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The China Business Review

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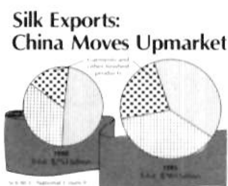
March–April 1988 Volume 15, Number 2

Cover: Long-term strategies and careful planning are a good starting point, but in the end all investors must walk a long—and often challenging—path to success. *Artwork by John Yanson.*

The ADB: China's controversial membership promises benefits to both China and foreign companies. **Page 10.**



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ENERGIZING CHINA'S ENTERPRISES

Over a year ago China watchers were predicting imminent passage of the State enterprise law. But the law fell victim to political instability following then-Party Secretary Hu Yaobang's sudden resignation in early 1987. Now the law has resurfaced and is, once again, expected to be passed by the National People's Congress, which convenes for its annual session on March 25. This time around, having received high-level approval from China's Politburo in January, passage seems all but assured.

While the State enterprise law has been on hold, the need for it has grown. Reforming China's factory management system has moved to the top of the 1988 economic agenda, and the new law will be vital to reformers' plans. The enterprise law is expected to give factory managers real power by providing the legal basis for separating their authority from the Party organization and administrative bureaucracy. And if the factory manager still can't make ends meet, the draft bankruptcy law—which automatically goes into effect three months after passage of the enterprise law—should give reformers the means to force unprofitable factories out of business.

While experiments at reforming China's enterprises have been underway for several years, implementation of the enterprise and bankruptcy laws will give China's leaders leverage to push factory reforms on a wider scale. For more background on China's changing enterprises, see the March/April 1987 issue of *The CBR*.
—JSS

COSMETIC CHANGES

The use of make-up, once criticized as bourgeois, is becoming increasingly commonplace among fashion-conscious Chinese women. To meet growing demand, thousands of small cosmetics factories are producing everything from cleansing creams to lipstick, eye shadow, rouge, and nail polish. As in the West, consumers can choose among upscale, mid-level, and basic cosmetic product lines, available from department stores and beauty shops.

According to Joseph Lin, a US cosmetics engineer and consultant, China's young cosmetics industry is among the fastest growing in the world. This fact has not escaped the notice of international industry leaders. The Beijing International Cosmetic Expo held last October attracted 41 exhibitors from 11 countries including Estee Lauder, Elizabeth Arden, Max Factor, and Revlon, who came to build brand awareness among China's cosmetics manufacturers, beauticians, and government officials—as well as the crowds who waited on line every day to watch make-up demonstrations and receive free samples.

Some of these firms have already found a small market for their products through China's foreign hotels or Friendship Store outlets. And in an effort to reach the huge domestic market, several have gotten much more deeply involved in China.

Huazi (Beautiful Form), the most expensive cosmetics line on the Chinese market, is made by a joint venture between Japan's Shiseido and the Beijing No. 3 Daily-Use Chemical Factory. Avon teamed with the Beijing No. 4 factory to produce its Moisture Rich face cream, while haircare products made at the Wella (FRG)–Tianjin No. 1 Consumer Chemicals Factory joint venture sell well at department stores throughout China. Avon is considering a joint venture to manufacture lipstick, eyebrow pencils, and eye shadow. And Elizabeth Arden, which runs one of its tony Red Door salons out of the White Swan Hotel in Guangzhou, may also begin manufacturing in China.

Most of these ventures plan to sell the bulk of their output to other Asian countries for now. But given the growing demand in China, a greater share of the domestic market may be there for the taking. —PET

CBR PLANS ANNIVERSARY ISSUE

The National Council will celebrate its 15th anniversary of promoting US business with China at its June annual meeting in Washington, DC. In conjunction with this event, the May–June issue of *The China Business Review* will be a special anniversary issue, providing a unique opportunity for companies to showcase their role in the growth of US–China trade. Companies may spotlight their accomplishments and future objectives in the China market through special corporate announcements in this issue. Advertising rates and additional information are available from *The CBR*'s Business Manager Margaret Wade at (202) 429-0340 or telex: 64517 NCUSCTUW.

INSURING INTERESTS

Resistance to the idea of insuring property or loved ones is deeply rooted in China. Traditionally reliant on the strength of the family unit to cope with hardship or disaster, most Chinese consider buying an insurance policy an alien idea. While recognizing its practicality, even the State fears that the protection insurance offers may weaken family ties and encourage Western-style social malaise.

Still, as China modernizes, the insurance industry is inevitably gaining ground. For one thing, the State is eager to divest itself of ever-mounting social welfare expenditures so that it can focus on key capital construction projects. China's rampaging forest fire in Heilongjiang last May only reinforced the belief that insurance is an idea whose time has come. Said Li Peng last November, "Insurance, instead of government relief, will make units, organizations, and individuals feel more secure from the effects of unpredictable disasters."

What's more, insurance is becoming affordable to a large segment of the population—which also has more valuables to protect. Since 1979, when the domestic insurance business was allowed to reopen after a 30-year lapse, more than 60 million people have bought some form of insurance, with house and contents insurance by far the most popular. The gains have been greatest in the cities. By official accounts, one in four residents of Shanghai now holds some kind of long-term coverage. Some farmers are signing up too, lured by the prospects of more generous compensation for personal and property losses than they could receive from the State's relief program.

Soon interested customers will have more options to choose from. Late last year the China Life Insurance Co. Ltd. resumed domestic insurance operations for the first time since the founding of the PRC. Branches of China Life opened in Shanghai and Guangzhou early this year and will presumably give the People's Insurance Company of China some much-needed competition.

If other Confucian-based societies can change their attitudes toward insurance—in Japan the industry is highly developed—there's no reason why China's domestic insurance business can't raise its share of the country's GNP from the mere .4 percent it holds today. China's leaders may be ready for a decline in the country's centuries-old State paternalism, and insurance companies will no doubt be willing to fill in the gaps.

—Deborah Diamond-Kim

GOING FOR THE GOLD

With the help of some 200,000 individual prospectors, China has quietly emerged as the world's fourth largest gold producer, behind South Africa, the Soviet Union, and the United States. While China does not release gold output figures, Western analysts estimate China's annual production at about 70 tonnes in 1987. The Chinese hope to keep increasing annual production by 15 percent every year until 1990.

The drive to mine more gold has been picking up speed since China began encouraging private gold prospectors a decade ago. Gold is mined in 22 provinces, with Shandong and Jiangxi leading the way. Newspapers regularly carry findings of new ore seams around the country, with especially promising reserves recently reported in the Altay Mountains of Xinjiang and on tropical Hainan Island.

The government has stepped up its investment in the industry, from ¥300 million in 1986 to ¥600 million in 1987. The United States, Italy, and the Netherlands have also helped China make technological advances, including the recent use of remote sensing devices to locate gold reserves in Xinjiang, and the development of chemical leaching processes to increase the percentage of gold taken from ore. China's eagerness to improve gold production has even led it to the Soviet Union, where a team of Chinese engineers traveled last year to inspect gold production techniques. And China recently agreed to send a gold prospecting team to Australia, a sign that the country's mining techniques are improving rapidly.

China has good reasons for boosting gold output. Domestic demand for gold consistently outstrips supply. Gold rings and necklaces have become *de rigeur* bridal gifts, and jewelry stores quickly sell out of gold items despite major price increases over the past two years. Some buyers are also attracted to gold as a hedge against the inflation beginning to trouble many Chinese consumers.

China's recent balance of payments problems may also be fueling the gold production drive. The Soviet Union routinely sells gold on world markets when short of foreign exchange. In China, too, there appears to be a correlation between stepped-up gold mining activity and the increased use of gold as an export and barter commodity. In 1986, for example, Western analysts speculate that China sold roughly $500 million in gold reserves to Britain to ease its foreign exchange shortage.

While China's press is full of accounts of new ore seams and overfulfilled gold quotas, the government's official figures show no increase in gold assets since the 1982 level of 12.7 million troy ounces. Perhaps the additional reserves are being stored up for use in times of dire need, such as famine or foreign invasion. Or perhaps, given its developing nation status, China simply wants to avoid the appearance of stockpiling too much wealth. —SER

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editor-in-chief

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associate editors

Priscilla Totten
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ADVERTISING REPRESENTATIVE

Margaret Wade
1818 N Street, NW
Suite 500
Washington, DC 20036
(202) 429-0340
Cable address: USCHINTRAD
Telex: 64517 NCUSCTUW

COMMENTARY

An American Perspective on China's Legislative Problems

Jerome Alan Cohen

China initiated its present policy of broad cooperation with foreigners only a decade ago. In mid-1979 the country promulgated the Sino–Foreign Joint Venture Law, the first of many laws of interest to the foreign business community. Since then, authorities at both the national and local level have enacted countless substantive rules for facilitating trade and investment.

American lawyers who work with China by and large admire the legislative accomplishments of the PRC since 1979. They understand that these accomplishments have been achieved only through careful study of various legal systems, local experiments with contemplated legislation, painstaking drafting, and numerous revisions. What has been achieved in just a few years provides grounds for confidence in China's future legislative progress.

But despite China's impressive legal accomplishents over the past nine years, everyone admits that there is still much left to do. American lawyers active in China, and their clients, often must wrestle time and again with familiar issues involving China's economic legislation. To borrow a Chinese rhetorical construct, one might call these problems "The 10 Needs."

1. Need for compliance with existing legislation

In 1986, when I told a senior Chinese investment official how pleased I was that China was preparing the Provisions for the Encouragement of Foreign Investment, he replied: "New legislation is useful, of course. But if our people would only comply with the laws we already have, a lot of problems would be solved." Many Chinese leaders have said similar things in public, urging officials to adopt the slogan "Comply with the law" (*youfa biyi*) on a wide scale.

Foreign lawyers would agree with this frank self-criticism. It is frustrating, for example, when the agencies responsible for approving investment contracts fail to observe prescribed deadlines or, after approval, reopen the process without statutory authority. Sometimes those of us involved in the China business have the impression that the further away one is from Beijing, the less the local concern with carrying out the law. The traditional Chinese village saying, "Heaven is high and the emperor is far away," still applies to many locales.

2. Need for further legislation

Foreign companies continue to await promulgation of such basic national legislation as a law authorizing the establishment of Chinese–foreign cooperative ventures (as distinguished from equity joint ventures), a company law, copyright and software protection laws, and laws regulating such matters as foreign trade and investment institutions, mortgages, insurance, banking, negotiable instruments, and factory management of State enterprises. Detailed implementing regulations are also needed to clarify some existing legislation, and much relevant local legislation has yet to appear. Fortunately, the pace of drafting economic legislation appears to be quickening, with cooperative venture and enterprise laws expected to be promulgated soon.

Jerome Alan Cohen is a partner with the international law firm of Paul, Weiss, Rifkind, Wharton & Garrison. This article is adapted from a speech given to the US–China Joint Session on Trade, Investment, and Economic Law in August 1987. The author would like to thank People-to-People, sponsor of the meeting, for permission to publish this adaptation.

3. Need to make laws less vague

Some of China's laws and regulations are couched in broad, ambiguous, and occasionally even inconsistent terms. Moreover, certain laws omit important matters that should be covered. This gives central and local implementing agencies broad scope for interpretation and leads to a lack of uniform treatment for similar transactions.

In recent years, as China has accumulated more experience with new forms of economic cooperation and refined its drafting techniques, the quality of legislative craftsmanship seems to have improved. Further progress can be expected as more and better-trained law graduates join China's legislative agencies.

4. Need to reconcile conflicting legislation

Inevitably, each new law further complicates the work of those who interpret China's expanding body of legislation. National legislation must be reconciled with local laws, including those specifically relating to the special economic zones (SEZs) and other regions within China that have been granted some autonomy. For example, when China enacted the Foreign Economic Contract Law and the Technology Import Contract Regulations in 1985, certain provisions of each contradicted similar provisions promulgated the previous year in the Shenzhen SEZ. This raises the question of whether earlier legislation applicable only to specific regions should continue to govern as China as a whole becomes increasingly receptive to foreign business and promulgates national legislation on the same subjects.

Even within the central government there is a need to reconcile conflicting legislation. Sometimes, as in the tax field, implementing regula-

tions formulated by a ministry to supplement a law enacted by the National People's Congress (NPC) actually revise the original intent of the law. And broad new legislation enacted by the NPC, such as the 1986 General Principles of Civil Law, may contradict rules previously promulgated by the State Council. In many instances such contradictions are surely inadvertent, arising because the general law and the specific regulations were drafted by different groups, often at different times. They nevertheless create uncertainty, and the legal consequences of such contradictions must be handled in a way that will not upset existing commercial relationships.

5. Need to protect contracts against new legislation

Among the foremost problems confronting foreign companies is the fact that foreign interests in a contract signed today with a Chinese company may be adversely affected by new Chinese legislation enacted tomorrow. Chinese officials have tried to reassure foreign firms that their contracts will not be changed to their disadvantage when new legislation is passed, but Chinese negotiators consistently resist putting any specific language to that effect into a contract.

China's Foreign Economic Contract Law, which appeared in 1985, makes reference to this problem but unfortunately does not provide any definitive answers. Article 40 of this law, designed to protect joint ventures, cooperative ventures, and natural resource projects against subsequent legislation, is a good example of ambiguous draftsmanship, at least to foreign eyes. It simply states that, when new laws appear, contracts for these three types of projects "may still be implemented according to the provisions of the contract." The meaning of this phrase has not been clarified, either by implementing regulations or through an authoritative interpretation confirming that these contracts will not be adversely affected by new legislation.

Moreover, no matter how it is interpreted, Article 40 does not protect other types of contracts that also call for significant long-term foreign cooperation with China, such as those for licensing of technology, compensation trade, or wholly foreign-owned investments. Foreign companies would welcome amendment of Article 40 to cover *all* such transactions, for in many respects they are functional alternatives to joint ventures and cooperative ventures and, like them, require Chinese government approval before they can go into effect.

6. Need for opportunity to comment on legislation

One way to increase the chances that new laws affecting foreigners will be better drafted, more clearly related to other laws, and unlikely to upset existing contracts would be for Chinese officials to adopt an open, public procedure enabling both foreigners and Chinese to comment on the text of a proposed law or regulation. In doing so they would be following the example of their colleagues in many other countries.

Chinese legislative agencies already consult relevant government departments and Chinese experts about their draft laws and, on an ad hoc basis, occasionally solicit foreign comments. If China would institutionalize such consultations and regularly publish the text of draft laws—as recently done with the draft enterprise law—it would not only improve the quality of its legislation but also reinforce the belief that China is creating a reasonable and fair environment for foreign business. By giving notice of proposed action and offering an opportunity for comment, Chinese law-making institutions would also relieve foreign firms' fears of unanticipated restrictions.

7. Need for authoritative interpretation

Even the best drafted laws require authoritative interpretation. Under China's constitution, the NPC Standing Committee has the ultimate power to interpret the laws. It, in turn, has authorized the Supreme People's Court, the Supreme People's Procuracy, and the State Council and related departments to assist in this task within their respective spheres.

The right to interpret regulations in a given field usually belongs to the Chinese government ministry with prinicipal responsibility for that field. Thus, the Ministry of Finance has the right to interpret China's various income tax regulations, and the Ministry of Foreign Economic Relations and Trade (MOFERT) interprets the Technology Import Contract Regulations and various joint venture regulations. Foreign companies dissatisfied with local tax or joint venture rulings often seek review of these rulings by the relevant central ministry in Beijing and are sometimes rewarded with success. But, as of now, few companies are willing to go a step further and challenge an adverse ruling in the courts.

Yet, as China's gradually expanding body of administrative law establishes judicial review of administrative action, the courts may begin to scrutinize the administrative interpretations of regulations more closely, even in the absence of explicit legislative authorization. Such administrative and judicial interpretations are essential not only to the parties immediately involved but also to the many others who would benefit from knowing these interpretations. Because of this, the Ministry of Finance has for several years published selected rulings of its General Tax Bureau, both in its tax magazine and in special books. If MOFERT were to follow this example and publish its interpretations governing investment, licensing, and other regu-

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lations, it would certainly help eliminate some of the mystery still attached to doing business with China. Regular publication of court decisions would also be desirable.

8. Need to eliminate "internal" provisions

During negotiations, the Chinese side will often refer to internal (*neibu*) documents that govern certain aspects of a contract, but that the foreign company is not permitted to see. The issue is often of central concern to the foreign side, such as the amount of labor subsidies a joint venture must pay for its workers, or the maximum value of technology the foreign company is allowed to contribute as part of its investment in the venture. Foreign companies are also occasionally told varying versions of the content of these internal provisions, and some believe that the practice of referring to internal guidelines is sometimes abused by Chinese negotiators to take advantage of the foreigner's ignorance.

Although they come from different legal traditions, virtually all foreign companies believe that a rule that is not published and available to all parties violates the principles of equality and mutual benefit and is therefore illegitimate. If China were to enact a law prohibiting Chinese agencies or parties from requiring foreigners to adhere to unpublished rules, it would greatly strengthen the confidence of foreign firms active in China. Another positive step would be for China to publish a single comprehensive gazette containing all laws, regulations, and other rules—or even simply all those of the central government. Such a gazette could be founded on the understanding that any rules not included will not be regarded as published and hence are not binding.

9. Need to clarify the role of MOFERT's model contract

As China began to enter into long-term business cooperation with foreigners, it authorized many central and local government agencies to negotiate contracts with foreigners for the first time. To assist the many thousands of new and inexperienced Chinese negotiators, MOFERT has provided them with a "model" joint venture contract and articles of association that can be adapted to suit the circumstances of each transaction and serve as a basis for opening negotiations.

MOFERT has provided these draft documents *not* in its capacities as legislator, authoritative interpreter of regulations, or contract approval agency, but in its other role as the leader of China's negotiating teams. The model documents represent MOFERT's "wish list" and contain many proposals that simply reflect the ministry's preferences—just as model contract drafts for oil cooperation and technology licensing presented by the relevant Chinese agencies represent *their* preferences.

Foreign interests in a contract signed today may be adversely affected by new Chinese legislation tomorrow.

The model joint venture contract, for example, provides that both the Chinese and foreign language versions of a contract are to be legally authoritative, as Chinese regulations clearly authorize. But the model then goes on to state what the regulations do not—that, if there is a discrepancy between the two versions, the Chinese text shall prevail. Of course, the Chinese government is entitled to promulgate a rule making the Chinese text the prevailing one; indeed, this is the rule under Shenzhen SEZ contract legislation. Yet, unless such a rule is enacted for the country as a whole, its appearance in the model should be construed merely as a request that the foreign side accept it as a matter of bargaining, not as a matter of law. This distinction between what the law requires and what some of the provisions in the model documents suggest is not always understood. Some Chinese negotiators appear to believe that the MOFERT models must be accepted as law, or at least they give this impression to foreign companies.

10. Need to improve translation of legislation

Because few foreigners read the Chinese language, their impressions of China's legislation are usually based on translations. The Chinese government recognizes this, and cooperates with various foreign groups to produce swift and accurate translations of the country's major economic legislation.

Conflicts inevitably develop, however, between the goals of speed and accuracy, and China's more timely translations sometimes suffer in quality. Moreover, some of China's more detailed regulations and most available interpretations and decisions are *not* readily available in translation—even in English, which is increasingly the language of world commerce. It might be helpful to form a Sino–American committee of scholars and lawyers to review the state of English-language translation of relevant Chinese legislation and to suggest improvements. Such a committee could also examine the accuracy of Chinese-language translations of American legislation.

Tailoring the system to China

While the American legal community looks forward to these legal issues being ironed out, at the same time it does not want to see China emulate the legislative complexity of the United States. American lawyers realize that China needs to develop laws that suit its distinctive circumstances, rather than simply "import" foreign legislation, as was done too often in China's earlier modernization efforts.

I tried to make this point in a joking manner in 1979 when, at the request of a leading Chinese tax official, I reluctantly gave him a full multi-volume set of the United States Internal Revenue Code and Regulations. I said to my friend, "I guarantee that if you have all these volumes translated and if you and your colleagues devote yourselves to mastering their intricacies, China will never achieve its Four Modernizations."

The legislative problems I have discussed are not China's alone, but are common in some degree to all countries. The remarkable thing is not that foreigners still encounter legislative problems in their transactions with China, as they do with all other countries including the United States. The truly remarkable thing is China's substantial accomplishment since 1979 in creating a legal environment increasingly attractive to the foreign business community.

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China Joins the ADB

A new source of funds for China's major projects

Robert E. Cox

China became the 47th member government of the Asian Development Bank (ADB) on March 10, 1986. Little fanfare surrounded the event. After all, China had already joined the World Bank, rejoined the International Monetary Fund, and commenced inquiries about membership in the General Agreement on Tariffs and Trade (GATT).

But China's entry into the ADB, a multilateral development bank focusing on the Asia–Pacific region, has important practical implications. From the Chinese standpoint, the ADB offers an additional source of foreign currency and technical assistance to support the country's modernization. At the same time, the ADB, in agreeing to fund projects in both China and India, is emerging as a more important player in Asia–Pacific regional development.

Foreign companies will see the benefits of China's membership as the contracts for goods and services associated with the ADB loans to China are put up for competitive bid. Already two loans amounting to $133 million have been approved and four other projects involving some $250 million in loans are in the works.

China assumes key role

Founded in 1966, the Asian Development Bank is currently "owned" by 47 governments, which have subscribed capital worth $20.6 billion to the Bank. The 18 contributing members provide the financial backing to support the Bank's loans to the 29 developing member countries (DMCs). All member countries are represented on the ADB board of directors, although some constituencies, or groups of smaller countries, share a single seat. The 12-member board meets regularly at ADB headquarters in Manila, the Philippines, to approve loans and set Bank policy.

Upon joining the ADB, China subscribed 7.16 percent of the Bank's capital, assuming a critical position as the most powerful DMC. China holds the third-largest voting percentage after the United States and Japan, and was given its own seat on the board. This position gives China a new platform for discussing regional economic issues and influencing project finance decisions throughout Asia. In July 1987 China appointed Kong Fannong, deputy director of the International Department of the People's Bank of China, as its representative on the board of directors.

Resources available to China

The ADB offers an array of financial instruments to assist China and the other DMCs. The principal activity is making "ordinary capital resource" loans that carry an interest rate (currently 6.49 percent) commensurate with commercial market rates. In 1987 the ADB approved 22 such loans amounting to $2.48 billion. Poorer member countries receive concessional loans from the Asian Development Fund (ADF). These loans carry no interest and offer a 40-year repayment period, with a 1 percent service charge. The Bank approved 30 ADF loans valued at $957 million in 1987.

The ADB also follows the practice of other multilateral development banks by entering into equity investments in private and mixed ownership enterprises in the DMCs. To date the Bank has taken equity positions worth $15 million in 11 such enterprises. In addition, the ADB regularly provides technical assistance grants for project preparation and organizational improvements at the agencies that implement development projects in the DMCs.

Chen Muhua, governor of the People's Bank of China, has said that China will not seek loans from the interest-free ADF resources, which are reserved for the poorest countries. Instead it will mainly utilize ordinary capital resource funds, and then only at "modest" levels. China has already submitted several proposals falling under both the loan and technical assistance programs. The first projects have been approved, while others are in advanced stages of review.

First loan goes to the CIB

In keeping with the ADB's emphasis on strengthening its member countries' own development banks, the ADB's first loan and first technical assistance grant to China were awarded to the China Investment Bank (CIB). Established in 1981 under the Ministry of Finance, the CIB raises funds overseas to finance renovations of small and medium-sized industrial enterprises. CIB uses the funds to make loans to enterprises, mainly those in the light manufacturing sector. Since 1986 the loans have carried an 8.5 percent interest rate.

The CIB has a fair degree of autonomy in selecting the projects it underwrites and may even extend foreign currency loans to joint ventures. Any single project, however, is limited to a maximum loan of $5 million, and borrowers assume the full foreign exchange risk on the loans.

In October 1987 the ADB awarded China's first ordinary capital resource loan to the CIB. The loan has

Robert E. Cox served on the US delegation at the ADB from 1980–82. He is currently an attorney with McCutchen, Doyle, Brown & Enersen in San Francisco.

a maturity of 15 years, including a three-year grace period, and carries a variable interest rate currently at 6.49 percent. The CIB will use the loan to finance about 80 projects, mostly in small and medium-sized light industrial enterprises in eastern China. Funds disbursed to these factories will support technology transfer, the development of products that can replace imports, and expanded export earnings.

The CIB has been remarkably successful in mobilizing foreign currency resources. It has received four loans from the World Bank worth $645.6 million and three loans from the Japanese capital market amounting to $89 million. These resources, together with the ADB loan, will allow the China Investment Bank to make foreign currency loans to Chinese enterprises amounting to $650 million in 1988–89.

In October 1987, the ADB also approved a technical assistance grant to the CIB itself to be used for institutional strengthening, which will include advice on how to upgrade CIB's project appraisal program and financial system. It is hoped that this grant will eventually improve the CIB's methods for approving loan projects and speed up the disbursement of funds.

Selecting other priority projects

Last December, the ADB approved its second major loan to China, to underwrite fuel conversion at the Changshan Power Plant in Jilin Province. The $33.3 million loan finances the conversion of two 100 MW power plants from oil to pulverized coal consumption. The loan carries a variable lending rate currently about 6.49 percent and a term of 24 years, including a four-year grace period.

Four other major ADB loans are in various stages of review (*see* table). They will finance modernization of a chemical factory, an iron and steel mill, a radial tire plant, and a paper and pulp mill.

The ADB's operational strategy for China, devised in consultation with the Chinese government, supports the priorities of China's Seventh Five-Year Plan and the country's ongoing economic reforms. The ADB expects to emphasize projects in the energy, industrial, and transportation sectors, most in the country's eastern region.

The plans for projects in China follow traditional ADB sectoral preferences. For the Bank as a whole, agriculture and agroindustry account for some 31 percent of all approved loans, followed by energy (24 percent), transportation and communications (15 percent), and development banks (11 percent). Other target areas include water supply and sanitation, education, urban development, nonfuel minerals, and health and population.

Photo courtesy of the ADB

The Asian Development Bank headquarters in Manila.

Technical assistance

China is also using the resources of the ADB's technical assistance program. These loans and grants finance foreign consultants to design the projects. They also allow technical advisors to visit China and help enterprises and institutions devise ways to reorganize and increase efficiency.

CHINA'S ADB PROJECTS

Project Name	Executing agency	Loan value	Decription and status
China Investment Bank (CIB)	China Investment Bank	$100 million	CIB will disburse loan to small/medium scale industrial development projects. No consultants required. Approved 10/8/87.
Changshan Power Plant, Jilin Province	Huaneng Electric Power Generation Corp.	$33.3 million	Conversion of two units of Changshan plant from oil to coal-firing capability. Consultants required. Under final board review.
Qingdao Tire Industry Development, Shandong Province	Ministry of Chemical Industry	$61 million (tentative)	Modernization of technology, management, and production in three existing plants. Projected annual production: a) 300,000 steel belted truck tires; b) 30,000 tonnes carbon black; c) 4,000 tonnes nylon tire cord. Consultants required. Fact-finding mission completed. Project under review.
Lai-wu Iron & Steel Mill, Shandong Province	Ministry of Metallurgical Industry	$110 million (tentative)	Modernization of production and management to increase output from 300,000 tonnes per year (tpy) to 700,000 tpy. Consultants required. Fact-finding mission scheduled for mid-1988.
Nanning Chemical Factory, Guangxi Province	Ministry of Chemical Industry	$40 million (tentative)	Modernization of production and management to produce 16,000 tpy titanium dioxide by chlorination. Consultants required. Fact-finding mission scheduled for early 1988.
Hexian Pulp Mill (Guanxi Province)	Ministry of Light Industry	$40 million (tentative)	Construction of mill to produce 50,000 tpy bleached paper from local pine tees. Consultants required. Fact-finding mission completed. Project being formulated.

