THE CHINA BUSINESS REVIEW

MARCH-APRIL 1993

VOLUME 20, NUMBER 2

SWITCHING INTO HIGH GEAR

■ Northeast Asia: The Next ASEAN? ■ China Steps Up Its GATT Bid

After a gruelling business journey that had taken me through five countries in two weeks, I finally succumbed to fatigue. Yet one final assignment in Beijing remained. Fortunately, my retreat into The Palace refreshed my body and soothed my soul. Its traditional charm and modern sophistication led me toward exquisite serenity like a path paved with silk.

王府飯店
THE PALACE HOTEL
Beijing

SHARE THE EXPERIENCE

The Leading Hotels of The World Tollfree: (800) 223 6800 Preferred Hotels & Resorts Worldwide Tollfree: (800) 323 7500
The Peninsula Group Reservations Centre, Hong Kong. Tel: (852) 840 7722 Fax: (852) 845 5508
The Palace Hotel. 8 Goldfish Lane, Wangfujing, Beijing. 100006 PRC. Tel: (86) 1 512 8899 Fax: (86) 1 512 9050
The Peninsula: Hong Kong • Manila • New York • Beverly Hills • The Palace Hotel Beijing • The Kowloon Hotel Hong Kong

THE PENINSULA
GROUP

CONTENTS

March-April 1993

Cover illustration by John Yanson

FOCUS: Telecommunications

FEATURES

DEPARTMENTS

Washington's China Policymakers

President Clinton has now named the top-ranking officials who will be formulating foreign trade policy under his Administration. Together with civil servants in the federal agencies, these people will be devising policies on crucial China-related issues such as Most Favored Nation (MFN) trading status, the General Agreement on Tariffs and Trade (GATT), and investigations into China's trade practices. To date, China trade-related positions in the government include:

Department of State

Secretary of State: Warren Christopher
Deputy Secretary: Clifton Wharton
Under Secretary for Economic and Agricultural Affairs: Joan Spero
Assistant Secretary for East Asian and Pacific Affairs: Winston Lord
Director, Office of Chinese and Mongolian Affairs: Robert Perito*

Office of the US Trade Representative (USTR)

US Trade Representative: Mickey Kantor
Assistant US Trade Representative for Japan and China: Ira Wolf
Director, Office of Chinese and Mongolian Affairs: Lee Sands

National Security Council (NSC)

National Security Advisor: Anthony Lake
Assistant National Security Advisor: Samuel Berger
NSC Special Assistant to the President for Asian Affairs: Kent Wiedemann

Department of Commerce

Secretary of Commerce: Ron Brown
Deputy Assistant Secretary for East Asia and the Pacific: Peter Cashman (acting)
Director, Office of China and Hong Kong: Don Forrest

* Robert Perito will be replaced by Donald Keyser this summer.

Less IDA Money for China?

Representatives of donor countries to the World Bank's International Development Agency (IDA) approved the tenth replenishment of the agency's resources in December. Total funding for fiscal years 1994-96 will be around $18 billion, roughly the same figure allocated for the previous three-year period. The Bank's senior management, in consultation with Bank country department directors, has broad latitude to determine which projects will receive IDA funding.

IDA was established in 1960 to provide the poorest developing countries with no-interest credits—rather than the Bank's low-interest loans—to target poverty, education, the environment, and other critical problems. While IDA funds are aimed at countries with annual per capita incomes of below $610, a number of middle-income countries, including China and India, receive a blend of IDA credits and World Bank loans. In the funding cycle just ended, China and India alone received 30 percent of all IDA funds. In the new funding cycle, however, all "blend" countries supposedly will be limited to acquiring 35 percent of total IDA funds. Moreover, as some of the former Soviet republics have now joined the pool of IDA-eligible countries, China and India may find their shares of IDA funds will decrease even more sharply.

The apparent effort by the donor countries to keep a tight rein on the Chinese and Indian shares of IDA funding probably reflects the agency's goal of directing IDA funds to the poorest nations. Though the donor countries stopped short of saying that China and India are too rich for IDA eligibility, the two countries might find themselves weaned from IDA funding in the next replenishment round.

While the decline in IDA funding will likely have little immediate impact on Chinese projects already in the World Bank pipeline (China received nearly $950 million in IDA credits for eight projects in the 1992 fiscal year), future projects could well be affected. Upcoming discussions between the World Bank and the Chinese Ministry of Finance to set up a new, three-year schedule for World Bank activity in China could reveal changes to both the scope and type of projects for which IDA funds will be sought. —*VLW*

New Prison Labor Bills Hit Washington

Two pieces of legislation introduced in early 1993 in the US Congress aim to ensure that no Chinese goods produced by prison labor enter the United States. Identical bills before the House and Senate—introduced by Representative Gerald Solomon (R-NY) and Senator Jesse Helms (R-NC), respectively—would require US importers to certify to the Secretary of the Treasury that any product they purchase from China has not been made by forced labor. Those found guilty of importing such goods could be fined up to $1 million. The bills also call for the United States to press China to allow international organizations such as the Red Cross to inspect prison-labor factories and farms to ensure none of their output is destined for the United States.

Many trade analysts view the proposed measures as superfluous. Long-standing US legislation already prohibits the import of goods made with forced labor and past investigations have found that few prison-labor goods from China reach the US market. Moreover, in a bilateral Memorandum of Understanding on prison labor signed last autumn, the United States and China pledged to prevent the export of Chinese prison-made goods and agreed to let US Customs officials inspect sites suspected of using forced labor to produce goods for export to the United States.

—*AAF*

Letter from the Editor

Just a quick note to introduce you to our new department, Survey. Survey gives you a chance to comment on important issues and help determine future contents of *The CBR*. Here's how it works: each Survey consists of a short list of questions on a timely subject in China business. Simply check off your answers, copy the page, and then mail or fax it back to us. We will summarize and analyze the results in the next issue. We believe Survey will help us keep in step with your business concerns, as well as enable you to learn how your views compare with those of your colleagues.

Appearing on the inside back cover, this issue's Survey deals with the United States' China policy under the Clinton Administration. We've asked you to share your thoughts on the subjects of MFN, GATT, and a business code of ethics for China. All returned surveys will be kept confidential, of course. If we receive a strong response, we will share our findings with the new Administration to ensure it is informed of the business community's views. So please take a few minutes and add your voice—we look forward to hearing from you.

Best regards,

Pamela Baldinger

Pamela Baldinger
Editor

China's Economy Heats Up—Perhaps Too Quickly

With 12 percent GNP growth and a 20 percent increase in industrial output last year, China's economy posted staggering gains at a time when many industrialized nations were still struggling to climb out of a global recession. In some provinces, industrial output soared by 30-40 percent. Foreign trade also hit an all-time high in 1992, with China's exports and imports up 15 and 26 percent, respectively.

But inflation—the "evil twin" of economic growth—also rose steadily last year, prompting officials in Beijing to propose macroeconomic controls to slow the economy. Though the cost-of-living index was officially estimated at 5 percent, inflation in some cities was reportedly in the double digits. Credit grew by at least 30 percent, fueling excessive fixed-asset investment. Beijing no longer cites the industrial price index, possibly because it would indicate that inflation is getting out of hand, as occurred in the late 1980s.

Despite the consensus within the leadership to limit economic growth to 8-9 percent this year, it is uncertain whether Beijing will be able to gently brake the economy, or even how it will attempt to do so. It is also far from clear whether such efforts will be more successful than those adopted in 1988-89, when a clampdown on credit reduced economic growth significantly. —*VLW*

SHORT TAKES

High Demand for Dollars

Since December, the *renminbi* (RMB) has been dropping against the dollar at China's foreign exchange adjustment (swap) centers as hard-currency holders, spurred by rumors of devaluation and convertibility, have held back from selling. Last month, the State Administration of Exchange Control (SAEC) took the unusual step of "strongly denying" that any large devaluation of the RMB is planned. Despite that official statement, the swap rates at all centers have topped ¥8/$1, with some selling RMB at nearly 50 percent above the official rate of ¥5.77/$1.

China Posts New Ambassador to the US

China's ambassador to the United States, Zhu Qizhen, will return to China in March after a three-and-a-half year assignment. He will be replaced by the current Chinese representative to the United Nations, Li Daoyu. A replacement for Li has yet to be named.

THE CHINA BUSINESS REVIEW

The magazine of the US-China Business Council

EDITOR
Pamela Baldinger

ASSOCIATE EDITOR
Vanessa Lide Whitcomb

ASSISTANT EDITOR
Ann Amelia Flynn

CIRCULATION MANAGER
Karina Lam

PRODUCTION MANAGER
Jon Howard

1818 N St., NW Suite 500
Washington, DC 20036-5559
Tel: 202/429-0340
Fax: 202/775-2476

Printed in the U.S.A.

The China Business Review welcomes articles from outside contributors. Manuscripts submitted for consideration should be sent to the editor at the address above. The China Business Forum retains all rights to articles and artwork published in *The China Business Review*. Articles or artwork published in *The China Business Review* may be reprinted or reproduced only with the written permission of the China Business Forum. Articles in *The CBR* do not reflect Forum policy, unless indicated.

The China Business Review, ISSN No. 0163-7169, is published bimonthly by the China Business Forum, 1818 N St., NW, Washington, DC, 20036-5559, USA (Tel: 202/429-0340), a non-profit organization incorporated under the laws of Delaware. Second class postage paid at Washington, DC, and additional mailing offices. Postmaster, please send address changes to *The China Business Review*, 1818 N Street, NW, Suite 500, Washington, DC 20036-5559, USA.

Annual subscription rates: $96 US/Canada; $150 international. Single copy issues: $16 US/Canada; $25 international. Pre-1990 single copy issues: $8 US/Canada; $12.50 international.

CELEBRATING 20 YEARS AS THE WORLD'S PREMIER MAGAZINE OF CHINA TRADE

A New Regional Trade Bloc in Northeast Asia?

■ Joseph P. Manguno

Ambitious multilateral plans to develop the Tumen River Delta face an uphill battle

The United Nations Development Program (UNDP) envisions it as "a future Hong Kong, Singapore, or Rotterdam." A University of Hawaii researcher says timely development of the area "could change a sea of rivalries into a haven of trade," from which Asian companies—and presumably Western partners—could greatly prosper. But a Drexel University professor says the ambitious plans proposed by UNDP "could be destabilizing for Northeast Asia."

The speculation centers on the Tumen River, a sleepy and, until recently, largely forgotten waterway in Northeast Asia. Thrust into the limelight by radical changes in regional economics and politics, the Tumen runs from the Sea of Japan several hundred miles into Manchuria, and is bounded at various points by China, Russia, and North Korea. Should full port and expanded rail facilities be developed along the Tumen, traders would have a far shorter and cheaper route from the Far East to the markets of Europe than existing overland rail lines or the current sea route that runs from the port of Dalian around the Korean Peninsula and through the Sea of Japan. Perhaps more important, the river's development potential holds out the hope of a cooperative, rather than hostile, relationship in the 21st century among the nations of Northeast Asia—the three countries along the river, plus Japan, South Korea, and Mongolia.

Legacy of conflict

The Tumen River springs from the crater lake of the Mount Changbai volcano, the mythic birthplace of the Korean people. From there it meanders northeastward and then southeastward more than 300 miles along the Chinese-North Korean and Russian-North Korean borders before emptying into the Sea of Japan (*see* map). Once a vital transportation link between the Pacific Ocean and the great Eurasian hinterland, the Tumen has shared the misfortunes of surrounding Manchuria, for centuries the focus of deadly international competition.

In the 17th century, China's Qing rulers built a harbor at Hunchun to ship Chinese goods to Japan and Europe via the Tumen. The 1858 Treaty of Aigun transferred sovereignty over the last 10 miles of the river from China to Russia, which kept the waterway open to commercial traffic.

Hunchun, strategically situated close to the Chinese-Russian-Korean border in what is today the Yanbian Korean Autonomous Prefecture of Jilin Province, remained in Chinese hands and became the administrative center for the district and the main customs station for China's eastern trade. It was an open city—one from which Chinese, Russians, and Koreans could trade and ship—for much of the early 20th century, and by 1929 had an annual shipping capacity of 25,000 tons. More than 1,000 vessels a year used the port for fishing and trade. Chinese, Russian, and Korean traders moved freely across borders and river commerce continued with only intermittent interruption until 1938, when the Soviets expelled invading Japanese forces from the nearby Khasan territory and the

■ **Joseph P. Manguno is a Washington-based analyst on Asian affairs. He was an *Asian Wall Street Journal* correspondent from 1980-90 and served as the paper's South Korea bureau chief from 1986-90.**

retreating army blocked the mouth of the Tumen with piles.

The Korean War, China's closed-door policy, and the Sino-Soviet split in the late 1950s kept the Tumen River closed to Chinese shipping for another 40 years. In 1989, after its rapprochement with Moscow, China reopened Hunchun to the outside world; two years later Chinese navigation rights on the lower 12.5 miles of the Tumen were restored by Moscow, but access to the upper reaches remains controlled and somewhat restricted by North Korea. China hopes to regain access to the sea by convincing Pyongyang to ease navigation restrictions and by constructing a port at Fang Chuan, a small village at the Chinese tip of the river, as part of the Tumen project.

Even before Chinese shipping rights resumed, officials in Beijing were zeroing in on development of the Tumen River area as a way to help the lagging economy of China's industrial northeast. In March 1992, the central government designated Hunchun as an economic development zone. Since then, China has been developing the city's infrastructure in the expectation that with or without UNDP, the Tumen area will become a new center of economic vitality for Northeast Asia.

Big plans

The idea of a special development plan for the Tumen region first surfaced in 1989 in academic papers at Hawaii's East-West Center, as a possible means of forming a Northeast Asian economic cooperation bloc. The scheme gathered momentum in a series of regional conferences held in Changchun, Jilin Province in 1991.

UNDP became interested in the concept and in July 1991 convened a meeting in Ulan Bator of representatives from Mongolia, China, and the two Koreas. Since then, the idea has taken on a life of its own. Russia and Japan have been brought into discussions by UNDP about the feasibility of joint development of the Tumen Delta. UNDP and the border countries established the Tumen River Area Development Program (TRADP), which undertook initial surveys in 1991 to assess the potential costs and benefits of such a project (*see* box).

