The China Business Review

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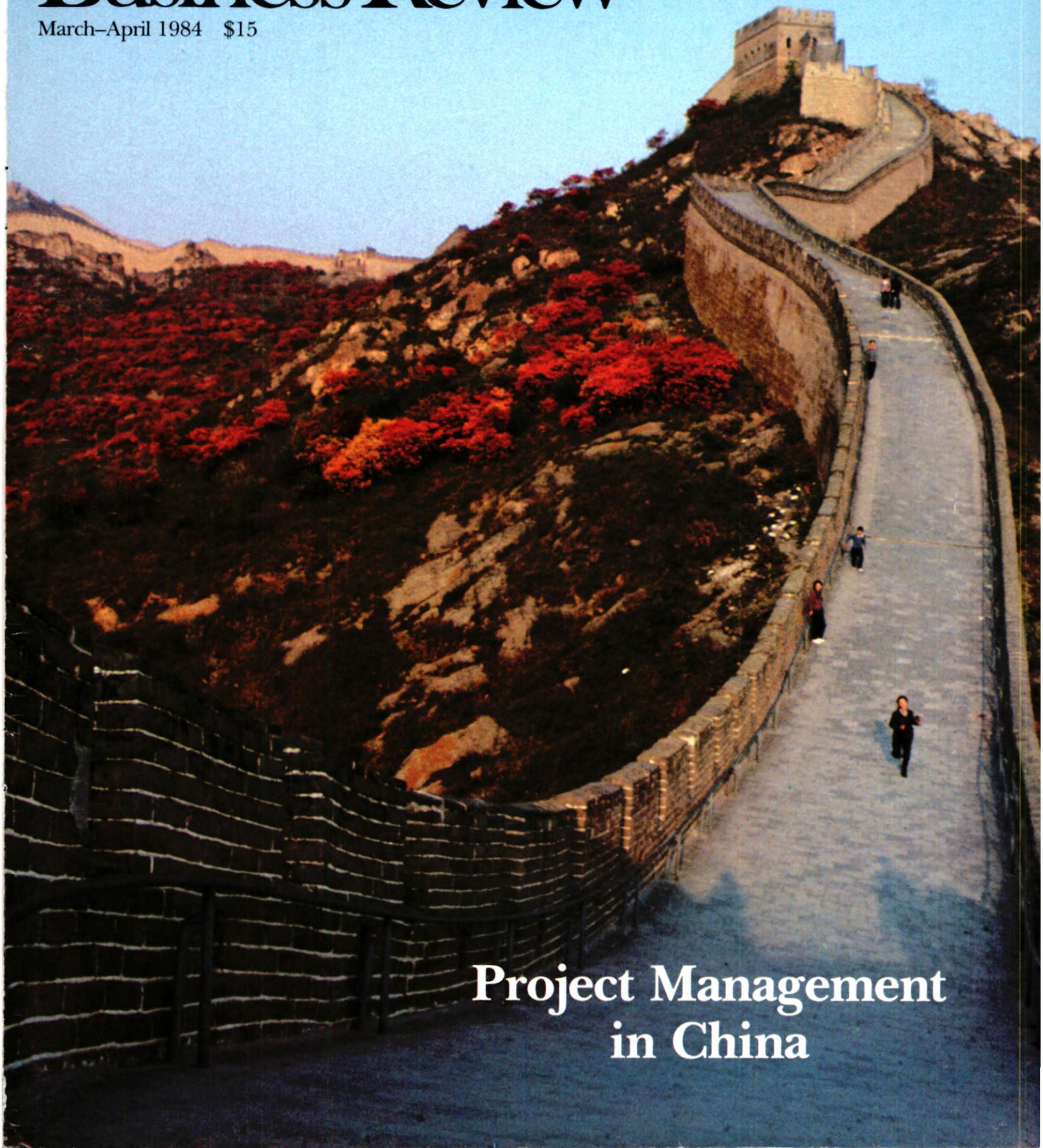

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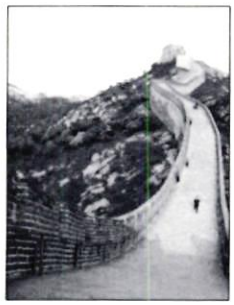
The China Business Review

The magazine of the National Council for US–China Trade

March–April 1984 Volume 11, Number 2

Cover: Wider attention is being paid to key projects that come in ahead of schedule and under cost. **Page 20.** *Photograph by James L. Stanfield, © National Geographic Society.*



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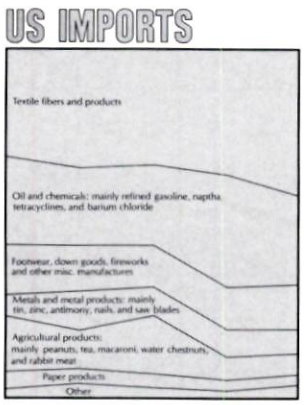

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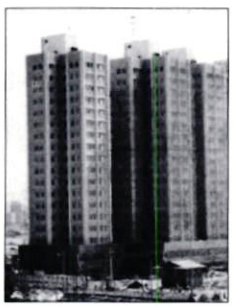

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摘要

"TOO MANY FINGERS"

The March 15 announcement that China would "tighten up" foreign trade set off a flurry of speculation that China's experiments with foreign trade decentralization had been called to a stop and, even worse, that perhaps Beijings's "open door" policy itself might be next.

But China's foreign trade establishment no longer speaks with one voice. At the same time that Huang Wenjun, spokesman for the Ministry of Foreign Economic Relations and Trade (MOFERT), was saying that "too many fingers were in the pie" (a warning that a few fingers should be withdrawn before MOFERT lopped them off), other top government officials in the Bank of China, Shanghai's foreign trade leadership, and PRC-owned trading firms in Hong Kong were calling for even greater decentralization. Clearly, decentralization is not necessarily on the way out. Rather, those who may want this to happen are simply raising the issue again. —JBS

FOREIGN INVESTMENT DELAYS

Statistics released this spring show that 1983 was a successful investment year for China. The total number of approved joint equity ventures, both in and outside the special economic zones, reportedly now stands at 188:

	Joint ventures	
	In SEZs	Outside SEZs
1980	—	20
1981	10	20
1982	25	8
1983	68	37
Total	**103**	**85**

A closer look at the results, however, shows that these and other types of investment projects continue to be plagued by long delays. In fact, less than 15 percent of the nearly $3 billion in investment pledged to the four special economic zones of Shenzhen, Zhuhai, Shantou, and Xiamen has actually materialized. The rest is still on the high seas, in boxes awaiting shipment, or more likely still in the form of words surrounded by caveats such as "pending the successful completion of phase one." Significantly, the Chinese authorities claimed back in 1981 that nearly $2 billion had been pledged to the four SEZs, implying that few contracts were signed in 1982 and 1983 (which wasn't the case) or more likely that many of the early contracts have been scaled down or were never implemented. —JBS

THE INVISIBLE FOOT

The economist Joseph Berliner reportedly said half-jokingly that in the real world companies are not driven by the "invisible hand" as much as by the "invisible foot." This is like saying that a company, say Xerox, isn't lured by bigger profits, which is what Adam Smith meant by the "invisible hand," but by the fear that unless it provides better service and products someone else will.

Although the original home of the lightening karate kick, the invisible foot in China is today pretty lame. This was amply demonstrated in a recent *China Daily* article about the Qiqihar Auto Plant. "While the State kept pouring millions of yuan in subsidies" the 1,700 workers and staff at the Qiqihar plant managed to produce only a "few dozen" 10-ton trucks each year. "Closure came as a shock," the report added, but by 1983 the State Economic Commission had decided to pull the plug. It is interesting that bureaucratic momentum can keep an ordinary medium-size plant going in a poor country like China for 13 years even when it costs the government nearly $2,500 per worker in subsidies. These funds would have sufficed to clothe, feed, and otherwise totally support a Chinese village of 15,000 people for one year.

Fear of the invisible foot may be creeping back into Chinese commercial consciousness, however. For example, when conservative Chinese officials criticize Beijings's open-door policies toward foreign investment, the fear most often expressed is that the presence of foreign firms in China is unleashing competitive forces that threaten backward enterprises that produce low-quality goods.

Their fear is justified, of course. But it is equally clear that foreign investors should have no illusions about the profound social role they are being called upon to play. A soccer referee may be neutral, but the star kicker never is. —JBS

FROM PEKING DUCK TO DONALD DUCK

You might think a nation with a culinary history of many millenia would gulp twice at the idea of fast food. Think again.

The Chinese authorities cannot keep up with the increased demand in large cities for convenience and fast foods. Their goal is to supply one easy-to-make meal per day for 10 million workers by the end of 1991. The nation's food industry has already begun to respond.

Between 1980 and 1982, the yearly output of instant noodles in Beijing, Shanghai, Tianjin, Guangzhou, and Wuhan increased fourfold, to 36,000 tons. Bread production jumped two and one-half times from the beginning of 1981 to the end of 1982.

But urban China's taste for fast food extends far beyond these common staples. According to the Ministry of Light Industry, China is developing corn flakes, wheat flakes, hot dogs, hamburgers, sausages, and potato chips, as well as fast food versions of such traditional snacks as spring rolls and *jiaozi* or dumplings.

Already shoppers are beginning to notice a wider variety of convenience foods, compared with the meager processed food items available in a few locations around the city in 1978. According to Xia Chuandun, director of the municipal office in charge of planning and developing Beijing's food industry, "investment in the city's food industry in the last three years amounts to ¥250 million, more

than the total investment from 1950 to 1980." Today, some 23 "supermarkets" in Beijing stock more than 160 varieties of convenience and processed foods.

For those who are too hurried or too tired to cook the Chinese equivalent of a TV dinner, fast food still seems to be the answer. In mid-1983, the US Wheat Associates sponsored a fast food delegation to the US, headed by the director of Beijing's first light industry bureau. The group visited McDonalds, Beatrice Foods, Universal Foods, Southland Industries, and W.R. Grace to gain exposure to all aspects of American fast food.

So far, the most popular fast food experiment in the capital is the *Heping Kaoyadian*'s Peking-duck-to-go. Call a day ahead and your $5.00 boxed duck will be ready when you arrive.

Genuine American junk food has also arrived. The new Yili Fast Food will soon begin offering hamburgers, french fries, hot dogs, fried chicken, pancakes, and ice cream cones to a curious clientelle. It expects to serve up as many as 3,000 burgers a day on buns from the modern Yili Bakery (which the US Wheat Associates helped modernize). Three other outlets are due to open later in the year.

Adorning the Yili's main wall is the restaurant's unofficial logo: Disney's Donald Duck. —CMC and CSG

PATENT PENDING

China's new patent law, approved by the National People's Congress on March 12, will go into effect on April 1, 1985. The law has been eagerly awaited by investors since drafting began in 1979. "Lack of a patent law has been offered as one reason for the slow pace of technology transfer to date," notes Randle Edwards, director of the Center for Chinese Legal Studies at Columbia University Law School.

The duration of patents for inventions will be fifteen years, with five-year coverage for utility models and industrial designs. Five-year patents can be extended for another three years.

Some firms, however, may find the new law a disappointment. China will grant patents for the processes by which chemical products are made, but not the chemical compounds themselves. Such process coverage represents the weakest type of chemical coverage, according to one Monsanto executive. The other categories of items not covered include new pharmaceuticals, foods and chemicals, new varieties of animals and plants, new cures for diseases, substances obtained from the use of nuclear fusion, and scientific discoveries. Such exclusions are common in developing countries, according to Lee Skillington of the US patent and trademark office.

Computer software is not explicitly mentioned among the laws's 69 articles, though the director of the PRC Patent Bureau, Huang Kunyi, has stated that software will not be patentable. Even in the US, patents for computer software are in a state of flux and seldom granted unless closely tied in with a machine's operations.

Foreigners may apply for patents in China as long as they are citizens of countries having treaties or reciprocol patent agreements with the PRC. Under the US–China Trade Agreement of 1979 both countries pledged to protect "patents and trademarks equivalent to the patent and trademark protection correspondingly granted by the other country." Such bilateral arrangements are necessary until the PRC joins the Paris Convention of 1883, which promotes international protection of patents, trademarks, and other industrial property. China's new law makes it eligible to join the 92-member Paris Convention, and many observers believe this is the logical next step. All Paris Convention signatories are required to give equal treatment to foreign and domestic patent applications alike.

Authority to receive applications and issue patents will reside in the PRC Patent Bureau established in 1980. A separate patent office under the China Council for the Promotion of International Trade (CCPIT) will act as agent for foreign patent applicants. Once a patent is issued, any factory that wishes to copy a patented product or process must receive a license from the patentee. Patent infringement cases will go to the Patent Bureau or the People's courts, which may impose criminal sanctions.

Recently Huang Kunyi announced that the patent law's coverage may be broadened in a few years. Meanwhile, China's trademark law went into effect in March 1983, and a copyright law is under discussion. —MCR

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评论

A Calculated Risk: Chinese Students in the US

The large number of Chinese students enrolled in American colleges and universities possibly represents the PRC's best long-term hope for acquiring the latest in science and technology and professional competence. There are—very roughly—10,000 PRC students and scholars in the US, a small number compared with the approximately 20,500 students from Taiwan, but still a significant share of the 350,000 foreign students on American campuses.

By comparison, only about one-tenth as many US students and researchers are enrolled or doing research in Chinese universities and institutions. "This reflects the US government's decision in 1978 not to use the visa process to enforce the body-for-body criterion applied to exchanges with the Soviet Union," notes David M. Lampton, of the National Academy of Science's Committee on Scholarly Communication with the PRC.

Chinese governments have been sending students abroad since before the turn of the century, but political shifts and ambivalence about foreign training have caused frequent fluctuations in numbers and official attitudes toward foreign-trained specialists. The most recent flow of students and scholars to universities in the US, Europe, and Japan started in 1978 and so far there seem to be as many questions as answers about their numbers, their problems, and exactly how they will be utilized upon their return.

Many Americans find it extremely difficult to accept the fact that we don't really have any precise figures on the number of Chinese students and scholars in the US. "The State Department has stopped keeping track of the number of PRC students here. It once approved each application, but no longer. Our only clue is the number of visas issued by our consulates in China," observes Linda A. Reed, of the Association for Foreign Student Affairs. "Nor does the Immigration and Naturalization Service know for sure when a Chinese student leaves, or whether the student *does* leave," Reed says.

The most frequently used estimate is 10,000, but depending on the individual one happens to contact, the figure may range from 9,000 to as high as 13,000. A recent call to the Chinese embassy, which theoretically should have precise figures, is not much more illuminating. The first response was 10,000, because that was the figure President Reagan cited in greeting Premier Zhao Ziyang at the White House. Additional prodding elicited a breakdown of the total, albeit in very round and approximate figures: 5,000 government-sponsored students, 1,000 government-sponsored scholars, and 3,000–4,000 privately sponsored students. The last figure—probably an underestimate—is especially difficult to come by even for the Chinese, since there is no way to keep tabs on individuals who have left China, possibly for good, and are now living with family or friends.

The most complete world-wide figures were recently reported in the *Beijing Review*: The Chinese government has paid for 18,500 students to study in 54 countries since 1978 (and presumably through 1983). Of this total, 7,000 have already returned, while another 7,000 students are studying abroad "at their own expense." A country breakdown was not provided, but American universities probably accommodate more than half of the total number of officially sponsored students, and more than 80 percent of the privately sponsored students outside the People's Republic.

The overwhelming majority of government-sponsored students specialize in science and technology and there is a general conviction that the most advanced nation should be able to provide them with the best education in these fields. This positive image of the United States is reinforced by the perception of young people that their success is intimately tied to the English language. Also, the existence of large Chinese communities in many American cities cannot be overemphasized. It is an attraction for all Chinese students, but especially important in attracting privately sponsored youths who have relatives and friends in the US. The result is that although it would be cheaper to send students to Europe and Japan, where they are likely to get a more practical education with more immediate pertinence to China's needs, the authorities find it difficult to convince prospective students to voluntarily select universities in countries other than the US.

China recognizes the risks entailed in sending students abroad. At the very start of the exchanges with the US, Deng Xiaoping conceded that some students will not return, but saw this as a price that had to be paid. In the early years of exchanges, when most of the scholars were older—having received their education prior to the Cultural Revolution—few opted to remain. But since then, the problem of students who don't return has become more serious. Most

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of the students under formal exchange programs are recent college graduates who come for graduate studies, while the privately sponsored students tend to be even younger and generally enroll as undergraduates. Unattached and more adventuresome, these youths are much more likely to seek the help of friends, relatives, and politically inspired patrons to find ways of remaining in the United States.

Just how does Beijing intend to utilize the students and scholars who return from training abroad? So far, there are no clear answers. Some seem to think that most of these highly trained professionals will be assigned teaching positions in order to maximize the investment in their education. Others believe they are likely to be assigned to research institutes and production units. It is reasonale to assume, however, that whenever possible these functions will be combined—something that is not only possible these days, but encouraged through the flexible contractual arrangements.

Wherever they go, China has high expectations for its returned scholars—so high, in fact, that many students are extremely nervous about their ability to fill the giant shoes that await them. It is also unclear how smoothly this new elite—and they are China's elite—will integrate into the existing society. How will the returnees be accepted by their colleagues who were not selected for foreign training? Despite the recent emphasis on promoting younger leaders, how will the younger professionals fit into organizations in which older individuals with less education are still directing the work? Will the people returning from abroad be satisfied with China's facilities and equipment, and how well will they adjust to a more restrictive climate in universities and research institutes? Or, as William Fisher of the University of North Carolina observes: Is it possible that the host organisms, the institutions, may reject the transplanted organ, the foreign-trained scientists? Most likely, Chinese leaders themselves do not now the answers, but they surely have their collective fingers crossed. —Leo A. Orleans

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For many years a China specialist with *the Library of Congress, Leo A. Orleans continues to do research* at *the Library of Congress.*

What has happened since Beijing relaxed its grip on the Chinese bureaucracy?

Decentralization

Christopher M. Clarke

At one time China made sense. Virtually the entire economy was organized under ministries, as in the Soviet Union, and all foreign trade matters were under the thumb of the foreign trade ministry and its specialized import and export corporations. Then came decentralization.

This all-too-simplistic version of recent developments in China conveys a popular misconception: Making sense out of the myriad of Chinese organizations involved in foreign trade is no longer possible.

As late as 1978, all of China's foreign economic relations and trade were centralized. Some eight foreign trade corporations (FTCs) under the then Ministry of Foreign Trade in Beijing, and a limited number of FTC branches in major cities, handled all import and export business. At that time there was no foreign investment in China and the PRC firmly declined all offers of foreign aid and foreign commercial loans.

Today, of course, there are dozens of corporations, enterprises, and factories authorized to conclude business with foreigners, and a bewildering array of government agencies involved in approving, supervising, and coordinating foreign economic relations. The Bank of China recently revealed that there are even some 18,000 individual Chinese citizens with bank accounts totaling $75 million in foreign exchange. Business people and analysts have adopted the short-hand term "decentralization" to describe this confused state of affairs.

Decentralization of foreign trade, however, is a complex issue that can be understood best by asking two questions: What is being decentralized? and to whom? Authority over different aspects of foreign economic relations has been spread both horizontally and vertically.

The authority to engage in foreign trade activities has spread horizontally to include new FTCs established by ministries other than the Ministry of Foreign Economic Relations and Trade (MOFERT). Such corporations include the China National Machinery and Equipment Import-Export Corporation (EQUIMPEX), under the Ministry of Machine Building Industry; the China North Industries Corporation (NORINCO),under the Ministry of Ordnance Industry; the China National Metallurgical Products Import-Export Corporation (CMIEC), under the Ministry of Metallurgical Industry; and the China National Offshore Oil Corporation (CNOOC),under the Ministry of Petroleum Industry.

Equally important is the establishment of giant, integrated, cross-ministerial corporations, such as the China State Shipbuilding Corporation (CSSC) and the China National Petrochemical Corporation (SINOPEC). Created in May 1982, CSSC took over 138 factories, research institutes, and other units from the disbanded Sixth Ministry of Machine Building as well as 15 units formerly under the Ministry of Communications. It assumed control over national planning, research and development, production, sales, purchases, and foreign trade for the shipbuilding industry. It became independent of any ministry's control, answering directly to the State Council. Similarly, in July 1983 SINOPEC was created with jurisdiction over 39 petrochemical industry complexes formerly under the ministries of petroleum, chemicals, and textiles. It answers to the State Council for planning and management of the production and foreign trade of China's petroleum processing industry.

These corporations should be distinguished from other national, integrated industrial corporations that have foreign trade authority only over export business, such as the China National Bearings United Export Corporation, the China Electrical Equipment United Export Corporation, and the Porcelain Insulators Joint Export Corporation.

National integrated corporations with authority to conduct foreign trade business must also be distinguished from those further down the scale: national, integrated industrial corporation without foreign trade jurisdiction. Numerous corporations have been set up over the past three or four years to coordinate the planning, production, and domestic marketing of products in a specific sector, such as abrasives and grinding tools, automotive batteries, automotive brakes, and power tools. While these companies usually have no direct foreign trade authority, they are in a stronger position to lobby with central leaders for technology and equipment imports than their component factories were before.

One step further down the ladder are the regional or local integrated corporations like the Fujian Standard Parts Corporation, the Luoyang Bearings Industry United Corporation, and the China Nanjing Radio Company. Most of these have no foreign trade autonomy, but are in a fairly strong position to lobby their provincial and local decision-makers.

Cutting across the "horizontal" form of decentralization is the transfer of foreign trade authority downward. This is the "vertical" dimension of decentralization. Guangdong and Fujian provinces, for example, and the cities of Beijing, Shanghai, and Tianjin generally have been granted

the most authority over foreign economic relations. The provinces of Liaoning, Zhejiang, Jiangsu, Sichuan, and Hubei also have more authority than they did before decentralization to handle their own products and to seek and accept foreign investment. Jiangxi, Guangxi, and Shanxi are pretty much limited to handling above-quota production of specialty products such as nonferrous metal and coal. Other provinces, for instance Qinghai, Guizhou, and Tibet, still have to rely mainly on the old FTCs under the Ministry of Foreign Economic Relations and Trade.

Below the provincial level, some prefectures and cities have received increased jurisdiction over their foreign trade and investment. The special economic zones are the most spectacular example. But Hainan Island, Huiyang prefecture in Guangdong Province, and Chongqing city in Sichuan also have increased authority.

Chongqing, for example, last March was granted the right to send a business delegation to the Guangzhou Fair, to negotiate and sign contracts, to issue import and export licenses, to examine and approve foreign investments and high-technology imports, and to send trade missions abroad.

Chongqing's case touches on the question causing the greatest confusion to foreign business people: Who has authority over what? There are at least three distinct activities that have been subject to some degree of decentralization.

First is the authority to accept foreign investment and to sign contracts for cooperative arrangements. The city of Shanghai and the special economic zones in Guangdong and Fujian have the most independent latitude in this respect. Shanghai's authority extends to investments of up to $10 million per project, while the SEZs can approve projects up to $5 million. Other areas in Guangdong and Fujian, and the cities of Beijing, Tianjin, and Chongqing are said to have authority in the $3–5 million range. But it is not clear how these local bodies are supposed to cooperate with nationwide entities, such as the China International Trust and Investment Corporation (CITIC), and more recently, the China Everbright Corporation in Hong Kong.

The second function subject to decentralization is control over foreign exchange. The system by which the Chinese government allocates foreign exchange to local entities to purchase foreign goods, equipment, and technology is murky at best. What is clear is that local governments, branches of the Bank of China and ministerial corporations now have greater control over their hard currency earnings than they did in 1973.

Theoretically, there should be no competition between the headquarters of FTCs and their branches. Their respective spheres of competence and activity are supposed to be clear and mutually supportive. In fact, bloody and protracted bureaucratic battles are fought over this very issue. The China Automotive Industry Corporation, for example, announced at its formation in May 1982 that it would be taking over control of automotive foreign trade from EQUIMPEX. To date this has not occurred.

Third, the question of who controls what product lines is perhaps the most confusing aspect of decentralization. Theoretically, there should be no competition between the headquarters of FTCs and their branches. Their respective spheres of competence and activity are supposed to be clear and mutually supportive. In fact, bloody and protracted bureaucratic battles are fought over this very issue. The China Automotive Industry Corporation, for example, announced at its formation in May 1982 that it would be taking over control of automotive foreign trade from EQUIMPEX. To date this has not occurred.

One of the most notorious examples of this sort of fighting over product lines comes from the metals sector. Originally, the minerals and metals trade was conducted by the China National Minerals and Metals Import-Export Corporation (MINMETALS), a subsidiary of MOFERT. In February 1980, the China National Metallurgical Products Import-Export Corporation (CMIEC) was set up under the Ministry of Metallurgical Industry. CMIEC was to take over this trade eventually from MINMETALS. A clear and permanent division of products never took place.

In April 1983, these two companies were joined by the China Nonferrous Metals Industry Corporation (CNNC). According to the Chinese, it was set up to "provide unified leadership and unified management regarding the production, supply and marketing, the allocation of manpower, funds and materials, as well as the domestic and international trade of the nation's nonferrous metals industry."

Despite the apparent authority granted to CNNC, the division of product responsibility for exports is still not clear. MINMETALS, CMIEC, and the new nonferrous corporation would each like control over the lucrative nonferrous market. As of now, CNNC is reported to have jurisdiction over 49 products, MINMETALS over 10, leaving CMIEC the apparent loser. Although CNNC appears victorious, its 49 products have yet to be specified, and the company still has no contract signing authority. Furthermore, rumor indicates that MINMETALS' 10 products will be the government's ten top-priority nonferrous metals. In addition, MINMETALS still maintains that it will have the final word on commodity prices without regard to who sells them.

The disorderly marketing caused by decentralization has prompted the Chinese government to establish some control and coordination mechanisms. A new Ministry of Foreign Economic Relations and Trade (MOFERT) was formed in March 1982, a merger of the Ministry of Foreign Trade, Foreign Investment Control Commission, and Import-Export Commission. The consolidation gave MOFERT control over trade

policy and foreign investments, as well as greater involvement with international aid organizations. For the past several years, MOFERT has used its enlarged authority to experiment with a system of import and export licenses in an effort to counter problems of disorderly marketing and uncontrolled imports by unauthorized Chinese agencies. The licensing system gives MOFERT greater control over quantities and prices of products in order to check price cutting and flooding of foreign markets. The number of commodities and products requiring licenses has been increased substantially in the last few years to total more than 100. In addition, internal export duties were established in mid-1982 to curb the export of products in demand at home and to reduce profits made at the local and provincial levels on exports.

In a further effort to tighten Beijing's reign over trade activity, MOFERT set up port commissioners' offices in early 1983 in the cities of Shanghai, Tianjin, Guangzhou and Dalian. The commissioners, high-level MOFERT officials, are to coordinate, supervise, and provide guidance for foreign trade activities in their zones and are authorized to approve and issue export licenses, hold conferences of foreign trade agencies in their zones, and make recommendations to the Ministry in Beijing.

Such attempts to clarify the proper lines of authority are always welcomed by foreign traders. But sometimes the new leadership's penchant for pragmatic experimentation can further confuse the situation. For example, with the establishment of the new greater Shanghai economic development zone, the role of the Shanghai port commissioner has become even less clear. However, the best hope for the ultimate success of China's decentralization reforms lies in Beijing's recognition of the difficulties involved and its willingness to experiment. ☐

Hong Kong's northern neighbor is China's most successful SEZ

Shenzhen Status Report

Tim Williams and Robin Brilliant

The picturesque and undisturbed village of Shenzhen across the border from Hong Kong was officially designated a Special Economic Zone (SEZ) by the central government in July 1979. The immediate purpose of the SEZ designation was to attract investment dollars, technology, and management know-how. But its prime function in the long term was more ambitious: to gain experience in dealing with foreign firms that might be useful in accelerating foreign investment in the rest of China.

The decision that forever disturbed Shenzhen's tranquility created the Zhuhai and Shantou SEZs, also in Guangdong Province, and the Xiamen SEZ in the eastern coastal province of Fujian. Since then a number of SEZ-like export-processing zones have been established or are under consideration on Hainan Island and in Shanghai and Tianjin. Shenzhen, however, remains the most successful zone, having received at least 60 percent of all foreign investment in the SEZs, and perhaps as much as a half of all foreign direct investment in China.

Shenzhen then and now

The Shenzhen SEZ is strategically located just north of Hong Kong's New Territories. It measures 327.5 square kilometers, about 110 of which have been designated for urban planning, and is part of Shenzhen municipality (formally Bao'an County), which itself has an area of 2,405 square kilometers. The SEZ also encompasses the Shekou Industrial Zone, which is managed by the China Merchants Steam Navigation Co. Ltd., a PRC company in Hong Kong.

The Shenzhen SEZ lies close to the Zhujiang (Pearl River) and faces the Nanhai (South China Sea). Its harbor facilities and navigation conditions are good, and after the planned construction of deepwater ports, the SEZ will become a rear-service base for companies engaged in oil and natural gas exploration. Eventually it will become a refining and petrochemical base. In addition, several projects have been completed, or are due to be completed soon, involving road bridges (like the one at Wenjindu) that will connect the SEZ to Hong Kong; a heliport; a container wharf; and express highways that will link the SEZ to Hong Kong, Guangzhou and, eventually, Macao.

But the scenes of feverish construction activity and clouds of dust contrast with the rustic scene that existed just a few years ago. Prior to its designation as an SEZ, Shenzhen had a population of 23,000 and encompassed an urban area of only about two square kilometers, of which buildings occupied a total of only about 100,000 square meters. The town was very badly equipped: it had only eight kilometers of roads, its buildings were in a state of severe disrepair, and living conditions were extremely cramped, with an average living space of 2.7 square meters per person. There was only one building that could be considered "high-rise" in the loosest definition, and this was the five-story *Shenzhen Lüdian*, or Shenzhen Hotel.

In the last four years, Shenzhen's industrial construction workforce has expanded from its previous almost nonexistent state to a force well in excess of 100,000. Its construction engineering company, which had no technical expertise in 1979, now has a total of 200 engineers (with some 400 assistants). During the period from mid-1979 to the end of the first half of 1983, a total of ¥1,412 million has been invested by the local authorities with assistance from the province and Beijing.

Progress in Shenzhen's development has been far from smooth in many respects, and a first glance at the town will confirm suspicions that it will be several years before its development is completed. There are still a large number of small, derelict residential buildings to be found in the outskirts of the town, and the town center itself appears to be a mass of skyscrapers in a state of semicompletion.

The Main Projects

In late 1983 the mayor of Shenzhen, Liang Xiang, announced plans for speeding up the development of the Shenzhen SEZ. He said at a municipal conference that more funds would be channeled toward capital construction, energy, and telecommunications. The city's achievements to date in each of these areas:

▶ ***High-rise buildings*** Shenzhen's first high-rise building was the 20-story Electronic Industrial Building in the the Shangbu Industrial Area, which was begun in June 1981. It was completed at the end of 1982, occupies an area of 15,200 square meters, and was built at a cost of ¥5,320,000 ($2,690,000 at today's exchange rates).

The first high-rise building to be completed with the aid of foreign investment was the International Commercial Building. Its two 20-story towers occupy an area of 50,000 square meters, and were completed last April at a cost of HK$80 million ($10,000).

Approximately $800 million has been invested by foreign companies in these and other capital construction projects. In the Luohu district alone, 25 of the planned 59 high-rise buildings have either been completed or are nearing the final stages of construction. It is expected that Luohu will be a modern city district by the end of 1985, with a whole range of facilities from financial centers and commercial buildings to hotels, luxury apartments, and supermarkets.