SOURCE: Operational Information on Proposed Projects, ADB, January 1988.

The ADB has already approved two technical assistance grants to China. The first, for upgrading the China Investment Bank, will be financed by the United Nations Development Program (UNDP). The second allows the People's Bank of China to improve staff efficiency and modernize its statistical system.

The ADB is considering six additional technical advisory grants for China. They would support projects ranging from development of industrial energy conservation measures by Qinghua University to upgrading the statistical system at the State Statistical Bureau, and improving irrigation system management by the Department of Farmland Irrigation and Drainage.

Opportunities for US firms

China's use of ADB loans opens up new business opportunities for US firms in China. Contracts for consulting, goods, and services for ADB projects are awarded according to competitive bidding procedures similar to those of the World Bank (*see* box).

So far, US firms have been quite successful in the competition for ADB consulting projects. According to statistics from the US Commerce Department, US companies won about 21 percent of the contracts for consulting services awarded by the ADB to nondeveloping member countries in 1986, the largest total for a single country. When competing to provide goods, services, and civil works required for ADB projects, US firms achieved a high success ratio of 70 percent, although they participated in very few bids. And in 1986, for the first time ever, the United States was awarded more total procurement dollars than Japan.

Membership has its controversies

China's membership in the ADB has not been free of controversy. First was the political problem posed by Taiwan's long-term ADB membership. Eventually, a compromise was reached that allows both China and Taiwan to be ADB members, with the "Republic of China" redesignated as "Taipei, China." Since China's 1986 entry into the ADB, however, an official Taipei delegation has not appeared at the ADB's annual meetings. The planned 1989 ADB annual meeting in Beijing may really put this compromise to the test.

Once China became an ADB member nation, allocation of financial resources also became a controversial issue. At about the same time China joined, the ADB began to consider loans for India, which previously had refrained from borrowing. Adding the huge populations—and development needs—of China and India to the ADB's constituency presents new challenges to the institution.

Traditionally, the ADB has focused on the small to medium-sized Asian economies, including countries ranging in size from Kiribati to Indonesia, and looked to the World Bank to provide the immense capital requirements of the Chinese and Indian economies. (The World Bank will commit up to $1.65 billion to China in fiscal 1988 alone.)

Indonesia has been the ADB's largest borrower, with 19 percent of all loan commitments, followed by Pakistan and the Philippines with 12 percent each, South Korea (11 percent), Bangladesh (10 percent), and Thailand (9 percent). With China borrowing $133 million and India getting $393 million of the $2.48 billion total lent in 1987, it is clear why the other members are concerned. Unless the ADB can convince its major donors to increase the Bank's capitalization, serving the demands of India and China may in the long run deprive smaller members of financing.

However, both ADB and Chinese officials have sought to allay these concerns. ADB President Masao Fujioka has repeatedly stated in the past year that the Bank will avoid "overconcentration" of ADB funds in the larger member countries. And China's ADB Director Kong Fannong has stressed that China's borrowing from the ADB will be "limited." All parties appear to be aware that allocation of Bank funds and technical expertise will require a deft balancing act for years to come. 完

WINNING AN ADB CONTRACT

As with the other development institutions, the key to winning ADB contracts is having project information as early as possible. Consultants can get early project notification by registering in one or both of the ADB's databases. To do this, a company must fill out a 71-page registration form known as the DACON (Data on Affiliated Consulting Firms), which requests information on a company's background, employee biographies, specialties, and past projects. This is the same form used by other development institutions, and is available from the US Department of Commerce or the institutions themselves.

The second database, just for individuals, is unique since the ADB is the only development institution to keep records of individual specialists. Interested consultants should fill out the DICON (Data on Individual Consultants) form.

The ADB does not register suppliers of equipment or civil works contractors. Instead these firms must track ADB projects themselves and submit bid documents when called for by the project's implementing agency.

Consulting companies should consider registering their employees as specialists individually, according to Robert Lurensky, a financial economist in the Office of International Major Projects at the US Department of Commerce. When the Bank is looking for someone to work on a specific project, it is more likely to select someone out of the individual database rather than search through the specialties listed by each company.

Having an employee named a consultant to a project gives any company a head start. The consultant is made a temporary member of the ADB staff, gaining valuable information on how the ADB operates and on the project itself. This gives the consultant an "opening wedge" that may help the parent consulting firm get involved at a later stage in the project.

Campaigning for a project when the loan has been officially approved is "almost too late," says Lurensky. Prospective companies should write to the Bank and to the project's executing agency stating their interest and qualifications when the project is still in the pre-planning stages.

To track the progress of various projects and identify the executing agency, companies can subscribe to The ADB's monthly bulletin, *Operational Information on Proposed Projects*, which lists proposals by country, and includes proposed loan amount, tentative project name and description, anticipated consulting needs, and the project's current status. Subscriptions cost $30 and are available from Operational Information, Information Office, Asian Development Bank, P.O. Box 789, Metro Manila, Philippines. Telex: 23102 ADB PH or 63587 ADB PN.

—Sharon E. Ruwart

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Practical principles for potential investors

The Five P's

Samuel X. Zhang and Jeffrey L. Snyder

China attracts many foreign companies eager to produce goods for the world's largest domestic market. Success in China, however, does not come easy. Many Western businesspeople spend thousands of dollars on airline tickets and hotel rooms only to see their project—and dreams—fall through in the end.

Despite the difficulties of doing business in China, some foreign investment projects manage to succeed. Many companies have found careful planning to be the simple secret that helps unlock the vast potential of the Chinese market. They researched the market, found the best partner and project, and structured the investment to protect their position and assure profitability.

After observing both successful and unsuccessful Chinese projects, we have developed a framework for venture planning and execution that involves "Five P's": project, partner, pattern, profitability, and protection. If new investors plan and execute their projects with awareness of the Five P's, they stand a greater chance of success.

Project

A prospective foreign investor travels to China many times to negotiate with a Chinese company. After protracted negotiations and great expense, he may sign a contract with a Chinese partner. But when the time comes for the contract to be approved by local or central investment authorities, the problems begin. The simplest contract can take months to get through the bureaucratic tangle, and sometimes a project may be denied official sanction after pending for months or even years. Perhaps the project does not fit within China's development plans. Maybe foreign exchange is not available or the need for the project has passed. Often, the investor never learns the reason for rejection.

This fairly common scenario shows that the first step in the planning process should be to identify a project that is appropriate. The foreign company must look beyond its own goals and take into consideration the kinds of projects China wants and needs.

As in any centrally planned economy, investment in China is planned and regulated by the government. The State defines long-term economic goals and identifies intermediate development targets. It lists sectoral priorities in five-year and annual plans, which spell out what types of products or technology are to be imported and which major projects are to be initiated. These plans offer a reliable clue as to what projects will take top priority. The Seventh Five-Year Plan (1986–90), for example, emphasizes the broad areas of energy, transportation, and telecommunications.

Target sectors vary from region to region, so local plans (which are generally approved by national authorities) should also be consulted. Another source of information is the notices of specific projects published in national and local newspapers, business magazines, and released during foreign investment conferences sponsored at either the national or local level. Projects on the lists cover many different sectors, but all have some level of official approval prior to publication.

If a contemplated project coincides with a central or local priority, project approval and foreign exchange funding from State coffers will be given more readily. Finding a project that already has been allocated foreign exchange is one of the easiest ways to accelerate the planning process and ensure that your project has governmental support.

For an investor who takes the time to identify a project in line with China's plans, the odds for success are significantly enhanced. Because China's investment authorities will support the project, there will be fewer bureaucratic delays, getting the project off the ground will be simpler, and operations will be much smoother.

Partner(s)

After identifying the right project, the investor needs to find a good partner. Not just any Chinese enterprise can participate in foreign investment projects. Even if a company has the authority to engage in international transactions, its scope of

Samuel X. Zhang and Jeffrey L. Snyder are attorneys in the Washington, DC, office of the the law firm of Graham and James. This article is based on a speech given by Mr. Zhang last September in Cologne, West Germany, at a seminar on Chinese foreign investment law.

business may be narrowly restricted by product, type of transaction, or financial commitment. Many foreign firms report that only after months—or years—of negotiations did they discover that their proposed Chinese counterpart did not have the authority to conduct such business. Thus, an essential first step in choosing a Chinese partner is to scope out the limits of the partner's authority. A thorough examination of Chinese enterprise regulations and policies can help the foreign investor know how far the Chinese partner can go.

The foreign partner also needs to study the other commercial players in its industry to determine which Chinese enterprise would make the most appropriate partner. Some may have more modern factory facilities and higher technical capability, while others can offer access to better quality raw materials or wider markets.

The increasing autonomy of provincial governments has enlarged the field of potential Chinese partners. More Chinese enterprises are gradually being authorized to engage in international transactions—and are enthusiastic about undertaking such projects. A project that fails to make it past the negotiating stage in the north, for instance, could potentially go forward with a different partner in the south.

The partner's location is important for other reasons. China has created several types of regions offering special investment incentives. These include special economic zones such as Shenzhen, open coastal cities such as Qingdao and Fuzhou, and inland economic regions such as the Chengdu–Chongqing region in Sichuan Province. Each area offers different investment incentives, tax benefits, land-use rates, and customs duties. Availability of raw materials, labor, and other supplies also varies by region.

During negotiations it is common to see representatives of several different concerns on the Chinese side of the table. They may represent a manufacturer, the local government, a financial association, or a business and trading company. They are often independent of each other, but are drawn together by their bureaucratic authority. A MOFERT representative, for example, must participate to make sure the technology is suitable to China.

Having so many faces on the other side of the table is confusing, and some companies have signed contracts with the wrong party. For example, one foreign company signed a contract for the construction of a tourist facility with the Chinese Tourist Administration. But as a government agency, the Tourist Administration did not have the technical capability or authority to enter into such a contract. In situations like this, the simplest solution is to switch parties once the problem is discovered. In some cases, however, the entire negotiating process must begin anew with the appropriate party. The smart investor carefully determines the role of all players in negotiations and their exact relationship to the transaction.

Choosing a business partner should be like choosing a spouse. In the "courting" process the foreign investor and the Chinese partner get to know each other and evaluate their common interests. The extent of trust and understanding between the partners can determine how devoted the Chinese partner will be to the joint venture. Successful joint ventures often have a loyal Chinese partner who is willing and able to deal with the complex bureaucracy or get favorable treatment on labor, taxation, and raw materials—areas in which foreigners have little clout.

Vast differences between Chinese and Western political, economic, and cultural traditions make finding and keeping the right partner difficult. A venture, like a marriage, may prove unsuccessful if necessary preparation is sacrificed for expediency.

Pattern

After finding a project and a partner, the investor must consider the pattern, or structure, of the invest-

POTENTIAL INVESTOR CHECKLIST

☑ ***Project***
- Is the proposed investment project compatible with Chinese planning goals?
- Does it fall into a priority sector of China's economy?

☑ ***Partner***
- Is the potential Chinese partner authorized to participate in foreign investment projects?
- Do other parties need to be involved in the transaction?
- What are the advantages and drawbacks to your potential partner?

☑ ***Pattern***
- What type of investment structure is best for the project?

☑ ***Profitability***
- What is the project's market and anticipated market share?
- What form will profits take?
- What are the restrictions on using and repatriating foreign exchange?

☑ ***Protection***
- What kind of protection does Chinese law provide this type of investment?
- How will disputes be resolved?

Artwork by Jerry Beals

Photograph courtesy of Inglen SpA

The Guangdong Float Glass Company, a joint venture established by PPG Industries, Inc. and several Thai investors, spent $75 million to build this modern glass factory.

ment. Each pattern involves different legal rights and obligations in China. Choosing the right pattern for the project can be crucial to the venture's success.

The pattern of the investment determines capital infusion, profit/repayment structure, and negotiation issues. Foreign investors should not necessarily adopt the first investment structure suggested by the Chinese partner. One function of the feasibility study should be to analyze the appropriate structure for the investment.

A few investors have chosen to set up wholly foreign-owned operations in China. But many foreign investors are eager to form a "joint venture" with a Chinese partner. This general term actually covers several forms of cooperation. The type of joint venture chosen should depend on the nature and size of the project, and the degree of risk. In an equity joint venture, each partner contributes equity to the venture, and the partners share risks, profits, and losses based on their equity. In a contractual joint venture, the partners may contribute technology, equipment, labor, or land as well as cash equity, and profits are distributed according to proportions stipulated in the contract. The third option, the joint development form, is mainly used for joint natural resource exploration such as offshore petroleum.

But before leaping into a joint venture commitment, investors should consider whether this is the most appropriate pattern for their project. If technology transfer is involved, the nature of the technology should determine whether a joint venture or a simple licensing agreement is the best structure. One investor, for example, rejected the licensing option and instead began joint venture negotiations. But the complex process of negotiating a joint venture involves considerable bureaucratic delays. Three years later, when the joint venture began production, the technology was virtually obsolete when compared to new imported foreign technology.

There are many other non-investment options that foreign firms should consider. Contractual relationships, generally governed by China's foreign economic contract law, are one possibility most commonly used in sales agreements. A foreign company might also arrange a compensation trade agreement with a Chinese manufacturer, exchanging technology and training for payment in the form of the product. And in coastal areas, materials and parts processing or assembly arrangements are common. Newer forms of cooperation include leasing and debentures.

Profitability

Profitability is, of course, every

Photo courtesy of Allergan-Hydron

Shanghai Hydron, one of International Hydron's three China ventures, produced this eye-catching advertisement as part of its efforts to market contact lenses in China.

foreign investor's ultimate goal. Investors in China need to carefully consider the type of profit desired and develop a realistic expectation of profit levels based on the various markets that are open to their products. If planning to sell on the domestic market, the investor should conduct a market survey to determine whether Chinese consumers have the interest and financial means to buy the product.

Only about one-third of all foreign investment projects in China are currently profitable. Another third are breaking even and the final third are losing money. Many of those losing money are large projects, whose investors can justify the short-term expenditure in terms of positioning their company for the day when the world's largest market opens up. But their goal of gradually obtaining a larger share of the Chinese market may not be realistic.

China's primary goals in opening its economy to foreign trade and investment are to attract advanced technology and increase exports to earn more foreign exchange. To make sure these goals are achieved, the government regulates many aspects of foreign business and commerce. Imports are limited by a licensing system designed to conserve foreign exchange and protect domestic industries. Exports are closely monitored to prevent price competition between different sellers that would cut into the country's foreign exchange earnings. In this closely regulated environment it is virtually impossible, without specific permission, for foreign companies to monopolize a segment of the Chinese market. Most foreign investment projects based on a desire to capture a large share of the domestic market run counter to China's foreign investment policy and have little chance of success.

China's proximity to the Pacific Basin makes it an ideal location for marketing throughout Asia and the Pacific. As an alternative to domestic sales, potential investors should consider how they can take advantage of China's abundant natural resources, low labor costs, and investment tax benefits to penetrate foreign markets.

Restrictions on the use and repatriation of foreign exchange also have a great impact on profitability. China requires that every project meet its own foreign exchange requirements. Firms producing for the China market thus face a serious problem: they earn renminbi (RMB) from domestic sales, which cannot readily be converted into hard foreign currency to repatriate profits.

Chinese investment authorities recognize the severity of the convertibility problem and have set up several alternative methods for foreign investors to obtain foreign exchange. Foreign exchange adjustment centers recently established in several cities may allow investors to exchange RMB for foreign currency, although the exchange rates are higher than the official exchange rate. Several other ways of raising profitability by getting around the strict foreign exchange controls, such as import substitution sales and balancing between two projects, are mentioned in the article on p. 24.

AN INVESTOR'S LEXICON

APPROVAL AUTHORITY 审批机关
Shenpi jiguan
The organization that has the legal authorization to approve an activity involving a foreign investment enterprise. For example, the Ministry of Foreign Economic Relations and Trade or their local-level counterpart is the approval authority for foreign investment contracts.

CONTRACTUAL JOINT VENTURE (CJV) 合作经营企业
Hezuo jingying qiye
Contractual joint ventures can take two forms: 1) a limited liability entity with legal person status that closely resembles an equity joint venture; 2) a business partnership in which the parties cooperate as separate legal entities and carry out their respective contractual obligations without establishing a joint management entity. In either case, contractual joint ventures differ from equity joint ventures in two important respects: the forms of investment contributed by each party need not be in cash or in kind (e.g., labor and utilities have in some cases been allowed as contributions); and profits are shared based on a ratio specified in the contract, not necessarily according to investment contributions. Contractual joint ventures are also often called cooperative ventures or coproduction agreements.

DEPARTMENT IN CHARGE 主管部门
Zhuguan bumen
The department in charge of a joint venture is generally the Chinese partner's supervisory organization. For example, in a light industrial joint venture with a factory as the Chinese partner, the local light industrial bureau will usually be the department in charge of the joint venture. The department in charge has primarily administrative functions and acts as a channel for the joint venture's business with China's bureaucracy. For example, project proposals, joint venture contracts and feasibility studies, and advanced technology applications are first submitted to the department in charge, which then forwards them to the appropriate approval authorities.

EQUITY JOINT VENTURE (EJV) 合资经营企业
Hezi jingying qiye
A limited liability corporation in which the Chinese and foreign partners jointly invest in and operate the corporation. Profits and risk are shared according to the percentage of equity held by each partner. Investment contributions may be in cash or in kind.

FOREIGN INVESTMENT ENTERPRISE (FIE) 外商投资企业
Waishang touzi qiye
Term used to collectively refer to equity joint ventures, contractual joint ventures, and wholly foreign-owned enterprises. Does not include offshore oil investment contracts. Much of China's new investment legislation is being written to apply to these three types of projects.

WHOLLY FOREIGN-OWNED ENTERPRISE (WFOE) 外商独资企业
Waishang duzi qiye
A limited liability entity solely owned and operated by a foreign investor. The foreign investor receives all profits and bears all risks.

Prepared by John Frisbie.

RESOURCES FOR POTENTIAL INVESTORS

Organizations

The National Council for US-China Trade
1818 N St., NW, Suite 500
Washington, DC 20036
Phone: 202-429-0340
Not-for-profit membership organization designed to help companies doing business with China. Provides tailored, company-specific consulting services, marketing assistance, and up-to-date information and publications on trade and investment. The Investment Advisory Program offers individual counseling on investment issues and strategies.

US Department of Commerce, Office of the PRC and Hong Kong
Room 2317
Washington, DC 20230
Phone: 202-377-3583
Government organization responsible for policy and promotion aspects of US trade with and investment in China. Provides basic consulting services and coordinates with the US Embassy or consulate officials in China on behalf of the US investor.

Foreign Commercial Service of the US Embassy in Beijing
3 Xiushui Bei Jie
Jianguomenwai, Beijing
Phone: 523831
The 11 commercial officers in the US Embassy and consulates in China can provide information on trade, law, and investment, and act as a liaison with Chinese government officials.

The Overseas Private Investment Corp.
1615 M St., NW
Washington, DC 20527
Phone: 800-424-OPIC or 202-457-7011
Independent US government organization set up to promote economic growth in developing countries by encouraging private US investment. Insures investment projects against a broad range of political risks and also finances investment projects through direct loans and loan guarantees.

The Embassy of the People's Republic of China, Commercial Office
2300 Connecticut Ave., NW
Washington, DC 20008
Phone: 202-328-2520 to 27
The Commercial Office promotes and serves as a liaison for all matters related to US-China investment, import-export business, technology transfer, and finance.

Books

China Investment Guide, 3rd edition, by China International Economic Consultants. Essex, UK: Longman Group, 1986. An authoritative reference source for commercial information vital to investing in China. Includes joint venture case studies, local investment potential analysis, investment trade laws, and regulations.

US Joint Ventures in China: A Progress Report (A study prepared for the US and Foreign Commercial Service, International Trade Administration). Washington, DC: National Council for US–China Trade, 1987. Comprehensive analysis of 194 US–China joint ventures, including commentary on the investment setting, comparison of US and other foreign ventures, and recommendations on operating procedure and ways to minimize risk.

Manufacturing Equity Joint Ventures in China, by A. T. Kearney Inc. and the International Trade Research Institute. Chicago, IL: A. T. Kearney, 1987. Presents results of a survey of Chinese and foreign managers at 70 manufacturing equity joint ventures in China. Evaluates investment environment including major areas of conflict in joint ventures, most serious problems, and reasons for difficulties.

"Investment Approval: guidelines to help bring contracts to fruition," by Sue-Jean Lee and Andrew Ness. *The China Business Review*, May–June 1986, p. 14. Outlines contract approval process, necessary documentation, and elements of the feasibility study.

Business Law & Practice in the PRC, by Richard J. Goosen. Hong Kong: Longman Group (Far East) Ltd., 1987. Organized into sections dealing with economic laws, finance and banking, intellectual property and technology transfer, and enforcement of legal rights. Discusses the advantages and disadvantages of equity joint ventures and wholly foreign-owned ventures.

Chinese Commercial Negotiating Style, by Lucian Pye. Cambridge, MA: Oelgeshlager, Gunn & Hain, 1982. Analyzes Chinese negotiating style and illuminates the attitudes and tactics that come into play during negotiations.

The National Council for US-China Trade has compiled several bibliographies on China, available to members from the Business Information Center.

Protection

The final step in the planning process is deciding how to protect the relationship created with the Chinese partner to maintain the project's profitability and success. Since 1979, the Chinese government has published many laws and regulations concerning foreign investment and international transactions that provide, at least on the surface, sufficient protection for foreign investment. Familiarity with the protection offered to each pattern of investment will help the investor negotiate a project, prepare the necessary legal documents, and ensure smooth operations.

Differences between Chinese and Western business cultures can give the false impression that legal documentation in China is not as important as in the West. In the Chinese legal system, as in the West, the documents that created the venture and assigned rights and obligations to each party are among the most important tools used in establishing and maintaining a business relationship. Documents that are carefully drafted can effectively protect all interested parties and prevent potential disputes. If disputes do occur, the documents can help maximize defenses or minimize losses.

China has many forms of dispute resolution, including consultation, mediation, arbitration, and litigation. In the past, few foreigners wanted disputes to be arbitrated in China, so a neutral location such as Stockholm was often chosen. Now, as foreign investors become more familiar with Chinese legal practices and arbitration procedures, more investments are being governed by Chinese law. There are distinct benefits to applying Chinese law to ventures and designating a Chinese arbitration forum for disputes in the contract. Arbitration rulings must be executed in China, and those bearing the authority of Chinese arbitrageurs are more likely to be carried out.

To be successful in the difficult, complex, and often bewildering China market, a foreign investor needs to begin with the basics. Building an investment plan based on careful analysis of the project, partner, pattern, profitability, and protection can get the venture off to a *positive* start. 完

Making the guidelines for foreign investors more specific—and for some, more attractive

China's Investment Implementing Regulations

Lucille A. Barale

In October 1986, when China's State Council issued the 22-article Provisions for the Encouragement of Foreign Investment ("the 22 Provisions"), authorities promised that by the end of the first quarter of 1987 they would promulgate 16 sets of implementing regulations to give teeth to the new investment incentives. But working out the details of some regulations seems to have proven more difficult than anticipated, while changes in China's leadership may have also slowed the rate of progress. Publication of the import substitution regulations in late October 1987 marked only the 12th and 13th sets of regulations to be issued.

The 22 Provisions and their implementing regulations are aimed not only at sweetening the conditions for investors, but at attracting the types of investment projects that China wants. The incentives offered to all foreign investment enterprises (defined as contractual joint ventures, equity joint ventures, and wholly foreign-owned enterprises) are directed toward specific ends, such as facilitating exports or giving enterprises additional options for solving foreign exchange imbalances. But the real benefits, such as exemptions from payments and lower costs, are given only to those foreign investment enterprises that fulfill one of China's two major goals for attracting foreign investment—exporting over 70 percent of their products or utilizing advanced technology.

The various implementing regulations that have appeared to date demonstrate China's desire to influence the structure of foreign investment. Take, for example, the new debt-to-equity ratios specified in the Provisional Regulations Governing the Proportion of Registered Capital to Total Investment. The new regulations benefit small projects under $3 million, which are no longer prohibited from taking loans to fund investment. The new ratios allow at least 30 percent debt in the smallest projects and up to 66 percent debt in the largest. By promulgating the debt-to-equity regulations, the Chinese hope to curtail the number of undercapitalized projects. These regulations, and others such as foreign exchange guarantees, fill in gaps in various areas of the law relating to foreign investment and technology transfer.

Other regulations, such as those issued by the Ministry of Foreign Economic Relations and Trade (MOFERT) and the Customs authorities, set forth procedures for foreign investment enterprises to follow if they want to take advantage of the opportunities offered by the 22 Provisions. Foreign investors hoped that the implementing regulations would be a concrete set of guidelines from central authorities that would leave little room for argument or indecision at lower levels. This objective has been realized only in part.

Lucille A. Barale has served as the resident attorney in Beijing for the international law firm of Coudert Brothers for the past four years.

BENEFITS FOR ALL INVESTMENT ENTERPRISES

Several of the changes made by the 22 Provisions and the implementing regulations offer benefits to *all* of China's foreign investment enterprises, whether they were established before or after the new regulations. Chief among these changes are new methods for maximizing the enterprise's foreign exchange account.

1. Nonventure product sales. A foreign investment enterprise must restrict its activities to the purpose, scope, and scale of business stated in the venture's contract. Potential foreign investors have long sought to engage in a greater range of activities, claiming this would permit more flexibility in solving foreign exchange shortages. Previously, Chinese officials resolutely countered that a joint venture could not be "turned into a trading company." Now, officials seem receptive to this change and have issued implementing regulations establishing the legal basis of such activities.

The Measures on the Purchase and Export of Domestic Products by Foreign Investment Enterprises to Balance Foreign Exchange Account ("Domestic Product Export Measures"), promulgated by MOFERT, allow foreign investment enterprises whose foreign exchange revenues do not cover (or "meet") expenditures to apply to the local foreign economic relations and trade authorities for permission to purchase local products for export. Permission is granted for a one-year period, and the value of products exported can-

not exceed the amount of foreign exchange required for enterprise production, operation, and profit remittance for the foreign party.

But finding the products to export can prove challenging. Exports of some 40 commodities such as rice, soybeans, cotton, tobacco, silk, tea, oil, and coal are subject to central government control, and therefore cannot be exported by foreign investment enterprises. For more than 200 other products subject to export licensing or quotas, the enterprise's application must be approved by MOFERT. In general, the joint venture should look for products made in its own locale. Exporting items from other regions is permitted—but only if the foreign economic relations and trade authorities of that area agree.

The many limitations on how the joint venture can buy and sell nonventure products, combined with the practical problems of locating exportable products not already committed for export, are likely to severely limit the use of these measures.