Under the skillful promotional hands of the TRADP staff, an ambitious plan has emerged to convert a massive, 7,500 sq mi area—from the Chinese town of Yanji to the Sea of Japan, and from Chongjin in North Korea to Vladivostok in Russia—into a $30 billion trade and transport complex with 11 separate harbors, three international airports, and an inland port-rail hub (*see* map inset). The catch is that since none of the three border countries—China, Russia, or North Korea—has the financial wherewithal to undertake such an effort, most of the funding for the project would have to come from outside private investors and foreign assistance agencies.

TRADP has held more than half a dozen meetings on the Tumen River development scheme, the latest in Beijing last October and the next scheduled for this May. In addition, the subject is popping up at a number of conferences focusing on Northeast Asian economic cooperation. The TRADP plan was also a major agenda item at two international conferences held in late February—one in Hong Kong co-sponsored by The Asia Society and the Korea Institute of Economic Policy, and the other in Manila co-sponsored by the Asian Development Bank and the International University of Japan.

What has propelled the Tumen River dream along for the past two years, besides the sheer determination of its promoters, are the rapid changes in the political climate of the post-Cold War era. China, Russia, and North Korea are all keenly aware of the vast natural wealth of an area that many consider the world's last land resource frontier. Indeed, the hinterland beyond the Tumen contains rich reserves of oil, minerals, coal, timber, and abundant farmland that prompted hundreds of years of fierce and bloody competition among Japan, China, and Russia. The area around the Tumen Delta itself, with an abundance of fresh water and cheap, flat land, seems an ideal base from which to exploit these riches.

The hinterland beyond the Tumen contains rich reserves of oil, minerals, coal, timber, and abundant farmland that prompted hundreds of years of fierce and bloody competition among Japan, China, and Russia.

Cooperative development, unthinkable in the past, has become conceivable since the collapse of the Soviet Union, the mending of Sino-Russian relations, and the newfound development zeal of China, Russia, and North Korea. Cooperation has become attractive because of the complementarity of those three economies with those of Japan and South Korea, and because of the enormous potential of a regional market that could encompass nearly 300 million people, have a collective GNP of almost $3 trillion, and account for nearly one-third of world trade.

Something for everyone

What can each of the players hope to gain from successful implementation of the Tumen River scheme? China, which initiated the idea of joint Tumen development in 1989, is driven primarily by the need to boost the economy of its northeast quadrant, whose development and economic prosperity has not kept pace with the southern coastal regions.

Moscow, which seems less enthusiastic than the other governments about the project, still seems interested by the prospect of solving one of Russia's oldest problems: how to finance and build the infrastructure and technology base to get Siberia's vast mineral riches out of the ground and to the global market.

North Korea, in contrast, seeks the broader goal of breaking the economic isolation it has suffered since the collapse of most of its communist allies. Pyongyang officials remain highly enthusiastic about the potential of Tumen River development to boost the country's struggling regional trade, help modernize its rapidly deteriorating economy, and launch a tourism industry to generate desperately needed foreign exchange.

In South Korea, where natural resources are in short supply, there is growing interest in developing the mineral and energy resources of the Russian Far East. And with South Korean labor-intensive industries facing severe manpower shortages, there is a coincident interest in transferring equipment, technology, and funds to China and North Korea. Since Beijing and Seoul established diplomatic relations in August 1992, South Korean involvement in China's Yanbian region, with its predominantly ethnic Korean population, has risen sharply. According to Chinese officials, of the 167 foreign firms now operating in the region, 48 are from South Korea. And a senior government official in Seoul claims that at least 35 South Korean companies, including Hyundai, Daewoo, and other *chaebol*, or business conglomerates, have set up corporate committees or begun feasibility studies to assess their potential involvement in the development of the Tumen River area.

Japanese interest in the project similarly stems from the country's long-standing desire to exploit the mineral wealth of the Russian Far East and Manchuria, whose riches Japan has coveted for more than a century. The Tumen project is of special interest to prefectures on the western coast of Japan's main island of Honshu, which would benefit most from the opening of a new transport route to the Asian mainland.

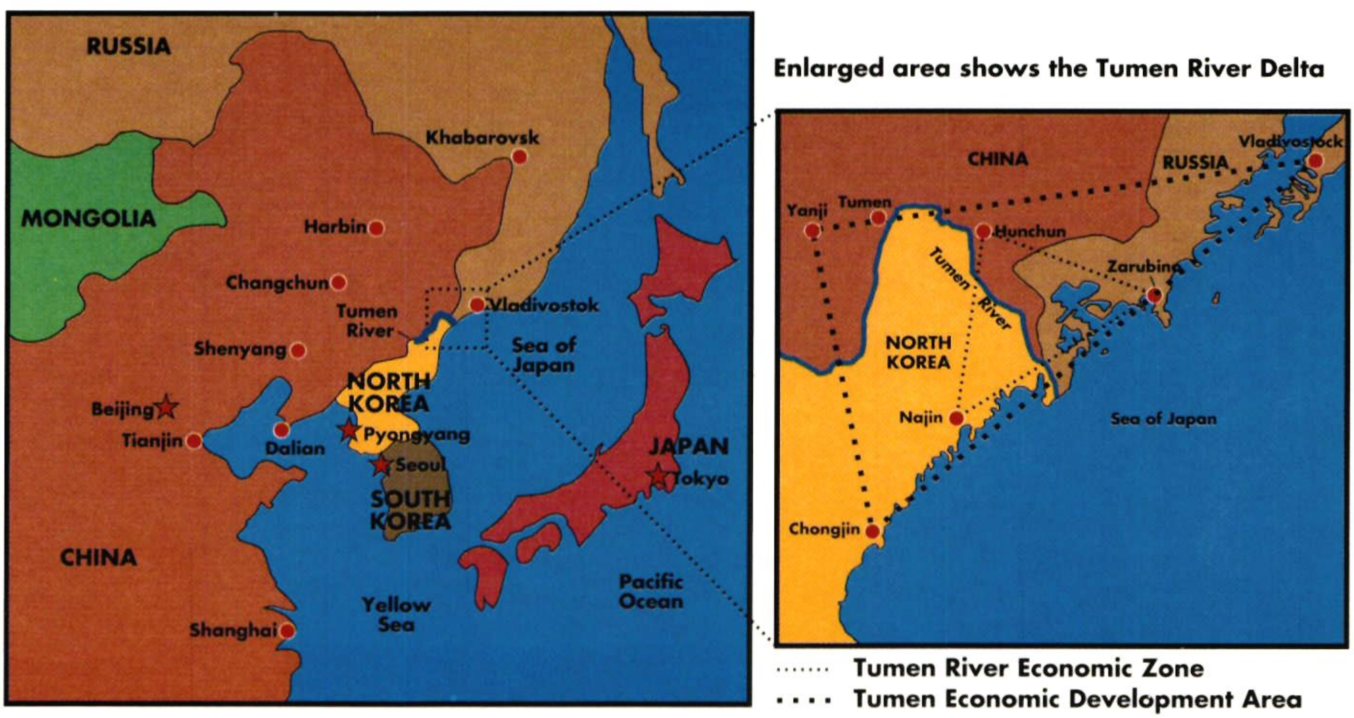
> The Tumen River scheme looks like a perfect fit—at least on paper.

But Tokyo is taking a wait-and-see attitude toward the TRADP plan. The Japanese foreign ministry notes that Tokyo has no diplomatic relations with North Korea and, until it does, cannot help the project financially. The ministry also cautions private Japanese companies about investing in the Tumen region, claiming both Russia and North Korea are difficult business partners. Last August, however, Tobishima Corp. announced plans for major construction in the Tumen River Delta. The plans, although still somewhat sketchy, include a 12.5-mile canal to carry food and raw materials from northeast China to the sea. Tobishima says it expects the project to cost billions of yen and take 10 years to complete.

Uneasy alliances

Put these interests all together and the Tumen River scheme looks like a perfect fit—at least on paper. But stacked against the potential for mutual cooperation in the development of the region are some formidable economic, historical, political, and logistical hurdles. The legacy of Japanese imperialism in Northeast Asia, for example, has left the other major players somewhat nervous about allowing Japan to develop too much economic clout in the region. China, Russia and the two Koreas, in fact, would very much like to find ways to develop the Tumen River area without Japan. Excluding Japan, however, will not be possible

Northeast Asia and the Tumen River



MAP BY JON HOWARD/JHDESIGN

INTERVIEW

TRADP Speaks Out

Much of the planning and coordination for Northeast Asian cooperation is being conducted by the Tumen River Area Development Program (TRADP), a project of the United Nations Development Program. Fan Jiang, TRADP program officer, spoke with Assistant Editor Ann Amelia Flynn about the program and its goals.

CBR: *Some critics view TRADP's plans as unrealistic and overly ambitious. How do you respond to such claims?*

Fan: These are misperceptions. TRADP is primarily concentrating on developing port facilities in the Tumen River Economic Zone, a small (1,000 sq km) area between Hunchun in China, Najin-Sanbong in North Korea, and Zarubino in Russia—cities targeted by their respective governments for special development.

We are currently working on a feasibility study for the area which will provide detailed analysis of legal and financial issues, industry and trade, and infrastructure.

The feasibility study will be the focus of the upcoming May meeting of the TRADP nations—North Korea, South Korea, China, Russia, and Mongolia—and we hope to complete this pre-planning stage by the end of the year. At that point, the project will leave the auspices of the United Nations Development Program. Enthusiasm and support for the project among the countries involved has snowballed since the idea of Tumen development was first introduced, however, and we are certain this strong backing will carry the project through to later stages.

CBR: *How enthusiastic are the nations involved, in light of their historical differences? The Russian response, for instance, has been described as tepid.*

Fan: Russia is no less committed than China or South Korea. In fact, the Russian envoy to the Clinton inauguration made a special trip to New York to meet with TRADP officials. And the Tumen was declared a top priority by Russian President Boris Yeltsin and Chinese officials when they met in Beijing last fall.

Actually, coordination between China and Russia on development along the Tumen is better than we expected. For the past year, top officials of China's Jilin Province and Russia's Pirmorsky area have held monthly working-level meetings to discuss progress in the development plans.

China has been holding similar meetings with North Korean leaders for the past three months and has been explaining to them the basics of opening up areas for development. North Korea is like China was in 1978; the North Koreans haven't had much exposure to the outside world. But they are making progress, particularly in their willingness to allow land leasing and joint ventures. Though they are cautious, once they have made a commitment, they can be relied on not to back out.

CBR: *What role do you expect Japan to play in development of the Tumen Delta?*

Fan: Of course, we would love to have Japanese funding. Private Japanese firms are interested in Tumen development and we hope they will participate. Their government is more reluctant, but we don't believe Tokyo will stand in the way of private investors.

Ironically, greater support may come from Europe than from Japan. Finland, an observer to the TRADP, has contributed $1 million to the current feasibility study. Sweden has also shown interest, as have private firms in England, France, and Switzerland. This really shouldn't come as a surprise—a Tumen port would provide a convenient way to transport Asian goods and resources to Europe.

CBR: *How can you ensure international coordination for the development of the Tumen River Delta?*

Fan: Since a lot of regional political tensions have eased, Northeast Asian development is now being seriously considered. The regional economies are complementary; there's little competition because each nation recognizes the mutual benefits. Part of the study to be presented at the May meeting includes drafts of agreements to set the boundaries of the zone area; detail the terms for standard, non-competitive, economic concessions by nations in that zone; and formulate the institutions that will oversee Tumen area development. We encourage bilateral trade and cooperation in the area as part of the TRADP plan. For instance, China was granted access by Russia to the port of Zarubino in exchange for financing and building a road and railway from Hunchun to Zarubino.

CBR: *How much interest have the World Bank and the Asian Development Bank (ADB) shown in this project?*

Fan: Both the World Bank and the Asian Development Bank have expressed interest in TRADP's infrastructure plans. Many aspects of the program parallel their own ideas on developing the region, such as building rail lines from Mongolia to China. ADB has observer status in our program and discussed Tumen development at a recent meeting in Manila. Right now, seeking funding from these multilateral agencies is not our main priority, but it may take more precedence in 1994.

unless other sources of capital and technology can be located—a highly unlikely prospect with the United States in serious economic straits, Germany overwhelmed by domestic problems, and the rest of Europe sinking deeper into recession.

Similarly, historical animosities between China and Russia cramp their relationship with an underlying atmosphere of mutual suspicion. North and South Korea, for millennia victimized by big-power maneuvering in the region, are generally enthusiastic about the project, though both remain leery of the motives of the neighboring giants.

Different dreams

Although great progress has been made in some of these relationships—especially the normalization of South Korea's ties with China and Russia—political differences among the players dampen widespread enthusiasm about the success of the Tumen River project. North and South Korea are still at loggerheads over some fundamental issues and relations between the two remain unstable. At the same time, North Korea, while expressing keen interest in developing its side of the Tumen River into a special economic zone, has voiced objections to any activities which would imply a surrender of sovereignty over its territory. And while Pyongyang showed some flexibility by agreeing in principle last October to coordinate foreign investment regulations and incentives for the Tumen area, some UNDP officials believe they have not yet allayed the fears of North Korean leaders, who could still pull out of the deal at any time.

Another major potential problem is the lack of agreement about the overall goals of Tumen River development. There are three variations of the original UNDP plan making the rounds—one favored by China, another by North Korea, and a compromise proposal—with no consensus in sight.

Each of the countries involved in the discussions has its own set of conditions for moving ahead, many of which are in direct conflict with each other. As Asia specialist Robert Scalapino noted wryly at a Northeast Asia economic cooperation conference in Vladivostok last August, "The states potentially involved, while sleeping in the same bed, are having different dreams."

Promoters of the Tumen River project have pointed to local authorities' strong interest in pushing ahead with the project, sometimes in the face of reluctance or outright resistance by their central governments, as a positive force in the development of the region. But it also could become a serious problem for stability if the concerns of local officials in the region clash with the larger interests of authorities in Moscow, Beijing, Tokyo, Seoul, and Pyongyang.