Construction is also being speeded up in other areas of Shenzhen, such as Shangbu, an area to the west of the city, where 13 buildings for light industrial workshops were scheduled to be in operation at the beginning of 1984. Also in Bagualing, to the northwest, another 40 light industrial projects are planned, all of

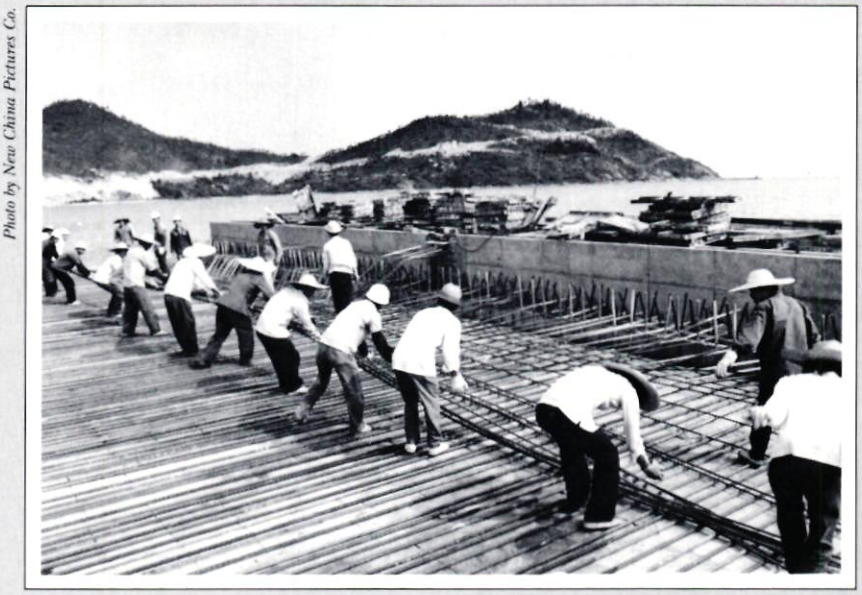
Photo courtesy of Black Star

The Shenzhen SEZ is divided into 18 zones for such pursuits as textiles, electronics, and other light manufacturing. Roughly 3 million square meters of industrial floor space has been construction in these zones since 1980.

Photo by New China Pictures Co.

Some of the 25 apartment and office towers in Shenzhen's Luohu District, where another 34 high-rise buildings are under construction or planned.

Photo by New China Pictures Co.



Work is proceeding rapidly on the deep-water berth for 10,000 dwt vessels at Chiwan, where the South Sea Branch of the China National Offshore Oil Corporation plans to build a major supply base.

which should be completed by the end of 1984. In Wenjindu (Man Kam To), we can soon expect to see a number of factories producing a range of items from foodstuffs and pharmaceuticals to light industrial products. Basic infrastructure work is already far advanced in Shekou.

▶ ***Energy*** Shenzhen's power capacity has been significantly increased by the completion of four transformer substations at Kuichong, Dapeng, Guanlan, and Shahe. Another recently completed power project has been the 220kw Shilong–Shenzhen transmission line. At present, electric power is supplied by three power grids in Guangdong. Plans for future development include another 220kw transformer station in Shenzhen, which is part of the third phase of the Guangdong–Shenzhen power grid. Other major suppliers of Shenzhen's electric power will be the 1.2 million kw Shajiao power station in Dongguan County, and the 1.8 million kw nuclear power station to be built at Daya Bay by the Guangdong Nuclear Power Joint Venture Company. Its partners include the Guangdong Nuclear Investment, Inc., with 75 percent equity, and the Hong Kong Nuclear Investment Co. Ltd., with the remaining 25 percent share.

▶ ***Transportation*** Shenzhen began the construction of 29 new roads in 1982. Another 14 were added to this list in 1983, bringing the projected total length to 70 kilometers, requiring an estimated expenditure of ¥400 million ($202 million). Of these roads, 27 are now completed and in use.

Shenzhen's road construction has been characterized by three factors unique to the SEZ:

▶ The Shenzhen authorities were quick to establish the Shenzhen Basic Engineering Work Committee, which involves those concerned in the engineering work at all levels from the mayor on down. Its function is to avoid conflicts of interest during the planning stage, and it has been instrumental in reducing bureaucratic time-wasting.

▶ Shenzhen took full advantage of the road development program to carry out other infrastructure projects, including the installation of telecommunications equipment and electricity supply, water and gas pipes, and drainage and sewage disposal systems.

▶ Contracts were signed between the Basic Engineering Work Committee and contractors that offered rewards for the early completion of projects—and fines in the event of delays.

Examples of the efficiency of this special system are Heping Road and Jianshe Road. These roads, 3.1 kilometers long and 21–33 meters wide, were surveyed, designed, and paved (complete with street lights and trees) in only 80 days, though the contract permitted 270 days.

Nine sea routes currently link Shenzhen with Hong Kong, Guangzhou, Shanghai, Dalian, Lianyungang, Qingdao, Tianjin, Zhuhai, and Zhanjiang, according to the Shenzhen Industrial Development Service Co. A special heliport serving offshore oil personnel has been commissioned, and an international airport is planned.

▶ ***Telecommunications*** Special attention is also being given to the improvement of telecommunications. The number of telephones in Shenzhen is expected to increase from the present 5,000, to 38,000 by the end of this year. This is expected to meet all local requirements. An automatic exchange system linked with Guangzhou, Beijing, Changsha, and Hong Kong is in operation. The SEZ's telecommunications building, equipped with program-controlled long distance telephone facilities, telephoto and other digital communication services, has been completed. Plans include a microwave control station using fiber optics. Even a special satellite is under consideration to facilitate the city's worldwide communications, the Shenzhen Industrial Development Service Co. recently announced.

▶ ***Housing*** Since it was decided to make Shenzhen a Special Zone, special emphasis has been placed on housing, and there is considerable evidence to suggest that the housing program has been highly successful. For example, the nonagricultural population has increased more than fourfold in the period since 1978, from 23,000 to more than 90,000. But the average living space per person in 1982 of 6.5 square meters was 2.4 times that available in the period just prior to the establishment of the SEZ. This is a remarkable achievement indeed.

There are four sources of funds for the housing program: investment by the national and local government; investment from the annual budgets of individual work-units; investment by construction companies to build housing for sale to private individuals; and investment from abroad resulting from cooperation agreements with foreign construction companies. These are the results:

	Area of completed housing (sq. meters)	Average sq. meters of living area per person
1978	21,300	2.7
1979	52,600	3.5
1980	178,600	5.6
1981	230,000	6.2
1982	510,000	6.5
1983 (1st half)	194,000	—
Total:	**1,186,500**	—

The largest portion of this construction, or 3,159 units, is fairly spacious commercial housing (averaging 69 square meters or 743 square feet per apartment) for overseas Chinese, Hong Kong commuters, and expatriate project managers and other foreigners. At this time, foreign construction firms based mainly in Hong Kong have signed 39 contracts worth an estimated HK$6,150 million ($790 million) for another 2.7 million square meters of residential building. Of this area, 50,000 square meters have already been completed, representing 1,200 apartments.

With the improved organization of contractors and subdivision of the land into smaller units that can be more easily administered, the SEZ now boasts an average time of 105–110 days from ground-breaking to completion of a six-story residential apartment block. Shenzhen authorities point proudly to the example of Shangbu, where 11 six-story blocks,

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Robin Brilliant is sub-manager of Lloyds Bank International's PRC area office. He first visited China in 1973, when he spent a year studying in Beijing, and has worked in the Far East for LBI for the past four years. A frequent traveller to China, and Shenzhen in particular, Brilliant was also closely involved in the establishment of LBI's Shenzhen representative office.

covering a total of 25,000 square meters, were completed by five contracting firms in only 90 days. This was half the time allotted.

▶ ***Constructing the SEZ boundary*** An 84.6-kilometer border is being built in Shenzhen along the northern boundary between the SEZ and the rest of China. Its purpose is to prevent goods imported duty-free into the SEZ from being smuggled inland. The border will have taken three years to complete at a cost of ¥90 million ($46 million), and comprises an 84.6-kilometer patrol road, 240 main-road culverts, 6 port inspection stations, 13 rural inspection stations, and 30 barracks.

The project was scheduled for completion by the end of 1983. By the end of the first half of 1983, capital construction worth ¥55.4 million had been completed. The patrol road was essentially finished, as were three main inspection stations at Nantou, Buji, and Shawan, and many of the barrack-houses and other buildings, totaling some 20,000 square meters.

After completion of the boundary, the SEZ will be able to carry out what it terms "special policies," which it has not defined as yet, but which are likely to be somewhat incompatible with the economic system prevailing in the rest of China. These policies are expected to be more flexible, providing overseas investors with a more attractive, more stable environment in which to invest their capital.

▶ ***Tourist facilities*** Shenzhen had no facilities for tourism whatsoever in 1979. The SEZ administration has since realized that it must provide recreation facilities if it is to maintain an image as a center for international investment. As a result, it has carried out an extensive program to develop its tourist resorts, and in the past three years Shenzhen has been visited by close to 1 million tourists, more than half of whom came during the first 10 months of 1983.

The development of Shenzhen's tourist resorts has been progressing at the same speed as the overall economic growth in the SEZ. Six resorts have now been completed and are in full operation: Xilihu (Xili Lake), Xiaomeisha, Bijiashan (Pen Holder Hill), Shenzhen Reservoir (East Lake), Xiangmihu (Honey Lake), and Shiyanhu (Rock Cliff Lake). In addition, five more resorts are under construction. These are the Xichong Yachting Resort, the Shenzhen Bay Hotel, the Hong Hu Holiday Centre, the Dapeng Bay Holiday Garden, and the Shenzhen Tourist Centre.

Investment Incentives

Shenzhen's widespread improvements naturally have made it more attractive to foreign investors. In the past three years, more than 2,300 agreements have been signed involving a total investment of $1,600 million. Wholly owned foreign investments have been particularly encouraged.

Generally, however, progress in Shenzhen has not conformed entirely to the expectations of either the Chinese or foreign parties. As a result, the Chinese have demonstrated a willingness to try to respond to what they feel are the main needs of their prospective foreign partners. For example, they now recognize that foreign investors may legitimately wish to sell a proportion of their products in other parts of China. They have also granted foreign investors the right to hire and fire workers.

Most foreign–Chinese enterprises in the SEZ are export-oriented, and enjoy preferential treatment as outlined in articles 12–18 of the Regulations on Special Economic Zones in Guangdong Province. (*See* September-October 1980 *The CBR* p. 54, and March–April 1982 p. 40.) These regulations provide for the use of land at favorable rates; exemption from duty on machinery and materials imported for the use of joint ventures; an income tax of 15 percent, with special treatment for high-technology investments; the right to remit post-tax profits out of China; exemption from income tax on profits reinvested in joint ventures for a period of five years or more; preferential prices on locally made machinery; and simplified entry and exit procedures for overseas investors.

In addition to the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment, promulgated on July 8, 1979, some 10 sets of detailed regulations governing enterprises under joint investment and operations between China and foreign countries have been issued, reflecting a willingness on the part of the Chinese to adapt their legislation to the demands of practical experience. These regulations cover such areas as enterprise registration, wage control, use of land, and (as of January 12, 1982) the joint exploitation of offshore petroleum resources. Future regulations are expected to cover foreign banks operating in the SEZs, technology transfer, and arbitration.

Most conspicuous among the laws that have undergone revision are the tax laws, which have been modified to provide a series of incentive schemes, the purpose of which is to attract more foreign investment. The main tax incentives:

▶ ***A reduced withholding tax on interest*** Article 11 of the Foreign Enterprise Income Tax Law of the People's Republic of China stipulates that "a 20 percent income tax shall be levied on the income obtained from dividends, interest, rentals, royalties, and other sources in China by foreign companies, enterprises, and other economic organizations which have no establishments in China."

This tax rate tended to discourage foreign investment, and was subsequently reduced to 10 percent on all loan agreements signed between 1983 and 1985.

▶ ***Reduced tax on the transfer of know-how*** The withholding tax on income derived from the various forms of technology transfer was reduced to 10 percent, or zero, beginning on January 1, 1983, at the discretion of the Ministry of Finance.

▶ ***Longer tax holidays*** Beyond the 100 percent tax holiday in the first profit-making year, and 50 percent in the following two years, investors now enjoy a 100 percent tax holiday in the first two profit-making years, and 50 percent in the following three years.

▶ ***Exemption from customs duties*** Customs duties are waived on goods imported by joint ventures, whether such goods are export-oriented or not. This means that joint ventures will be able to manufacture import substitutes, and enjoy considerable expansion in domestic markets.

Role of Foreign Banks

At present there is only one branch of a foreign bank in the SEZ, the PRC-controlled Nanyang Commercial from Hong Kong, and nine representative offices of foreign banks. These are: Banque Indosuez, Banque Nationale de Paris, Chartered Bank, Citibank, Hong Kong and Shanghai Banking Corporation, Lloyds Bank International, Sanwa Bank, Société Generale, and Takugin. Two more

are expected to open offices there during the course of this year. Previously subject to a flat 20 percent withholding tax on loans to the PRC, these banks may now select either a withholding tax of 10 percent, or a sliding-scale tax on their deemed profits (defined as 15 percent of their interest income), provided that any loan arranged is executed by the representative office.

The scope of business of these bank representative officers is restricted to assisting clients in an advisory capacity, introducing potential investors to the SEZ, representing their head offices in business discussions, serving as a liaison between their head offices and PRC government departments or local enterprises, providing information to their branches on trade opportunities in China (particularly in the SEZ), and executing loan agreements.

Conclusion

China is clearly placing considerable importance on the new system in Shenzhen, though it is still very much in the experimental stage. From an observer's standpoint, the greatest obstacle in its way is the shortage of adequately skilled labor, trained in both technical and managerial disciplines. This hurdle is particularly difficult to overcome because of the nature of the social and economic system in operation in the SEZ, which requires that its personnel have ▶ a knowledge of both the socialist system of China and the capitalist system also prevailing in the SEZ, ▶ experience in the construction industry in the rest of China and a familiarity with the regulations in force in the construction industry in the SEZ, and ▶ an ability to solve problems and disputes of whatever nature arising from either Chinese or foreign partners in a cooperation venture.

To meet these requirements, Shenzhen has in the past brought in experts to the SEZ from all over China, and has been sending personnel abroad to acquaint them with Western business practices. In mid-1983 the University of Shenzhen was established to facilitate this training, providing comprehensive courses in all disciplines, which will provide training more closely suited to the needs of the SEZ.

It certainly seems, then, that China is making a serious attempt to show the world that its two-tier economic system can and will work in the SEZ, and that it hopes thereby to reassure its compatriots in Hong Kong that there is little cause for apprehension over the issue of its regaining sovereignty over the territory in 1997. ₹

TERMS AND CONDITIONS

The Shenzhen authorities explain what they mean by "preferential treatment"

▶ ***Management*** Shenzhen enterprises may be cooperative or wholly owned foreign ventures. They are free to employ personnel from Hong Kong and Macao or foreign personnel as managing staff. Workers may be hired either through the SEZ's Labour Service Company or directly by the enterprises themselves. In either case, all hirings are contractual and all employees are subject to warnings, demerits, cuts in wages, or dismissals according to rules and regulations of the SEZ enterprise. Wages may take the form of piecework or hourly, daily, or monthly work as the SEZ enterprise deems fit. Currently the wage level is about 50 percent lower than in Hong Kong.

▶ ***Taxation*** Shenzhen's income tax rate is normally 15 percent. For enterprises involving investments exceeding US$5 million, reductions of 20–50 percent, or tax holidays of one to three years, may be granted in addition to exemption from the local surtax. Profits used as reinvestments in the SEZ for a period exceeding five years may be partially or wholly exempt from income tax for the amount reinvested. All equipment and means of production are exempt from import duties. With the exception of liquor and cigarettes, which only enjoy a 50 percent tax reduction, all other articles for daily use are tax exempt. All finished or semi-finished products for outside consumption are also exempt from export tax.

▶ ***Land Use*** The maximum duration of land use is: 30 years for industrial use; 50 years for commercial and residential buildings; 50 years for educational, scientific, and medical use; 30 years for tourism; and 20 years for crop raising, animal husbandry, and aquaculture. Upon expiry, the length of land use may be renewed upon obtaining approval of the SEZ authorities. The charges collected on land-use vary according to the location and purposes for which it is used. No charge will be collected for a period of one to five years for use of uncultivated hills, marshes, and other undeveloped areas.

▶ ***Foreign Exchange Controls*** Chinese–foreign enterprises may open accounts and settle foreign exchange matters at the Bank of China and registered overseas banks in the SEZ. All after-tax returns of overseas establishments and the income of Hong Kong and Macao compatriots and foreign personnel may be channeled overseas through the Bank of China and other registered overseas banks in the SEZ. All properties are transferable, and capital funds may be remitted out of China should an SEZ enterprise decide to cease operation.

▶ ***Marketing*** SEZ enterprises are encouraged to market their products abroad, but allowances are made to leave a part of the products for domestic consumption. In cases of products manufactured with Chinese equipment and Chinese raw material or products that China needs to import that are manufactured with advanced equipment furnished by the overseas investor, such products may be sold on a domestic market.

▶ ***Resolving Disputes*** If disputes occur, both sides should seek to resolve their differences through negotiation in the spirit of equality and mutual benefit. If the dispute remains unsolved after negotiation, requests can first be made to China's arbitration organization for mediation or arbitration, or to an international arbitration organization as recognized by both sides for arbitration. ₹

Excerpted from The Shenzhen SEZ Information Centre's The Shenzhen Special Economic Zone, *published September 1983.*

Restructured and cut back, but still going after 26 years

The Guangzhou Fair

Andrew S. Heyden

China's current "open door" economic policy has clearly diminished the importance of what used to be China's only open door: the Guangzhou Trade Fair.

Officially called the Chinese Export Commodities Fair, the biannual gathering of several thousand foreign traders has been held every spring and fall in Guangzhou since 1957. As the name suggests, its main purpose is to promote Chinese exports.

Convenience or an acronism?

The Fair's structured manner of trading has allowed the Chinese to muster their limited resources of experienced trade corporation personnel in one place at one time to deal with a large number of foreign customers. Before the relaxation on individual business travel in China, the Fair also provided foreigners with a convenient opportunity to meet a wide array of national and provincial Chinese trade representatives without having to travel the length and breadth of China.

But in today's more open trading environment, the Fair may be an anachronism in some ways. "My most important contacts go incommunicado for almost four months every year because of the Fair," complains one US carpet importer. "Preparing for the Fair, going to the Fair, wrapping up after the Fair—it all means I don't get timely answers to my inquiries in the spring and fall. I'd rather they get rid of the Fair altogether," he said.

Controlling the environment

For more than 26 years, the Chinese Export Commodities Fair has taken place in the southern city of Guangzhou (Canton), the capital of Guangdong Province. Guangzhou possesses relatively good passenger service to and from Hong Kong, by rail, air, and water. It can now be reached by air directly from Bangkok and Manila, as well. It is also the Chinese city with the longest history of direct overseas trade with foreign merchants.

The initial decision by the People's Republic to limit contacts with the world business community to the city of Guangzhou reaffirmed a centuries-old tradition, hearkening back to policies of the Ming and Qing emperors beginning almost 700 years ago. Guangzhou was the major Chinese metropolis most distant from the capitol that afforded a venue for the necessary evil of trading with foreigners while strictly limiting their contact with the great bulk of Chinese society.

In the late 1950s, the Fair helped to earn the foreign exchange the newly established People's Republic desperately needed and also served as a platform on which to display the economic achievements of new China. But in 1966, the onslaught of the Cultural Revolution threatened to engulf the Fair in propaganda.

Andrew S. Heyden is assistant director of the Council's Business Advisory Services department. He attended the Guangzhou Trade Fair for the first time in fall 1976 and was a five-year resident of Hong Kong, where he was active in consumer goods trading and light-industrial investment consultation. Since joining the Council in May 1982, Heyden has attended two more Guangzhou fairs on the Council's behalf.

The Dark Ages

European traders attending the Fair during the 1966–72 period were frequently subjected to stern lectures on the evils of capitalist exploitation before any genuine business could be discussed. They often waited for days for appointments because trading corporation personnel were preoccupied with political meetings. "There was absolutely nothing to do at night. Even personal reading matter was seized at entry if it was thought to be politically incorrect," reminisces one English ceramics importer who has attended the Fair regularly since the mid-1960s. At one point in 1968, Red Guard factions pressured the government to discontinue the Fair since they considered it out of keeping with the tenets self-reliance. It was only saved through Zhou Enlai's personal intervention.

The door opens to Americans

Finally in the fall of 1971, three American importers received special permission to attend the Fair. After the Nixon visit and the Shanghai Communique, American attendence at the spring 1972 Fair jumped to 55 organizations. The American presence grew slowly but steadily until it mushroomed dramatically in 1979 after the normalization of diplomatic relations, and in anticipation of extending "most favored nation" status to China in 1980.

Since 1980, however, US attendance has declined significantly, though there was a minor upsurge in American buyer attendance at the fall 1983 Fair. Major causes were the emergence of specialized mini-fairs and the increased opportunity for direct, hands-on contact between foreigners and Chinese suppliers at the local level.

"Panda Brand" or nothing

Just how much the Guangzhou Fair has changed is reflected in the experience of one American retail chain. The store's buyers first attended the Fair in 1973, where they were very impressed with the workmanship and reasonable price of some children's T-shirts offered for sale by the textiles corporation. At that time there were no quotas on Chinese garments in the American to order large quantities. But when the Americans routinely handed over examples of their label to be sewn into

the shirts, the reaction of the Chinese was shock that anyone would even imagine they were so without pride as to agree to put a foreign trademark on their merchandise. It was to be "Panda Brand" or nothing, and so it was nothing—until a central government directive in 1978 declared that it was acceptable to produce merchandise to exact foreign buyer specifications.

No plans to eliminate the Fair

In recent years, the Ministry of Foreign Economic Relations and Trade (MOFERT), which operates the Fair, has experimented with methods to make it more efficient. MOFERT shortened the fair period from 30 to 20 days each season, and has tried vastly reducing the number of Chinese corporations in attendance. In 1982 the spring fair was devoted to heavy industry, and the fall fair to light industry. But many importers, especially smaller, more diversified traders who do business with many Chinese exporting corporations, complained that this split fair format was highly inconvenient. It forced them to visit Guangzhou twice a year when only a single trip was needed before, and denied them contact with all the trading corporation representatives they wanted to see at each visit. The shortened 20-day period, however, was retained. The fall Fair now runs from October 15 to November 5, and the spring Fair from April 15 to May 5 each year. There has been some speculation that MOFERT might reduce the number of the fairs to only one a year, probably in the fall when the weather in Guangzhou is better.

But sales revenues keep falling

By its own admission, MOFERT concedes that the Fair now accounts for less than half of the total annual sales volume of its main foreign trade corporations. The exact volume of business transacted at individual fairs is kept secret, but the US Foreign Commercial Service in Guangzhou estimates that the spring and fall fairs combined account for only about one-fifth of China's total export volume.

Despite the complaints that the current arrangement is too unwieldy, PRC foreign trade corporation officials strongly deny any plans to eliminate the Fair. They insist that two fairs a year are necessary to service their smaller, generalized buyers, particularly from Third World countries. Some Western traders also argue that the Fair is still the best point of contact for newcomers to the China trade, and for those unfamiliar with the offerings and product ranges of China's growing number of foreign trade corporations and their branches. Few would deny that the fair is still the best place to compare standard products from all over China.

Growth of mini-fairs

In 1978 the Chinese government launched a new program of smaller "mini-fairs." These are very specialized, often emphasizing a single product line of a provincial or municipal branch of a single foreign trade corporation. They cropped up in many Chinese cities in the early 1980s, but in 1982 MOFERT announced that future mini-fairs would be held only in the four major cities of Beijing, Shanghai, Tianjin, and Guangzhou. This was part of a general tightening up by the ministry to prevent what it felt were price wars among competing Chinese export corporation branches. But in 1984, in apparent reversal of the policy, mini-fairs have been scheduled in Nanjing, Hangzhou, and Suzhou. Recent mini-fairs have not only specialized in product offerings, but in their guest lists, as well. Some are open only to overseas Chinese, while other cater only to Japanese. As yet, few mini-fairs have become regular annual events.

"We do not write import contracts"

Though a small minority, some traders attend the Guangzhou Gair in order to sell to the Chinese. This is particularly true of firms offering specialty chemicals for industrial and agricultural applications. Few others have managed to make sales at the Fair since 1979. In fact, some of the Chinese trading delegations present at the fall 1982 Fair did not even include any import department staff. On that occasion Ye Zhenhuan of the New Era Corporation said: "All import decisions are made by the branches in consultation with the head office in Beijing. We do not write import contracts at the Fair."

A possible exception to this trend is the instruments and technology import corporations, which recently resumed making major purchases at the Fair. She Qutai, head of the INSTRIMPEX delegation at the fall 1983 Fair, indicated that his corporation signed purchase contracts worth more than $10 million during that 20-day period in Guangzhou. He also said, however, that the corporation only invited its regular suppliers to the Fair. He did not feel that the Fair was an appropriate venue for new suppliers attempting to break into the China market.

ATTENDING CHINESE TRADE FAIRS

Obtaining an invitation is just the first step

Invitations and Visas

To obtain a visa to attend the Guangzhou Fair, one must first obtain an invitation. The invitation takes the form of a card mailed by fair authorities directly to the foreigner. It bears a serial number and is accompanied by an "Accommodation Reservation Form for Visiting the Chinese Export Commodities Fair."

Formerly, all invitations to the Guangzhou Fair for Americans were controlled through the Chinese Embassy in Washington. Now it is expected that buyers will obtain their invitations through the exporting branches with which they conduct, or intend to conduct, business. Importers with previously established ties to one or more corporations may receive invitations on a regular basis, while importers unacquainted with any Chinese corporations should write directly to the foreign trade corporation branch handling the product(s) that interest them. If the appropriate branch or branches cannot be identified in advance, importers should send a "letter of introduction" about themselves and their products, plus a request to attend the Fair, to the head office of the appropriate Chinese foreign trade corporation. The introductory letter should describe the importer's company (whether it is an agent, importer, wholesaler, or retailer, etc.), the company's history, distribution capacity, main product lines, average sales volume, and the name and address of the company's banker.

In making the initial contact, it helps to emphasize the desire to build a long-term relationship and to become, conditions permitting, a significant volume buyer of Chinese products. Printed materials, such as brochures or annual reports, should also be included. The points hold true for importers making their first approach to China as well as for experienced firms desiring to cultivate a relationship with a particular branch or province with which they have no previous experience.

Once an invitation card is received, the prospective fair-goer can submit it together with the standard visa application to the Chinese Embassy or nearest Chinese consulate. Visas to the Fair are usually good for one entry only, and only for the designated fair period. But it is a relatively simple matter to get a reentry permit if, for example, one desires to leave Guangzhou and proceed to Hong Kong for several days and then return to the Fair. No permit is required to travel to any of 29 specially designated cities in China as long as one possesses a valid visa. A visa extension is required for those wanting to extend their stay after the fair period in order to visit corporations elsewhere in China, or simply to remain longer in Guangzhou. A letter or cable from an industrial bureau of foreign trade corporation is needed to obtain such an extension, unless a visa valid for longer than the fair period is obtained before departure for China.

Hotel Accomodations

The "Accommodation Reservation Form for Visiting the Chinese Export Commodities Fair" that accompanies the invitation should be completed and returned as soon as possible. A "Letter of Confirmation" should then arrive from the Guangzhou Accommodation Coordinating Group with the name of the hotel booked on the sender's behalf, the type of room, and the daily rate. In Guangzhou, the Dong Fang Hotel is closest to the fair complex. It was formerly very difficult to obtain reservations in the Dong Fang, but recently the number of hotel rooms in Guangzhou has increased markedly. Even more hotels will be completed soon, though space should remain tight because of the growing number of foreign oil companies with large numbers of staff in Guangzhou.

The new White Swan Hotel is located on Shamian Island in the Pearl River amidst the former consulates and foreign mansions of the pre-1949 era. It offers taxi and bus service to the trade fair complex. The White Swan and the Dong Fang are now both advertising that they will take reservations directly, but so far refuse to do so during the fair periods. The Guangzhou China Hotel, opened in January 1984, will more than double the number of rooms available within close walking distance of the exhibition center.

Registration and Appointments

Registration and liaison offices for American and other foreign visitors operate in most major Guangzhou hotels during the Fair period. The liaison offices are staffed by students from the Foreign Trade Institute in Beijing. After registration, each visitor is provided with a ribbon identifying him or her as a "negotiator." This is needed to enter the trade fair complex.

There is an information counter, also staffed by Foreign Trade Institute students, at the main entrance to the fair complex to point visitors towards the appropriate part of the huge compound. Appointments are generally made very informally, simply by going to the appropriate delegation and requesting to see someone in charge of a particular product line. The number of competent translators available at the Fair has been a perennial problem. Sometimes appointments are postponed for lack of translators. If visitors have sufficient command of Chinese, or can bring their own translators, these delays can sometimes be eliminated. In a pinch, students from the liaison offices sometimes serve as translators.

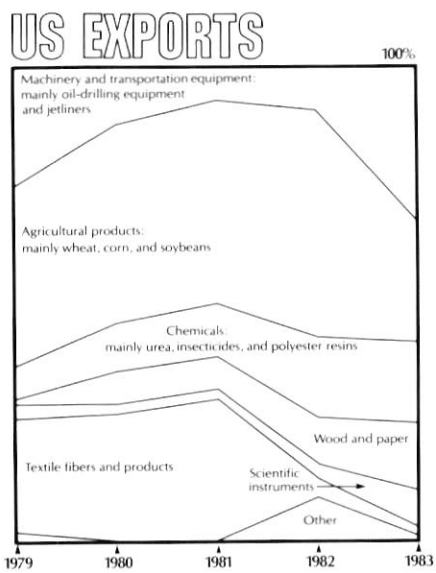
Attending Mini-Fairs

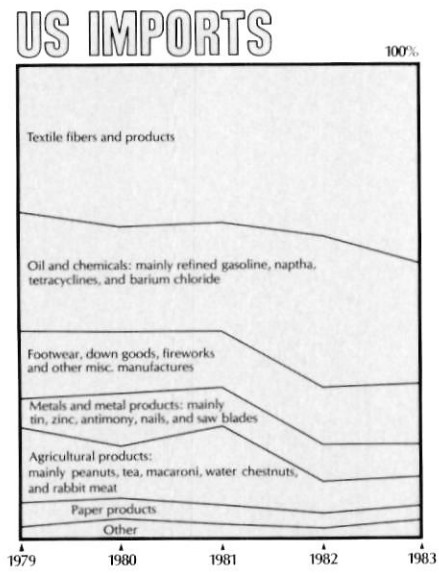
Attending an export mini-fair is less formalized than the Guangzhou Fair, though most of the application procedures are similar. A prospective attendee must still approach the (usually single) corporation sponsoring the event for an invitation, and then go about applying for a business visa to visit China as described above. Firms should ask the sponsoring corporation to reserve their hotel accommodations since most mini-fairs do not have special agencies for this purpose. —ASH

1984 could bring back the higher totals—and hopes—of earlier years

Five Years of US–China Trade

Jeffrey L. Lee and JeNelle Matheson





US–China trade experienced a bumpy year in 1983. Originally forecast to remain steady at the 1982 level of $5.2 billion, bilateral trade actually fell by 15 percent to $4.4 billion. The US ended the year with a trade deficit of $71 million, its first since 1977. This would have been much larger were it not for the year-end surge in US exports, partly attributable to the delivery of Boeing commercial aircraft in December.

