operating on oil supplied by refineries in Guangzhou.

Sea Transportation One of the chief attractions of the SKIZ, given the poor state of the area's land communicaions, is its proximity to Hong Kong by sea. A ferry service—probably hovercraft—is likely to be established once development is in full swing.

• **Terms and Conditions** Shekou is viewed as a test case for China's joint-venture law (*CBR* July–Aug., 1979, pp. 46–47). Until supplementary regulations which clarify joint venture terms are issued, Shekou offers the best clues yet as to what the future may hold.

Negotiations for deals in Shekou will be carried out in Hong Kong by CMSN, though in theory Shenzhen Municipality has jurisdiction over Shekou. Incorporation and registration will then be carried out by the Shenzhen Administrative Bureau of Industry and Commerce. Although the State Foreign Investment Control Commission must approve all joint ventures within China, Shekou, like the other special economic zones, has a certain amount of autonomy. Apparently, investments up to approximately US$2 million can be negotiated by local authorities without reference to Beijing.

Following the principles outlined in the law on joint ventures, it is expected that each party to a joint venture will put up at least 25 percent of the investment capital, although 100 percent foreign-owned operations may be considered. This can be either in cash or equipment, with details to be worked out during negotiations. Ventures in the SKIZ will reportedly require a minimum total equity investment of $600,000.

Investment contracts may run 25 years, and will be negotiated on a case-by-case basis, as will extensions. China will appoint the chairman of the board of directors, with other officers selected by mutual consent. The joint venture will have the power to approve the hiring and firing of workers.

• **Financial Terms** Tax rates and conditions are competitive with other Asian export zones, such as those in Taiwan, Singapore, and South Korea. Profit taxes will be waived for the first three to five years (heavy industry enjoys the longer holiday) and then will be set up at 10 percent per year thereafter. No tax will be levied on raw materials or equipment imported for production, nor on finished or semifinished products destined for export. But a tax will be levied on products destined for domestic Chinese markets.

Land rentals are HK$2–4 (US$0.40–0.80) per square foot annually, varying with the size and type of industry and other factors.

Wages will be payable in Hong Kong dollars, convertible to RMB. The venture must place the equivalent of 10 percent of the total wage bill into a social benefits fund. A Shekou insurance company will handle workers compensation. All foreign-exchange remittance abroad must be handled by the local branch of the Bank of China.

• **Projects Underway** The major investment projects underway have some connection with CMSN's shipping activities and expertise, and include:

Container Plant East Asiatic Company and Sea Container/Pacific, an American firm, have signed with CMSN for construction of a 200-employee, 25,000-square-meter site. A five-year tax holiday has been granted since the plant falls under the category of heavy industry.

Construction Equipment Refurbishing Facility The Hong Kong office of Edward Keller, a Swiss firm, has reportedly concluded an agreement with CMSN for a facility to recondition construction equipment for use in Hong Kong.

Other Projects An industrial oxygen plant, marine paint factory, shipbreaking facility, steel rolling mill, screw manufacturing plant, audio-cassette tape manufacturing plant, and an aluminumware manufacturing plant are also under negotiation.—KIB

South China's Other Export Zones

Shantou, in eastern Guangdong, and Xinglin and Langqi, in Fujian Province, are less well known than the special export zones adjacent to Hong Kong and Macao. Nevertheless, deals are already under negotiation, and, as Kenneth I. Bowman explains in the accompanying article, the local authorities appear to recognize that attractive investment provisions must be offered to compensate for the region's poor infrastructure facilities.

Shantou

Whereas Hong Kong's precocious stepchildren, Shenzhen, Shekou, and Zhuhai, are boasting of their entrepreneurship—Shekou is even touting its wares in a glossy handbook—Shantou (Swatow) has yet to make an official statement on its investment policies, which are still in the planning stage.

In August 1979, Hong Kong's *Wen Wei Po* reported that Shantou, a seaport and trading center 180 nautical miles and 10 hours by boat from Hong Kong, was to be made a "special zone for trade and navigation," and that a provincial party secretary, Wu Nansheng, had been sent to the city to take charge of development.

More recently, Sun Ru, president of the Guangdong Economics Society, explained that the plan does not involve the city proper, but a special district of six square kilometers to the east of Shantou. "In this zone, there is a vast seaside area where investments are welcome to reclaim land for raising aquatic products, growing sugarcane, and developing sugar- and paper-making industries to form an integrative complex."

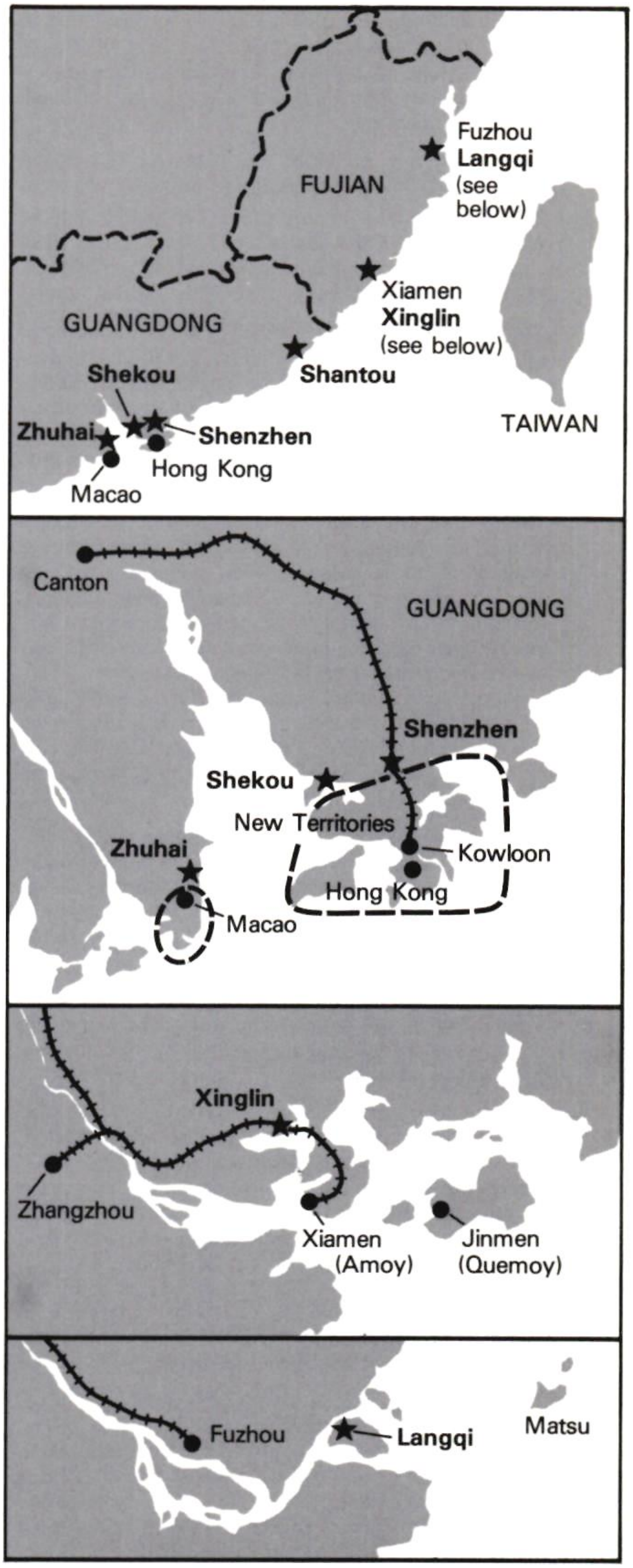
Shantou itself is already a relatively well developed trading center, but lacks rail connections. It has concluded 58 cooperation agreements, of which 31 were in operation at the end of 1979. Moreover, in 1979 it exported ¥91.53 million (US $57 million) of goods, of which more than 75 percent were light industrial products, embroidery, or foodstuffs:

Shantou Exports, 1979
(million yuan)

Product	Total Exports	Value of Sales to Other Provinces and Regions in China
Light Industry	32.87	58.66
Embroidery	23.84	67.68
Foodstuffs	12.99	78.55
Native Produce	8.69	82.88
Textiles	8.50	83.00
Arts and Crafts	4.64	86.88
TOTAL	**91.53**	**457.65**

Source: John Kamm

China's Special Economic Zones April 1980



Note: Details on the location of the Shantou SEZ are not yet available. *China Business Review* March - April 1980

ZHUHAI LOOKS FOR INVESTORS

Two special economic zones are to be developed in Zhuhai; one is two square kilometers east of Zhuhai proper, and one to the west. Emphasis will be on industry (primarily porcelain, electronics, and textiles), tourism, and housing.

Development is primarily the responsibility of the Zhuhai Import Office, located in the port of Xiangzhou.

• **Infrastructure** The Import Office has a ¥60 million, 3-year budget from the Ministry of Foreign Trade (US$ 39 million at current exchange rates), which will be used to improve the virtually nonexistent infrastructure.

The port at Xiangzhou already handles imports of steel, wood, cement, and fertilizer, but further expansion is planned; eventually the harbor will accommodate vessels up to 5,000 dwt. A joint venture power station is also under consideration. It would supply electricity to Macao, with part of the foreign exchange thus earned used to repay the foreign investors.

• **Terms and Conditions** Xi Zhongxun, Guangdong's governor, has noted that "preferential treatment" will be offered for those setting up enterprises or joint ventures in Guangdong's special economic zones. "Special policies and flexible measures" will be adopted. A National Council representative was told recently that any mode of international trade commonly accepted would be acceptable in Zhuhai. According to the *Canton Companion,* as early as April 1979 Zhuhai was discussing processing, compensation, joint ventures, and 100 percent foreign ownership as possible types of foreign cooperation and investment.

No standard form contracts are contemplated: prices, mode of exchange of goods, costs, scope of investment, equipment, delivery schedules, profit sharing, exclusivity in countertrade contracts, etc., are all subject to negotiation. Hard information on the tax system is not yet available.

Joint ventures will probably run ten years on the average. Zhuhai will supply land and labor, while the foreign investor will supply equipment or facilities. Profits will be shared as agreed on in the contract.

• **Negotiating** Negotiations may be initiated by sending a detailed proposal to the Zhuhai Import Office; visits can be arranged through the same office. Other avenues are through an application in writing to the PRC embassy in Washington; through the Nam Kwong Trading Company, China's sole agent in Macao; and through China Resources Company, China's agent in Hong Kong. The Import Office can reportedly sign contracts for investments of up to US$1 million; larger contracts must be approved by the province, and extremely large contracts must be passed on by Beijing.

In compensation, processing, and assembly arrangements, usually only a single contract is signed. Some deals involve an overall agreement first, and then a second contract covering production of specific goods for a one- to six-month period. The complexity of the process depends in part on the amount of mutual trust exhibited by the parties.

Wages in a joint venture will be higher than Chinese wages and lower than Hong Kong wages, as in the other zones. Workers and managers will come from Zhuhai; however, major joint ventures will require outside, specialized personnel.

• **Insurance** Insurance may be provided by the Chinese People's Insurance Company. The Construction Bank may also provide funds for investment, according to Liu Lixun, the bank's national manager. Zhuhai will be allowed to keep its profits from foreign ventures for reinvestment in local social overhead capital projects.

• **Projects Underway** While the special economic zones within Zhuhai are still in the planning stage, the municipality itself is already welcoming foreign investment (primarily from Macao and Hong Kong Chinese). Thus far, 45 ventures involving foreign investment have been approved, including processing and assembly agreements, compensation trade, counterpurchase, and joint ventures. More than 20 factories have been set up which process materials supplied from outside the city. Ten joint ventures are in or past the stage of "agreement." Some of these involve building houses for rent or sale to Macao compatriots. Chemical manufacturing facilities and a major porcelain works are under discussion. Case examples are:

Zhuhai Xiangzhou Woolen Mill A large-scale processing venture between Novel Enterprises of Hong Kong and the China National Textiles Import and Export Corporation (CHINATEX), Novel will supply the equipment, raw wool, and technical training. The mill spins the wool into yarn for a fee. The foreign party designed the 4,400-square-meter factory; CHINATEX built it for ¥500,000 (US $327,836).

The contract was signed in November, 1978, for a term of five years. Equipment from Poland, West Germany, and Japan was installed in January 1979, and production began in May of that year. According to the *Canton Companion,* annual output is now 120,000 pounds of cashmere, angora, and lamb's wool yarn. Quality control is very strict and Hong Kong trademarks are honored. The contract contains no arbitration clause; problems are solved by frequent face-to-face meetings. Only Zhuhai organizations were involved in contract negotiations.

Shijingshan Tourist Center Already under construction, this joint venture with a party in Macao covers 3,600 square meters and involves one restaurant, two hotel wings, a dormitory for workers, and an activities center. All construction was performed by the foreign party. Zhuhai will receive 30 percent of the profits.

The contract is for a twelve-year term, with a three-year tax holiday, including a holiday on income tax. Negotiations were completed within one month.

Fishing Vessels Three Macao merchants arranged compensation trade agreements in 1979 under which 18 fishing vessels (including 8 shrimp trawlers) were handed over to communes in Zhuhai.—KIB

Xinglin and Langqi

Fujian is quickly pressing ahead with plans to establish special economic zones at Xinglin, a northwest district of Xiamen (Amoy), and at Langqi, in the mouth of the Min River 18 miles downstream from Fuzhou. The zones stand opposite the offshore islands of Quemoy and Matsu, respectively, where for years Taiwan's troops traded barrages of propaganda leaflets with their PRC counterparts.

Xinglin has been designated as a future export-processing zone. A 22-berth pier capable of handling ships of 10,000 to 15,000 dwt is to be constructed in adjoining Dongdu by 1982; by 1985 the port is to handle 12 million tons of cargo annually.

Langqi, only twenty minutes from Fuzhou by road, is a small island of approximately 28 square miles and a population of 57,000. It is reportedly to become a free-trade zone on the model of Taiwan's Kaohsiung or South Korea's Masan. Ninety percent of its products will be earmarked for export, with China's share increasing only after the first five years.

Twenty-eight industrial categories are being considered for development, according to Japan's *Mainichi Shimbun*. Of these, eight involve heavy industry, including shipbuilding, and twenty more involve precision instruments, electronics, optical equipment, and light industries, including textiles.

Planning is being carried out by the provincial government in cooperation with Bechtel of the US and a Hong Kong firm, Millie's Holdings. One development proposal, put forward by a Hong Kong group, calls for a minimum capital investment of US$350 million to provide employment for 63,000 industrial workers, according to the *South China Morning Post*. Eventually the work force may reach 780,000. The *Post* reported that construction work on some facilities, including port facilities, has already begun.

A 15 percent corporate tax is reportedly planned for Langqi. A 3-to-5-year tax holiday may be granted and the importation of materials used in production or in the construction of new facilities is to be tax free. Initial leases of up to 20 years are being considered, with extensions subject to review every five years thereafter. Rental charges for the first year are reported to be US$0.17 per square meter per month (compared with US$4.00-8.00 per square meter in Shekou, opposite Hong Kong). Rents will increase 10 percent annually thereafter, with rate adjustments every five years in order to bring them into line with international prices.

In one important respect Xinglin and Langqi differ from Zhuhai, Shekou, and Shenzhen; they do not enjoy proximity to Hong Kong's communication and electric power grid, and must sink or swim on their own. But with substantial financial backing likely to be made available from the Fujian Investment Enterprise Corporation, which has signed loans with three US banks (see page 54), and the always downplayed but implicit competition with Guangdong, the outlook for their future development is good.

Xinglin and Zhuhai are by no means the only openings for investment capital in Fujian. According to a report in Hong Kong's *Wen Wei Po* on December 28, "all departments, prefectures, and counties concerned may hold trade talks directly with foreign businessmen in order to sign agreements" on various new forms of trade.

At the second session of the Fifth Fujian Provincial People's Congress in December, Vice Governor Zhang Yi noted that the province had "altogether invited and received some 1,500 Overseas Chinese and foreign manufacturers from about 10 countries and some 350 manufacturing firms." At the end of 1979, 180 projects—worth over $20 million—had reportedly begun processing of imported materials to produce electronic goods, television sets, radio-recorders, magnetic tape, and ready-made clothes. 完

Corrections:

The map on page 67 of the Jan.-Feb. *CBR* should have indicated the boundary between China and Mongolia. On the same page, the third sentence in the second paragraph should read "Despite the 32.7 percent growth of China's *imports* in 1979 . . ."