> Most of the funding for the project would have to come from private investors and foreign assistance agencies.

Furthermore, if plans are poorly coordinated, counterproductive competition could emerge between the Tumen River Delta and the new economic development zones of Vladivostok/Nakhodka in Russia; Najin/Chongjin, Wonsan, and Nampo in North Korea; and Dalian in China.

Footing the bill

Perhaps the biggest stumbling block to realization of the TRADP plan for the Tumen River, however, is funding. TRADP expects the bulk of the cost of developing the Tumen Delta to be borne by private investors anxious to grab their share of riches in a long-anticipated "Siberian gold rush." The rest of the funds, TRADP says, would be provided by multilateral lenders such as the World Bank and the Asian Development Bank, both of which the TRADP is lobbying hard.

But global statistics in the past two years indicate a downturn in new private investment and a growing demand for available multilateral funds as financial needs worldwide multiply. Eastern Europe and the newly independent states of the former Soviet Union have joined Africa, Latin America, and Asia in the tough competition for foreign aid and investment.

Even if some consensus emerges among the key players and funding is obtained, infrastructure hurdles remain daunting. The Tumen has silted up heavily around the piles dumped by the Japanese in 1938. Dredging at least the lower 10 miles would be necessary before navigation would be possible—an expensive and environmentally destructive undertaking that would have to be repeated periodically to control siltage.

Other environmental effects of massive Tumen River development could be significant as well, and would have to be seriously considered if the project hopes to get financial assistance from international organizations. In addition, the costs of social adjustment in Jilin Province in China and Hamkyong Province in North Korea could be very heavy, as development of the Tumen Delta would dislocate workers in neighboring areas.

Serious economic and commercial questions must also be confronted, such as the costs and benefits of development of the Tumen Delta to each country involved. It is possible that development of other areas or river basins in Northeast Asia or the use of established ports such as Dalian may be more cost effective. A port on the Tumen River may also come up short if measured against development plans for a Eurasian superhighway stretching from North Korea to Europe.

The term "special economic zone" must also be defined. Will it mean a completely free-market flow of commodities, currencies, and individuals? An exemption from duties, taxes, and constraints on repatriation of funds? Or just certain preferential treatment? Further, the local and international extent of the zone or zones must be considered. To attract private investment, government organizers will have to set prices and exchange rates. They will also have to hammer out coordinated policies regarding transportation costs, the opening of borders, tax breaks, and other issues. Organizers will have to take precautions to prevent border regions from offering partisan investment incentive schemes which could undermine regional cooperation.

To get past the most critical of these problems, the countries involved must agree first and foremost on what format is acceptable to all—a truly international zone with shared sovereignty, adjacent but sovereign special economic zones with coordinated policies and regulations, or national development zones with only marginally harmonized policies. Both China and North Korea, while officially supporting the TRADP plan for a truly international zone, are hedging their bets by moving ahead with plans to develop their own sides of the Tumen in consultation with each other. In this way, if the TRADP's grandiose scheme falls through, the two countries will still reap some benefits from coordinated development.

Cooperation or continued conflict?

These—and other—daunting obstacles have prompted critics of the TRADP scheme, including some who support the idea of developing the Tumen Delta, to raise questions about its magnitude and feasibility. Kang Daehyung, South Korea's director for Northern Economic Policy Planning and a long-time advocate of Tumen development, acknowledged in an interview in October that the TRADP plan still has a long way to go. "The success of the project will depend first on the will of the governments in the area to put priority on this project," he said. "That hasn't happened yet. Moscow is more interested in developing Vladivostok, and Beijing in turning Hunchun into an open city."

Professor Roy Kim of Drexel University, a specialist on Northeast Asian affairs, is even more doubtful about the feasibility of the UNDP plan. Attempts to force the plan along, Kim argues, could be counterproductive because "the balance of forces in the domestic, governmental, and bureaucratic spheres...appears to favor separate, thereby inevitably conflicting, development designs."

Such doubts, coupled with the recalcitrance of some governments involved, have exasperated the TRADP staff. Much hope is riding on the potential for the Tumen River to prove that cooperation in the region is more profitable than competition—especially violent competition. But in the end, no one should be surprised if the outcome is merely a loose agreement to cooperate within the limits of the national sovereignty and security concerns of the five nations involved, rather than true regional integration. 完

Tricks of the China Trade

■ Min Chen

Chinese negotiators needn't be the only ones who talk tough

Cartoons by Eugene Theroux

■ **Min Chen holds a doctorate in international studies from the Research School of Pacific Studies at the Australian National University and is currently assistant professor at the American Graduate School of International Management (Thunderbird) in Glendale, Arizona. He is the author of a number of articles on international studies, comparative management, and Chinese enterprise reforms, and the book** ***The Strategic Triangle and Regional Conflicts*** **(Boulder, CO: Lynne Riener, 1992).**

Walking away from the bargaining table with the feeling that one has concluded an equitable, beneficial deal is critical to the success of any business relationship. Many foreigners working in China, however, leave the table feeling pessimistic about their future partners. With a tendency to negotiate in a style described by one veteran China trader as "a blend of the Byzantine and evangelical," Chinese negotiators often frustrate Western businesspeople unused to such tactics.

Though complex, Chinese bargaining ploys are not unfathomable. Chinese negotiators use a variety of strategies to manipulate the other side into doing business the Chinese way, and often push relentlessly for further concessions after agreements have been concluded. Westerners who become more familiar with Chinese culture often discover that there is a close link between negotiating tactics and traditional values. Simply put, Chinese negotiators have a major advantage since negotiating comes naturally. Foreign businesspeople can best offset this advantage by understanding how their Chinese counterparts think.

Close connections

The success of business dealings in China often hinges on personal relationships. China's Confucian traditions have left a society accustomed more to rule by man than by a strict legal system. In addition, Chinese rulers throughout history have consistently manipulated laws to benefit themselves, with the result that Chinese today are still less trustful of laws than of personal contacts.

Chinese negotiators thus look more for a sincere commitment to work together than for an airtight legal package. They believe that business dealings will always involve some troubles, which might be unpredictable and difficult to solve. The best one can do is devise solutions for problems that are anticipated, and rely on a network of personal relationships to solve the rest. Accordingly, any foreign signatory to a contract automatically establishes himself as a "friend," which means he has a responsibility to assist his Chinese partner in times of difficulty.

This view can cause problems between Chinese and Westerners, since to the Chinese, a signed contract merely marks the end of the initial stage of negotiations, and will be followed by more discussions. More compromises and more concessions are to be expected, as nothing is ever set in stone. For foreign partners, however, this means that negotiations with the Chinese are an endless process, and that a signed contract does not indicate that a deal has been completed. Western businesspeople, in particular, are often caught unprepared for frequent Chinese requests to continue negotiations that have supposedly already concluded.

This behavior does not necessarily imply that the Chinese do not keep their word; once a bargain is struck, they can usually be expected to uphold their end of it. As a rule, Chinese parties will not tear apart a contract or refuse to implement it without good reason, though they see nothing wrong with pestering a foreign signatory over smaller matters, such as technical terms within a contract. In one sense, extending the negotiations is a way for the Chinese party to test whether its foreign counterpart is committed to the relationship sealed by the contract, and not just to the contract itself.

Some of the case studies recorded in *United States-China Technology Transfer* by Otto Schnepp et al describe typical Sino-US negotiating scenarios. For example, the Cummins Engine Co. and the Chinese National Technical Import Co. (Techimport) signed a 10-year license agreement in 1981. When the agreement was implemented a few years later, however, the enduser, the Chongqing Automotive Engine Plant, argued that some of the conditions in the contract were impossible to meet. While this experience made clear that participants on the Chinese side had been poorly coordinated during the negotiation period, Cummins was nevertheless taken aback by the Chinese request to renegotiate portions of the agreement. The Chinese side, however, maintained that the agreement had to be reworked because the original terms could not be met. Fortunately, the requested changes were minor, and both parties were able to reach a satisfactory conclusion.

Setting the scene

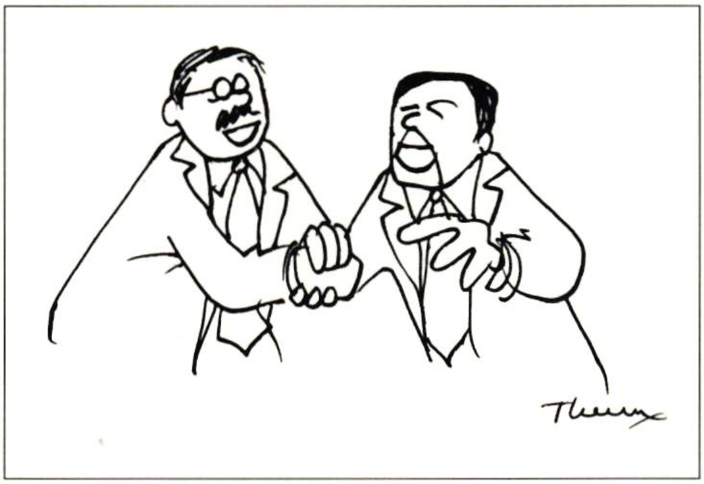
Foreign companies should anticipate that the opening moves in any negotiation will involve sounding each other out and developing basic strategies. This is followed by a second, more substantive phase, in which positions are established and the hard bargaining process begun. Though the final stage theoretically concludes with the signing of the contract, important negotiations may well continue through the implementation stage of any agreement.

Pre-negotiation preparation is crucial for the success of any negotiation in China. The Chinese assess the trustworthiness of the foreign partner(s) early on; the foreign side, for its part, should try to obtain as much hard information as possible about its potential Chinese partners and their parent bureaucracies. In many cases, these various Chinese entities represent different interests, and internal conflicts among them can later catch foreign negotiators off-guard.

In the initial stages of a negotiation, the Chinese team tends to focus first on explaining general principles and establishing agreement on common goals before moving on to more specific—and possibly contentious—issues. To some degree, this pattern of behavior is culturally influenced, as the Chinese generally try to avoid or postpone direct confrontation. For many Westerners, however, the opening stage can appear to be nothing more than a formality, and they are often eager to jump to outstanding issues. They should realize, however, that the Chinese harp on basic principles because if they succeed in reaching agreement on fundamental issues, they can later criticize the other side for any perceived transgressions against these principles. They can also utilize this time to ascertain the negotiating strategies and personalities of their foreign counterparts, and determine whether the foreign company is a suitable candidate for partnership.

Throughout the course of the negotiations, Westerners should also expect the bargaining to extend beyond the actual negotiating room. Social activities such as banquets and sightseeing tours are used to cultivate the business relationship and gather information. Third parties familiar with both sides may also be invited to participate in social gatherings.

Chinese negotiators look more for a sincere commitment to work together than for an airtight legal package.



Round two

The Chinese seldom indicate clearly when negotiations have reached their apex. It is, therefore, often the last minute before Westerners realize that a deal is about to be concluded. There may be a few hints, however, to indicate that the final rounds have begun. For instance, Chinese negotiators will generally begin to discuss very specific issues, some of which were postponed from the opening stages. Once the discussions are well under way, there will probably be arguments over language and the phrasing of contract clauses. Though hard bargains on prices will be struck, problems that had appeared unsolvable during earlier discussions may unexpectedly be resolved. Like other Asians, the Chinese prefer to make concessions at the end of a negotiation, while Westerners are more accustomed to solving issues one-by-one as they arise.

What to expect

Although the Chinese may be sophisticated negotiators, they are not intractable. Once a Westerner becomes aware of their tactics, he can improve his odds of negotiating successfully. A number of specialists on the Chinese negotiating process, such as Lucian Pye and Scott

Seligman, have observed the following common Chinese strategies.

■ **Control location and schedule** The Chinese prefer to have major negotiating sessions take place in China, not just to minimize their own expenses, but also to keep the upper hand. Since every day a Westerner spends in China is costly, both in lodging expenses and in leave from the home office, time is on the Chinese side. The Chinese negotiators can simply wait the foreign party out, testing whether their counterpart's position stays firm. To counter this tactic, some foreign companies try to balance meetings between China and their home offices, and often find the Chinese negotiators eager to travel abroad.

■ **Utilize weaknesses** One strategy that the Chinese often employ is to identify—and capitalize on—areas of vulnerability in either a negotiator's position or his personality. Any character trait can be fair game; if a Westerner is susceptible to flattery, for instance, the Chinese may lavish him with praise while trying to manipulate him into accepting their terms. If they feel that a Westerner is under strong pressure to return home with a signed agreement, they may raise the stakes, as they know that the foreigner will not want to be responsible for a failure. Good Chinese negotiators, moreover, will also use their own vulnerabilities to their best advantage. They may try to get a Westerner to understand their problems and then push him for a concession, and will not hesitate to point out that the foreign company has far greater resources than the Chinese party.

■ **Use shame tactics** The Chinese are also adept at digging up historical or political topics to put their counterparts to shame. While this tactic is most noticeable in the constant reminders to Japanese businesspeople of their country's atrocities in China during the 1930s and 1940s, Westerners are not immune. Anything discussed in or out of the negotiating room will be noted, and a foreigner's words can come back to haunt him. If the Chinese catch the foreigner saying anything in conflict with his current position, they will remind him of it relentlessly; if a foreigner has used an unfriendly remark or violated the principles established in the initial stage, the Chinese will try to utilize the transgression to embarrass him into doing things their way.

■ **Pit competitors against each other** Another favorite Chinese tactic is to set competitors against one another in order to start a bidding war. While hinting that a competitor has offered better terms, Chinese negotiators may proclaim that they would prefer to deal with the first company—provided that it can match the competitor's deal. Such manipulation is very common, as projecting the image of many competitors vying for the opportunity to do business in China often proves very effective.

The Chinese prefer to have major negotiating sessions take place in China

Despite the fact that the alleged competitors are not always real, it is not easy for a foreign negotiator to dismiss the bluff. Alex Sivas, the chief negotiator for US-based Combustion Engineering, for example, noted to Schnepp that his company's 1980 negotiations to license power-generation technology took place while other US companies were bargaining for the same deals in the same building. He recounted that the Chinese "had Babcock & Wilcox in the room next door to us, and when they were negotiating with Westinghouse, they had General Electric in the wings. It was a madhouse."