The Domestic Products Export Measures provide yet another channel for enterprises to obtain foreign exchange. Local governments that fulfill their own export plans may set aside a portion of the foreign exchange earned for the purpose of "adjusting and resolving" the foreign exchange imbalances of foreign investment enterprises in their area. The decision to do so, however, rests in their hands—and very few have chosen to take this step to date.

2. RMB loans with foreign exchange collateral. The Provisions on Foreign Investment Enterprises Eligible to Apply for Renminbi Loans Mortgaged by Foreign Exchange ("the Loan Measures") permit a foreign investment enterprise to use a foreign exchange deposit as collateral for a Bank of China renminbi loan. The loan is repaid in renminbi, but the collateral remains convertible. This method has not been used frequently. Joint ventures indicate that for short-term loans, promptly transferring funds between the Bank of China's business department and credit department is problematic, while companies prefer to avoid tying up foreign exchange in this way for a long-term loan.

The foreign exchange used for collateral may come from the enterprise's own foreign exchange account or from other sources. Foreign banks may win a greater role in local lending now that ventures can borrow from banks outside of China to support their renminbi expenditures. According to the measures, no interest accrues on the foreign exchange placed on account with the Bank of China, but the company does not have to pay interest on the renminbi loan either.

3. Hiring and firing workers. The Provisions on Employment, Wages, and Welfare in Foreign Investment Enterprises set guidelines for hiring, firing, and wages.

Most joint ventures to date have hired workers, either directly or indirectly, from the Chinese partner to the venture. The labor implementing regulations state that the foreign investment enterprise has the right to independently recruit and hire workers by conducting examinations for qualified personnel. If such personnel are not found in the enterprise's locale, it may recruit in other areas with the consent of the local labor bureau. If the foreign investment enterprise wants to hire engineering, technical, or management personnel currently employed by another unit, the regulations direct the units to allow the transfers.

Joint ventures testing out these provisions, however, have found that other domestic laws governing the movement of residents or acceptance of work assignments after graduation often take precedence over the venture's proposed plans. Nevertheless, more and more joint ventures are recruiting directly from the pool of local residents and hiring those who meet the venture's own criteria.

The labor implementing regulations specify conditions under which foreign investment enterprises may dismiss or discharge personnel. Most of the workers dismissed by joint ventures to date have had poor on-the-job performance, but the regulations also permit redundant workers and

IMPLEMENTING REGULATIONS TO THE 22 PROVISIONS

1. Provisions of the Ministry of Labor and Personnel on Employment, Wages, and Welfare in Foreign Investment Enterprises (November 24, 1986).

2. Customs Measures for Foreign Investment Enterprises on Imported Materials and Parts for Export Orders (November 24, 1986).

3. Provisions of the People's Bank of China on Foreign Investment Enterprises Eligible to Apply for Renminbi Loans Mortgaged by Foreign Exchange (December 12, 1986).

4. MOFERT Measures on the Purchase and Export of Domestic Products by Foreign Investment Enterprises to Balance Foreign Exchange Accounts (January 20, 1987).

5. MOFERT Measures for Import and Export Licenses for Foreign Investment Enterprises (January 27, 1987).

6. MOFERT Rules on the Confirmation of Export-Oriented and Technologically Advanced Enterprises with Foreign Investment (January 27, 1987).

7. Ministry of Finance Measures to Implement Tax Preferences Provided in the Provisions for the Encouragement of Foreign Investment (January 30, 1987).

8. Provisional Regulations of the People's Bank of China Regarding Foreign Exchange Guarantees Provided by Organs within China (February 20, 1987).

9. Provisional Regulations of the State Administration of Industry and Commerce Concerning the Proportion of Registered Capital to Total Investment in Chinese–Foreign Joint Ventures (March 1, 1987).

10. Regulations of the Bank of China on Providing Loans to Foreign Investment Enterprises (April 24, 1987).

11. Interim Provisions of the State Council Regarding the Reduction of Personal Income Tax on Wages and Salaries for Foreigners (August 1, 1987).

12. Measures Concerning the Substitution of Imports with Products Manufactured by Chinese–Foreign Joint Ventures. (October 30, 1987).

13. Measures Controlling the Substitution of Imports with Machinery and Electronics Products of Chinese–Foreign Joint Ventures (October 30, 1987).

those violating rules of the enterprise to be dismissed.

While the 22 Provisions give foreign investment enterprises the right to determine wage levels and the types of wages, bonuses, and allowances given to employees, they are silent on any standard of pay. The labor implementing regulations step in and define an acceptable minimum: not lower than 120 percent of the average wage paid to workers in the same field in State-owned enterprises in the same locale.

The labor implementing regulations also confirm the enterprise's right to tie raises and bonuses to the economic performance of the enterprise. Profitable enterprises may give larger raises, while less successful enterprises may give smaller raises or none at all.

4. Easing import procedures and costs. Import applications and licenses are no longer required for certain materials used by a foreign investment enterprise to produce export items. According to the Customs Measures for Foreign Investment Enterprises on Imported Materials and Parts for Export Orders, such materials will be treated as bonded goods and may include raw materials, fuel, bulk parts, knock-down parts, spare parts, machine component parts and fittings, packaging material, and even vehicles and equipment used in production. As long as these parts and materials are used to produce goods that are actually exported, the import duties and consolidated industrial and commercial taxes are waived. This is essential if China is to increase its exports of heavy-industrial products, and should help ease procedures for foreign enterprises that produce or process goods for overseas buyers.

The Customs implementing regulations also recognize that some enterprises produce goods that are sold to another domestic enterprise to be processed into a final export product. In such cases, the first enterprise is still entitled to treat the imported materials as bonded goods, but the responsibility for these goods is passed to the second enterprise when they are sold.

INCENTIVES FOR EXPORT-ORIENTED AND TECHNOLOGICALLY ADVANCED PROJECTS

Foreign investment enterprises are given additional preferential treatment in the 22 Provisions if they export and can cover their own foreign exchange needs ("export-oriented enterprises") or utilize advanced technology to produce new or improved products for export or as import substitutes ("technologically advanced enterprises"). MOFERT's Rules on the Confirmation of Export-Oriented and Technologically Advanced Enterprises detail what ventures can qualify (*see* p. 36). Once certified, these projects are eligible for multiple benefits.

Photo courtesy of Guangmei Foods

The Guangmei Foods joint venture in Guangzhou produces a variety of snacks, sodas, and ice cream.

1. Exemption from paying State subsidies. Previously, foreign investment enterprises were required to pay a fee to the local bureau of finance to cover State subsidies given to Chinese workers in the venture. The amount of the fee varied, depending on the value of the housing and price subsidies provided.

The 22 Provisions exempt export-oriented enterprises and technologically advanced enterprises from all nonhousing subsidies. The labor implementing regulations do not elaborate on this benefit, although they reiterate the enterprise's obligation to contribute to pension and unemployment funds and to pay for insurance, welfare benefits, and housing subsidies. Joint ventures report, however, that they become exempt from payments for State subsidies immediately after receiving export-oriented or technologically advanced enterprise certification.

2. Priority in receiving Bank of China loans. Export-oriented and technologically advanced enterprises are to be given priority by the Bank of China for short-term loans needed for working capital, as well as other necessary credit funds, as specified in the Regulations on Loans to Foreign Investment Enterprises.

3. Profits remitted abroad exempted from tax. The Income Tax Law Concerning Joint Ventures Using Chinese and Foreign Investment, promulgated on September 10, 1980, places a 10 percent income tax on any profit remitted abroad by the foreign partner. Foreign investors in export-oriented and technologically advanced enterprises are exempted from this tax by the 22 Provisions. The Measures to Implement Tax Preferences issued by the Ministry of Finance make it clear that this benefit starts with profits from 1986.

4. Extended reduction period for joint venture income tax. The Joint Venture Income Tax Law provides that joint ventures may be granted a tax holiday in the first two profit-making years followed by three years at a reduced rate of 50 percent. The 22 Provisions go a step further, add-

Photo courtesy of H. J. Heinz Co.

Heinz-UFE Ltd., a joint venture between H. J. Heinz and Guangdong United Food Enterprises, Inc., produces cereal for infants and children.

ing that after these tax benefits are exhausted, an export-oriented enterprise exporting over 70 percent of output in any one year will have its income tax cut by 50 percent. Technologically advanced enterprises are granted an additional three years with the 50 percent reduction in income tax.

The 22 Provisions do not make clear whether these additional benefits can apply to ventures that were not granted a tax holiday and period of reduction under the Joint Venture Income Tax Law—such as cooperative ventures taxed pursuant to the Foreign Enterprise Income Tax Law. But the tax implementing regs explicitly state that these benefits are available to *all* qualifying export-oriented and technologically advanced enterprises, regardless of previous tax benefits. In addition, if an enterprise prepaid taxes for periods that are now included under preferential tax treatment stipulations, the overpayment will be refunded in full.

5. Additional tax benefits for reinvested profits. The tax implementing regs also specify that if the profits from a foreign investment enterprise are used to establish or expand an export-oriented or technologically advanced enterprise with a duration of five or more years, then the foreign investor can apply to obtain a full refund on the income tax paid on the reinvested funds. Previously, such a refund was limited to 40 percent of the tax paid and was available only to equity joint ventures. This new benefit is applicable retroactively to 1986, and can be used by any type of foreign investment enterprise. If the investment is withdrawn by the foreign investor before five years, the tax refund must be repaid.

6. Reduced land-use fees; priority in obtaining utilities, transport, and communications facilities at local rates. These general benefits are provided for in the 22 Provisions, but no implementing regulations have yet been promulgated to provide more specific guidelines.

HELP FOR VENTURES MAKING IMPORT SUBSTITUTES

On October 30, 1987, the long-awaited Measures Concerning the Substitution of Imports with Products Manufactured by Chinese–Foreign Joint Ventures (the "Import Substitution Measures") were announced by the State Planning Commission. These measures have been under consideration for over two years but were delayed due to the complexities of developing a nationwide plan. They outline the methods—as they have been worked out to date—for the domestic sale of a joint venture's product to Chinese units that would otherwise have imported such a product (*see* box). Foreign investors who had hoped that the Import Substitution Measures would allow them access to the Chinese domestic market for foreign exchange sales will find that the regulations carefully restrict such opportunities in scope and duration.

Shortly after the Import Substitution Measures were announced, the State Economic Commission (SEC) announced its own Measures Controlling the Substitution of Imports with Machinery and Electronics Products of Chinese–Foreign Joint Ventures (the "Machinery and Electronics Products Measures"). Both regulations apply to equity and cooperative joint ventures but not to wholly foreign-owned enterprises.

1. Short-term foreign exchange support. Both sets of regulations make clear that import substitution is to help joint ventures with a "temporary difficulty" in balancing foreign exchange during the "initial period of production." Import substitution should not be used as a long-term solution to foreign exchange problems or as a solution in the later years of joint venture operation. In addition, the regulations focus on how joint ventures can qualify as producing import substitutes. They do *not* address the question of where the foreign exchange will come from to pay for import substitute products. Presumably the burden falls on the buyer to line up foreign exchange to pay for the purchase.

Artwork by Jerry Beals

WHAT IS AN IMPORT SUBSTITUTE?

The Measures Concerning the Substitution of Imports with Products of Chinese–Foreign Joint Ventures apply to "production type" joint ventures that offer advanced technology needed in China and that are developing new products or upgrading existing products.

To be certified as import substitutes, products must meet a wide array of qualifications:

1. The joint venture's need for foreign exchange must be a "temporary difficulty" that occurs in the "initial period of production."

2. The joint venture's product must be made with some materials obtained in China, or the venture must be in the process of localizing its sources of raw materials.

3. The venture's product should be recognized by central or local authorities as an item that would otherwise would have to be imported at the time the joint venture's application is made and for several years following.

4. The product specifications, performance, delivery time, and technical service and training must meet the requirements of Chinese domestic customers. A quality inspection and testing center in China must certify that the venture's product meets the same quality standards as the import product.

5. The price charged for the venture's product cannot, in principle, be higher than the price in the international market.

6. The 12 goods listed in the Import Substitution Measures as a part of the government's long-term import plan for the Seventh Five-Year Plan period may qualify as import substitutes. They are: steel products, copper, rubber, acrylic fibers, pig iron, aluminum, chemical fertilizer, polyamide fibers, timber, zinc, wood pulp, and rayon. All other products, except machinery and electronic goods, must be certified by the State (or local) Planning Commission.

7. Machinery and electronic import substitute products must be approved by the State Economic Commission in conjunction with several other organizations. The enterprise producing such products must also fulfill the export commitment in its contract.

2. Partial payment in foreign exchange. A joint venture that has received approval to sell its products on the domestic market as an import substitute can charge foreign exchange for the product. What percent of the price may be charged in foreign exchange, however, is to be negotiated by the parties to the sale, and must be approved by the foreign exchange control authorities. One major consideration in determining this ratio will be the extent to which imported parts and materials are used as inputs.

3. Priority in local sales. The Import Substitution Measures direct domestic purchasers to give priority to purchasing import substitutes over foreign products when "conditions are equal." The measures also state that import control agencies are to "encourage" domestic users to buy import substitute products. In practice, however, Chinese enterprises have developed many ways to get around this type of requirement. Moreover, China's fear of protectionist charges in its bid to join the General Agreement of Trade and Tariffs (GATT) may prevent central officials from exerting strong pressure on Chinese buyers to purchase from joint ventures.

ONLY THE FIRST STEP

The job of implementing the 22 Provisions does not end with the issuance of these regulations. China's success in attracting and keeping investment will largely depend on the attitude of government and agency officials at both the local and national level. In this regard, Party Secretary Zhao Ziyang's public statements in early 1988 regarding the need to allow more foreign investors to manage their own projects and make some money are most welcome.

Other signs are also promising. Since the 22 Provisions were announced, China's leaders have frequently mentioned the need for additional directives and regulatory measures to ensure that the intent of the 22 Provisions is carried out. Recently officials have gone even further, and frankly admitted that the 22 Provisions have not yet been fully implemented. After reviewing progress so far, the Chinese leadership is now focusing on the need for foreign management to function without interference from the Chinese bureaucracy. State and local leaders have also indicated that further regulations are in the works for labor management, enterprise autonomy, and the board of directors system.

The implementing regulations released to date are a welcome step in clarifying China's investment conditions. Investors hope to see the legislative process continue and receive the support of officials at all levels of China's bureaucracy. 完

HOW TO GET IMPORT SUBSTITUTE STATUS

1. The early stages

Planning for import substitution status should begin at the earliest stage of joint venture discussions. The Chinese party to a joint venture should file an application for import substitution at the time the project proposal is first made. Later, the feasibility study submitted to approval authorities must again state that import substitution will be used to balance foreign exchange expenditures and revenues. Import substitution, however, may not be the only method used to balance the joint venture's foreign exchange. The feasibility study should state the percentage of joint venture products that will be sold in the international market and in the domestic market.

The feasibility study must demonstrate that all the requirements are met (*see* box) and that the joint venture has a real need to be treated as an import substitution project. Specific information on domestic sourcing of production materials, the number of products to be sold as import substitutes, and the amount of foreign exchange generated through such sales, must all be computed on a year-by-year basis.

Products that are part of China's long-term import plans can be approved as import substitutes at the feasibility stage. Approval is limited to the period covered in the import plan and is subject to an annual examination to make sure the good conforms to import product specifications.

2. Official approval process

When the joint venture is established, a formal application for import substitution status should be made to the local planning commission if the joint venture was approved by local authorities, or to the State Planning Commission if the project was approved by MOFERT. The application will be evaluated in light of the current import plan. If imports of the product are listed on either the State's or the locality's long- or medium-term import plans, and all other conditions are met, the application is likely to be approved.

Products imported at the local level but not on any annual import plan may still be certified if the joint venture submits its application to the local planning bureau. The joint venture may submit an application directly to the planning bureau of the region that is importing the product, if it is outside the local approval authority's jurisdiction. This means that if the product is not on a national plan, or if the project was originally approved at the local level, the joint venture will have to apply to multiple local bureaus in order to make nationwide import substitute sales.

3. Variations for machinery and electronic products

The regulations relating to machinery, electronics, and appliances promulgated by the State Economic Commission (SEC) modify the certification process slightly. To qualify, the venture must be fulfilling the export commitment in its contract. The product's price on the domestic market must be a mix of foreign exchange and renminbi and is subject to approval by the foreign exchange control authorities at the State or local level. The percentage of foreign exchange paid by buyers of the import substitute product should decline as localization increases, and local content is expected to increase each year.

The import substitution application can only be submitted to the "department in charge" of the product after the venture has gone into production, although such a plan must have been set forth in the feasibility study. Copies are sent to the SEC, MOFERT, and the local economic commission, who are also involved in the decisionmaking process. All applications are decided jointly by the SEC and the State Administration of Exchange Control.

In addition to the formal application, the venture must submit a document certifying the quality of the product and a survey report on market demand. If a favorable ruling is made within the two-month time limit, the product is placed on the SEC's "List of Mechanical and Electrical Products to be Produced Domestically to Substitute for Imports." These products can then be sold directly by the joint venture to the domestic user. Sales may also be organized through the China Mechanical and Electrical Public Bidding Center or other approved organizations. —LAB

Exporting remains the most dependable way to obtain foreign exchange

Balancing Foreign Exchange

John Frisbie

Not surprisingly, foreign investors consistently cite foreign exchange shortages as the most serious problem facing their projects in China. About 4,000 enterprises with foreign investment are currently up and operating in China, but only one-third are maintaining a positive balance between foreign exchange revenues and expenditures, according to China's Ministry of Foreign Economic Relations and Trade.

A large number of the roughly 1,300 enterprises balancing foreign exchange are hotels and service companies that have a natural source of foreign exchange from their foreign tourist and expatriate clientele. A limited number of manufacturing projects also earn foreign exchange by supplying hotels and office buildings catering to foreigners in China.

Most manufacturing projects, however, are unable to tap into these domestic foreign exchange sources and must export to meet their foreign exchange needs. Some 608 foreign investment enterprises (FIEs) have already succeeded in being designated "export-oriented enterprises" based on their ability to export at least 50 percent of their output and maintain a foreign exchange balance. Yet these enterprises typically produce simple light industrial or consumer products for existing export markets. Up to now, most larger manufacturing projects have been unable to generate sufficient foreign exchange through exports.

The scope and severity of the problem has prompted the Chinese government to issue legislation aimed at alleviating the foreign exchange problem. This legislation includes the January 1986 Provisions on the Balancing of Joint Venture Foreign Exchange Receipts and Expenditures

(*see The CBR*, May–June 1986, p. 28), the October 1986 Provisions for the Encouragement of Foreign Investment, and several implementing rules released in 1987. The legislation outlines a variety of alternatives for earning foreign exchange, although none yet provide the long-term, dependable foreign exchange support that investors need to commit large resources to a project. Thus most US and foreign manufacturers are continuing to keep their investment projects relatively small—under $5 million—to limit their exposure in China until the foreign exchange situation improves.

The root of the problem

The foreign exchange problem is created by the fact that FIEs typically must source a high percentage of their production inputs overseas. Investors find that Chinese suppliers cannot yet meet their specifications and quality standards, or at least are unwilling to take the necessary steps to meet these high standards for an FIE's small orders. To obtain the inputs they need, FIEs must generally spend hard currency. On the other hand, FIEs have difficulty earning enough hard currency to balance these outlays. First, many foreign investment enterprises are set up strictly to reach the vast China market. Exporting even a portion of their output is often impossible if worldwide overcapacity exists in the industry or if the project is making intermediate goods used by Chinese factories as inputs for a finished product. FIEs producing these types of products only earn renminbi (RMB) on domestic sales, which cannot be converted into hard currency.

Second, even if a product has a potential export market, FIEs are usually not competitive in terms of price or quality in overseas markets in the early years of operation. This is due both to start-up inefficiencies and their reliance on imported materials and components, which drive up production costs and make exports less competitive.

Most US investors plan to reinvest profits into their projects for the first few years and only begin to repatriate their profits several years down the road. Their inability to balance foreign exchange, then, is primarily an operational problem: they need foreign exchange to keep the factory running and pay expatriate salaries.

Government assistance for the privileged few

FIEs generally try to solve their foreign exchange shortage by draw-

John Frisbie is manager of the Investment Advisory Program at the National Council for US–China Trade. *The author would like to thank Lawrence Grippo, National Council Beijing Office deputy representative, who prepared the Foreign Commercial Service report mentioned in this article.*

OUTSIDE A HOTEL IN BEIJING...

"American dollars? Change money? 6 to 1?"

ing on foreign exchange capital or receiving further capital injections from the foreign partners in the enterprise. Those with continuing problems, however, quickly exhaust this source. When just continuing operations becomes a problem, some joint ventures—particularly important or highly visible projects—have asked for and received assistance from the Chinese government. The highly publicized AMC Jeep and Foxboro joint ventures, for example, have been allowed to convert some of the renminbi they earn on domestic sales into dollars at official bank exchange rates to help overcome foreign exchange shortages.

This type of assistance was first mentioned in Article 75 of the 1983 Joint Venture Law Implementing Regulations, which states that "when a joint venture whose products are mainly sold on the domestic market under its approved feasibility study report and contract has an imbalance of foreign exchange income and expenses, the imbalance shall be solved" by the approval authority. At the time this regulation came out, most companies assumed that when an approved joint venture encountered foreign exchange imbalances, the appropriate central or local government departments would allow it to convert renminbi to foreign exchange.

In practice, FIEs have found that such assistance is ad hoc and usually only provided when their operations are threatened or suspended. While there are several examples of FIEs that have received foreign exchange loans or allocations, often the enterprise has only received a portion of the amount promised. Getting foreign exchange support depends entirely upon the resources and attitudes of local officials.

Cartoons by T.K. Chang

Making export commitments

Throughout the course of developing Chinese investment policy, officials have stressed that FIEs must take responsibility for balancing their own foreign exchange. Foreign companies negotiating new projects are therefore usually pressed to make a contractual commitment to export a certain percentage of output, even though no regulation requires it.

The foreign companies that do agree to an ironclad export commitment find themselves in a vulnerable position. If their enterprise is unable to meet export targets and seeks assistance from the Chinese government to make up the foreign exchange shortfall, their request may be rejected on the grounds that the enterprise is not fulfilling its contract.

Numerous foreign companies are able to avoid making a firm export commitment, either by negotiating it out of the contract or by making it conditional on other factors, such as meeting targeted production costs or quality levels. But even companies that avoid committing to a definite export plan should not count on government assistance if they run into trouble. Instead, when structuring their project they should look into alternative methods for obtaining foreign exchange.

Swapping currency at a premium

Several alternatives are now available, at least in theory, as a result of China's recent investment legislation. FIEs rarely rely on any one of these alternatives to balance foreign exchange. Instead, they pursue a combination of methods and try to pick up a little hard currency from each source.

The Provisions for the Encouragement of Foreign Investment offered a new solution by giving FIEs permission to trade renminbi for foreign exchange among themselves. Enterprises can trade directly between themselves or at official "foreign exchange trading centers," the most developed of which are in Shanghai and Shenzhen. In either case, the rates for swaps are dictated by market forces.

Given the great demand for foreign exchange, nearly all transactions are made at a premium over the current official exchange rate of ¥3.72:$1. Rates generally range between ¥5–¥6 to the dollar, although lower rates are occasionally reported. According to a study being prepared by the US Foreign Commercial Service (FCS) in Beijing, the AMC Beijing Jeep joint venture bought $2.5 million from the Great Wall Hotel at a concessionary rate of ¥4.7:$1.

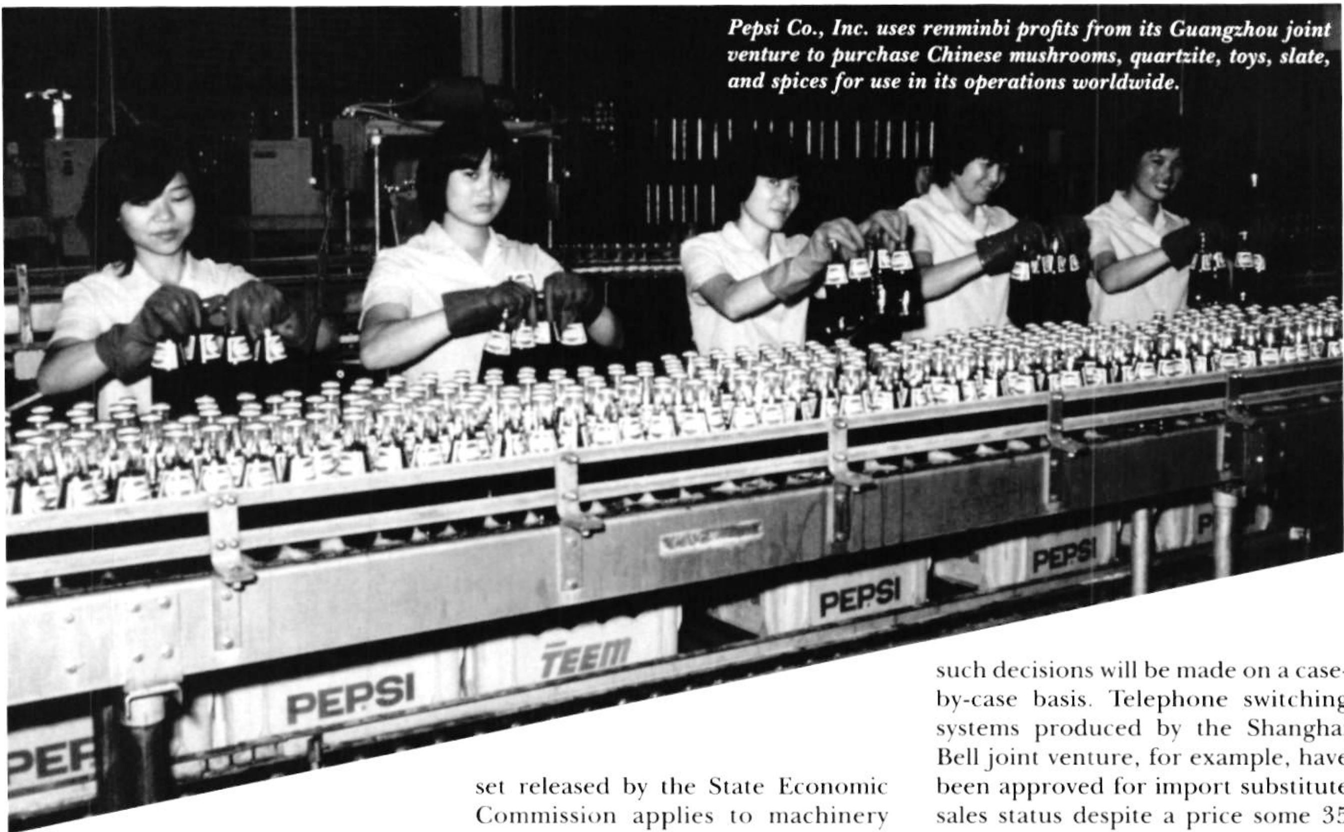
Companies are allowed to negotiate their own deals, but all transactions must be approved by the State Administration of Exchange Control (SAEC). The SAEC uses its position to keep a ceiling rate of roughly ¥6:$1 and has reportedly denied approval to proposed transactions above this rate.