US export performance in 1983 was mixed. Agricultural exports, traditionally the mainstay of our exports to China, took a beating. At $544 million for the year, agricultural exports were down 64 percent from their 1982 level. This was mainly caused by smaller Chinese purchases of US grain and textile fibres, in retaliation for the US January 1983 restraints on Chinese textile products entering the US market.

US exports of nonagricultural goods, especially machinery and equipment, grew substantially in 1983, but not enough to offset the decline in agricultural exports. Nonagricultural exports totaled $1.6 billion, a 14 percent increase over 1982. Gains were registered in nearly every category. In some cases, the increases were dramatic. Exports of scientific instruments and motor vehicles more than doubled, and exports of metalworking machinery and tools rose to more than seven times their 1982 levels. Electrical equipment exports, including office machinery and computers, increased by 38 percent, while telecommunication and recording equipment sales rose by 55 percent.

US imports from China in 1983 remained relatively stable, ending the year at $2.2 billion, a two percent decline from 1982. Declines in crude petroleum and petroleum product imports were balanced by increases in textile and apparel imports from China, which totaled more than $1 billion, or nearly half of China's exports to the US. Other Chinese manufactured exports showed strong gains in 1983, especially pharmaceuticals (up 28 percent) and metal manufactures (up 17 percent).

In 1984, US–China trade could rebound from the low level of trade of the past two years and return to the more rapid growth path achieved immediately after the normalization of US–China relations, when total two-way trade hit an all-time high of $5.5 billion in 1981. Agricultural products and textile fibers in 1984 are expected to return to levels achieved between 1980 and 1982. Statistics from the last two months of 1983 indicate that this recovery has already begun. Exports of other agricultural and industrial raw materials over the long term are likely to be stable, with inevitable short-term fluctuations due to the economic situation in China and international market conditions. Chinese readjustment policies, which resulted in a dramatic shift toward raw materials imports for the light industrial sector in 1981, and a shift back toward heavy industry in 1982–83, are now focused on achieving a balance in imports for these sectors.

Our exports to China of machinery and equipment are likely to show the most dramatic growth over the next few years. China appears ready to move forward with plans to import advanced technology and key pieces of equipment, especially for the energy, transportation, and telecommunications sectors. China's foreign exchange reserves have grown enor-

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US EXPORTS

In million dollars, f.a.s.

SITC No. and Product	1979	1980	1981	1982	1983
00 Live animals	—	—	.4	.3	.1
02 Dairy products	—	.3	—	—	—
03 Fish	5.2	—	—	.5	4.1
04 Cereals	482.7	1,263.9	1,331.6	1,236.1	535.8
of which: wheat	214.1	1,039.3	1,269.0	1,046.7	377.7
(mil. metric tons)	(1.8)	(1.8)	(2.0)	(2.0)	(1.5)
corn	268.5	224.5	62.5	189.4	158.1
(mil. metric tons)	(.5)	(1.0)	(1.0)	(1.0)	(1.0)
05 Vegetables and fruit	.4	.2	.3	.4	.4
07 Coffee, tea, and spices	—	—	—	—	.2
08 Animal feeds	—	.2	.6	.1	.1
09 Miscellaneous edibles	—	—	—	.9	—
11 Beverages	.1	.1	.4	.2	.1
12 Tobacco	—	.2	.7	.1	.3
21 Hides and skins	.8	13.4	7.5	11.0	3.7
23 Crude rubber	.5	4.6	5.4	3.1	5.4
24 Cork and wood	—	41.5	99.2	217.0	234.3
of which: logs	—	41.4	89.2	211.9	227.9
25 Pulp and waste paper	3.9	66.9	68.6	18.0	21.4
26 Textile fibres	419.2	895.3	791.4	272.9	31.2
27 Crude fertilizers	—	—	.1	.1	.2
28 Metalliferous ores	—	5.4	.4	.2	.3
29 Crude animal materials	.5	.6	.4	1.3	1.3
32 Coal	—	—	2.7	2.9	.1
33 Petroleum products	1.1	1.8	.4	.2	.4
34 Natural gas	—	—	—	—	—
43 Animal and vegetable oils	—	—	—	.1	—
51 Organic chemicals	11.7	39.7	44.4	39.5	25.5
52 Inorganic chemicals	15.6	22.2	5.8	8.5	20.0
53 Dyeing and tanning materials	.2	.5	.7	.3	.2
54 Medicinal preparations	.4	.4	.7	1.7	1.5
55 Essential oils	—	.5	.4	1.5	.2
56 Fertilizers	44.6	152.6	131.0	147.0	167.7
57 Explosives	.1	.1	.1	.2	.1
58 Artificial resins	31.1	119.5	170.0	237.0	91.7
59 Chemical materials	21.8	47.5	55.6	61.4	47.4
61 Leather manufactures	3.9	49.1	64.2	65.1	26.0
62 Rubber manufactures	.6	4.6	.5	.7	.4
64 Paper and paperboard	3.4	130.4	60.7	36.2	41.2
65 Textile yarn and fabrics	33.9	133.6	283.5	127.9	17.3
66 Non-metallic minerals	.4	.4	.9	4.0	2.2
67 Iron and steel	163.0	42.4	6.7	10.3	6.1
68 Non-ferrous metals	17.2	24.1	10.2	23.2	93.9
69 Metal manufactures	21.6	41.9	19.9	7.4	29.7
71 Power generating machinery	5.3	13.8	11.2	7.9	55.8
72 Specialized machinery	108.8	63.0	67.2	70.7	88.4
73 Metalworking machinery	10.8	7.2	3.7	3.3	24.7
74 General industrial machinery	18.1	35.4	34.3	34.3	46.6
75 Office machines	10.9	30.6	22.0	36.0	49.9
of which: computers and peripherals	7.4	24.0	17.9	26.6	36.2
76 Telecommunications equipment	8.0	8.4	16.5	11.7	18.1
77 Electrical machinery	7.4	17.0	18.2	24.3	40.8
78 Road vehicles	6.1	17.8	6.6	9.3	22.5
79 Other transport equipment	12.8	163.5	28.9	19.2	236.2
of which: civilian aircraft	—	141.4	—	—	203.2
81 Plumbing and heating equipment	.01	.4	.6	.2	.2
82 Furniture	—	.2	1.2	.7	.4
84 Apparel	.4	.1	.3	.1	—
85 Footwear	—	—	—	—	—
87 Instruments	49.3	46.4	55.4	65.0	143.4
88 Photographic apparatus	1.2	2.2	5.1	3.9	4.8
89 Other	193.4	239.1	162.0	80.6	20.9
Total	1,716.5	3,749.0	3,598.6	2,904.5	2,163.2

US IMPORTS

In million dollars, customs value

SITC No. and Product	1979	1980	1981	1982	1983
00 Live animals	—	—	—	—	—
01 Meat	1.0	.9	.8	1.0	1.1
02 Dairy products	.3	.3	.3	.4	.6
03 Fish	17.3	6.3	23.4	17.7	11.5
04 Cereals	1.6	2.5	3.3	3.4	3.9
05 Vegetables and fruit	11.5	22.7	39.6	52.6	53.0
06 Sugar	6.7	7.0	8.0	7.5	8.1
07 Coffee, tea, and spices	12.0	13.0	16.6	33.5	25.4
08 Animal feeds	—	.1	—	—	—
09 Miscellaneous edibles	1.0	2.4	3.1	2.9	3.6
11 Beverages	.7	1.4	1.9	2.4	3.6
12 Tobacco	—	.1	.1	.1	.3
21 Hides and skins	.5	.9	.8	1.0	1.2
22 Oil seeds	.1	.1	153.0	1.6	6.3
23 Crude rubber	—	—	.2	.8	.6
24 Cork and wood	—	.3	.5	.3	.5
26 Textile fibres	11.8	12.3	18.1	15.2	13.8
27 Crude fertilizers	8.3	25.1	33.6	38.8	32.8
28 Metalliferous ores	14.1	33.8	46.6	22.0	8.5
29 Crude animal materials	30.1	53.5	46.4	39.4	33.0
32 Coal	—	—	—	—	—
33 Petroleum products	96.4	132.4	295.4	580.2	419.6
of which: gasoline	21.6	81.8	258.7	336.9	308.9
41 Animal oils	—	—	—	—	—
42 Vegetable oils	3.4	2.0	.3	.5	1.0
43 Animal and vegetable oils	—	—	—	.1	.5
51 Organic chemicals	4.5	16.8	24.0	23.8	32.9
52 Inorganic chemicals	19.0	31.2	36.8	35.7	15.8
53 Dyeing and tanning materials	—	.3	.6	1.3	2.8
54 Medicinal preparations	3.8	9.6	19.8	19.7	25.0
55 Essential oils	5.2	13.8	10.8	12.9	14.8
56 Fertilizers	—	—	—	—	—
57 Explosives	15.6	23.2	24.7	31.1	29.0
58 Artificial resins	—	—	—	.1	2.4
59 Chemical materials	5.2	6.6	8.5	7.1	10.4
61 Leather	.6	.9	2.4	1.8	3.0
62 Rubber manufactures	—	.1	.6	.6	.5
63 Cork and wood manufactures	1.8	4.5	5.6	5.6	6.7
64 Paper and paperboard	.9	1.5	2.6	2.9	2.6
65 Textile yarn and fabrics	55.7	140.9	238.4	225.9	244.4
66 Non-metallic minerals	5.3	15.3	27.2	33.6	41.1
67 Iron and steel	—	—	6.1	6.5	2.3
68 Non-ferrous metals	6.9	42.7	43.3	43.9	30.5
69 Metal manufactures	10.5	23.4	41.3	55.8	63.5
71 Power generating machinery	—	.1	1.7	1.2	1.1
72 Specialized machinery	.1	.1	.4	4.2	6.0
73 Metalworking machinery	.5	1.2	4.0	4.6	4.3
74 General industrial machinery	—	1.6	26.7	18.2	13.3
75 Office machines	.1	—	.2	.9	1.0
76 Telecommunications equipment	.1	.4	3.5	5.5	9.3
77 Electrical machinery	.3	1.7	2.6	4.7	3.0
78 Road vehicles	—	—	.4	2.6	1.8
79 Other transport equipment	—	—	.2	1.2	2.3
81 Plumbing and heating equipment	.1	.3	.9	1.0	1.3
82 Furniture	2.8	8.8	15.8	23.0	27.2
83 Travel goods	.9	2.9	14.9	27.6	41.2
84 Apparel	132.4	255.6	404.4	611.8	754.8
85 Footwear	13.9	22.4	38.7	37.8	34.6
87 Instruments	.1	.5	1.1	2.1	2.2
88 Photographic apparatus	—	.3	1.7	1.6	2.3
89 Other	45.4	95.4	128.1	139.2	155.2
Total	548.5	1,039.2	1,830.0	2,215.9	2,217.5

Source: US Department of Commerce.

mously in recent years, which should help the country meet its capital import needs.

Meanwhile, Chinese exports to the US are expected to continue the steady growth of the last 13 years. Manufactured products will continue to predominate, but poor product quality and styling may constrain future export growth. Textiles, China's main export, are limited under a five-year agreement signed last August 19. However, recent growth trends suggest that Chinese machinery exports may expand very rapidly in the next few years, making up for slower growth in consumer goods exports.

Project Management in China

Foreign competition could force China to move away from "consensus" management

John A. Bing

In a series of newspaper articles and radio broadcasts, capital construction in China came under a lot of attention and criticism. First came articles attacking the proliferation of unauthorized projects that drew resources away from top priority or "key" projects established by Beijing. Other articles criticized the management of the many "key" projects that were behind schedule and above cost. No doubt to set an example, wide publicity was given to the Tianjin water project because it was ahead of schedule and below budget. The articles indicated it was an exception. Along with the criticism were comments and editorials on ways to correct the problem. The campaign quoted from the *Selected Works of Deng Xiaoping* on the assignment of responsibility. More specifically, the State Planning Commission issued instructions that for large key projects, "a special person should be assigned to take charge."

Just what does this mean? Is it an indication of a basic change from collective leadership? Is China about to adopt a system of project management?

In most US–China trade, the absence of project management has not made a significant difference, since most contracts typically involved only the sale of equipment or the purchase or sale of commodities. Relatively few contracts involved engineering, material supply, construction, and the operation of a plant. It is in these areas that success or failure can be greatly influenced by the planning and management of the entire venture. However, with the increase in compensation trade and joint ventures, where success is dependent upon the timely completion and operation of a capital project, the need for successful management is of vital interest to US firms.

Why it Works

Before we can discuss the status and changes in project management in China, it is necessary to define what we mean by the term.

In its broadest sense, project management may be defined as a step-by-step management system of planning, organizing, directing, and controlling large engineering projects, often referred to as "capital projects." These are usually one-of-a-kind endeavors to be completed in a finite time period. A cornerstone of the system is the appointment of an overall leader, called the project manager or director, vested with the responsibility and the authority to carry out the work. The system involves:

- ▶ detailed planning of the work to be done—from start to finish;
- ▶ breakdown and quantifying of the work in physical terms and the assignment of responsibility for each task;
- ▶ scheduling of the overall project and its elements; and
- ▶ costing out each task in terms of personnel, resources, and money.

Constant supervision is required throughout the course of the project. To this end, the project manager must combine his own management skill and experience with techniques such as critical path method (CPM), matrix organization, work breakdown system, and cost control, which are usually tailored to the specific needs and conditions of the individual project.

Because project management is concerned with the overall project, the system provides the mechanism to reconcile differences and conflicts that inevitably arise between departments or disciplines working on the job.

The theory of project management seldom presents any difficulty; it is in the practice of the system in a country like China that problems arise, for the system cannot work if authority is not delegated to the project manager commensurate with the scope of the project.

Early US Experience

The M.W. Kellogg Company was one of the first American companies to sign contracts with China that involved more than just technology or equipment sales. Kellogg's contracts covered all technology, engineering, and equipment as well as hundreds of construction and start-up advisors for eight large chemical fertilizer plants. These projects provided a unique window on how the Chinese then approached and controlled major capital construction projects.

Kellogg's own approach to the China contracts in 1973 was basically the same as with other fixed-price contracts, with the added sense of newness and exotic expectations one would expect in such a new market, plus a concern for the magnitude of the financial risk associated with a quarter of a billion dollars of business in one basket. However, basic staffing, planning, and execution followed established practices with a few concessions requested by the Chinese regarding the shipment of material in specific lots, and for special milestone-review meetings during the design period.

From the outset the Chinese evinced little interest in the way the project was organized or managed. But they were keenly interested in mastering the technology of the plant from theory to practice, as well as in all pieces of supplied equipment.

What they wanted was enough information to manufacture or to rebuild the equipment themselves.

This attitude mirrored the government's deeply held concept of self-sufficiency. Once the Chinese had the plants they did not want to be dependent upon any foreign sources for spare parts, catalyst, or knowledge. To a significant degree they succeeded in reaching this goal for the chemical plants—but at great expense to themselves.

The usual method of management was by committee and by consensus. Everything seemed to be done by a committee or collective decision-making process, away from the eyes and ears of foreigners. Once the Chinese reached a decision, it was presented by a spokesman for the group who would state or restate the point, but who would not or could not debate or negotiate the point. This was not within the power of the spokesman. Letters written by Kellogg to the buyer were addressed to a contract reference number only. Letters received in return were signed by a nameless "chop" or seal.

All of Kellogg's contracts were handled by the China National Technical Import Corporation, or TECHMIPORT. Everything was done in the corporation's name including meetings, correspondence, shipping, and negotiations. TECHIMPORT is a foreign trade corporation, so for technical, construction, or operating discussions it had to call in engineers and others who would be introduced as "from the design or the user departments." Kellogg began to think the user department must be the biggest department in the whole corporation. Not until years later was it revealed that the user department was in fact the ultimate owner of the plant, and the design department was the Design Institute of the Ministry of Chemical Industry.

It became apparent that in large capital projects such as this, the Chinese divided responsibility three ways. "Ownership" was assigned to a municipality, province, or ministry, as appropriate, once the project was approved by the State Planning Commission. The "owner" would provide the land, infrastructure, operating and support personnel, and would usually handle the construction. All technical responsibilities would be assigned to a ministry or one of its design institutes. The third party was a foreign trade corporation that handled all commercial negotiations, signed the contract, and served as the legal interface between China and the contractor. Despite some changes and shifts in emphasis, large projects in China are still handled this way.

Such a division of labor of course made it impossible to assign responsibility to any one party. As seen from the outside, this separation led to inaction and lost time. Each group quite rightly looked after its own interests. The design group had a clear idea of what it wanted (the best); the owner had a clear idea of his needs (the most); and so did TECHIMPORT (no change in contract and no extra expense). All these positions were logical and reasonable, except in the composite. During the design phase, for example, modifications were made that are normal in these types of projects. None affected plant performance, but some of the changes did differ from the contract specifications. As no one group wanted to take responsibility, it was extremely difficult to get approvals without a project manager.

Some trade-offs were possible, but only if it was within one group. For instance, the exchange of miscellaneous material for extra construction work or the exchange of one piece of equipment for an equal value change in another.

China was still in the Cultural Revolution for the first three years of the Kellogg work. This had a definite effect on the project and partly explains the unwillingness to assume responsibility. The lack of overall project leaders made day-to-day work difficult and contributed to misunderstandings. At several plant sites attempts were made to discredit foreign designs and equipment to prove them faulty. Although frustrating and exhausting, these incidents did not hold up the projects or cause any damage.

The bulk of the articles and paragraphs in Kellogg's contracts related to the purchase and shipping of equipment and material—another insight into the thinking of the day that persists to the present time. Pages of the contract specified the mode, timing, and marking of material for shipment. Other pages covered inspection of the material both at the vendor's shop and at the plant site. Equal emphasis was given to payment and shipment documentation, even to the extent of identifying the numbers of copies of miscellaneous shipping and support documents. Consistent with this emphasis, there were detailed sections on warranties, guarantees, and what to do if materials were short or faulty.

Attached to the contracts were volumes of techical documents describing the plant down to the size, weight, and measure of every piece of equipment. In spite of a level of definition seldom, if ever, done before, the Chinese would have preferred final drawings and details of the entire plant before signing.

In other words, the contracts were aimed at describing the physical aspects of each piece of equipment so that on arrival it could be measured, counted, and compared with the contract and accepted or rejected on that basis, rather than on the purpose for which it was intended. By contrast, the contracts devoted far less attention to management. Little was said about the dynamics of such a large construction effort, or how problems would be overcome other than through "friendly discussion."

Interestingly, China successfully produced new military aircraft and ICBMs while the Kellogg plants were going up. These must have called for an enormous technical effort involving complicated logistics. To all intents and purposes, they could not have been developed without a unified management structure held together by an all-powerful leader or project manager. Why then, if the Chinese know how to manage big projects, don't they use these same management techniques on smaller commercial ventures?

Recent US Experience

The tremendous surge in capital construction in China in 1978 increased the number of plant sales in many fields of heavy industy: steel, petroleum refining, chemical, petrochemicals, coal, and mining. Most were fixed-price contracts, but a few broke new ground by being open cost. In all cases, the contracts reflected a more objective approach to contracting by adapting somewhat more realistically to the specific circumstances of each job. To the extent possible, the Chinese insisted upon providing their own materials and fabricated equipment, which meant these items had to be inte-

grated into the supplier's designs. Under the open-cost contracts, the contractors tended to do the investigation, scoping, and preliminary engineering in cooperation with Chinese engineers. In both cases, the need for overall management and coordination by the Chinese was far greater than in the early 1970s.

Coincident with this, and possibly as a result of this new management role, the balance of power and authority among the three parties—the foreign trade corporation, industrial ministry, and local owner—seemed to shift in favor of the ministries.

For the first time, the ministries stood out in their own right in the negotiations and during project implementation. Leaders and coordinators were appointed with different titles and authority, depending upon the ministry involved and the scope of the project. The Ministry of Chemical Industry, for example, began to appoint "project managers" from its appropriate technical department. In the case of the Dexing copper mine project, a vice-minister was made project "commander."

Such visible project leadership was welcomed by the contractors even when it became apparent that the authority of the "leader" was a direct function of his rank, and sometimes represented very little real power. It did mean the foreign project manager had someone to go to.

Unfortunately, the Chinese period of readjustment in 1980 postponed or canceled all the large projects involving American contractors—but not before some important experience was gained on how the new system was working. Observers noted that high-ranking project leaders were much more effective than low-ranking leaders (some of whom were outranked by specialists working on the project); in the latter instances, the leader served only as coordinator.

The naming of project leaders in no way diminished the intense desire to absorb the foreigner's technology to the most minute detail. There was still little interest in learning about project or engineering management, or in acquiring the important tools of scheduling or cost control.

During this 1978–80 period, one relatively small, but highly innovative contract went to the Dutch affiliate of an American engineering company to design a chemical plant. The first phase of the project took place in the Netherlands, where a 30-member Chinese engineering team worked directly with and under the instruction of Dutch engineers to prepare all basic engineering data. At the completion of this six-month phase, the Chinese team returned to China, accompanied by a small team of Dutch engineering advisors. There the balance of the work was completed. A few specialized items of equipment were purchased by the team in Europe, while the bulk of equipment and materials was purchased in China. This project not only involved the transfer of technology but also, to some extent, the methods and practices of the engineering firm, as the Chinese team was intimately exposed to the planning, organization, staffing, and procedures of managing a major capital project.

Another innovation in the contract was the reversal of roles between the buyer and Chinese equipment suppliers. Instead of having to accept standard items and design around them, the team issued exact specifications for the equipment needed and then worked closely with the Chinese manufacturers to be sure they supplied what was needed.

Time is Money

The idea that time has no monetary value perplexes and frustrates all China traders, but it is particularly inimical to sound project management. Provinces or enterprises are sometimes still given money by the central government for major projects on a no-interest basis. Therefore, there was no financial pressure either to speed up or to expedite a project.

One of the prime tenets of project management is that time is money, which often results in trade-offs of money for time. Recently, this idea has appeared in China in two ways. For the first time, interest in being charged on money loaned to construction projects. This has instilled in managers the fear that if they don't spend money quickly, they will "have less money at the end of the year," according to one report. Secondly, public recognition is increasingly given to time-saving decisions. An example of this was published in a Chinese building journal, which praised a construction company for substituting concrete with more expensive steel for a roof in order to save months of project time.

The decision to establish new industry-wide corporations, such as the China Petrochemical Corporation could also improve the way major projects are conceived and implemented in the future.

These corporations combine under one management all of the facilities, resources and functions of an industry in order to raise efficiency and profitability. It appears that the corporations are now less fettered by government and bureaucracy and are being told to produce or else. Though not the main reason for their creation, these corporations have placed a new emphasis on managers and management systems.

Raising Proficiency

Another change has been the implementing of a responsibility system mentioned earlier, which coincides with the retirement or replacement of ineffective managers and cadres and is really a part of the general upgrading of all levels of government and managements. In the new corporations such as the China Petrochemical Corporation (SINOPEC), managers must be university trained, new employees must pass proficiency tests, and foreign language ability is required of all managers in the international business sections of the corporation.

Greater authority and new titles alone will not improve management. Training is essential. One significant step in this direction was the creation in 1980 of the National Center for Industrial Science and Technology Management Development in Dalian. This is a joint effort of the US Department of Commerce and China's State Council and Ministry of Education. For six months each year, mid-level managers from all over China are exposed to a multitude of business (and project management) courses given by US and Chinese faculty and supplemented by lectures from American business people. To date over 700 Chinese have attended the course and returned to their enterprises or bureaus with new ideas to adapt to their work places. The World Bank, too, has placed considerable emphasis on training, feasibility studies, and on generally raising the sophistication of the Chinese in matters of finance and capital construction.

Collective Leadership is Ingrained

Why haven't the Chinese yet embraced project management? It would seem to be the logical answer to many of China's problems in the area of capital construction. This very attitude is itself a deterrent to acceptance by the Chinese, who have been conditioned all of their lives to beware of "foreign devils" and their ways, especially when something is being sold to them for their own good. Perhaps the Chinese are no different from American managers, who are slow to accept Japanese methods of running factories. Taking risks under the present scheme of things carries with it few rewards and penalties for failure. While it is true that in the countryside the new "responsibility system" has encouraged peasants to experiment with new ways of doing things, they are only risking their harvests, not their careers. Collective leadership has been ingrained for decades, in fact for the entire working lives of most cadres and managers. Besides being the accepted system, collective leadership offers the protection of anonymity so desired during politically turbulent times, such as the Cultural Revolution. The wounds of that 10-year ordeal are still painful and any healing process takes time.

Therefore the problem is not in convincing the Chinese that project management has merits, but in convincing Chinese managers to shed their fear of criticism if the effort fails—a difficult task, indeed. This is espcially true if the individual is not sure that there is full support from above. Changing this situation requires sustained encouragement and a firm policy from the top on down.

The fear of failure is not confined to the individual chosen as project manager. One cannot overlook the fact that built into the project management system are detailed and often sophisticated cost, schedule, and control functions. Their purpose is not just to report what happened, but to identify the areas and even the problems that cause delays and cost overruns. What happens when the system indicates that the blame for some problems lie with a higher official? Will those officials still support the system and delegate the authority to correct the problem?

The misapplication of project management methods is another serious impediment. Some American firms have tried to apply project management like a package or off-the-shelf product. But in order to succeed it must be tailored to the project and to the special needs of the organization building the project. This means appointing qualified people as project managers, and then delegating sufficient authority to them to give the position the power it needs to function. Failure to do both can cripple the system, or worse, discredit the effort for the wrong reasons.

The high walls between ministries and between provinces is well known, and a lot more than just the promise of improved efficiency is needed before each group stops protecting its own. Project management can't break down the walls, but it can identify where the walls are holding up the project and at what cost. Managers armed with this knowledge have a better chance of getting the attention and cooperation of others.

"I Hear and I Forget"

Other problems arise when it comes down to the selection of a project manager. As one sets out the criteria for selection, the field narrows leaving one with few candidates, or else with only compromises. Because of the compartmentalization in China, it is not easy to find people experienced in all phases of a project from feasibility to design, through procurement, construction, and operations. In the US, engineers are usually selected, or individuals well-versed in the technical aspects of the project. He or she must have demonstrated leadership qualities and a willingness to take risks, a knowledge of the tools and methods of the system and experience in using them. It is no wonder that few project managers are young.

US firms with joint ventures in China would be wise to use the opportunity they offer for on-the-job training of project managers. These ventures provide a practical training format in a favorable atmosphere since both parties are anxious for the enterprise to succeed. In this regard, an old Chinese proverb is quite appropriate:

I hear and I forget.
I see and I remember.
I do and I understand.

Any on-site training scheme, however, will require American project managers willing to accept long-term assignments in China. The experience of M.W. Kellogg and other engineering companies is that most of their employees are curious or eager to visit China. Many are willing to stay for several weeks. Others are agreeable to a month's stay; but very, very few volunteer for repeated visits or long-term residence in China. The problem is not so difficult with construction supervisors, whose chosen field involves moving and overseas assignments, but the shortage of interested and qualified personnel could be critical in other aspects of some joint ventures.

Competitive Pressures

World competitive pressures may also force the Chinese to adopt project management techniques if they want their enterprises to be more profitable. These pressures could be the main motivating force for change. Some Chinese ventures in the area of construction labor supply have already worked outside China and learned to be competitive. To carry this to a level of greater responsibility (and greater profit), talks have been held with several US companies about the idea of forming a joint venture engineering and construction company. This idea is fully consistent with Beijing's policy on technology transfer and self reliance. It is also a logical way for US engineering and construction companies to participate in China beyond just licensing technology, and to involve Chinese construction companies bidding on major international projects in the Middle East, Asia, and Africa. Since China has already done some work in this field, the question is not whether the capabilities are there, but how well China can stand up against Korean, Taiwanese, Philippine, and other formidable international contractors. This competition should help underscore the benefits of careful planning, tight scheduling, cost control, and above all, the strict adherence to project management.

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Business Registration in China

When opening an office or other business establishment in China, it pays to understand the legal details

Jamie P. Horsley

As business has expanded, so has the need to register foreign offices, joint ventures, service centers, and the many other forms of foreign business establishments now taking root in China. Registering such establishments is generally a straightforward process—provided, of course, that you thoroughly grasp the registration procedures.

Beginning with the Chinese–foreign equity joint venture and resident representative office registration provisions issued in 1980, the Chinese have since expanded the scope and detail of their registration requirements for all types of business endeavors. As of the end of 1983, China had published national registration procedures for equity joint ventures, foreign contractors and subcontractors operating in China, representative offices of foreign financial institutions, and representative offices generally. Guangdong Province has promulgated its own provincial representative office registration rules and separate, broader foreign enterprise registration procedures for the special economic zones within its jurisdiction: Shenzhen, Zhuhai, and Shantou. In addition, large municipalities such as Beijing, Shanghai, and Guangzhou have issued business registration provisions covering foreign and Chinese personnel working for foreign enterprises in China. National regulations governing nonequity cooperative ventures and wholly foreign-owned investments are currently being drafted.

From the foreigner's point of view, registration accomplishes several purposes. First, and most important, it legitimizes business activity in China and determines its permissible scope. Failure to register can—and has—resulted in an office being fined and banned from further trading. Second, it enables a foreign company to bring in office equipment (with lower import duties on some items), rent office space and living quarters on a long-term basis, and secure six-month, multiple-entry visas for its resident staff, among other things.

Registration further entitles foreign firms and their resident personnel to the protection of Chinese law and access to China's courts. Of course they must in turn abide by the PRC's laws—which may include paying taxes, depending on the nature of their business activities in China.

By way of comparison, individual states in the US also require that foreign corporations and government entities file with the secretary of state of each state and obtain permission to conduct business there, against payment of a registration fee and, often, a periodic maintenance fee, for tax and consumer protection purposes. Foreign corporations generally must appoint the secretary of state as their agent for service of process so that they can be sued in-state. China does not require such an appointment, but does require registration of foreign enterprise resident representatives, in the case of a representative office, and resident staff in the case of a joint venture or foreign contractor or subcontractor. Presumably, any of these registered personnel can be served on behalf of their employer for purposes of China's Draft Civil Procedure Code.

Interestingly, Chinese corporations have also had to register in recent years and obtain a business license in order to do business. Registration grants "legal status" and entitles them to conduct business, sign contracts, register trademarks, advertise, and open bank accounts.

What is a Representative Office?

The most common way that foreign companies establish a long-term presence in China is by opening a representative office. At the end of 1983, as many as 600 foreign representative offices had been registered in Beijing, including approximately 130 US firms. The total for all of the PRC reportedly is as high as 800 offices, including 150 US offices. The Japanese accounted for the largest presence, with nearly half of the offices, followed by the US and Hong Kong.

Representative offices outside of Guangdong and the SEZs are governed by two major documents: the Interim Provisions Concerning the Control of Resident Representative Offices of Foreign Enterprises (hereafter referred to as the "Representative Office Provisions," issued by the State Council on October 30, 1980) and the related Procedures Concerning the Registration and Administration of Resident Representative Offices of Foreign Enterprises (hereafter referred to as the "Representative Office Procedures," promulgated March 15, 1983 by China's national registration authority, the State Administration for Industry and Commerce).