Sino-US Trade, 1979

TOP FIFTEEN US EXPORTS TO THE PRC, 1979

Category	Value	% of Total US Exports to the PRC
Cotton, not carded, and other cotton	356,763,016	20.8
Yellow corn, not donated	268,547,073	15.6
Wheat, unmilled, not donated	214,105,583	12.5
Soybeans, not specified	106,722,343	6.2
Polyester fibers	56,777,062	3.3
Seamless oil well casings	56,536,766	3.3
Parts of oil- and gas-field drilling machines	54,157,663	3.2
Seamless standard pipe other than alloy iron or steel	36,521,461	2.1
Soybean oil, crude, degummed	35,894,335	2.1
Seamless oil well drilling pipe, other than alloy iron or steel	29,937,468	1.7
Urea	27,179,233	1.6
Polyester resins, unsaturated	22,565,155	1.3
Textured yarns of polyester	22,416,073	1.3
Rotary drilling machines for oil and gas fields	17,800,320	1.0
Electric geophysical instruments and parts	17,698,320	

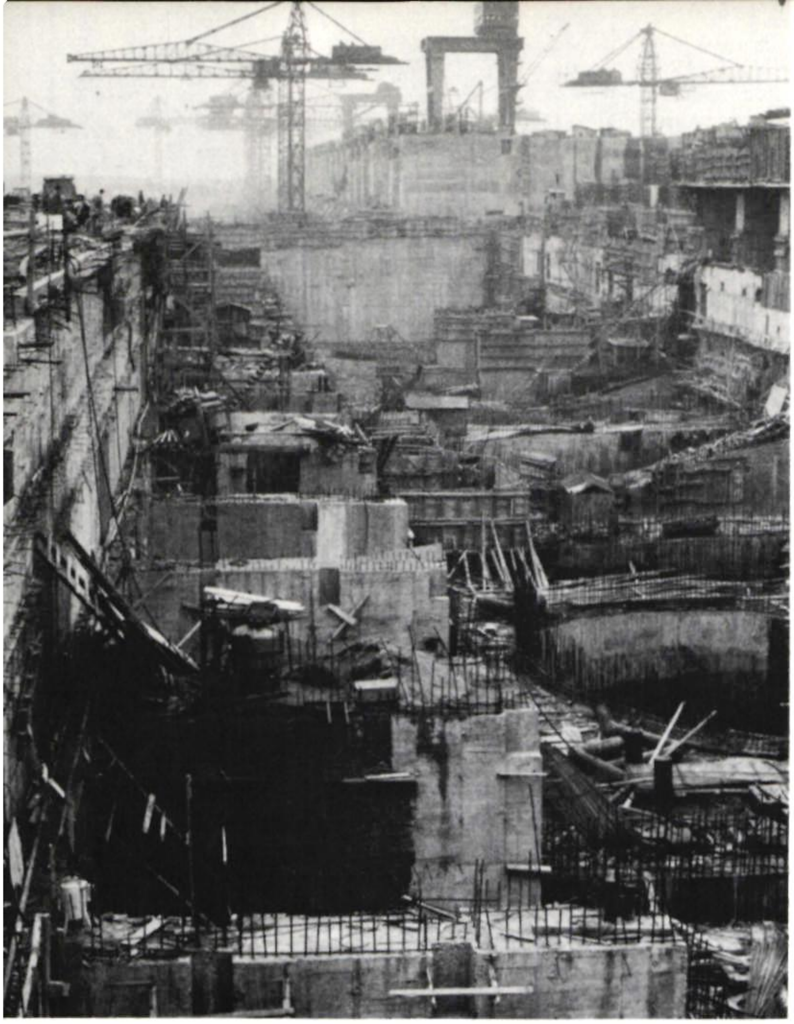
Total Value US Exports to PRC, 1979: $1,716,499,905

TOP FIFTEEN US IMPORTS FROM THE PRC, 1979

Category	Value	% of Total US Imports from the PRC
Crude petroleum	71,788,895	12.1
Gasoline	21,614,894	3.7
Fireworks	15,623,799	2.6
Plain printcloth shirting	15,153,376	2.6
Ammonium molybdate	13,136,891	2.2
Antiques	12,275,794	2.1
Men's cotton or flannel sport shirts	10,551,356	1.8
Floor coverings, pile	10,253,620	1.7
US-type Oxford female footwear	9,948,416	1.7
Shrimp, raw, peeled	9,731,628	1.6
Bristles, crude or processed	9,570,709	1.6
Tungsten ore	9,314,857	1.6
Cotton gloves	9,119,163	1.5
Baskets and bags of bamboo	8,908,688	1.5
Women's cotton corduroy slacks	8,166,679	1.4

Total Value of US Imports from the PRC, 1979: $592,282,994

Source: US Department of Commerce, *Monthly Trade Statistics Report*, January–December 1979.


China's construction—at Gezhouba.

Labor Exports

China's New Engineering and Manpower Service Companies

"If we can organize 1,000,000 people for overseas construction work within the next three years, and if each worker makes between $7,000 and $8,000 per year, returning one-third to his family for sustenance, the nation will obtain revenues of $2.5 billion; and this does not take into account the profits obtained from joint ventures."

—Jingji Guanli
(Economic Management)
November 4, 1979

China's eight new engineering and manpower service companies have attracted considerable interest from labor-hungry lands since the establishment of the first one, the China Road and Bridge Construction Company, in March 1979. Though the brawn drain so far is no more than a trickle, with an estimated 500 Chinese workers now on location in sites in Iraq (Taisei Corp., Fujita, and Mitsui and Co.) and Hong Kong, by fall 1980 the number will at least triple that, under current contracts. The Chinese service agencies themselves emphasize that their services are competitive with those of Hong Kong and South Korea. Their present clients seem to corroborate this assertion.

Earning more foreign exchange is a primary motive behind the creation of these new firms. It has been suggested (though the documentation is slim) that the ministries, province (Guangdong), and municipality (Tianjin), which have established manpower marketing arms may retain the profits accrued. Moreover, agencies "undertaking joint surveys or design projects with foreign countries" have priority in allocation of People's Construction Bank funds and loans, according to a December 5, 1980, Xinhua report.

No less than foreign exchange, technology acquisition is an important objective for the Chinese service vendors. Their potential clients may not be reassured by a policy which is premised on employing workers unskilled in the technologies required. As an inducement, several of the Chinese service companies promote their services as a kind of halfway house for joint ventures. The manpower agency established by the Ministry of Metallurgy, the Metallurgical Construction Company (MCC), indicates that one of the main forms of business arrangements it seeks is "long-term cooperation, beginning with manpower offerings, developing into joint ventures between MCC and the foreign company." The China Civil Engineering Construction Corporation (CCECC) similarly promotes "cooperation" with overseas Chinese businessmen and "other counterparts in various foreign countries."

Stated in brief by the authors of an article in the April 1979 issue of *Jingji Guanli* (Economic Management), "Most of these workers, in working abroad for a few years, will make money and learn techniques which they can apply here upon their return."

Finally, labor is currently not only China's most abundant resource but also one of the more troubled. In one city in Hunan Province described in a February 11, 1980, article in *Beijing Review,* more than two-fifths of youths entering the marketplace for the first time are beyond the city's capacity to employ. Victims of the Cultural Revolution's *xiafang* movement, in which urban youths were relocated to the countryside for reeducation via manual labor, have now returned in the hundreds of thousands. Ministries, too, face surplus labor problems; particularly those, such as the Ministry of Metallurgy, whose budgets were reduced drastically after the June 1979 review and promulgation of the "readjustment" campaign. From this point of view the Chinese labor companies are a vehicle for exporting unemployment.

More concretely, what can a foreign employer expect from the new PRC manpower agencies in services, performance, and contract terms? Though several Japanese companies launched programs utilizing Chinese manpower starting late December 1979, profiles based on actual company experience are not yet available. The following is based on information supplied by the Chinese agencies.

• **Services:** Services vary, largely based on the affiliation of the service firm. Companies linked with ministries may draw on the entire resources of their parent body or bodies. MCC, for example, advertises manpower offerings up to 400,000 workers—the total number employed by the Ministry's Bureau of Construction. The International Electric Power Corporation (CIEPCO) may draw upon the technical resources and construction manpower (340,000 people) of the Ministry of Power Industry, while the CCECC apparently may draw upon both the Ministry of Railways and the Ministry of Economic Relations with Foreign Countries. At the opposite end of the spectrum are the Aiguo Company, a firm more or less run by Shanghai ex-capitalists for Shanghai ex-capitalists, and the Guangdong Manpower Service Corporation, which supplies labor only. Most of the Chinese service companies offer a standard package of design, construction, procurement, and manpower services, plus extras like "technology transfer" and other know-how items.

• **Skills:** Little has been made public about the craft categories available from these companies. The Guangdong Manpower Service Corporation, through its Hong Kong agent, Chronicle Consultants, has advertised four grades of workers—unskilled (ages 18–25), semiskilled (ages 18–30), truckdrivers (ages 23–35), and craftsmen (no age limit). MCC, however, offers only two skill levels; skilled (with more than 10 years' experience) and semiskilled (2–10 years' experience).

• **Wage Rates:** Again, little information is available. The Guangdong Manpower Service Corporation asks $300/month for its unskilled category, $375/month for semiskilled workers, $450/month for truck drivers, $600–$800/month for interpreters, and no pay limit on craftsmen. MCC claims prices "lower than Hong Kong, South Korea."

• **Team Composition:** MCC provides potential clients with a detailed structural outline of teams of "less than 1,000." Teams in this size range come equipped with 65 section leaders, technicians, and engineers; 22 interpreters; 34 cooks; and 6 medical personnel, as well as workers. They are provisionally divided into teams, with three sections in each team, and 15 groups of 10–15 people in each section. The Guangdong agency is less explicit, specifying only that two Chinese cooks, a barber, and an interpreter must be provided for every 300 workers.

• **Employee Benefits:** The Guangdong agency is most explicit about these. They include a 3-day holiday for Chinese New Year (suggested), a $100 bonus per worker prior to embarkation to cover costs of basic necessities for the trip (suggested), travel and workers' insurance coverage (mandatory), free medical care and hospital treatment (mandatory), Chinese meals (mandatory), and "where weather is hot, electric fans" (mandatory). Both MCC and the Guangdong company require employers to pay all international and local transportation costs; MCC requires similar benefits to those of the Guangdong Manpower Service Corp. in the areas of food, living quarters, accident insurance, and medical insurance.

• **Contract Terms:** Guangdong requires two-year contracts based on 48-hour workweeks, plus 50 percent for overtime. The first month's salary of all workers must be paid in advance of their arrival on site. The only contract terms available from any other corporation are from the China Construction Engineering Corporation (CCEC—not to be confused with CCECC), which has signed a five-year protocol agreement with the Istituto Recostruzione di Italia (ITALSTAT).

Business to Date

The Japanese have clearly led the way in contracting with China's new engineering and manpower service agencies, primarily for their labor offerings. So far, all Japanese projects using Chinese labor are located in Iraq, and are with CCEC. Taisei Corporation signed a contract in December to employ Chinese workers on a ¥34 billion hospital construction project in two cities in Iraq; workers were delegated in two stages, 50–60 in late December 1979, to be followed by another 800 in fall 1980. Iraqi highways will benefit from Chinese craftsmanship through a November 1979 contract with Fujita Corporation, a subsidiary of Marubeni. Reportedly, a team of 400 Chinese began on-site work in March 1980. Mitsui Construction Company has also reportedly reached agreement with CCEC to employ Chinese manpower on an Iraqi agricultural school construction project, with an initial team of 50 to have started in mid-February 1980, followed by an additional 100–150 in fall 1980.

Among European concerns, the French Association of Building Contractors has signed a "preliminary agreement," apparently with CCEC, for work "outside France and China." Other preliminary agreements, including ones announced by the Osaka Chamber of Commerce and ITALSTAT, have specified that projects are to be in third-world countries—where the Chinese firms' experience will be most valuable.

Beyond the contracts and framework agreements signed by the Chinese companies specializing in construction service offerings, other Chinese companies are promoting a variety of other services. These include an agreement by the China Ocean Shipping Company with Iino Kaiun Kaisha to send 27 Chinese seamen to work on board new, highly automated tankers on the Japan-Mideast run, and one by the Sichuan Provincial Vegetable Food Service Company to send 10 master chefs to the New York City kitchens of Nutrienox Corporation, a Chinese-American restaurant operator.

Whatever the future of these enterprises, China's headfirst leap into the service trade is based on the progressive, optimistic view that there is no better way to serve China than to serve the world first. —ET

GUIDE TO CHINA'S NEW ENGINEERING AND MANPOWER SERVICE COMPANIES

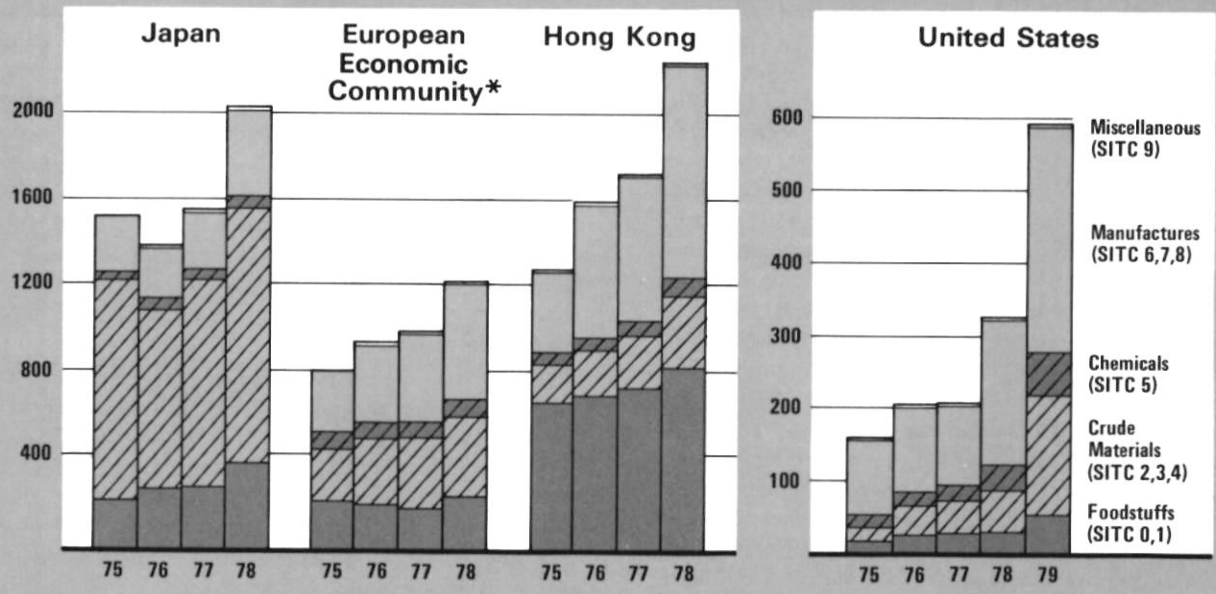
Name of Corporation	Affiliation	Date Founded	Types of Services	Available Manpower
China Road and Bridge Construction Company (CRBEC) Address: 10 Fuxing Road, Beijing phone: 8643474, 8643514 cable: BRBECO BEIJING General Manager: Wang Jinqian	Ministry of Railways (?) China Highway Construction Corporation for Foreign Countries	ca. 3/79	Contracts for turnkey or partial engineering of highways, urban roads, bridges, airport runways; related technical services; provision of skilled workers within the company; organization of technical personnel for overseas work from other organizations	20,000
China Civil Engineering Construction Corporation (CCECC) Address: 10 Fuxing Road, Beijing phone: 8642714 cable: CHICICON BEIJING General Manager: Li Xuan	Ministry of Railways, Ministry of Economic Relations with Foreign Countries	ca. 3/79	Contracts for turnkey or partial engineering for overseas railway projects, railway plants, all kinds of bridges, production buildings, hospitals, office buildings, housing; provision of technical information or services; provision of labor only	NA
China Construction Engineering Corporation (CCEC) Address: Bai Wan Zhuang, Beijing cable: 2046 BEIJING General Director: Xiao Dong Vice General Manager: Lin Hua Represented in Hong Kong by China Overseas Building Research Institute	State Capital Construction Commission (?)	ca. 8/79	Contracts for turnkey or partial engineering for all kinds of civil engineering projects (exploration, design, and construction); provision of construction teams and all necessary working manpower for projects; provision of labor services only	80,000
Aiguo Company Address: Shanghai General Manager: Liu Jingji	Democratic National Construction Association, Federation of Industry and Commerce in Shanghai	ca. 8/79	Contracts to build apartment houses in Hong Kong and Macao; contracts for housing construction in China for overseas Chinese and their relatives, "as well as to the city's former capitalists who have housing problems" (*Beijing Review* 8/24/79)	NA
Guangdong Manpower Service Corporation Address: 88 Jiaoyu Road, Guangzhou, Guangdong phone: 31793, 32026 cable: 4267 GUANGZHOU General Manager: Zhang Zhaolin Represented worldwide by Chronicle Consultants Ltd. (President Commercial Center, 3rd Fl., No. 602-608, Nathan Rd., Mongkok, Kowloon, Hong Kong)	Guangdong Province	ca. 11/79	Supplies labor from Guangdong Province for construction work and other industrial and commercial projects to all countries friendly to the PRC; two-year contracts based on 48-hour work-week; four grades of workers starting at $300/month	From "several hundreds to several ten thousands, depending on the employer's requirements" (Chronicle Consultants)
Metallurgical Construction Company (MCC) Address: Ministry of Metallurgical Industry, Beijing phone: 557431 x.409 cable: 2250 BEIJING telex: GDINM CN 22194 General Director: Lin Hua	"subcompany" of CCEC; draws resources from Ministry of Metallurgical Industry (Bureau of Construction)	ca. 12/79	Contracts for labor export; subcontract arrangements; long-term cooperation in manpower leading to joint ventures; services not excluded to metallurgical industry; two grades of workers available; wage scale lower than Hong Kong, South Korea	400,000 Breakdown: civil engineering—130,000; mine shaft and drift const. —40,000; mechanical and electric equipment installation—50,000; pipeline fabrication and installation—20,000; industrial furnace and stack construction—6,000; earthwork and stonework—25,000; steel structure, concrete prefabrication, and machinery manufacture and repair—40,000
Tianjin General Foreign Economic and Technical Service Company (TIGFETS) Address: Tianjin	Tianjin Municipality	ca. 12/79	Manages contracts with foreign companies for engineering projects undertaken by Tianjin Municipality; labor exports; handles joint investment projects and technical cooperation with foreign countries	NA
International Electric Power Corporation Address: Baiguang Lu, Beijing, PO Box 2905	Ministry of Power Industry (Bureau of Foreign Affairs)	In process of formation	Turnkey engineering of hydro- and fossil-based power stations, transformer stations, etc.; managing import and export of equipment for power generating, transforming plants; provision of technical services and labor	340,000 Breakdown: thermal engineering—100,000; hydro engineering—100,000

Sources: National Council Representative in Beijing; China Road and Bridge Construction Company; Ministry of Metallurgical Industry; Ministry of Power Industry; Chronicle Consultants; Tianjin City Service 12/13/79; *China's Foreign Trade* 1/80 and 2/80; Xinhua 3/26/79 and 5/19/79; *Beijing Review* 8/24/79.