Foreign exchange sellers, primarily hotels and other FIEs that cater to foreigners, use the RMB acquired to pay wages, utilities, and certain other operational expenses. The buyers, of course, need the money to balance their foreign exchange accounts. Currency swaps have become a fairly common way for FIEs to acquire at least some foreign exchange. According to the FCS study, Beijing and Shanghai have approved $71 million in swaps since November 1986, and as many as 130 of Shanghai's 220 operational FIEs have used the currency exchange center.

However, the 30–65 percent foreign exchange premium involved makes swapping at best a short-term, stop-gap solution. FIEs can meet their immediate needs, but at a cost

AT A COCKTAIL PARTY INSIDE THE HOTEL...

"Your joint venture has foreign exchange? Swap currency? 6 to 1?"



Pepsi Co., Inc. uses renminbi profits from its Guangzhou joint venture to purchase Chinese mushrooms, quartzite, toys, slate, and spices for use in its operations worldwide.

Photo courtesy of Pepsi-Cola International

of substantially reducing or eliminating profitability. Only in a few cases can a manufacturer absorb the premium, such as one US specialty chemicals joint venture that has a high renminbi profitability rate due to an 80 percent duty on imports competitive with their products.

Import substitution

Many investors anticipated that the development of China's import substitution policy would significantly alleviate the foreign exchange problem. The concept behind the new policy is that if an FIE makes a product that can replace something China imports, the FIE should be entitled to receive some foreign exchange for its domestic sales. Payment would be in a mixture of foreign exchange and renminbi, reflecting the enterprise's partial RMB production costs. China benefits by saving foreign exchange (which can be used to import other needed items) and increasing foreign investment in basic industries, while the foreign investor gains access to hard currency.

Briefly introduced in both the Joint Venture Implementing Law Regulations and the Foreign Exchange Balancing Regulations, China's import substitution policy was spelled out in two sets of regulations promulgated in October 1987. The set released by the State Economic Commission applies to machinery and electronic products, while the State Planning Commission issued rules governing all other products (*see* p. 22). These new regulations are likely to be implemented slowly. High-level governmental support for the policy is evident, but there seems to be little understanding of it at the working level. National Council member companies pursuing import substitution status for their projects report local officials often must be educated on the policy before they will endorse the strategy.

China also knows it must be careful to avoid the charge of excessively protecting domestic industries as it applies for membership in the General Agreement on Tariffs and Trade (GATT). The import substitution regulations, therefore, specify that joint venture products must be competitive with overseas products in terms of price, delivery, quality, specifications, and after-sales service in order to be approved as import substitutes.

These requirements, if strictly adhered to, will limit import substitution as a viable alternative for earning foreign exchange. Joint ventures are rarely competitive with imports in the early years of production due to high start-up costs and the need to source production inputs abroad. Chinese officials have indicated some price tolerance will be allowed, but such decisions will be made on a case-by-case basis. Telephone switching systems produced by the Shanghai Bell joint venture, for example, have been approved for import substitute sales status despite a price some 35 percent higher than the foreign competition.

Import substitution approval does not mean a joint venture can sell its products for RMB and convert the proceeds into foreign exchange. Instead, it only allows joint ventures to charge foreign exchange for domestic sales. Furthermore, approval does not guarantee sales. Although the import substitution regulations say the government will "provide guidance" or "direct" endusers to purchase joint venture products, government investment officials state that they cannot force purchasers to buy import substitutes. But again, in special cases when joint ventures need assistance, the government clearly has the capability to direct purchases. The AMC Jeep and Shanghai Bell projects are examples of joint ventures that have received such assistance.

For most joint ventures, the import substitution policy in its current form requires them to conduct a two-step sales process. They must first find potential customers with both foreign exchange and the authorization to import. Then buyers must be convinced of the merits of the joint venture's products—no easy task if the buyers suffer from the common perception that products made abroad are of better quality than those made in China. In addition,

buyers' desires for overseas purchasing trips and indifference to saving foreign exchange that has already been allocated to them work against sales of import substitutes. To make these sales, then, the joint venture will have to offer international-level quality along with payment terms (i.e., a RMB–foreign exchange mixture) that give the purchaser an incentive to buy from the joint venture.

Foreign companies whose joint ventures already have made import substitute sales include Foxboro, American Motors, Schindler Elevator, Hewlett-Packard, Wang, and Volkswagen. In addition, Guangdong has granted provincial import substitute status to at least 23 joint ventures, including Ball Corporation, an American firm making pull-top cans, and Sony (color televisions).

Given the restrictions, import substitution does not yet serve as a reliable alternative to exporting. The policy in its present form is primarily a short-term solution meant to encourage localization of joint venture production and the development of China's domestic industries.

Direct foreign exchange sales

Another alternative specified in the 1986 Balancing Regulations allows FIEs to make direct foreign exchange sales to endusers in China. Prominent examples of companies taking advantage of this option include the Vetco Gray (US) joint venture selling offshore oil drilling equipment to the China National Offshore Oil Corporation, RJ Reynolds' sales of its Xiamen-produced Camel cigarettes in China's Friendship Stores, and the American Standard (US) joint venture producing sanitary wares for hotels.

Any FIE in China can make these sales, not just joint ventures making certified import substitute products. However, the option is severely limited in practice by the small market for direct foreign exchange sales—a market that consists of foreign tourists, foreign businesses, hotels, and the few Chinese enterprises that have foreign exchange of their own to spend. As is the case with import substitute sales, the FIE may also have to compete with overseas manufacturers.

The ability to make domestic sales to end users with foreign exchange under the 1986 Balancing Regulations raises a question: what do the new Import Substitution Regulations (which also require joint ventures to seek out customers with foreign exchange) offer as further assistance to the foreign investor? The answer, no doubt, lies in the manner the government will use to "encourage" endusers to purchase import substitutes.

Balancing foreign exchange between multiple projects

In the 1986 Balancing Regulations, foreign companies are given the right to invest in two (or more) projects and use the foreign exchange surpluses of one venture to make up the shortfall of the other. An investor can do this either by establishing two new projects or by using the RMB profits generated by a new project to invest in an existing Chinese enterprise capable of exporting.

Foreign investors are taking a close look at this option because it allows them to resolve foreign exchange

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problems themselves rather than relying on special approvals or the assistance of the Chinese government. To date, few companies have put this into practice, but a fair number consider it a viable option and are now developing two projects simultaneously—one to sell domestically and another to export and generate a foreign exchange surplus.

This method also has its drawbacks. Some companies are not willing to make the greater commitment to China that two projects require. And many companies do not have the option of developing an export project within their product range and would be forced to invest in a project outside of their expertise. For such companies, investing in a hotel project was initially the obvious choice, but overbuilding now limits attractive hotel investments. Babcock & Wilcox (US), for example, considered investing in a Tianjin hotel to gain a source of foreign exchange but eventually chose not to because the the project was not considered a sound investment.

Buying Chinese goods for export

Both the Balancing Regulations and the 1987 Measures on the Purchase of Domestic Products for Export by Enterprises with Foreign Investment to Balance Foreign Exchange grant foreign investment enterprises the right to use RMB profits to purchase Chinese goods for export. This alternative to direct exporting appeals to a large number of foreign companies, many of whom already source or can source materials and goods from China.

But the problems of executing these quasi-counterpurchase deals are not small. Investors have a hard time securing exportable products under long-term deals that will assure a steady supply of foreign exchange. Chinese producers are understandably reluctant to sell anything for RMB if the product appears to have an export market. And even if investors find a willing supplier, the deal can be killed by an uncooperative bureaucracy. Such transactions are particularly difficult if the product is being sourced from a locality or ministry different from the one responsible for the FIE.

Despite the challenges, some foreign companies have successfully used RMB to purchase and export Chinese products. Pepsi Co., Inc. (US) has purchased some $20 million worth of mushrooms, toys, quartzite, slate, and spices for use in its operations around the world. The E.R. Squibb and Sons (US) pharmaceutical joint venture reportedly earned $410,000 in foreign exchange by exporting locally sourced tetracycline. And the BOC Group, Inc. (UK) signed a liquefied gas plant joint venture in September 1987 on the basis of being allowed to use RMB to buy carbide and other chemical products that BOC uses worldwide.

To increase the probability of success, companies should try to source the export product within the same counterpart organization and locality that they are already dealing with. Establishing a joint venture with a partner who has a suitable product is an even better tactic. A US chemical manufacturer, whose investment efforts have been thwarted for years by the complications of working out a countertrade deal, feels it has finally solved the problem by naming the factory making the export product as a third partner in the joint venture deal. If an investor does have to go across bureaucratic boundaries, offering a mixture of RMB and foreign exchange as payment for the export product can provide the inducement needed to close the deal.

US companies are now showing greater sophistication by structuring deals to compensate for foreign exchange balancing difficulties rather than hastily concluding deals and struggling with the problem later.

Development of a system of credits for hard currency purchases made by foreign companies could substantially increase investment in China. Different divisions of foreign companies often source products in China independent of the company's investment plans. Several US companies are delaying investment deals until they can get credit for these purchases applied to their joint venture. Such a development may be in the cards. Last November, the State Council Leading Group for Foreign Investment told the National Council that Party Secretary Zhao Ziyang has personally authorized an investigation into establishing a foreign exchange credit system.

No easy solutions

At this point the alternatives to exporting are either expensive (swapping), difficult to carry out (import substitution and using RMB to purchase export products), or have limited applicability (direct foreign exchange sales). However, two of the alternatives—import substitution and RMB purchases for export—if effectively implemented, have the potential to greatly alleviate the foreign exchange balancing problem facing a large number of FIEs.

Other developments are also promising. Both foreign and Chinese companies are trying to be flexible in dealing with foreign exchange problems. US companies are now showing greater sophistication by structuring deals to compensate for foreign exchange balancing difficulties rather than hastily concluding deals and struggling with the problem later. Chinese approval authorities now examine all documents, particularly the foreign exchange plans of new projects, very carefully.

Foreign companies are advised to include in their feasibility study detailed projections of foreign exchange needs, forecasts of export, domestic, and import substitution sales, and the methods the enterprise will employ to balance foreign exchange. This allows an investor to get an indication of government approval for these plans prior to signing the contract.

In the forseeable future, exporting continues to be the best way for FIEs to assure themselves a constant supply of foreign exchange while China's currency remains inconvertible. However, the growing number of alternatives for obtaining foreign exchange provide investors with other avenues to pursue in developing projects. If the government succeeds in its intention to improve implementation, these new options will become increasingly attractive. 完

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Foreign companies take the plunge into manufacturing joint ventures in order to stake out a share of China's computer market

Computer Investments

Kelly Ho Shea

The story of China's computer market is a textbook case of China's efforts to use foreign investment to achieve national priorities. The story begins in the early 1980s—and it's not over yet.

The buying spree

Policies of the early 1980s that emphasized development of China's computer industry through foreign cooperation did not improve domestic production fast enough to keep pace with growing demand. After computer purchasing power was decentralized in 1982, many Chinese bureaucracies and enterprises with dreams of industrial automation rushed to import computers and place themselves on the cutting edge of modernization. During the buying spree, which peaked in 1984 and 1985, China imported over 100,000 microcomputers and over 1,000 larger systems, including mainframes and 32-bit super-micros. Spending on imports of office machines and automatic data processing equipment jumped to $536.4 million in 1984 and $815 million in 1985, up from just $144 million in 1983.

But the surge in China's computer imports did not directly translate into wide-scale computerization. A shortage of application software and trained personnel left many of the imported computers idle. By the end of 1986, fewer than half of the country's 130,000 installed microcomputers were reportedly in use and another 20,000 had not even been moved out of the warehouse.

The central government clamped down on imports by instituting an elaborate computer import licensing system in mid-1985, doubling customs tariffs on microcomputers, and restricting the foreign exchange allo-

cated to local purchasers. On top of this, an additional 40 percent "adjustment tax" was placed on 8- and 16-bit computers.

At the same time, the Chinese government reassessed its computer policy and decided that the need for imports could be lessened by more vigorous efforts to strengthen China's indigenous computer industry. Foreign firms could continue to sell equipment to meet China's immediate needs, but their more fundamental role would be to provide the extensive training and technology transfer needed to build up domestic production. (For more information on the domestic computer industry, *see The CBR*, Nov–Dec 1986, p. 44).

The sales slump

This policy decision had a direct and continuing impact on foreign computer companies. As China's imports fell to $525 million in 1986, most companies saw sales drop sharply. However, many companies continue to make some direct sales, relying on their local offices or specialized distributorship relationships to penetrate China's market.

Data General (US), which dropped its joint venture proposal because market fluctuations made the investment too risky, prefers to focus on the export market for its 16-bit desktop and 32-bit mid-range computer. Companies such as Apollo, a leading US supplier of workstations, may continue to see strong markets in targeted user groups.

Developments in the domestic industry may eventually make such companies change their tune. But for now, it is mainly the microcomputer manufacturers who are feeling the pinch. Microcomputer sales are tightly controlled by the powerful Ministry of Electronics Industry (MEI), which has used the import licensing system and steep tariffs to strongly discourage imports of any computers that can be made domestically—primarily 8- and 16-bit machines—and kits for assembly that do not include technology transfer.

Investment option looms larger

In the face of China's computer policy, foreign microcomputer companies are beginning to realize that investing in a project may be the best way to secure their place in China's future domestic-dominated computer market. Many foreign computer companies have long considered the investment route. Several began negotiating licensing agreements in the early 1980s in the hopes that their project would expand into a joint venture when investment conditions improved. Now China's im-

Kelly Ho Shea is program manager for the high-tech sector at the National Council for US-China Trade. She serves as advisor to the Council's Telecom and Electronics Committee and the Export Controls Working Group.

port substitution strategy is pushing MEI's plans forward, and interest in computer investment projects is beginning to pick up (see list).

Two major US computer companies are pioneering investments in China. In 1985 the Hewlett-Packard Co. teamed up with the China National Machinery and Equipment Import–Export Corp. and Beijing Computer Industrial Corp. to make supermini computers. And Wang Laboratories Inc. and the Shanghai Computer Industry Co. formed the Shanghai Wang Computer Development Corp., which has been assembling minicomputers and workstations since late 1986. In the area of industrial automation equipment, companies such as Foxboro Co. (US) and Allen-Bradley Corp. (US) are also involved in joint ventures.

These and other joint ventures have found that phased technology transfer is the most practical strategy for introducing Chinese workers to the high-tech computer manufacturing process. In this gradual training process, employees first learn how to assemble and test complete units. Next they assemble semi-knockdown kits and finally move to assembling complete-knockdown kits. Thus most foreign computer companies with a manufacturing joint venture in China are actually assembling semi-knockdown and complete knockdown kits of their own machines.

Virtually all mainframe computers are still imported, but even this market may be shifting. China is seeking a foreign partner for a joint venture to manufacture 150 mainframes per year. This joint venture is expected to become the primary source of mainframes for the domestic market, satisfying about 70 percent of domestic demand according to one industry source. China began negotiating with foreign firms in the spring of 1985, and the competition has now narrowed to IBM, Hitachi, and Unisys.

Making the switch from sales to investment is not easy. Computer manufacturing joint ventures are plagued by the same problems as investment projects in other sectors, such as profit repatriation and lack of control over hiring practices. But beyond this, computer ventures face other serious obstacles that affect high-tech industries more than others.

Sourcing problems

The most critical problem is adequate infrastructural support. China's microelectronics and electro-mechanical industries are not yet sophisticated enough to provide most of the components needed for manufacturing even low-end computers, so joint ventures are forced to import virtually all of their components. Both the Wang and Hewlett-Packard joint ventures rely completely on imports because they cannot source local inputs in the quantity, quality, or time frame required or at a price that is competitive.

The component sourcing problem even hits China's own computer manufacturers. The Beijing No. 3 Computer Factory, which produces the Great Wall 0520CH microcomputer series, has a production capacity of 10,000 microcomputers a year, but only makes about 5,000 machines, largely because 40 percent of the parts must be imported and their foreign exchange supply is limited.

If computer joint ventures use any local content it is likely to be electromechanical components, such as motors, transformers, machine parts, tooling, and low-end printed circuit boards. Currently high-quality sources for other inputs are limited in number, but MEI intends to increase domestic production of plastic die-casting parts, resistors, capacitors, coils, cables, cards, and keyboards. China Hewlett-Packard (CHP) is formulating plans to source some electro-mechanical components domestically, and is also developing new products more suited to the local environment.

Sourcing semiconductors is—and will continue to be—a major problem. Annual demand for integrated circuits in China exceeds 200 million units, but domestic production only reached about 80 million in 1987—the large majority for consumer electronics. MEI has targeted large-scale integrated circuits and electronic components as key areas for development during the Seventh Five-Year Plan period, but the shortage of microprocessors and memory chips will require computer manufacturing joint ventures to import these components well into the next decade.

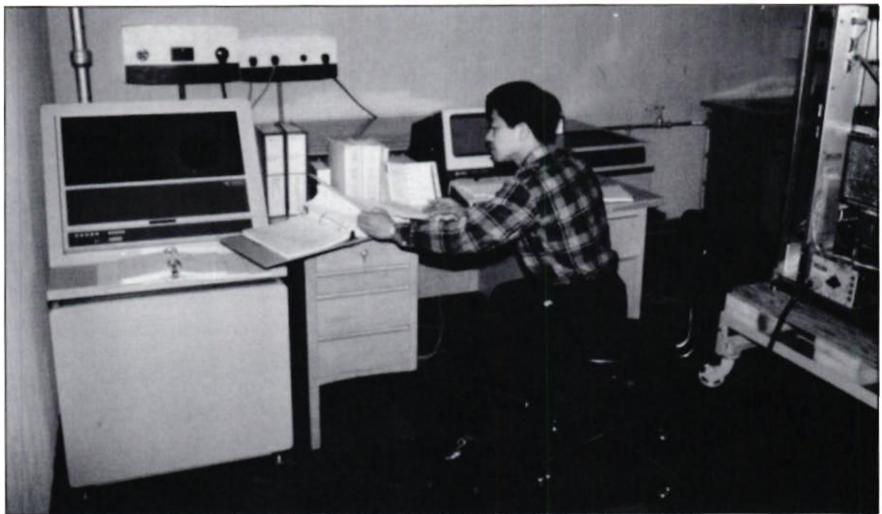


Photo courtesy of Hewlett-Packard

HP3000-68 Business Computer System undergoing final test following assembly at China Hewlett-Packard in Beijing.

Foreign exchange problems

Purchasing a high percentage of components from abroad drives up foreign exchange costs for computer joint ventures. The large foreign exchange outlays raise production costs, making both domestic and export sales more difficult.

While joint ventures have the right to make domestic sales for foreign exchange, finding willing Chinese buyers isn't easy. Many Chinese purchasers are reluctant to spend their foreign exchange reserves on products made in China. Faced with this dilemma, China Hewlett-Packard sells most of its computer and instrument products for renminbi (RMB). Only a small percentage of products are sold for foreign exchange or a combination of RMB and hard currency. This pattern is common throughout the computer industry.

Chinese government remedies for the foreign exchange problem may provide some relief. Both CHP and Shanghai Wang are hopeful that

their certification as technologically advanced enterprises producing import substitute products will help them reduce costs while facilitating foreign exchange sales.

But both companies are looking for other alternatives. Wang Laboratories Inc. has announced plans to shift all sales activities from its local offices to the joint venture in an effort to minimize expenses and maximize resources. And CHP keeps its foreign exchange balanced by acting as the exclusive marketing agent for its American partner. Hewlett-Packard pays the joint venture a commission for computers and other products sold domestically, providing enough foreign exchange to cover the bulk of the joint venture's needs. This is an important part of the Hewlett-Packard plan, since locally made products only account for about 10 to 20 percent of its sales.

Who will run the systems?

The lack of a well trained staff to make and service all these computers is another serious problem for joint ventures. Domestic demand for com-

CHINA'S MAJOR COMPUTER MANUFACTURING JOINT VENTURES

Partners	Value	Products	Comments
Allen-Bradley Corp. (US)/Construction and Development Corp. of Xiamen SEZ, China National Machinery and Equipment Import and Export Corp., Automation Research Institute of Ministry of Metallurgical Industry, and China National Machine-Building Industry Supply and Sales Corp.	N/A (50-50)	Automation control products (Allen-Bradley's SLC 100, PLC-2, PLC-17, and PLC-5 programmable controllers)	The Allen-Bradley Enterprise Xiamen Ltd. joint venture will produce, sell, and service products. Expected on-stream by spring 1988. Technical centers to be set up in Xiamen, Beijing, Shanghai, and Shenyang. Products have received import substitution status.
Foxboro Co. (US)/Shanghai Meters and Instruments Industrial Co.	$15 million (49-51)	Process control instruments (SPEC series 200 small electric analog control instrument and series 820 vibrating string transmitter and numerical control system)	20-year agreement signed 4/82 to set up Shanghai-Foxboro Co. Products are assembled from imported parts and components and are listed as import substitutes.
Hewlett-Packard Co. Ltd. (US)/CEIEC and Beijing Computer Industrial Corp.	$5 million (50-50)	HP 3000 supermini computers and instrument products	10-year JV to form China Hewlett-Packard, began production 6/85. Activities encompass R&D, marketing, and manufacturing. Products assembled from semi-knockdown kits, and are listed as import substitutes.
IBM Corp./Ministry of Electronics Industry (MEI)	N/A	IBM 5550 personal computer	Negotiations underway for joint venture production facility.
Wang Laboratories Inc. (US)/Shanghai Computer Industry Co.	$6 million (60-40)	Wang VS minicomputers and Chinese computer system workstations	Shanghai Wang Computer Development Corp. began production 10/86 using imported kits. VS series computers are listed as import substitutes. Additional investment of $900,000 planned.
Japan International Software Corp. (Japan)/China Computer Systems Engineering Co. (under MEI)	N/A	Computer software and hardware	Formed Shenyan System Engineering Co. located in Beijing. Agreement announced 6/87.
Proficient Enterprise Co. (HK)/Huagan Development Co. and Fuzhou No. 5 Radio Factory (under MEI)	$580,000	Computers, electrical, and electronic products	10-year JV, Zhonghua Electronic Co., approved in 1984.
Rair Ltd., et. al (UK)/NA	$50 million	Microcomputer systems; LSI microcircuit design; assembly and testing of IC devices	15-year JV, Lingnan Microelectronics Co., formed in 1985. UK side to provide technology and manufacturing expertise; China to provide facilities, workforce, and much of project's funding.
Semi-Tech Microelectronics Corp. (Canada)/Shenzhen Electronics Group	$270 million	Microcomputers	Agreement signed 10/87. Project to incorporate R&D and manufacturing of advanced microcomputer.
Yun Hoi Trading Co. (HK)/Linfen (Shanxi) Electronics Equipment Factory and Trust Department of Bank of China, Taiyuan Branch	N/A	Microcomputers, dual tone electronic horns for bicycles, and TV antenna signal equipment	10-year contract signed 4/84 to form Linhoi Electronics Industry Co. Ltd. Began production 4/85.
Zhaohua Electronics Co. Ltd. (HK) and Weilian Electronics Engineering Co. (HK)/Fushun Hualian Computer Corp. Ltd.; Shenyang Engineering Institute; Dalian Branch of China National Technology Import and Export Corp.	$323,000	Datalog microcomputers	Dongfang Computer Technology Development Co. Ltd. formed 4/85, began production mid-1986. Capacity 600 units/year.

SOURCE: National Council files and company interviews.
Compiled by Perri Strawn.

puter specialists is very high, but fewer than 10,000 computer specialists graduate from Chinese colleges each year. The Chinese government estimates that the information technology sector will face a severe shortage of trained personnel in the future—amounting to some 20,000 to 30,000 people in 1990 and as many as 500,000 by the year 2000.

The burden thus falls on the foreign partner in a computer joint venture to train employees to provide service and maintenance for the systems produced by the venture. Developing employees' technical capability to make and service products, combined with educating management to assure quality control, require major outlays by the foreign partner, which often sends local Chinese staff abroad for training.

Training the local staff in production and marketing was a critical component of Hewlett-Packard's investment strategy. In 1981, four years before the joint venture got underway, Hewlett-Packard established a wholly Chinese-owned marketing operation to sell and distribute its products in Beijing called HP Representative Office. The company's strategy was to create a team of people familiar with both the local market and Hewlett-Packard products.

When the joint venture was established in 1985, Hewlett-Packard and its Chinese partners transferred the 100-member trained staff of the Chinese-owned company to China Hewlett-Packard. Now about 80–90 percent of the 300-strong Chinese staff has been trained by Hewlett-Packard in administration, manufacturing, engineering, sales, marketing, and service. This training helps CHP staff understand the computer production process while saving future expatriate salary costs.

Training an extensive staff has another long-term payoff. Companies with a large sales/service force to help Chinese buyers use their machines will spread awareness of the company's product throughout the country. As one US company representative noted, developing a "computer culture" within China for its product is the most critical component of a market strategy.

Moving beyond hardware

China's increasing realization of the importance of computer software and know-how in operating a system has opened up new areas of opportunity for foreign companies.

In 1987, Electronic Data Systems (EDS) signed a joint venture agreement with the Beijing Information Processing Corporation. Supplying hardware, software, and technology, EDS will assist in the development of computer applications.

Another US company, ComputerLand, recently concluded a software development and marketing agreement with the Chinese Academy of Sciences that will eventually evolve into a joint venture. In preparation, the company is providing extensive training for Chinese personnel to familiarize them with the company's resources and provide direct marketing experience. The Chinese partner helps out by marketing products, participating in exhibitions, and giving technical seminars.

And MEI is now encouraging joint research and development projects with foreign firms aimed at developing products for world markets. Along these lines, the Shenzhen Electronics Group and Semi-Tech of Canada recently signed an agreement to form a joint venture to develop an advanced microcomputer. After developing the computer, which is expected to take one-and-a-half to two years, the agreement calls for the machine to be assembled in Shenzhen. While much of the output will be used within China, Semi-Tech is hopeful that it can market computers outside China and will be responsible for distribution.

The export controls factor

As if there were not enough problems on the Chinese side, US computer companies find they face an additional challenge at home before their joint venture in China can get off the ground—US government export approval. Joint ventures must obtain licenses as part of the technology transfer process. Any kits shipped for assembly must be licensed, and these are subject to periodic renewal. Restrictions on the transfer of electronic design or printed circuit board design make licenses for these items the most difficult to obtain. In addition, those joint ventures that sell computers on behalf of the parent company also face the same delays as any other exporter as they wait for US export license approval for each shipment.

HP has had few problems because the company follows the export licensing guidelines closely, keeping exports within the green zone with its routine approval process. But the export licensing process can seriously affect joint venture operations. Shanghai Wang, which currently produces the 16-bit Wang personal computer known as the Image Processing Computer, has been waiting for over a year for an export license to upgrade production to the more advanced Wang VS-6 superminicomputer. This delay has caused the joint venture's production to lag behind targeted output. Other joint ventures are likely to face similar problems as they try to transfer to more of a manufacturing process by upgrading from semi-knockdown kits to complete knockdown kits. Trying to satisfy Chinese demands for more advanced technology may prove problematic for this reason.

The situation has been even worse for the past six months. Last fall, the gradual trend toward relaxing restrictions on high-tech exports to China was abruptly halted when US government intelligence reports determined that China was exporting Silkworm missiles to Iran. The incident postponed a review that many had hoped would further liberalize export controls for China and caused US review of export licenses to slow down for lack of clear guidelines.