The Representative Office Procedures clearly limit a foreign office to "activities that are not direct operating activities." This restriction gener-

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ally is interpreted to mean that representative offices cannot engage directly in profit-making activities. Liaison activities, consulting work, market research, and general information-gathering are permitted, but office personnel cannot sign contracts or receive any fees or income in China.

A foreign office can only commence activities of a "representative office nature" after registering with the local administrative bureau under the The State Administration for Industry and Commerce (SAIC). The penalty for not registering is ¥10,000 (about $5,000). It then receives a registration certificate, but not a business license. If its activities exceed the scope discussed above, the representative office may not only be subject to Chinese income tax, but it may also incur a fine of up to ¥20,000 ($10,000).

With respect to banks, representative office status means basically that the China offices cannot take deposits or make loans. (The People's Bank of China issued special rules on February 1, 1983 to clarify the limitations: the Control Procedure Concerning the Establishment in China of Resident Representative Offices by Overseas Chinese and Foreign Financial Institutions, hereafter referred to as the "Financial Institution Procedures.") Still, an interesting dispute arose last year after the regulations appeared. The central tax authorities published a subsequent notice announcing special tax treatment of the interest income earned in China on loans made by foreign banks through their representative offices in China. (This premature tax provision apparently arose from discussions the Chinese had with foreign bankers concerned about the 20 percent Chinese withholding tax applied to interest income.) Reportedly at least one foreign bank took this to mean that it could book a loan through its Beijing office. When it did so, the People's Bank threatened to expel the bank unless it rebooked the loan and promised to discontinue this practice.

In another case, a foreign company providing services to Chinese entities tried to register under the Representative Office Provisions, but was told by SAIC that it could not so register since it was actually doing business and earning income in China. The company was permitted to continue its operations and pay Chinese tax on its profits. But it had to postpone registration for several months until the notice on registration of foreign contractors and subcontractors was issued.

When Must a Company Register?

Once a firm has made the decision to send a representative to China, SAIC is fairly clear about when the office or individual should register. According to a 1981 notice, foreign representatives (whether their enterprise or organization is non-profit or profit-making, official, semi-official, or privately established) must register as resident representatives if they stay in China more than six months while conducting economic activities. This rule also applies to liaison personnel that go to China to engage in business activities, excluding engineering and technical personnel involved in design, construction, installation, or interpretation of technical data.

The most difficult aspect of registering a representative office is not legal, but "political," in the sense that the process requires diplomacy. Registration itself is very straightforward. But a foreign company must first find a sponsor or host organization that will approve its application to set up an office.

The six-month rule does not apply to representatives of foreign firms who went to China for trade activities that ended up taking longer than six months, or to technical service groups or personnel assigned to implement a contract or carry out project work, provided that their Chinese host organization certifies that they will leave China shortly. A foreign company need not register because of the presence of such personnel but, at least in the former case, must report their relatively long presence to the local registering authority for the record.

Finally, foreign personnel working for a Chinese–foreign equity joint venture do not need to register, since they are considered staff of the joint enterprise.

Companies who wish their staff to remain in China indefinitely, though not permanently, should be extremely careful about their activities. Before it is registered, a foreign company is not permitted to put up nameplates outside its room, publicize that it has a representative office in China (including passing out business cards with a Chinese office address), open bank accounts, or engage in any other activities of a representative office nature. Renting office space and hotel rooms long term, or publishing their names with a list of firms doing business in China, may alert SAIC of an unregistered company's intention to remain in China long term and subject it to the $5,000 fine.

Registration Procedures

The most difficult aspect of registering a representative office is not legal, but "political," in the sense that the process requires diplomacy. Registration itself is very straightforward. But a foreign company must first find a sponsor or host organization that will approve its application to set up an office. A company generally approaches its current trading partner or other Chinese entity with which it has developed close ties. Although approval does not have any onerous legal consequences for the sponsoring organization, it does signify the Chinese organization's opinion that the applicant will not only be useful in terms of China's economic development, but will be trustworthy, as well. In addition, the Chinese sponsor will be expected to assist the foreign company in obtaining office space, accommodations, visas, travel permits, customs exemptions, and the like on a continuing basis.

The Representative Office Provisions provide that for approval:

- Traders, manufacturers, and shipping agents should apply to the Ministry of Foreign Economic Relations and Trade (MOFERT);
- Financial and insurance institutions to the People's Bank of China;
- Ocean shipping companies and agents to the Ministry of

Communications;
▶ Airlines to the Civil Aviation Administration of China (CAAC); and
▶ Other business to the appropriate units of the Chinese government.

As a practical matter, the foreign company will usually submit an application letter to a familiar corporation or unit under the actual approving organization. For example, bankers often present their applications through the Bank of China, oil companies through the China National Offshore Oil Corporation and trading companies through an appropriate foreign trade corporation (FTC).

The application letter, signed by the company's president or chairman of the board, should set forth the same information required by the Representative Office Provisions for the application letter to be addressed to the local registration authority, namely: the name of the office, the names of the representatives and foreign staff to be appointed to the office, the scope of business, term of residence, and location. Most companies state as their scope of business simply "liaison," "consulting," or some other general service connection with their line of business.

The letter should be accompanied by copies of the complete set of documents that need to be submitted to the local registration authority, so that the approving organization can satisfy itself that the company has met all the applicable documentary requirements. The approving organization will issue an approval certificate after it has reviewed the documents.

One problem that can arise at the approval stage is the question of what company will register the office. Many foreign companies set up subsidiaries especially to do business with China, for tax and administrative purposes. These China subsidiaries then establish the representative office in China. However, some sponsoring organizations insist that the parent company itself register the office. This has been the position, for example, of one of the foreign trading companies under MOFERT. In this case, MOFERT bowed to the opinion of the foreign trade corporation and insisted that the parent company must register the offices being sponsored by that corporation. This issue, then, should be clarified at the outset with the relevant Chinese sponsoring organization.

Within 30 days of the issuance of the approval certificate, a resident representative must go to the local municipal administrative bureau for industry and commerce (the "registration authority") to register the office and its foreign personnel. In addition to the approval certificate, application letter signed by the company's president or chairman, and other information discussed above, the company must submit the following documents:

One problem that can arise at the approval stage is the question of what company will register the office. Many foreign companies set up subsidiaries especially to do business with China, for tax and administrative purposes. These China subsidiaries then establish the representative office in China.

▶ An official license to do business issued by the pertinent authorities of the country where the applicant is located. For a US applicant, this can be a copy of the certificate of incorporation or business license, or a certificate of good standing issued by the secretary of state's office in the applicant's home state.

▶ A capital creditability certificate issued by a financial institution that has business dealings with the applicant. SAIC has not prescribed any standard form for this certificate, but explains that it basically wants a letter of introduction and any available information on loan performance and the applicant's account history. The bank, however, need not divulge specific or non-public information about the applicant's financial situation.

▶ A certificate of authorization and a brief personal résumé for each of the personnel appointed to the resident representative office. Again, no standard form of authorization has been prescribed, and SAIC to date has not required that the authorization take the form of a formal power of attorney or other appointment. However, the People's Bank requires notarized powers of attorney for representatives appointed by foreign financial institutions. The personal résumé should include information on each staff member's educational background and employment history.

Financial institutions also must provide a copy of their most recent annual report covering assets and liabilities, a list of the board of directors, and their articles of association.

After presenting the prescribed documents, the representative will be asked to fill out, in Chinese and English, three copies of a standard form registration application, calling for the same information submitted with the application letter, along with the names of the chairman and vice-chairman (or vice-chairmen) of the board, the name of the bank with which it has an account, and the account number. (Many companies have reported the name of their foreign bank, but the Chinese more likely want the name of the Bank of China branch at which the company has opened or will open an account and the account number, as is the case in foreign contractor registration.)

The registering authority then reviews the documents and, if everything is in order, issues a registration certificate and resident representative certificates for the foreign staff, both valid for one year. SAIC has set the initial registration fee at ¥600, which must be paid at the time of registration, and the fee per resident representative at ¥100. These certificates must be renewed annually until the term of registration expires, by sending an application letter and a ¥300 fee to the registering authority, along with reports in Chinese on the activities of the office for the previous year and any projects with the Chinese that resulted from those activities.

For financial institutions, the term of registration is three years, renewable for successive three-year periods. This seems to be true for all other representative offices as well,

OFFICE RENTALS IN BEIJING

Hotel	Single room: Sizes available in square meters, *feet*		Single room: Price per month per square meter, *foot*		Double room: Sizes available in square meters, *feet*		Double room: Price per month per square meter, *foot*		Three-room suite: Sizes available in square meters, *feet*		Three-room suite: Price per month per square meter, *foot*	
Beijing (East Wing)	35	*378*	¥72.60	*$3.30*	70	*756*	¥72.60	*$3.30*	116	*1,253*	¥65.70	*$3.00*
Beijing (Middle Wing)												
(small)	43	*464*	¥69.60	*$3.30*	81	*877*	¥92.40	*$4.20*	—	—	—	—
(large)	51	*551*	¥70.20	*$3.30*	—	—	—	—	—	—	—	—
Fragrant Hills	36	*389*	¥94.20	*$4.50*	72	*778*	¥90.30	*$3.90*	237	*2,560*	¥96.30	*$4.50*
Friendship	18	*194*	¥66.60	*$3.00*	35	*378*	¥60.00	*$2.70*	52	*562*	¥51.90	*$2.40*
Great Wall	30	*328*	¥216.90	*$9.90*	45	*486*	¥240.00	*$11.10*	110	*1,188*	¥436.20	*$20.70*
International Club												
(small)	21	*229*	¥141.30	*$6.30*	—	—	—	—	—	—	—	—
(large)	106	*1,148*	¥98.70	*$4.50*	—	—	—	—	—	—	—	—
Jianguo	28	*302*	¥166.20	*$7.50*	70	*756*	¥145.50	*$6.60*	—	—	—	—
Kaoyadian	54	*583*	¥105.60	*$4.80*	—	—	—	—	—	—	—	—
Lidu	27	*287*	¥124.20	*$5.70*	53	*575*	¥112.80	*$5.10*	80	*862*	¥112.50	*$5.10*
Minzu	25	*270*	¥103.20	*$4.80*	60	*648*	¥95.10	*$4.20*	110	*1,188*	¥95.40	*$4.20*
Minzu Gong												
(small)	25	*270*	¥72.00	*$3.30*	—	—	—	—	—	—	—	—
(medium)	42	*454*	¥85.80	*$3.90*	—	—	—	—	—	—	—	—
(large)	230	*2,484*	¥78.30	*$3.60*	—	—	—	—	—	—	—	—
Peace												
(small)	19	*205*	¥86.70	*$3.90*	34	*365*	¥88.80	*$3.90*	—	—	—	—
(large)	24	*261*	¥80.40	*$3.60*	—	—	—	—	—	—	—	—
Qianmen												
(small)	23	*247*	¥39.30	*$1.80*	49	*532*	¥42.30	*$1.80*	—	—	—	—
(medium)	27	*291*	¥44.70	*$1.80*	—	—	—	—	—	—	—	—
(large)	31	*331*	¥44.10	*$1.80*	62	*674*	¥38.40	*$1.50*	—	—	—	—
Xiyuan	24	*259*	¥68.70	*$3.00*	35	*378*	¥102.90	*$4.50*	—	—	—	—
Xinqiao												
(small)	24	*259*	¥62.40	*$2.70*	—	—	—	—	—	—	—	—
(medium)	42	*454*	¥64.20	*$3.00*	—	—	—	—	—	—	—	—
(large)	50	*540*	¥60.00	*$2.70*	—	—	—	—	—	—	—	—
Yanjing												
(small)	22	*238*	¥81.90	*$3.90*	—	—	—	—	—	—	—	—
(large)	45	*486*	¥76.80	*$3.30*	—	—	—	—	—	—	—	—

NOTE: All offices listed with rates are generally available for lease. Dashes indicate that a particular size office is either under long-term lease, or is not available in that hotel.

SOURCE: Beijing Office of the National Council for US–China Trade, March 1984. Table prepared by Susan K. Partyke.

under an SAIC notice released in October 1983. Previously, the application for non-financial offices could state "indefinite" as the term of stay, and registration certificates could be issued without stating a term of validity.

An extension requires a number of things: an approval certifcate from the original sponsor, an application to the registering authority, an annual activity report, an extension fee (¥300), and copies of the materials first submitted to the sponsoring organization when extension approval was sought.

Any change during the year in a registered item, such as the appointment of a new representative or foreign staff member, change of address, or change of the office's scope of business, must be approved by the sponsoring authority and reported to the registering authority with an application to modify registration, accompanied by a fee of ¥100. Failure to register any change could result in a fine of up to ¥5,000 and revocation of the company's registration certificate.

After the registration, renewal, or extension is completed, the resident representative must take a copy of both the registration and resident

priate changes made in the resident representative certificates and commercial domicile registration.

The office should also open an account with a local bank, usually the Bank of China, and register with the customs and the tax authorities (even though the office generally is not a taxable entity). Once the representative and office are registered, the representative may bring in office equipment and necessary vehicles, employ local Chinese staff, rent office space (usually in hotels), rent cars from a local taxi company, and rent communications equipment and telecommunications lines.

Registered foreign staff may also rent hotel living quarters on a long-term basis and bring in personal goods. (Goods imported within six months of the date that customs approved a list of personal goods may be exempted from duty.) Resident individuals must also go through tax registration and pay a monthly Chinese individual income tax on their full salary, regardless of where it is paid.

Office Personnel

Chinese policy now allows a foreign company other than a financial institution to register as many representatives as it deems necessary, upon approval by its sponsor. (The original policy permitted only one chief representative and no more than two deputies.) Financial institutions can register no more than four persons for a representative office in Beijing, three for an office in an SEZ, and two in a branch office elsewhere.

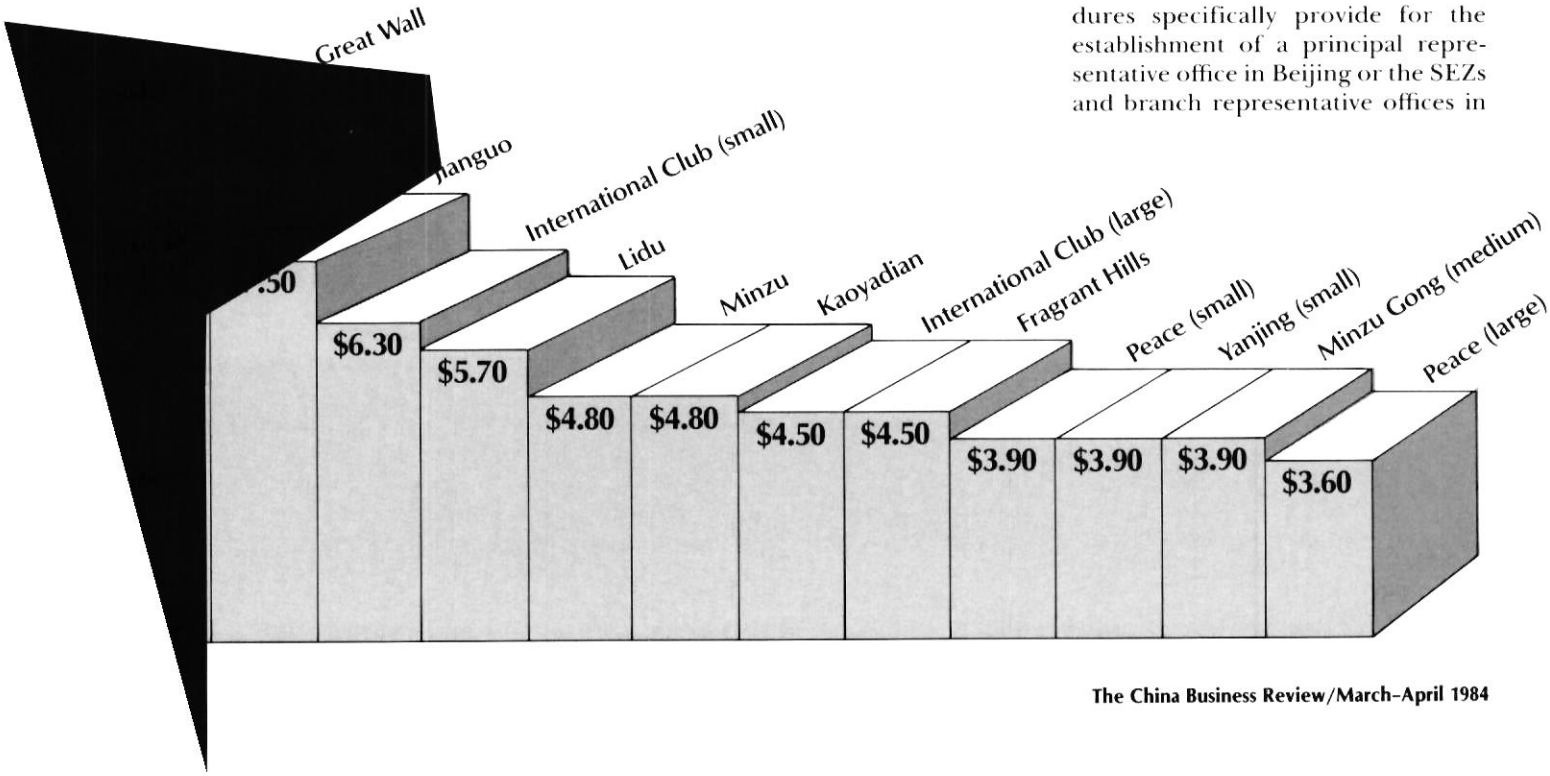
All "work personnel" must be hired through local service units for foreigners, according to the Representative Office Provisions and Procedures. In Beijing, this is the Foreign Enterprise Service Corporation, or FESCO (*see* page 30). In Shanghai, the chief organization involved is the Municipal Service Bureau for Permanent Representative Organs. In Guangzhou it is the Guangzhou Labor Service Bureau located in the Dong Fang Hotel. Foreign oil companies in Guangzhou have obtained secretaries and other office personnel from the China Nanhai Joint Oil Service Company, while similar personnel may be obtained in Zhanjiang from the Nanhai West Oil Corporation. The names of the work personnel must then be reported to the registration authority for the record.

Although this point was only recently clarified, the Chinese intend that all work personnel be hired from among local Chinese. In August 1983 Beijing issued a notice requiring all foreigners working in representative offices to register and obtain from the Beijing registration authority a "resident representative certificate," and all office staff to obtain a "work permit" from FESCO. This requirement, which has since been duplicated in other large cities, in effect prohibits representative offices from employing non-Chinese office personnel other than authorized representatives, unless they are hired outside of China and either are of the same nationality as the company or have worked for the company prior to coming to China. The latter exception is not expressed in writing but represents SAIC's internal policy. When asked the reason behind this, an SAIC official frankly admitted that it is designed to protect the local labor force. The Chinese benefit not only from the foreign exchange paid to Chinese office workers (only part of which actually goes to the workers) but also from the training and office experience they gain in a representative office.

Prior to the circulation of the August notice, foreign companies had often brought in efficient, bilingual Hong Kong secretaries, hired spouses of resident business executives and diplomats, or students to help out in the office. The latter group was attractive because the company did not then have to provide housing and "hardship" bonuses, or worry about visas. Now, according to internal policies, the hiring of foreign students and spouses of diplomats is strictly forbidden. And, pursuant to the August notice and the internal SAIC policy described above, the local hiring of spouses of resident business executive is also problematic. Some companies have resorted to sending their foreign staff outside of China and hiring (or rehiring) them there, or else having them appointed as deputy representatives in order to get them registered.

Multiple Offices

The Financial Institutions Procedures specifically provide for the establishment of a principal representative office in Beijing or the SEZs and branch representative offices in



"designated cities" subject to the approval of the People's Bank of China and the local registration authorities. Although the more general Representative Office Provisions and Procedures are silent on this point, an SAIC notice issued in 1981 but not widely circulated allows foreign companies to establish representative offices in several cities, also subject to separate approval and local registration.

Joint Ventures

Chinese–foreign equity joint ventures are defined by Chinese legislation as "legal persons." Like other Chinese corporations, they must register and obtain a license to do business. If they are located outside the SEZs, they must follow the special rocedures for the Registration and dministration of Chinese–Foreign Joint Ventures, promulgated by the State Council on July 26, 1980 (the "JV Registration Procedures").

Joint ventures have not proved to be as popular a vehicle for doing business in China as the government had hoped. Only 188 joint ventures have been established in China since 1979. With the promulgation in September 1983 of detailed and fairly liberal implementing rules under the joint venture law, the Chinese hope to attract increased interest in this investment vehicle.

Registration of a joint venture is, again, fairly straightforward. MOFERT must first approve the joint venture contract. Such ventures that do not require additional allocations of raw materials by the state, do not affect the national balance of fuel, power, transportation, and foreign trade export quotas, and fall within the limits on total investment set by the State Council may be approved by authorized provinces, autonomous regions, municipalities, ministries, and bureaus under the State Council. In 1982, the State Council gave the provinces of Fujian and Guangdong the authority to approve joint ventures regardless of the amount of total investment (provided the source of the Chinese investment has been determined). It also authorized Beijing, Shanghai, Tianjin, and Liaoning Province to approve joint ventures that are capitalized under $10,000,000.

In order to obtain MOFERT approval, the Chinese partner must submit to MOFERT a copy of a Chinese-language feasibility study prepared by the joint venture parties and a copy of the texts of the joint venture contract and articles of association (in both languages), plus any preliminary joint venture agreements. In addition, the Chinese party must submit a list of candidates for chairman, vice-chairman (or vice-chairmen), and directors agreed to by both parties. Also required are written opinions regarding (presumably approvals of) establishment of the joint venture, by the department in charge of the venture and the local people's government. MOFERT has three months to issue an approval certificate. Otherwise, the venture is deemed to be rejected.

The joint venture then must submit the approval certificate to the registration authority, together with three copies each of the Chinese and foreign language texts of any preliminary joint venture agreements, the joint venture contract, and its articles of association. The foreign venturer must provide a copy of its business license or similar document issued by the relevant authority where it is located abroad. No capital creditability certificate, list of its board of directors, or foreign personnel résumés and authorizations are required to be submitted by the foreign party.

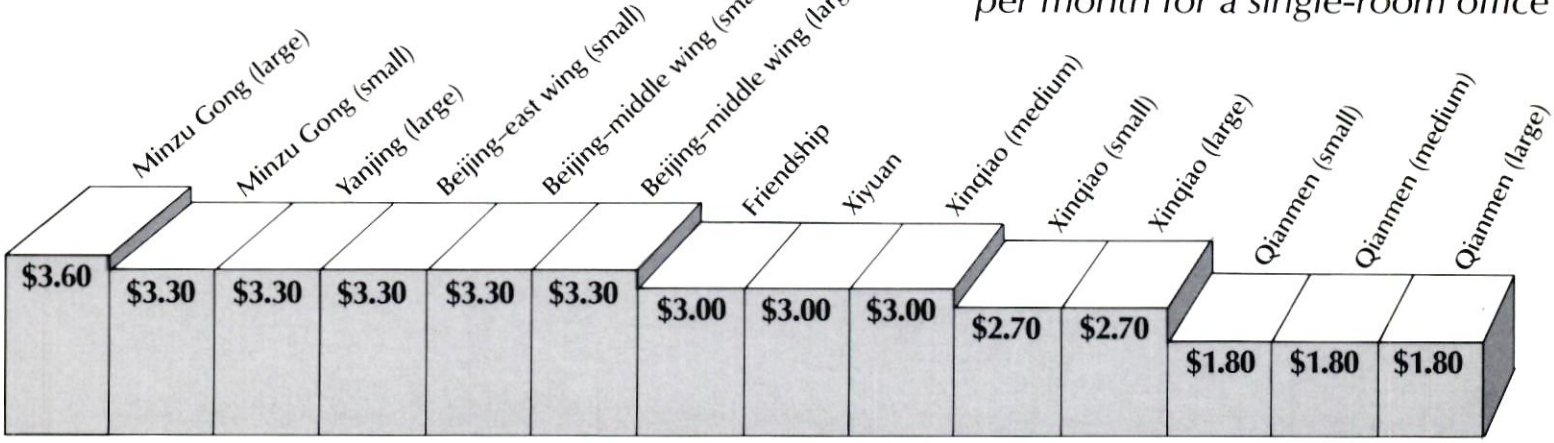
At the time of registration, the joint venture must also fill out a standard form registration application signed by its chairman and vice-chairman or chairmen of the board of directors, and bearing the joint venture's seal. The application must include the JV's bank account number, registered capital, line of business, total number of foreign and Chinese staff, and information on the chairman, vice-chairman, general manager, and deputy general manager.

The joint venture registration fee is based on a percentage of the venture's registered capital, stated in Renminbi. Generally it equals one-tenth of 1 percent of registered capital up to and including ¥10,000,000 (approximately $5,000,000) and one-twentieth of 1 percent on any registered capital in excess of ¥10,000,000. Any subsequent increase in registered capital will be subject to a fee calculated on the same basis. Any alteration of registered items will entail a fee of ¥100. These fees are halved in the case of joint ventures involving Hong Kong, Macao, and overseas Chinese enterprises, and may be reduced if the foreign partner's country charges a substantially lower fee for joint venture registration.

Only after registration and the issuance of a business license may a

OFFICE COSTS IN BEIJING

US dollars per square foot per month for a single-room office



Staffing your Beijing Office

The range of skills offered is surprisingly broad, but so are the competence levels

Elizabeth Mueller Gross

The process of finding and hiring Chinese citizens to staff and help maintain your office in China can begin even before normal business registrations are completed. This is done by approaching the Chinese organization authorized to provide such personnel. In Beijing, this is the Foreign Enterprise Service Corporation (FESCO).

From calligraphy to dancing

FESCO's personnel include senior advisors, translators, interpreters, bilingual secretaries, clerks, typists, drivers, and maids. There are even teachers available qualified to give instruction in Chinese calligraphy, music, painting, and dancing, not to mention the Chinese dialect of your choice. In addition, FESCO will provide logistic support, such as repairing office equipment, finding office and residential living space, providing vehicles, handling customs declarations, and taking charge of domestic and international freight deliveries.

More than 600 FESCO-sponsored individuals are currently employed by foreign representative offices in Beijing. Most provide routine office support, though a few serve as the official Beijing representatives of some Swiss, French, German, and Canadian firms.

Salaries and benefits

The monthly salaries of FESCO workers vary with the position and the individual's level of skills. The current salary scales are:

- Babysitters and household help: ¥200–300.
- Drivers: ¥300–400.
- Non-English-speaking clerical staff (for Japanese offices only): ¥400–500.
- High-school graduates with some English: ¥500–700.
- University graduates capable of interpeting: ¥700–1,000.
- Professionals, such as engineers, professors, associate professors, and those with scientific backgrounds with good English who are more than 40 years old. (The highest salary now earned by anyone at this level is ¥1,600.) ¥1,000–2,000.

In addition, the foreign employer must pay for health insurance for each worker. A Personal Accident Insurance Policy with the People's Insurance Company of China costs about $70 a year per employee.

Personnel from the "professional" staff level generally are transferred to FESCO from other Chinese organizations, sometimes at the foreign firm's request. A US electronics firm, for instance, may ask that an employee from the Ministry of Electronics Industry be transferred to FESCO to fill a high-level position, if a qualified person is not available from FESCO's pool. But these transfers are extremely difficult to engineer, partly because the ministries or bureaus that release individuals expect to be compensated and this cuts into FESCO's revenues. The normal practice is for FESCO to share with the original organization a percentage of the foreign exchange it receives from the employee's salary.

Just how much of their salaries Chinese workers actually receive is a subject of some concern to foreign employers, especially at raise time. Each year foreign firms are asked by FESCO to raise the employee's salary by a certain percentage as a sign that the firm is pleased with the employee's work. At least one foreigner has asked a Chinese staff-member whether the raise had increased his salary. His answer: "Not at all."

All salaries are paid by foreign firms directly to FESCO and not to the Chinese personnel placed by FESCO. Of FESCO's total revenues from these salaries, reportedly 10 percent goes to the state treasury, 10 percent to FESCO for operating costs, and approximately 80 percent is paid to the workers in kind—in the form of health and retirement benefits, benefits to the "only child" of the worker, subsidized or free coal, and so forth. The cash-in-hand from that 80 percent varies from employee to employee. A babysitter paid only ¥200–300 per month, for instance, will take home as much as 60 percent of that monthly salary, while the cash payments to an engineer may be as little as 10 percent of his or her ¥1,000–2,000 per month salary. Employees earning more than ¥800 also pay income tax.

For the most part, foreign firms hire their staff under very constrained circumstances and must rely on FESCO's assessment of a worker's linguistic ability and "general knowledge." FESCO will send one potential employee at a time, and the foreign representative will have to reject that candidate in order to see another. There is little incentive for FESCO to handle employment otherwise. Liu Zhenghong, deputy general manager of FESCO, candidly admits that because of the tremendous shortage of FESCO employees, he will be able to place every employee sooner or later. Foreigners, for the same reason, are wary of rejecting too many candidates. With a waiting list for 50 secretaries (and fewer than 50 secretaries available from FESCO) most representatives feel that they cannot pass up the first or second person they interview, and will simply have to accept and train unqualified personnel in some cases.

Confidentiality

Another difference between Western business practice and conditions in China concerns confidentiality. Every Saturday all FESCO-placed personnel report to FESCO, ostensibly for further training in languages and office skills, but also for "political study." Many foreign representatives in China say that they must assume that anything they say or do is likely to be reported to the officials every Saturday and that they simply must conduct business with this in mind. On the other hand, FESCO officials insist that the Chinese workers are not permitted to divulge business secrets during the Saturday afternoon reports, that foreign businesses are in China because they are good for China, and therefore it is in the interests of the Chinese to "work with the foreigners to enhance the fame of FESCO and the PRC."

This article is based on interviews in Beijing with The Foreign Enterprise Service Corporation and the Beijing representatives of foreign companies.

joint venture commence operation.

Foreign Contractors and Subcontractors

On January 12, 1982 the Chinese issued regulations on the Exploration of Petroleum Resources in Cooperation with Foreign Enterprises (the "Petroleum Regulations"). These regulations required foreign oil companies and oil service subcontractors carrying out petroleum contracts, or performing related services in cooperation with the China National Offshore Oil Corporation (CNOOC) or its subsidiaries, to establish branch or representative offices in China. The question arose, what form would these offices take?

In response, SAIC published a "Contractor Registration Notice" on March 12, 1983 entitled Notice Concerning the Question of Registering Foreign Companies that Come to Our Country to Cooperate in Development and Contract for Projects. It provides that all foreign companies that come to China to cooperate in development and contract for all types of projects (not just offshore oil exploitation) should register pursuant to the notice and "with reference" to the procedures for registering Chinese–foreign equity joint ventures. The procedures outlined in the notice are said to be "temporary," and it is not yet known when formal registration procedures, rather than just a notice, will be issued.

The notice draws a distinction between foreign contractors (defined as foreign companies that sign contracts with the head office of a Chinese corporation, such as CNOOC), and foreign subcontractors (defined as firms that sign contracts with foreign contractors or other foreign subcontractors). Subcontractors that are Chinese–foreign joint ventures are excluded from the scope of the notice. This point is notable, inasmuch as foreign contractors are given a business license, as are joint venture subcontractors, while independent foreign subcontractors are merely given a registration certificate. This implies that their permissible activities in China are more restricted, and more temporary. The Chinese have specified, in the Petroleum Regulations and related notices, that foreign oil companies are to give preference to Chinese subcontractors and Chinese–foreign joint venture subcontractors that can provide support services for offshore oil exploitation. Indeed, the fact that foreign subcontractors can obtain a registration certificate but not a business license seems to underscore China's idea that hiring independent foreign subcontractors should be discouraged.