■ **Feign anger** Though public expressions of anger are considered bad manners in China, Chinese negotiators sometimes suddenly fly into a rage, pack up their papers, and leave the room. The foreign counterpart, needless to say, is often at a loss over what to do. One can safely assume, however, that most often these tantrums are staged to gain concessions. Though such outbreaks could signal that the Chinese party is no longer interested in the deal, very often the scene is deliberately planned to press the foreigner into making concessions to placate the ostensibly hurt Chinese party. Meanwhile, the Chinese side keeps the door open for reconciliation, and other members of the negotiating team appear to play the role of "good cops" to the angered party's "bad cop."

■ **Rehash old issues** Foreign negotiators often complain that the Chinese attempt to dredge up problems that have supposedly been settled. This ploy, generally used to gain additional concessions, may occur at any time, even after the negotiations are officially over. In the Chinese view, a foreign company will be more flexible with old issues when it can see success at the end of a protracted negotiation process. The only effective way for a foreign company to cope with this tactic, it seems, is to keep good notes and refer back to them forcefully.

■ **Manipulate expectations** Negotiations may take months and even years to conclude, yet when the Chinese decide to push for a project, they often express a strong sense of urgency. This tactic often proves useful, as foreign negotiators are likely to make concessions to take advantage of a perceived window of opportunity. To be more effective, the Chinese deliberately dampen expectations during the course of the negotiations, but hint during the final stages that the end results will be better than expected. When it is time to conclude the deal, they also try to push foreigners to make last-minute concessions by reminding them of the considerable effort extended by the Chinese side to ensure the success of the negotiations.

Fighting back

By understanding these Chinese tactics, foreign negotiators may be able to anticipate them in advance and improve their own positions. Following a few simple guidelines can also make for more effective bargaining. Specifically, foreign negotiators should:

■ **Choose the right leader** Preparatory discussions which serve as the prelude to formal talks normally occur between one or two representatives from both the Chinese and the foreign sides. A foreign company should choose the right people to send to China, as the status of the representative who makes the initial contact is very significant. If this person holds low rank within the foreign firm, the Chinese may feel insulted, or doubt the foreign entity's sincerity. This may result in the Chinese side sending a low-ranking official with limited authority to conduct the negotiations, a move which could prolong the process considerably.

■ **Maintain a consistent team** While there are no strict rules regarding the number of people on a negotiating team, continuity is key. If foreign team members change during the course of a prolonged negotiation period, for example, the Chinese may resent the constant rotation of new faces and consider it disruptive and confusing. Moreover, some Chinese negotiators have been known to exploit such situations to their own advantage, as the Chinese side is left in the authoritative position of interpreting earlier progress. The newcomers on the foreign team may find it very hard to refute Chinese claims of "established understandings."

Specialists in the technical areas under discussion should be included in negotiations, along with experts or China consultants. Although the Chinese side will provide interpretation, a good interpreter on the foreign team can help overcome barriers that reach beyond language. Some foreign companies look to overseas Chinese to provide an anchor for their negotiations in China, though this approach can have drawbacks. On the positive side, many overseas Chinese have a good understanding of the Chinese bureaucracy and may even have the personal connections necessary to make strong deals. They can also act as cultural bridges, helping to overcome misunderstandings and to promote harmony in the negotiating process.

But even overseas Chinese sometimes find they are no match for their compatriots at home. They are often susceptible to strong pressure from the Chinese team, which will try to appeal to their patriotism to coax greater cooperation. Overseas Chinese are also far more likely to be pressed for kickbacks from the Chinese side, and may be treated poorly when they fail to comply.

Chinese negotiators sometimes suddenly fly into a rage, pack up their papers, and leave the room.

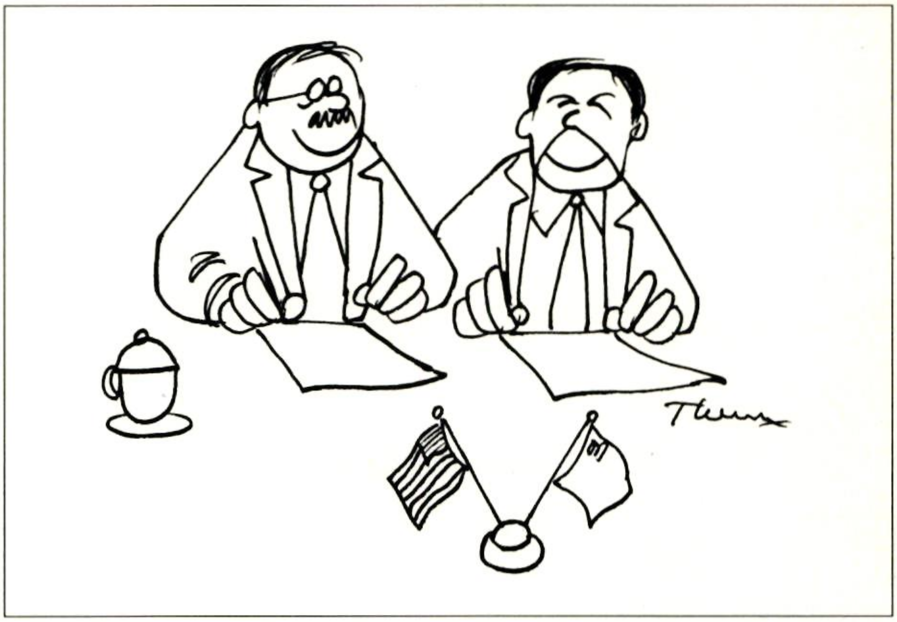
■ **Identify the real decisionmakers** Chinese negotiating teams tend to greatly outnumber those of their foreign counterparts. The general manager or deputy general manager of the potential Chinese partner generally serves as team manager to coordinate the interests of the Chinese. Representatives from the relevant parent bureaucracies or corporations are also likely to be involved, along with engineers, technicians, lawyers, and interpreters. A Party official may be involved, though often this "hat" is concurrently worn by a representative of the Chinese enterprise.

Despite all these participants, unseen actors behind the scenes are often the real authorities driving the negotiations. They may be officials from government institutions or senior executives of the corporations directly involved in the negotiations. Some may take a low-profile role from the back rows during the negotiation process while others participate from a distance. If these players are absent from the actual negotiations, front-line Chinese negotiators are tasked with gathering information, sending out trial balloons, and reporting the results to the authorities, who digest the material and send the negotiators back with more questions. Since a number of authorities may be involved, the negotiation process can take a long time; issues that seemed resolved may come up days or weeks later. Therefore, it is important to know who the negotiators are and how they fit into the scheme of approval.

■ **Stay calm** The Chinese consider gestures of frustration or the use of abusive language signs of defeat and weakness. They would react unfavorably to someone they viewed as harsh and impolite, so it is important that the foreign negotiating team remain patient, unflappable, and conciliatory. Relatively speaking, however, Western negotiators are used to more aggressive styles than their Chinese counterparts. Again, Confucian traditions run deep; in China, social or business interactions should be conducted in such a way that nobody ends up backed into a corner, forced to "lose face."

Controlling one's temper will not always be easy, as Chinese negotiators may try to provoke strong responses from the foreign party in order to save their own "face." If the Chinese team has lost interest in the deal, for instance, it will not come out and say so, but will be so inflexible that the foreign side is forced to withdraw from the negotiations, thereby enabling the Chinese team to have saved "face."

Once a Westerner becomes aware of Chinese tactics, he can improve his odds of negotiating successfully.



■ **Use litigation only as a last resort** In a dispute, Western businesspeople, particularly Americans, tend to turn to litigation as their first course of action. Though both parties typically agree in the contract to use arbitration if the need arises, the Chinese are generally loath to resort to legal proceedings. They feel the relationship between the parties involved should prevent any insoluble confrontations from arising. The Chinese see the settlement of a dispute either in the courts or through arbitration as a failure of the relationship, which reflects badly on both sides. Unless the foreign party has no choice or no concern about ending the relationship, addressing problems through the courts should be last on the list of possible solutions.

■ **Leave the door open** If negotiations have to be terminated for some reason, both sides should take special care to smooth the process. Foreign partners should avoid casting blame on their Chinese counterparts or describing the negotiations as a failure. Precautions should be taken to keep the bad news from becoming public knowledge, unless deliberate leakage of information is calculated to take advantage of public pressure to help save the negotiations. One commonly accepted way to end the relationship is to describe the termination as a "temporary cessation," with the negotiations to resume when the situation allows.

Many of these tactics and observations are not confined to deals involving China, but apply to negotiations between Western companies as well. The Chinese, however, are generally more adept than Westerners at gaining the upper hand. To improve their position, according to Lucian Pye, foreign negotiators in China should be patient, accept as normal prolonged periods of no movement, control against exaggerated expectations, discount Chinese rhetoric about future prospects, resist the temptation to blame themselves for difficulties, and try to understand Chinese cultural traits. However, as Pye cautions, "foreigners should never believe that they can practice Chinese tactics better than the Chinese." As Sun Tzu, China's most admired military strategist, once said, "Know yourself, know your enemies; one hundred battles, one hundred victories." 完

Telecom Races Ahead

■ Sid Gorham and Achmad M. Chadran

Foreign investment and sales to the sector should remain strong throughout the decade

■ Sid Gorham and Achmad Chadran are senior associates at Pyramid Research, Inc., a Cambridge, Massachusetts-based consulting firm specializing in the analysis of telecom markets in Asia, Latin America, Eastern Europe, and the Middle East. Pyramid has published a number of studies on China's telecom market, the most recent of which was the October 1992 *Telecom Markets in East Asia.*

During the Eighth Five-Year Plan (FYP, 1991-95), China's Ministry of Posts and Telecommunications (MPT) will oversee billions of dollars in investment to expand and modernize the country's telecom sector. MPT's ambitious goals for the period have already translated into big business for foreign telecom suppliers, in contrast to tough times in the late 1980s (*see The CBR*, November-December 1989, p. 24). By the end of 1991, Dutch telecom firm Alcatel N.V. had outstanding orders for over 5 million lines of digital switching equipment, while Sweden's L.M. Ericsson and Japanese supplier NEC Corp. each had contracts for around 2.5 million digital lines. In all, provincial and local post and telecommunications authorities (P&Ts), along with MPT, installed nearly 2.8 million lines in 1992, a 44 percent increase over 1990 and a 250 percent increase over 1988. From 1987-91, China imported $460 million worth of US telecom equipment, according to the US Department of Commerce.

The rapid expansion of China's telecommunications sector should encourage more foreign companies to look beyond direct sales and technology licensing. Many industry leaders are already moving quickly to establish in-country production facilities and position themselves in this increasingly competitive—but lucrative—market.

More lines, more phones

The development of public telecommunications networks in China is orchestrated by a three-tiered administrative hierarchy. At the top is the MPT, which dictates network standards, sets interconnection policies, and influences the country's telecom development policies. China's provincial P&Ts, the next tier, are responsible for developing and operating the networks within each province. The Shanghai, Beijing, and Tianjin P&Ts also fall into this group. The third tier, county and local P&Ts, handle telecommunications service and maintenance in rural areas. Since the 1980s, MPT has progressively ceded service administration, network planning, and procurement responsibilities to the provincial and local P&Ts.

Typically, MPT outlines broad targets to be achieved in the FYP, while local P&Ts tackle specific project planning and implementation. During the 7th FYP (1986-90), the ministry concentrated on digitizing and expanding trunk backbone facilities and adding digital switching installations in major urban networks. MPT spent $2 billion on modernizing China's telecom network during the 7th FYP, channeling its investment toward the provincial capitals and coastal cities.

Though MPT's goals are widely acknowledged to be on the conservative side, the ministry substantially stepped up its 8th and 9th FYP targets last July, effectively doubling the pace of telecom development. The new targets call for China to attain by 1995 goals previously set for the year 2000. The country's total switching capacity is to reach 26.5 million lines by 1995, about five times the total number of digital lines at the end of 1991 (*see* Table 1). MPT also hopes to link all of China's major cities along a fiber-optic network—a goal which will require an estimated 33,000 km of fiber cable. Most urban networks are to have automatic switched service and domestic direct-dial capability by 1995. MPT estimates that the number of telephones in the major provinces and cities will be nearly four times the 1986 figure by the end of the 8th FYP period (*see* Table 2).

By the year 2000, the penultimate year of the 9th FYP, MPT hopes to achieve targets double its 1995 goals. Digital switching and transmission services, along with direct-dial and international-direct dial capabilities, are to be made available at the county level. Five percent of the population, including 30-40 percent of urban residents, are expected to have telephones by the end of the century.

In some aspects, MPT is already well on its way toward meeting these goals. Total telecom investment in the 8th FYP could reach $13 billion, as MPT and the provincial and local P&Ts work to complete the interprovincial fiber trunk system and expand service to rural areas. By the end of the decade, even faster network growth is anticipated. Some provinces, such as Jiangsu and Guangdong, are likely to add over a million new lines each year in the 1995-99 period. The groundwork will also be laid for enhanced data and non-voice services in major cities, with many of these cities expanding their own local data services.

By the year 2000, the penultimate year of the 9th FYP, MPT hopes to achieve targets double its 1995 goals.

Who pays?

The decentralization of China's telecom industry has brought about a sharp shift in financing patterns. Foreign concessionary loans, mainly from European, Canadian, and Japanese bilateral aid programs, were a significant source of funds throughout the 1980s, but these low-cost loans have tapered off since 1989. MPT's annual foreign borrowing, mostly concessionary funds, rose sharply from $14.6 million in 1986 to $66 million in 1989, but dropped to around $39 million in 1990. Foreign concessionary funds are expected to play a significantly smaller role in financing network development in the 8th and 9th FYPs, as bilateral funding agencies in many countries, including Germany, Sweden, Canada, France, Norway, and Australia, are likely to scale back concessionary lending. This decline in soft loans reflects both growing US efforts to discourage other countries from using concessionary funds for commercially viable projects and the global recession plaguing most industrialized nations.