Filling the gap

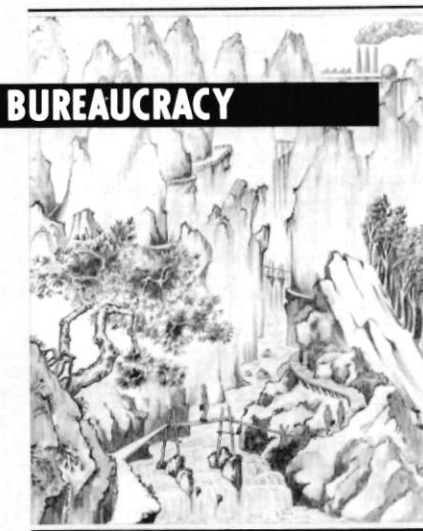
China's modernization drive has created enormous demand for computers. The government estimates that several hundreds of thousands of machines, particularly microcomputers, will be needed in the next few years. With domestic output in 1987 reaching approximately 50,000 microcomputers and 400 mainframes and minicomputers, a large gap remains to be filled.

Foreign computer companies should expect to increasingly hear MEI and others organizations raise the issue of investment in China's computer industry rather than sales. Infrastructural weaknesses such as shortages of components and skilled labor will continue to hinder joint ventures' ability to operate for some time to come. But for companies that want to guarantee access to the computer market as China upgrades its domestic computer industry, now is the time to decide what long-term strategy to pursue. 完

ORGANIZATIONS INVOLVED IN INVESTMENT

Foreign investors face a confusing array of administrative organizations in China, all of which have at least partial responsibility for the development and operation of foreign investment enterprises. This chart outlines China's most important central government investment-related organizations and their specific foreign investment responsibilities. Foreign investors should familiarize themselves with these organizations to minimize bureaucratic delays and know who to lobby on various issues.

In general the large central-level organizations have local equivalents with similar functions. Whether responsibility resides at the national or local level—and thus whether the investor should approach central or local officials—generally depends on the location and value of a project. For instance, authorities from Shanghai can approve projects of up to ¥200 million, and those from Beijing and Tianjin can decide on projects of up to $30 million in value. Investment officials from Guangdong, Fujian, Liaoning, Dalian, Guangzhou, and Shenyang can rule on projects valued at up to $10 million. Other provinces, autonomous regions, and coastal cities can usually make decisions on projects up to $5 million in value. The special economic zones are a separate case, with zone officials approving those heavy industrial projects under ¥50 million and light industrial projects under ¥30 million. For the most part, the same division between national and local responsibility continues once a project has been approved.



While local-level organizations report to the equivalent central government authorities, very often they are subordinate to the provincial or municipal government they are attached to. Investors should bear in mind that local officials can have a great deal of autonomy. Municipal or provinicial governments may play an active role in attracting and supporting foreign investment projects.

The structure of these organizations may change slightly following the National People's Congress (NPC) meeting scheduled to convene in late March. The NPC is expected to approve a merger of the State Planning Commission and State Economic Commission as part of a large governmental administrative restructuring. The new organization, to be called the Social Economic Planning Commission, will most likely take over and continue the investment functions of both organizations.

■ STATE COUNCIL

Primary function: Executive branch of government

Investment responsibility:

- approval authority for projects above $50 million

■ STATE COUNCIL LEADING GROUP ON FOREIGN INVESTMENT

Investment responsibility:

- supra-ministerial organization coordinating China's foreign investment work
- recommends policy to the State Council
- drafts foreign investment legislation
- generally does not deal with investors directly, but can act as a problem solver of last resort

■ STATE PLANNING COMMISSION (SPC)

Primary function: Coordinating body for economic affairs; responsible for formulating annual, medium, and long-range plans; primary project approval body

Investment responsibility:

- formulates investment policies and regulations
- grants initial project approvals
- approves feasibility studies
- approves import substitution applications

■ STATE ECONOMIC COMMISSION (SEC)

Primary function: Guides national economic development; implements the annual economic plan

Investment responsibility:

- responsible for FIEs after they receive their business license
- formulates investment policies and regulations
- oversees the implementation of FIE contracts
- resolves FIE operational problems

Investment-related subsidiary organizations:

—Foreign Investment Enterprises Administration: arm of SEC handling foreign investment work

■ MINISTRY OF FOREIGN ECONOMIC RELATIONS AND TRADE (MOFERT)

Primary function: Formulates and implements foreign trade policy; enforces State foreign trade plans

Investment responsibility:

- responsible for FIEs before they receive their business license
- approves FIE contracts
- issues import and export licenses
- approves FIE use of renminbi to purchase products for export
- approves export-oriented and technologically advanced enterprise certifications
- approves technology import contracts

Investment-related subsidiary organizations:

—Foreign Investment Administration
—Technology Import-Export Department
—Bureau of Treaties and Laws

SOURCE: Discussions with investment officials and National Council files.
Compiled by John Frisbie.

■ INDUSTRIAL MINISTRIES

Primary function: Supervises factories; allocates funds, foreign exchange, and materials; formulates industrial plans

Investment responsibility:

- can approve small project proposals
- likely to be consulted in decisions on project proposals, advanced technology certification, and import substitution
- local-level industrial bureaus are likely to be the organization that supervises the FIE most directly, i.e., its "department in charge"

■ STATE ADMINISTRATION OF EXCHANGE CONTROL (SAEC)

Primary function: Manages China's foreign exchange business; regulates foreign exchange loan guarantee system

Investment responsibility:

- approves profit repatriation
- approves foreign exchange/renminbi swaps
- approves FIE domestic sales for foreign exchange
- requires FIEs to report any foreign loans

■ GENERAL ADMINISTRATION OF CUSTOMS

Primary function: Supervises and controls postal items and luggage, transported goods, tariffs, and customs statistics

Investment responsibility:

- inspects and assesses duties on imports and exports of FIEs
- approves duty exemptions for FIEs

■ MINISTRY OF FINANCE

Primary function: Controls national revenue and expenditures; enforces State budget

Investment responsibility:

- handles all FIE tax matters
- sets FIE accounting rules and procedures

■ STATE ADMINISTRATION OF INDUSTRY AND COMMERCE (SAIC)

Primary function: Implements national economic policy, laws, and statutes involving industrial and commercial enterprises and market transactions

Investment responsibility:

- sets requirements for FIE debt/equity ratios
- sets rules for FIE capital contributions
- can resolve trademark disputes
- issues FIE business licenses at local level

■ CHINA COUNCIL FOR THE PROMOTION OF INTERNATIONAL TRADE (CCPIT)

Primary function: Promotes China's economic and trade relations

Investment responsibility:

- grants patents and trademarks
- can arbitrate FIE disputes

Investment-related subsidiary organizations:

—China Foreign Trade Arbitration Commission
—China Patent Office
—China Trademark Office

■ MINISTRY OF LABOR AND PERSONNEL

Primary function: Supervises job allocation system and vocational training; administers welfare and insurance programs; sets guidelines and standards for wages and salaries; implements health and safety standards

Investment responsibility:

- sets overall labor and wage policies for FIEs
- local-level bureaus can approve FIE labor contracts, supply labor to FIEs, assist in employee transfer to FIEs, arbitrate transfer disputes, require FIEs to report employee dismissals, and determine amount FIEs pay for labor insurance, welfare, housing, and other subsidies

■ BANK OF CHINA

Primary function: Handles foreign exchange transactions; issues foreign currency; issues bonds in international capital markets; takes foreign exchange deposits and makes foreign exchange loans

Investment responsibility:

- main (but not exclusive) bank where FIEs hold RMB and foreign exchange bank accounts
- source of foreign exchange and RMB loans for FIEs
- can arrange FIE currency swaps on a commission basis
- provides guarantees for foreign loans to FIEs

■ CHINA INTERNATIONAL TRUST AND INVESTMENT CORPORATION (CITIC)

Primary function: Facilitates foreign investment and introduces advanced technology to China through joint ventures, wholly foreign-owned enterprises, and compensation trade

Investment responsibility:

- can find joint venture partners
- provides guarantees on foreign loans to FIEs
- possible partner in investment projects

Investment-related subsidiary organization:

—China International Economic Consultants: provides economic and legal consulting on investments

■ PEOPLE'S COURTS

Primary function: Supervises the administration of justice in a four-level court system ranging from the Supreme People's Court to the Local People's Courts

Investment responsibility:

- can resolve patent and trademark disputes

■ STATE COUNCIL SPECIAL ECONOMIC ZONES OFFICE

Investment responsibility:

- coordinates SEZ policy implementation
- supervises SEZ management committees
- reports to the State Council Leading Group on Foreign Investment

QUICK REFERENCE GUIDE

Accounting: Ministry of Finance
Arbitration: CCPIT
Business Licenses: local-level administration of industry and commerce
Contract approval: MOFERT or local foreign economic relations and trade organizations (FERTs)
Domestic sales of products for renminbi: SAEC
Duties on imports or exports: Customs Administration
Export-oriented and technologically advanced certification: same as contract approval above
Feasibility study: SPC
Foreign exchange-renminbi swaps: SAEC, Bank of China
Import and export licenses: MOFERT
JV project approval: SPC, local government, or ministries, depending on project size
Import substitution approval: SPC or SEC, depending on product
Labor issues: Ministry of Labor and Personnel
Land: local land bureau
Loans: Bank of China
Loan guarantees: Bank of China, CITIC, local investment and trust organizations, and other approval organizations
Operational problem resolution: SEC
Patents and trademarks: CCPIT, People's Courts
Profit repatriation: SAEC
Purchasing export goods with RMB: MOFERT
Taxation: Ministry of Finance
Technology import contracts: MOFERT

Most foreign investors want their projects certified as "export-oriented" or "technologically advanced," but the guidelines are not always clear-cut

Seeking Special Status

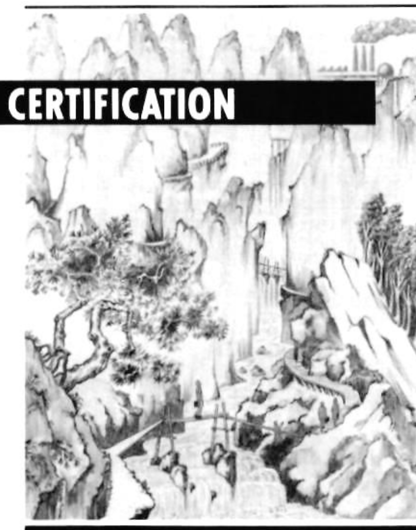
Pitman B. Potter

To attract foreign investment projects that conform to national priorities, China has long offered incentives to certain foreign investors based on the location and characteristics of their project. Lured by the possibility of extended tax reductions, loan priority, and exemptions from taxes on profits remitted abroad, many foreign investors have tried to tailor their projects to take full advantage of the incentives China offers.

Two major new classes of foreign investment projects are now eligible for incentives following China's promulgation of the Provisions for the Encouragement of Foreign Investment in October 1986, and the Implementing Rules for Examination and Confirmation of Export-Oriented and Technologically Advanced Enterprises (the Implementing Rules) in January 1987.

Under the new rules, joint ventures and wholly foreign-owned enterprises in China may submit information on their projects to Chinese officials, who decide whether or not the projects qualify as either "export-oriented" or "technologically advanced." Approved projects are certified and become eligible for numerous benefits (*see* p. 20 for details on the new incentives).

By the beginning of this year, China had certified 226 foreign investment enterprises as technologically advanced and another 608 as export-oriented. These figures represent only a small proportion of China's foreign investment enterprises, indicating that not all projects will be able to meet the guidelines. Many investors are applying, but approval is far from guaranteed.



Applying the new policy

Chinese officials award export-oriented status to foreign investment projects based on a fairly straightforward statistical measure of exports as a proportion of total product value. Determination of whether a venture is technologically advanced tends to be more subjective, however—based on the quality of the product, the economic effect of the technology, and the ability of the enterprise to produce goods compatible with China's modernization goals.

Foreign investment projects seeking either type of special status must submit a standard application form and supporting documents to local Chinese authorities (*see* box). Since local officials—usually in the foreign economic relations and trade departments—issue the certifications, decisions may be subject to the priorities and whims of each locale. Beijing and Shanghai, for example, were each quick to certify a number of enterprises in early 1987, while other cities have dragged their feet. Particularly in areas off the beaten path, investors may face long delays in obtaining certification, as local officials struggle to assimilate and apply these relatively new central-level regulations.

What does "export-oriented" mean?

Many of the foreign investment enterprises currently certified as export-oriented are small projects, often involving overseas Chinese investors, that produce relatively simple light industrial goods or textiles for export. The Huaxing Shirt Company in Beijing, Shanghai Great Wall Zipper Co., and Shanghai Universal Toys Co. are typical examples.

To qualify as an export-oriented enterprise, a foreign investment enterprise must meet two primary requirements. It must export more than 50 percent of its annual production value, and it must be able to show that it has either a balance or surplus in its foreign exchange operating account each year. Enterprises are given one useful break: they may carry over any foreign exchange surplus from the previous year in computing their foreign exchange balance.

Predicting whether an enterprise will be certified as export-oriented has proven relatively easy, since it basically boils down to whether or not the project meets the objective statistical criteria. Provisional certification as an export-oriented enterprise may be granted before production begins, based on projected export figures in the contract and feasibility study. Final confirmation depends, however, on the enterprise's actual level of production and exports.

At the end of the year, each export-oriented venture must submit figures comparing its proposed export plan to its actual exports to the local approval authority. Export-oriented enterprises also must submit yearly reports on their foreign exchange situation to demonstrate that they are maintaining the required balance.

Export value and total production value are calculated on the basis of "factory sales price." In theory, by adjusting domestic and international

Pitman B. Potter is a lawyer and holds a Ph.D in political science, specializing in Chinese law and politics. He currently serves as the Beijing resident for Graham and James International Consultants.

pricing, an enterprise may be able to arrange for the value of its exports to exceed the value of domestic sales—even if the volume of domestic sales is greater. Thus the final reported export and production values will probably become the subject of negotiation during the certification approval and review process, as Chinese authorities try to validate the figures. The approval unit may require the foreign investment enterprise to hand over receipts and other evidence to verify the accounting record.

What is "technologically advanced?"

Chinese authorities also grant incentives to foreign investment enterprises that help China develop products it wants to produce at home. To be certified as a "technologically advanced" enterprise, investment projects must meet several criteria.

According to the Implementing Rules, a technologically advanced enterprise must be in a sector that China has targeted for foreign investment and must possess technology, production processes, and equipment that are "appropriate and advanced" in nature. The technology must be new to China or in short supply. Finally, the venture must help China produce new products, upgrade domestic products, increase exports, or produce an import substitute. Although these concepts appear easy to understand, foreign companies are anxious to see how these terms will be applied in practice. The following summarizes what is known about China's existing criteria for determining what is "advanced technology":

Target sectors: China has no public list of technologies it wants to acquire. Internal classified guidelines certainly exist and are probably tied to State Plan requirements. But this is of little help to foreign investors, and Chinese officials are now debating the utility of making such a list public. It would, however, require constant revision to keep pace with advances in domestic technology.

For now, the only explicit guides for investors are the general technology acquisition preferences made public in an ad hoc manner by national and local officials. The Provisional Regulations of the Guangzhou Economic and Technological Development Zone for the Acquisition of Technology, for example, state in general terms that the zone encourages the acquisition of advanced technology relating to electronics (including consumer electronics), biological engineering, and production of new material and energy resources.

Advanced and appropriate technology: This requirement reflects China's often contradictory objectives of acquiring the most up-to-date

Artwork by Jerry Beals

CERTIFYING NEW PROJECTS

1. Pick up an application form for technologically advanced or export-oriented enterprises from the local foreign economic relations and trade (FERT) office.

2. Fill out the form, supplying information on:
—the identity of the investors
—total investment
—registered capital contribution of each party
—duration of the agreement
—scope of business
—scale of production
—volume and value of exports as projected in the contract
—primary production processes
—nature of the equipment and technology introduced
—documents submitted to the original approval organization

3. Submit this application, along with the enterprise's general application for operating approval, to the relevant FERT office at the provincial or municipal level.

4. The office has 30 days to examine and rule on the application. In the special economic zones, the management committees of the local government play this role.

5. The relevant local office will conduct a preliminary investigation. In the case of an export-oriented venture, the investigation is handled by the local FERT department. Technologically advanced status is investigated by the FERT and other relevant departments, including local-level offices of the State Science and Technology Commission, Ministry of Finance, local planning commission, and local economic commission. Investigation may involve examination of documents and visits to the project.

6. Based on this investigation, the confirming unit prepares a formal opinion on the merits of the application and notifies the applicant.

7. The certified foreign investment enterprise receives a certificate verifying its status.

8. The opinion statement is attached to the original application and filed at MOFERT headquarters in Beijing.

9. The local FERT department reevaluates the application to make sure standards are being met once the enterprise begins production.

CERTIFYING OPERATING ENTERPRISES

1. Fill out the application form (*see* no. 1 above).

2. Submit application, along with a copy of the contract, contract approval document, feasibility study, and feasibility approval document, to the organization that originally approved the enterprise's establishment. (Be sure this organization still retains its authority. If not, report to its replacement organization.)

3. This organization will investigate and rule within 30 days.

Photo courtesy of The Foxboro Company

Shanghai Foxboro Ltd. was among the first joint ventures to be certified as a technologically advanced enterprise in October 1986. The venture's process control instruments are also on an official list of import substitutes.

technology, while trying to ensure that such technology is suitable to China's needs. To assess whether a specific technology fulfills these requirements, MOFERT, in conjunction with relevant technical and financial organs, determines if it will increase economic efficiency, productivity, and profitability—and is suitable to existing conditions. Theoretically, even if a foreign investment enterprise uses "high-tech" equipment, it may not qualify as technologically advanced if its technology does not measurably improve efficiency or profitability.

Short supply in China: The relatively simple requirement that the technology be unavailable or in short supply in China may prove more tricky in the future, as China's technology import program expands. The fact that a foreign investor is already using a certain technology in a joint venture may itself become grounds for ruling that the technology is no longer in short supply. This may also eventually complicate certification for similar projects undertaken by other foreign investors.

New products: Similarly, the requirement that the technology produce "newly developed" products or help to upgrade products places time limits on certification. As China's technology base steadily grows, a technologically advanced venture may be denied renewal of its status down the road because its technology has become dated. In fact, some Chinese investment authorities have already suggested that technology will have to be upgraded periodically for a project to retain its status.

Increasing exports: If continual technological upgrading is impossible, long-term retention of special status may come to depend on the venture's ability to increase exports. The percentage of production that must be exported has not yet been clarified, but it appears possible that an enterprise whose exports fall short of the 50 percent threshold may be able to obtain the same or similar benefits as an export-oriented enterprise if the technology in use helps to increase exports.

Substituting for imports: China's import substitution regulations (*see* p. 21) help define this criterion. However, while an enterprise may obtain technologically advanced status on the basis that its products can substitute for imports, those enterprises with import-substitute status will still have to qualify separately as technologically advanced enterprises. Disputes may arise since import substitution status is conferred by the State Planning Commission, while the local division of MOFERT certifies technologically advanced enterprises. Nonetheless, MOFERT may eventually accept the State Planning Commission's determination as alternative evidence of a product's ability to substitute for imports.

Technologically advanced enterprises: the chosen few

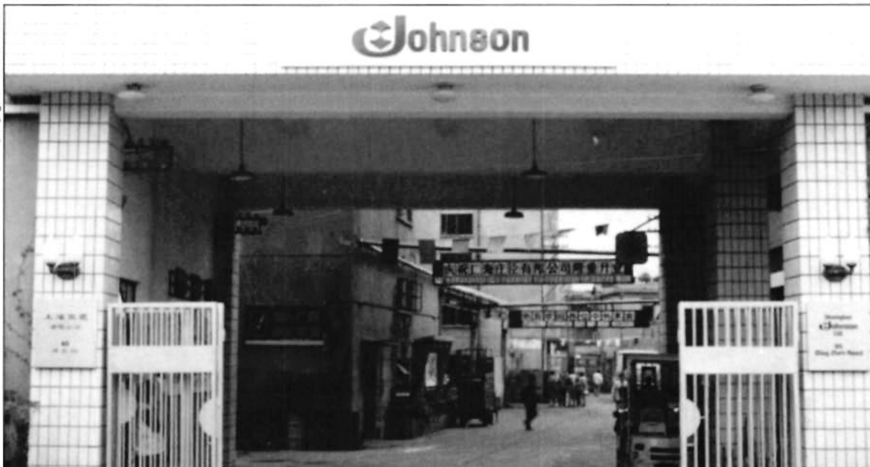
So far only 226 enterprises have been certified as "technologically advanced" in China, a small fraction of the foreign investment enterprises eligible for such treatment. A close look at some of these certified enterprises sheds light on the types of technology China seems to prefer.

A sampling of 76 enterprises certified as technologically advanced by the end of 1987 reveals a dominance of enterprises involved in electronics and heavy manufacturing. This does not necessarily prove that local authorities favor these types of projects—it may simply reflect the fact that these sectors have attracted a relatively large number of investment projects using advanced technology.

The technologically advanced enterprises certified in different cities come from a wide range of sectors. By year-end 1987 Beijing had approved 21 technologically advanced enterprises, distributed fairly evenly among a variety of industries including motor vehicles, boiler equipment, furniture, food products, consumer electronics, and clothing. Shanghai had certified 31 technologically advanced enterprises producing such products as motor vehicles, air conditioning equipment, elevators, pharmaceuticals, plastics, ceramics, and electronics. Of these, 10 considered their activities to be electronics-related, while eight were involved in heavy manufacturing.

The Shenzhen Special Economic

Photo courtesy of Johnson Wax



Johnson Wax's Shanghai joint venture, which began manufacturing shoe and hair care products in late 1987, is in the process of applying for technologically advanced status.

Zone had approved 17 technologically advanced enterprises by late 1987. These include six enterprises producing industrial material (mirror products, plastics, glass, marble, paint, and building materials), three in electronics, and two printing enterprises. Meanwhile, the Xiamen Special Economic Zone had certified nine such enterprises, including four producing electronics, a building materials project, and a ceramics factory.

The issue of annual renewal

Investors attempting to calculate profitability before making investment decisions need to be able to estimate accurately the length of time that they will be eligible for particular benefits. Although foreign investment enterprises often can obtain informal indications of their prospects for approval from MOFERT, investors cannot be certain how many years their certification will last because both export-oriented and technologically advanced status must be reviewed annually. In addition, the year-end renewal process is problematic because joint ventures must make financial calculations for the new year long before that time.

Some US companies with investments in China have suggested that certification be valid for five years, or in some cases for the life of the venture. However, so far the Chinese have resisted such suggestions. Each year enterprises must verify that their production performance warrants continuation of the enterprise's special status. If the year-end verification process reveals that the enterprise is not meeting required standards, it must pay the portion of tax deducted or exempted during that year. But enterprises failing to measure up still have a chance to redeem themselves the next year without going through the whole certification process again. Only if an enterprise fails the annual inspection for three consecutive years will its certification be possibly revoked.

Foreign investors are pleased by the benefits available to certified technologically advanced and export-oriented enterprises, but they still have many questions about this relatively new policy. Since the first group of export-oriented and technologically advanced enterprises received approval without going through any formal application process, neither Chinese officials nor foreign investors have yet had much practical experience in applying the new provisions.

As with other aspects of foreign investment in China, the foreign investor's ability to obtain and keep preferential status as an export-oriented or technologically advanced enterprise requires an understanding of the intent of the Chinese regulations and a willingness to cooperate with the relevant MOFERT offices. If certified enterprises stay in close contact with the local approval authority, they are likely to become aware of potential changes in their status before they occur. The better investors understand the requirements, the better they can understand, and explain, why a project should qualify for special status. 完

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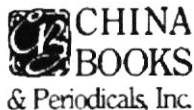
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Reforms create new opportunities

Liberating the Land

Perry Keller

The shortage of land in China is now recognized as a basic constraint on economic growth. China faces a projected 1.3 million hectare (3.2 million acre) shortfall of agricultural land by the year 2050. The country must not only conserve agricultural land to feed its growing population, but at the same time find sufficient land for industrial, commercial, and residential development.

Since the 1950s, land has been a free commodity for most Chinese enterprises, with the exception of a small number of collectives and individuals who paid the State an annual land-use fee. But growing demands on the land have gradually led to its recognition as an economic resource with its own value. Chinese officials have conducted extensive research on foreign land controls and tax systems, particularly in places like Hong Kong where a significant proportion of government revenue is raised through property taxation. These officials are now in the process of changing the way China's land is viewed—and used.

Changing the ground rules

Throughout this decade, and especially since 1986, the government has promoted efforts to improve the system of land use and administration. As a result, both Chinese entities and foreign investors are finding a changing regulatory environment and new opportunities for land development.

The first major step in China's modern land-use reform came with the introduction of a new constitution in 1982, which abolished private land ownership and put all land into the hands of the State and rural collectives. Limited private ownership had been allowed since the 1950s, but the 1982 constitution effectively expropriated the privately owned residential plots of millions of peasants and urban families. In return these homeowners received land-use rights to the plots beneath their homes, while retaining ownership of the actual buildings. This change did not have much practical effect, since restrictions on the sale, transfer, lease, and mortgage of land since the 1950s had long since made land ownership rights almost meaningless.

The elimination of China's remaining private ownership in 1982 did, however, pave the way for the creation of a national land management system based on exclusive public ownership and mixed public and private use. Land reform moved further ahead with adoption of China's first modern Land Management Law in 1986. Implementing Regulations for this law, expected later this year, should clarify how the changes outlined in the Land Management Law are to be instituted, including procedures for registering land ownership and use, land-use approval, and perhaps a method to impose land-use fees on Chinese land users.

Perry Keller, a lawyer with the Canadian law firm of Bull, Housser & Tupper of Vancouver, British Columbia, resides in Beijing.

New forms of managment

Administrative changes are already moving ahead. The new law centralizes national land-use control under a new Land Management Bureau, which reports directly to the State Council. Prior to this, land management was left largely to local authorities. But the country's lax and uncoordinated land-use policy began to pose severe problems, especially during the rapid economic expansion of the 1980s. The bureau's mandate, therefore, is to stem the alarming loss of precious farmland while providing for the needs of urban development. This year the bureau is expected to introduce some 20 new regulations on land use, including several dealing with land protection issues, such as halting construction in designated wildlife sanctuaries and scenic areas.

A new layer of provincial and local land management departments is also being formed, largely from existing local land authorities. These local departments will be responsible for implementing the Land Management Law and the regulations and directives issued by the Land Management Bureau. By early 1988 all of China's provinces and approximately half of its counties had already established these departments.

The Land Management Law also creates a national registration system for land-use rights, previously an area of great uncertainty. Such a system will allow accurate assessments of land-use fees and other taxes and provide clear statements of ownership (and leasehold) for purposes of mortgage and sale. It creates a reliable instrument for resolving disputes over land ownership and use, as well as new procedures for expropriating collective land for capital construction projects. As part of this effort, Shanghai issued its first 600 land-use certificates in January.