Registration requirements for foreign contractors and subcontractors differ slightly.

Contractors. A foreign contractor must register with SAIC itself, rather than the local administrative bureau for industry and commerce, and supply the following:

- Copy of the approval document issued by the State Council or a department empowered by the State Council (in the case of foreign oil companies that have signed contracts with CNOOC, this would be the approval issued by MOFERT);
- Copy of the relevant contract with the Chinese corporation involved (in both languages).
- Official license to do business and a capital creditability certificate (just as a representative office must do);
- Registration application in Chinese and the foreign language, signed by the chairman of the board or president of the company, containing the same information required in the case of registering a representative office, (including a list of the principal personnel to be resident in China, their duties, and brief personal résumés);
- List of foreign subcontractors, the projects contracted for, and the principal personnel to be resident in China.
- Statement of assets and liabilities (in both languages), for purposes of calculating the registration fee. (Though this is not mentioned in the main notice, it appears in the May 4, 1983 explanation that accompanies it.)

Joint ventures have not proved to be as popular a vehicle for doing business in China as the government had hoped. Only 188 joint ventures have been established in China since 1979. With the promulgation in September 1983 of detailed and fairly liberal implementing rules under the joint venture law, the Chinese hope to attract increased interest in this investment vehicle.

Foreign contractors engaged in offshore oil exploitation have generally given SAIC a "letter of introduction" from CNOOC, which reviews the registration application and materials. Such a letter tends to be helpful in a registration proceeding.

As in the case of representative offices, a representative of the foreign contractor must then take all the required documents to the SAIC, and there fill out a standard form registration application, in both Chinese and English. In order to complete the application form, the representative will need to know:

The home-state and local China addresses of the company;

Contract approval date;

Term and total amount of the contract;

Registered capital of the company;

A description of the contracted project;

Total number of non-Chinese staff to be working for the company, broken down into managers, technical personnel, and workers;

Names and nationalities of the company's chairman, vice-chairman, general manager, and deputy general managers;

Types and numbers of equipment brought into China; and

The numbers of the bank account(s) established in China and the name of the Chinese bank(s) involved.

The contractor registration fee is normally based on a percentage of the company's registered capital, just as in the case of a joint venture. Thus, a contractor will pay one-tenth of 1 percent on registered capital equivalent to ¥10,000,000 or less and one-twentieth of 1 percent on that part exceeding ¥10,000,000, subject in all cases to a cap of ¥30,000 and a mini-

mum fee of ¥50.

A special provision states that foreign contractors intending to participate in the cooperative development of China's offshore oil will first register only for the term of the exploration period (five to seven years) and pay a flat registration fee of ¥2,000. At the end of the exploration period, they will apparently have to register again for the development period and, apparently, again when commercial production begins. At that time, they will pay a registration fee based on the above percentages of registered capital.

Subcontractors. A foreign subcontractor must go through registration regardless of the length of its operations and reregister if it signs a new subcontract, after it has completed the prior one. Subcontractors generally register with the local administrative bureau for industry and commerce in the place where they will be operating. However, subcontractors that have several contracts and simultaneously carry out projects in different provinces or municipalities are to register centrally with SAIC itself. They need register only once, listing all current projects and adding new subcontracts that may be signed while other projects are still underway.

Foreign subcontractors must submit a copy of the relevant subcontract(s), together with a Chinese translation, and an application letter signed by the company's chairman or president, containing the information required in the case of foreign contractors.

In addition, the foreign subcontractor must obtain and submit a "certificate" of the local branch office of the Chinese corporation with which the foreign contractor signed a contract. This certificate presumably functions as an approval document or letter of introduction, assuring the registering authority that it should permit the registration to go forward.

In November 1983, the Chinese government approved 3M's application to establish a wholly owned operation in Shanghai. The Chinese government is now in the process of drafting legislation to govern such enterprises in China.

Again, a representative of the company must also fill out the same standard form registration application, in Chinese and English, that foreign contractors must complete.

The registration fee is based on 20 percent of the subcontractor price; if the contract does not set forth a total price, the subcontractor must submit materials to support an estimated price. If 20 percent of the subcontract price is equal to ¥10,000,000 or less, the fee will be one-tenth of 1 percent of the amount. If it is more than ¥10,000,000, one-tenth of 1 percent will be collected on ¥10,000,000 and one-twentieth of 1 percent on the excess. As in the case of foreign contractors, the maximum fee is set at ¥30,000 and the minimum fee at ¥50.

When registration is completed, foreign subcontractors will be given a "Registration Certificate for Foreign Enterprises Contracting for Projects in China," valid for the term of the subcontract or, in the case of multiple contracts, the longest term of the contracts covered.

Modification of registration must be made, with the approval of the Chinese entity concerned, whenever the contents of the original registration need to be changed or supplemented. The charge for each modification is ¥100.

Cooperative Ventures and Foreign-Owned Enterprises

The separate rules on office registration issued on December 24, 1981 for the special economic zones located in Guangdong Province (the "SEZ Provisions") provide for the registration of cooperative ventures, or so-called contractual joint ventures involving coproduction or comanagement arrangements. The Chinese government is currently formulating rules to govern the nature and operation of cooperative ventures outside of the special economic zones, which reportedly will be based

to some extent on the rules governing equity joint ventures.

With respect to foreign-owned enterprises in China, prior to late 1983 wholly foreign-owned operations had been confined to the special economic zones. Article 10 of the SEZ Provisions provides expressly: "Foreign investors may independently operate their own enterprises in the special zones." Then a MOFERT official announced in mid-October 1983 that foreign businesses may be allowed to start independent operations in China's coastal areas outside of the special zones, "where conditions permit." In November 1983, Chinese government approval of the application of the US corporation Minnesota Mining and Manufacturing (3M) to establish a wholly owned operation in Shanghai was obtained. The Chinese government is now in the process of drafting legislation to govern such enterprises in China.

Pending promulgation of the cooperative venture and foreign-owned enterprise rules, such entities apparently must still register and obtain a business license, even when they are located outside of the special economic zones. According to interim provisions issued in 1982 by SAIC, cooperatively managed ventures and foreign-owned enterprises that have been approved by MOFERT or other authorized agencies are to pay registration fees in accordance with the fee standards set for joint ventures, as described above.

Concerning actual registration procedures for these entities, we currently have only the SEZ Provisions for guidance. They do not distinguish between different forms of doing business, other than representative offices, in prescribing registration procedures. All equity joint ventures, cooperative ventures, and foreign-owned enterprises must provide an approval document from the relevant zone authority, one copy each of the Chinese-language and foreign-language texts of any agreements or contracts signed by the parties to the enterprise or venture, the registrant's articles of association, a list of its board of directors, and a copy of the foreign investor's home-country business license. Upon registration, a standard form registration application calling for the same information required in the case of an equity joint venture must be filled out in triplicate.

Putting Together an Office Budget

It is far from uncommon for a large, multidivisional corporation to spend more than a million dollars a year trying to do business with China. That includes everything from the cost of staging exhibitions to executive travel, though one of the biggest budget items is usually for operating an office in China.

A company can spend anywhere from $60,000 to more than $300,000 a year on salaries and daily operations. The figures depend on the kind of office—and image—the company wishes to maintain. These figures fall into three budget categories:

▶ ***Bare Bones*** This refers to a one-room office staffed by a Chinese-speaking American with no previous business experience. Rent and electricity are based on the hypothetical example of a double room in the Friendship Hotel that serves as both an office and residence. Benefits typically include three roundtrip air tickets to Hong Kong and one to the US.

▶ ***Average*** This category covers rent and electricity for a two-room office in the Beijing Hotel and a separate, single-room residence for the representative. An "average" staff includes a mid-level company executive who does not necessarily speak Chinese, and a locally hired assistant with minimal experience and modest English skills. A telex machine and projector are added to the basic office furnishings, such as an electric typewriter and furniture. Benefits include three roundtrip air tickets to Tokyo, plus a per-diem allowance, and one roundtrip ticket to the US.

▶ ***Deluxe*** Figures for a deluxe office are based on rentals for a duplex suite in the Jianguo Hotel (including a residence and double office) or two large connecting rooms in the new Great Wall Hotel. (An average of the rents and electricity has been taken.) Generally the office is run by a senior executive and two locally hired staff members, one with considerable experience and some interpreting skills. In addition to a telex machine and projector, the deluxe office generally has a photocopier along with the basic office equipment. Benefits include a trip to Tokyo every six weeks, plus per diem, and home leave.

In addition, foreign firms will sometimes cover food and incidentals as part of the compensation package for expatriate staff. For an average office this can amount to $10,000 on top of a yearly budget, but for a deluxe operation can reach $15,000.

A BEIJING BUDGET: THE FIRST YEAR

	Bare Bones	Average	Deluxe
Equipment, Maintenance, & Supplies	2,700	6,400	12,000
Expatriate Salaries & Benefits	25,000	67,500	120,000
Entertainment	2,000	5,000	10,000
Duties, Customs, & Fees	200	500	800
Office Assistants	—	5,600	14,800
Postage, Shipping, & Freight	2,700	4,000	7,500
Rent & Electricity	17,500	33,000	100,000
Telephone & Telex	3,500	8,000	17,000
Transportation (local)	3,500	4,500	6,000
Travel (in China)	2,400	4,500	10,000
Miscellaneous	500	1,000	1,900
TOTAL:	60,000	140,000	300,000

Chart compiled by Scott D. Seligman

500 FOREIGN BUSINESSES WITH OFFICES IN BEIJING

Partial Listing

(US companies in italics)

ACEC
ACEC (Belgium)
Adfield Advertising Co. Ltd.
AEG-Telefunken SHK China Ltd.
Aeroflot Soviet Airline
Air France
Alfred Hempel Co.
Allis-Chalmers
All Ports Trading Co.
Al Rowaishan Establishment for Universal Trade and Agencies Ltd.
Altman International
American Broadcasting Co. (ABC)
American Chamber of Commerce (AMCHAM)
American Express
American International Group
American Motors Corp.
American Soybean Association
American Technology (AMTECH)
AMOCO Orient Petroleum Co.
AMPEX World Operations SA
Anning, Chadwick & Kiver (Produce) Ltd.
ARCO China Inc.
ARCO Inc.
Arthur Andersen & Co.
Asahi Trading Co.
ASOMA (China) Ltd.
Atlantic Richfield Corp.
Avon Products
Baker Marine
Baker & McKenzie
Baker Oil Tools Co.
Banca Commerciale Italiana
Banca Nazionale Del Lavoro
Banco Di Roma
Banco do Brazil, SA
Bank of America
Bank of Credit and Commerce Internat'l (Overseas) Ltd.
Bank of Montreal
Bank of New South Wales
Bank of Nova Scotia
Bank of Tokyo
Banque de L'Indochine et de Suez (Indosuez)
Banque Francaise de Commerce Exterieur
Banque de Paris et de Pays-Bas (Paribas)
Banque Nationale de Paris
Ban Thong Co. Ltd.
Barry F. Neal & Associates PTY Ltd.
Barclays Bank International Ltd.
Bata Industries
BBC Brown Boveri Ltd.
Bears Stearns
Bechtel
BET Trading Associates
Bentley-Nevada Corp.
BFCE
Bodum Export Co. Ltd. (HK)
Boeing Commercial Airplane Co.
Borsumy Import & Export (HK) Ltd.
BP Petroleum Development Ltd.
BNP
British Aerospace Dynamics Corps.
British Airways
Brambilla Cogros A
Brown & Root
Brunswick International
Burroughs Asia Ltd.
Califas (HK) Ltd.
Caltex Petroleum Corp.
Canada-China Trade Council
Canadian Imperial Bank of Commerce
Carvax Corporation
Caterpillar Far East Ltd.
C & C Trading Co.
C-E International (Combustion Engrng, Inc.)
CFP Total
CGE Alsthom International
Chartered Bank
Chase Manhattan Bank
Chemical Bank
Chevron Orient Inc.
Chikuma Co. Ltd.
China Business Association
China Business Consultants
China Technical Consultant Corp.
China Translation & Printing Service (USA) SF Inc.
Chiyoda Chemical Engrng & Construction Co.
Chori Co. Ltd.
CIBA-GEIGY Ltd.
C. Itoh & Co. Ltd.
Civil Aviation Admin. of DPR of Korea
Clark International Marketing SA
Coca-Cola Co.
COGIS
Collins & Associates Ltd.
Columbia Broadcasting System (CBS)
Cometals China Inc.
Commerzebank Aktiengesellschaft
Commimpex srl
Compagnie General de Geophysique (CGG)
Compagnie Oliver SA
Computervision Asia Ltd.
Continental Emsco Co.
Continental Corporation
Contistahl Export
Control Data Corp.
Control Data France
Coudert Brothers
Credit Lyonnais
Creusot-Loire International
C-Trans International Inc.
Cummins Corporation
Daiei Inc.
Dai-Ichi Kangyo Bank
Daimler-Benz AG
Dainippon Ink & Chemicals Inc.
Daiwa Bank
Danieli & Co. SpA
Dasing
Davy Corporation
Den Norske Creditbank
Den Norske Stats of Oljeselskap as (STATOIL)
Dentsu Inc.
Detlef Von Appen
Deutsche Bank AG
Deutsche Lufthansa AG
Dietz Business Services Ltd.
Digital Equipment Corp.
DLT (China) Ltd.
Dodwell China Ltd.
Douglas Aircraft
Dow Chemical Pacific Ltd.
Dragon Lady Traders
Dravo Corporation
Dresdner Bank AG
Dresser Industries
Dung Feng Co. Ltd.
East Asiatic Co. Ltd.
East Asiatic Co. Ltd. (US)
East-West Trade
Elders IXL Ltd.
Elf Aquitaine Chine
Ekman & Co. Ltd.
ENI
Enoxy Chemicals SpA
Ernst & Whinney
E.S. Pacific International Co.
Essex (United Technologies Internat'l Operations)
Esso Exploration Inc.
Ethiopa Airlines
Export-Import Bank of Japan
Fiat/Commissint
First Family of Travel
First Interstate Bank of California
First National Bank of Chicago
Fluor Corporation
FMC (Far East) Ltd.
Fried Krupp GmbH
Fuji Bank
Fujita Trading Co. Ltd.
Fujitsu Ltd.
Fuqua World Trade Corp.
General Electric
General Engineers Corp.
General Motors Overseas Corp.
Geophysical Co. of Norway (China) Ltd.
Geophysical Service, Ltd.
Geosource Ltd.
Godo Sangyo Co. Ltd.
Gokei Boeki Trading Corp.
Goyo Boeki Co. Ltd.
Gozan Trading Co.
Graham & James
Great Eastern Development Co.
Gunma Yuko Boeki Co. Ltd.
Gunze Sangyo Inc.
Haight, Gardner, Poor & Havens
Halliburton Overseas Ltd.
Hamel, Park, McCabe & Saunders
Heller, Ehrman, White & McAuliffe
Hewlett-Packard Co.
Hino Motors Ltd.
Hiroshima Trading Co.
Hitachi Ltd.
Hitachi Zosen Corp.
HLK Services Ltd.
Hoechst AG
Hokkaido Takushoku Bank
Hokushin Electric Works
Home-Pack Transport
Honda Motor Co.
Honeywell Info. Systems International
Hong Kong & Shanghai Banking Corp.
Hughes Trading Division Co.
Hutchison China Trading Holdings Ltd.
Hyogo Trading Co.
I. M. Pei & Partners
Inchape Group 200
Incoteco SA
Industrial Bank of Japan
Ingersoll-Rand Co.
International Business Machines (IBM)
International Corp. of America
International Harvester
Inabata & Co. Ltd.
Iran National Airlines
IRI Group
Isuzu Motors Ltd.
Itoman & Co. Ltd.
Iwatani & Co. Ltd.
Japan Ass'n for the Promotion of Internat'l Trade
Japan Ass'n for the Promotion of Internat'l Trade/Kansai
Japan Ass'n for the Promotion of Internat'l Trade/Tokai
Japan-China Ass'n of Economy and Trade
Japan-China Long-Term Trade Committee
Japan-China Machinery Technical Development Co. Ltd.
Japan-China Oil Development Corp.
Japan National Oil Corp.
Japan Pulp and Paper Co. Ltd.
Japan Steel Works Ltd.
Japan Travel Bureau Inc.
Jardine Interpublic
Jardine, Matheson (China) Ltd.
Jebsen & Co.
Jeuro Container Transport Inc.
JGC Corporation
John Deere
Johnson & Johnson
John Swire & Sons (China) Ltd.
Kamsky Associates
Kanematsu-Gosho Ltd.
Karl O Helm AG
Kasho Co. Ltd.
Kawanishi & Co.
Kawasaki Heavy Industries Ltd.
Kawasho Corp.
K & E Co. Ltd.
Kellogg-China Inc.
KISCO Inc.
Kinsho-Mataichi Corp.
Klockner & Co.
Klockner-Humboldt-Deutz AG
Klockner-Werke AG
Kobe Steel Ltd.
Kobe Yuko Boeki Co. Ltd.
Kodak (China) Ltd.
Komatsu Ltd.
Koshin Trading Co. Ltd.
Kowa Co. Ltd.
Koyaku Co. Ltd.
Koyosya Co. Ltd.
Krupp Industrietechnik
Kuehne & Nagel
Kuo Chi Trading Corp.
Kyoei Shoji Co. Ltd.
Kyoho Tsusho Kaisha Ltd.
Kyokuto Shokai Co. Ltd.
Kyowa Shizai Co. Ltd.
Liebherr-Service AG
Lockheed Corp.
London Export Corp. Ltd.
Long-Term Credit Bank of Japan
Lufthansa German Airlines
Lurgi Co.
Macvin International Ltd.
Mannesmann AG
Manufacturers Hanover Trust Co.
Marc Rich & Co. AG
Marconi Avionics
Marconi Electronics
Marsh & McLennan
Marubeni Corporation
Matsushita Electric Industry Corp.
McCann-Erickson Jardine (China) Ltd.
McDonnell-Douglas
MCW Technology Inc.
M. D. Ewart & Co. Ltd.
Meiwa Trading Co.
C. Melchers & Co. (America) Inc.
C. Melchers & Co. (W. Germany)
Melchers-Ferrostaal GmbH & Co.
Mentaford Ltd.
Merrill Lynch, Pierce, Fenner & Smith
Metallgesellschaft
MG International
M & M Militzer & Munch AG
Midland Bank Group
Mitsubishi Bank Ltd.
Mitsubishi Corporation
Mitsubishi Electric Corp.
Mitsubishi Jitosha Kogyo
Mitsubishi Motors Co.
Mitsubishi Trust & Banking Corp.
Mitsui Bank Ltd.
Mitsui & Co. Ltd.
Mitsui Engrng & Shipbuilding Co. Ltd.
Mitsukoshi Ltd.
Miyamoto Sangyo Kaisha Ltd.
Mondial Services (HK) Ltd.
Monsanto Far East Ltd. 300
Montedison
MTS Systems Corp.
National Australia Bank
National Bank of Pakistan
National Broadcasting Co. (NBC)

National Council for US-China Trade (NCUSCT)
Nichimen Co. Ltd.
Nihon Kookuu Kabushikikaisha
Niigata Boeki Ltd.
Nike Inc.
Nikkoh Enterprise Co. Ltd.
NEC Nippon Electric Co. Ltd.
Nippon Electric Co. Ltd.
Nippon Express Co. Ltd.
Nippon Fire & Marine Insurance Co.
Nippon Kokan KK
Nissei Sangyo Co. Ltd.
Nissho Iwai Corp.
Nisshin Transp. & Warehouse Co. Ltd.
NL Industries
NL Baroid/NL Petroleum Services (Far East) Pte Ltd.
Nomura Securities Co. Ltd.
Nomura Trading Co.
Nvovo Pignone Co.
Occidental Petroleum
Office Generale de l'Air
Okaya & Co. Ltd.
Okumoto Trading Co. Ltd.
Okura & Co. Ltd.
O'Laughlin MF
Orenstein & Koppel AG
Otto Wolff Industire-Analgen GmbH
Overseas Economic Cooperation Fund of Japan
Overseas Union Bank Ltd.
Owens Corning Fiberglas
Pacific World
Pan American Airways
Pan Pacific Services Ltd.
Pakistan International Airlines
Parker Drilling Co.
PARYMEX Sarl
Paul, Weiss, Rifkind, Wharton and Garrison
Pechinery Ugine Kuhlmann
Pennzoil
Perkin-Elmer
Philippine Airlines
Philippine National Bank
Philips Export BV Sci. & Ind. Equipment
Phillip Brothers
Phillips Petroleum
Prestige Sportswear
Price Waterhouse
Progressive Enterprises, Inc.
Pullman-Kellogg
Renault Groupe
Rentai
Rento Shokai Ltd.
Rhone-Poulenc SA
Rikei Corp.
Rikuryo Sangyo Co. Ltd.
Rolls-Royce (China) Ltd.
Royal Bank of Canada
SAS Scandinavian Airline Systems
Salzgitter AG
Sandoz Ltd.
Sangen Tsukuba Trading Co.
Sangyo Bokei Ltd.
Sanichi Kogyo
Sanko Co. Ltd.
Sanko Trading Co. Ltd.
Sankyu Inc.
Sanofi
Sanwa Bank Ltd.
Sanyo Electric Trading Co.
Saunier-Duval
Schenker & Co.
Scheuer International Trading Inc.
Schlumberger China
Sedgwick Group Ltd.
Seibu Department Stores
Seimssen & Co.
Seiyu Stores Ltd.
Sekkodo Co. Ltd.
Sembodja
Sharp Co. Ltd.
Shell China Ltd.
Shimadzu Corp.
Shin Toho Trading Co. Ltd.
Shinnihon Trading Co. Ltd.
Shinnippon Steel Corp.
Shinsei Koeki Co. Ltd.
Shinsho Corp.
Shinyei Kaisha
Shiramizu Tsusho
Siber Hegner & Co. Ltd.
Siemens AG
Signal Oil (Kellogg-China)
Sin Yun International Trading Co.
Skandinsviska Enskilda Banken
Smith Kline Group
SMS Schloemann-Siemag AG
Société Générale 400
Sodexim
Sogexport
Sony Corporation
Sopromo
Speichim
Sperry Co.
Standard Oil
Standard Chartered Bank Ltd.
Sudamin SA
Sulzer Brothers Ltd.
Sumitomo Bank
Sumitomo Corporation
Sumitomo Marine & Fire Insurance
Sun Hung Kai (China) Ltd.
Suzue Corporation
Suzuki & Co. Ltd.
Svenska Handelsbanken
SwissAir
Taisho Marine & Fire Insurance Co. Ltd.
Taiyo Bussan Kaisha Ltd.
Taiyo Fishery Co. Ltd.
Taiyo Kobe Bank
Taiyo Koeki Co. Ltd.
Taka-Ai Co. Ltd.
Takeda Chemical Industries Ltd.
Takenaka Komuten Co. Ltd.
Tarom Romanian Airlines
Technip
Tektronix Co.
Texaco Orient Petroleum
Textures International
Thai Airways International
Thomson-CSF
Thyssen
Time-Life News Service
Tokai Bank Ltd.
Tokai Marine & Fire Insurance Co.
Tokai Bank Ltd.
Tokan Boeki Co.
Tokio Marine & Fire Insurance Co.
Toko Bussan Co. Ltd.
Toko Trading Co.
Tokyo Boeki Co. Ltd.
Tokyo Kaseihin Co. Ltd.
Tokyo Maruichi Shoji Co. Ltd.
Tokyo Trust & Banking Co.
Toshiba Corp.
Tosho Co. Ltd.
Toshoku Co. Ltd.
Total Chine
Toyo Engineering Corp.
Toyo Ink Manufacturing Co. Ltd.
Toyo Menka Kaisha Ltd.
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Tozai Boeki Kaisha
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Turner China Industries
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U.S. China Industrial Exchange Inc.
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U.S. Wheat Associates
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Vincor Forest Products Ltd.
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Wang Laboratories
Wako Koeki Co. Ltd.
Wasui Bussan Co.
Waterman Steamship Corp.
Wellman Inc.
Western Japan Trading Co.
Westinghouse Electric
Westpac Banking Corp.
William Kai Yuen Trading Co.
WJS International
Wogen Resources Ltd.
Xerox Ltd.
Yamafuki Co. Ltd.
Yamano Boeki Co. Ltd.
Yamatake-Honeywell Co. Ltd.
Yasuda Fire & Marine Insurance Co.
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Banque Nationale de Paris
Banque Paribas
Bodum Export Ltd.
BP Petroleum Development Ltd.
Brambilla-Cogros SA
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Cartagena Industrial Co. Ltd.
Cathay Pacific Airlines
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Nike, Inc.
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Overseas Banking Corp.
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Pillsbury Foods/Green Giant
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Sanwa Bank
Sanyo Electric Trading Co. Ltd.
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Sentinel Supply Ships (PTE) Ltd.
Shanghai American School
Shell Oil
Shimaden Co. Ltd.
Shimadzu Co. Ltd.
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Sun Hung Kai (China) Ltd.
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Taiyo Fishery
Taiyo Gogyo
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Toko Bussan Co. Ltd.
Tokyo Boeki Co. Ltd.
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Toyo Menka Kaisha Ltd.
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Toyoda Tsusho Kaisha Ltd.
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Xerox Ltd.
Yagitsusho Ltd.
Yugen Kaisha Shinya Tsusho
Zellweger Uster Ltd.

Sources: Directory of Resident Offices of Foreign, Overseas Chinese, Hong Kong and Macao Enterprises. (China Industrial and Commercial Management Press, Beijing); The China Phone Book and Address Directory, 1984; National Council files. Information compiled by Caroline C. Gillespie

China's Third Generation

Today's key technocrats are being groomed as the leaders of tomorrow

Christopher M. Clarke

China's senior leaders are fast approaching or are already well into their eighties. Many of the Long March generation, which brought the Chinese Communist Party (CCP) to power, have "gone to see Marx." Those who remain, especially Deng Xiaoping and Chen Yun, have been extremely concerned about passing on the torch to a new generation.

The question of how to transfer power arose almost immediately after the fall of the Gang of Four. In 1980 Deng and his senior colleagues retreated to the "second line of leadership," promoting a new generation of leaders that now includes Party General Secretary Hu Yaobang, Premier Zhao Ziyang, and vice-premiers Wan Li and Yao Yilin. (*See* the July–August 1981 *CBR*, page 28.) These men are now approaching retirement age as well, and for the past two or three years both the "first" and "second" generations have undertaken a massive effort to identify, train, and promote a third generation to take control of the Party and State in the late 1980s and early 1990s.

Li Peng, Tian Jiyun, and Hu Qili are examples of the brightest stars yet to surface in this effort. Others, representing the thousands of cadres now in their 40s and 50s who are just beginning to appear are not far behind. Jiang Xinxiong, Peng Shilu, and Wang Zhaoguo are among the technocrats of the third and even fourth generation now being groomed for power in second-rank jobs at the center.

LI PENG

Vice-Premier
55 years old
Born in 1928 in Sichuan Province

Vice-Premier Li Peng is typical of the ideal "third generation" leader: He has impeccable political credentials, is an extensively trained technocrat, and is in his 50s.

Li Peng's training for a major role in China's modernization began in 1939 when Li was only 11 years old. His father, Li Suoxin, was a Communist Party organizer during the August 1, 1931 Nanchang Uprising, the incident that launched the People's Liberation Army. Li Suoxin was captured by the Kuomintang (KMT) government and executed. His wife and three-year old son were left destitute. In 1939 Zhou Enlai and his wife, Deng Yingchao, took Li Peng under their wing. They moved him first to Chongqing and later sent him on to the Communist headquarters of Yan'an, Shaanxi, where he finished secondary school. After attending technical school at Zhangjiakou, Hebei, Li returned to Yan'an to study at the CCP's first engineering school, the Yan'an College of Natural Sciences. He joined the CCP at the age of 17.

After five years of training, Li became a technician with an electric company in north China. Later he was transferred to Heilongjiang as assistant manager of the Harbin Oils and Fats Corporation.

Following his apprenticeship, Li received advanced training in the Soviet Union in electrical engineering at the Moscow Institute of Dynamics between 1948 and 1955, where he also served as president of the Association of Chinese Students in the USSR.

Li returned to China in 1955 and began a steady rise in the ranks, in the process gaining experience in all aspects of the electric power sector. Upon his return, at the young age of 27, he became deputy director and chief engineer of China's largest hydroelectric complex, at Fengman, Jilin, then under renovation with Soviet assistance. His outstanding record at Fengman brought him a promotion: to director of the Fuxun electric power plant in Liaoning, then China's largest thermal plant. Within a few years he was again promoted, and by 1966 became director and deputy chief engineer of the Northeast China Electric Power Administration.

Unlike so many of his technical colleagues, Li Peng benefitted from the Cultural Revolution, but not because of any leftist proclivities. He was transferred to Beijing as acting Party secretary, deputy director, and later director, of the Beijing Power Supply Bureau, and was personally entrusted by Premier Zhou Enlai with ensuring a regular, uninterrupted supply of electricity to the crucial Beijing–Tianjin–Tangshan area.

His decade of work in the capital was rewarded in 1979 with a promotion to vice-minister of electric power. When his superior, Liu Lanbo, retired in 1981 he recommended that Li replace him. Li served as minister for just a year before his ministry was reunited with the water conservancy ministry to become the Ministry of Water Resources and Electric Power (MWREP). He served as first vice-minister of MWREP for about a year before his promotion in June 1983 to vice-premier. He was elected a member of the Communist Party's Central Committee in September 1982.

In late 1983, Li summed up his future priorities for the electric power industry in five points. The first is to "make full use of the nation's rich hydropower potential," concentrating mainly on the development of big projects like those on the upper Yangzi and Hongshui rivers.

His second is the development of mine-mouth thermal generating facilities, especially in Shanxi, Inner Mongolia, and other coal-rich areas. Third is the development of nuclear generation in areas lacking coal and water resources. (While vice-minister of electric power and responsible for nuclear power development in Guangdong and east China, Li traveled abroad to study foreign experience and held negotiations with foreign companies.)

Li's fourth priority is to expand China's very limited electric power grids. Finally, he calls for the "vigorous" development of local, small-scale hydropower projects.

It appears that Premier Zhao and first Vice-Premier Wan Li are beginning to shift more and more of their work load onto Li, who is now responsible for all energy development and was recently put in charge of a task force on port development.

Li Peng is married and has two sons and a daughter. His wife and children all work in the electric power sector. Li, who has a good command of Russian, began studying English in 1973 and has studied computer language and programming in night school. Like Premier Zhao Ziyang, Li is a firm believer in field investigations and hands-on management. During the last four years, he has inspected 27 provinces and more than 100 power stations and construction sites. His spare-time hobbies are reading and cooking Sichuan-style food.

TIAN JIYUN
Vice-Premier
54 years old
Born in 1929
in Shandong Province

Vice-Premier Tian Jiyun is a study in contrast and similarity with his colleague, Li Peng. Roughly the same age, they are poles apart in experience.

Tian Jiyun had only a few years of secondary school and one year's training in a business and accounting school. Most of his expertise has been gained on the job.