China's Exports: Where the US Stands

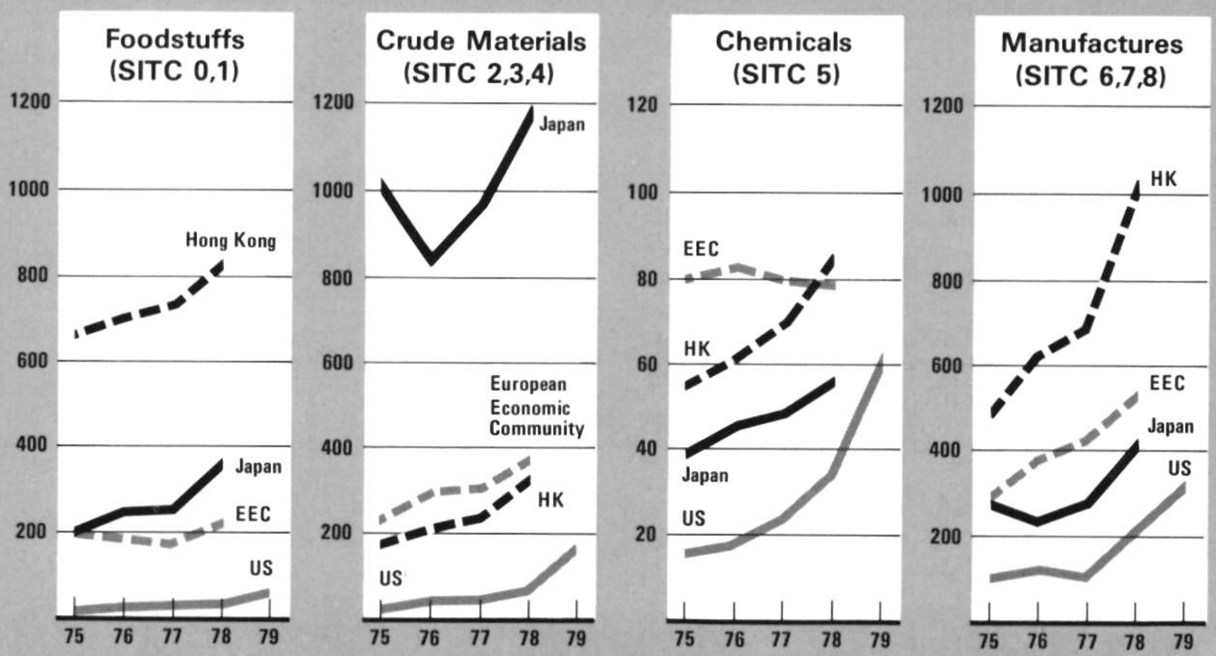
Commodity Composition of Chinese Exports to Selected Areas

(Millions of Current US Dollars)



Japan, European Economic Community,* Hong Kong, United States: Shares of China's Exports by Commodity Group

(Millions of Current US Dollars)



*Except Ireland

Note: CIA estimates tend to exceed UN estimates by roughly 10 percent. This should be taken into account when reading the figures for Hong Kong.

Sources: Japan, European Community, and US, 1975-78: *UN Industrialized West Reporting Country Tapes.* US, 1979: US Department of Commerce, *U.S. Trade Status with Communist Countries*, February 2, 1980. Hong Kong, 1975: CIA, *People's Republic of China International Trade Handbook*, October 1976; 1976: CIA, *China: International Trade, 1976-77*, November 1977; 1977: CIA, *China: International Trade, 1977-78*, December 1978; 1978: CIA, *China: International Trade Quarterly Review, Second Quarter, 1979*, January 1980.

China Business Review March - April 1980

EXIM: Dragging Its Heels?

While the Senate pushes for more money for Exim and US companies urge quick action on extending credits to China, the bureaucratic cogwheels, both in the US government and in China, are grinding slowly.

Exim financing for exports to China almost certainly will not be available this fiscal year (through September) and the Administration has not included potential credits to China in its supplemental or budget requests for fiscal 1980 or 1981.

The President's budget-cutting, anti-inflation measures have put the squeeze even on the Export-Import Bank, even though Exim's programs help the economy by stimulating exports. The Administration has asked for an increase of only 5.8 percent in Exim's fiscal 1981 authority, including regular loans and financial guarantees—from $5.8 billion in FY 1980 to $6.2 billion in FY 1981. Of this, direct lending authority will go up even less, from $4.1 billion in FY 1980 to $4.3 billion next year. The Senate is pushing for $6 billion in direct lending authority.

Since Exim's budget requests do not reflect potential demand for financing of exports to China, Congress will have to either approve a higher initial budget for Exim in FY 1981 than the Administration has requested, or else approve a supplemental budget for China later.

President Carter's anti-inflation program announced in mid-February may put such an increase in question, as did his earlier freeze on spending of federal agencies. But some Exim officials remain optimistic that financing will be available for China when China is ready for it, given China's central position in the Administration's foreign policy.

The government is not likely to go back on Vice President Mondale's commitment to China last August to make available to China "up to $2 billion" in official credits over five years, on a case-by-case basis. But this $2 billion figure is a "ball-park estimate," and actual lending to China might be much lower, perhaps $1–1.5 billion over five years, possibly starting at $200 million in the first year. Until China gives the go-ahead on projects for which it wants US-supplied goods or technology, though, no figure on potential loans to China can be realistically estimated.

"Since Exim Bank has not held any technical talks with the Chinese, any estimate at this time of the amount of business we could expect to do even in FY 1981 would be highly speculative," Exim President and Chairman John L. Moore testified before Congress.

In the meantime, many US supplier companies have contacted Exim to discuss projects in China which would need and qualify for Exim credits. The bank hopes to have this information collected and ready for discussion when it sends a delegation to China, but the major emphasis will be on finding out China's priorities for projects with US-supplied goods, technology, and credits.

Congress, particularly the Senate, is very concerned about the US Exim Bank's uncompetitive posture in the world market and whether or not funds will be available for China. The international finance subcommittee of the Senate Committee on Banking, Housing, and Urban Affairs held hearings on February 22 to quiz government officials on the Administration's plan for increasing Exim's lending authority and to hear gripes and suggestions from private industry. The senators heard evidence of lower interest rates offered by foreign official lending institutions and of export sales lost to US firms because of uncompetitive financing.

Council President Christopher Phillips was one of those who testified, calling for extension of Exim financing for China so that US firms can compete effectively for projects in China's modernization program. He estimated that China can afford to buy $40 billion worth of plant and equipment through 1985, drawing down loans of approximately $15 billion.

Fluor's treasurer, David Copley, testified that of non-Chinese costs for the development of a huge copper project it is assisting in China, some $630–$700 million could be expected to go to North American firms over four to five years. This is one-third of the $2 billion potential commitment made by Mondale, and the copper project is only one of many major Chinese projects being negotiated by US companies. Copley also said that much of the $120 million worth of equipment required by the copper project must be ordered by June. If US Exim financing is not available this fiscal year, many of these orders will have to go to firms in Canada, Japan, and Europe.

The Exim Bank has only just begun communications with the Bank of China about possible operations there and has received some feedback from the Chinese. Exim hopes to send a delegation to China soon, but will wait until it is certain that talks will result in the conclusion of an overall operating agreement before setting a final date.

A crucial ingredient that has been delayed is a presidential determination that extending Exim financing to the PRC is in the national interest. This determination, drafted only days after the passage of the US-China Trade Agreement, was announced only April 2.

The next step for the Bank is likely to be talks with Qiao Peixin, vice president and honorary chairman of the Bank of China, who will be traveling to the US in early May with a People's Bank of China delegation hosted by the Federal Reserve system. The Bank of China, which is the PRC's international bank, will also send a mission to the US this summer.

The US government and Exim have not been the only ones to move slowly. The Chinese, caught up in a reassessment of their economic priorities and seriously considering government-backed loans for this first time, have also been proceeding cautiously. Although other foreign governments have offered China over $16 billion in official credits—arousing fears of lost sales among US companies—the Chinese have only recently begun to draw these loans down.

Exim has sensed this "lack of urgency" on the part of the Chinese. "We don't want to pressure them," said one Exim spokesman. "We're proceeding at their pace." —DJ 完

PROJECTS THAT MAY NEED US EXIM FINANCING

US Company	Project	Value (million US $)	Status
Intercontinental Hotels	Agreement to provide 1,000-room hotels in Beijing, Shanghai, and Guangzhou	$80	Protocol signed 11/79
Hilton International, American Express	Construction of 1,000- or 1,500-room hotels	NA	Negotiation
Consortium of Kaiser Engineers, Turner International, Gerald D. Hines	Construction of Beijing Trade Center, a 200,000 sq. meter multi-use complex.	$250	Protocol 4/1/79; Design approved 2/80
Fluor Corp.	Feasibility study for large copper complex; feasibility study and engineering for Dexing copper mine within complex	Non-Chinese costs: $900	Phases 1 and 2 completed
Kaiser Engineers	Engineering service contract for two iron ore mines, Nanfen and Sijiaying	$5	Conceptual engineering phase completed
Bethlehem Steel	Consulting, planning and testing services for iron ore mine, beneficiation and pelletization plants at Shuichang	NA Total project: $500+	Protocol 1/5/79; Phase I completed
Davy McKee Corp.	Engineering feasibility study for gold mining and processing projects, Shandong Province	NA	Contract for study: 2/25/80
Alcoa, Bechtel, others	Feasibility study for two integrated aluminum projects and modernization of an existing plant. (Project in Guangxi tied to development of major hydropower station.)	NA	Negotiations 1979–80
US Government, US firms	Development of hydropower projects on Hongshui River and Yangzi River	NA	Agreement signed: 3/15/80
Amoco, Arco, Mobil, Esso Exploration, Chevron, Texaco, Phillips, others	Geophysical surveying for offshore oil, South China Sea at own risk; exploration and development contracts to be signed in future	NA	Agreement signed: 3/19–8/17/79
Pullman Kellogg	Engineering, procurement, and construction advisory services for petrochemical processing facility	NA	Contract signed: 12/22/79
RCA Communications, Hughes Aircraft, General Electric, Ford Aerospace (Consultants: Rockwell International or Comsat)	Construction of a communications broadcast satellite	$50–$60	Negotiations
Scientific Atlanta, Sylvania, others	Construction of some 2,800 ground stations for above satellite	$80	Negotiations
McDonnell-Douglas	Coproduction of DC-9 Super 80; potential foreign exchange component: $1,000	Potential project cost: $3,000	Agreement in principle: 10/8/79
Bell Helicopter	Coproduction of Model 212 and 412 helicopters in Harbin	NA	Memorandum of Understanding 10/31/79
American Motors	Feasibility study for production of jeep 4-wheel-drive vehicles	NA	Negotiations 2/79
General Motors, Ford, International Harvester	Joint venture production of heavy trucks in China	NA	Negotiations
General Motors	Joint venture production of railroad locomotives, earth-moving equipment, mining trucks, etc.	NA	Protocol signed 9/17/79
E-S Pacific	Construction of two hotels in Beijing and one in Shanghai	$150	Contract signed 10/79

Table prepared by Dori Jones

China Business Review

Politics

Beijing Unveils the New Lineup

Former President Liu Shaoqi is posthumously rehabilitated amidst major personnel shifts: four Politburo members tainted by the "Gang of Four" have been sacked, seven regional military commanders have been reassigned, and four Deng protégés, Zhao, Hu, Wan, and Peng, are being groomed to take over supreme leadership. This is reportedly part of a grand plan to assure the continuation of current economic policies under a new generation of Deng supporters. Below, Karen A. Berney looks at the new lineup.

With the closing of the 5th plenary session of the 11th central committee of the Chinese Communist party (February 23–29), Sichuan party leader Zhao Ziyang emerged as a full member of the seven-man Politburo standing committee, while Hu Yaobang (already a member) became the secretary-general of the newly revived party secretariat responsible for the day-to-day carrying out of the party line. He will be assisted by two other shifted provincial leaders, Wan Li of Anhui and Peng Chong of Shanghai, and eight high-ranking officials, including five vice premiers.

Zhao Ziyang, 61, and Wan Li, 64, became senior vice premiers at an April 16 session of the Standing Committee of the NPC. Hu, 65, is likely to succeed Deng in running the affairs of the 38-million-member Chinese Communist party.

The 76-year-old vice premier, Deng Xiaoping, is leading the ushering in of "successors" by resigning his post as vice premier of the State Council at the full session of the National People's Congress. Two other deputy premiers, Li Xiannian and Chen Yun, are also expected to step down from their government posts this August along with Deng. All three will retain their party positions as vice chairmen and members of the Politburo Standing Committee.

The path for takeover by a new generation of Deng protégés has been cleared by the dropping of four "Gang of Four"–connected leaders from the Chinese Politburo—Wang Dongxing, Ji Dengkui, Wu De, and Chen Xilian. Climaxing these developments was the posthumous rehabilitation on February 29 of Mao Zedong's most effective critic, former head of state Liu Shaoqi.

Deng's Politburo changes were coordinated with shakeups in the provinces (see p. 44), ministries (see chart), and the State Council, including the appointment of Vice Premier Bo Yibo as minister in charge of the newly formed State Machine Building Industry Commission.

Seven out of China's eleven regional military commanders were reassigned (see p. 44), and Ye Fei became the Navy's top commander, replacing Xiao Jingguang who held the post since 1949.

This was followed by Deng's surprise resignation as chief of staff of China's 4.3-million-man army. His replacement is General Yang Dezhi, who has commanded the Kunming military region since serving as the deputy chief of staff during the Sino-Vietnamese border clash last February-March. Yang has been named a new vice minister of defense, as has Xiao Ke, the president of the PLA's military academy. Also headed for Beijing is Guangzhou's military commander, Xu Shiyou, and his political commissar, Wei Guoqing. Both Politburo members and Deng stalwarts, they will join the policy-making Military Affairs Commission, which has four other new members—Yang Yong; Yang Dezhi; the former commander of Lanzhou, Han Xianchu; and the political commissar of the PLA's General Logistics Department, Wang Ping.

Deng has clearly summoned his seasoned military allies to Beijing to carry out a gradual and selective program of military modernization. It is apparently feared that younger, more ambitious officers might not support Beijing's short-term commitment to overall industrial modernization first, and improved defense capabilities second, which means turning more national defense industries into plowshares producing light industrial goods for the civilian sector.