Future concessionary financing in this sector could also be subject to stricter MPT guidelines designed to direct these funds toward the interior, where infrastructure development lags behind that of the coastal areas. The MPT in 1991 placed a comprehensive ban on soft loan borrowing by the coastal P&Ts in an effort to promote a more balanced national telecom development program. Though some of the restrictions were eventually relaxed, a few local P&Ts, such as the Guangdong bureau, are still prohibited from seeking foreign concessionary financing. Telecom markets in the inland provinces could present some attractive opportunities for foreign suppliers, though most of the interior is unlikely to be able to match the coast's fast-paced economic growth and accompanying demand for telecom services.

As a result of decentralization and the decline in foreign funding, much of the financing for the telecom sector is now being provided by provincial and municipal P&Ts, which rely on their own sources of funds to cover 60-90 percent of network expansion costs. In rapidly industrializing areas such as the Pearl and Yangtze river deltas, newly rich local governments and P&Ts have begun pumping cash into the development of rural telecom networks; typically, local investment in digital exchange technology can be recouped in less than a year. In the coastal regions in particular, where local authorities can use toll tariffs and stiff subscription fees to fund massive telecom investment programs, local funding is playing a major role in network development (*see* p. 31).

Investing for the long term

The fast pace of telecom development in China has increased foreign competition to supply the sector (*see* list). Increasingly, foreign firms are seeking to invest in local production facilities to ensure their positions over the long term. MPT has encouraged foreign investment

TABLE 1
Total Number of Digital Telephone Lines in China

Province/ Municipality	1986	1988	1990	1991
Beijing	65,680	130,680	336,000	446,000
Shanghai	–	182,000	441,000	546,000
Tianjin	10,000	140,000	160,000	195,000
Fujian	37,000	99,500	177,000	200,000
Guangdong	106,400	258,000	843,000	1,200,000
Hebei	–	41,500	135,000	190,000
Jiangsu	5,000	90,180	173,000	540,000
Liaoning	6,000	120,048	277,000	350,000
Shandong	–	48,000	113,000	165,000
Sichuan	6,000	54,012	95,800	140,000
Zhejiang	13,000	105,240	196,000	300,000
Other	23,920	205,840	672,000	1,429,000
Total	273,000	1,475,000	3,618,000	5,701,000

SOURCES: MOC, P&T and foreign company reports, Pyramid Research estimates in the sector, though the ministry clearly plays an active role in deciding which types of agreements will be approved. While many foreign companies continue to license their technologies to Chinese enterprises, MPT is reportedly discouraging technology transfer arrangements in favor of investment contracts. A number of foreign companies that have licensed their technologies are now exploring the option of taking equity shares in the Chinese companies that hold licenses for their products, largely as a means of gaining more control over management and quality issues. Both Siemens AG, based in Germany, and Philips N.V., a Dutch firm, are reportedly trying to convert PBX licensing arrangements into joint-venture contracts as a means of expanding their presence in China.

But while wooing investors with one hand, MPT has adopted policies that effectively discourage foreign investment in the telecom sector with the other. Recently, foreign investors have been pressured by MPT to raise the proportion of local content in joint ventures—a mandate that extends to foreign licensing arrangements as well. Current ministry guidelines call for production ventures, particularly those that supply China's domestic market, to source at least 60-70 percent of all inputs locally. Compliance with these guidelines has been greatest in ventures producing PBX, key systems, multiplexers, fiber-optic transmission systems, and certain satellite and mobile communications systems (*see* glossary). Even for higher-technology items, such as switching equipment, Beijing is putting increased pressure on foreign joint-venture partners to accelerate localization efforts.

Despite the constraints and uncertainties, local production of digital switching equipment has been particularly lucrative for foreign suppliers, as sales of this equipment provide both higher margins and steady post-sale revenues from software upgrades and system expansion. The software in a digital switch must be upgraded regularly—perhaps once or twice a year—to ensure optimal performance. But unlike many computer programs, switching software is vendor-specific, and the sale of a digital switch guarantees a supplier software revenues for up to 15 years.

> Beijing is putting increased pressure on foreign joint-venture partners to accelerate localization efforts.

Apart from digital switching software, which requires fairly high technology levels, local production of most telecom equipment is relatively straightforward. Most equipment produced in China enters the country in kit form—either Complete Knock-Down (CKD) or Semi Knock-Down (SKD), depending on the amount of value to be added on the Chinese assembly lines—with key modules and subsystems already assembled. This process facilitates the local production of fiber optic transmission systems, multiplexer equipment, microwave radio systems, and terminal equipment such as cellular handsets. Nonetheless, low profit margins and limited post-sale opportunities have made investment agreements for these products less attractive than deals for digital switching.

Foreign telecom firms have also invested in the production of fiber optic cable systems in China. Though there are at least 100 plants and research institutes engaged in the development and production of fiber optic cable and transmission systems in China, Philips, Olex, and Furukawa Electronic Co. Ltd. have invested in joint ventures in Wuhan, Xian, Shanghai, Guangzhou, and Beijing. The Furukawa investment project in Xian, a 50-50 joint venture with the Xian Cable Factory, has an annual production capacity of 2,400 km of fiber optic cable.

Production of other cable used in the industry—including coaxial, pair, trunk, and loop cable—is dominated by China's local industry. Some 30 plants provide an estimated 3.5 million km of cable per year for MPT's network expansion plans. MPT's Chengdu Cable factory, the country's largest cable producer, has an annual production capacity in excess of 1.2 million km. Many of these plants are now expanding into fiber optic cable production, a trend which is likely to narrow future foreign opportunities in this product area.

Opportunities for foreign investors still exist in a number of radio-based technologies, particularly high-capacity digital microwave and TDMA systems. MPT is reportedly looking for foreign partners in both areas. Siemens Telecommunicazioni—along with US firms AT&T, Harris Corp., and TRT Communications, Inc.—have all considered microwave ventures in the past and could be competitors for future openings.

Given the popularity of mobile services in China's urban areas, foreign producers of advanced wireless systems, including digital cellular, CT2, and CT3,

TABLE 2
Total Number of Telephones in Major Chinese Localities

Province/ Municipality	1986	1988	1990	1991	1995*
Beijing	477,800	613,646	841,600	911,600	1,793,000
Shanghai	368,351	430,961	790,300	831,000	1,605,000
Tianjin	177,440	226,116	317,800	367,800	618,000
Fujian	143,183	187,027	312,600	372,600	654,000
Guangdong	495,245	835,837	1,554,300	1,720,000	2,752,000
Hebei	357,405	422,851	543,200	624,680	1,004,000
Jiangsu	491,580	614,075	899,400	1,159,500	2,860,000
Liaoning	476,408	582,701	758,200	838,200	1,239,200
Shandong	413,721	519,123	734,700	844,905	1,345,000
Sichuan	353,759	422,868	567,200	652,280	1,052,000
Zhejiang	346,534	452,627	692,300	796,145	1,296,000
Total	4,101,426	6,307,632	8,011,600	9,118,710	16,218,200

SOURCES: MPT, MOC, P&T reports, Pyramid Research estimates
* estimated

These companies put their reputation on our lines.

Successful companies take no chances when it comes to communications networks. That's why hundreds of the world's most successful companies have chosen Hong Kong as a hub for their private networks.

Hongkong Telecom is a world leader in advanced voice and data communication. We've invested in the latest fibre optic, satellite and undersea cable technology, putting us in the forefront. We've also invested in our people, so you can count on creative and cost-effective solutions to your communications requirements.

With our long experience in private networks, we're able to offer the kind of reliable service successful companies are looking for. To find out more call +852 888 2929.

Hongkong Telecom

may find increasing investment opportunities (*see* p. 26). Alcatel, for instance, recently installed a trial GSM exchange in Zhejiang Province. MPT planners do not expect digital cellular technology to be introduced in China until well into the 9th FYP period, but say that CT2 might be a near-term option.

Working with MPT

Foreign telecom firms seeking to invest in an MPT-affiliated plant must receive approval from MPT's Post & Telecommunications Industry Corp. (PTIC). PTIC reportedly also stipulates which plants may localize production of certain technologies. For instance, MPT's Hangzhou plant has supposedly been designated by PTIC as the single MPT factory to localize production of cellular equipment; MPT is said to have intervened in a number of P&T procurement decisions to steer sales to the Hangzhou-Motorola venture.

MPT's control over many investment channels means that the current windows of opportunity may not stay open for long. As many of MPT's key fiber optic production facilities already have joint-venture partners, for example, only a limited number of additional foreign partners are likely to be approved to produce this technology. In addition, well-developed local ability to manufacture paging, PBX, key systems, and other analog technologies will likely mean limited foreign investment potential for these types of equipment.

Faced with such restraints, some foreign telecom companies hope to take an indirect route to the domestic market. Japanese-based Fujitsu Limited, for instance, established an export-oriented joint venture in the Pudong New Area with the Shanghai No. 1 Telecommunications Factory to produce digital switching equipment. Fujitsu uses the Pudong facility primarily for export, but remains hopeful that MPT will authorize the venture as a fourth local supplier.

> The World Bank is in the process of preparing its first loan for China's telecom sector.

Other foreign suppliers are looking to circumvent the MPT bottleneck by teaming up with different ministries. The Ministry of Railways, for example, issued a tender for the supply and local production of switching equipment as part of a railway expansion project funded by the World Bank. The ministry is looking to build production capacity in medium-sized digital exchanges and data communications equipment. Among the bidders last year for the initial 50,000-line project were Nokia, Fujitsu, Northern Telecom, Gold Star Telecommunications Co., Ltd., Philips, Italtel, Harris Corp., and AT&T. The army and the ministries of water resources, petroleum, and coal, respectively, are possible partners for foreign investment, particularly in dedicated systems.

Bright prospects

Despite some uncertainties, investment opportunities in China's telecom sector look promising under the 8th and 9th FYPs, provided the right equipment is targeted. Prospects for foreign direct sales also remain bright, as local and provincial P&Ts rushing to develop their networks will continue to import equipment. A number of foreign agencies will also fund purchases of telecom equipment in the 1993-2000 period. Some additional loans for telecom infrastructure are likely under Japan's Japan's Overseas Economic Cooperation Fund (OECF) aid program, which provided nearly $130 million in untied loans in 1990-92 to expand and digitize the telecom networks in Hainan and cities such as Shanghai, Tianjin, and Guangzhou. An estimated $470 million in loans remains to be disbursed to further expand these networks, along with networks in Heilongjiang, Fujian, Shaanxi, Jilin, Zhejiang, Jiangsu, and Shandong provinces.

The World Bank is also in the process of preparing its first loan for China's telecom sector, a $200 million loan encompassing both network expansion and institutional reform. The project calls for the purchase of over 7,000 route-km of fiber optic cable and transmission equipment, along with the installation of 1.3 million digital lines in several provinces. MPT has also applied for a loan from the Asian Development Bank, and the ministry is reportedly accepting bids for fiber optic and digital transmission equipment

Glossary of Telecom Terms

CO: Central office, a junction point within a public network.
CT2: Technical specification for second-generation digital cordless telephony.
CT3: Technical specification for third-generation digital cordless telephony.
GSM: Groupe Standard Mobile, a digital cellular standard.
Multiplexer: An analog or digital device that allows a number of signals to share the same line.
PBX: Private branch exchange. A "dedicated" telephone exchange in an office building, hotel, or other location requiring multiple lines; offers features such as auto call distribution and call waiting.
PSDN: Packet-switched data network. A network designed to carry data in the form of packets, or bundles, which are transmitted separately along the most direct route available at that instant, then re-assembled at their destination.
SLC: Subscriber line carrier, a device used to minimize the number of telephone lines between a central office and a subscriber by multiplexing numerous signals for transport along a single line.
TDMA: Time-division multiple access, a multiplexing scheme in which numerous data streams are combined to form a single stream for transport via microwave radio or satellite.
VSAT: Very small aperture terminal, a satellite-based technology using 4-5 m dish antennas, used primarily for data transmission.

DEALS

Foreign Telecom Activity in China, 1991-92

EQUIPMENT SALES

Alcatel used concessionary loans and export credits from the French government to sell $74.6 million in microwave telecommunications facilities and program-controlled telephone lines to Changsha, Hunan Province.

Ascom Hasler Corp. sold 80,000 program-controlled telephones to Nanchang, Jiangxi Province.

AT&T supplied $3.3 million in mobile telecom equipment to the Ningxia Autonomous Region.

AT&T sold $4.2 million worth of switching equipment to Changchun.

AT&T of Shanghai sold $7.9 million in telecom equipment for a 1,500-km fiber optic network linking Beijing, Tianjin, Jinan, and Nanjing.

Bell Telephone Manufacturing Co. and Taiwan International Standard Electronics Ltd. used Belgian government loans to sell $29 million worth of telephone sets, long-distance exchanges, and transmission facilities to MPT.

Bell Telephone Manufacturing Co. sold $23 million worth of digital switches to Liaoning Province.

L.M. Ericsson sold $40 million in mobile telephone equipment to Guangdong, Guangxi, Hebei, and Henan provinces.

L.M. Ericsson sold $163 million in digital switching equipment to the Jiangsu P&T, and $116 million worth to the Liaoning P&T.

Motorola Inc. sold five electronic switching systems for installation in Ningbo, Hangzhou, Jiaxing, Shaoxing, and Wenzhou in Zhejiang Province.

Northern Telecom will supply $9 million worth of data communications equipment to CHINAPAC.

Northern Telecom sold 3 million program-controlled telephones to MPT, using partial financing from a $400 million Canadian government loan.

Olex Cables supplied $22.72 million worth of fiber optic cable to link Chengdu, Xian, and Zhengzhou.

Siemens Telecommunications SpA sold 35 microwave stations worth $5.1 million to the China National Instruments Import/Export Corp. for the Beijing-Shenyang trunkline.

Sprint International sold $8.37 million in telecommunications equipment to the Ministry of Railways.

FOREIGN INVESTMENT

AT&T and the Shanghai Telecommunications Equipment Factory took equal shares in the China American Telephone & Telegraph Communications Corp., a $9.82 million joint venture to produce digital subscriber-loop carrier systems.