Land-use rights for foreigners

Although foreigners are basically forbidden to own land in China, foreign entities were granted fixed-term land-use rights by the Sino–Foreign Joint Venture Law of 1979. Due to the weakness of the central land

bureacracy at that time, this law did little but create confusion among local land authorities, who were accustomed to ad hoc methods of control. Foreign Land-Use Measures were issued in 1980 to provide some guidance, stipulating annual land-use fees for foreign enterprises ranging from a ¥5–¥300 per square meter. But these broad limits only encouraged localities to set a wide variety of land-use fees. The Joint Venture Law Implementing Regulations of 1983 also offered little help.

Land use by foreigners and foreign investment enterprises is not directly addressed by the 1986 Land Management Law. Instead it will be dealt with in separate State Council regulations currently being drafted. These regulations may not be made public, however, until ongoing experiments in several Chinese cities have been evaluated (*see* box, p. 42).

Until the new State Council regulations appear, land acquisition by foreign investment enterprises will continue to be governed by the Joint Venture Law and its Implementing Regulations. The new Land Management Bureau will implement foreign land-use policy, while its local departments will be responsible for daily supervision of foreign land use.

How foreigners acquire land

A foreign investor who needs land for construction must first obtain the right to use it. An investor can do this directly, through the investment vehicle, following the same procedures as any Chinese entity. To acquire the use of State land, the land-use rights must first be surrendered to the State by the current holder, and then reassigned by the State to the foreign investment enterprise. However, most investors are interested in developing suburban or rural property, which tends to be collectively owned land. Foreign investment enterprises cannot use collectively owned land without first having the State requisition the ownership of the site from the collective.

Because of the complexity of land acquisition, many foreign investors prefer to let their Chinese partner deal with this time-consuming problem. Sometimes the Chinese joint venture partner does all this as an agent for the joint venture. Another common alternative is for the Chinese partner to provide land as part of its initial capital contribution to the project.

Although these methods relieve the foreign partner from going through the land application process, there may be difficulty later in verifying land acquisition expenditures made on behalf of the joint venture. The Chinese side's contribution of land may or may not include payment of land-use fees and/or any additional charges. Moreover, the Chinese and foreign partners may have difficulty agreeing on a fair value for the land being contributed by the Chinese side—a particularly relevant issue for joint ventures in which the capital contributions of both parties determine the division of profits, assets, and liability.

When a foreign investor does not arrange to receive land rights as a capital contribution from a Chinese partner, the investor must apply for the land-use rights from the local land management department. A contract governing land use and length of occupation will be drawn up by the land management department and usually signed by the foreign investor and the local land management department. As an informal alternative in some cases, a land-use certificate is issued setting out the nature and length of foreign land use.

While the State exercises a monopoly over land ownership, there is no prohibition against the private ownership of buildings. Chinese law treats buildings as entirely separate property from the land beneath them. In recent years private building ownership has flourished, as China's burgeoning class of wealthy farmers has built homes on the land to which they hold land-use rights. Although there are no provisions in China's national laws explicitly granting foreigners the right to own buildings, local regulations purport to protect the rights of foreign investors to own, sell, lease, and mortgage buildings. Since all foreign investment in China is currently limited to a fixed term, these rights will expire at the end of the investment contract. Although few foreigners have been permitted to purchase title of ownership to buildings in China, in certain areas, foreign citizens of Chinese ancestry are allowed to purchase residences for themselves or relatives.

Land-use fees in flux

Foreigners must pay for the right to use the land they acquire. For certain types of foreign investment en-

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terprises, more specific land-use fees are now replacing the vague guidelines of the early 1980s. Prior to 1986, only China's special economic zones (SEZs) and urban economic and technological development zones (ETDZs) were able to offer special land-use incentives to foreigners. But since the appearance of the 1986 Provisions for the Encouragement of Foreign Investment many cities have come up with special incentives for foreign investment projects—provided that they qualify as "export oriented" or "technologically advanced" enterprises (*see* p. 36).

While these incentives vary, most offer exemptions from land-use fees during construction and start-up periods, and sometimes further reductions for an extended time period. Projects located in "busy urban areas" are often exempted from preferential treatment, although many local provisions do not define what areas fall under this term.

Because the central government has set few specific guidelines, localities are free to offer a wide range of land-use fees. As a result, China now has a complicated patchwork of administratively set fees that attempt to place a value on different types of land. Beijing's standard commercial land use fees range anywhere from ¥1 to ¥150 per square meter per year. The rate in Shanghai is between ¥.5 and ¥100, and in Guangzhou from ¥.3 to ¥70. Overall, these rates have been coming down in recent years. In Shanghai, for instance, the upper limit fell from ¥300 per square meter in 1982 to ¥100 per square meter in 1986.

Average land use fees are still lower in China's SEZs and ETDZs. In the Xiamen and Zhuhai SEZs, for instance, the upper limit is approximately ¥20 per square meter. And in Beihai ETDZ in Guangxi Province, the maximum annual land-use fee is just ¥5 per square meter.

Although fees vary greatly by region, some general principles apply in determining land use rates. The lowest rates are often reserved for noncommercial development such as

CREATING A REAL ESTATE MARKET: Experiments on the fringe

Experiments in several Chinese cities are testing new ways to lease long-term land-use rights to foreign and domestic "buyers" while retaining the State's ultimate ownership. If successful, these experiments may eventually become the basis for further national reforms. Approval for these tentative and controversial forays into a real estate market comes from the highest level, China's State Council.

In late 1987 Shenzhen and Shanghai became the first cities to experiment with leasing land-use rights to foreigners. The two cities can sell these rights for fixed periods, during which the foreign investors may construct industrial, commercial, and residential properties and sell, lease, or mortgage the buildings and land-use rights. This February two more cities entered the apparent competition to develop innovative land policies that attract foreign investor interest: Haikou, capital of Hainan Island (China's newest special investment zone) and Fuzhou, capital of Fujian Province. Several other cities are also expected to begin conducting land-use experiments in the near future.

Shenzhen, China's most developed special economic zone, learned the ropes for selling land-use rights by first offering land to domestic bidders. In China's first sale of land-use rights, which took place in September 1987, the China Aerotechnology Import–Export Corporation won a 50-year lease on 5,300 square meters of undeveloped land for the price of ¥1.06 million (approximately $286,000). Foreign enterprises participated for the first time in an auction of land-use rights in December 1987, in which a foreign construction company paid more than $6.5 million for the rights to 11.5 acres in Shenzhen.

Shanghai, with its high population density, severe shortage of land and housing, and badly deteriorated infrastructure is another logical spot for land-use experiments. These experiments not only promise to increase rational use of land, but—as the municipal government is fully aware—will result in much-needed hard currency revenues from foreign land leases.

Shanghai's municipal regulations governing leasing and land-use rights for foreign investors went into effect on January 1 of this year, providing a framework for the city's experiments. Selected plots of land will be leased for 20–50 years, with renewal contingent upon municipal government approval. In developing the land, the foreign party can build factories, shops, or cultural facilities, but must conform to the municipal urban planning code.

Shanghai's first international invitation to bid will be offered on a 2.5 acre plot in the Hongqiao Economic Development Zone sometime before July. Two other sites may also come up for bid before the end of the year. One likely candidate is an area of nearly 100 square kilometers in the less developed Pudong District on the eastern shore of the Huangpu River that has been slated for potential development by foreign parties.

Fuzhou is not far behind. Early this year the municipal authorities auctioned off the land-use rights for a .31 hectare plot of urban land. The purchasers, a Hong Kong group, paid ¥4.58 million ($1.24 million) for the land, upon which they plan to build a 15-story office building.

Fuzhou was also the site of another real estate development of great interest. For the first time since 1949, municipal authorities announced in February that they will permit foreign firms to buy shares in China's State-owned factories. Officials say foreigners with a majority stake will be allowed to manage these firms independent of Chinese participation.

The big question behind these experiments is whether or not China plans to offer foreigners full ownership as understood in the West, which implies the right to pass property on to one's heirs in perpetuity. For now, foreign ownership in China still looks more like a long-term lease, in which foreign interests may own the right to something for a set period of time only.

But already some land-use experiments appear to be in clear violation of China's constitution, which states that, "No organization or individual may appropriate, buy, sell, or lease land or unlawfully transfer land in other ways." According to government officials, this apparent divergence from the constitution is allowed only because these are experiments. If, however, they are eventually incorporated into national policy, a change in the constitution would probably be necessary.

Thus, unlike other forms of investment, China's experimental long-term leases lack constitutional protection and are particularly vulnerable to swings in Chinese policy. Without changes in the constitution, many Chinese and foreigners are wondering how much farther these experiments can go. —Ann Elizabeth Dean and Perry Keller

educational, public health, or infrastructure improvement projects. Foreign investment enterprises that have been certified as "export oriented" or "technologically advanced" pay slightly higher fees, while other transportation and industrial enterprises generally pay still higher rates. At the far end of the spectrum, service, tourism and commercial enterprises usually pay top dollar for their land-use rights.

According to the Implementing Regulations of the Equity Joint Venture Law of 1979, the land-use fee is to be set in accordance with ". . . expenses for requisition, demolition, and resettlement . . ." among other factors. Standard Chinese interpretation is that the fee is only set with reference to these costs, and all charges for land appropriation and preparation are to be borne separately. More recent local land legislation, such as the 1986 Shanghai Sino–Foreign Joint Equity Enterprise Land-Use Requlations, clearly state that foreign enterprises are responsible for all charges on top of the land-use fee.

Additional charges

Many cities levy substantial "site development fees" in addition to the basic land charge. Thus, foreign enterprises are often subject to a number of other land-related charges including:

Because the central government has set few specific guidelines, localities are free to offer a wide range of land-use fees. As a result, China now has a complicated patchwork of administratively set fees that attempt to place a value on different types of land.

- A public utilities construction and connection fee for sewage treatment, water, gas, and heat facility construction *outside* the site.
- A public utilities construction fee covering utility construction *within* the site.
- A charge for any additional public utility construction undertaken to meet the foreign enterprise's requirements.

Utility construction charges are intended to make foreign investors share the costs of infrastructure development. Some investors have been hit with large, unanticipated utility charges well after construction has begun. Chinese officials claim it is difficult to estimate this charge early on, as it takes time to determine the full effects of new construction. This area requires the special attention of potential investors, particularly when conducting feasibility studies and preparing contracts.

A foreign investor who acquires land directly rather than from a Chinese partner must also pay compensation fees to any entity that must be moved from the site to accommodate the foreign enterprise; and/or to any prior occupant who has suffered economic loss due to loss of the site. These fees are negotiable and vary greatly depending on location and prior use of the land. In Beijing compensation rates have doubled

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over the past two years and continue to rise.

In some areas the local government has consolidated all these land acquisition and preparation charges into a single Land Development Fee, that can be paid either in a lump sum or on an annual fee basis. This type of consolidated fee is normally charged to foreign enterprises that plan to undertake most of the land development themselves. Before paying such a fee an investor should determine exactly what it covers and if additional land charges may still be levied in the future.

Limits to land reform

The State Council is experimenting with the introduction of annual land-use fees and land transfer taxes for domestic as well as foreign land users. A system of renewable limited leases for Chinese enterprises is under consideration, but resistance is expected. Enterprises that have grown accustomed to free use of their land over the past 30 years are not likely to welcome the levy of annual land-use fees. In hopes of promoting more efficient use and allocation of urban land, central government officials are experimenting with regulated sales of land-use rights negotiated directly by the Chinese enterprises, under the supervision of local land authorities but without the formal expropriation and acquisition procedures currently required.

The ongoing changes in the use of land represent a big step for China, but they probably do not foreshadow the arrival of a freewheeling land market. Chinese authorities have made it clear that both domestic and foreign land transactions will continue to be subject to constant and close scrutiny by local authorities. The central government is introducing much-needed changes in the rules governing land management—but it intends to make sure that everyone plays by these rules.

There is particular sensitivity where acquisition of land by foreigners is concerned. Having lost control of national sovereignty before, China is unlikely to grant foreigners free access to land for decades to come. However, there is no doubt that the experiments China is now conducting with foreign land-use influence government ideas on how to reform the domestic land system as well. 完

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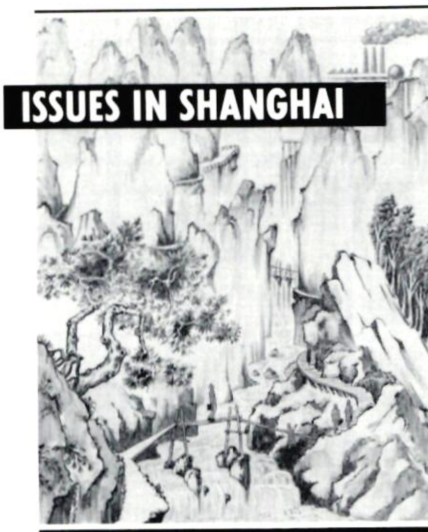
Foreign representatives of Shanghai's joint ventures rate the city's operating environment

A Survey of Shanghai Joint Ventures

Benedict Stavis and Ye Gang

Shanghai now ranks as China's third favorite locale for foreign investment, attracting $1.8 billion since 1979. Shanghai's aggressive efforts to attract foreign capital paid off handsomely in 1987, when companies such as Johnson & Johnson, Ingersoll-Rand, and Carrier put pen to paper on their Shanghai contracts.

But once a foreign firm sets up a joint venture, it must face the problems of operating in China. This poll of manufacturing equity joint ventures in Shanghai provides some practical insight into the issues facing multinational joint ventures in one Chinese city.

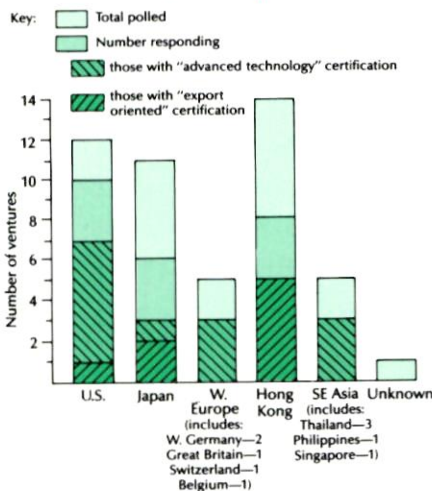


A profile of those sampled

This survey, conducted from December 1986 to June 1987, is based on interviews with 30 foreign managers of manufacturing equity joint ventures located in Shanghai (*see* table, p. 48). Originally, a target group of 48 manufacturing ventures already in production or in the final phases of construction was selected from a pool of all operating joint ventures in Shanghai. The conclusions of those joint venture managers willing to be interviewed may be more optimistic than the norm in Shanghai, since managers of joint ventures that have been scaled back generally declined to be interviewed.

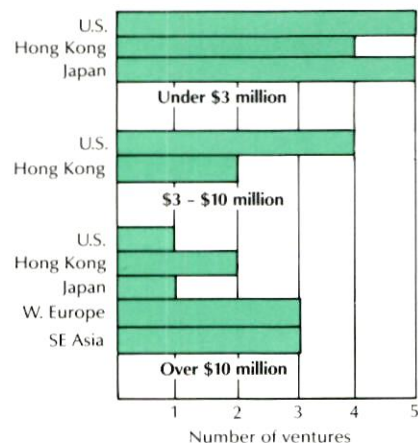
The foreign partners in Shanghai's joint ventures range from major transnational corporations to individual entrepreneurs. Of the 30 enterprises surveyed, 13 have been designated by Shanghai officials as "technologically advanced" in fields as varied as pharmaceuticals and railroad equipment. Eight other joint ventures were awarded "export-oriented" status and make labor-intensive goods for export, including toys, sweaters, jeans, leather items, and dentures.

Survey Participants



Benedict Stavis is an adjunct assistant professor of political science and is associated with the Center for Asian and Pacific Research at the University of Iowa. Ye Gang is the vice director of Fudan University's Institute of World Economy in Shanghai.

Capitalization Value



All six of the Western European and Southeast Asian firms that participated in this survey have committed more than $10 million to their joint ventures. Nine of the 10 US projects are capitalized at less than $10 million, while the eight Hong Kong and six Japanese projects averaged less than $3 million. Capital contribution from the foreign partner is often only a small portion of total project capitalization. Even large multinational firms invest relatively small amounts, reflecting the common desire to test the investment waters before jumping in.

RESULTS OF THE SURVEY

Managers were asked to rate, on a scale of one to five, the degree of difficulty posed by various aspects of joint venture operations. Their perception of problems varies depending on the venture's size, product, specific needs—and sometimes the partner's country of origin.

Many managers judge the worst problem to be the high costs of doing business in China, including the expense of housing, office space, expatriate salaries, and benefits. Some managers face serious problems in buying raw materials for inputs, particularly when high quality is required. For other ventures, labor or marketing issues are the most challenging. All agree that China's outdated and strained communications and transportation systems aggravate all the other problems.

In negotiating joint ventures the managers pointed out several frequent points of contention. Chinese partners generally propose larger-scale, ultra-modern projects, while foreign investors want to start small, using intermediate technology. The

Chinese side often asks the foreign partners to contribute cash to the venture, while the partners prefer to invest machinery and technology.

Despite all the difficulties, foreign managers generally agree that the business climate has improved slightly over the past few years. Although it is too soon to evaluate whether the promulgation of the Provisions for the Encouragement of Foreign Investment in 1986 and their implementing regulations have made a significant impact on the investment climate, negotiations now move faster, and plant construction seems to be speeding up. Some joint venture factories have been completed in just a year. Most joint ventures report that they are ready for production close to schedule and that actual production and sales remain at or near initial projections.

Almost all the firms surveyed in Shanghai are planning to expand operations slowly. A few in the textiles and high-tech sectors are growing rapidly. About 10 percent of the firms remain uncertain about future plans, and only one indicated that it will reduce or phase out operations. However, two-thirds said that continued improvement in Chinese business practices would be an important determinant of their future plans.

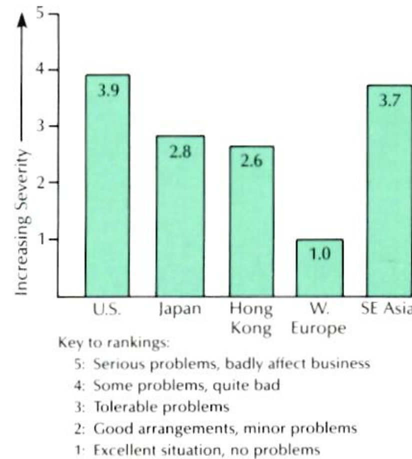
Overall, Shanghai's foreign joint venture partners find the city's business environment challenging, and gradually getting better.

EXPATRIATE LIFESTYLE:

The number of workers at each venture roughly corresponds to the total capitalization of the project. Most of the American and Western European joint ventures have permanent resident expatriate managers, and some even have a whole foreign team in residence, or at least an engineer to direct training programs, test raw materials, supervise technical exchanges, and ensure that the joint venture constantly upgrades its technology. Japanese managers prefer to visit monthly and generally do not bring their spouses if they must live in Shanghai.

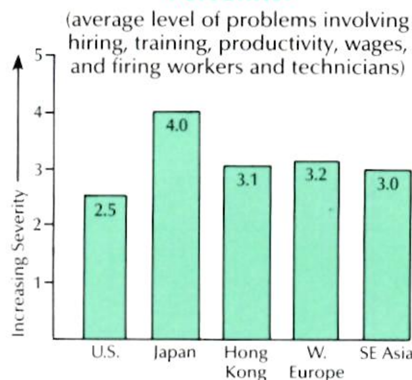
The cost of living arrangements for long-term expatriate staff is a major complaint of many joint ventures. A modest apartment (by Western standards) can cost $40,000 per year in Shanghai. A firm with an expatriate general manager and engineer on site must therefore budget $80,000 for their accommodations—a substantial dent in operating expenses.

Arrangements for the families of expatriate managers stationed in Shanghai are also problematic. Western firms tend to send staff whose children have finished high school, since schooling arrangements can be difficult. Some Western managers feel their families would be happier if they could live downtown, near cultural and shopping centers, but suitable housing in that area is expensive and extremely scarce.



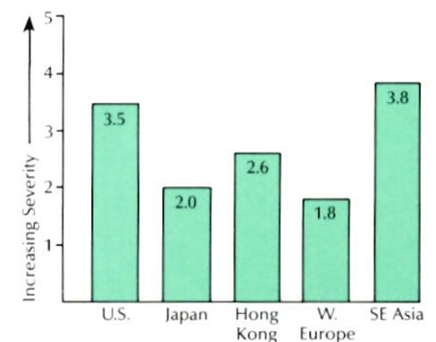
PERSONNEL:

According to the survey, Japanese managers have the most rigid requirements for the training and productivity of their joint venture personnel, while Americans are the least demanding. Despite these differences, Chinese technicians are described by both Japanese and US managers as hardworking and creative. Workers are frequently praised for their precision handwork in specialized manufacturing processes. A careful training program and thoughtful incentive systems are important factors in success.



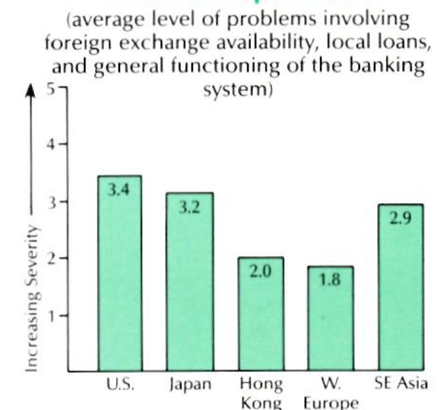
MATERIALS SOURCING:

Buying raw materials and other goods on local markets as inputs for the manufacturing process is very difficult for some—but not all—ventures. In general, joint ventures producing rather simple commodities for export have few problems getting inputs. So do the large Western European firms, perhaps because their contracts enable them to import parts from their parent firms. However, the US and Thai firms in Shanghai tend to need high-quality inputs that are difficult to source in China. They often require local testing facilities or access to those of the parent company in order to check local inputs against design specifications.



FINANCIAL OPERATIONS:

Two key factors in any joint venture's success are its ability to obtain foreign exchange to buy inputs or remit profits, and its access to loans to resolve unanticipated problems. Joint ventures need to have a realistic export plan reinforced by careful negotiations with the Chinese to secure permission to convert some renminbi profits to foreign exchange.



A PROFILE OF THOSE SURVEYED

Joint Venture Name/ Date signed	Foreign Partner(s)	Capitalization	Products
Shanghai Cosfra Co., Ltd. * 2/82	Florasynth Inc. (US) and Cintco Inc. (US)	$.55 million	Fragrances and flavors
Sino-American Shanghai Squibb Pharmaceuticals, Inc. + 5/82	E. R. Squibb and Sons (US)	$10 million	Pharmaceuticals
Shanghai-Foxboro Co., Ltd.+ 4/82	Foxboro Co. (US)	$15 million	Factory control systems
NA	Biky (US)	NA	Plastic construction materials
Vetco-Dalong Offshore Oil Eqpt. Co. + 4/82	Vetco South-East Asia Co. Ltd. (US)	$5 million	Offshore oil equipment
Shanghai CAST Software Corp. + 4/85	Visidata Corp. (US)	$3.2 million	Software
Shanghai An Wang Computer Development Corp.+ 12/84	Wang Computer (China) Co., Ltd. (US)	$6 million	Computers
Shanghai-Stellite Co., Ltd. + 5/85	Stoody Deloro Stellite Inc. (US)	$3.75 million	Special welding supplies
Polymold-Jiaotong Corp. *+ 8/85	Polymold Tool and Engineering (US)	$.6 million	Tools and dies
CASCO Signal Co., Ltd. + 12/85	General Railway Signal Co. (US)	$4.8 million	Railroad signals
Shanghai-Pigeon Dental Material Co.*	Pigeon Toushi K.K. (Japan)	NA	Dentures and plastic teeth
Shanghai Jinshan United Industry Corp. Ltd. * 2/86	C. Itoh & Co. (Japan and China Merchant Industries Ltd. (HK)	$1 million	Plastic products and plastic film bags
Shanghai Espec Environmental Equipment Corp. +	Tabai (Japan)	NA	Environmental instruments
Shanghai Mitsubishi Elevator Co., Ltd.	Mitsubishi Electric Corp. (Japan)	$.96 million	Computerized elevators
NA	Hutian (Japan)	NA	NA
Shanghai Swallow Cosmetics Co., Ltd.	Osaka Swallow Intl, Inc. (Japan)	$.97 million	Cosmetics
Shanghai United Co., Ltd. * 5/81	Uni-Shanghai Wooltex, Ltd. (HK)	$6 million	Yarn and sweaters
Shanghai Universal Toys Co., Ltd. *	Universal Intl. Toys (Holdings) Co. (HK)	$5 million	Tin toys
Tian Gou Textile Co., Ltd.	Lap Hing Mercantile Ltd. (HK)	NA	Nylon buckles
Herald Plastic Products Co. *	Herald Metal and Plastics Works (HK)	NA	Plastic toys
Shanghai Great Wall Zipper Co.* 9/85	WTC Enterprise Co., Ltd. (HK)	NA	Nylon zippers
Donglian	NA	NA	NA
Shanghai-Shen Shi Textile Co., Ltd. *	Hongkong-Shanghai Investment Co. (HK)	$14 million	Blue jeans
Hu-Xing Electronics Co., Ltd. * 3/85	Hanny Magnetics Ltd. (HK)	$5.09 million	Floppy disks
Shanghai Bell Telephone Equipment Manufacturing Co., Ltd. + 10/83	Bell Telephone Manufacturing Co., S.A. (Belgium)	$99 million	Telephones
Shanghai Yaohua Pilkington Glass Co., Ltd. + 6/83	Pilkington Bros., PLC (UK)	$120 million	Plate glass
Shanghai Volkswagen Automotive Co., Ltd. + 10/84	Volkswagenwerk AG (FRG)	$160 million	Santana automobiles
Shanghai-Ek Chor Motorcycle Co., Ltd. + 10/84	Ek Chor Investment Co., Ltd. (Thailand)	$21 million	Motorcycles
Shanghai Lianhua Fiber Inc. + 10/85	Li-On Investment, Ltd. (Thailand)	$24 million	Textiles
Shanghai Dajiang Co., Ltd. + 7/85	Chia-Tai Co. (Thailand)	$16 million	Feed and livestock poultry

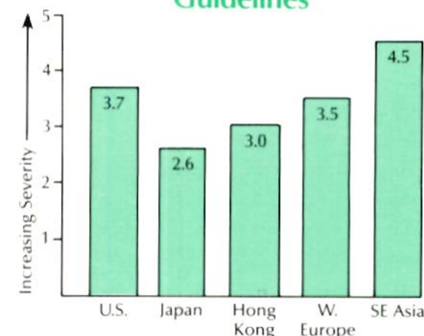
* Certified as an export-oriented enterprise
\+ Certified as a technologically advanced enterprise

Compiled by Priscilla Totten
Source: author's research and National Council files

In general, the mechanical aspects of financial operations do not pose major problems. Hong Kong and Western European firms have the fewest complaints, perhaps because the former are export-oriented and generate foreign exchange, while the latter have clear contractual stipulations to solve the foreign exchange problem. The large Western European joint ventures may have better leverage in negotiating their foreign exchange plans due to the size of their initial commitment.