Behind the Shakeup

The recent upward, downward, and lateral movements of Chinese officials reflect the outlines of a three-pronged strategy. First, Beijing is seeking to inject greater efficiency into its governing apparatus by separating and reorganizing the functions of the party and state administration.

Second, the promoting of younger and more professional men, coupled with the release of senior leaders, is aimed at creating a coalition of leaders under 70 who will survive Deng, and remain committed to modernization and to expanded economic relations with the West. These men can be expected to lend full support to current measures for tightening up the economy, curtailing wasteful investments, and diverting military resources to the civilian sector.

Finally, the transfer of seven regional military commanders is designed to weaken the entrenched power of generals who have been stationed in a particular region for many years. The PLA has traditionally shifted political loyalties and resisted blind deference to the center; a case in point is that of military commanders who openly rebelled against Beijing's orders during the chaos of the Cultural Revolution.

The appointment of additional Deng supporters to the Central Committee, further structural reforms to delineate the party/government division of labor, and the reevaluation of Mao Zedong will compose the agenda of the upcoming 12th National CCP Congress which will convene in December "to solve these pressing issues."

Observers believe that the 12th Congress will also adopt a new economic model to replace the now discredited Dazhai production brigade in Shanxi Province, Mao's former egalitarian paradigm. The new model is expected to reflect Zhao Ziyang's ongoing experiments in Sichuan Province, which call for less state planning and administrative control, a sharp tilt in favor of light industry, the use of markets to determine the quantity and price of output, interest charges on capital, and greater leeway to peasants in using commune land and private plots. 完

Provincial Leadership Shifts

As foreign companies begin to deal directly with provinces, China's political landscape at the local level has become of increasing interest to traders. Below, Kenneth I. Bowman explains why China's new crop of provincial governors will be able to concentrate more fully on economic matters than the revolutionary committees which acted as local governments in the past.

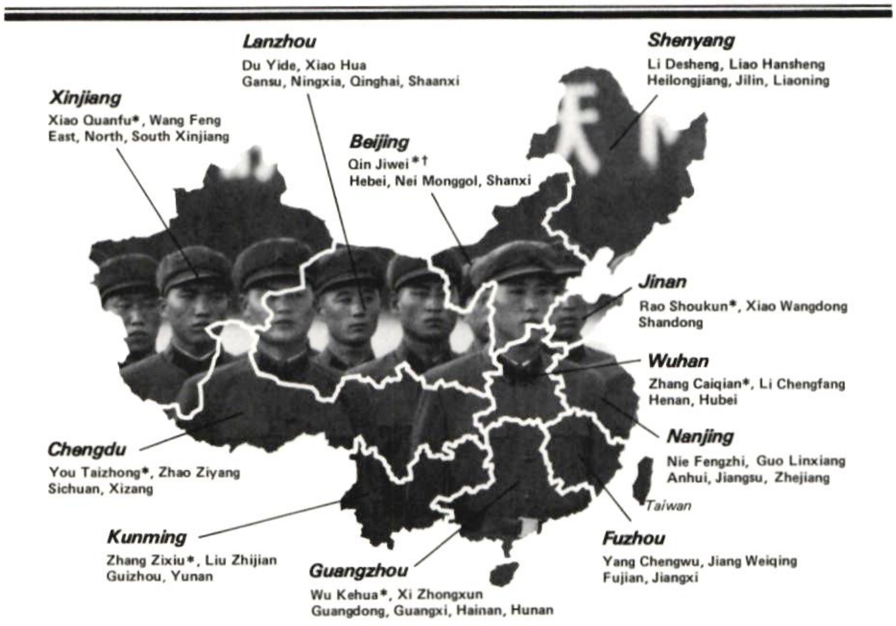
Functional division between China's party and state authorities is already in the works on a sweeping scale at the provincial level, where it is perhaps most needed.

Following the onset of the Cultural Revolution in the late 1960s, both administrative and political tasks were the responsibility of provincial "revolutionary committees." This set a double burden on the shoulders of committee chairmen—a burden often added to when they also served as chief political commissars or commanding officers of military districts or units.

The overload created by these multiple responsibilities was exacerbated in some cases when leaders chosen for their political acumen proved less than adept at the nuts and bolts of economic administration. (In an important January speech to a meeting of cadres, Vice Premier Deng Xiaoping addressed this question directly, stating that from now on, "being expert certainly does not mean being Red; however, to be Red, it is also necessary to be expert.")

Beginning late last year, however, provincial elections—authorized by the second session of the National People's Congress in June—established provincial governments to carry out nonpolitical tasks. In only three cases (Beijing, Shanghai, and Guangdong) are first party secretaries also governors. In short, administrative experts can now devote full time to managing the economy.

China's Eleven Military Regions with Leading Personnel



This map identifies the 11 military regions of the PRC, their commanding generals, first political commissars and the provinces (military districts) included in each region. Military regions receive orders from the General Staff Department of the PLA in Beijing; the new vice minister of defense, Yang Dezhi, recently replaced Deng Xiaoping as its chief of staff.

* Denotes those regional commanders involved in the February reshuffle.

† Qin Jiwei, the former 1st political commissar of Beijing, takes over from the purged commander, Chen Xilian.

Members of the CCP Secretariat

Hu Yaobang	Yang Dezhi
Wan Li	Hu Qiaomu
Wang Renzhong†	Yu Qiuli†
Fang Yi†	Yao Yilin†
Gu Mu†	Peng Chong
Song Renqiong	

† Also vice premiers of the State Council

Party Leadership

At the same time, strengthening the party's internal structure and reasserting its leadership over state organs is very much the order of the day. At the national level, a central party secretariat has been established to ensure that those charged with carrying out policy give "unswerving obedience" to party directives. At the provincial level, while party chiefs are now freed from most administrative tasks, the split is by no means absolute.

With only the three exceptions—Anhui, Hebei, and Ningxia—the new governors were already second secretaries of their provincial party committees (see chart). Of these exceptions, Zhang Jingfu is a member of the Central Committee's Politburo and Li Erzhong has been moved in from a position as secretary of the Shaanxi provincial party committee. Ma Xin, the new governor of Ningxia, was formerly vice chairman of that province's revolutionary committee.

Party control is also evident in the lineup of chairmen of the standing committees of provincial people's congresses, the bodies to which provincial governments are nominally responsible.

In all but four cases (Gansu, Hunan, Ningxia, and Shanxi) the chairmen are secretaries of their provincial party committees; and in six of these provinces they are first secretaries. Wang Shitai of Gansu is a member of the standing committee of the provincial party committee and Ruan Bosheng of Shanxi has been brought in from a position as secretary of the Jilin provincial party committee.

Thus, in most cases the shift from revolutionary committee to people's government is simply a rational division of labor; the provincial leadership remains essentially unchanged. In other instances, however, subtle—and not so subtle—shifts in the political wind are evident. A brief rundown on some of the more important moves:

• **Sichuan:** As noted above, Zhao Ziyang, first secretary of the party committee and formerly head of the revolutionary committee, has been appointed to the Standing Committee of the Politburo of the Chinese Communist Party Central Committee, and named as first vice premier. He may be groomed as a replacement for Deng or Hua. The new second secretary, Tan Qiling, is expected to take over most of Zhao's functions in Deng Xiaoping's home province. As Hong Kong's *Hsin Wan Pao* puts it, "The first secretary will lead at a distance; sometimes he will go down to look around, but basically he will be working in Beijing."

Tan is a party stalwart, coming to his new post from a position as first secretary of the Qinghai Party Committee; before that, he was first party secretary in Zhejiang.

• **Hebei:** Jin Ming, secretary-general of the State Council, China's highest administrative organ, has been appointed first secretary of the provincial party committee, replacing Liu Zihou, who was strongly criticized last year for his "ultraleftist" tendencies. Liu was one of the last provincial leaders to be appointed before the death of Mao.

It is not yet clear whether or not Jin will keep his State Council position. Li Erzhong, the new governor,

MINISTRIES AND COMMISSIONS OF THE STATE COUNCIL (April 1980)

The sweeping personnel changes announced in February, including the replacement of two ministers and creation of a new State Machine Building Industry Commission under the State Council, were accompanied by a series of resolutions that will have a great impact on the lives of ordinary Chinese. The recent sessions of the National People's Congress and the Central Committee of the CCP also adopted a resolution to delete Article 45 of the Constitution, which provided that citizens "have the right to speak out freely, air their views fully, hold great debates and write big-character posters." As part of the campaign for absolute unity within the party, the elimination of this provision is part of the strategy to quell threats to internal political stability during the current period of economic readjustment, and during the transition to post-Deng leadership.

Ministry	Minister
Agricultural Machinery	Yang Ligong
Agriculture	Huo Shilian
Chemical Industry	Sun Jingwen
Civil Affairs	Cheng Zihua
Coal Industry	Gao Yangwen *
Commerce	Wang Lei
Communications	Zeng Sheng
Construction Materials	Song Yangchu
Culture	Huang Zhen
Economic Relations with Foreign Countries	Chen Muhua (f)
Education	Jiang Nanxiang
Electric Power	Liu Lanbo
Finance	Wu Bo
Food	Zhao Xinchu *
Foreign Affairs	Huang Hua
Foreign Trade	Li Qiang
Forestry	Luo Yuchuan
Geology †	Sun Daguang
Justice †	Wei Wenbo
Light Industry	Liang Lingguang
Machine Building (1)	Zhou Zijian
Machine Building (2)	Liu Wei
Machine Building (3)	Lü Dong
Machine Building (4)	Qian Min
Machine Building (5)	Zhang Zhen
Machine Building (6)	Chai Shufan
Machine Building (7)	Zheng Tianxiang
Machine Building (8) †	Jiao Ruoyu
Metallurgical Industry	Tang Ke
National Defense	Xu Xiangqian
Petroleum Industry	Song Zhenming
Post and Telecommunications	Wang Zigang
Public Health	Qiang Xinzhong
Public Security	Zhao Cangbi
Railways	Guo Weicheng
State Farms and Land Reclamation	Gao Yang
Textile Industry	Qian Zhiguang
Water Conservancy	Qian Zhengying (f)

* Zhao Xichu replaces former Food Minister Chen Guodong, while Gao Yangwen was appointed to relieve former Coal Minister Xiao Han. Announced February 12, 1980.

† These three new ministries were announced by the Central Committee and established September 13, 1979.

Commission	Vice Premier
State Planning Commission	Yu Qiuli *
State Scientific and Technological Commission	Fang Yi *
State Economic Commission	Kang Shien
State Capital Construction Commission	Gu Mu
State Agricultural Commission	NA
State Financial and Economic Commission	Chen Yun †
Machine Building Industry Commission	Bo Yibo ‡
Foreign Investment Control Commission	Gu Mu
Import-Export Control Commission	Gu Mu
Nationalities Affairs Commission	Yang Jingren
State Physical Culture and Sports Commission	Wang Meng

* Full members of the Politburo of the Chinese Communist Party Central Committee.

† Will retire from this position but retain posts in the Chinese Communist party.

‡ Announced by the NPC Standing Committee 2/12/80, this commission will direct and coordinate all machine building in China and oversee the work of the eight machine building ministries.

CHINA'S NEW PROVINCIAL LEADERSHIP (As of April 1980)

Province[1]	First Secretary, Provincial Party Committee	Governor[2]	Chairman, Provincial People's Congress Standing Committee	Rank by GVIO, 1974[3]
Anhui	Wan Li	Zhang Jingfu	Gu Zhuoxin	19
Beijing	Lin Hujia	Lin Hujia	Jia Tingsan	6
Fujian	Liao Zhigao	Ma Xingyuan	Liao Zhigao	23
Gansu	Song Ping	Feng Jixin	Wang Shitai	16
Guangdong	Xi Zhongxun	Xi Zhongxun	Li Jianzhen (f)	8
Guangxi	Qiao Xiaoguang	Qin Yingji	NA[4]	22
Guizhou	NA[4]	Su Gang	Xu Jiansheng	25
Hebei	Jin Ming	Li Erzhong	Jiang Yizhen	4
Heilongjiang	Yang Yichen	Chen Lei	Zhao Dezun	9
Henan	Duan Junyi	Liu Jie	Hu Lijiao	11
Hubei	Chen Pixian	Han Ningfu	Chen Pixian	13
Hunan	Mao Zhiyong	Sun Guozhi	Ren Wanda	14
Jiangsu	Xu Jiatun	Hui Yuyu	NA[4]	3
Jiangxi	Jiang Weiqing	Bai Dongcai	Yang Shangkui	21
Jilin	Wang Enmao	NA[4]	NA[4]	12
Liaoning	Ren Zhongyi	Chen Puru	Huang Oudong	2
Nei Monggol	Zhou Hui	Kong Fei	Ting Mao	20
Ningxia	Li Xuezhi	Ma Xin	Ma Qingnian	28
Qinghai	Liang Buting	Zhang Guosheng	Ji Chunguang	27
Shaanxi	Ma Wenrui	Yu Mingtao	Ma Wenrui	17
Shandong	Bai Rubing	Su Yiran	Zhao Lin	5
Shanghai	Peng Chong	Peng Chong	Yan Youmin	1
Shanxi	Wang Qian	Luo Guibo	Ruan Bosheng	18
Sichuan	Zhao Ziyang	Lu Dadong	Du Xinyuan	10
Tianjin	Chen Weida	NA[4]	NA[4]	7
Tibet (Xizang)	Ren Rong	Tian Bao	NA[4]	29
Xinjiang	Wang Feng	Ismail Amat	Tomur Dawamat	26
Yunnan	An Pingsheng	Liu Minghui	An Pingshen	24
Zhejiang	Tie Ying	Li Fengping	Tie Ying	15

[1] Province, Autonomous Region, or Municipality Under the Central Government
[2] Governor of Province, Chairman of Autonomous Region, or Mayor of Municipality under the Government
[3] CIA, "The Gross Value of Industrial Output in the People's Republic of China: 1965–1977"
[4] Positions not yet filled

China Business Review

was previously permanent secretary of the Shaanxi provincial party committee. Jiang Yizhen, elected chairman of the Standing Committee of the Hebei Provincial People's Congress, is second secretary of the provincial party committee. If Jin Ming does retain his State Council post, it is likely that Jiang will carry out most of the first secretary's functions. Liang Buting, formerly second secretary of the Qinghai party committee, will move up to fill the vacancy left by Tan's move.

• **Beijing:** Key posts in the new Beijing government and the municipal people's congress are now held by pre–Cultural Revolution leaders, and the leaders of the former Beijing Municipal Revolutionary Committee —Wu De (also dropped from the Central Committee's Politburo), Ni Zhifu, Ding Guoyu, and Huang Zuozhen—no longer hold posts in the municipal people's congress. Lin Hujia, first party secretary since October 1978, wears both party and government hats, but much of the burden of day-to-day administration is carried out by the city's twelve vice mayors.

• **Anhui:** Former Beijing Vice Mayor Wan Li, the first secretary of the Anhui Provincial Party Committee, was appointed a vice premier on April 16. It is not yet known who might replace him. Zhang Jingfu, the new governor and former minister of finance—and former deputy secretary-general of the State Financial and Economic Commission—has been brought in to strengthen the province's administrative structure. 完

Chen Yun heads the State Financial and Economic Commission.

Billboards in Wuhan, April 1980.

Advertising in China

Open Channels, New Ideas

In the year that has passed since the first US ad appeared in China—Diamond Shamrock's full-page corporate spread in the Guangzhou Ribao *on April 14, 1979 —US admen and advertisers alike have besieged the nascent Chinese industry. Yet rather than approach the trio of Chinese ad agencies created to broker foreign ads, a strong trend has emerged to approach Chinese media and potential industrial advertisers directly. This article by Edith Terry explains why.*

Neon lights along Shanghai's Bund? Foreign corporate ads in such staid Chinese periodicals as *Renmin Ribao* (People's Daily), *Hongqi* (Red Flag), and *China's Foreign Trade*? Ideological programs on Beijing TV interrupted by three-minute spots for Swiss and Japanese watches or a Westinghouse corporate film?

All of this has become almost routine as China becomes increasingly expert in using advertising to generate foreign exchange, foreign customers, and simply educate its people in foreign ways. In January 1979, the Shanghai Advertising Corporation was reactivated in order to study foreign advertising methods and eventually come up with the big answers to serve all China. In less than a year, Shanghai's ad agency (SAC) was joined by similar organizations based in Beijing and Guangzhou—the Beijing Advertising Corporation (BAC) and Guangzhou Advertising Corporation (GAC). Smaller, local ad agencies have also been created, such as the Suzhou and Nanjing advertising corporations. But the action lies elsewhere, as most of the major US agencies know, with Chinese producers, publishers, and electronic media operators.