AT&T, together with PTIC and other Chinese partners, established the $12.6 million Beijing Fiber Optic Cable Co. Ltd. joint venture to produce fiber optic cable.

L.M. Ericsson agreed to establish a $14.7 million joint venture with the Nanjing Radio Factory to produce radio-telephone exchanges and base stations.

Fujitsu Ltd. and the Nanjing Telecommunications Works established the Nanjing-Fujitsu Telecommunications Co. Ltd. joint venture to produce fiber optic equipment.

Matsushita Electrical Industrial Co. and the China National Posts & Telecommunications Industry Corp. agreed to establish the Beijing Matsushita Communication Equipment Co., a 2.9 million, 50-50 joint venture to produce pagers.

Motorola Inc. established a $120 million wholly owned enterprise in Tianjin to produce semiconductors, paging systems, cellular phones, and other equipment.

Nokia Telecommunications and the Guilin Institute of Optical Communications agreed to establish a 50-50 joint venture to produce fiber optic equipment.

NovAtel-Fonic Asia Communications Corp. established a joint venture with MMEI to make cellular phones, pagers, and radio equipment.

Siemens AG opened the Beijing International Switching System Corp. Ltd. joint venture to produce digital switching systems.

Contrad Ltd. signed an agreement with the Beijing Huaxun Telecommunications Tech Co. and other Chinese partners to establish a $3 million joint venture in Beijing to produce mobile telephone equipment.

SOURCE: US-China Business Council files

This list is not intended to be comprehensive and has not been independently verified by The CBR.

for the Beijing-Taiyuan and Beijing-Wuhan-Guangzhou routes.

Promising foreign sales opportunities in the 8th FYP may also be found in high-capacity data communications equipment. Although China's demand for packet-switched data networks (PSDN) has been modest, these services are critical for the country's growing finance, transportation, trade, and tourism industries, as PSDN technologies allow for quick processing of credit cards, travel reservations, and financial transactions, among other uses. China's only national PSDN network, CHINAPAC, was installed by MPT in 1988, and is fast approaching its 500-port capacity. MPT recently contracted with Northern Telecom for a second system to increase PSDN capacity tenfold by 1995, and Sprint/Telenet is reportedly in the running for an agreement to supply and possibly produce packet switching equipment in China. By 1995, the total capacity of national and local PSDNs is expected

to reach at least 10,000 ports.

Demand for networks based on very small aperture terminal (VSAT) technology will also be strong through the end of the decade. These networks, which use satellites and small dish antennas to relay data traffic, require little hardware, and can be set up in a matter of weeks to establish a flexible and inexpensive communications system among a number of locations. Organizations such as the Ministry of Water Resources and Electric Power and the Xinhua News Agency have already invested in these economical means of data transmission. Few, if any, restrictions govern the installation and operation of dedicated VSAT-based facilities, though the current laws prohibit non-MPT ministries from offering public access to their private networks.

Rumors have surfaced, however, that MPT and the State Planning Commission may soon allow other ministries or corporations to lease excess circuit capacity to

Business-Friendly Development

Multinational companies investing in China want telecom services similar to those they're used to at home. Recognizing this fact, China is trying to avoid the mistakes of other developing countries by providing a solid infrastructure for business communications at the same time it modernizes its public switched network.

One of the backbones of China's telecom infrastructure for multinational businesses is the international private-leased circuit (IPLC). IPLC circuits handle such demanding applications as voice traffic, electronic mail, videoconferencing, and high-volume data transfers between computers. These circuits provide dedicated access between a company's China operations and a hub in Hong Kong, and from there to the United States and other locations via trans-oceanic fiber or satellite. Japan will also soon be able to offer direct fiber-optic access to China.

While some may question the wisdom of diverting valuable lines from the public network for the exclusive use of business, there are sound reasons for China's approach. First, high-capacity circuits help attract foreign investors. Second, leasing circuits to high-volume business users precludes those users from competing with lower-volume public network customers for circuits. At the same time, new business customers, drawn in part by the availability of IPLCs, create additional traffic and revenues for China's carriers to help fund additional network upgrades.

To help multinationals in China design and operate a global telecommunications network, many international telecom carriers are forging "one-stop shopping" agreements with their overseas counterparts. Under one-stop shopping, a company may designate one carrier to handle leased circuits connecting several countries, provided that carrier has the requisite arrangements with the telecom providers in those countries. The designated carrier serves as the single contact for circuit installation, service, maintenance, and billing—effectively handling the day-to-day operations of the customer's corporate network. Last September, Hongkong Telecom became the first foreign carrier to offer one-stop shopping agreements with the P&Ts in Beijing, Shanghai, and Guangdong. US companies extending or expanding their networks into China may lease circuits from both their US carrier and Hongkong Telecom, or may now name Hongkong Telecom as their sole contact for both the US- and China ends of the circuit.

The telecommunications services China currently offers multinational businesses—videoconferencing; IPLCs; and international direct dialing, which is now available to 185 destinations worldwide—are compatible with services offered elsewhere in the world. With the number of multinational corporations operating in China growing rapidly, the development of China's telecom sector will be influenced by the demands of these companies. Thus, services and networks for data and other transmissions can be expected to become both more sophisticated and more widespread. These services may in turn spur even greater foreign participation in China's economy, helping accelerate the pace of overall economic development.

—Flora Tung, director of product marketing, Hongkong Telecom

outside users on a limited basis. When similar deregulation occurred in the United States and several Asian countries, private suppliers purchased more equipment to prepare for the opportunity to boost revenues by expanding their subscriber bases. Should this type of deregulation occur in China, foreign firms could expect both the public and private networks to compete to upgrade their systems to offer the latest technologies available. China's private telecom providers would probably be in the market for both foreign consultants and upgraded equipment that would enable their networks to dispatch signals efficiently and monitor calls for monthly billing.

Full steam ahead

While the threat of economic policy retrenchment can never be completely dismissed in China, the current regime is supportive of a private sector, which is already emerging in some rural areas, as reflected by the rapid rise in telephone subscriptions. In 1986, there were only 36,000 private telephone subscribers in China's rural areas, but by 1990 this figure had jumped to 306,000. In the decade ahead, MPT will continue to encourage P&T administrations to accelerate rural extension programs and network upgrades.

If provincial and municipal P&T administrations continue to realize the revenue potential of building province-wide infrastructure, investment in rural systems can only accelerate. Despite the decline in bilateral funding, China will continue to meet its telecom development goals, in part because of the increased flexibility of P&Ts to pursue a variety of financing options. If MPT also allows non-P&T telecom providers to compete, even more new telecom equipment will be needed, along with upgrades for existing systems. While China's growing ability to produce some technologies will no doubt close some potential investment and export windows, the nature of the telecom industry itself suggests that new opportunities for foreign firms will open up in China. As the country becomes more integrated into the global economy, China's local, provincial, and national authorities are likely to desire the newer and faster telecom technologies now under development around the world. 完

Communicating on the Go

■ Sid Gorham and Achmad M. Chadran

Pagers and cellular phones are in high demand in China

■ Sid Gorham and Achmad M. Chadran are senior associates at Cambridge, Massachusetts-based Pyramid Research, Inc., a consulting firm specializing in the analysis of telecom markets and strategies in Asia, Latin America, Eastern Europe, and the Middle East. Pyramid has published a number of studies on China's telecom market, the most recent of which was the October 1992 ***Telecom Markets in East Asia.***

Despite China's monumental efforts to upgrade its telecom infrastructure, the average customer can wait as long as a year to have a phone installed, even in the larger cities. This situation is leading many of China's budding entrepreneurs to turn to cellular communications equipment, which can be quickly obtained by those with ready cash. Even though user fees and equipment costs for cellular service are substantially higher than for ordinary telephone service, China's cellular networks had nearly 50,000 subscribers in more than 20 cities by mid-1992, a rapid increase from the 6,000-7,000 who signed on when cellular services were first offered in 1987. If the current pace of development continues, China will surpass the Ministry of Posts and Telecommunications' (MPT) projection of 150,000 cellular subscribers well before the 2000 target date.

Mobile telecommunications equipment—which includes cellular telephones and pagers, as well as other wireless forms of communications—has been popular with Hong Kong and Western executives for several years. China's mobile communications market, dominated by mobile radios for military and industrial applications in the early 1980s, has now shifted to cellular telephone and paging networks. The boom, fueled largely by prosperous urban clients in Shanghai, Guangdong, and other trade centers, will likely provide lucrative opportunities for foreign suppliers of mobile equipment over the next five years. Like most countries, China mainly uses analog equipment, but is expected to become a significant market for more advanced digital cellular technologies within the next decade.

Standards and fees

MPT maintains control over the radio frequencies used by China's mobile telecom providers, though the provincial post and telecommunications authorities (P&Ts) enjoy broad latitude in planning, financing, implementing, and operating their own mobile networks. MPT and China's National Radio Management Commission have reserved the 900 Mhz frequency for urban cellular applications, 450 Mhz for dedicated networks and certain remote applications, and 150 Mhz for all paging networks—but these standards are not always observed. The coastal public networks operate at 900 Mhz TACS—the UK-developed cellular standard that now predominates in Hong Kong and elsewhere in Asia—but some areas have adopted different standards. The lack of standardization has hindered the development of roaming systems, which enable subscribers to use their cellular equipment in more than one network area. As China is likely to operate on multiple standards and frequencies for some time, vendors may find themselves locked into specific markets for the next 5-10 years, since entry into markets with different standards will be difficult, if not impossible.

Depending on the size and service range of the network, cellular operators typically invest $1,000-3,000 per customer, somewhat less than the $2,000-5,000 cost the P&T incurs for the installation of each new standard telephone line. Cellular services also generate far more revenue for the local P&T, as subscribers must pay an initial fee of ¥20,000-25,000 ($3,600-4,500) per cellular phone and monthly subscription fees of ¥150 ($27), plus ¥.50 ($.09) per call. Connection charges for standard telephone service, in contrast, range from $80-600, depending on location. Business service costs approximately $4 per month, while residential telephone service costs between $1-2.50 per month. A single call on a public phone is only ¥.05. Even paging services—a more affordable mobile communications option with more than 500,000 subscribers nationwide—still provide local P&Ts with $200-300 per user in start-up and equipment fees, in addition to a modest monthly charge.

The market leaders

Currently, two foreign companies manufacture cellular network equipment in China. Sweden's L.M. Ericsson has a cellular equipment joint venture with the Nanjing Radio Factory, a plant affiliated with the Ministry of Machinery and Electronics Industry (MMEI). Ericsson supplied China's first cellular networks (to Guangdong) in 1987-88, and now claims an estimated 60 percent of China's total cellular capacity. Industry analysts predict that Ericsson will soon have over 100,000 subscribers throughout China.

The other industry leader, US-based Motorola Inc., teamed up with MPT's Hangzhou Telecommunications Equipment Factory in 1991 to produce cellular handsets, base systems, and switching equipment for the Chinese market. The licensing agreement could enable the company to gain a greater share of China's cellular market in the future.

The South sets the pace

Guangdong Province leads the country in both the number of cellular networks and number of subscribers. By the end of 1992, the Guangdong P&T had completed a $22.3 million expansion to boost total cellular capacity to 75,000 lines—more than 40 percent of China's total.

> Cellular telephones generate far more revenue for local P&Ts than standard telephones.

The expansion effort was aided in part by the P&T's revenues from roaming services among its five Ericsson networks. The Guangdong P&T has also entered into agreements with Hong Kong cellular operators to establish roaming services between Guangdong and Hong Kong. A Hong Kong cellular subscriber can now use his handset in Guangdong to call home—or anywhere in the world, as cellular users can also access the public telephone networks.

As the major supplier to Guangdong, Ericsson will have an advantage when bidding on upcoming contracts there and in other provinces to upgrade network technology and expand capacity. While Guangdong's current cellular capacity is likely to be sufficient through the 8th Five-Year Plan (FYP, 1991-95), by the 9th FYP (1996-2000) the province will no doubt be ready for further expansion—and the latest in digital cellular technologies.

After Guangdong, the Beijing and Shanghai cellular networks are the most developed, each with a capacity of about 6,000 subscribers. Each city uses both Ericsson and Motorola cellular equipment. Beijing's cellular subscribers are split evenly between the two foreign suppliers, though Ericsson has a somewhat bigger share of the Shanghai market. Ericsson has teamed up with Pacific Link, a Hong Kong cellular company, to provide roaming service in Beijing as well as Guangdong.

For Motorola, the Beijing and Shanghai networks have been key to the firm's growing position in China. Despite Ericsson's early lead in China's cellular market, Motorola has gained ground quickly by localizing production and capturing a number of important network contracts in Fujian, Heilongjiang, and Shandong.

In northeast China, Japanese supplier NEC has captured much of the market. Anchored in Liaoning Province, NEC has sold 10,000-line networks to Shenyang and Dalian. Despite a limited presence in the cellular market in China, the Japanese supplier is well-positioned to gain from Liaoning's ambitious cellular expansion plans. Although the Shenyang and Dalian networks had only 2,500 subscribers between them in 1991, local officials expect the province's subscriber base to grow to more than 11,000 subscribers by 1995 and 22,000 by 2000. Network operators also plan to introduce roaming along the Shenyang-Dalian corridor by 1995.

While China's coastal cellular networks are being expanded, new networks are being installed in industry hubs in the interior. Sichuan's Chongqing and Chengdu municipal P&Ts have already purchased their first networks and are now laying plans for roaming service between the two industrial centers. NovAtel, a Canadian firm, supplied Chongqing's first cellular network in 1988, and now faces a challenge from Ericsson, which is supplying the city's second cellular network. Chongqing P&T projections anticipate more than 5,600 cellular subscribers by 2000, but the city's two networks operate on different frequencies, precluding any roaming between them.