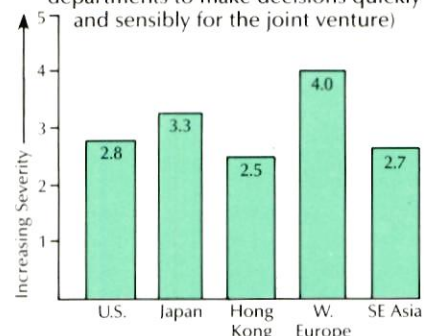
LEGAL SYSTEM:

Joint ventures in China must function within a relatively new and incomplete legal system. Americans and Thais are the most worried about this situation.



THE BUREAUCRACY:

Despite many stories about bureaucratic nightmares, foreign managers find dealing with the Shanghai bureaucracies generally tolerable. Western Europeans tend to be more concerned since their larger, more complicated ventures tend to involve more Chinese organizations and require more clearances. 完



How does China stack up?

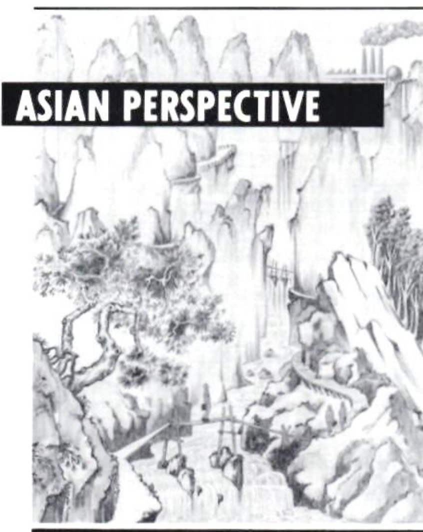
Investment Incentives throughout Asia

Genevieve Dean

Although China began to *permit* foreign investment in 1979, the government has actively sought to *attract* foreign investors only in the past two years. Simply opening China to foreign investment did not produce the influx of eager foreign investors that China anticipated. The gradual development of China's legal system, beginning with promulgation of the Joint Venture Law in 1979 and continuing throughout the 1980s, helped clarify investment conditions but offered few positive inducements to foreign investors. By the mid-1980s, disappointed with the level of foreign investment and under fire from the international business community, Chinese officials began to reexamine the country's investment climate—the economic, social, political, and legal conditions that influence investor decisions.

China has begun to recognize that it must compete with other countries, particularly in Asia, which offer foreign investors comparable economic conditions and, in addition, a variety of tax and financial incentives and the protection of established legal systems. In preparation for their annual cabinet-level meeting with China's Ministry of Foreign Economic Relations and Trade in the spring of 1986, US Commerce Department officials compiled a matrix comparing investment incentives offered by China with those offered by other Asian countries where US investor interest has been high. The result was the following chart, updated here to include China's most recent investment legislation.

This chart compares only investment conditions that can be legislated by the government, and looks only at laws and regulations as written, not as implemented. Factors



such as prices, the effectiveness of supply and distribution channels, the availability of infrastructure, and local market conditions are not included, since they are generally not directly controlled by government authorities.

China's investment legislation now compares favorably with that of the other countries surveyed. Its restrictions on foreign equity holdings are less stringent than those of South Korea, the Philippines, or Thailand. Corporate tax rates in China are comparable to those in the Philippines, Thailand, Singapore, and Taiwan. Thus, if foreign investment in China remains low compared to these other Asian countries, it will not be for lack of incentives and may instead be due to factors outside the legislative realm.

Genevieve Dean is an international trade specialist and desk officer in the Office of China and Hong Kong in the the US Department of Commerce. She served as commercial officer at the US Consulate in Shanghai from 1982 to 1985.

Such nonlegislative factors are frequently cited by US investors as major disincentives to investing in China. Their complaints include the artificially high valuation of land, labor, and other inputs contributed by the Chinese side to joint ventures; strict limitations on conversion and repatriation of renminbi earnings; inadequacy of patent and trademark protection; barriers to the domestic market; conduct of labor relations through a State bureaucracy; and discriminatory practices that place all or some groups of foreigners at a disadvantage. China's recent investment laws acknowledge some of these disincentives and set out to improve investment conditions in priority sectors.

Though the level of foreign investment may have disappointed China's leaders, US investment in China between 1982 and 1985 grew faster than in any of the other countries surveyed. According to the US Bureau of Economic Analysis, the value of American direct investment in China grew by more than 500 percent during these four years, compared to 37 percent growth in Taiwan and 35 percent in Thailand, the other Asian frontrunners. A subsequent 36 percent decline in US direct investment in China occurred in 1986, but investment levels appeared to be on the rise again in 1987.

Although the growth of American investment in China has been high in recent years, the absolute value remains relatively low. According to the US Bureau of Economic Analysis, the 1986 US direct investment position in China was $199 million, far below the $3.58 billion American firms invested in Hong Kong and the $2.29 billion invested in Singapore.

It is clear that the level of foreign investment in a country cannot be explained solely by that country's official investment policy, but also depends on other economic and political conditions. These conditions differ so much among the Asian countries surveyed that incentives such as tax exemptions and credits may play only a small part in an investor's decision. Although a country's investment incentives may not, in themselves, be enough to attract foreign investment, the official incentive package is at least a good measure of government policy on and commitment to foreign investment. 完

ASIAN INVESTMENT INCENTIVES

	CHINA	HONG KONG	SOUTH KOREA	PHILIPPINES	SINGAPORE	TAIWAN	THAILAND
Level of US direct investment in 1986 (million $)	**$199**	**$3,580**	**$792**	**$1,117**	**$2,291**	**$860**	**$1,048**
Restrictions on foreign equity	Not less than 25%; 100% permitted.	None	Not less than 58%	Generally not more than 30%, but up to 100% in certain circumstances	None, outside of specified sectors	100% permitted	Not more than 50%
Corporate income tax	JV's: 33%; first 2 profit-making years exempt and 50% reduction for 3 following years for JV of 10 years or more. Various further reductions	18.5%		25%, first P100,000; 35% above P100,000	No corporate tax for "pioneering period" (first 5-10 years after production begins); thereafter 33%	About 20% for high-tech and strategic industries; 35% for other industries	30% to 40%
Guarantee against expropriation	✓	✓	✓	✓	✓	✓	✓
Guarantee against losses due to:							
• nationalization	✓				✓		✓
• war damage	✓						
• inconvertibility of currency							
Remittance of forex earnings and payments	✓	✓	✓	✓	✓	✓	✓
Repatriation of capital	✓	✓	✓	✓	✓	✓	✓
Employment of aliens	✓	✓	✓	✓		✓	✓
Patent protection	✓	✓	✓	✓	✓	✓	✓
Preference in government loans	✓			✓	✓	✓	✓
Protection against unjust competition from:							
• imports			✓	✓		✓	✓
• government				✓			✓
• local competitors				✓			✓
Real estate ownership permitted to foreign investors		✓	✓		✓	✓	✓

	CHINA	HONG KONG	SOUTH KOREA	PHILIPPINES	SINGAPORE	TAIWAN	THAILAND
Exemptions from:							
• capital gains tax	✓	✓	✓	✓		✓	
• corporate income tax	✓	✓	✓		✓	✓	✓
• taxes/tariffs on imported capital goods	✓	✓	✓	✓	✓	✓	✓
• taxes/tariffs on imported raw materials	✓	✓	✓	✓	✓	✓	✓
• taxes on royalties	✓		✓		✓	✓	✓
• tax credit for interest on foreign loans	✓	✓	✓	✓	✓	✓	
• other taxes and fees	✓		✓	✓	✓	✓	✓
Deductions from Taxable Corporate Income:							
• accelerated depreciation allowance	✓	✓	✓	✓	✓	✓	
• carry forward of capital allowance					✓		
• carry forward of loss	✓	✓	✓	✓	✓	✓	✓
export allowances/ deductions			✓	✓	✓	✓	✓
• organization expenses	✓		✓	✓		✓	✓
• preoperating expenses	✓	✓	✓	✓		✓	✓
• reinvested profits	✓					✓	
• investment allowance				✓	✓		
Tax Credits (direct reduction from corporate income taxes):							
• investment tax credits			✓			✓	
• tax credits on domestic capital			✓	✓		✓	
• other tax credits	✓			✓		✓	✓
Extension of incentive availment period	✓			✓	✓	✓	
Special incentives for:							
• multinationals				✓	✓		
• exporters	✓	✓	✓	✓	✓	✓	✓
• offshore banking units				✓	✓	✓	

Note: This chart is adapted from *Comparative Investment Incentives 1986*, published by SGV & Co. in the Phillippines.
Compiled by Genevieve Dean and Perri Strawn.

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Lily Li (CDN Group), 15 Mercer St., Ste. 401, New York, NY 10013 (212) 219-0181/0131

Fashioning a Successful Silk Industry

Long the world's top raw silk exporter, China now seeks to lead the high-fashion market.

Beverly Musolf LoPinto

Once, caravans from foreign lands came from thousands of miles to purchase China's most famous fabric, traveling a road that came to be known as "the silk route." Today, foreign silk buyers still seek out China's silk. And China's own silk traders are roaming the world with increasing confidence, actively seeking new markets.

Silk has played an important role in China's foreign trade for more than 2,000 years. By 1986 silk sales brought in a hefty $1.13 billion—one-sixth of the country's textile export earnings. Chinese officials would like that figure to reach $1.5 billion by 1990 and more than double to $2.7 billion by the year 2000.

Tumultuous century for silk

For hundreds of years, China was the world's undisputed leader in silk manufacture. But domestic turmoil during and after the turn of the century harmed silk production, enabling Japan to overtake China as the world's top raw silk exporter before 1920.

China's silk problems had only begun. The introduction of silk substitutes, such as rayon in 1921, cut heavily into international demand. The worst blow came in the 1930s and 1940s, when Japanese occupiers destroyed more than 90 percent of China's silk production areas.

By the mid-1960s, however, China had managed to rebuild its industry and regain its dominance of the raw silk export market. Today China produces some 90 percent of the world's raw silk, exporting mainly to Italy, Japan, South Korea, Hong Kong, and the Soviet Union.

Now that it has regained its firm foothold in the raw silk market, China's silk industry is turning its attention to other products. China exports silk in three different stages—as raw silk, silk fabrics, and finished silk products. Finished goods, which earn the most revenue, now account for about a quarter of the country's silk exports, but China hopes to boost this to one-third of the total by 1990 and 40 percent by the year 2000.

Most US buyers agree that the quality of Chinese silk is excellent, but that weaving techniques still present problems for the export industry.

China's silk industry has recently reorganized, cracked down on illegal trading, and is renovating many of its factories. Designers are being sent abroad to learn more about sophisticated markets in the United States, Japan, and Western Europe. And as China gains confidence in its silk products, it has improved its marketing efforts and is staging more silk exhibitions and fashion shows around the world.

Reorganizing the silk industry

The silk industry has been restructured several times in the past decade, reflecting the increased focus on silk's export revenue potential.

The first of two major changes came in 1982, when a new entity was created separating silk from the rest of the textile industry. The China National Silk Industry Corporation (CHINASILK) was given control over silk production, management, and marketing.

The organization proved unwieldy, however, and fell prey to China's general trends in government reorganization. In January 1987 CHINASILK was split up and its functions divided among a collection of subsidiary organizations, each focused on a separate aspect of the industry. Silk production and administration are now back under the jurisdiction of the Ministry of Textiles, while activities involving foreign trade, such as technology imports or finished-product exports, are supervised by the Ministry of Foreign Economic Relations and Trade (MOFERT) (*see* box).

This latest reorganization frees the new China Silk Import and Export Corporation (which inherited the CHINASILK acronym) from most production worries and allows it to focus on meeting the State's ambitious export targets. However, CHINASILK and its provincial branches are still working out the division of authority. At a meeting earlier this year, the provincial offices voiced the desire to handle their own imports and exports, which many have in fact been doing for the past two years. Such a transfer of authority would be consistent with changes taking place at China's other foreign trading corporations, but would leave CHINASILK's head office controlling mainly exports of raw silk and grey goods (unfinished fabric).

Cracking the US market

The United States, with its virtually nonexistent silk manufacturing industry and great demand for high-

Beverly Musolf LoPinto conducts organizational research at the National Council for US–China Trade.

quality finished goods, is a prime market for China's silk exporters. Recent innovations like washable silk have helped increase American interest in silk products. But the Chinese still feel that American consumers do not appreciate silk as Western Europeans do, and have set out to educate the American public.

In 1983 CHINASILK hired the public relations firm of Young & Rubicam to promote Chinese silk in the US market. The firm helped produce a short videotape on China's silk production and fashion for distribution to libraries and educational institutions. And in the fall of 1987 China held its first US silk exhibition and fashion show in New York City to help publicize and popularize silk garments.

In the wake of these efforts, US imports of Chinese silk garments are on the rise. With 18 percent of the market in 1987, China has doubled its share of US silk garment imports since 1984. In volume terms the US imported 27 million square yards of silk garments from China last year, up from 17.5 million in 1984.

Quotas limit access to US, Japan

China's exports to the United States might have been even higher if not for quotas the US has recently imposed on Chinese silk. In recent years, the US has set quotas on China's cotton and other natural fiber imports to protect its domestic industry. To get around these limits, China began manufacturing export fabric that combined silk with these other fibers. The resulting surge in silk-blend exports led to the inclusion of silk in GATT's Multifiber Arrangement (MFA) IV, which China signed in April 1987. (For more information on the Multifiber Arrangement, a textile trade framework under GATT, see *The CBR*, Sept–Oct 1986, p. 26.)

The MFA IV restrictions on silk blend imports were subsequently adopted in the 1988 bilateral textile accord agreed upon by the United States and China in late 1987. The accord stipulates that to be exempt from quotas, Chinese silk garments must contain at least 70 percent silk, and fabric must contain at least 85 percent silk.

Pure silk fabrics and garments are not subject to any restrictions in the US market, largely because the US has no domestic silk industry to protect. According to Carl Priestland, chief economist for the American Apparel Manufactureres Association, "We are basically not concerned about 100 percent silk garments, because they are not a competitive threat to the US market—it's not where the intense competition is."

Quotas imposed by Japan also hamper export growth for China's silk industry. Japan has imposed strict quotas on Chinese silk since 1976 to protect its eroding domestic industry. Because the Chinese would not agree to voluntary quotas, the Chinese and Japanese governments now hold yearly trade talks to set limits on raw silk, yarn, and cloth from China. China has persistently lobbied the Japanese government to do away with the regulations, but without much success. Chinese annual silk exports to Japan dropped from $240 million in 1973 to $175 million in 1985.

China combats parallel silk trade

China's silk exporters have had troubles at home as well as abroad. The major problem is "parallel trade" in raw silk, in which export goods leave the country through unauthorized channels. Chinese silk producers can often get a better purchase price by selling their silk on the open market rather than to the State, which then sets a higher sales price and keeps much of the profit. As a result, raw silk is commonly sent out under a false designation, mixed in with authorized goods, or exported under forged seals and licenses.

Most of the illegally exported silk goes to Hong Kong, which officially purchased $376 million of China's silk in 1986 or 34 percent of China's total silk exports. But according to Chinese traders, in 1986 alone, 37 percent of the silk that entered Hong Kong came via channels other than CHINASILK, the official export agent.

Parallel-trade raw silk can be as much as 25–35 percent cheaper than that sold officially. Consequently, parallel trade drives down the price of raw silk on the Hong Kong market, depriving China of as much as $20 million in foreign exchange in the first half of 1986 alone, according to some Chinese estimates.

China cracked down on parallel trade in 1985. MOFERT withdrew the right to issue export licenses for silk products from provincial and municipal trade bureaus, leaving itself the sole licensing authority. In 1986 MOFERT banned the use of raw silk as an item in compensation trade and barter agreements. Arrests of unauthorized dealers and confiscations of illegally transited goods have also

MAJOR SILK ORGANIZATIONS

UNDER THE MINISTRY OF TEXTILES:

- **Silk Administration Bureau**. Established in January 1987 to administer all silk production. Works through the:

- **China National Silk Industry Corporation**. Established in January 1987. In charge of silk production; oversees silk factories.

UNDER THE MINISTRY OF FOREIGN ECONOMIC RELATIONS AND TRADE:

- **China National Silk Import/Export Corporation (CHINASILK).** Reorganized and split off from the China National Silk Industry Corporation in January 1987. Handles virtually all import and export of silk and silk products. Oversees the activities of the following specialized groups:

- **China Silk Development Corporation**. Established in July 1987 to handle joint venture and cooperative arrangments with foreign partners.

- **China Silk Materials Import Corporation**. Established in 1985 to import machinery and raw materials needed for silk and silk product manufacture.

- **China Silk Garments Import/Export Corporation**. Established in November 1987 to handle garment exports and related machinery imports.

- **China Silk Association**. Established in March 1986 to monitor the silk industry and promote new production techniques.

been stepped up. These stricter licensing and enforcement policies have helped reduce parallel trade from an estimated level of about 50 percent of total silk exports in recent years to around 10–20 percent in 1987.

Improving the industry from the bottom up

Silk begins with a leaf and a worm. Most provinces in China raise silkworms fed on mulberry leaves until they are ready to spin cocoons. The cocoons are then harvested and spun into raw silk thread. Mulberry-eating silkworms account for 90 percent of China's silk output. The tussah silkworm, which feeds on oak leaves in the wild and produces a stronger and coarser thread, accounts for the remainder of China's silk supply.

Supplying enough mulberry leaves is a chronic problem in China. Many trees fall victim to cold each year. Industrial pollution ruins the leaves of others, and some are destroyed by farmers who want to use their acreage for more profitable ventures.

As a result, cocoon supply simply cannot keep up with the demands of China's expanding silk industry. In late 1987, for example, cocoon shortages led several silk factories to close down in Shanghai, Beijing, Tianjin, and Shandong and Liaoning provinces.

Increasing free market trade and lack of unified sales authority has contributed to vast fluctuations in cocoon prices. Last year, severe cocoon shortages led to price wars and speculation.

Several provinces have taken regulatory matters into their own hands. To stabilize prices, Zhejiang intends to give supply and marketing cooperatives sole responsibility for cocoon sales and to curtail sales from unlicensed enterprises. And in Shandong Province, the local CHINASILK office has been authorized to purchase all silk cocoons directly from the farmers.

There is also a need for better-quality cocoons. On average, Chinese cocoons yield half the silk thread of the Japanese variety, and the thread is of lower quality. Chinese silk research institutes are gradually introducing better silkworm breeding techniques, but the industry has not yet reached Japanese cocoon quality.

Finally, there are China's silk processing factories, many of which date from the 1940s and even earlier, and are badly in need of new equipment and technology. Some 440 of China's 757 State-owned silk factories have been undergoing gradual renovation since 1980. When this lot is completely upgraded—the target date is 1990—the remaining factories will also be modernized.

Funds for buying new equipment and technology come out of the factory's earnings from exports and domestic sales, as well as from government loans. Export-oriented silk factories may also apply to the Silk Administration under the Ministry of Textile Industry or to CHINASILK for funds.

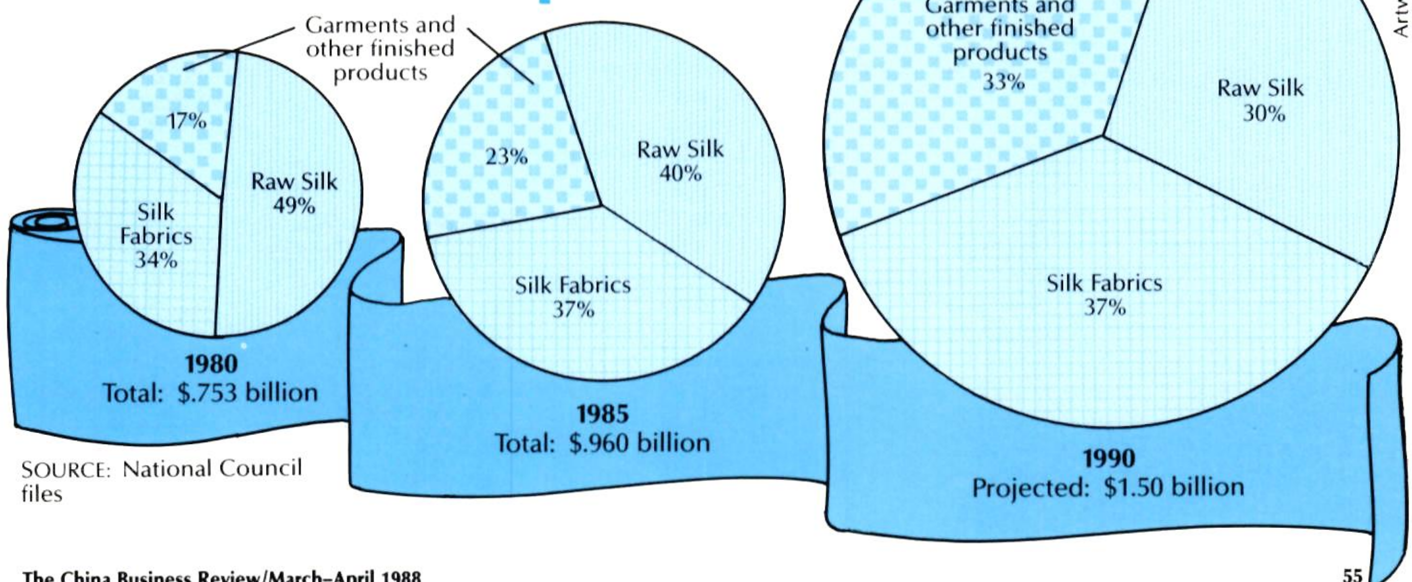
Foreign firms key to upgrading efforts

Imports of foreign technology and machinery have been pivotal to China's recent advances in silk production. To date, sales and compensation agreements have been the simplest and most common way of transferring foreign technology to the Chinese silk industry. MOFERT reports that more than 50 foreign-funded projects have been set up in the silk industry, although not all are yet in operation.

Most of China's newest weaving, dyeing, and printing machines have been acquired from Italy, Germany, and Switzerland, the world's leading makers of textile machinery. Japan, another industry leader, has also sold equipment to China.

Several joint venture projects are also helping China's silk industry learn to make better-quality garments and finished fabrics for markets in the US, Japan, and Western Europe.

Italy, whose own silk industry has been losing ground to cheaper silk goods from Hong Kong and South Korea, has found China a willing collaborator. In 1985, the Italian firm of Jermi SpA set up a $15 million joint venture weaving and finishing complex located in Yantai, Shandong Province. The project has six weaving factories with 135 Swiss and Italian looms and a dyeing and finish-



ing plant. About three-quarters of the output is slated for export. After 20 years China will assume full control of the plant.

Hong Kong has a joint venture silk printing and dyeing plant in Shekou, Guangdong with an annual targeted output of 4 million yards of fabric for export to the United States and Western Europe. And recently A. A. Blum Ltd. of Hong Kong set up a joint venture for a vertical knit operation for silk apparel with the Shunde Silk Mill in Guangdong Province. The mill will handle all stages of production from cocoon to finished garment.

Western Europe and Japan, with their well-established silk industries, have been more active than the United States in equipment sales and joint ventures in China. Several US apparel companies, including Randa Corporation, S. Shamash and Sons, Inc., and Royal Silk Ltd., have attempted to establish silk production joint ventures, but none have made it past the negotiating stage. US firms are, however, getting involved successfully in other aspects of China's silk production.

US firms bring purchasing power, fashion sense

While the tiny US silk industry may have less to offer China in the way of production technology, it has contracted for large amounts of finished garments from Chinese factories and is helping the factories improve design capabilities.

Royal Silk used to work primarily through Hong Kong but has dealt directly with China for the past four years. Royal Silk's Jerry Pike travels to China four or five times a year and says he has noticed dramatic improvements in the Chinese silk industry since 1984. "China cannot now do garments of a Parisian or Hong Kong couture, but on a scale of one to ten (one being lowest), China has improved from a two-and-a-half in 1983 to a six-and-a-half in 1987." Royal Silk has contributed to the improvement by giving patent dyes to the factories it buys from and working with the Chinese to improve dye testing techniques.

Joe Collins, a small company based in Atlanta, Georgia, also shares fashion design expertise with its Chinese sources. Collins himself designs the company's menswear line, working closely with several factories to create garments that will appeal to US consumers. Collins designs many garments from washable silk and is helping China's silk industry develop this functional fabric for American customers.

Most US buyers agree that the quality of Chinese silk is excellent, but that advanced dyeing, printing, and weaving techniques still present problems for the export industry. Chinese silk factories also have trouble mass-producing goods of consistent quality and with the quick turnaround required to stay abreast of fast-changing fashion markets.

Still, most US companies are positive about dealing directly with China's silk industry, citing the ample supplies of silk available and relatively low labor costs. Most significant, working in China gives US manufacturers of finished garments the competitive edge they need to keep pace with low-cost producers from South Korea, Taiwan, and Hong Kong.

As China works to grab a larger share of the market for finished silk products, it is gaining a wide variety of valuable experience from its cooperative ventures with US and other foreign firms. Although China is not about to overtake the Italian silk industry any time soon, as its silk industry modernizes and moves upmarket, competitors had better look out. 完

Photos by Beverly Musolf LoPinto

China's first US silk exhibit, held in New York City last fall, attracted both prospective buyers and interested observers.

China's silk patterns are becoming more fashionable, but to significantly increase exports more advanced dyeing, printing, and weaving techniques are needed.

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CHINA BUSINESS

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Jennifer Koch

The following tables contain recent press reports of business contracts and negotiations exclusive of those listed in previous issues. For the most part, the accuracy of these reports is not independently confirmed by *The CBR*. Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in the IMF's *International Financial Statistics*.