Not that the Chinese agencies have been inactive—BAC has signed agreements with McCann-Erickson Worldwide and Ogilvy & Mather (among US firms); SAC with Young and Rubicam; GAC with Young and Rubicam and McCann-Erickson.

Yet these agreements are with what Madison Avenue would call "media space representatives." They are not full-fledged ad agencies, but merely brokers of media space. For the most part, the agreements held to date are for information exchanges. The outstanding exception is Ogilvy & Mather, which designed an ad campaign in the Southeast Asian market for Chinese "Essential Balm" (*gingliang you*), a product of the Beijing Western District Pharmaceuticals Factory. In advertising outside China, the Chinese agencies can, through contracting with seasoned foreign advertising firms, develop comprehensive marketing "packages." But inside China, to date they have been restricted to representing the Chinese newspapers, magazines, television, and radio.

Even so, SAC, BAC, and GAC have at best a partial hold on China's media. Of prominent US advertisers in Chinese magazines, for example, First National Bank of Chicago and Diamond Shamrock Corporation have both used a web of personal contacts—the invidious Chinese *guanxi* or "relationships"—to place their initial ads; FNBC's in *Renmin Ribao* and *China Pictorial,* a foreign-language publication, and Diamond Shamrock in the *Guangzhou Ribao* (Canton Daily).

Says an FNBC official of his experience in the Chinese ad world, "We are aware of the Chinese advertising agencies—our people in Hong Kong know them—but the ads we have placed have been because of special relationships, as gestures of goodwill."

FNBC's goodwill netted their advertising venues substantial sums; the Chicago-based bank paid $50,000 for its full-page, four-color ad in the October issue of *China Pictorial*. The possibility of advertising there "was brought to our attention late last summer by a senior Chinese banking official," according to the bank spokesman. The ad was placed directly with the magazine's editorial board.

FNBC's next experience was when an editor of the new Chinese financial magazine, *Shichang* (Marketplace), approached the bank's representatives at the Fall 1979 Guangzhou (Canton) Trade Fair. Wasting no time, the FNBC team signed a deal on the spot in response to the *Shichang* editor's offer of a full-page back cover slot. The $16,000 ad appeared 10 days later in *Shichang's* third issue.

Until recently, the Chinese ad agencies had sole rights to television and broadcast media in China, at least in theory. BAC, for example, signed a $20,000 contract with Westinghouse Corporation in November 1979 to air a half-hour corporate promotions film on Beijing TV coinciding with the arrival in China of a large Westinghouse marketing team.

This stronghold has crumbled, too, with the creation of a separate advertising agency to represent the national Chinese television network, CCTV. Established in late January 1980, China Television Service (CTS) is apparently an office of CCTV rather than a separate entity, sharing CCTV's local and cable addresses. It is possible that national Chinese radio will follow suit. The January 1, 1980, announcement that national Chinese radio would accept foreign commercials gave no indication that the network would use the services of any of the Chinese national ad organizations.

If not, Chinese radio would merely be following the pack of other Chinese organizations putting out their own feelers for foreign business.

Science Press and CSTC: Advertising Countertrade, and How

In exchange for the privilege of representing 50 Chinese-language magazines published by *Kexue Chubanshe* (Science Press), and for the right to operate 250 video-promotion centers all over China, the US firm, BNC Enterprises, and its subsidiary, SINO Information Resources (SINO), has provided China with a range of valuable technological infrastructure and services. You might call it advertising countertrade.

BNC's first step in the market was to seek out something to do that would brighten the company's public relations image in China. This the company's president, K. C. Foung, identified in mid-1979. By July, he had signed the company's first contract, one with Luxingshe, the official Chinese travel agency. Less than a month after Foung undertook the publication of a US edition of Luxingshe's *Travel Guide to China*, the company had landed a potentially far more lucrative contract to represent Chinese scientific publications.

This August 1979 contract was the first ad agency account entrusted to a US firm by a Chinese media organization. The agreement between BNC and *Kexue Chubanshe* authorizes BNC to represent 50 of its publications to North American and European advertisers. Ranging in size from a monthly with a circulation of 700,000 (*Agricultural Science and Experiment*) to the *Journal of Geochemistry* serving 11,000 readers on a quarterly basis, total readership of the 50 periodicals is in excess of 5.6 million.

According to BNC, their exclusive takes advertisers a giant step beyond advertising in what they refer to as "bulk-shipped" publications—the various Chinese-language technical magazines designed to acquaint Chinese readers with Western technology and brand names, but published in the West. The "China Verticals," as Foung has dubbed his 50 scientific journals, offer an established, high-level readership in the upper ranks of China's professional and scientific community. SINO's first client for the Science Press account, Diamond Shamrock, signed on in late December 1979. Other clients include Borden World Trade, Academic Press, and the City of Philadelphia.

How to get closer yet to the Chinese end-user seemed to be the next question Foung asked himself. He found an answer in a high-cost scheme that, so far, has netted little revenue for the company but has offered substantial benefits to his Chinese partner, the State Scientific and Technological Commission (CSTC).

This, a project to build 250 "Technology Transfer Centers" around China, was based in part on a desire to corner a part of a market already established by Japanese and Hong Kong Chinese firms. As of January 1980, it was reported that some 33 Japanese firms had subscribed to the Japanese service, including Toyota, Japan Air Lines, and Nippon Printing.

These centers are modeled on a service set up by the China Council for the Promotion of International Trade in 1977, a lending library of foreign company technical literature and brochures. The "Technology Transfer Centers" are also venues for end-users to gain access to foreign technical literature, with the added dimension of videotape facilities for foreign corporate films. The foreign advertiser gets direct access to end-users (in exchange for a

BEIJING ADVERTISING CORPORATION

190 Inside Chao Yang Men Street, Beijing, China
Cable: "Advercorp" Beijing, Phone: 553326

Beijing Advertising Corporation was established in August 1979 and opened its agency on October 23, 1979. It handles advertising business of Chinese export commodities in foreign countries and undertake all kinds of advertising business in North China for foreign manufacturers, traders, and advertising agencies.

The corporation's chief objective is to promote the development of trade and the economic and cultural interflow between our country and foreign countries all over the world. We provide the following services:

- **Advertising:** Advertising business of Chinese export commodities in foreign countries, including advertising in newspapers, magazines, billboards, posters, slides, filmlets, television, etc.; all kinds of advertising business in China for foreign manufacturers, traders, and advertising agencies.
- **Designing and Printing:** Art design and printing of trade marks, packaging, catalogs, pictorials, calendars, etc., for Chinese and foreign commodities.
- **Display:** Display of Chinese export commodities and foreign commodities exhibited in Beijing.
- **Publicity Photographs:** Photography and processing of product promotional pictures; filming of television commercials for various commodities.
- **Advertising Media:** Newspapers, magazines, television, broadcast, show windows, cinema (slides, short features), buses and public transport (including trolleys, trains, passenger ships), exhibitions, outdoor advertisements (billboards, posters, neon lights), indoor advertisements (hanging neon light, propaganda boards [*sic*]), mailing and gift advertisement.

handsome commission paid to the advertising agent); the agent gets his exclusive (and his commission); and CSTC gets 250 free videotape machines plus a constant flow of technological information.

The 200 "Technology Transfer Centers" provided by BNC are equipped with Toshiba 18-inch color TV receivers based on the NTSC system and adapted to a half-inch videotape format. The sets have been distributed to, among others, the Ministry of Education (12 sets); Shanghai Municipality (8 sets); Liaoning Province (8 sets); Guangdong Province (6 sets); and Sichuan Province (6 sets). Scientific societies and foreign-trade offices predominate among the organizations that have donated office space for the centers. Part of the agreement is that the Chinese provide showing rooms, shelving for foreign corporate literature, and personnel to maintain the collection.

Though the centers were ready as of early January 1980, clients were not. SINO President Steve Miller admits that there has been "some resistance to price" of the subscription facility. Originally pegged at $20,000 for a one-year subscription to the full service, the company now offers a reduced rate of $8,750 for a 12-month subscription to 25 of the 250 centers operated by the company.

China's Media: Raking the Ad Money In

The high going rates for advertising worldwide have lured organizations like Science Press, CSTC, and other Chinese organizations which can produce or create media venues for advertising to the market. Some of them, like CSTC, may find that the market demand will not support high prices indiscriminately for all Chinese media. But the only direction Chinese producers and publishers have recognized so far is up.

Consider the following rates for services brokered by foreign agents: *Agricultural Science and Experiment* magazine (SINO)—$15,590 for a one-shot, full-page, four-color ad; *Scientific Experiment,* a magazine with a circulation of 650,000 also brokered by SINO—$14,170 for the same deal as above. Among the tabloids, *Renmin Ribao* (People's Daily), China's national newspaper, is brokered by CHINATRANS in North America at a cost of $19,072 for a one-day half page (based on a US$=RMB 1.51 exchange rate).

Sample rates for other advertising venues are from the promotional literature of a Washington, DC–based firm, Tamar Productions, agent for a Hong Kong company whose "exclusive" advertising rights to some Chinese media are now in doubt. Rates published by Tamar Productions for TV in Tianjin, Beijing, and Hangzhou range from $2,028 per minute on Tianjin local TV (floating rate before 7 P.M.) to a flat $3,900 per minute on local Beijing TV. (By comparison, local TV spots in New York City may cost as little as $585 for 30 seconds, little more than a quarter of the Beijing price.)

Billboard ad space brokered by Tamar Productions in Guangzhou, Suzhou, and Shanghai go for $250 per square meter for a six-month lease (all locations). The company also claims to be able to put a foreign customer's name in neon lights on the streets of Suzhou for a mere $3,900 per month (minimum 12-month contract).

Tamar Productions President Tamar Mandel gives some insight into why foreign advertisers have bought Chinese media space at these prices. "In China, it's the only game in town," she says, referring to the commercial spots offered by local television. "You don't have two stations, you've got one, and that's all."

The same logic seems to have persuaded Trans-World Airlines (TWA) to tell *Renmin Ribao* readers "You're going to like us," for a price close to $20,000; the East Asiatic Company to spend a mere $4,500 for a January 1980 ad in *China's Foreign Trade;* and Westinghouse to deliver its $20,000 pitch on Beijing TV.

Exercising *Guanxi*

One common thread running through the advertising deals that have bypassed the official Chinese ad agencies is the energy of ethnic Chinese entrepreneurs in promoting them. The ethnic Chinese use their personal and business *guanxi,* or relationships, with various Chinese agencies to cut through the bureaucratic red tape. The official Chinese ad agencies, meanwhile, as offshoots of the bureaucracy themselves, may move more ponderously.

NBC Enterprises and SINO have their K. C. Foung; CHINATRANS its May Li Phipps (formerly head of the National Council for US-China Trade Translation Service, now the president of her own company). Robert Chua, a young, engaging Hong Kong businessman, was the first to break into placement for China's domestic TV, with an exclusive contract for Guangdong, Henan, and Sichuan television stations, reportedly now expired (see *CBR* July-Aug. 1979, p. 10).

The resourcefulness of these traders is admirable. Yet the numerous "exclusives" they have obtained on various Chinese media are not always what they seem. Perhaps the saddest case of a misrepresented exclusive comes from Two Winds International.

Two Winds is the business vehicle of a once-popular Hong Kong actress named "Tina" Leung. The firm she set up in the fall of 1978 to advance her native country's Four Modernizations program quickly developed consulting, exhibitions management, and advertising capabilities, as these markets opened up in China. Claiming to have an agency agreement with BAC, the Beijing People's Broadcasting Radio Station, and the Beijing TV Station, and another with the Suzhou Advertising Corporation, Leung approached two separate companies, one Canadian and one US.

Both companies, China Commercial Corporation of Vancouver, and Washington, DC's Tamar Productions apparently have ended up with so-called exclusives for North American placement rights for Two Winds' venues. Neither company was aware of the other, as of January 1980, by which time Tamar Productions had already contacted some 20 possible US advertisers and published an expensive promotional brochure. Both companies' advertising business in China faces an uncertain future; the latest word on Two Winds from official Chinese sources was the following February 1980 cable from BAC: "We would like to finally explain one more point. Our company has never contracted with 'Two Winds Co., HK, Ltd.' and China Enterprise Corporation to produce advertisement. We would like to state unequivocally that this is a complete fabrication."

Tina Leung's China *guanxi*—said to have been founded when she was a young actress in China, prior to the revolution, working with a cameraman who has now risen to the highest levels within the Ministry of Foreign Trade—thus seem to have expired. The *guanxi* weapon, based on personal contacts, can torpedo the business relationship along with the collapse of the personal one; every company starting out across these slender bridges should be prepared to face such consequences.

Slow Learning Curve—Foreign Promotions by Chinese Ad Agencies

Another area where the Chinese ad agencies have fallen short lies in their representation of China's own producer-advertisers. Even the Chinese FTCs are beginning to bypass them; the latest evidence for this is a February 3, 1980, ad placed in the *New York Times* by the China National Light Industrial Products Import and Export Corporation for the company's "White Dove Brand" PVC raincoats. Unlike similar ads placed by the Chinese ad agencies, the text included reference to a local supplier of the item. While not conforming to typical US standards of advertising format, the LIGHTINDUSTRY ad at least featured Western-looking models in stylish, if prim, poses.

SAC has been the most active of Chinese advertising brokers on the US market so far. The copy placed by the company in US media, however, shows little or no modification of the format used in domestic Chinese publications.

An SAC-placed ad in the October 1979 issue of *Vogue Magazine* (p. 197), for example, and lodged next to a full-page color spread emblazoned "Napier is Naughtier," features black-and-white caricatures of fur-coated Chinese women. The furs are not exactly the latest Oscar de la Renta look; not only do the drawings make them look like badly cut, synthetic imitations, but no fur advertiser west of Paris would ever use line drawings to promote the lustrous, sensuous quality of fur wear.

Worse than the unfortunate ad's wooden imperviousness to aesthetics, its failure to present necessary information to would-be US buyers is inexcusable. Most US buyers would require at the least the names of US retailers. It is hard to imagine a Park Avenue hostess cabling the Shanghai Animal By-Products Branch of CHINATUHSU to price a box-shaped "Golden Leaf"–brand "real weasel fur" jacket. English text of the ad also would profit by a better translator.

SAC has performed on behalf of the Shanghai Silk Branch of CHINATEX, for "Peony"–brand silk blouses, and for the Shanghai Tea Branch of CHINATUHSU, for China Black Tea Bags, as well. Ads were placed in the October 1979 *Vogue* (p. 382) and the September 1979 issue of *Tea and Coffee Trade*, respectively.

Perhaps no better indication of the competition the Chinese ad agencies face from domestic Chinese organizations exists than the direct-mail approach employed by the latter. Chinese acquaintances of US traders here have been known to add pitches for machine tools and other products to their Christmas cards. One friendly letter from a high-ranking official of the Ministry of Petroleum to the National Council puts in a plug for a new domestic Chinese translation firm: "Mistranslations often obstruct proper use of the technical materials, which then lose their value," the official notes. He continues, "We have had to check and revise your translated materials with the English originals. . . . As we had previously mentioned in Beijing, the solution can only be found through our common efforts. With this view in mind, we suggest that you seek the service of China Translation and Publishing Corporation (TRANSPUB)." (TRANSPUB is a service of the CCPIT.)

Inspiration from Hong Kong

The most effective Chinese promotional copy is found not in domestic publications but in a variety of magazines assembled and printed in Hong Kong. These magazines do what major US advertising firms have long proposed to Chinese exporters—Chinese text and display objects are revamped, reshot, and touched up to fit in with the sophistication of Western ads.

The only drawback of these publications, with names like *Pearl, Business Pleasure,* and *China Trader,* is that they are done on behalf of Hong Kong agencies which sell goods imported from China. According to one report, the FTCs actually discourage customers from approaching them directly on the basis of Hong Kong advertisements.

Yet these magazines, oriented toward the Hong Kong marketplace which for years has been China's foreign trade laboratory, breathe hope for China's ad industry. If nothing else, they show that China's products, promoted properly, are among the most seductive anywhere. 完

NOTHING LIKE A FREE RIDE

US companies may be receiving product advertising in China by another route without their knowledge. Information Handling Services, a subsidiary of Indian Head Inc., last summer presented China with its "Master Catalog File" of products and manufacturers. The gift included 900 cartridges of 16 mm. microfilm as well as a hardbound paper index—a total of 2.3 million catalog pages, listing products of over 1,500 manufacturers. Retail cost of the file is about $12,000, but there is no charge for being listed. For more information, call (303) 779-0600, x 216.

Promotions in US

Department Store Showbiz

Taking their cues from each other, US department stores are storming the buying public with a series of storewide promotional events that offer plenty of showbiz as well as goods to buy. Katy Ehrlich details the forthcoming summer and fall China campaigns.