Tian joined the Communist Party in 1945, and two years later served as a land-reform cadre in north China until Liberation in 1949. He accompanied the conquering People's Liberation Army to the south, reaching Guizhou in November. There he became confidential secretary of the financial takeover department of the Guiyang Military Control Commission, in charge of the assets of the deposed KMT regime. Between 1950 and 1953, Tian "learned while teaching" at the Guiyang People's Revolutionary University and the Guizhou Provincial Training Center for Financial Cadres.

Between 1953 and 1961, Tian Jiyun rose steadily in the ranks of financial cadres in Guizhou, serving successively as deputy chief, and later chief, of the secretariat of the Guizhou Finance Department; director of its general office; director of its budgetary division; and finally finance department deputy director. In 1961 Tian assumed his first region-wide post, becoming deputy director of the financial and monetary division of the financial and economic affairs department of the CCP's Southwest Bureau, a position he occupied until the Cultural Revolution.

Tian was only briefly eclipsed, and reappeared in Sichuan in 1969. Between then and August 1981, Tian served as deputy director, and later director, of the provincial finance bureau. From 1976 to 1980, with the encouragement of Governor Zhao Ziyang, Tian experimented with substituting taxes for delivery of profits by state industrial enterprises, one of the reforms that made Sichuan a national model.

Within a year of Zhao's elevation to premier, Tian Jiyun was called to Beijing as a State Council deputy secretary-general working on financial matters. During 1981, he submitted his ideas on financial reform to the leaders of the State Council, and much of his program was included in Premier Zhao's report on the Sixth Five Year Plan in June 1983.

In September 1982, Tian was elected to the Party's Central Committee, and in June 1983 he was concurrently appointed vice-premier and secretary-general of the State Council. As vice-premier he is in charge of the government's financial and economic work, and as secretary general he is Zhao's right-hand man in government administration and information management.

If Tian's education and background are different than Li Peng's, his work-style is quite similar. He is energetic, a strong believer in the virtues of on-site investigation and shuns "putting on airs." Like most top leaders in China, he lives in Beijing's Zhongnanhai, but unlike so many of his colleagues, he does not smoke. He reportedly enjoys spending his leisure time reading and studying.

HU QILI
CCP Central Committee Secretary
54 years old
Born in 1929
in Shaanxi Province

Unlike vice-premiers Li Peng and Tian Jiyun, the executive secretary of the CCP's Central Secretariat, Hu Qili, is a political generalist, not a technocrat. Most of his experience has been in Party youth work, and he is a close confidant and protégé of CCP General Secretary Hu Yaobang.

Hu Qili joined the Party at age 19 and attended Beijing University during the years surrounding the Communist takeover; his long career as a Communist Youth League official began at his alma mater in 1954. His youth activities in Beijing brought him to national attention, and in 1957 he was elected president of the All-China Students' Federation. By 1958 he had been elected a member of the All-China Youth Federation's standing committee, and in 1964 he was elected an alternate secretary of the Communist Youth League.

During the 1950s and early 1960s, Hu Qili was also very active in international youth and friendship activities, visiting North Korea, Morocco, North Vietnam, Cuba, Egypt, and several other African nations and serving as an official in the Sino–Latin American Friendship Association.

Hu Qili quickly ran afoul of the leftists in the Cultural Revolution and was reportedly sent off to the same "thought reform" school as his mentor Hu Yaobang. When released in 1972 he was sent to remote Ningxia to serve as a county-level Party secretary, but within a few years he became deputy director of the Ningxia Party committee's general office.

Hu Qili returned to Beijing as vice-president and deputy Party secretary at Qinghua University after the fall of the Gang of Four, apparently responsible for rebuilding the Communist Youth League (CYL) apparatus. When the CYL held its 10th Congress in 1978, Hu became a member of its secretariat. In 1979 he was elected president of the All-China Youth Federation.

In June 1980, Hu Qili was transferred to Tianjin as mayor and Party secretary. Tianjin had particular trouble recovering from the Cultural Revolution and from the Tangshan earthquake, and Hu was sent to help straighten out the city. Under his leadership, Tianjin made remarkable strides in economic development and foreign trade.

Almost two years after going to Tianjin, Hu Qili was recalled to Beijing to assist Hu Yaobang in running the central Party apparatus. He became director of the Central Committee's general office in May 1982, and in September was elected a Central Committee member and a secretary of the Central Secretariat. Hu Qili now serves as the Party's executive secretary, handling day-to-day affairs, and has the inside track as Hu Yaobang's likely successor as Party leader at the 13th Party Congress scheduled for 1987.

JIANG XINXIONG
Minister of Nuclear Industry
52 years old
Born in 1931 in Zhejiang Province

Jiang Xinxiong, the minister of nuclear industry, is typical of the technocrats now reaching the top of China's bureaucracies. Born into a middle-class Shanghai banking family, Jiang graduated from the Department of Mechanical Engineering of Nankai University in 1952. He was assigned to the Jixi coal mining district in Heilongjiang where he was quickly commended as an "advanced technician." In 1956 he was admitted to the Communist Party.

As China's nuclear program accelerated in 1958, Jiang was transferred to the northwest to work on nuclear fuel. In 1960, still in his early 30s, Jiang was put in charge of a technological group, and appointed a shift supervisor for developing operational and safety rules governing nuclear fuel production. His group's work was praised by Chairman Mao and Premier Zhou Enlai.

Jiang strongly resisted leftist pressures to disrupt work during the Cultural Revolution, and in early 1979 was made director of the nuclear fuel plant. In May 1982, Jiang was transferred to Beijing as vice-minister of nuclear industry, and in September he was elected an alternate Central Committee member. He became minister of nuclear industry in June 1983.

PENG SHILU
Vice-Minister of
Water Resources and
Electric Power
57 years old
Born in 1925 in Guangdong Province

Peng Shilu and Li Peng share almost identical backgrounds. Born in 1925, Peng Shilu's father was the agrarian revolutionary, Peng Bai. Peng's mother died when he was three years old, and his father was executed by the KMT a year later. He and his brothers were split up. In 1933, Peng and his foster mother were arrested and jailed for two years. Upon their release in 1935, Peng and his grandmother fled to Hong Kong.

Peng Shilu studied at the St. Joseph English Institute for four years, returning to Guangdong in 1939 to engage in anti-KMT and anti-Japanese activities. In 1940 the CCP sent Peng to Yan'an to attend the Youth Party School. During World War II, Peng served as a military nurse, contracted tuberculosis, and again returned to Yan'an to recuperate.

Peng joined the CCP in 1943, and began to study chemistry at the Yan'an Institute of Natural Sciences. From 1945 to 1948 he served as a government functionary in Communist-controlled north China, but in 1948 enrolled in Harbin Polytechnic University and later attended the Dalian College of Engineering. Between 1951 and 1956, Peng studied chemistry in the USSR, first at the Kazan Institute of Chemical Engineering, and then at Moscow's Chemistry Institute. From 1956 to 1958 he did advanced work in nuclear physics at the Moscow Institute of Power Engineering. Peng Shilu established a nuclear energy program at the China University of Science and Technology in Anhui when he joined the faculty in the early 1960s.

After the Cultural Revolution, Peng specialized in nuclear propulsion under the Sixth Ministry of Machine Building, apparently working on China's nuclear submarine program. But in May 1982, when the Sixth Ministry became a corporation, Peng was appointed deputy general manager and technical superintendent of the China State Shipbuilding Corporation. Some time shortly thereafter, Peng Shilu was appointed vice-minister of water resources and electric power. Peng is also an official of the Chinese Society of Thermophysics Engineering and an alternate member of the CCP's Central Committee.

WANG ZHAOGUO
First Secretary of
Communist Youth League
42 Years old
Born in 1941
in Hebei Province

Wang Zhaoguo was raised and educated almost entirely under the Communist Party system. Both "red" and "expert," he perhaps best represents a prototype of China's "fourth generation" of leaders.

Wang came from a family of Hebei workers, joined the Party at age 16 on the eve of the Great Leap Forward, and graduated from the Mechanics Department of Harbin Polytechnic University in 1966 just at the outbreak of the Cultural Revolution.

Wang continued to work at the university for two years, but in 1968 he was transferred to the Hubei No. 2 Automotive Factory, one of China's largest industrial enterprises. He served as a technician as well as the secretary of the Communist Youth League committee and director of the Party branch's political department. In the latter capacity, he beat back a radical attempt at "rebellion" in 1975 designed to disrupt production. He took an active role in weeding out leftists in the factory after the fall of the Gang of Four.

His loyalty was rewarded with his promotion to vice-manager of the factory's corporate headquarters in 1979.

During a 1980 tour of Hubei No. 2, Deng Xiaoping met and was impressed by Wang. Deng later recommended him to his senior colleagues, and in 1982 Hu Yaobang also met Wang during a tour of the plant. In September 1982, Wang was elected a member of the Party's Central Committee and was singled out for praise in front of the senior leadership by Deng himself. In fact, Wang is one of the very few people of his age personally accorded favorable mention in *The Selected Works of Deng Xiaoping*. Only three months after his election to the Central Committee, Wang was elected first secretary of the Communist Youth League Secretariat, the position that Hu Yaobang occupied before the Cultural Revolution.

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Coal's Promises and Problems

Old prejudices are weakening as the Chinese move to speed up production

Martin Weil

China's coal industry has rebounded strongly from its dismal 1980–81 performance, rising by an average of 6 percent in the last two years to an estimated production total of 700 million tons in 1983. Now the Ministry of Coal Industry has proposed a 1.2-billion-tons-per-year production target by the year 2000.

To achieve this goal, investment spending increased significantly in 1983 to about ¥3.5 billion ($1.8 billion), a probable record and close to 50 percent higher than the 1981 figure. According to the Coal Ministry, this will sustain an annual growth in new capacity of about 30 million tons—probably a fairly realistic target, given that coal output grew by about 30 million tons per year during the 13-year period of 1966–1979, or roughly the rate of growth that will be required between now and the end of the century in order to achieve the 1.2-billion-ton target. Fully 53 large mines are under construction, and this does not include mines under development by local authorities. Overall, the total capacity under construction has risen from 75 million tons in 1981 to about 130 million tons today.

Open pits neglected for too long

A major share of this investment effort is directed toward open-pit mines, which have higher productivity and can be commissioned faster than underground mines. Nevertheless, these mines currently account for less than 3 percent of China's coal output. The target of 200 million tons of new open-pit capacity by the year 2000 is probably overly ambitious, but errs in the right direction. Open-pit mining has been neglected for too long.

The prospects seem good for technical improvement in both open-pit and underground mining. After a four-year hiatus, the Chinese began importing underground longwall mining systems in 1983, buying 18 shearing machines and 6 face conveyors from Anderson Strathclyde of the UK. And following years of discussion, the first mining machinery technology transfer contracts were signed recently with Western firms, including one with Anderson Strathclyde for thick-seam shearers, with P & H of the US for large electric open-pit shovels, and P.B. Weserhütte of West Germany for conveyor belts used in open pits. Purchase of the technology by no means guarantees its assimilation, but it should make later equipment purchases easier to justify politically.

Moreover, old prejudices are weakening and the Chinese are starting to show an openness to new methods of mining. Underground mines will continue to use mainly the European longwall system, but influential voices are beginning to advocate the US-style room-and-pillar method in certain situations, such as shallow mines with thin or noncontinuous coal seams, and the use of US continuous miners in road-head driving for longwall panels. A symbol of this new flexibility was the trial purchase of three augur-type continuous miners from Fairchild of the US for use in the low seams, which have proved so difficult to mine by other methods. These were the first purchases of continuous miners since Joy's 1978 sale of three miners for roadway driving.

Management is improving

Although labor and management problems in the coal industry are far from solved, there is encouraging evidence that the traditionally low morale in the mines is improving. One reason may be that sometime in 1982 or early 1983, wages for underground workers were doubled to ¥200 ($100) per month. This is head and shoulders above the pay received by virtually all other industrial workers.

More significantly, the upper echelons of the Coal Ministry are among the more dynamic and innovative in China. Minister Gao Yangwen is admired for his willingness to think big and take risks. He is reported to have a close personal relationship with Communist Party Secretary-General Hu Yaobang, which may have made it possible for him to experiment where others dared not tread. Minister Gao was among the first to clean house in the 1982 movement to ease out aging cadres and simplify organizational structure. Gao's number-one deputy, Yu Hongen, and two other vice-ministers, Ye Qing and Hu Fuguo, are reportedly well educated, hard working, experienced in the mines, and around 50 years old. New talent has reached the mid-levels, as well, represented by people such as Chen Dun, a college graduate and head of the ministry's Capital Construction Bureau, who pioneered development of the Guizhou fields in the 1960s and early 1970s.

Deep problems remain

These generally favorable developments over the past two years nevertheless must be weighed against the serious problems that remain. To cite a few of the factors that could prevent China from reaching its 1.2-million-ton goal:

▶ ***The growth of inefficient small mines.*** Of the 80-odd million tons of increased coal output in 1982 and 1983, only about 25 million came

from the mines controlled by the central government through the Coal Ministry. Production in 1983 only slightly exceeded that of 1979 in ministry-controlled mines, which now account for only about 51 percent of total output.

At this rate, local mines will exceed their target for the year 2000 of 500 million tons, about 165 million tons higher than present output, while ministry-operated mines will fail to achieve their target.

As a matter of policy, the government supports the rapid development of local mines. Indeed, it was a series of new incentives adopted in 1981 at the instigation of local authorities that produced the growth in output of recent years. These incentives included the allocation of operating subsidiaries by local governments to local mines that ran at a loss. These subsidies probably totaled ¥800 million in 1982. In addition, the sales turnover tax on coal from local mines was lowered from between 8 and 10 percent to 5 percent, while the tax on coal from central government mines remained fixed. Finally, the central government increased its contribution to local mine construction to ¥200 million, a return to the level of central government funding in the 1970s. Such grants had been slashed in 1981.

Despite their superior production performance, however, local mines have high production costs and atrocious safety records. Worse still, they often produce low-quality coal. The lack of quality control is most evident in mines under brigade and commune control, which also happen to be the most rapidly expanding mines. Probably 150 million tons, or more than 20 percent of total output in 1983, were from these brigade mines and it is questionable how much was suitable for modern industrial use; in fact, only about 30–40 million tons of locally produced coal enters the state distribution system.

Finally, local mines often interfere with the development of large-scale mines by exploiting the most accessible coal, typically at outcroppings in the middle of rich coal fields. Normally, local mining operations are supposed to confine their activities to small deposits, or the leftover coal from large mines. But this seems to occur only in the south, where few major mines are located. In the north, local and national authorities often vie for control over the same coal. In the case of the state-run Zhenchengdi mine in the key Gujiao coking coal area of Shanxi, it took several years and the intervention of the provincial governor to settle a dispute with a commune over control of a portion of the deposit.

▶ ***Transport problems.*** Tens of millions of tons cannot be shipped from the northern and western coal heartlands of Shanxi, Inner Mongolia, Shaanxi, and Ningxia because of lack of rail capacity. Entire mines, such as the 1.2-million-ton Gongwusu open pit in the Haibowan mining area of Inner Mongolia, have been forced to shut down as a result. The lack of infrastructure in remote areas will continue to delay development of some of China's most promising reserves, such as Shenmu in northern Shaanxi.

Although major new rail capacity is planned, including 200 million tons of new capacity out of Shanxi alone, these investments generally will not bear fruit until the 1990s. China's first US-style, heavy-duty unit train line from Datong to the coastal port of Qinhuangdao is not scheduled to be fully operational until at least 1991.

Because of transport economics, China has no choice but to continue developing coal in the east and northeast, but most of the easily accessible deposits have already been mined out, and developing new, often very deep mineshafts is becoming expensive. Mines 600–1,000 meters deep are not uncommon (compared with an average of 100–200 meters in US underground mines). Moreover, slopes are often as steep as 25–50 degrees and many mines suffer from flooding and methane problems.

Labor and management problems in the coal industry are far from solved, but there is encouraging evidence that the traditionally low morale in the mines is improving. One reason may be that sometime in 1982 or early 1983, wages for underground workers were doubled to ¥200 ($100) per month. This is head and shoulders above the pay received by virtually all other industrial workers.

▶ ***Declining foreign interest.*** While the investment budget for coal is increasing, it is not rising quickly enough. And though the Coal Ministry is counting on foreign investment to fulfill the slack, this has not happened. The prolonged negotiations with Occidental Petroleum for the 15-million-tons-per-year Pingshuo open-pit project show how hard it is to interest foreign investors when world market prices for coal are low and China's negotiating position is stubborn.

China's coal exports, at around 6.5 million tons in 1983, have risen only slightly in the last two years, a performance that must be improved if the Chinese intend to attract investment funds. Japan has decided to buy only 4 million tons in 1984 (split nearly evenly between steaming and coking coal), or 33 percent less than projected just a year and a half ago. Japan's falling expectations reflect world price trends for coal, a slower-than-expected conversion from oil to coal in the home market, and probably Chinese insistence on unrealistically high prices, as well.

Under these circumstances, it should come as no surprise that none of the ambitious foreign-financed coal projects have yet to come to fruition. The European consortium put together by middleman Shaul Eisenberg to develop coal in Guizhou has fallen apart. An export price of $70 per ton for steaming coal reportedly would have been required to make the project feasible (compared with the $40 per ton price charged Japan in 1983). The Occidental joint venture negotiation drags on, as does a very leisurely feasibility study by Shell for the 3-million-ton-per-year Jining No. 2 mine in Shandong. Mitsui's negotiation for the 4–5-mil-

lion-ton Sitaigou mine in Datong, and a German negotiation to assist in shaft-sinking in the Donghuantuo mine in Hebei's Kailuan area.

The only major source of foreign funding thus far has been the Japanese exim bank, which has already spent over $1 billion for seven underground mines in the expectation that these mines would generate coal exports to Japan, and is reportedly less than happy at the slow development of a number of them. The World Bank may make its first coal-development loan to China this year for the 4-million-ton Changcun underground longwall (steaming and coking) coal mine in southeast Shanxi's Lu'an mining area. The Bank's second coal project, the similarly sized Chengzhuang anthracite mine in the neighboring Jincheng mining area, reportedly was postponed because local authorities refused to relinquish their mining rights.

▶ ***Construction delays.*** China's economic targets always seem to presuppose smooth, efficient construction cycles, when in fact virtually all projects, including coal projects, are subject to endemic construction delays.

Many of the problems are systemic and hard to change. To mention a few: the chronic shortages of construction materials, which are often bled off from central government projects to local ones, regardless of what the state plan says; the petty bureaucratic disagreements among construction units, including disputes over land rights that can stop a project dead in its tracks for years; low labor morale; and finally, China's slipshod construction management, a case in point being Liaoning's Xiaoqing mine, which the *People's Daily* claimed had to totally rebuild 8,000 out of the 22,700 meters of tunnels excavated at the mine during the last seven years.

Other reasons for delay are peculiar to the coal industry, the lack of modern equipment being one important factor. Most mining shafts and rock tunnels are still excavated by conventional drill and blast methods. The Chinese have imported small numbers of mechanical tunneling and shaft-sinking machines from Europe, but these reportedly have not worked satisfactorily, in some cases because of unfamiliarity with the equipment. US manufacturers naturally feel their equipment could do a better job and use of more US machines is a distinct possibility. US-made continuous miners, some experts maintain, would be much better for driving entry and tail-gates for longwall panels than the road-heading machines purchased from England and Germany. The three Joy machines imported for Datong, although not operating at capacity, are reportedly out-performing more than 10 European machines.

But hardware alone will not necessarily speed up construction times since much of the problem lies with planning and incentive systems. As Chinese underground coal mines typically mine numerous seams in order to meet strict coal-recovery targets and because the mines are designed to produce for a much longer time than in the US (typically about 100 years), many major haulage tunnels are drilled underneath the seams through rock, rather than in the softer, easier-to-cut-through coal as in the US. In addition, there is currently a major incentive for a mine manager to delay commissioning mines until they are ready to produce at full capacity, and a strong disincentive to commission partly finished mines. This is because the construction funds come out of the central construction budget rather than out of the manager's operating budget, and because, given the low price of coal and the fact that labor and other variable costs will be close to the same no matter what, the manager's profit is higher (or loss lower) when the mine produces at maximum capacity. The Coal Ministry is contemplating a reform to include more of the mine development work, including construction of initial longwall panel head and tail-gates, in operating costs rather than the investment budget, so as to give managers the incentive to bring capacity into production more quickly.

▶ ***Irrational pricing.*** Presently, the state-fixed price for raw coal produced by ministry-controlled mines is ¥21.15 (about $10.50) per ton. At this price, fully 64 of the country's 98 major coal mine administrations suffered losses in 1982 and the number is probably higher now, as production costs are rising. As a recent article in the Chinese magazine *Theory and Practice of Prices* succinctly put it, "This is not advantageous to arousing the enthusiasm of staff and workers to produce."

Not all coal prices are this low. High-quality lump anthracite is priced at ¥40 per ton, and at least some kinds of washed coal are as high as ¥50 per ton (although washed coal prices vary considerably according to ash content and calorific value). In addition there are, according to *Theory and Practice of Prices*, more than 10 forms of ad-hoc price increases that are permitted—coal produced above-quota and coal produced by local mines, which the government buys at ¥25 per ton, are two exceptions. However, this only creates price instability as consumers strive to circumvent normal supply channels and buy coal at the lowest price.

The list price for raw coal rose only ¥5 per ton during the entire 28-year period of 1950–78, and another ¥5 per ton in 1979. The Coal Ministry would like to raise the price of raw coal further to ¥50 per ton, roughly equal to the average cost of coal currently produced by Chinese mines operating under "difficult" natural conditions.

But this drastic an increase is unlikely. Probably no other single commodity price increase would have as great an inflationary impact on the Chinese economy. Aside from the hypersensitivity of PRC leaders to inflation, there is political resistance from heavy industrial ministries that depend on coal and objections from the Ministry of Finance, which is concerned that a coal price rise could cause so many enterprises to lose money as to undermine the state's tax base. The number of articles published on the subject suggests there may be some price increase, but probably not enough to provide strong, across-the-board coal-production incentives.

The combination of all these problems and uncertainties suggests that coal will fall short of the leadership's long-term targets. But these targets rarely serve in China as more than rallying cries, anyway, and the latest ones have certainly had a galvanizing effect. If sustained in the coming years, the government's determination should at least produce a respectably steady growth rate in what will ultimately become the world's largest coal industry. ☆

Open Pits

Plans call for building mines that range from the large to the truly enormous

None of the Coal Ministry's targets are so grandiose as the call for 200 million tons of new open-pit capacity by the year 2000, and none are more likely to remain unfulfilled.

Just one year ago, the ministry unveiled its plan to develop five major open pits in the 1980s, ranging from the large to the truly enormous: Pingshuo in Shanxi Province (destined to produce 15 million tons per year of steaming coal); Junggar in Inner Mongolia (30 million tons of steaming coal); and three lignite mines in northeast Inner Mongolia: Yuanbaoshan (8 million tons), Huolinhe (25–30 million tons), and Yiminhe (20 million tons). Later developments were to boost production at some of these mines to as much as 50-million-tons capacity.

A series of contracts totaling about $9 million were signed with foreign consultants to study these projects in 1983. Bechtel studied Junggar, Fluor, Huolinhe, and Rheinbraun of West Germany, Yuanbaoshan. Later in the year, an agreement was reached with the Soviet Union to study Yiminhe. In mid-1982 Occidental Petroleum's Island Creek Coal subsidiary had already agreed to undertake a feasibility study for the joint venture development of Pingshuo. In addition, Fluor agreed in 1982 to study the expansion and modernization of the Fushun open-pit mine in Liaoning Province. At about that time discussions began with foreign interests for development of the large steaming coal deposit, Shenmu in Shaanxi, where Bechtel is reportedly doing some preliminary feasibility study work, and with German interests for development of open-pit lignite mines in Yunnan Province.

This early activity has not yet led to any concrete results, however. The Pingshuo joint venture negotiations have dragged on past numerous self-imposed Chinese deadlines. There are also strong suggestions that Houlinhe and Yiminhe are being scaled down in size, and that the State Planning Commission is critical of the high projected costs of Yuanbaoshan. And more than six months after the completion of Fluor's study, no move has been made to modernize Fushan, though Xinhua News Agency recently announced that it has been given a go-ahead to purchase foreign equipment. At present, foreign equipment suppliers have presented numerous price quotes to the Chinese, but the only machines purchased last year were twenty 15-year-old, 85-ton Euclid trucks and three 12-cubic-meter Marion shovels of a similar vintage for Yiminhe.

The seeming collapse of these grandiose plans does not mean the end of open-pit mining, but just the beginning of the hard work that will be necessary to bring even a fraction of the targeted capacity into production.

Deja-vu

The recent reversals further underscore the fact that open pits have traditionally been neglected relative to underground mines. Currently, there are only about 20 open pits in operation (at least one is shut down because of transportation problems) that together produce perhaps 25 million tons. Fushun, the largest, produces 3.5–4 million tons, only about one-fourth the proposed output of Pingshuo. Like almost all the other open pits, Fushun relies on small shovels and in-mine trains, rather than on the large trucks, shovels, and the other modern equipment that has made US and German open pits so productive.

The archaic technology is a major reason why the output per worker in China's open pit mines is only 1.8 times that in underground mines, compared with 3.1 in the US. This has made open pits, with their high initial investment costs, unattractive to Chinese planners. The limits of technology, furthermore, made it impossible in the past to use open-pit methods to develop deposits with relatively thick overburden.

In the late 1970s, the Coal Ministry first planned to develop large open pits with advanced technology and large-scale foreign equipment based on American (truck and shovel) and German (bucket-wheel excavator) methods. Perhaps $100 million worth of equipment was imported for Huolinhe, where development was hastily begun in 1979 on the basis of a German mining plan.

But before further moves could be taken, the readjustment axe fell and the Coal Ministry's budget was slashed 31 percent in 1981. Funding was almost completely cut off to all the open pits—including Huolinhe, where overburden stripping had already begun.

The Coal Ministry was quick to take advantage of the changing climate in mid-1982 when the central government decided to increase investment once again. The evidence suggests that Minister Gao himself, who has been strongly identified with the open-pit program, was an important force behind the very ambitious targets. According to the Xinhua News Agency, the Minister personally convinced the State Council to move Junggar development into the latter part of the Sixth Five-Year Plan (covering 1981–85), rather than postpone it until later.

But actually bringing the open pits into production is far more difficult than convincing the State Council to approve them in principle. The key issues and problems that must be dealt with:

▶ ***Excessively high domestic costs.*** Hundreds of millions of yuan are required to develop large open-pit mines. To add this kind of increment to one ministry's budget is extremely difficult in China's slow-moving and highly political budget process, especially since coal's increased share would inevitably come at the expense of another ministry.

Beijing's master plan incorrectly assumed that foreign funding would come easily. The idea was that foreign investors would jump at the chance to develop China's steaming coal deposits for export just as oil companies are helping China develop its offshore resources.

But coal is a less attractive investment in China than oil, in part because the coal business is generally less profitable there and because inland projects necessarily involve foreigners far more deeply in the bureaucratic Chinese system.

Moreover, it is difficult for the Coal Ministry to offer companies an

attractive rate of return on either loans or their equity investments, both because of the veto power of conservative leaders in the government and the uncontrolled demands by lower-level authorities for a share of the benefits. Local governments have insisted on high wages and the Ministry of Finance on higher taxes, for example. And China has so far been unwilling to offer the kind of high-level guarantees that would satisfy commercial banks or even some official lending agencies. The Japanese government has agreed to supply as much as $1 billion in loans of 6–7 percent for Junggar simply to give Japan an alternative source of coal, and the World Bank may make some funds available for open pits in the future. These two sources alone, however, will not satisfy all the needs of the open-pit program.

▶ ***Limiting foreign participation.*** Coal Ministry officials are committed to the use of foreign equipment and expertise. But mid-level Chinese managers are not as enthusiastic. Persistent rumors indicate, for example, that Chinese planners and engineers insisted on veto power over plans drawn up by Island Creek for Pingshuo. Ministry chiefs do not have to completely accommodate the pressures from below, but neither can they completely ignore them.

As for equipment, the Coal Ministry is under strong pressure from Chinese manufacturers to buy only from foreign suppliers who are willing to license their technology. Last year, P & H of the US signed a 10-year license for large-size electric shovels after long negotiations. However, no agreement for the large trucks, or for German bucket-wheel excavator technology, has yet been signed. The back-and-forth negotiations between the Chinese entities themselves, and between Chinese and foreign companies, could delay purchases further, and there remains the sticky question of whether Chinese-made licensed equipment will meet quality standards or delivery schedules.

In short, the more the Coal Ministry has tried to involve foreigners, the more internal controversy has been created. To protect itself from criticism, the ministry has had to take a tough stand against the foreign entities it needs the most.

▶ ***Dividing the pie.*** One reason the Coal Ministry is trying to develop five major open-pit mines at the same time rather than concentrate resources on a few of them, is probably to placate its many constituents. In the case of Junggar, at least, there is believed to be considerable debate over how much coal Inner Mongolia will get, and how much will be shipped to other regions. The expenditure of such a large sum of money to add a mere 3 million tons to the capacity of Fushun raises the possibility that local lobbying is involved there, too.

A different kind of local pressure is operating in the four Inner Mongolian mines, particularly Huolinhe and Yiminhe. These mines are being built on prime grazing land, and the Mongul herders are demanding major expenditures from the Coal Ministry not only to restore the land, but to improve it for miles around. As far as is known, China lacks regulations governing the restoration of mine sites, which necessitate adjudication at a high administrative level. Or, the ministry may have to accommodate the local demands to win cooperation. A similar dispute over land rights delayed construction of a branch railroad to Yiminhe for three years, according to *People's Daily*.

There is no lack of bureaucratic infighting within the Ministry of Coal itself. The ministry created a new Open Pit Office to coordinate developments in early 1983. But this office seems more involved in planning than in execution, and does not even control the planning over all the mines. Pingshuo is being coordinated out of the China National Coal Development Corporation (CNCDC), the Ministry's arm for negotiating projects with foreign firms. And there are reportedly bad relations between key CNCDC officials and Open Pit Office personnel, especially on the question of how to negotiate with foreign firms.

At the technical level, disputes have flared for years between advocates of the German bucket-wheel system for lignite mines and those favoring the US truck and shovel method. The Huolinhe mine was originally designed for bucket-wheels, but the difficulties encountered with initial development have produced a flip-flop to truck and shovel. Some of the disputes reportedly went all the way up to Minister Gao, who is not a technician, and at Huolinhe and Yiminhe he is said to have drafted a compromise calling for truck and shovel initially with bucket-wheel to follow later. (Bucket-wheel is potentially the most efficient method, as it is a continuous process; but if the conditions are not right, the more versatile truck and shovel method is generally considered superior.)

The human factor

Sources suggest that when the plan for China's five big open-pit mines was drafted, the exercise simply involved dividing the recoverable reserves by a proposed mine life cycle, which generated rule-of-thumb annual-capacity estimates. Since very large open pits had been built in the US, it was assumed they could be built rapidly in China, too.

This, of course, leaves out the human element. First, there is a shortage of Chinese technicians and coal engineers with open pit experience. Only the Coal Ministry's design institute in Shenyang specializes in open-pit mines, which has forced the ministry to borrow some expertise from the Ministry of Metallurgical Industry. The Chinese took advantage of the extended Pingshuo feasibility study to send waves of engineers and technicians to the US for some on-the-job experience, but this by no means totally solves the problem, especially in the operations phase.