P&Ts in Shaanxi, Shanxi, Hubei, Hunan, and Inner Mongolia have also been installing cellular networks. In Xian, a recently completed cellular network using AT&T equipment has a total capacity of 5,000 subscribers. Shanxi Province already has a Motorola network in operation in Taiyuan, and the provincial P&T is reportedly looking to install a second network in Datong in 1994. A 1,500-line Motorola system is under construction in Wuhan in Hubei Province, while Changsha in Hunan Province has just completed a 1,750-subscriber capacity system using Ericsson equipment. Ericsson also won contracts for networks in Hainan, Inner Mongolia, Guangxi, and Hebei in 1991.

A number of these P&Ts are structuring roaming capabilities into their network plans, which could translate into opportunities for foreign firms as existing equipment will have to be upgraded in order to maximize network efficiency and bill calls accurately. As roaming is not possible between cellular systems using different operating standards, however, new cellular systems with greater compatibility with other networks might be installed alongside existing ones. It is more likely, however, that roaming capabilities will be introduced on a broad scale with the introduction of a single digital standard—probably the European GSM standard—sometime in the 9th FYP. The advent of digital cellular technologies, moreover, will allow new suppliers to enter provinces and cities previously dominated by competitors.

Pagers and radios provide local profits

Demand for pagers has grown even faster than the demand for mobile phones. By the end of 1992, over 500,000 Chinese were sporting pagers, up sharply from the 10,000 initial subscribers in 1985. In Beijing alone, total pagers in service rose from 847 in 1986 to nearly 55,000 by the end of 1991. As in cellular service, Guangdong Province leads the paging market, with over 100,000 paging subscribers spread across 37 systems. The provincial P&T is now working to connect these systems to allow province-wide paging service. Jiangsu, Nanjing, and Wuxi P&Ts have also implemented paging interconnection to provide wide-area service to more than 15,000 subscribers.

Demand for pagers has grown even faster than the demand for mobile phones.

Unlike China's cellular market, however, paging markets are fast becoming the domain of local suppliers. Early paging systems were installed by Japanese suppliers such as Matsushita and National in the mid-1980s. Since then, P&Ts in Chongqing, Xiamen, and Shanghai have designed their own paging systems based on relatively unsophisticated technologies. The MPT's First Research Institute's pager system, for example, was designed in 1987 and is now produced at Tianjin Factory No. 754, the Zhuhai Heping Co., and the Beijing-based Jinxin Co. The Beijing company has emerged as China's largest supplier of paging equipment, with an annual production capacity of 300 systems each capable of servicing 80,000 subscribers. The company also produces pagers for sale on the domestic market with technology licensed from Motorola and OEC of Japan. So far, the Jinxin Co. has chalked up sales of more than 100,000 pagers to residents of more than 138 cities.

A number of provinces have also installed locally made mobile radio networks, which offer an economical alternative to cellular technologies for small network installations. P&Ts in Kunming and Nanjing have installed 450 Mhz non-cellular mobile access trunked service (MATS) systems supplied by the Nanjing Radio Factory for local mobile service. Produced under license from Philips since 1985, the factory's radio system,

Cellular Networks in China*

Location	Supplier	Capacity	Subscribers
Beijing	Ericsson	3,000	3,000
	Motorola	3,250	3,000
Shanghai	Ericsson	15,000	4,000
	Motorola	1,800	1,800
Tianjin	Ericsson	5,000	3,000
Guandong Province:			
Guangzhou	Ericsson	8,000	8,000
Zhuhai	Ericsson	3,000	3,000
Shenzhen	Ericsson	7,000	7,000
Zhanjiang	Ericsson	NA	NA
Shantou	Ericsson	NA	NA
Fujian Province:			
Fuzhou	Motorola	3,500	NA
Xiamen	Motorola	3,500	NA
Sichuan Province:			
Chongqing	NovAtel	3,000	1,500
Chongqing	Ericsson	1,650	NA
Chengdu	Ericsson	2,000	1,800
Chengdu	NA	NA	NA
Liaoning Province:			
Shenyang	NEC	10,000	1,500
Dalian	NEC	10,000	1,000
Liaohe Oilfield	Nokia	NA	1,000

* 1991 figures
SOURCE: Pyramid Research, Inc.

which costs about $3,000 per subscriber, has a total capacity of 400-500 users.

Military, police, railway, forestry, mining, and customs organizations also use a variety of mobile radio equipment in their networks, some of it imported. While other ministries and provincial or local organizations may present further opportunities for foreign suppliers, the need for dedicated networks and updated equipment tends to follow economic growth, making marketing in the more remote regions of China difficult.

Sizing up the market

On the whole, China's rapidly growing demand for mobile services should provide new opportunities for foreign companies over the next few years. Provision of paging services, for example, has already been opened to non-P&T units. Under current MPT regulations, any licensed enterprise may operate a local paging network, but few foreign firms have set up independent paging systems to date. Two exceptions appear to be Hong Kong-based Kin Son Holdings and the KTT Group, which are reportedly launching paging services in South China.

Non-P&T operators—mostly Chinese firms affiliated with provincial or municipal government agencies—have also begun to operate some cellular networks. One possible foreign player is Vancouver-based China Cellular Communications Corp., which reportedly received approval last year to operate a joint-venture cellular network with the Chengdu P&T. Further liberalization of the sector might allow dedicated network operators, such as the Ministry of Railways or Ministry of Petroleum, to recoup some of their investment costs by reselling excess capacity to other users.

Private providers such as ministries, as well as the P&Ts, are likely to be in the market for higher-tech equipment such as digital cellular technologies in the not-too-distant future. The fast growth of Guangdong's cellular network, for example, will likely boost demand for greater roaming capability, bringing new pressure on the networks to install digital cellular equipment. Ericsson plans to begin installation of digital cellular facilities in Hong Kong in 1993, and Hong Kong-based suppliers expect the Guangdong P&T to begin shopping for digital cellular systems as early as 1995. If China adopts the GSM cellular standard, as now appears likely, European and North American suppliers will all be in the running for sales of the latest technologies, as most of the major telecom firms manufacture at least some GSM-compatible equipment.

The aggressive development plans of the Guangdong P&T and other P&Ts in the coastal provinces are expected to push China's overall cellular network capacity to nearly 300,000 lines by 1995—far higher than the MPT's initial estimates. Although analog systems will likely dominate the market through the end of the decade, the introduction of digital networks in Hong Kong and the rising demand for cross-border network compatibility is expected to give digital equipment a small fraction of the cellular market on the mainland as early as 1995. 完

Funding Telecom Expansion

■ Lin Sun

Further decentralization will be necessary if China is to meet its targets

■ Lin Sun is a Beijing-based telecommunications consultant specializing in switching and transmission technologies, satellite and other wireless communications, and policy and market research. He previously worked for several US telecom companies conducting business in China.

China's telecommunications industry achieved surprising growth during the 1980s—both network capacity and operations revenue increased an average of 20 percent annually. Growth has been even stronger in the early 1990s. Last year, total telecom revenue from sales, service, and operations was about ¥20 billion ($3.4 billion at current exchange rates)—a whopping 49 percent increase over 1991. If current growth rates continue, China expects to have about 65 million telephones by the end of the century. Although the penetration level—about 5 sets for every 100 people—will still be low by Western standards, it will mean almost tripling the current penetration level and may require around ¥150 billion ($26 billion) in investment.

To implement this ambitious plan, the Ministry of Posts & Telecommunications (MPT) estimates about ¥75 billion ($13 billion) will be needed from 1991-95, a 75 percent increase over total investment during the Seventh Five-Year Plan (FYP, 1986-90). Most central government funding will be allocated to national projects such as fiber optic transmission systems and satellite networks, while local bureaus will invest in expanding switching capacity and number of telephone lines and in improving land-based systems, especially urban and rural central offices. This reliance on local telecommunications investment continues the trend toward decentralization that began in the last decade (*see* p. 18).

Passing the buck

During the 1980s, the central government found itself short of funds to finance telecommunications expansion at both the central and local levels. While total telecom revenue increased 30 percent each year from 1986-90, according to the MPT, central budget constraints and rapid sector growth in the mid-1980s led the MPT to transfer responsibility for financing network development to local post and telecommunications bureaus (P&Ts). As a result, central financing decreased from 60 percent of total telecommunications investment in 1983 to less than 9 percent by 1989.

In the past, local bureaus received funds from the MPT, but had to feed most of their profits back to Beijing. The new policy permits local P&Ts, enterprises, and institutional users to keep profits for local re-investment and encourages them to utilize other sources of funding as well. Close ties with local governments and enterprises have allowed the P&Ts to increase the number of projects undertaken at the local level; while the P&Ts now shoulder a greater financial burden, they also enjoy greater decisionmaking autonomy.

Although diversified financing has not resolved the telecom industry's funding shortages, it has given rise to alternative financial sources that are cost-effective for sustained growth. Decentralization of the telecom sector encouraged a 30-fold increase in non-State financing from 1983-89, as local governments and domestic and foreign lenders became more active in the sector. In addition, local P&Ts have increased telephone service prices significantly—with no resultant loss of demand. Since 1989, prices for local telephone services have increased by 30-100 percent nationwide, but waiting lists for telephones have lengthened, indicating consumers' willingness to pay the higher fees.

Over the next few years, profits from telephone installations and services will become a major source of financing for local P&Ts, and these revenues are expected to increase significantly as the growing number of Chinese phone customers makes more calls. Local P&Ts will also try to increase revenues by offering new services (e.g., pagers and cellular telephones), expanding services to more households, and utilizing new technologies, such as computer-controlled automatic switches to increase network capacity. The steady pace of industry decentralization may pave the way for even more innovative financing mechanisms in the future, such as the issuing of public and private stock options by P&Ts. Such fund-raising schemes reportedly are being considered by MPT for selected areas such as Guangdong and Shanghai.

Balancing debt

Armed with more revenue and greater autonomy, local P&Ts are now able to pursue a much broader range of telecom goals. Foreign government concessionary loans, bank lending, company/product financing, as well as foreign investment have poured billions of dollars into China's telecom development over the last few years. Operation-in-debt—"borrowing money to buy hens, then repaying debts with eggs"—has become a fundamental characteristic of China's telecom development strategy. Since telecom equipment sales and services can generate significant revenue quickly, local P&Ts increasingly seek to borrow money rather than wait for allocations from the government to improve local telecom infrastructure.

According to the most recent statistics available from MPT, by the end of 1989, China's telecom industry carried a debt load of ¥5 billion ($900 million), of which 60 percent was generated by basic construction (including plant and central office installation) and 40 percent by system improvement. Foreign loans from governments and banks accounted for 63 percent of basic construction and 55 percent of system improvement debts. The debts weigh most heavily on cities and provinces whose infrastructure is comprised mainly of urban networks, as they have received the lion's share of investment to date (*see* table).

Localities with the Highest Telecom Debt (1989)

Municipality/Province	Debt Ratio*
Tianjin	51.8%
Shanghai	42.9
Guangdong	22.3
Beijing	17.6
National average	18.9

* Debt as a proportion of total annual investment
SOURCE: MPT

MPT has issued recommended debt guidelines for local P&Ts based on type of network and the pace of network growth. Major cities such as Beijing, Shanghai, Guangzhou, and Tianjin can accumulate debt up to as much as 40 percent of total investment because of their huge subscriber bases and potential earning ability. For coastal provinces, the debt ratio should remain below 30 percent. Remote and less developed areas with rudimentary telecom systems that produce little profit should not have a debt ratio in excess of 10 percent.

Though China's telecom sector has had few debt repayment problems thus far, debt management in the 1990s may cause some problems. MPT's plans to increase investment in urban and long distance networks from 1991-95 will strain cash reserves as these improvements require expensive, state-of-the-art imported equipment. To finance the purchase of this equipment, MPT and local industry bureaus will have to continue borrowing money from both domestic and foreign sources and hope that completed projects generate quick and high returns for reinvestment and debt repayment. Debts for urban networks will thus likely remain heavy in the 1990s, but foreign debt may decrease in proportion to domestic debt as concessionary finance dwindles. Moreover, local P&Ts will likely be short of foreign exchange for some time to come, making them reluctant to take out large foreign commercial loans.

The push to 2000

If telecom investment and revenue figures from the 1980s are used to forecast growth for this decade, the MPT's goals for the 1990s seem to be achievable. These goals include:

- Total switching capacity of 48 million lines by 1995
- 31 million telephones connected to public networks by 1995
- Annual growth in business volume of 28 percent between 1991-95

In order to achieve these targets, annual telecommunications growth must be at least 15 percent. But if the industry continues to grow at a linear rate—that is, the relationship between growth and investment remains constant—annual growth, based on 1980s figures, will be about 8 percent and total investment about ¥14.5 billion in 1995—far below MPT's targets.

If, in contrast, one figures telecom industry growth is exponential—that is, each unit of investment leads to progressively greater levels of growth—the scenario is quite different. Using standard calculation methods with 1980s figures, significant growth could be expected around 1995, climaxing in investment of ¥70.5 billion by 2000—averaging out to an annual growth rate of 31.6 percent over the decade.

MPT's estimates are clearly based on an exponential model. Its targets for 2000 include:

- Total switching capacity of 96 million lines
- 65 million phones connected to the public networks (This does not include cellular telephones, sales of which have grown 100 percent each year for the past three years.)
- National telephone penetration of 5 percent
- Annual business volume growth of 20 percent

■ Digital switching and transmission services in all county-level cities and domestic direct dial (DDD) and international direct dial (IDD) in all major cities.

Actual investment will likely fall between the linear and exponential models, depending on a number of market and extraneous factors, such as domestic production, pricing policies, the introduction of new technologies and services, and most important, political stability and continued economic reform. If current trends continue, the future investment scale will likely approach the exponential level, though some funding shortfall is inevitable. MPT predicts annual growth will gradually slow to about 11 percent after the year 2000, which would result in 40 percent national phone penetration by 2020.

Cutting MPT bonds

If China continues to decentralize its telecom industry, managing the sector's debts should not be an insurmountable task. There will be a continual lack of funding toward 2000, however, and diversified sources of financing will have to be tapped to sustain an accelerated rate of growth. The central government has recognized the need for outside investment and has publicly stated that both local and external financing are critical to meet growth targets. This stance bolsters expectations that further decentralization and deregulation will take place—moves which will encourage competition and expand the base of financing sources.