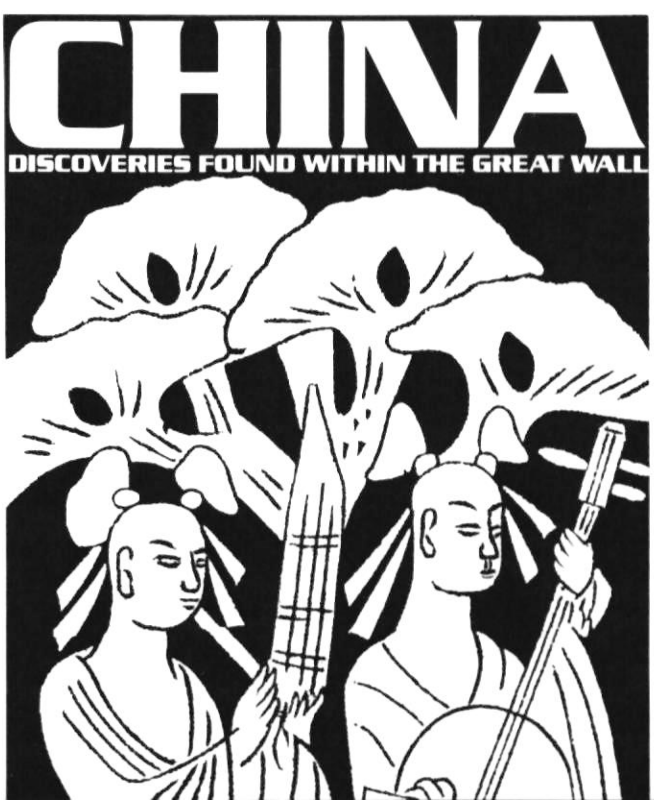
In the early 1970s, department stores began cautiously by buying small quantities at Guangzhou (Canton) Trade Fairs or through importers, and featuring select Chinese items in stores. Now, increasingly, they are exploring Beijing, Shanghai, and other cities, and stores like Macy's, Altman's, Gump's, and Neiman-Marcus are buying direct.

In 1980, major American department stores in some of America's most populous cities will go all-out to promote firsthand acquaintance with things Chinese. Four big stores —Broadway, Bloomingdale's, Carson Pirie Scott, and The Emporium—will stage storewide promotions, some in concert with the 1980 China Exhibition.

Behind these splashy events lie major investments and long-range planning schemes.

A wide range of merchandise priced from plain to fancy will be featured, and numerous sideshows will help to attract the curious into stores. Cooks, artisans, craftsmen, and performers will demonstrate their talents.

Broadway of Los Angeles ushered in the Chinese lunar new year with the first 1980 storewide China promotion, February 16–29. The two-week promotion at the downtown flagship store lured buying crowds that netted good tidings of half a million dollars to the store. Broadway was so pleased with the success—a propitious sign for the prosperity of coming China fairs as well—that it is circulating the show to other branches and sending buyers back to China for more.



Among the "Discoveries Found Within the Great Wall," as the show was called, were two young artisans imported to demonstrate their skill at double-sided embroidery and *neihua,* the art of painting inside translucent snuff bottles. Another of the sideshows offered complimentary appraisals of Chinese antiques.

Traditional China is overwhelmingly the image choice among advertisers. Advertisements for the Broadway show in the *Los Angeles Times* pictured elegant handcrafted objets d'art, breathing "Once these would have been imperial treasures."

Bloomingdale's China plan for 1980 is the largest-scale of all, involving repeated pilgrimages to the People's Republic for merchandise selection and product development. On September 22 they will kick off a twelve-store China promotion optimistically entitled "Heralding the Dawn of a New Era," the literal meaning of Chinese characters selected to render Bloomingdale's name into Chinese.

Bloomingdale's version of a new era entails an investment of some $20 million at retail value and momentous planning. Not only will the fanfare, which includes an in-store lineup of live attractions, set the celebratory mood for the pre-Christmas China Exhibition in New York, but China will be an ongoing feature at the stores as well.

The 1980 China Exhibition, the China Council for the Promotion of International Trade–sponsored traveling trade fair, will bring material East to material West in a sweep from west to east coasts this fall. The Emporium in San Francisco, Carson Pirie Scott & Co. in Chicago, and Bloomingdale's in New York will each fill 10,000–20,000 square feet of space as the sole retailers for the exhibition in their respective cities.

China Exhibition Corp., which has an agreement with the department stores, helped organize a buying trip for 42 executives from the three stores in January 1980.

Each store will use some of this merchandise to ride the wave of China Exhibition publicity with in-store promotions. The Emporium's plans are still in the early stages, and more buying trips to China are scheduled. Carson's will feature other Asian countries as well as China in an Oriental fair to run October 3–15, closing just before the China Exhibition opens on October 25 in Chicago.

Despite the increase in direct buying, importing firms are still important suppliers to department stores. Some stores are not prepared to cooperate on product development as do many importers, such as Noble Trading Co. of Alexandria, Virginia, which offers designs to Chinese jewelry manufacturers. Carpet importers have been very successful in long-term cooperation with the Chinese manufacturers of superb quality carpets to adapt yarn colors to American tastes. 完

FTCs in NYC

Four of China's foreign trade corporations (FTCs) now have permanent trade representatives in the US. ARTCHINA, CHINATUHSU, MINMETALS, and SINOCHEM are conducting business from their newly purchased New York offices, which opened in mid-January. They are located on 12th Avenue between 42nd and 43rd Streets. A team from CEROILS will arrive in April, and in coming months MACHIMPEX will send its own two- or three-man contingent to establish an office in the New York building.

The representatives serve as liaisons between American companies and foreign trade corporations in China. Americans may contact these offices directly to learn whether China has the supplies they need, who in China may need their products, and what to do to make or follow up on these contacts.

Now a quick telephone call can inform the businessman that industrial fasteners, like machine screws, nuts, and bolts, are handled by EQUIPEX, while wood screws, hinges, and door locks are for sale through MINMETALS.

In some cases the resident FTC delegations may negotiate and sign contracts on behalf of branches of the corporations in China, but primarily they use their new vantage point to forward information about US markets back to China, to locate suitable business contacts for traders, and to secure invitations for trade delegations to China.

They assure a continuous flow of information that the sporadic contact with visiting delegations cannot easily supply. For example, CHINATUHSU, continually plagued by US Food and Drug Administration (FDA) regulations requiring China to provide the "burden of proof" of safety and cleanliness—not to mention effectiveness—of Chinese medicines, is learning to cope with the sometimes elaborate procedures involved in securing rights of entry for their products.

As they go about their varied work, whether it's locating sources for purchase of rough diamonds (ARTCHINA) or for goldfish (CHINATUHSU), the representatives have been settling in well, becoming streetwise to American ways of life. They have obtained their drivers' licenses, and have traveled to trade fairs and accompanied a number of delegations from their home corporations.

The newly acquired building in New York City, still undergoing renovation, is the new home as well as work place for the trade representatives. It will also be used to house visiting delegations, and there is speculation that more Chinese foreign-trade corporations will take up residence there in the future.

Another representative party, the liaison group from China National Technical Import Corporation (TECHIMPORT), operates from the Chinese embassy in Washington, DC.

Names and Addresses of Representatives

520 Twelfth Avenue
New York, NY 10036

New York City's Mayor Edward Koch meets with US, Chinese exhibition officials.

China National Chemicals Import and Export Corporation

Mr. Tang Xueliang, Deputy Manager, Export Department (Beijing Head Office)
Mr. Shen Tsuming (Beijing Head Office)
Phone (212) 279-4273

China National Arts & Crafts Import and Export Corporation

Mr. Song Guofan (Beijing Head Office)
Mr. Wang Chengyun, Deputy Manager (Shanghai Branch)
Mr. Cao Yihe, Department Manager (Shanghai Branch)
Phone (212) 279-4271

China National Metals & Minerals Import and Export Corporation

Mr. Shu Guoyu (Beijing Head Office)
Mr. Gu Minkang (Shanghai Branch)
Phone (212) 279-4272

China National Native Produce & Animal By-Products Import and Export Corporation

Mr. Feng Guangshun
Mr. Jin Meisheng
Mr. Wu Wenan
Phone (212) 582-2599

China National Cereals, Oils & Foodstuffs Import and Export Corporation

Mr. Pu Jinxin
Mr. Cai Peikang
Mr. Liu Fuchun
Mr. Wang Yongkang

Financial Notes

Fujian Bonds?

Fujian bonds with par values of ¥500, ¥5,000, and ¥50,000 ($330, $3,300, and $33,000 at current exchange rates) may soon be issued by the Fujian Investment Enterprise Corporation (*CBR* July-August, p. 48). Designed to finance infrastructure and export processing projects in Fujian Province, the bonds will reportedly pay a fixed interest of 6 percent per year on 8-year bonds, 7 percent on 10-year bonds, and 8 percent on 12-year bonds. Interest and principal payments will be made each January in Chinese currency, free of any withholding tax.

The authorities obviously hope that the low interest rate on the bonds will still attract investors, given the anticipated appreciation of the Chinese yuan. During the past eight years the yuan has appreciated by 4.1 percent per year against the dollar. Thus, the effective yield to US investors would be 10.1 percent per year, provided that the yuan continues to appreciate at the same rate vis-a-vis the US dollar. More to the point, the Fujian authorities have promised strict confidentiality, thereby offering an investment haven to very wealthy overseas Chinese who wish to maintain their anonymity.

The total amount of the new issue "will depend upon what the provincial government of Fujian feels it can safely guarantee," Fujian's deputy governor and president of the Fujian Investment Enterprise Corporation, Zhang Yi, recently told the *Far Eastern Economic Review*. Bonds may be purchased at any time, and "there is no limit on the amount of bonds subscribed," Fuzhou Radio announced on January 23.

Capitalized at ¥100 million ($66 million), the Fujian Investment Enterprise Corporation is the sole guarantor of the bonds, having pledged itself "to honor the fixed principal and interest on the bonds," the Fuzhou Radio report said. The decision to issue the bonds was approved by the first session of the Fujian People's Congress on December 24, 1979. Higher approval was also obtained from China's State Council, the Bank of China, and from the Foreign Investment Control Commission, a new watchdog agency created last July 8 to approve joint ventures. The "chief agent" and trustee of the bonds is the Fuzhou branch of the Bank of China. Other sales agents are the Bank of China branch in Hong Kong and its sister banks.

The Fujian Investment Enterprise Corporation was established in Fuzhou last January to promote joint ventures and compensation trade in "special trade zones," principally in the port cities of Fuzhou and Xiamen (Amoy). The corporation held discussions with over 1,500 foreign firms in 1979, mainly on export processing deals, and has already received three floating-rate commercial loans: $8 million from the First National Bank of Chicago in June and another $20 million in October, and $10 million from the First City National Bank of Houston in October. The five-year First City loan is an untied general facility without commitment fee or commissions, and carries an interest rate of 0.5 percent over the London inter-bank offer rate (LIBOR), according to bank officials.

A puzzling aspect of the bond sale is that the authorities want to prevent a secondary market for Fujian bonds from developing, but are nevertheless issuing both registered and bearer bonds. Since the latter pay interest and principal to holders regardless of who owns them, sales between third parties are inevitable. To encourage sales through official agents only, Bank of China branches have agreed to repurchase bonds prior to their maturity.

Fujian Province has reportedly undertaken two previous bond sales: 1940 provincial production and reconstruction loan bonds, which are still outstanding, and ¥80 million in bonds or "shares" sold after 1949 to overseas Chinese. Long since repaid, the latter bonds were used to build 12 factories in the province. Fujian was one of 11 provinces and cities which sold bonds prior to the Cultural Revolution (1966–69) through special investment corporations. The Fujian authorities have so far declined to consider redeeming bonds which trace their origin to pre-1949 provincial agencies.

Two series of central government bonds have been issued since 1949; namely, 1950 Victory Bonds, which were denominated in commodity units, and about ¥3 billion in Economic Development Bonds issued during 1954–58, according to official sources. Both domestic issues were paid off by the end of 1968. —JS

RMB:Dollar Rates as of April 10, 1980

	RMB/US$	US¢/RMB
January 15		
Bid	1.4999	66.6711
Offer	1.4925	67.0017
Median	1.4962	66.8360
February 20		
Bid	1.5075	66.3350
Offer	1.4999	66.6711
Median	1.5037	66.5026
February 26		
Bid	1.5195	65.8111
Offer	1.5119	66.1419
Median	1.5157	65.9761
March 1		
Bid	1.5256	65.5480
Offer	1.5180	65.8762
Median	1.5218	65.7117
March 3		
Bid	1.5378	65.0280
Offer	1.5302	65.3509
Median	1.5340	65.1890
March 14		
Bid	1.5456	64.6998
Offer	1.5378	65.0280
Median	1.5417	64.8635
March 15		
Bid	1.5518	64.4413
Offer	1.5440	64.7668
Median	1.5479	64.6037
March 18		
Bid	1.5104	63.6780
Offer	1.5626	63.9959
Median	1.5665	63.8366
March 19		
Bid	1.5782	63.3633
Offer	1.5704	63.6780
Median	1.5743	63.5203
April 9		
Bid	1.5829	63.1752
Offer	1.5751	63.4880
Median	1.5790	63.3312
April 10		
Bid	1.5513	64.4621
Offer	1.5435	64.7878
Median	1.5474	64.6245

Source: Standard Chartered Bank, Ltd., New York

China Bookshelf

AGRICULTURE, FORESTRY, FISHERIES

FAO REPORTS

FAO reports on China are available from UNIPUB, 345 Park Avenue South, New York, New York. 10010.

Learning from China: A Report on Agriculture and the Chinese People's Communes, by an FAO Study Mission, September 9–October 5, 1975. Bangkok: FAO Regional Office for Asia and the Far East, 1977. 112 pages. $6.75. A study of Chinese people's communes as an example of integrated rural development. The transferability or relevance of the Chinese experience is considered.

China: Rural Processing Technology; the Role of County, Commune and Brigade Enterprises in China's Rural Development, by the FAO/UNDP study tour to China, September 28–October 27, 1978. Rome: FAO, 1978. FAO Agricultural Services Bulletin 36. 63 pages. $6. An evaluation by development experts who visited over fifty rural enterprises involved in the processing of agricultural products. Details are provided on the technology, management, and scale of operation of enterprises.

China: Forestry Support for Agriculture, report on an FAO/UNDP study tour to China, August 11–September 30, 1977. Rome: FAO, 1978. FAO Forestry Paper 12. 103 pages. $6.50. Detailed analysis of the Chinese approach to forestry development with special emphasis on how the Chinese experience might be applied to other developing countries. Plantation, shelterbelts, sand-dune stabilization, coastal windbreaks, watershed management, and afforestation of bare mountains are highlighted as major elements of forestry support for agriculture.

China: Integrated Wood-Processing Industries, report on an FAO/UNDP study tour to China August 20–September 17, 1979. Rome: FAO, 1979. FAO Forestry Paper 16. 69 pages. $6. Findings of a team that visited twenty wood-processing plants in China's coastal cities and northeastern provinces. Special attention is given to the relationship between the timber industry and the factories making equipment for wood processing and logging.

China: Recycling of Organic Wastes in Agriculture, report on an FAO/UNDP study tour to China, April 28–May 24, 1977. FAO Soils Bulletin 40. 107 pages. $6.75. Practical aspects and applicability of methods used in China are emphasized in the study of recycling of organic wastes. The extent and manner of use of manurial resources, biofertilizers, green-manure crops and aquatic plants, and biogas technology and utilization are discussed.

China: Azolla Propagation and Small-Scale Biogas Technology, report on an FAO/UNDP study tour to China, May 21–June 11, 1978. Rome: FAO, 1978. FAO Soils Bulletin 41. 81 pages. $6. A discussion of the propagation and agricultural use of azolla. Details on the construction, design, size, placement, and functions of biogas units in China.