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

中外贸易

SALES AND INVESTMENT THROUGH DECEMBER 31

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported
Agricultural Commodities	
China's Imports	
Apple and Pear Marketing Board (New Zealand)	Will provide 950 tonnes of apples in countertrade agreement for 380 tonnes of mandarin oranges. 10/87.
US Department of Agriculture	Sold one million tonnes of wheat at subsidized prices. 11/87.
US Department of Agriculture	Sold 150,000 tonnes of hard red winter wheat. 12/87.
Other	
(FRG)	Will donate 10,000 tonnes of grain. 11/87.
Agricultural Technology	
China's Imports	
NA (FRG)/Nanjing Down Processing Factory	Supplied down processing production line. $1.86 million (¥7 million). 9/87.
NA (Spain)/Xupu County, Hunan	Sold production line for canned oranges. 11/87.
Locker Industries Ltd. (UK)	Will supply 12 ROTEX 4-deck screening machines for fish farming. $57,500 (£35,000). 11/87.
Elecster Oy (Finland)/ CNTIC and Jiuquan Milk Plant, Gansu	Will provide milk processing line capable of sterilizing and packaging 1,000 liters per hour. $1.1 million (FM4.71 million). 12/87.
(Finland)/Tianjin No. 2 Municipal Dairy Products Factory	Will finance establishment of Tianjin Dairy Product Development Center. $3.4 million (FM15 million). 12/87.
Investments in China	
Outreach International Ltd. (US)/Anda, Heilongjiang	Will set up cattle breeding center. $5 million. 10/87.
Mitsmannhaim Co. Ltd. (FRG)/Fengguang Machine Factory	Signed contract establishing 15-year Yingkou-Mannhaim Aquatic Breeding Co. Ltd. joint venture. Registered capital: $3.3 million (DM6 million). (FRG:25%-PRC:75%). 10/87.
Class OHG (FRG)/Kaifeng Combine Harvester Plant, Beijing	Signed contract to jointly develop rice combine harvester. 11/87.
Zhengda Group (Thailand)/Jilin	Will jointly construct chicken meat processing plant. 12/87.
Chemicals and Chemical and Petrochemical Plants and Equipment	
China's Imports	
(US)	Signed agreement to supply petrochemical production equipment. $52 million. 10/87.
Two Japanese companies/Jinshan Integrated Trading Co. and Shanghai Electrochemical Plant	Will provide caustic soda production equipment. $28 million (J¥4 billion). 11/87.
Balakovo Chemical Works (USSR)	Will supply 880 tonnes of double superphosphate. 11/87.
ERF (Holdings) PLC (UK)	Will consult on layout of plastics facility. 11/87.
Costain Petrocarbon (US)/Shanghai Investment and Trust Corp. and Gaoqiao Petrochemical International Trade Co.	Will provide 10,000 TPY polystyrene plant. 11/87.
Tecnimont SpA (Italy)	Will assist in constructing polypropylene factory. $40 million. 11/87.
Daiki Engineering Co. (Japan)/China National Construction Corp.	Will transfer technology for phosphoric acid tank linings. 11/87.
Ronson (UK)	Will supply five million butane gas aerosols. $2.5 million (£1.5 million). 11/87.
Lummus Crest (Canada), subs. of Combustion Engineering (US)/China Petrochemical Corp.	Began production of 300,000 TPY ethylene units at two petrochemical plants. 12/87.
Nobel Ab (Sweden)/ Shanghai Wusong Chemical Plant	Will provide technology and equipment to produce toluene diisocyanate. $42 million (¥160 million). 12/87.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Industry Import-Export Corp.; CASS: Chinese Academy of Social Sciences; CATIC: China National Aero Technology Import-Export Co.; CCTV: China Central Television; CEIEC: China Electronics Import-Export Corp.; CEROILFOODS: China National Cereals, Oil, and Foodstuffs Import-Export Corp.; CHINATEX: China National Textiles Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNCCC: China National Chemical Construction Co.; CNOOC: China National Offshore Oil Corp.; CNTIC: China National Technical Import Corp.; COSCO: China Ocean Shipping Co.; CPIC: China National Corporation of Pharmaceutical Economic and Technical International Cooperation; ETDZ: Economic and Technical Development Zone; ICBC: Industrial and Commercial Bank of China; ICBC: Industrial and Commercial Bank of China; INSTRIMPEX: China National Instruments Import-Export Corp.; ITIC: International Trust and Investment Corp.; LIGHT INDUSTRY: China National Light Industrial Products Import-Export Corp.; MACHIMPEX: China National Machinery Import-Export Corp.; MAI: Ministry of Aviation Industry; MEI: Ministry of Electronics Industry; MINMETALS: China National Metals and Minerals Import and Export Corp.; MLI: Ministry of Light Industry; MOCI: Ministry of Coal Industry; MOPI: Ministry of Petroleum Industry; MPT: Ministry of Posts and Telecommunications; MWREP: Ministry of Water Resources and Electric Power; NA: Not Available; NDSTIC: National Defense, Science, Technology, and Industry Commission; NORINCO: China North Industries Corp.; SEZ: Special Economic Zone; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SITCO: Shanghai Investment and Trust Corp.; SPC: State Planning Commission

Investments in China

Britain Oxygen Co. (UK)/ Shanghai Wusong Chemical Plant	Will set up and manage gas liquefaction facilities. $33 million (£20 million). (UK:25%-PRC:75%). 10/87.
TK Group (UK)	Will invest in petrochemical center in Shenzhen, Guangdong. $3.3 billion (£2 billion). 11/87.

Construction Materials and Equipment

China's Imports

Danieli SpA (Italy)/Hua Ning International Trading Co., Jiangsu	Will supply 200,000 TPY high-speed steel rod mill. 11/87.

Investments in China

NA (US)	Formed joint venture to produce glass fiber reinforced bathtubs at Shaanxi Glass Fiber Factory. 9/87.
American Progressive Enterprises Inc. (US)/Mr. Han Wenguang, Tianjin private business	Launched joint venture to produce solar-energy water heaters. 11/87.

Consumer Goods

Investments in China

NA (Japan) and NA (HK)	Producing toys at China Fuwan Toys Ltd., a 15-year joint venture. $4 million. 9/87.
NA (US)/Tianjin Economic and Technological Development Zone	Formed joint venture to produce interior decorative goods. (US:30%-PRC:70%). 9/87.
NA (UK)/Shanghai Soap Factory	Set up joint venture to produce toilet soap. 9/87.
NA (France)/Shanghai Household Chemicals Factory	Signed agreement to jointly produce two French perfumes. 9/87.
Slovenijales Co. (Yugoslavia)/Beijing Miyun Wooden Furniture Plant	Started cooperative venture to annually produce 8,000 sets of furniture. 10/87.
S.C. Johnson & Son Inc., Johnson Wax division (US)/Shanghai Daily Chemical Industrial Development Corp.	Established 25-year joint venture to produce shoe polish, wax products, insecticides, and cosmetics. $7.2 million. 11/87.
Wheaton Industries (US)/ Beijing General Glassworks	Established Beijing Wheaton Glass Corporation Ltd. joint venture to produce 14,000 TPY of glassware. $12 million (¥44.12 million). (US:45.7%-PRC:54.3%). 11/87.
Two private businessmen (Taiwan)/Plastics factory, Anhui	Set up joint venture to produce shoes. 12/87.

Electronics, Electrical Equipment, and Computer Software

China's Imports

Memorex Co. (US)/Beijing branch of BOC	Will supply plug-compatible peripherals. $1.9 million. 10/87.
Unisys Co. (US)/Xinjiang	Supplied computer system to be used in Karamay Oilfield in Xinjiang. $62.21 million. 10/87.
Asian Instruments Co. (HK), distributor for Texas Instruments Inc. (US)/Durable Electrical Metal Factory, joint venture between Durable Electrical Metal Factory, Ltd. (PRC) and Windmere Corp. (US)	Supplied Texas Instruments System 1500. 10/87.
IBM Corp. (US)/Shanghai Industrial and Commercial Bank	Sold four sets of 4381-P13 computers and 800 terminals. 11/87.
Kapiti Ltd. (UK)/BOC	Supplied automated trade financing software package. $164,000. 11/87.
IBM Corp. (US)/ICBC	Will supply automated banking equipment for ICBC branches at Yantai, Shandong; Hefei, Anhui; Foshan, Guangdong; Kunming, Yunnan; and Xi'an, Shaanxi. 11/87.
Victor Co. (Japan)/China Tongguang Electronics Corp., Beijing	Opened Tongguang Shengli China Technical Center joint venture to train personnel in repairing electrical products. $3.3 million. 11/87.
Adra Systems Inc. (US)/ Bureaus of energy, forestry, and machinery of Hunan Province	Will supply 20 Cadra II mechanical design and drafting software systems. 11/87.
Cable and Wireless (UK)	Will supply three Hotel Applications System packages to hotels in Beijing, Liaoning, and Jilin. $640,000. 12/87.
Dataprep Ltd. (HK)	Will provide five EECO property management systems to hotels in Liaoning, Shandong, Guangdong, Fujian, and Jiangsu. 12/87.
MSA International Inc. (HK), subs. of Management Science America (US)/Shanghai Aviation Industrial Corp.	Supplied manufacturing software for use with IBM's 4381 DOS/VSE system. $270,000. 12/87.

Investments in China

GCA Corp. (US)/CEIEC	Established CEIEC-GCA joint venture electronics service center. 10/87.
Wang Pacific Ltd., subs. of Wang An Corp. (US)/ Hong Kong branch of China Everbright Holdings Co. Ltd.	Formed partnership to jointly market software applications and hardware to Hong Kong firms. 11/87.
Eclatec S.A. (France)/Liao Yuan Luminaire Factory, Shanghai	Signed contract establishing SINOLUX joint venture to produce street lamps and mining and construction lamps. $3.5 million. 11/87.

Other

Hayes Microcomputer Products (US)	Will set up modem repair shop in Beijing. 12/87.
Philips Co. (Netherlands)/ Jiangsu	Signed memorandum for cooperation in the electronics industry. 12/87.

Electronics (Consumer)

China's Imports

Owens-Illinois Television Products Inc. (US), Sumitomo Trading Co., and Nippon Electric Glass Co., Ltd. (Japan)/Anyang, Henan	Will construct plant to manufacture glass parts for color TV bulbs. $65 million. 9/87.

China's Investments Abroad

Treatlink Ltd. (UK)/China Huanyu Electronic Union Co.	Set up a joint venture to assemble TV sets in England. $493,000 (£300,000). (50-50). 10/87.

Engineering and Construction

Investments in China

Hwa Hong Corp. Ltd. (Singapore)/China Nonferrous Metals Industrial Foreign Engineering and Construction Corp.	Formed NFC-HWA Hong Construction and Trading Pte Ltd. joint venture to construct industrial buildings and trade construction materials. $5 million (S$10 million). (50-50). 11/87.

Finance and Banking

Swiss Confederation (Switzerland)	Will provide 100 million Swiss francs ($67 million) in mixed financing. 10/87.
Hungarian Foreign Trade Bank Ltd. (Hungary)/BOC	Signed agreement to settle barter trade through banks. 10/87.
Agency for Technical and Economic Cooperation (Sweden)	Will provide soft credit loan for construction of Sanbao Inland Terminal wharf in Hangzhou, Zhejiang. $1.9 million (SK12 million). 11/87.
14-bank international syndicate/Huaneng International Power Development Corp.	Signed 3 1/2-year $90 million syndicated loan agreement to finance imports for Shidongkou No. 2 Power Plant in Shanghai. 11/87.
Hong Kong branch of Credit Commercial de France/CITIC	Signed 5-year, $4 million loan to finance Lin Ru Coking Factory in Henan. 12/87.
Bank of America Corp. (US)/China Merchants Bank, Shekou SEZ	Signed agreement to establish correspondent banking relationship. 12/87.

Banque National de Paris and Banque Francaise du Commerce Exterieur (France)/CITIC	Signed buyer's credit agreement to provide 93.5 million francs ($15.5 million). 12/87.
Deutsche Bank AG and 30 international banks/SINOPEC	Will provide 10-year, $150 million two-tranche loan. 12/87.
Credit Suisse (Switzerland)/ICBC	Signed two agreements to set up correspondent banking relationship and to exchange trade and technical information. 12/87.

Food Service and Food Processing

China's Imports

Ferrari (Italy)	Will supply Ferrari Brut 1982 to hotels and friendship stores in Beijing and Guangzhou. 10/87.
Alto-Shaam Inc. (US)	Signed three letters-of-intent to provide food processing machinery in countertrade arrangement. 12/87.
Munk and Schmitz (FRG) and Global Cathay Ltd. (HK)/Xi'an Brewery Factory	Will supply 23 lined beer-brewing tanks. 12/87.

Investments in China

Voest Alpine Intertrading, subs. of Voest Alpine (Austria)/Zhanjiang, Guangdong	Will build 5,000 TPY citric acid plant. 11/87.
Sara Lee Corp. (US)/Yue Xiu Enterprises	Formed joint venture to produce cookies for two Guangzhou outlets. 12/87.
Sara Lee Corp. (US) and Dairy Farm Co. (HK)/Three PRC partners	Formed beverage joint venture in Ningbo, Zhejiang. 12/87.

Machine Tools and Machinery

China's Imports

BUSM Co. Ltd. (UK)/LIGHTINDUSTRY	Signed contracts to supply machinery to Hunan and Jiangxi factories. $400,000. 8/87.
Rhodes Pierce-All (UK)	Will transfer sheet metal punch press technology. 8/87.
NA (Yugoslavia)	Will supply machine tools. $560,000. 9/87.
Kranj Electric Co. (Yugoslavia)	Will supply numerical control machine tools and electronic parts and components. $30 million. 9/87.
Highfield Gears (UK)/Beijing International Culture Exchange Center	Will supply gearing. 10/87.
Devlieg Machine Co. (US)	Will supply machining system to make oil field pumps. $1 million. 11/87.
McGill Environmental Systems, subs. of International Technology Corp. (US)	Supplied 700 specialized burners. More than $1 million. 11/87.

Investments in China

AVL List GmbH (Austria)/INSTRIMPEX, Beijing	Opened cooperative venture service center for Austrian-built engines. 11/87.
Allen-Bradley Co., subs. of Rockwell International (US)/Xiamen SEZ Construction and Devpt. Corp., MACHIMPEX, Ministry of Metallurgical Industry, and China National Machine-Building Industry Supply Sales Corp.	Formed Allen-Bradley Enterprise Xiamen Ltd. joint venture to produce, sell, and service automation control products. (50-50). 12/87.

Other

British United Shoe Machinery Co. (UK)/CNTIC	Signed agreement to establish shoe manufacturing machinery service center. 11/87.

Medical Equipment and Devices

China's Imports

Cardio-Pace Medical Inc. (US)/Qinling Semiconductor Co., Baoji, Shanxi	Opened Qiming Medical joint venture to produce cardio-pacemakers. 8/87.

Investments in China

Two Japanese companies/Two PRC companies and Tianjin ETDZ	Began production of polymer infusion and blood recycling apparatus at joint company. $5 million. (50-50). 9/87.
Crown Eyeglass (UK)/Shenzhen Economic Development Board	Will sign agreement to set up eyeglass factory and branch outlets. 10/87.
Johnson & Johnson (US)/Shanghai Hygenic Supply Works	Signed agreement to set up Shanghai Johnson & Johnson Ltd. to produce adhesive bandages. Over $5 million. (US:60%-PRC:40%). 12/87.

Metals, Minerals, and Processing Technology

China's Imports

Italimpianti (Italy)/Tianjin	Signed contract to build 500,000 TPY steel tube factory. $2.3 million (IL300 billion). 9/87.
Mineral Processing Systems Inc. (US)/Dexing Copper Mine, Jiangxi	Will supply complete ball mills with classifiers, pumps, and controls. $11 million. 10/87.

Investments in China

Victoria State (Australia)/CITIC	Established Bohai Aluminum Industries joint venture to build aluminum rolling mill and extrusion plant in Qinhuangdao port. 7/87.
NA (Singapore)/Tianjin Welding Factory and Tianjin ETDZ	Producing welding rods at Tianjin-Jinyan Welding Materials Co. Ltd. joint venture. 9/87.

Mining Equipment

China's Imports

Five Canadian companies/Taibao County, Shanxi	Will supply coal mining equipment. $57.5 million. 11/87.
Magran Marble Industrial Corp. Ltd. (Macao)/Sichuan branch of MINMETALS	Signed agreement to establish Baoxing Marble Ltd. joint venture to mine and process marble in Sichuan. $2.4 million. 11/87.

Investments in China

Tamrock (Finland)/CNTIC and Ministry of Railroads	Inaugurated drillers technology service center to facilitate mine and tunnel construction. 11/87.

Packaging Materials

Investments in China

Chiap Hua Group (HK)/CITIC and China Resources (Holdings) Co.	Will set up 70,500 TPY joint venture boxboard mill. $20.5 million. 11/87.

Petroleum, Natural Gas, and Related Equipment

China's Imports

GEC Switchgear, subs. of GEC (UK)	Will supply switchgear to the Shengli oil field. $1.6 million (HK$12.5 million). 10/87.
Industrial Alloy Fabricators Inc. (US)	Sold methanol extracting device. 11/87.

Investments in China

National Gas Co. (France)/Beijing Municipal Government and Shanghai Gas Co.	Signed joint venture agreement for research and development of industrial gas production. 11/87.
Amoco Orient Petroleum Inc. (US)/CNOOC	Signed petroleum exploration contract for area 06/15 of the Bohai Gulf. 11/87.
Japan Petroleum Exploration Co. Ltd. (Japan)/CNOOC	Signed petroleum exploration contract for area 13/03 of the Bohai Gulf. 12/87.

Pharmaceuticals

Investments in China

Marubeni Corp. and a Japanese medical venture company (Japan)	Will set up joint venture to process elastese to treat arteriosclerosis. Registered capital: $2.1 million (J¥280 million). (MC:40%-Other:10%-PRC:50%). 11/87.
Johnson & Johnson (US)	Will conduct feasibility study funded by the US Department of State of factory to manufacture tylenol analgesic products. 12/87.

China's Investments Abroad

A.T.B. Health Beverage Co., Ltd. (Canada)/Hangzhou Second Traditional Chinese Pharmaceutical Factory	Signed contract to set up joint venture to produce traditional Chinese pharmaceuticals in Canada. 10/87.

Ports

China's Imports

Port of Gothenburg Consultancy (Sweden)	Signed two World Bank contracts to evaluate technical and environmental problems in Xiamen, Ningbo, and Shanghai harbors. 9/87.
Port Authority of New York and New Jersey (US)	Will provide management and operations training for executives from Tianjin, Qingdao, Dalian, Ningbo, and Shanghai ports. 10/87.

Investments in China

Encinal Co. (US)/Nanjing Port Administration, Jiangsu	Opened Nanjing International Container Loading and Unloading Co. joint venture specializing in harbor construction and operating out of Xinshengwei Port. $3 million. (US:27.8%-PRC:72.2%). 11/87.

Power Plants and Equipment

China's Imports

Elkraft (Denmark)/Fushun, Liaoning	Signed contract to draft plans for 100 megawatt power station. 9/87.
Uni-Phayse Inc. (US)/Metallurgic Equipment Corp.	Will supply capacitor banks and energy-saving equipment. $1 million. 10/87.
Asea Switchgear (Sweden)/Shanghai United Electrical Appliance Corp.	Signed memorandum to provide zinc oxide surge arresters technology. 11/87.

Printing, Broadcasting, Publishing, and Media

Investments in China

Ampex Corp. (US)/Shanghai Broadcasting Equipment Factory	Will cooperatively produce color television trucks for scene shooting and live telecasting. 11/87.
Guam Travel Service Center (Guam, US territory)/China Tian'e International Travel Service Center	Established 10-year joint venture advertising firm. $1.1 million. (50-50). 11/87.
Daniel J. Edelman (US)/China Media Development, subs. of New China News Agency	Signed agreement to cooperate on public relations projects. 11/87.

Other

(Spain)	Signed agreement to cooperate in shortwave transmitting services. 11/87.

Property Development and Property Management

China's Imports

Ramada International Inc. (US)/World China Trade Inc. and Beijing Asia Hotel Co. Ltd.	Signed agreement to manage the Asia Hotel in Beijing. 11/87.
Richard Ellis International (US)/China World Trade Center, Beijing	Appointed sole marketing agent for the China World Trade Center. 11/87.
Sheraton Asia Pacific Corp., subs. of ITT Corp. (US)/Shanhaiguan, Hebei Economic Development Corp.	Signed contract to manage Sheraton Old Dragon Head Hotel. 11/87.
Lee Gardens Hotel International Group (HK)	Signed three management contracts for: Shantou International Hotel, Guangdong; Zhuhui Hotel, Jiangsu; and Tianping Hotel, Beijing. 12/87.

Investments in China

Yamato House Kogyo and Marubeni (Japan)/Beijing East Wind Agriculture, Industry, and Commerce Corp.	Established Beijing Co., Ltd. joint venture to service apartments, condominiums, and sports facilities built exclusively for foreign residents. $8.4 million (J¥1.2 billion). 10/87.
Lee Gardens Hotel International Group (HK)/China Law Academic Exchange Service Co.	Constructing the joint venture Tianping Hotel featuring a law reference room and law consulting services. $39 million. 12/87.
Linwa Engineering Co. (HK)/Suzhou Travel and Tourism Corp., Jiangsu	Began construction on 400-room Zhuhui Hotel joint venture. 12/87.

China's Investments Abroad

David Builders Inc. (US)/China State Construction Engineering Corp. (CSCEC)	CSCEC bought 107 acres in Florida and will develop 400 multi-family dwellings. $1.7 million. 9/87.

Scientific Instruments

Investments in China

Cotherm Co. (France)/Beijing	Signed letter of intent to co-produce thermostats. 11/87.

Ships and Shipping

China's Imports

AP Moller (Denmark)/COSCO	Sold five C-series container ships. 10/87.

Investments in China

Gentrade PTE Ltd. (Singapore)/NA	Signed cooperative production agreement for rotary propeller tugs. 7/87.
NA (Singapore)/Qingdao, Shandong	Opened Wanduli United Co. 10-year joint venture to repair ships. 10/87.
TNT Skypak, subs. of TNT Ltd. (Australia)/SINOTRANS	Will sign agreement establishing joint venture air courier service. (50-50). 12/87.

Telecommunications

China's Imports

Piezo Technology Inc. (US)/Quartz Enterprise Ltd.	Provided technology and training to manufacture monolithic quartz crystal filters. 10/87.
Plessey PLC (UK)	Will supply 26 System X exchanges for China's railways. $10.5 million (£6.4 million). 10/87.
E.B. Nera (Norway)/INSTRIMPEX	Will supply maritime satellite ground station. $8.6 million. 11/87.
Philips Corp. (Netherlands)/CEIEC	Signed technology transfer agreement for computerized control switchboard techniques and production. 12/87.
Cable and Wireless (UK)	Will supply T-bar switching equipment for five branches of ICBC. 12/87.
NA (Switzerland)/Tianjin	Supplied computer-controlled switching system. 12/87.

Investments in China

NA (Japan)/Xi'an Cable Factory	Will produce optical cable. 10/87.
NA (Canada)/Shenzhen	Will set up a joint venture to produce telecommunications equipment. 11/87.
Cable and Wireless (UK)/Tianjin Posts and Telecommunications Administration	Signed agreement for a telecommunications development program including installation of digital telecommunications equipment and mobile radio telephone service. 11/87.
Rolm Hong Kong Ltd., subs. of IBM Corp. (US)/Beijing Telephone Bureau	Opened service center for imported computer-controlled telephone exchanges. 12/87.

Textiles and Textile Equipment

Investments in China

DMC Textile Group (France)/Shanghai	Will produce printed silk. 8/87.
Yoin Corp. (Japan)/Jinjiang Hotel, Shanghai	Set up Jinjiang-Yoin Garment Co. joint venture to produce apparel. 9/87.
World Co. (Japan)/Shanghai Clothing Corp.	Established Shanghai World Modern Fashion Corp. joint venture to produce apparel. Registered capital: $1.2 million. 10/87.
Santei Co. Ltd. (Japan)/Mailyard Garment Co. Ltd.	Signed countertrade agreement to produce 40,000 garments for export at preferential prices in exchange for technical training of 10 personnel per year in Japan. 10/87.

NA (Japan)/Nantong, Jiangsu	Established Dadong Co. Ltd. joint venture cotton textile mill to produce table napkins. $1 million. (J:40%-PRC:60%). 12/87.

Transportation and Transportation Equipment

China's Imports

Lucas (UK)/Luoyang Tractor Factory, Henan	Will transfer diesel injection technology. 8/87.
General Motor Co. (Brazil)	Sold 844 automobiles. $5.5 million. 9/87.
FAP Automobile Factory (Yugoslavia)	Will provide parts for 72 passenger buses. 9/87.
Fuji Heavy Industries Ltd. and Nissan Diesel Motor Co. (Japan)	Will supply 180 kits to make medium-size buses. 11/87.
Industrie Pirelli SpA (Italy)/Chinese Chemical Construction Corp.	Will equip radial tire production facility. $13 million. 11/87.
Isuzu Motors Ltd. (Japan)/Jiangxi Automobile Factory	Will build truck repair base in Nanchang, Jiangxi. 12/87.
Hino Motors Ltd. (Japan)/ China Changchun No. 1 Automobile Factory	Will supply diesel truck engines. 12/87.

Investments in China

Yamakyu Corp. (Japan)/ Tianjin branch of SINOTRANS	Established the Tianjin Tianshan Container and Truck Transportation Corp., Ltd. 7/87.
Hutchison Whampoa (HK) and Lockheed (US)/ CAAC	Will establish China Southern Aircraft Engineering Co. joint venture to service aircraft, particularly those operating out of Guangdong. $30 million. (HK:25%-US:25%-PRC:50%). 8/87.
Messerschmitt-Bolkow-Blohm (FRG)/CATIC	Conducting feasibility study for joint venture to produce the MPC-75 passenger aircraft. Initial stage: $130 million; production stage: $870 million. 8/87.
Kolbenschmidt AG (FRG)/Shanghai Automobile Import and Export Corp. and Shanghai Piston Factory	Signed agreement to produce aluminum pistons. 8/87.
Nissin Corp. (Japan)/ SINOTRANS	Established Sino-Nissin Transportation Co. joint venture to set up facsimile and on-line computer links to provide marine and air cargo information. $140,000 (J¥20 million). (50-50). 9/87.
Lufthansa Airlines (FRG)/ CAAC	Established joint venture aircraft maintenance center. $160 million (¥600 million). 10/87.
Shortridge Ltd. (HK)/ CITIC and Beijing No. 2 Automobile Works	Signed contract establishing Beijing Light Automobile Co. Ltd. joint venture to produce light-duty trucks. $143 million (¥537 million). (HK:25%-CITIC:70%-BAW:5%). 11/87.

Other

Federal Aviation Administration (US)/CAAC	Agreed to train Chinese personnel responsible for inspecting CAAC aircraft for airworthiness. 8/87.
Bauer Aerospace (US)/ CAAC	Discussing service, maintenance, and overhaul agreement. 9/87.
Toyota Motor Corp. (Japan)/Beijing Capital Auto Corp.	Established Capital Auto-Toyota Drivers Training Center. 10/87.
NA (Sweden)/CAAC	Signed memorandum to train air traffic and aviation engineering personnel. 11/87.
Detroit Diesel Allison, div. of General Motors Corp. (US)/CNTIC	Established a service and sales center in Beijing. 11/87.

Miscellaneous

Investments in China

Lancashire Polytechnic and Lancashire Enterprises Ltd. (UK)/College of Commerce, Beijing	Will establish joint venture for language training and marketing advice and information to increase UK exports to the PRC. 7/87.

Other

NA (Japan)	Established Sino-Japanese New Industry Joint Development Society with subdivisions dealing with light industry, medicine, tourism, telecommunications, transport, and energy. 6/87.
US Association of Physical Plant Administrators of Universities and Colleges (US)/China Association of College Logistics Management Studies	Signed agreement to strengthen exchange of administrative information and research achievements, and to cooperate in organizing visits, seminars, symposiums, and training courses. 6/87.
Ford Foundation (US)/ CASS	Signed agreement to provide assistance for educational, scientific, cultural, economic, and social development activities in order to expand academic exchanges between China and the US. 7/87.
(Malaysia)	Signed agreement to cooperate in developing trade and business opportunities. 8/87.
Ministry of Research and Technology (FRG)/China Great Wall Industrial Corp. and Science and Technology Commision	Signed two agreements on space microgravity testing utilizing PRC return satellites. 12/87.

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Address

1818 N Street, NW, Suite 500
Washington, DC 20036 USA
(202) 429–0340
Telex: 64517 NCUSCTUW
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BEIJING OFFICE

Director for China Operations: Martin Weil
Assistant Adviser: Liu Jingming
Suite 1136, Beijing Hotel
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