The management of any large mine is an art as much as a science, as US managers can attest. The simple maintenance of equipment to move tens of millions of tons of coal is an overwhelming task. And a number of the Chinese open pits have complicated mining conditions, and are located in poor, remote, and cold regions. This places an additional strain on equipment and people. Finally, there are the morale and organizational problems endemic to the Chinese system.

The experience to date with Huolinhe graphically demonstrates the human problems. The expenditure of hundreds of millions in both domestic currency and foreign exchange has yielded practically nothing after five years. The initial work ran into unexpected technical problems, including hard overburden and extensive underground water, which forced revision of the original mining plan. According to the *People's Daily*, only 37 percent of the imported equipment was in good operating

condition as of last summer. This was directly linked to the total lack of skilled operation and repair personnel. The same article pointed out that it is difficult to attract qualified people to Huolinhe because of the "cold climate and relatively inferior living conditions." Fully 29 of the 71 college graduates assigned by the Coal Ministry to Huolinhe refused to report for work in 1982, and it has been reported that many skilled technicians have left Huolinhe during their terms of duty. A new management team was brought in about a year ago, replacing units belonging to the army. Time alone will tell whether this measure will improve the situation.

Huolinhe has certainly brought the human problem to the attention of high-level leaders. Vice-Premier Li Peng spent a week on-site assessing the situation last summer, and Coal Ministry Vice-Minister Liu Hui spent a month there. The question is how much they are able and willing to do about the underlying conditions that are creating the problems. —MW

The Big Seven

The construction of these mammoth open-pit mines will add 100 million tons in new capacity

PINGSHUO

Located within Pinglu and Shuoxian counties, in Shanxi Province, what has become known as the "Pingshuo" deposit contains good-quality steaming coal with an average heating value of 7,600 kcal per kilogram, ash content of about 24 percent, volatile matter of 40 percent, and sulfur content of between 1 and 2 percent. The Chinese have identified four principle mining seams with an aggregate thickness of 28 meters, although it is possible that not all these seams would be considered attractive in a market economy. The dip is 4–10 degrees, and the depth of overburden varies from between 60 to 100 meters, making it one of China's shallower planned open pits. Stripping ratios of planned mines vary between 5 and 5.5 over 1.

Total proven reserves are reportedly 12.7 billion tons. The Chinese hope to develop three 15-million-tons-per-year mines at Pingshuo, though only one, the Antaibao No. 1 mine discussed with US firms since 1978, is in the advanced planning stage. After prolonged discussion, Occidental Petroleum's Island Creek Coal subsidiary was selected in early 1982 to conduct a joint venture feasibility study.

The troubles the joint venture negotiations have encountered since then are by now well known. Occidental's original promises to take on the responsibility of marketing 8 million tons of coal abroad, develop the mine in two and one-half years, pay US-level wages, and finance its equity contributions from its own internal resources probably would have been difficult to keep even under the best circumstances. Whatever chances there were of reaching an accord and commissioning the mine by 1986 as scheduled were wiped out by the falling price of coal on the international market. Coal is now priced about 20 percent below what the two sides originally projected in the feasibility study.

Today Occidental could not earn an acceptable return on its investment, but the Chinese have been reluctant to change the originally proposed terms. In addition to this, Occidental finds itself short of cash, which not only substantially increases its cost of money, but somewhat limits its freedom of action, as it must convince hard-nosed commercial banks and official government lending agencies that it can pay back the approximately $250 million it would need.

Sources indicated that toward the end of last year, the Chinese position began to soften on a number of issues, including wages. The Chinese government has provisionally agreed to include Pingshuo coal under its coal commitments to Japan, although these commitments do not extend far enough into the future to really guarantee a market for Pingshuo coal when production gears up. China's exports to Japan in 1984, set at 4 million tons, are nearly 30 percent lower than the level projected just one and one-half years ago. There are many signs in Japan that conversion from oil to coal is proceeding much slower than expected owing to falling oil prices. Under the circumstances, it is doubtful that there is a market at acceptable prices for the 8 million tons of clean coal that the venture plans to export. The other tough issues that remain revolve around the question of how the risk of future price fluctuations are to be shared by the two, as well as the strength of Chinese guarantees to compensate Occidental in the event that Pingshuo coal cannot reach the market.

The Chinese have threatened from time to time to do the project on their own if agreement cannot be reached with Occidental, but this could have unfavorable consequences. Supreme Communist Party leaders Hu Yaobang and Deng Xiaoping have on more than one occasion publicly identified themselves with Occidental's participation, citing it as an example of China's ability to cooperate with the outside world; Hu last met with Occidental's Chairman Armand Hammer in August.

An inability to conclude a deal with Hammer, who has developed a reputation for flexibility in his 60-plus years of doing business with socialist countries, could have negative repercussions beyond the coal sector. Occidental was chosen as the joint venture partner precisely because of Hammer's experience and reputation.

But the difficulties the project faces, combined with the slowness of the Chinese bureaucracy to adapt to change, may mean further delay in concluding the venture, even with good intentions on both sides. If anything forces a resolution, it could well be pressure from within China. The 800-mw expansion of Shanxi's Shentou power plant, designed to burn Pingshuo coal, has been underway for some years now, and may well be completed before it has any feedstock.

Recognizing the urgency, the Chinese have begun sitework at Pingshuo, where an army of 20,000 now labors. The first foreign purchase has been made from ARMCO Steel for a machinery repair facility. Realistically speaking, however, the

Chinese are probably looking at a starting date of 1988–90, rather than the original deadline of 1985–87. And with or without the joint venture, the initial scale of development could end up smaller than originally planned.

JUNGGAR

Located in Inner Mongolia to the west of Pingshuo, Junggar also contains high-quality steaming coal. Proven reserves total 24.06 billion tons in a 1,723 square kilometer area, and the geological conditions are reportedly good, with a less than 10 percent dip. The Chinese have identified two minable seams, the first about 25 meters thick (with some partings and rock layers), and a second about 3 meters thick. The approximately 125 meters of overburden is deeper than most US western mines.

The Chinese have talked of building two mines (of 10 and 25 million tons) by 1990, but the higher priority seems to be Heidaigou, the larger of the two, which possesses a more favorable stripping ratio of 4–6/1. Bechtel is participating in a feasibility study for Heidaigou's washing plant (the 25 million ton figure refers to clean coal) and a slurry pipeline to carry coal to the coast. The study is to be finished by mid-year.

While the experts continue to debate the technical issues, such as whether to mine the marginally economic smaller seam, the entire project has encountered economic complications. Some Coal Ministry officials apparently have proposed delaying Junggar's development in favor of Shenmu, another deposit located about 120 km south in northern Shaanxi. Shenmu reportedly possesses better mining conditions, and offers higher-quality coal than Junggar. As Shenmu was discovered later, however, its planning is much less advanced than at Junggar, where access highways and a bridge across the Yellow River are under construction. Junggar is thus more likely to get the nod.

The fate of the coal slurry pipeline is equally unclear. Some officials still favor the plan, but more and more Chinese sources suggest that the pipeline idea may be abandoned in favor of the "unit-train" railroad from Datong to Qinhuangdao, which could be extended to Junggar. These sources indicate that the central government, having already approved railroad construction to begin this year, is unlikely to approve an expensive pipeline that largely parallels the railroad's route. The major issue, they say, is whether the railroad spur will be built north or east from Junggar to the unit-train line. Meanwhile, Bechtel continues its pipeline study, which probably means no final decision has yet been made.

Initially, the Coal Ministry proposed a gargantuan pit-mouth power plant at Junggar. While this proposal has been scaled down, it is still likely that as much as a third of the coal mined from Junggar would be consumed locally, either by smaller pit-mouth generating plants or other local industrial facilities, with the rest to be shipped to power plants between Junggar and Qinhuangdao and down the coast from Qinhuangdao.

The entire Junggar project, including the power plants and transport system, could cost an estimated $5 billion. Japan's exim bank reportedly is ready to pledge $1 billion, which was discussed during Prime Minister Naleasone's March visit to China. Given the cost, physical size, and bureaucratic complexity of the project, it should come as a surprise to no one if it is delayed or scaled down.

Every sign so far suggests that the Chinese regard Yiminhe as an experimental mine. The Chinese have invited the Soviet Union to participate in the initial design of the 5-million-ton Yiminhe pit. Western experts question the Soviet's qualifications, although the Russians do have some experience, not all of it happy, with cold weather open-pit coal mining in Siberia.

SHENMU

The Shenmu deposit in northern Shaanxi consists of 72.9 billion tons of reserves spread over 12 counties. The Chinese have identified five minable seams with thicknesses ranging from between 5 and 21 meters, with little faulting or slope. The quality is better than either Pingshuo or Junggar, with a thermal value of 6,424–7,460 kcal per kilogram, ash content generally less than 10 percent, and sulfur content between .27 and .88. The coal would probably not require washing for use in power plants.

The project was introduced to foreigners early last year. Investor Daniel Ludwig, through his US firm Universe Tankships, is considering the joint venture development of the mine, and already has hired a US engineering firm to conduct some preliminary studies of the deposit. The French conglomerate Société Generale is discussing another part of the same field. The Chinese, however, have done very little preparatory work for the project thus far, and realistically speaking, its development is probably several years down the road, despite the wish of some Coal Ministry planners to give the project higher priority than Junggar.

YUANBASHAN

Of all Inner Mongolia's northern lignite deposits, Yuanbaoshan has the best natural conditions and highest quality coal. Thermal value is reported at 5,200 kcal per kilogram, ash content at 13.3 percent, moisture content at 14.7 percent, with sulfur content less than 1 percent. The thickness of the exploitable seams is said to be 47 meters in parts, with a slope of 3–14 degrees and total reserves of 540 million tons. The proposed mine would have a capacity of 8 million tons, and is located in the middle of the Pingzhuang mining region, which already produces about 4 million tons, mainly from underground mines.

The Chinese have decided on the bucket-wheel excavator design for the mine, and thus chose Rheinbraun of West Germany to participate in the feasibility study last year. But the West German and Chinese engineers

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Departments and Directors

Capital Construction, *Chen Dun*
(operates 10 regional and specialized companies)

Education, *Chen Gengfu*
deputy: Li Weitong
(operates 12 secondary schools and 12 colleges with 19,000 students and 4,000 teachers)

Finance, *Bai Youzhi*

Foreign Affairs, *Wang Zhiyuan*

General Office, *Gu Feng*

Geology, *Gao Jianming*
(operates 11 regional survey corporations and an aerial survey team)

Labor and Wages, *Zhao Rujing*
deputy: Zhang Weichang

Locally run Mines, *Yang Zhan*

Machinery and Power Supply, *Wang Changze*
deputy: Han Shizhen
(operates at least 17 major machinery plants)

Mechanized Mining, *Jiang Qishan*

Personnel, *Song Naijin*

Planning, *Zhang Mingli*
deputy: Zhang Changsong

Processing and Utilization, *Hao Fengyin*
(operates 11 major coal-preparation plants and at least 21 coal chemical plants)

Production, *Yuan Yintong*
advisor: Niu Yiping
deputies: Wang Huanwen and Kuang Shan
(operates more than 280 state-controlled mines)

Safety Supervision, *Hong Shangqing*

Science and Technology, *deputy: Chen Bingqiang*

Supplies
(operates 9 regional supply administrations)

Transport and Sales, *Zhang Huiwen*

Commission on Technology, *Zhong Ziyun, He Bingzhang*

Discipline Inspection Commission
chairman: Zhang Xuexin

Party Committee
secretary: Yang Yifu

Policy Research Office, *Wang Yuqui*

Technical Advisory Committee, *Hou Baozheng, Tang Dequan*

Scientific Research Institutes

Central Coal Mining Research Institute, Beijing. 11 subsidiary institutes with staff of 5,000.
director: Fan Weitang.

China Coal Society, Beijing (a professional society). 25 local branch societies with 17,000 members.
president: He Bingzhang; secretary general: Fan Weitang. 12 technical committees. Publishes "Journal of China Coal Society."

Coal Academy of Mining Science, Beijing. 34 subsidiary local coal research institutes.

Planning and Design Institute, Beijing. At least 26 local coal mine design institutes. *president: Jia Songming.*

Science and Technology Information Research Institute, Beijing. The information and publishing center for the Ministry of Coal; has at least 14 local branches. *chief: Yang Yi.*

Subsidiary Corporations

China National Coal Development Corporation
chairman: Kong Xun
general manager: Li Lu
Description: Handles compensation trade, joint ventures, and technical cooperation; export and import of equipment; contracting for engineering work abroad; and labor export for coal development.

China National Coal Import–Export Corporation
chairman: Kong Xun
general manager: Li Lu
Branches: 10 in Anhui, Beijing, Guangdong, Hebei, Henan, Jiangsu, Jiangxi, Ningxia, Shandong, and northeast China.
Description: Coordinates management of China's coal import-export business; has taken over control of coal exports from MINMETALS.

China National Complete Plant Export Corporation, Coal Branch
chairman: Xu Nan
president: Zhou Shanxun
Description: Undertakes construction of mines overseas from prospecting, design, and construction to production management; construction of complete projects or separate projects for coal-washing and machinery repair plants; supplies complete sets of equipment and separate pieces of equipment; contracts for processing and assembling in cooperation with foreigners; provides technical and labor services abroad; exports coal by-products.

China Coal Industry Technology and Equipment Corporation

China Coal Mine Designing Consultation Corporation

China Coal Mine Safety Equipment Industry Corporation

China Coal Mine Special Equipment Service Corporation

China Coal Mining Combine Manufacturing Corporation

Northeast China-Inner Mongolia Integrated Coal Corporation

Shanxi Coal Gasification Corporation

Chart prepared by Christopher M. Clarke. Information as of March 1984.

have had some technical disagreements, which leaves in doubt the extent to which the Rheinbraun study's recommendations, presented in early 1984, actually will be implemented. Sources also say that the Chinese higher authorities are dissatisfied with the project's high cost, which will necessitate a higher proportion of Chinese content in the project and in the bucket-wheel excavator coproduction deal than was originally planned.

Thrashing out these issues probably will delay this project, which was supposed to get underway last year. Equipment orders are considered unlikely before early 1985, with project completion, assuming all goes well, another three or four years down the road.

If and when completed, the mine would feed a 2,100-mw power plant in the vicinity, which will soon install 900 mws of imported machinery. The rest of the project has been held up by disputes, apparently between the Coal Ministry and Ministry of Water Resources and Electric Power, over the plant's location, and who owns it.

HUOLINHE

The coal at this site, with thermal values between 2,500 and 3,100 kcal per kilogram and higher moisture content, is somewhat lower grade than Yuanbaoshan. The geological structure is faulted and quite complicated, and the nine theoretically minable seams slope more than at Yuanbaoshan. Underground water in the seams creates an additional problem. The stripping ratio is estimated at about three to one.

The mine is now gearing up to produce about 3–4 million tons by 1985 on a truck and shovel basis, though severe management and technical problems have hampered production for five years. Earlier attempts to start mining according to the German plan using bucket-wheel excavators failed. German shovels, US WABCO trucks, and Gardner Denver drills were bought for waste-stripping in 1979, and will be used for coal production, as well.

Fluor is currently helping the ministry plan the expansion of the pit. In early 1983, the Coal Ministry wanted a 30-million-ton plan, but it is likely this will be scaled down. A plan calling for 15–20 million tons by 1990 may be more realistic.

Huolinhe's coal would be burned at three power plants. Construction has begun at Tongliao, the first of these, which is about 400 kilometers from the mine. Two 200-mw units are to be in operation by 1986, with an additional 400 to be added later. The railroad between the mine and Tongliao may have to be upgraded to accommodate the shipments, and a coal-washing plant may be necessary to get the thermal value high enough to meet boiler specifications.

YIMINHE

This will be the most difficult to develop of China's major lignite mines. It has inferior hydrology and poorer overall mining conditions than Huolinhe and lower-quality coal. Sources report there are literally lakes in the middle of the two main exploitable seams, with thicknesses varying between 50 and 60 meters. The widely dispersed reserves, located near Hailar City, are also the farthest north of all the open pits.

Occidental's original promises to take on the responsibility of marketing 8 million tons of coal abroad, develop the Pingshuo mine in two and one-half years, pay US-level wages, and finance its equity contributions from its own internal resources probably would have been difficult to keep even under the best circumstances.

As at Huolinhe, the bucket-wheel versus truck and shovel controversy has raged here. The current plan is to develop a 5-million-ton truck and shovel pit at first, and later use bucket-wheels.

Every sign so far suggests that the Chinese regard Yiminhe as an experimental mine. After discussing the mine with Western firms, the Chinese have invited the Soviet Union to participate in the initial design of the 5-million-ton pit. Western experts question the Soviet's qualifications, although the Russians do have some experience, not all of it happy, with cold weather open-pit coal mining in Siberia.

The Chinese have also elected to try out used equipment at Yiminhe, including three US-made Marion shovels and twenty 80-ton Euclid trucks purchased late last year from a Canadian dam construction company. Observers are waiting to see how well these 15–20-years-old machines hold up. Komatsu of Japan has been invited to test its newest heavy-duty mining equipment at Yiminhe, as well.

Given the difficult conditions to start with, some observers fear disaster. But the Chinese are pushing ahead in a spirit of improvisation. After fighting the necessary bureaucratic battles to obtain land and build a feeder railroad, construction has actually begun. About 500,000 cubic meters of overburden have already been moved.

FUSHUN

First developed in 1903, Fushun contains high-grade steaming coal and ranks as one of the world's massive pits (6.6 kilometers long by 2.5 kilometers wide). One giant seam averages 55 meters in thickness. Its steep 30-degree slope currently requires mining by a combination of shovel and rail to a depth of 300 meters below the surface. Current annual output is about 3.5 million tons.

The Chinese have been considering the mine's modernization for at least five years. Fluor was hired in 1982 to help develop a plan whose essential features include improving slope stability (which may have deteriorated due to an overemphasis on short-term extraction), adding an in-pit crushing system and bringing in large trucks and shovels. The plan would raise capacity by about 3 million tons.

The ¥130 million (about $66 million) cost of this plan gave central planners pause, but a late December New China News Agency report indicates that the State Council has finally approved it and that foreign equipment will be purchased this year. Fushun may well be the first of China's large open-pit projects to yield results. —MW

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书刊介绍

The Chinese Defense Establishment: Continuity and Change in the 1980s, edited by Paul H. B. Godwin. Boulder, CO: Westview Press, 1983. 197pp. $23.50.

This collection of papers is a valuable addition to our knowledge of how China's military establishment is organized, educated, trained, and led, and how its leaders think about defense policy.

The book's first two articles, by Paul H. B. Godwin and by Jonathan D. Pollack, discuss the pressures that have brought about a change from a strategy of "people's war" to an effort to modernize the strategy, doctrine, and equipment of the People's Liberation Army (PLA). The third article, by David L. Shambaugh, examines the organization, funding, production capabilities, and foreign equipment interests of China's military-industrial complex. Unfortunately, time has overtaken a few of the details in Shambaugh's chapter, but overall it remains a very useful summary of China's defense industry.

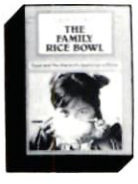
Chapters by Richard J. Latham, William R. Heaton, and Harvey W. Nelsen address some of the crucial management problems of the PLA, including corruption and privilege, outdated military thinking as reflected in higher military education, and problems of military personnel policy, including recruitment, transfer, promotion and demotion, and retirement. A final chapter, by June Teufel Dreyer, examines the diminishing role of the people's militia under the current doctrine of "people's war under modern conditions."

The overall impression gained from these chapters is that the military in China is caught between its intense desire for modernization and a number of very difficult constraints. Insufficient economic resources, the PLA leadership's insecurity about its position "under modern conditions," the manifest difficulty of meeting the challenge of Soviet military might in the near term, and the legacy of the PLA's heritage as a major force in society all indicate that change and modernization will be slow and tortuous. —CMC

Trends in Food and Nutrient Availability in China, 1950–81, by Alan Piazza
World Bank Staff Working Papers Number 607. Washington, DC: The World Bank, 1983. 125 pp. $5.00.

This World Bank study examines trends in nutrient availability and production of specific crops on a national and provincial basis. Its copious tables provide an excellent compilation of carefully documented macroeconomic statistics.

As the World Bank publication notes, however, "adequate average nutrient availability should not be construed as necessarily implying adequate levels of nutritional intake for the population as a whole."



The Family Rice Bowl: Food and the Domestic Economy of China, by Elisabeth Croll. Geneva: United Nations Research Institute for Social Development; London: Zed, 1983. Distributed in the US by Biblio Distribution Center, 81 Adams Drive, Totowa, NJ 07512. 375 pp. $12.50. Available from China Books & Periodicals Inc., 2929 24th Street, San Francisco, CA 94110.

Based in part on 1982 field work, this book provides a look at the microeconomic aspects of consumption in rural and urban Beijing and Shanghai: who gets what to eat, how they get it, how much they pay for it, and differences in grain allocations among family members.

Unfortunately, *The Family Rice Bowl* suffers from several major flaws. It relies extensively on already well-known studies without providing the necessary analysis to integrate the data, falls back on 1950s rhetoric to explain present realities, and virtually ignores the dislocations resulting from the Great Leap Forward and the Cultural Revolution.

Neither *The Family Rice Bowl* nor *Trends in Food and Nutrient Availability in China, 1950–81,* mentioned above, contain adequate bibliographies or indices, which makes direct comparison of data difficult. Moreover, neither volume reflects major changes in agricultural policy that have occurred in recent years. Despite this, read in tandem, these two studies go far toward documenting the realities of food production and consumption in China. —KIB

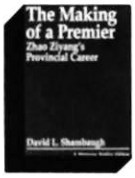
China from Mao to Deng: The Politics and Economics of Socialist Development, edited by Bruce Cumings. Armonk, NY: M.E. Sharpe, 1983. 100 pp. $17.50 hardcover; $8.95 paperback.

This collection of eight articles and an introduction by the editor represents an attempt on the part of a dozen China scholars to come to grips with recent revelations of the past few years about conditions in China during the last years of Mao's rule. For those who had sympathized with the egalitarian and utopian aims of China in the late 1960s and early 1970s as did the authors of these articles, this is a soul-searing experience. The results, as demonstrated in this volume, range from attempts to find continuities between the policies of the Maoist and post-Mao eras to arguments that Deng's policies represent a fundamental break with

Books and business guides submitted for possible review in The China Business Review *should be sent to the National Council's book editor, Marianna Graham.*

those of the past.

China from Mao to Deng contains three interesting articles on rural China that examine the impact of agricultural policy at the county, commune, and production-brigade levels. Other contributions examine differing solutions proposed by Chinese leaders and thinkers to the dilemmas of socialist modernization in China. —CMC



The Making of a Premier: Zhao Ziyang's Provincial Career, by David L. Shambaugh. Boulder, CO: Westview Press, 1984. 157 pp. $13.50, softcover.

This is the first full-scale biography in English of Zhao Ziyang, China's prime minister since 1980 and the nation's fourth-ranking political official. The book's emphasis is on Zhao's career as a provincial official in Guangdong and Sichuan, and on how he parlayed his local experience into a major national role. It does not attempt to describe or analyze his performance as premier.

Shambaugh is at his strongest discussing Zhao's record in agricultural administration. He argues that Zhao's constant emphasis since the mid-1950s, with the exception of the Cultural Revolution years, has been on putting production before politics.

On other policy areas Shambaugh provides some interesting detail but unfortunately leaves many important questions unanswered. He tells us, for example, that leaders rise to the top in China based on both their performance and their connections. He gives a fairly clear account of Zhao's post-Cultural Revolution performance. However, he asserts that Zhao's strong connections to Deng Xiaoping were instrumental in catapulting Zhao to the capital without ever demonstrating the nature or duration of this relationship.

The author also shows that in order to rise to the top in China an official must be both a generalist and a specialist. In other words, an aspiring official must cultivate a particular area of expertise, in Zhao's case agriculture. But he must also gain experience in a number of other critical areas. For Zhao these included information management, science and education policy, industrial management, foreign policy, personnel management, and political–military relations.

Much of the book is devoted to ticking off lists: of foreign dignitaries received in Guangdong and Sichuan, of Cultural Revolution accusations against Zhao, of Zhao's appearances at meetings and conferences. Unfortunately, insufficient effort was paid to providing background and analysis of the importance of these events. For example, the author lists more than 30 Cultural Revolution accusations against Zhao, but provides no assessment of their validity. Such analysis could have yielded important clues to Zhao's position on today's major economic questions.

Until this preliminary study is supplanted by a more detailed and definitive treatment, it will have to serve as our major source for understanding Zhao and his record. —CMC

Selected Works of Deng Xiaoping, 1975–1982. Beijing: People's Publishing House, 1983. Translated by Joint Publications Research Service as *China Report: Political, Sociological and Military Affairs No. 468.* Distributed by the National Technical Information Service, Springfield, VA 22161. (703) 487-4650. Order number: JPRS 84651. October 31, 1983. 312 pp. $25.

Deng's much-heralded *Selected Works*, the blueprint for China's reform program through the year 2000, are now available in an unofficial translated edition. The quality of the translations is uneven, occasionally misleading, and a few of the original articles have been left out of the translation, but the JPRS volume will assist those who wish quickly to scan Deng's works in English before the official English-language edition is published. —CMC

CORRECTION

The ChinaComm'84 announcement on page 8 of the January–February *CBR* contained an incorrect telephone number. It should have read: "Contact Mr. Paul Selinger, China Investments, P.O. Box 1085, Fairfax, California 94930, or call (415) 459–8827."

***A WONDERS OF ASIA PHOTO TOUR** will visit China, Burma, Bangkok, and Hong Kong from September 26 through October 24, 1984. The 29-day tour will be led by widely traveled Detroit photographer and China specialist D.E. Cox. Cox, whose China portfolio is featured in the 1984* Minolta Mirror, *has made six previous China trips including two as the leader of photo workshops. His photographs have appeared in numerous publications, including* Modern Photography, Modern Photo Guides, The Minolta Book, *and on the covers of several China specialty magazines. He was the first foreign photographer to have China photos published in the Chinese foreign-language magazine* China Reconstructs, *has exhibited his work at the Beijing gallery of the Chinese Photographers Association, and is a frequent contributor of photos and articles to the Chinese magazine* International Photography.

Highlights of the Asia tour for photographers include a meeting with leading members of the Chinese Photographers Association in Beijing, a visit to Hong Kong's foremost photo magazine, and the opportunity to photograph China's 35th National Day celebrations. The 16-member tour will visit such historical cities as Xian, Chongqing, Pagan, and Mandalay; explore Kunming's Stone Forest and Rangoon's Shwe Dagon Pagoda; and travel through China's famous Yangtze River gorges by deluxe cruise ship. Informal photo instruction will be provided by Cox to interested participants during the tour.

Cost of the Wonders of Asia Photo Tour is $4,995, which includes most meals and deluxe hotels throughout. For more information and a free brochure, contact Special Tours for Special People, 250 West 57th Street, New York, New York 10107, 212/586-6577.

中外贸易

Jennifer Little
Research Assistant

The following tables contain recent press reports of business contracts and negotiations exclusive of those listed in previous issues. Joint ventures, licensing arrangements, and other forms of business arrangements are included if classified as such in Chinese and foreign media reports. For the most part, the accuracy of these reports is not independently confirmed by *The CBR*.

National Council members can contact the library to obtain a copy of news sources and other available background information concerning the business arrangements appearing below. Moreover, member firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in *The CBR* by sending the information to the attention of Jennifer Little.

中外贸易

CHINA'S IMPORTS THROUGH JANUARY 31

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agricultural Commodities	
(Thailand)/Beijing Industrial Agricultural and Commercial Development Trading Co.	4,000 tons of fish powder for livestock fodder. 8/83.
(Guyana)	14,000 cu. m. of timber. $940,000. 8/83.
(Australia)	Signed contract to supply an additional 1.3 million tons of wheat, bringing the 1984 total to 2.5 million tons. 10/17/83.
Nissho Iwai Corp. (Japan)	Arranged sale of 450,000 cu. m. of US logs in 1983. 11/29/83.
Del Monte (US)/ CEROILS, Shanghai Branch	Will market 10 Del Monte food products in Shanghai tourist shops, guest houses, and hotels. 1/10/84.
Agricultural Technology	
Laser Systems Pty. Ltd. and JN and R Engineering (Australia)	A Blount model agricultural laser and 8 ft. scoop for a dairy project in Jiangsu. 11/30/83.
Chemical and Petrochemical Plants and Equipment	
Asahai Chemical (Japan)/Qiqihar Petrochemical Co., Heilongjiang	Won an order for a 10,000 ton/year caustic soda plant. $2 million. 10/17/83.
Zimmer AG (W. Germany)/Beijing Chemical Fiber Factory and TECHIMPORT	Contract for a high-speed polyester spinning plant. $6.4 million. 10/24/83.
Construction and Construction Materials	
Mitsui Bank Ltd. (Japan)/ Bank of China, Shanghai Branch	Signed agreement to provide Japanese funds for construction projects and to introduce Japanese companies to China. 11/28/83.
Delta Port Consortium (Netherlands)	Discussing joint tunnel construction under the Huangpo River. 12/29/83.
I. M. Pei (US)/Bank of China	Designed bank's new headquarters in Hong Kong. 1/19/84.
SAIMI SpA (Italy)/ Tongshan Marble Factory, Jiangsu	Signed memorandum on marble quarrying and processing technology and equipment. 1/9/84.
Ceramica Dolomite SpA (Italy)/Yuhau Ceramics Factory, Jiangsu	Technical guidance for sanitary wares production technology and equipment. 1/9/84.
Consumer Goods	
Costan Refrigeration SpA (Italy)/Ministry of Light Industry	Signed letter of intent to provide refrigerator production technology. 1/9/84.
Electronics	
Fluke (US)	Has set up an assembly plant to produce calibration products; plans to set up service centers. 10/28/83.
Micro Air Systems (US)/ China National Electronics Import Export Corp.	Negotiating production of semiconductor manufacturing equipment. 11/83.
US International Scientific and Technical Transaction Co. (US)/Shanghai Electronic Tube Plant	A liquid crystal screen production line. 11/83.
Dipix Systems Ltd. (Canada)/Qinghai University	Image-processing technology under a World Bank project. 11/13/83.
Telefunken Fernseh und Rundfunk GmbH (W. Germany)/Beijing Television Factory	Know-how for assembly of black and white and color television receivers. 11/17/83.
International Data Services, Inc. (US)/Ministry of Railways	Signed contract to provide China's railway system with a computer to support freight scheduling, tracking, and reporting. 12/83.
Merrick Corp. (US)/China National Machinery and Equipment Import and Export Corp. and Hua Dong Electronic Instrument Works	Signed contract for electronic belt scales know-how. 12/5/83.
Matsushita Electric (Japan)/Guangzhou Broadcasting Equipment Factory	Signed agreement to provide a color TV production line. 12/6/83.
Cermetek Microelectronics Inc. (US)	Signed contract to provide a turnkey manufacturing facility for thick-film hybrid integrated circuits and modem components. $1.5 million. 12/19/83.
Photo-Me International (UK)	Photographic equipment. 12/20/83.
Philips do Brasil (Brazil)	Signed contract to ship 1.5 million black and white television components during 1984 and 1985. 12/29/83.

NA = Not Available

NOTES: Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in *International Financial Statistics (IMF)*. Contracts concluded over two months ago are also included if they were not reported in the last issue of *The CBR*.