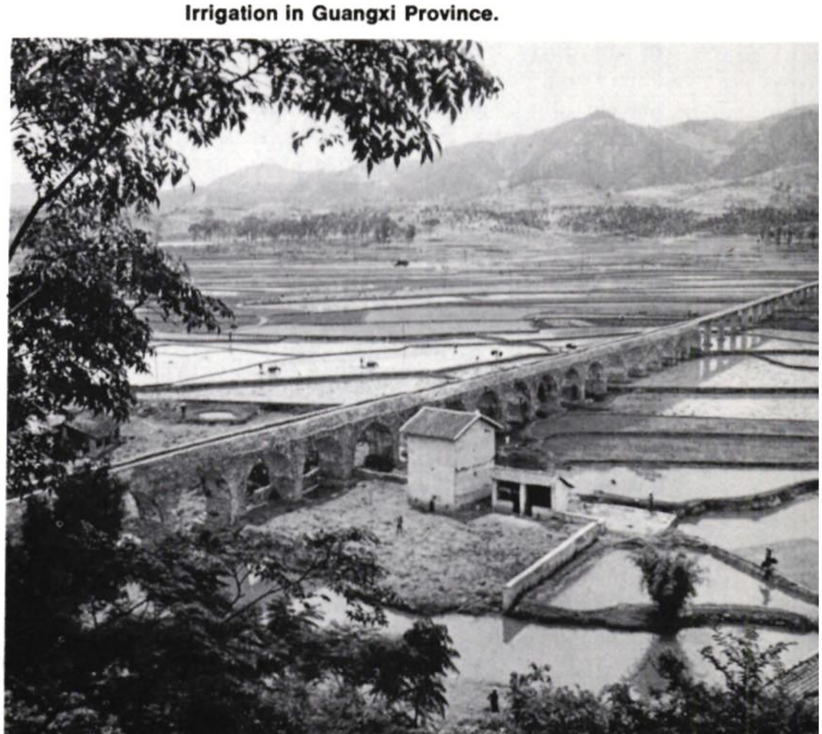
Freshwater Fisheries and Aquaculture in China, a report of the FAO Fisheries (Aquaculture) Mission to China, April 21–May 12, 1976. Rome: FAO, 1977. 84 pages. $6. Fisheries officials report on the integration of aquaculture with agriculture through land and water management in China, focusing on fish culture systems. Fish distribution and marketing and the socioeconomic aspects of the development of aquaculture are also considered.

Aquaculture Development in China, report on an FAO/UNDP study tour to China, May 2–June 1, 1978. Rome: FAO, 1979. 65 pages. $6. The observations of senior fishery specialists on the strategy of development of aquaculture and the policy and planning mechanisms contributing to China's success in integrating the farming of fish, crop, and livestock, with particular reference to polyculture and multiple stocking and cropping.

Artificial Propagation of Chinese Carps. Commentary for a filmstrip produced under the auspices of the FAO's Technical Cooperation Program at the Guangzhou Freshwater Experimental Fish Farm and Training Center.[1] 270 photos with captions. The advantages of different Chinese techniques for the propagation of four types of carp are discussed. —MG/KAB

[1] Not available through UNIPUB. Write FAO, Via delle Terme di Caracalla, 00100 Rome, Italy.

Irrigation in Guangxi Province.



Credit—Xinhua

Licensing Update

Technology Transfer Via Licensing: The Options

In the present setting of uncertainty, straightforward licensing or sublicensing agreements with the PRC may be a less risky venue for technology transfer than joint ventures requiring a long-term commitment of capital and human resources. The Chinese have recently expressed an interest in receiving proposals from American companies to license the production of microelectronic devices, locomotive parts, batteries, and ceramic materials. Food processing, construction equipment, and telecommunications are other potential categories.

China's New Flexibility

Much has changed since China shifted its emphasis from extreme self-reliance to deliberately inviting the flow of capital and technology from abroad. Desiring to minimize its dependence on, and obligation to, foreign interests, the PRC has traditionally resorted to direct, cash purchases of technology and equipment.

Following this pattern, licensors of manufacturing or process technology to the PRC have been paid by a "lump-sum" royalty calling for a 10–20 percent down payment on contract signing and the remainder tied to specific events before and after plant start-up; e.g., on shipment of technical data and the completion of product performance runs.

In addition to traditional payment methods, the Chinese are now more willing to assume long-term "running royalty" obligations, essentially a form of credit, for the right to license another's technology.

As early as 1964, the Chinese agreed to sublicensing agreements with running royalty payments calculated in terms of a proportion of annual plant output plus an interest charge. In a 1964 agreement concluded by the Swiss company Sulzer Bros. with TECHIMPORT, the licensing fee was based on the total number of horsepower units produced by the factory each year. Chinese authorities did not permit the company to send on-site inspectors to verify the Chinese count of horsepower output. Sulzer's contract, interrupted by the Cultural Revolution, was renegotiated in 1972, with the "running royalties" scheme intact.

Since then, the PRC has accepted running royalty provisions in licensing agreements with Austrian, French, Japanese, and West German firms. A recent case, signed in 1978 by Alsthom-Atlantique's Pielstick, calls for royalties based on output of marine diesel engines—but with a minimum yearly payment stipulated as insurance against future political vicissitudes.

Another recent example involves the West German company EUMUCO which has concluded two license agreements with the Second Heavy Machinery Works, Deyang, Sichuan, involving royalties based on units sold as well as a basic fee. The Chinese factory is marketing the products, a 4,000-ton hot die forging press and billet shear with mechanical drive, abroad via EQUIMPEX, with EUMUCO's name plated on the equipment side by side with that of the Chinese manufacturer.

According to one US licensor of synthetic fiber technology, there is little incentive for American companies to favor running royalty payments over the lump-sum arrangement. "Most companies would prefer financial compensation as quick as possible rather than incurring the risks of having it spread over 10–15 years," one company spokesman said. "What would happen if there was a political upheaval and the plant closed down . . . there wouldn't be any payments."

Indeed, the intricacies of politics in centrally planned economies have caused some US licensors, such as UOP Inc., to refuse to even discuss running royalties as a method of payment by potential licensees in the Communist world.

US firms worried about any ultimate loss of competitive advantage have also expressed skepticism over concluding licensing agreements that transfer top-of-the-line industrial know-how to the PRC. One US manufacturer of photoresistors, approached on the possibility of setting up a factory in China, indicated that it would be happy to supply the finished product and limited technical assistance but not a production license.

Beyond Pure Licensing

The focus of recent PRC license purchasing has been on the assembly and production of machinery, aircraft, and marine vessels. Because this demands intensive step-by-step cooperation between the buyer and seller, prospective US partners in the PRC's future industrial development may strike a responsive chord by proposing appropriate technology licenses in the context of cooperative production (see *CBR* Nov.-Dec. 1979, p. 20).

Given the pressures to use foreign cash reserves to finance foreign purchases in the petrochemical sector alone, China may find combined licensing and coproduction ventures quite appealing.

Meanwhile, steps are slowly being taken to create a structure compatible with Western licensing interests. Beijing's commitment to entering and gaining the acceptance of the international legal community is indicated by its imminent joining of the Convention for the Protection of Industrial Property. Chinese personnel have recently undergone training at the US Patent Office, and at similar offices in Japan and other countries, so that they will be prepared to implement the patent system when it's enacted into law. The system, expected to go into effect "very soon," administered by China's Science and Technological Commission, will weld the best of the US, German, and Japanese systems with China's own needs. —KAB 完

CHINA: 1980 SALES AND NEGOTIATIONS THROUGH APRIL 1

The following chart contains recent reports of sales and negotiations exclusive of those listed in previous issues. The total value figure for sales includes only those deals which are listed as contracts or deals signed/won/secured/concluded. All others are counted as negotiations.

Company/Country	Product/Plant/Technology	Value Million US $ (Local Currency If Known*)	Status Date Announced
Agricultural Commodities			
Aracruz Cellulose SA (Brazil)	Bleached eucalyptus pulp (5,000 tons)	NVG	Shipped 9/79
(Sri Lanka)	Rice (200,000 tons) for 1980 under rubber-rice barter agreement	NVG	Will negotiate 11/20/79
Appin, Argyll and Kippen, Stirling (Scotland)	Live mink (850)	Almost $0.1 (almost £50,000)	Bought 12/2/79
United Coconut Oil Mills (Philippines)	Coconut oil (12,000 tons)	$10.8	Deal concluded 12/5/79
Fiji Forest Industries (Fiji Islands)	Timber (20,000 cubic meters)	$8	Negotiation 12/5/79
Intraco (Singapore)	Plywood	$0.93 (S$2 million)	Contract secured 1/4/80
(US)	For 1980: Wheat (1.2 million tons) Corn (891,000 tons) Soybeans (450,000 tons) Cotton (2.1 million tons)	NVG	Contract 1/20/80
(Thailand)	Corn (100,000 MT)	NVG	Prepared to sell 2/28/80
(Malaysia)	Round logs (over 4,500 tons)	Approximately $1	Order 2/80
Agricultural Technology			
(Australia)	Joint venture to set up facilities for cutting sugar cane and manufacturing sugar	NVG	Under consideration by CITIC 1/80
Chemical Plants and Equipment			
ACTIP (subsidiary Bastogi Holdings) (Italy)	Design and construction of 7 petrochemical plants near Beijing	NVG	Preliminary agreement signed 2/20/80
Chemicals			
(Japan)	Urea (450,000 tons), ammonium sulfate (300,000) for first-half of 1980	NVG	Agreement reached 2/27/80
Coal, Other Mineral Mining Development and Technology			
V. K. Narasimhah Co. (W. Germany)	5-year compensation trade agreement with ARTCHINA for diamond processing	NVG	Agreement signed 12/28/79
(Japan)	12 coalfields and 2 copper mines for joint development under $1 billion loan from Ex-Im Bank of Japan	NVG	PRC has submitted list 2/8/80
Mitsui Mining (Japan)	Development of Datong coal deposits in Shanxi Province	NVG	Negotiation 3/26/80
Construction Equipment			
Kaiser Cement Corp. (US)	Joint venture for construction and operation of cement plant (1.4 million MT/year)	NVG (total value: $200)	Are establishing 1/17/80
Blue Circle, Ingeco Laing, Laing International (UK)	Cement plant (300,000 tons) in Guangzhou	NVG	Will submit proposal 1/17/80

CHINA: 1980 SALES AND NEGOTIATIONS THROUGH APRIL 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local Currency If Known*)	Status Date Announced
(W. Germany)	Joint venture to establish excavation factories in northeast Manchuria	NVG	Under consideration by CITIC 1/80
International Harvester (US)	Construction machinery to equip reforestation project in Jilin Province	NVG	Order received 2/13/80
Mitsubishi Heavy Industries Ltd., Mitsubishi Mining & Cement, Meiwa Trading Co. (Japan)	Cement plant (4,000 MT/day)	$47	Signed contract 2/13/80
Consumer Goods			
B.A.T. (UK)	Agreement for collaboration with Chinese tobacco industry; covers introduction of high-speed cigarette-manufacturing machinery; includes training of personnel and supervision	NVG	Agreement signed 1/11/80
R. J. Reynolds Tobacco (US)	Manufacture and sale of Camel filter cigarettes; also provides for development of new jointly owned brand to be sold in Far East	NVG	Agreement signed 2/26/80
Electronics			
Photomec (London) Ltd. (UK)	Modular film processor	$0.12 (£57,000)	Order placed 11/21/79
IBM (US)	IBM System 3033 for Chinese Academy of Sciences	NVG	Negotiation 11/21/79
Stanford Technology Corp. (US)	Image processing equipment	$2+	Contract signed 12/24/79
Intraco (Singapore)	Color TV sets, black-and-white picture tubes, and cassette recorder parts	NVG	Negotiation 1/9/80
Sanyo Electric (Japan)	Manufacture of radios (500,000 sets/year) and tape recorders (100,000/year) in Zhumchun	NVG	Contract signed 1/10/80
Sanyo Electric (Japan)	Joint venture for construction of refrigerator compressor plant (500,000 in first full year) in Shanghai	NVG	Has reached basic agreement 1/11/80
Sord Computer System Inc. (Japan)	Assembly of small computers in Tianjin for export	NVG	Basic agreement reached 2/6/80
Scintrex (Canada)	Computer system to interpret geophysical data obtained by a DHC-6 twin Otter aircraft	$1.1	Contract signed (subject to export license approval) 2/11/80
Hitachi (Japan)	a) 2 units of HIDIC 80-E Model Computer and a data-processing unit for Ministry of Power	$2.07 (¥500 million)	Contract 2/13/80
	b) 4 units of HIDIC 80-E and 2 units of HIDIC 08-E for Ministry of Railways	$6.22 (¥1.5 billion)	
Microdata Systems (Hong Kong)	30 Radio Shack TRS-80 microsystems for Chinese Academy of Sciences	Almost $0.1	Sold 2/80
Toshiba (Japan)	Assembly plant for 150- and 200-liter refrigerators	NVG	Sales negotiations concluded 2/80
Hewlett-Packard (US)	5 HP3000 Series III computers ordered by United Nations Development Program for the PRC	$1.8	Deal concluded 2/18/80
Pertec Computer (US)	XL 40 distributed data system	$0.15	Deal concluded 3/3/80

CHINA: 1980 SALES AND NEGOTIATIONS THROUGH APRIL 1—Continued

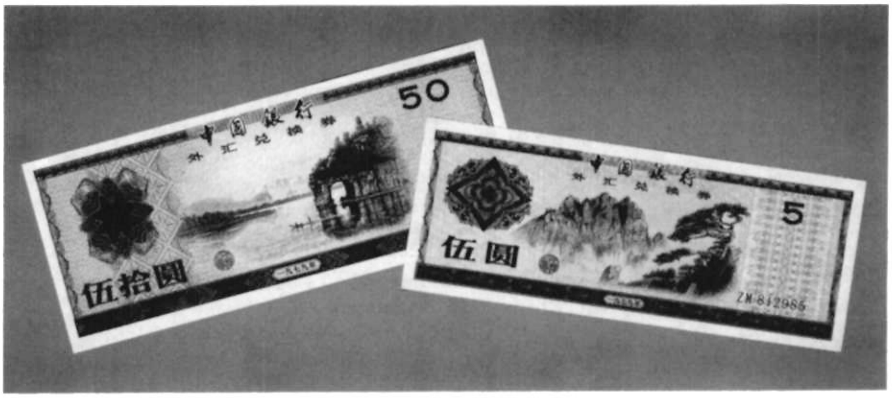
Company/Country	Product/Plant/Technology	Value Million US $ (Local Currency If Known*)	Status Date Announced
Aiwa Co. (Japan)	Joint venture to produce radio cassette recorders	NVG	Negotiation 3/21/80
Machinery			
Weir Pumps (UK)	Pump sets to supply water to power station boilers	$2.86 (£1.3 million)	Contract signed 12/20/79
Tolex Alpha Ab (Sweden)	5 completely automatic record (disc) presses	$0.37	Order 1/11/80
Smiths Industries (UK)	Manufacture of spark plug manufacturing facility near Nanjing	$8	Contract 1/23/80
Crabtree Vickers (UK)	Three-color presses	$0.45 (£200,000)	Contract won 1/23/80
Orient Leasing Company (Japan)	Agreement to form joint leasing company to lease machines and equipment inside and outside China	NVG	Agreement signed 1/31/80
Brinesco (UK)	High-temperature kilns for spark plug facility; subcontracted from Smiths Industries	$1.13 (£500,000)	Contract 2/13/80
Tateshi (Japan)	Joint venture for manufacture of numerating and ticket-vending machines	NVG	Negotiation 2/13/80
Lawrence Scott and Electromotors Ltd. (UK)	24 high-tension electric motors for 4 power stations	NVG	Order 2/14/80
Newman Electric Motors (UK)	150 flameproof electric motors for installation in 2 oxy-alcohol plants; subcontracted from Davy International	$0.18 (£80,000)	Contract received 2/27/80
AEG Kanis Turbinenfabrik (unit of AEG-Telefunken AG) (W. Germany)	9 steam turbines for a chemical plant	$7.51 (DM 13 million)	Order received 3/8/80
Froude Engineering (UK)	2 F0359 hydraulic dynamometers	$0.16	Contract signed 3/12/80
Monotype (UK)	Electronic typesetting system	$0.5	Will supply 3/12/80
Data Card Corp. (US)	MICR/alphanumeric checkbook-printing equipment	$0.25	Order received 3/80
Schindler Holdings AG and Jardine Schindler (Far East) Holdings S.A. (UK, Switzerland)	20-year manufacturing accord for joint venture to manufacture elevator equipment	NVG	Contract signed 3/27/80
Metal Mining and Processing			
Tees Components (UK)	Machine parts for 3 dredgers for gold-mining; subcontracted from Mining and Transport Engineering (Netherlands)	$1.1 (£0.5 million)	Order won 12/14/79
Wright Engineers Ltd. (Canada)	Feasibility study for gold mine in Shandong	NVG	Contract signed 2/22/80
Davy McKee Corp. (subsidiary Davy Corp.) (UK)	Feasibility study for gold mine in Shandong for production expansion at the Chio and Hsian Hsen mines	NVG	Contract obtained 2/26/80
Military Equipment			
Marconi Space and Defense Systems (UK)	5 Field Artillery Control Equipment (FACE) sets	$2.2 (£1 million)	Contract 12/6/79
Petroleum and Natural Gas Development and Refining			
Tricentral (UK)	Geophysical exploration near Pearl River Estuary	NVG	Agreement signed 1/2/80

CHINA: 1980 SALES AND NEGOTIATIONS THROUGH APRIL 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local Currency If Known*)	Status Date Announced
EG & G (US)	Geophysical systems used in airborne, marine, and ground exploration for minerals and petroleum, and a complete computer system and related geophysical software	$2.5	Contract received 2/4/80
Summit Industrial Corp. (US)	Development of oilfield near Shanghai	NVG	Negotiation 2/9/80
Iwatani (Japan)	Joint venture to set up LPG production	NVG	Iwatani has been asked 2/13/80
(France)	Geophysical exploration of oil resources in Qinghai Province	NVG	Agreement 3/7/80
Pharmaceuticals			
Eisai Co. (Japan)	Agreement to offer analysis, extraction, purification know-how of livestock organs for production of pharmaceuticals	NVG	Basic agreement 12/18/79
Swedish Pharmaceutical Industry Association (Sweden)	Agreement for joint marketing and production study; establishment of joint production and marketing company in Beijing	NVG	Agreement signed 2/27/80
Power Plants and Equipment			
Alsthom-Atlantique (France)	Materials and technology for autotransformers used in energy transport lines	$9.83 (Fr 40 million)	Contract signed 11/21/79
Babcock Product Engineering (UK)	Coal pulverizing mills and equipment for conversion of power stations from oil to coal firing	$12.1 (£5.5 million)	Contract won 12/12/79
Ohbayashi-Gumi, Ltd. (Japan)	Raw materials and equipment, technical guidance for Baoshan thermal power plant	$0.64 (¥153 million)	Contract concluded 2/12/80
BIIC Bryce Capacitors (UK)	1,000 high-voltage power capacitors	$0.4 (£180,000)	Order received 2/27/80
China Light & Power Co. (Hong Kong)	Joint venture to build nuclear power plant	NVG	Tentative agreement to study feasibility of project 3/15/80
(US)	Technical assistance for 4 hydroelectric power projects	NVG	Agreement signed 3/17/80
Shipping			
East Asiatic Company Ltd., Sea Containers Inc. (Denmark, US)	Joint venture to establish and operate marine container factory	NVG	Agreement signed 1/14/80†
Magnavox (US)	Agreement with Cosco to act as agent in PRC. Magnavox depots to be established in Shanghai, Guangzhou, Tianjin. Will provide computerized satellite navigating equipment and technical training	NVG	Agreement signed 1/14/80
World-Wide Shipping Group, World Finance International Ltd. (Hong Kong)	Joint venture with China Corp. of Shipbuilding Industry and China National Ship Chartering Co. The venture will have a capital of $50 million	NVG	Agreement signed 3/26/80
Steel Plants and Equipment			
Nisshin Steel Co. (Japan)	Technical cooperation for continuous coating line for manufacture of coated steel sheets at Wuhan steelworks	NVG	Will submit draft plan 11/13/79
Mitsubishi Heavy Industries (Japan)	Hot strip mill (4 million tons/year) for Baoshan Steel complex	$341.6	Order received 3/25/80
Combustion Engineering (US)	Engineering and technology for proprietary coking process for steelworks at Shanghai; subcontracted from Nippon Steel	NVG	Contract 3/26/80

CHINA: 1980 SALES AND NEGOTIATIONS THROUGH APRIL 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local Currency If Known*)	Status Date Announced
Steel and Steel Products			
(Singapore)	Prefabricated steelwork for 5 steam reformer furnaces; subcontracted from KTI (Netherlands)	NVG	Contract 11/21/79
(Japan)	Seamless steel pipes (150,000 MT) for first-half of 1980	NVG	Agreement reached 2/22/80
John Lysaght (Australia) Ltd. (subsidiary of Broken Hill Pty.) (Australia)	Galvanized and cold steel rolled sheets	$10	Sold 3/8/80
Dalmine Steel Corporation (Italy)	Rolled steel sections for oil and for use in thermo-electric power stations	NVG	Deal concluded 3/15/80
Telecommunications			
Spar Aerospace Ltd. (Canada)	Update design of satellite earth station sold to PRC	$1.1	Negotiation 11/15/79
Textile Plants and Equipment			
Bidermann (France)	Manufacture of 350,000 shirts in Shanghai under the Yves St. Laurent label for export to the US	NVG	Agreement signed 10/79
Kanebo Ltd. (Japan)	Polyester chip plant (200,000 MT/year) near Shanghai	$67 (¥16 billion)	Deal clinched 1/9/79
Sanforized Co. (US)	Sanfor-Set liquid ammonia process machine	NVG	Negotiation 2/11/80
Textiles			
(Japan)	Polyester staple (7,500 MT) for delivery April–June 1980	NVG	Contract 2/6/80
Toray Industries (Japan)	Polyester staple to be shipped to PRC for spinning; yarn to be transported to Thailand and Indonesia for weaving and finishing	NVG	Has begun shipping 2/13/80
Tourism			
Philips (Hong Kong) Ltd. (Hong Kong)	Supply and installation of Philips hotel equipment and TV sets for Dong Fang Hotel in Guangzhou	NVG	Contract signed 12/19/79
Dusit Thani Corp. (Thailand)	Construction of 500-room hotel at Shenzhen, Guangdong	$25	Contract signed 3/12/80
Dairy Farm (Hong Kong)	Joint venture for aircraft catering service at Beijing International Airport	NVG	Announced 3/27/80
Transportation Equipment			
(USSR)	900 "Volga" cars	NVG	Contract 12/4/79
Nissan Motors (Japan)	251 trucks	NVG	Order won 12/24/79
Metzeler Kautschuk (W. Germany)	Tire manufacturing equipment	NVG	Sold 12/24/79
(USSR)	"Antonov 30" transport planes and "MI-6" and "MI-8" helicopters	NVG	Has supplied 12/79
(UK)	5-year agreement to cooperate in the modernization of China's 31,250-mile railway network	NVG	Agreement signed 12/79
Bell Helicopter (US)	Components of 20 Bell 212 and 30 412 helicopters to be assembled at factory in Harbin	NVG	Memorandum of Understanding 2/2/80



CHINA'S NEW SCRIP

As of April 1, China issued new foreign-exchange certificates, equivalent in value to yuan, which are now the only form of currency foreigners can use in China. Available in denominations of 50, 10, 5, 1, and 0.10 yuan, this new scrip may have been issued to stem a rising black market in foreign currencies in the PRC.

CHINA: 1980 SALES AND NEGOTIATIONS THROUGH APRIL 1—Continued

Company/Country	Product/Plant/Technology	Value Million US $ (Local Currency If Known*)	Status Date Announced
Daihatsu Motor Co. (Japan)	Remodeling of mini-truck plant in Shenyang, Liaoning Province	NVG	Basic agreement reached 2/12/80
Pratt and Whitney Aircraft of Canada Ltd. (Canada)	Coproduction proposal for turboprop PT 6 engine	NVG	Negotiation 2/13/80
Toyo Radiator Co. (Japan)	Joint venture to produce radiators to equip trucks or other motor vehicles	NVG	Has been asked by the PRC 3/4/80
Yamaha Motor Co. (Japan)	Joint venture for production of motorcycles	NVG	Negotiation 3/4/80
Miscellaneous			
J. H. Dent and Sons Ltd. (UK)	35 sets of Everyman's Encyclopedia	NVG	Order received 11/79
Kubota Ltd., Rain Bird Technical Services (Japan, US)	Design and installation of gravity-flow sprinkler system	NVG	Contract 1/9/80
Yokohama Rubber Co. (Japan)	16 fixed-type pneumatic rubber fenders "ABF" for piers of Beilun Port	$0.5 (¥120 million)	Order received 1/22/80
Born International (UK)	Furnaces for petrochemical plants in Nanjing and Shanghai	$7.4 (£3.3 million)	Deal 1/23/80
Litton Educational Publishing (US)	Agreement with Science Press of China to have first option on all new books developed by Science Press expected to be copublished in English	NVG	Contracts signed 2/80
Nielson-Ferns International (Canada)	Several episodes of the "Cities" series, (13 one-hour programs featuring international personalities touring different cities)	NVG	Sale 2/11/80
Transplex, Inc. (US)	Sole Western agent for China Central Television (CCTV)	NVG	Agreement 2/13/80
K. Hattori & Co. (Japan)	Joint venture with Peking Watch & Spectacle Co. for Seiko watch store in Beijing to sell and repair Seiko watches	NVG	Contract 3/11/80
Lancy (Effluent Treatment) (UK)	Complete effluent plant	$0.25	Contract won 3/12/80

Total Value of 1980 Sales Through April 1‡ $222.47 million+
Total Value of 1980 Negotiations Through April 1‡ $361.95 million+

NVG = No Value Given
* Dollar conversions at month-end rates quoted in IFS (IMF).
† Date contract signed. All other dates are when sale or negotiation was announced.
‡ Some 1979 deals are also included, since they were not reported in the last issue of *CBR*.

Table prepared by Marie-Louise de Vegvar

The National Council for US-China Trade Officers and Staff

1050 17th Street, NW, Suite 350, Washington, DC 20036 USA

OFFICERS

Chairman: John C. Brizendine
Vice Chairmen: William Anderson, J. Paul Austin, David Rockefeller
Secretary-Treasurer: G. A. Costanzo
Counsel: Walter Sterling Surrey
President: Christopher H. Phillips

WASHINGTON STAFF

President: Christopher H. Phillips
Special Assistant to the President: John R. Dewenter
Vice President: Stanley Young
Administrative Assistant: Sally Aldridge

Publications, Research, and Planning
Executive Director: Nicholas H. Ludlow
Research Associate: Kenneth I. Bowman
Executive Secretary: Lora F. McClure
Assistant: James A. Stevens

Exporter Services
Director: Norman W. Getsinger
Assistant Director: Harold C. Champeau
Assistant Director: Ernest C. Staber
Assistant Director: Richard Gillespie
Administrative Assistant: Gervaise Lee
Executive Secretary: Mary Tuck
Executive Secretary: Carolyn Eastham

Importer Services
Director: Carolyn Brehm
Associate: Jean B. Jones
Assistant: Irene Vlitos

Delegations Department
Director: Stephanie R. Green
Assistant Director: I-chuan Chen
Assistant Director: Scott D. Seligman
Projects Assistant: R. Gillian Leavitt
Administrative Secretary: Susan L. Schaefer
Secretary: Dianne Beal

Library
Librarian: Marianna Graham
Assistant: Marie-Louise de Vegvar
Assistant: Ramona Skeete

Promotion, Publications Sales and Subscriptions
Manager: Suzanne M. Swim
Assistant: Sandra Bucci

Administration
Office Manager: Patricia P. Caperones
Accounts: Richard L. Peterman, Jr.
Receptionist: Juliet Carr
Assistant Office Manager: Ayn Summers
Administrative Assistant: Mary M. Connin
Office Assistant: Timothy P. Gallagher

COMMITTEE CHAIRMEN (EXPORTERS)

Agricultural Machinery: Robert J. Nicolazzi, Ford Tractor Operations

Agriculture: Earl Morgan, FMC Corp.

Banking and Finance: Mark Buchman, Manufacturers Hanover Trust

Construction Machinery and Equipment: J. Z. Han, Caterpillar Tractor Company

Exhibitions: Saul Poliak, Clapp & Poliak

Food Processing and Packaging Machinery Equipment: Robert W. Coughlin, Pneumatic Scale Corp.

Legal: Walter Sterling Surrey, Surrey and Morse

Mining and Metallurgy Industry: Charles J. Falzone, Joy Manufacturing Co.

Petroleum Processing: John S. Baldwin, Esso Eastern Inc.

Petroleum Production: Forrest A. Garb, H. J. Gruy & Associates, Inc.

Pharmaceuticals and Medical Devices: Adolph Sinkow, Brotherston Hospital Supply Company

Telecommunications and Electronics: Donald L. Miller, Rockwell International Corp.

Transportation: James S. Ross, Rockwell International Corporation

COMMITTEE CHAIRMEN (IMPORTERS)

Importers Steering Committee
Chairman: Robert Boulogne, J. C. Penney Co.

Vice Chairman: Charles Rostov, Trans-Ocean Import Co.

Import Subcommittee and Chairmen:
Chemicals: Co-Chairmen: David Cookson, Sobin Chemicals; Charles Haffey, Pfizer International, Inc.

Foodstuffs/Native Produce and Animal By-Products: Co-Chairmen: Murray Berger, Seabrook International; Lewis Shanks, WJS, Inc.

Light Industrial/Handicrafts: Co-Chairmen: Charles Rostov, Trans-Ocean Import Company, Inc.; Lee Sobin, Friendship International

Minerals and Metals: Co-Chairmen: Eric Ho, AMAX, Inc.; Wiliam Rudolph, Phillips Brothers

Textiles: Co-Chairmen: Marc Kunen, Maven International Inc.; Veronica Yhap, Dragon Lady Traders, Inc.

MAGAZINE STAFF

Editor: Nicholas H. Ludlow
Managing Editor: James B. Stepanek
Assistant Editor: Edith B. Terry
Staff Writers: Karen Berney, Dori Jones
Research Assistant: Marie-Louise de Vegvar
Contributing Editors: Stephanie R. Green, Kenneth I. Bowman
Copy Editor: Meleen O. Harben
Production Assistant: Donna McDonald
Designer: Louise Levine

NATIONAL COUNCIL TELEPHONE NUMBERS

Main Number: (202) 828-8300
Publications: (202) 828-8350
Publication Sales: (202) 828-8326
International Cable Address: USCHINTRAD
Telex Number: 89-7416
Beijing Office: Richard Glover, Beijing Hotel, Room 1105
Hong Kong Liaison: American Chamber of Commerce in Hong Kong (AMCHAM)
10/F, Swire House, Hong Kong
Telephone: 5-260165
Cable: AMCHAM
Telex: 83664 AMCC HX

Your Representatives in Beijing, Guangzhou, Shanghai

The American Embassy staff in Beijing will be happy to assist you; please feel free to call them when you are in China's capital.

Commercial: Walter C. Lenahan, Chief
Officers: Phil Lincoln, David L. Denhy, Mary Von Briesen, Kaarn Weaver
Agricultural Representative: William Davis (FAS/USDA)
Telephone: 522033, Ext. 215/216
Address: 17 Guanghua Road
Cable: American Embassy

American consular facilities are now available in Guangzhou and Shanghai.

Guangzhou Consulate General
Consul General: Richard Williams
Address: Dong Feng Hotel

Shanghai Consulate General
Consul General: Donald M. Anderson
Address: 1496 Huaihai Road

McGraw-Hill helps you do business in the People's Republic of China.

You know how advertising in McGraw-Hill magazines helps your company contact prospects, arouse interest in products, overcome sales resistance, and create preference when you're selling to businesses here in America.

But you may not know that McGraw-Hill's *American Industrial Report* can do the very same things to help you sell to your toughest prospects in the People's Republic of China. And you also may not know that *American Industrial Report,* as the first US technical magazine accepted into modern China, has more than seven years of experience and marketing expertise.

Obviously, the People's Republic of China is an important new market for American manufacturers. *American Industrial Report* writes only about American technology and carries advertising only from American suppliers.

There are almost 1 billion Chinese. McGraw-Hill's American Industrial Report reaches the .1% you need to do business with.

Every month, *American Industrial Report* reaches 35,000 end-users, engineers, managers, Foreign Trade Corporation and ministry officials. With an estimated pass-along of 50 readers per copy, that gives you exposure to 1 million Chinese—the .1% of the population who, as key decision-makers, are your key prospects.

American Industrial Report also helps you reach them in their own language. With free translation of your advertising copy into modern Chinese characters — the kind used in technical journals in the P.R.C., not Hong Kong or Singapore. We also give you free, expert advice on how to avoid the kind of political and cultural errors that could alienate or confuse the very people you're trying to sell to.

American Industrial Report given key role by US Department of Commerce.

As the magazine about American technology and American manufacturers, we are making every effort to support the activities of the Department of Commerce to insure that the historic US National Trade and Economic Exhibition in Beijing November 17-28, 1980 is the most successful industrial show ever held in China!

Each month, *American Industrial Report* will devote editorial to the Exhibition, creating advance awareness about the show in China. This will provide an effective advertising environment for exhibitors as well as for those who are not participating in the show but want to achieve corporate and product identification within China's trade community.

A free guide to selling in the P.R.C.

American Industrial Report would like to share what it's learned over more than seven years of serving end-users in the People's Republic of China.

We've put it all into a free 84-page guidebook, which you can get by writing *American Industrial Report,* 1221 Avenue of the Americas, New York, New York 10020. Or calling Jane Sharp at 212-997-2807.

McGraw-Hill Magazines