Wang Pacific Ltd. (HK)/ INSTRIMPEX	Opened a service center in Beijing. 1/7/84.
Allan-Bradley Co. (US)/ Ministry of Electronics Industry	Negotiating sale of metal membrane resistance networks. 1/9/84.
Dorado Co. (US)/Great Wall Industry Corp., Shanghai Branch	Have opened a sales and service center in Shanghai. 1/24/84.
Kaypro Computers (US)	Will donate 10 microcomputers to a Tianjin university. $10,000. 1/24/84.
Data I/O Corp. (US)/ Shanghai Import and Export Corp. and Shanghai Instrument & Electronics Bureau	Microchip programming equipment. 1/24/84.

Food Processing

Japan Institute of Food Distribution Systems/ Ministry of Commerce	Agreed to form a bilateral committee to develop a Chinese food distribution plan. 11/29/83.
Coca-Cola Co. (US)	Will open in Xiamen its third soft drink bottling plant. 12/6/83.
Suntory Ltd. (Japan)	Wine-making know-how and production facilities. 12/14/83.
FMC Far East Ltd. (US)/ Dalian General Cannery	Negotiating sale of canning equipment. 1/2/84.
CECO Corp. (US)	Agreed to provide Liaoning with equipment for producing cider and fruit squash. 1/2/84.
Mitsubishi Heavy Industries Ltd. (Japan)/ MACHIMPEX	Signed 5-year agreement to provide bottling and food-processing expertise. 1/24/84.

Foreign Aid

(Japan)/Ministry of Education	¥50 million for purchasing Japanese books. 12/6/83.
American Motors Corp. (US)	Two pickup trucks for panda rescue work. 12/10/83.

Machine Tools and Machinery

Doyle & Roth Mfg. Co., Inc. (US)	Heat transfer equipment. 11/83.
Cooper Resources and Energy Inc. (US)	Planning to manufacture valves in China. 11/14/83.
Mitsui Engineering and Shipbuilding Co. and Nissho Iwai Corp. (Japan)/TECHIMPORT	Signed contract for 20 gantry cranes equipped with rubber tires. $12.8 million. 12/28/83.
NA (W. Germany)/ Fuzhou Transformer Plant, Fujian	Production line for shearing transformer silicon sheets. 1/2/84.
APV Group (UK)/Ministry of Machine Building Industry	Have drawn up a letter of intent for technology to manufacture plate heat exchangers. 1/9/84.

Metals and Minerals

Georgia Kaolin Co. Inc. (US)	Kaolin clay. 10/83.
Minerals & Metals Trading Corp. (India)	40,000 tons of high-grade chrome ore. $82-$84/ton cif. 10/14/83.
Bird Machine Co. (US)	Three screen bowl centrifuges for a coal preparation plant in Shanxi. 11/2/83.
Mino G. Battista SpA (Italy)	Construction of an aluminum strip mill and discussion of a copper strip mill. 12/83.
Atomic Energy Bureau (Japan)/Ministry of Nuclear Industry + others	Reached basic agreement on joint exploration of China's uranium and joint research on disposal of nuclear waste. 12/12/83.
(Japan)/China National Metals and Minerals Import and Export Corp.	Signed agreement to supply 1 million tons of rolled steel in the first half of 1984. 12/24/83.
Mitsui Mining Co., Ltd. (Japan)/China National Coal Development Corp.	Signed contract to provide consulting services for the design of the Sitaigou coal mine and dressing plant in Shanxi. 12/20/83.
BHP (Australia)	Won order to supply 100,000 tons of semi-finished steel. $18 million (Aus$20 million). 12/22/83.
Toyo Aluminum (Japan)/ TECHIMPORT	Won an order for an aluminum foil plant to be located in Guangzhou. $1.92 million (¥450 million). 1/1/84.
Darlington & Simpson Rolling Mills Ltd. (UK)/ Beijing Capital Iron and Steel Co.	Plan to sign letter of intent for technology to produce special shaped material for steel window frames. 1/9/84.

Mining Equipment

Gullick Dobson International (UK)/China National Coal Import and Export Corp.	Signed agreement for design and supply of an installation of chock shield hydraulic roof supports for coal extraction. $1.4 million (£2 million). 10/21/83.
(Poland)/Ministry of Coal Industry	Signed agreement for cooperation in mining rescue and fire fighting. 12/12/83.
Armco Inc. (US)/China National Coal Development Corp.	Signed contract to design and construct a coal hauler maintenance facility in Shanxi. 12/20/83.

Packaging

Farrell Machinery, subsidiary of Emhart Corp. (US)	Order for calender lines for packaging film production. $2.5 million. 12/19/83.

Petroleum

Mannesmannröhren-Werke (W. Germany)	Won order for over 52,000 tons of oil field pipes. 10/4/83.
Subsea Offshore (US)	Will provide Occidental with a diving support system. 11/7/83.
Bechtel Great Britain Ltd. (UK)/Bohai Bay Oil Corp.	Contract to design crude oil production and transportation facilities for the Bohai Bay. 11/7/83.
John Brown Engineers and Constructors (UK)/ Shanghai Offshore Engineering Corp. and Lanzhou Petroleum Machinery Research Institute	Have signed cooperation agreements to develop China's offshore oil which will include a joint marketing effort. 11/17/83.
Expro Gulf Ltd., subsidiary of Exploration and Production Services (Holdings) Ltd. (UK)	Won contract for well testing services in the South China Sea for BP and Nanhai East Oil Corp. 11/21/83.
National Supply, div. of Armco Inc. (US)	Signed agreement to provide documentation and technology for manufacturing 13,000-25,000-foot drilling depth rigs. 12/5/83.
Yiu Lian Machinery Repairing Works Ltd. (HK)/ China Nanhai West Oil Co.	Won contract to repair the Nanhai I oil rig. $3.2 million. 1/5/84.
Continental (US)	20 land rigs. 1/13/84.

Pharmaceuticals

Westfalia (W. Germany)/ North China Pharmaceuticals Factory, China Pharmaceuticals Foreign Economic and Technological Cooperation Corp., TECHIMPORT, and MACHIMPEX	Two penicillin fluid extraction centrifugal machines. 12/26/83.
Hitachi Co. (Japan)/North China Pharmaceuticals Factory, China Pharmaceuticals Foreign Economic and Technological Cooperation Corp., TECHIMPORT, and MACHIMPEX	A liquid phase chromotograph for antibiotic analysis. 12/26/83.

Ports

Gammon (HK) Ltd., subsidiary of Jardine Matheson/Hua Ying Petroleum (joint venture between Shell and China Merchants Steam Navigation)	Awarded contract to build a jetty at Shekou for oil barges. $500,000. 1/20/84.

Power

Ministry of Mines & Energy (Brazil)/Ministry of Water Resources & Energy	Signed nuclear and hydroelectric energy cooperation agreement. 12/9/83.
Electricité de France	Hired as safety and environmental consultant for the nuclear power project at Daya Bay. 12/18/83.
Washington Public Power Supply System (US)	Having preliminary discussions for sale of two abandoned nuclear reactors. 1/17/84.
British General Electric Co.	Awarded a contract to operate the Daya Bay nuclear power station. $5 billion. 12/8/83.

Scientific Instruments

Sierra-Misco Inc. (US)	A computerized flood warning-water resources management system for part of the Yellow River. 12/7/83.

Shipping

NA/Tianjin Marine Shipping Co.	Containership for service between Hong Kong and Xingang. 10/18/83.
ESAB (Sweden)/Jiangnan Shipyard	Two semi-automatic machines. $8,000. 10/28/83.
Isolamin (Sweden)/ Zhonghua Shipyard	Two accommodation systems for two 8,200 dwt vessels. 10/28/83.
Orenstein & Koppel (W. Germany)/China Shipbuilding Trading Co.	Signed agreement to cooperate on the design, manufacture, and marketing of chemical tankers, liquefied gas carriers, and dredgers. 11/14/83.
A. G. Weser Seebeck Shipyard, Flensburg Schiffbau Gesellschaft, and Howaldtswerke-Deutsche Werft (W. Germany)/China Ocean Shipping Co.	Received orders for 9 large container ships. $183 million (DM485 million). 12/83.
Sri Lanka Shipping Corp.	Signed shipping agreement for Chinese vessels to carry goods to Europe and for provision of repair services to Chinese ships at Colombo. 12/22/83.

Telecommunications

Sumitomo Corp. and Japanese Electric Corp. (Japan)/MACHIMPEX, Tianjin branch and Tianjin Post and Telecommunications Administrative Bureau	Signed contract for the NEAX 61 switchboard, 10,000 urban telephone program-controlled switchboards, and 1,000 long-distance telephone line switchboards. 11/83.
Nippon Telegraph & Telephone Public Corp. (Japan)/Ministry of Posts and Telecommunications	Are discussing purchase of digital switching systems. 11/29/83.
Park Air Electronics (UK)/ CAAC	Won an order for aviation communications equipment. $710,227 (£500,000). 1/84.
Spar Aerospace Ltd. (Canada)/China National Instruments Import and Export Corp.	Signed contract for 26 satellite earth stations and related technology. $16 million+. 1/19/84.

Textile Plants and Equipment

Godfrey Hirst Australia	Signed deal to build a wool and synthetic carpet factory in Hangzhou, Zhejiang. $1.8 million (Aus$2 million). 11/4/83.
Kufner Hongkong Ltd. (W. Germany)/ Shijiazhuang No. 3 Printing and Dyeing Mill, Hebei	Contract for equipment and technical know-how for producing viscose lining cloth. 12/5/83.
Lanificio Successori Reda SpA (Italy)/Shanghai Textile Bureau and Shanghai Woollen Textile Mill	Discussing provision of technology to improve woollen textile quality. 1/9/84.

Tourism

Rocco Design Partners, Architects & Engineers (HK)	Design for the Dragon Hotel to be located in Hangzhou. 11/24/83.

Transportation

Livingston International Freight Inc. (Canada)/ SINOTRANS	Agreed to cooperate on freight forwarding between China and Canada. 9/83.
Fiat Auto SpA (Italy)	400 gasoline-fueled Argenta automobiles. 11/7/83.
Sierracin Corp. (US)/ China National Chemical Construction Corp.	Signed agreement for stretched acrylic processing techniques and technology for aircraft transparencies. Less than $1 million. 11/7/83.
W. Canning Materials (UK)	Metal finishing processes for bicycles. 11/10/83.
Suzuyo & Co., Ltd. (Japan)/SINOTRANS	Entered into a multimodal through-transport agreement to facilitate shipping between Japan and China. 11/17/83.
Pittsburgh & Lake Erie (US)	Reached an agreement to sell 200 70-ton hopper cars. 11/28/83.
Canac Consultants Ltd. (Canada)	Signed contract to conduct a study of China's rail network's information-control systems requirements. $200,500 (C$250,000). 11/29/83.
Heliservices (HK) Ltd./ China Ocean Helicopter Corp.	Negotiating passenger service between Hong Kong and Shenzhen. 12/11/83.
Nissan Diesel Motor Co. (Japan)	349 cargo trucks, tractors, and dump trucks for use in a railway project. $4.3 million (¥1 billion). 12/21/83.
Okanagan Helicopters Ltd. (Canada)	Two 12-passenger Sikorsky helicopters for offshore drilling operations in the Pearl River. 1/9/84.
Mack Trucks Inc. (US)/ Hanyang Special Auto Works, Hubei	Negotiating supply of unassembled oilfield and logging vehicles. $7.1 million. 1/9/84.

Miscellaneous

Commonwealth Trading Bank (Australia)/Shanghai Investment and Trust Corp. and Zhejiang International Trust and Investment Corp.	Signed business cooperation agreements. 11/24/83.
Academies of Sciences (E. Germany)/Chinese Academy of Sciences	Signed cooperation and exchange agreement. 11/25/83.
FMC Corp. and Inamco Trading Co. (US)/Shenyang Fire Control Equipment Co.	Signed memorandum of cooperation in producing fire-extinguishing powder and scaling ladder fire engines. 1/2/84.
AIT International Inc. (US)/Dalian Spectacles Factory and Liaoning Foreign Trade Corp.	Negotiating sale of machines for grinding spectacle rims. 1/2/84.
L'Oreal Group (France)/ Jinjiang Hotel, Shanghai	Will jointly operate a beauty parlor. 1/2/84.
Italmacchine Machine Plants SpA (Italy)	Signed a memorandum with Jiangsu to provide goat hide processing equipment and technology and goat leather shoe making equipment and technology. 1/9/84.

CHINA'S EXPORTS THROUGH JANUARY 31

Foreign Party/ Chinese Party	Product/Value/ Date Reported

Agriculture

(Zaire)	Signed one-year cooperation agreement to provide Chinese assistance for the Zaire agricultural material factory. 11/5/83.

Construction

(Nigeria)/Metallurgical Construction Co. (Chinese-Nigerian joint venture)	Awarded a tender to undertake a water extension project. $20 million. 11/9/83.

Consumer Goods

W.A.D. Shoes, Inc. (US)/ INDUSTRY, Jiangsu branch	15,000 pairs of women's dress and casual shoes. 11/14/83.
Alexander's Department Stores, Inc. (US)	10,000 pairs of dress and casual shoes. 11/14/83.
BBC Imports, Inc. (US)	10,000 pairs of men's leather dress shoes. 11/14/83.
Primus Footwear, Inc. (US)	Orders for women's dress shoes. 11/14/83.
Hart Industries Inc. (US/ China Great Wall Industrial Corp.	Signed contract to purchase non-electric dishwashers made in Shenzhen using Hart molds and tools to be sold in the US. 1/11/84.

Food Processing

(Thailand)/China National Foreign Economic and Technical Cooperation Corp.	Construction and complete set of equipment for a sugar refinery. 9/83.

Foreign Aid

(Tanzania)	Medicines, medical instruments, and dressing materials. $50,000 (RMB100,000). 11/11/83.
(Antigua and Barbuda)	Signed protocol for agricultural and chemical economic and technical assistance. 12/15/83.
(Kenya)	Received interest-free loan for construction of a sports complex in Nairobi. $7.5 million (RMB15 million). 12/17/83.
(Zimbabwe)	Signed a protocol under which China will send a 14-member medical team. 12/20/83.
(Guinea)/China Red Cross Society	$10,000 for earthquake relief. 1/1/84.
(Mali)/China Red Cross Society	$20,000 for drought victims. 1/5/84.
(Zambia)/Chinese Communist Party	140 books. 1/11/84.

Machinery

(Bahrain)	234.2 km of oilpaper-insulated armored aluminum cables. $2.51 million. 8/83.
NA (HK)/Jinan Light Industrial Bureau, No. 2, Shandong	An abrasive cloth production line. $458,000 (RMB 910,000). 8/83.
Sunrise Oilfield Supply Co. Inc. (US)/Hangzhou Chain Plant	Discussing purchase of industrial chains. 1/9/84.
Perkins Engines Canada Ltd., subsidiary of Massey-Ferguson Ltd.	Will distribute small Chinese diesel engines in North America, along with small generator and pump sets. 1/10/84.

Minerals and Metals

Gladsworthy Mining Inc., Hammersley Iron Pty. Ltd., Conzine Riotinto of Australia Ltd., CSR Ltd., and Broken Hill Pty. (Australia)/Ministry of Metallurgical Industry	Have expressed interest in Chinese investment in their iron ore mining operations. 11/83.
Minerals and Metal Trading Corp. (India)/China National Metals and Minerals Import and Export Corp.	Agreed to supply 200 tons of antimony metal and 200 flasks of mercury annually. 11/4/83.
(Japan)	Agreed to import 1.5–1.7 million tons of coking coal and 2.3–2.5 million tons of steam coal in 1984. 11/16/83.
Potash Corp. (Canada)	Negotiating possible Chinese investment in a potash mine. 1/5/84.

Petroleum

China Offshore Platform Engineering Corp. and Mitsubishi Heavy Industries Ltd. (Japan)/China Bohai Oil Corp. and Chengbei Oil Field Corp. (Japan)	Won joint order for construction of two production modules for use in the Chengbei oil field. $85.4 million. 10/26/83.
(Japan)	Will import 8–8.6 million tons of crude oil in 1984. 11/16/83.
(Philippines)	Signed trade agreement in Dec. to import 650,000–900,000 tons of crude oil. 1/13/84.

Power

Philippine State Irrigation Bureau/EQUIMPEX	Won tender for construction of a 6,000 kw hydropower station. $3 million. 11/83.

Shipping

NA (US)/Shanghai Shipyard Cast and Forge Plant	100 bolt-type steel anchors. 9/83.
Bengal (India)/China State Shipbuilding Corp.	3,000 hp tugboat. 11/83.
Express Ship Management Services (HK)	Plans to order four 8,200-ton dwt box ships to be built in Shanghai. $55 million. 11/1/83.
Ole Schroder (Norway)/ Dalian Shipyard	An 83,400-ton dwt crude products tanker. $25.5 million. 11/29/83.

Trade Agreements

(Italy), (Yugoslavia), (Czechoslovakia), (Philippines), (Egypt), and (Hungary)	Signed trade and economic cooperations agreements during November, December, and January.
(Italy)	Signed a science and technology cooperation agreement in November.

中外贸易

DIRECT INVESTMENT/PROCESSING/ COUNTERTRADE THROUGH JANUARY 31

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported

JOINT VENTURES

Chemical and Petrochemical Plants and Equipment

Polymer Development Laboratories Inc. (US)/ Shenyang City Petrochemical Plant	Discussing a polyester polyether venture. 1/9/84.

Construction and Construction Materials

Louis Berger International Inc. (US)/China Highway Engineering Consultants, Inc.	Formed a 50–50 venture in Beijing to offer computer and design services. 12/1/83.
Toro Enterprises Co. (HK)/Tianjin Liqizhuang Industrial Co. and Tianjin Economic Development Co.	Signed contract to build a terazzo factory in Tianjin. Investment: $2.2 million (RMB4.4 million). (PRC:55%–HK:45%). 12/12/83.
M. J. Kelley Co. (US)/ China State Construction Engineering Corp.	The US company will help China open a construction office in the US and will participate in joint construction projects overseas. 12/15/83.
Rauteoy Co., Ltd. and Finland Industry Development Fund (Finland)/ Qingdao Furniture Industry Co. and Bank of China, Qingdao branch	Signed letter of intent to set up the Qingdao Hualin Plywood Co., Ltd. to produce plywood. 12/26/83.
International Services SpA (Italy)/Shenyang City Metallurgical Bureau	Signed memorandum on joint production of special-shape aluminum products and sheets. 1/9/84.

Consumer Goods

Industria Chemica Valstuc (Italy)/Shenyang City Leather Corp.	Signed a letter of intent on joint production of polyurethane shoe soles. 1/9/84.
Allegheny International Co. (US)/Shenyang City Household Electrical Appliance Co.	Signed a letter of intent on joint production of spraying irons. 1/9/84.
NA (HK)/Scriven Trading Ltd., Hong Kong	Will form the Calo Development Co. Ltd. in Hong Kong to produce furniture. (HK:49%–PRC:51%). 1/15/84.
Heintzman Ltd. and Oriental Commerce Ltd. (Canada)/Zhejiang Provincial Furniture & Sundries Industrial Corp.	Signed a 10-year contract to establish the Canada-China Furniture Manufacturing Co. in Hanover, Ontario, to produce Chinese traditional furniture. $321,000 (Can$400,000). 1/16/84.

Food Processing

Pearl River Chinese Products Emporium (US)/Guangdong Foodstuffs Industry Corp.	Are producing Chinese canned meat products in Iowa for sale in the US and Europe. 11/83.
Central Enterprises Ltd. (HK)/Tianjin Aquatic Breeding Co.	Signed agreement to set up the Haibin Joint Venture Prawn Breeding Co., Ltd., to raise and market prawns. Investment: $8 million (RMB16 million). 11/21/83.
Yuan Da Co. (HK)/CEROILS	Opened the China Great Wall Wine Corp. at Shacheng, Hebei, to produce and market white wine. 12/18/83.
Shenzhen Sungang Warehouse Enterprises (HK) Ltd., subsidiary of Veneer Products Ltd. (Singapore)/Yue Hwa Enterprises, Shenzhen	Have opened part of a 5,000 ton capacity cold storage plant. 1/15/84.

Machinery

Nippon Oil Seal Industry Co. (Japan)/EQUIMPEX and China Automotive Industry Corp.	Are discussing joint production of oil seals in China. 12/27/83.

Metals and Minerals

Hongkong Trinity Development Co., Ltd. (HK) and Doyo Shoji Co., Ltd. (Japan)/Tianjin No. 2 Steel Transformation Factory and Tianjin Economic Development Co.	Signed a 12-year contract to set up the Tianjiao Thin-Wall Steel Pipe Factory to produce thin-wall welded steel pipes. Registered capital: $2.2 million (RMB4.4 million). 12/19/83.

Petroleum

Union Industrielle et d'Entreprise (France)/China Offshore Platform Engineering Corp.	Signed a 10-year agreement to form the China Guangzhou-UIE Offshore Platform Engineering Corp. to manufacture offshore oil production platforms and auxiliary facilities. 11/15/83.
Texaco Inc. and Standard Oil Co. of California (US)/CNOOC	Signed contracts for offshore oil exploration rights in the South Yellow Sea. 12/5/83.
Texaco Inc., Standard Oil Co. of California (US), and Agip SpA (Italy)/CNOOC	Signed contracts for offshore oil exploration rights in the South China Sea. 12/5/83.
Offshore Joint Services Co. (Singapore)/China Nanshan Development Co. Ltd.	Signed contract to establish in Shenzhen the Chiwan Petroleum Base Co. Ltd. to offer supply and labor services to support offshore oil exploration. (PRC:70%–Singapore:30%). Registered capital: $20 million. 12/21/83.

Pharmaceuticals

Biogen/Shaanxi Pharmaceutical Bureau	Signed letter of intent to produce and market gamma interferon. 12/12/83.
Promega Biotec (US)/Luoyang District Foodstuffs Co., Henan	Have agreed to establish a genetic biochemical manufacturing facility. 12/28/83.

Telecommunications

Cable & Wireless (UK)/Shenzhen Telecommunications Development Co.	Signed agreement to set up the Shenda Telephone Co. to provide telephone services within Shenzhen and also handle long-distance calls. Investment: $180 million. (PRC:51%–UK:49%). 11/16/83.

Tourism

NA (HK)/No. 1 Hostel, Hainan	Reached agreement to jointly renovate the hostel. 11/21/83.
Industrial Bank of Japan Ltd., Bank of Tokyo Ltd., Mitsui & Co., Mitsubishi Corp., Japan Air Lines, Nippon Steel, and Hotel New Otani (Japan)	Will work with the Chinese to build a 25-story hotel in Beijing. $86 million. (PRC:51%–Japan:49%). 12/3/83.
Whalsay Enterprises Ltd. (HK)/Shanxi Corp. for International Economic and Technical Cooperation	Will construct the 300-room Luohu Hotel in Shenzhen. $5.1 million (HK$40 million). 12/12/83.
Hoi Tung Marine Machinery Suppliers Ltd. (HK)/NA	Converted a French cruise ship into a floating hotel moored off Shekou. 1/29/84.

Transportation

Hong Kong Aircraft Engineering Co./China National Aero Technology Import-Export Corp.	Have formed the South China Aero Technology Ltd. to expand the Beijing company's export and coproduction expertise in aeronautical products and precision engineering. 11/6/83.
Dasing Development Co. (HK)/Fuzhou Tourist Co., Fujian Foreign Trade Transportation Co., and Fujian Motor Vehicle Transportation Co.	Formed the Fujian-Hong Kong Motor Vehicle Transportation Corp. to provide bus service between Fuzhou and Hong Kong. 1/10/84.

Miscellaneous

NA (United Arab Emirates)/NA	Have opened the Changcheng Trade Center in Dubei. (PRC:49%–UAE:51%). 6/83.
Millies Group (HK)/China Light Industrial Corp. for Foreign Economic and Technical Cooperation	Will form a company to offer profit-sharing including Chinese staff. 11/13/83.
NA (HK)/San Lian Economic Development Co. Ltd., Fujian	Signed agreement to construct the Baishan Guildhall. $2 million. 12/12/83.
Golden East Products Co. (US)/Tianjin Economic Development Co.	Will form the Qiaofa High-Speed Printing Service Co. to provide printing, bookbinding and other services for foreign and Chinese enterprises. 12/19/83.

LICENSING

Philips Telecommunications Manufacturing Co. (Australia)/Liaoning Foreign Trade Corp. Import Dept.	Discussing production of mobile radios. 9/83.
KaMeWa, subsidiary of Nordstjernan AB (Norway)/China Shipbuilding and Trading Co.	Signed a 10-year contract for production of propellers, thrusters, and control and guidance systems. 9/1/83.
Harding A/S (Norway)/Deihai Shipyard, Qingdao	Signed agreement for lifeboat manufacturing technology. 11/1/83.
A/S Wichmann (Norway)/China State Shipbuilding Corp. and Guangzhou Diesel Engine Factory	Agreement to produce medium speed engines and propellers. 11/2/83.
National Supply (US)/EQUIMPEX and Lanzhou Petroleum & Chemical Machinery Works	Signed 8-year agreement to provide technology for manufacturing mud pumps and other drilling equipment. 11/14/83.
Hamworthy Engineering (UK)/China Shipbuilding Trading Co. and Nanjing Marine Auxiliary Machinery Works	Signed agreement to manufacture Trident and Retrofit marine sewage treatment units. 11/25/83.

Aeritalia (Italy) and Aerospatiale (France)/ Xian Aircraft Corp.	Negotiating production rights for the ATR-42 short-haul airliner. 11/27/83.
Harnischfeger Corp. (US)	Signed 10-year agreement to provide technology for electric mining excavating machinery. 11/28/83.
Steyr-Daimler Puch (Austria)	Signed 10-year contract for truck production technology. 12/83.
Mitsui Toatsu Chemicals Inc. (Japan)	Agreed to provide Tianjin with polyethylene uniaxial orientation technique for food packaging. 12/13/83.
Phillips Petroleum Co.	Secured contracts for "HF Alkylation" technology at three Chinese refineries. 12/19/83.
Combustion Engineering, C-E Division (US)/ MINMETALS and Refractory Beijing Plant	Ceramic fiber equipment and technology to produce fiber products used for refractories. 1/10/84.

COMPENSATION TRADE

Nichimen and Koizumi (Japan)/Dalian Jute Textile Factory	21 sets of jute textile equipment. $340,000. 8/83.
Lenzing Co. and Starlinger & Co. (Austria) and CTIP (Italy)/Yanshan General Petrochemical Works and Beijing Plastic Products Plant	Set of equipment to make woven plastic bags used for packaging. 11/10/83.
Toppan Moore (HK)/Beijing General Paper Mill	Business forms manufacturing system in exchange for high-grade bond paper. 12/83.
Toro Enterprises (HK)/ Tianjin Economic Development Co. and Lichen County, Shanxi	Rubber for the White Cement Factory in exchange for the factory's products. $3.5 million. 12/5/83.
Soi Engineering Co., Ltd. (Japan)/Tianjin Huanguang Electronic Equipment Factory	Production line and technology to produce quartz oscillators. 12/5/83.
Kienzle Uhrenfabriken GmbH (W. Germany)/ First Light Industry Bureau, Shenyang	Reached initial agreement on supply of equipment for manufacturing quartz and electronic clocks. 1/9/84.

COPRODUCTION

ASEA (Sweden)/Shanghai Navigation Instrument Plant	Signed deal to manufacture main engine remote controls, generator set remote controls, plus other control and monitoring equipment. 10/28/83.
Italiana Rappresentaze SpA (Italy)/Acheng Relay Factory, Heilongjiang	Signed agreement to produce electrical appliances for household use. 1/9/84.
McDonnell Douglas Corp. (US)/Shanghai Aircraft Industrial Corp.	Signed letter of intent to produce 25 MD-80 commercial jetliners in China. 1/12/84.

PROCESSING AND ASSEMBLY

Omni Inc. (US)/Yantai Gear Box Plant, Shandong	Negotiating extension of their 1981 gear box processing agreement. 12/12/83.
Feeco Ltd. (HK)/China National Aerotechnology Import & Export Corp.	Negotiating production and assembling of small flying simulators. 1/9/84.
Aseraka Ltd. (UK)/Shandong Provincial Clothing Co.	Signed memorandum to process imitation fur and leather garments. 1/9/84.
C. Itoh & Co. (Japan)	Negotiating agreement on assembling semi-finished electronic products. 1/10/84.

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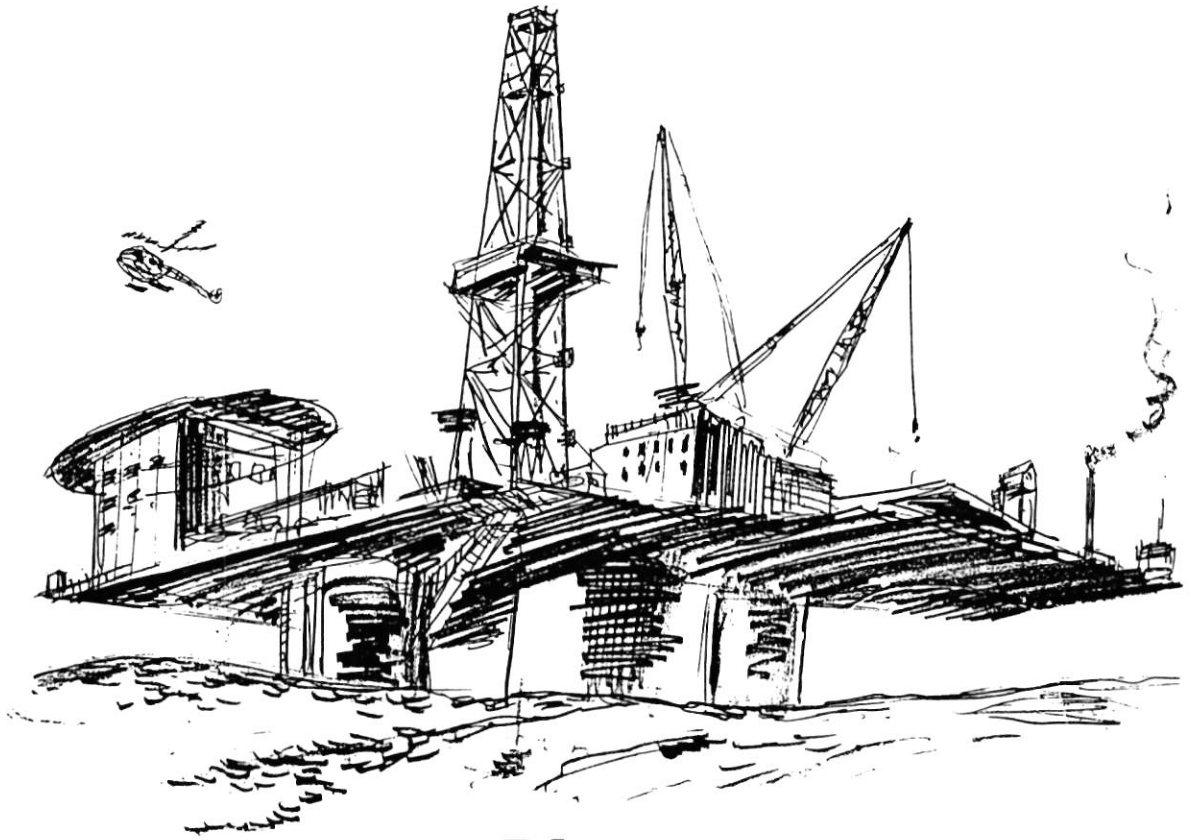

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