Beijing, aside from loosening its grip over the sector, must give local telecom providers support by lowering their taxes and/or granting them exemptions from sales or service taxes. MPT should also give P&Ts more flexibility in negotiating lending terms, including repayment schedules, vendor selection, and equipment acquisition. Finally, the government should give local P&Ts more autonomy regarding foreign exchange expenditures. The sheer size of China's telecom needs may leave the central government little choice but to continue to decentralize the sector to foster greater local participation and profit retention, which will be critical to financing future telecom growth. 完

> The government should give local telecom providers support by lowering their taxes and/or granting them exemptions from sales or service taxes.

Eyeing the GATT

■ Susan Mac Cormac

Can China get in by the end of the year?

■ Susan Mac Cormac is a third-year law student at Duke University and a candidate for a LL.M. degree in international law with a concentration in Chinese law. She recently completed a four-month internship at the United States-China Business Council, where she conducted research for this article.

Last fall's successful resolution of the US section 301 investigation of China's market-access policies not only averted a disruptive trade war between the two countries (*see The CBR*, November-December 1992, p. 9), but also made consideration of China's membership in the General Agreement on Tariffs and Trade (GATT) a timely and critical issue for US businesses operating in China. China's accession to the GATT now seems inevitable—only questions of when and under what terms remain.

The GATT is one of the three pillars of the international economic system, together with the World Bank and the International Monetary Fund (IMF). The GATT's 105 member countries, or contracting parties, agree to honor a set of rights and obligations on trade practices, including non-discrimination, transparency, reciprocity, and multilateralism. China has been striving to enter the GATT since it joined the World Bank and the IMF in 1980. The country received observer status in 1982 and officially applied for GATT membership in 1986.

Beijing believes that membership in the GATT will provide China with greater access to foreign markets, a more stable and appealing investment climate, the opportunity to have trade disputes resolved in an international forum, and the ability to help write the rules that regulate world trade. But these benefits are far from guaranteed, even if China's bid is accepted. Moreover, China's right to membership is not iron-clad; many contracting parties contend that China has not taken sufficient steps to reform its economy and ensure fulfillment of GATT obligations.

As the GATT lacks a mechanism for enforcement, it is imperative that China's economy be made GATT-compatible before it is permitted to join the agreement. China's accession, therefore, likely will be contingent on tariff reductions, reduced import controls, greater transparency of regulations, and a severely tempered role for the government in foreign trade, among other conditions. As the contracting parties begin hammering out the terms and conditions of China's accession, now is the time for companies to consider what impact China's accession to the GATT will have on their business and inform US negotiators of their concerns.

Membership and MFN

As an original signatory to the GATT, China views its current bid as a resumption of the membership which was withdrawn by the Nationalist government on Taiwan after the communists gained control of the mainland in 1949 (*see The CBR*, May-June 1992, p. 24). If permitted to resume membership—a move opposed by the United States and most other members—China could demand certain rights secured by the original GATT parties. Under the 1947 GATT protocol, original members are allowed to maintain pre-existing legislation even if such laws are inconsistent with the GATT. A new contracting party, on the other hand, must negotiate with the GATT requirements on tariffs and other issues. These requirements will then be written into its protocol of accession, or "ticket of admission."

Perhaps more important, if China resumes its original seat rather than accedes as a new member, the United States may be precluded from any attempt to deny the country Most Favored Nation (MFN) trading status. Under GATT rules, Article 35 allows any contracting party to opt out of applying GATT tariff schedules to new members. In the past, the United States has invoked Article 35 to deny MFN status to other communist nations, specifically Romania in 1971 and Hungary in 1973.

The provision, however, applies only if the contracting and new parties have not entered into tariff negotiations with each other. Presumably, the Office of the US Trade Representative (USTR) had the latter condition in mind when it avoided formal tariff negotiations during the 301 market access negotiations. Still, the United States can reserve the right to invoke Article 35 to deny MFN status to China only if China joins the GATT as a new member and the United States does not participate in the drafting of China's tariff concessions during the country's GATT negotiations.

The contracting parties will probably reject China's resumption argument for reasons other than grandfather rights or the applicability of Article 35. Not only was there a 30-year hiatus in China's relations with the GATT, but the obligations to which the Republic of China agreed in 1947 fail to address contemporary trade problems. In addition, China has publicly recognized the need to negotiate new tariff schedules. While the words "resume" or "rejoin" may be included in China's protocol to appease Beijing, the words likely would carry no legal significance.

If China does accede to the GATT as a new member, the United States may be able to negotiate Chinese tariff reductions without compromising its ability to withdraw China's MFN status. The GATT accession protocols of both Hungary and Poland contained "escape clauses" that allowed contracting parties to suspend GATT concessions and obligations if imports from those countries caused injury to domestic producers in other member countries. The United States may try to include such a clause in China's protocol; presumably, the clause would permit Washington to review China's MFN status annually and renew it in accordance with the Jackson-Vanik amendment. This "escape clause" will probably appear the most attractive option to US policymakers who will neither want to give up their power over renewal of MFN status nor have the United States sit out GATT negotiations on China's tariff levels.

> Contracting parties may use China's protocol as a vehicle to insulate their economies from the threat of cheap Chinese imports.

Working out the details

A GATT Working Group composed of representatives from larger member nations and other parties with an interest in China has been examining China's foreign trade regime since 1987, and has begun to determine the elements of China's protocol of accession. When the protocol is completed, it will be presented to the rest of the contracting parties along with schedules of tariff concessions and reports on China's compatibility with the GATT. Barring new problems or questions, the contracting parties will then vote on China's entry; a two-thirds majority is required for new members to join the GATT.

To date, the Working Group on China has met 13 times in Geneva to discuss China's accession to the GATT. Until recently, China made little headway. The United States and the countries of the European Community (EC) consistently contested China's membership bid, citing China's trade barriers. Major points of contention included China's import restrictions, such as quotas and licensing requirements; Beijing's practice of relying on secret internal regulations and providing incomplete and unreliable data on customs and economic structures; and China's incomplete economic and price reforms.

The US section 301 market access investigation and the resulting Memorandum of Understanding (MOU) issued in October 1992 addressed and offered solutions to many of these concerns. In return for Chinese concessions, the US government committed to "staunchly support" China's entry into the GATT, but only after the drafting of an "acceptable protocol." This careful wording leaves considerable leeway for the United States to determine the extent to which it will champion China's accession, and under what terms.

Stepping up discussions

As a result of the MOU, China's application has met with considerably more success at recent Working Group meetings. In October 1992, representatives from over 50 nations agreed that future talks on China's accession will concentrate on obtaining clear information on China's economic and trade systems and on drafting the protocol.

At the most recent Working Group meeting last December, the Chinese expressed their commitment to hasten economic reform and said that reform efforts will now concentrate on restructuring State enterprises, reinforcing the legal system, modifying tax schedules and social security systems, and reducing government control over the economy. A representative of the US delegation claimed that the Chinese failed to respond to many of the concerns raised by the contracting parties, specifically the US request for publication of China's five-year economic plans or any similar signal of progress in implementing a uniform and transparent trade policy. The Chinese, however, did invite the United States to continue bilateral negotiations with an eye toward smoothing over some of these differences.

Because China's protocol can include a wide range of issues, contracting parties may use the agreement as a vehicle to insulate their economies from the threat of cheap Chinese imports. Working Group delegates have suggested that China's protocol go beyond the emergency action permitted by the GATT to ban specific imports, regardless of country of origin. In China's case, a provision may be introduced to ban its exports under certain conditions, such as large trade imbalances or significant injury to another country's domestic industry. In addition, the protocol may require periodic reviews of China's membership and may also place restrictions on the privileges China might otherwise be entitled to as a developing country. Should China object to these terms, it may seek to negotiate a new protocol or remain outside of the world trading system.

The next meeting of the Working Group has been scheduled for March 15, and the delegates are expected to continue drafting China's protocol of accession. The process should move more quickly now that the problem of Taiwan's application to join the GATT has been temporarily solved. After considerable bickering between Beijing and Taipei, the contracting parties and the two governments reached a consensus in September 1992 to establish a Working Group to examine Taiwan's application. This Working Group will convene after Taiwan outlines its trade policy for preliminary review by GATT members. To form the Working Group and overcome

> GATT will review China's application and protocal before those of Taiwan.

Beijing's objections, Taiwan consented to apply as "Chinese Taipei," and the contracting parties agreed to review China's application and protocol before those of Taiwan.

China's obligations

Before it can join the GATT, China must meet a number of GATT requirements and codify them into law. Chinese trade officials have been increasingly vocal in describing the steps that China is prepared to take to open up its trade system, but issues involving discrimination, tariffs, quantitative restrictions, transparency, and requirements for State enterprises must all be resolved before China can enter the GATT.

■ Nondiscrimination

The GATT requires each contracting party—unless it invokes Article 35 or other nonapplication provisions—to grant every other party equal tariff treatment, or MFN status, for all traded goods. The GATT further requires contracting parties to treat imported goods no worse than those domestically produced. This condition of "national treatment" applies to all products and prohibits domestic taxes and other regulatory policies which could unfairly affect the sale of imported goods.

It remains unclear, however, whether China's protocol of accession will require the extension of nondiscriminatory treatment to tertiary industries such as banking, law, inspection, consultancy, public relations, advertising, transportation, and insurance. In anticipation of GATT demands, China has taken steps to open up its service sector, albeit on a limited and experimental basis (*see The CBR*, September-October 1992, p. 4).

■ **Tariff concessions**

The tariff schedules that accompany every protocol require the applicant to limit the tariffs imposed on imports from other GATT member countries. These tariff commitments, termed "bindings" or "concessions," represent the maximum duty that can be charged on specific items. After its tariff bindings are negotiated by the Working Group, approved by the contracting parties, and included in the protocol of accession, China will be obligated to honor them.

Because these tariff reductions may be phased in over a period of years, however, China would not have to reduce all tariffs immediately upon entering the GATT. Currently, China is contemplating tariff level reductions averaging 50 percent over a 3-5 year period, including a 15 percent reduction in 1993. Within these general reductions, however, certain "infant industries"—those deemed critical to economic development or reconstruction—can remain temporarily protected by high tariff levels, provided the process is under multilateral surveillance. China will likely try to retain high tariffs on automobiles, refined petroleum products, selected chemicals and fertilizers, rubber, cosmetics, tobacco, cotton, and certain electronic products even after GATT admission.

■ **Quantitative restrictions**

In addition to requiring tariff concessions, the GATT generally prohibits the use of quotas or measures other than duties to restrict imports or exports. Until now, China has utilized a host of non-tariff barriers, including foreign exchange controls, import licensing requirements, bans and quotas, and the use of technical standards and certification requirements to discourage imports. These violations of the spirit of the GATT indicate that lower tariffs alone will not lead to a more open Chinese market. Though China agreed to reduce non-tariff barriers in its MOU with the United States last fall, further reductions may be needed for GATT accession.

Nevertheless, China will still be permitted to control imports in order to protect its balance of payments and foreign exchange reserves, in accordance with GATT rules for developing countries.

■ **Transparency**

The GATT requires its members to make available various types of information on trade practices, such as requirements for valuation of goods for customs purposes, procedures for customs administration, and specifications for marks of origin. Each contracting party is required to notify the GATT promptly of any change in trade policy or legislation, and is further compelled to disclose fully the trading activities of any State agency. The section 301 MOU should catalyze China's efforts to increase the transparency of its trade regime. Effective implementation of commitments made under the agreement will be critical if China is to meet the GATT transparency requirements.

> In the United States, the extension of GSP privileges to communist countries is prohibited.

The Trade Policy Review Mechanism, adopted by the contracting parties in 1989 during the GATT's Uruguay Round of trade talks, also requires each GATT member to submit periodic reports of its trade policies and practices. Once it accedes to the GATT, China will be required to report on its trade policies and practices every six years on such topics as trade policy formulation, import and export systems, and domestic regulations governing the application of trade policies.

■ **Requirements for State enterprises**

The GATT's general obligations regarding State-owned enterprises will apply to China's trade regime. As the bureaucratic organ for many Chinese foreign trade corporations, the Ministry of Foreign Economic Relations and Trade (MOFERT) and its local branches directly control the issuance of import and export licenses, the allocation of quotas and quantitative restrictions, and the approval of certain export and import contracts. Purchasing on behalf of a large number of endusers, Chinese State trading agencies can effectively exclude certain foreign products by paying lower prices and purchasing fewer goods than would buyers in competitive markets. The GATT requires such State entities to execute trading activities in a non-discriminatory fashion and to make trading decisions "solely in accordance with commercial obligations."

Theoretically, the GATT will also compel China to disclose all aspects of State-directed trading. Designed for market-economy countries that engage in limited State trading, however, the provisions dealing with State enterprises are vague, making it hard to determine when a breach has occurred. It is unclear, therefore, to what extent the GATT rules will deter this type of trading in China.

US trade law, though, requires the President to make certain determinations regarding State trading practices before a major foreign country, such as China, accedes to the GATT. If State trading enterprises account for a significant share of China's exports to the United States and/or China's FTCs adversely affect US exports, the President must either seek an agreement with Beijing that guarantees that Chinese State trading enterprises will buy and sell in accordance with commercial considerations, or submit a bill to Congress to approve China's accession to the GATT.

Perhaps in anticipation of US application of this law, China is discussing measures to separate FTCs from MOFERT and the other ministries. The US delegation's current negotiating position, however, still requires China to take greater strides in liberalizing its economy.

The limits of GATT membership

China's entry into the GATT may bring only limited changes in three other areas of concern to US companies:

■ **Tariff benefits for developing nations**

Although China will enter the GATT as a developing country, it may not be able to secure GATT-sanctioned Generalized System of Preferences (GSP) benefits from all contracting parties. Under GSP, developed countries extend superior, non-reciprocal tariff benefits to qualifying exports from less-developed countries. China is already a designated beneficiary

GATT entry will not require China to eliminate all import controls, lower tariffs on all products, or make the *renminbi* convertible.

under GSP in the EC, Australia, and Japan. In the United States, however, the extension of GSP privileges to communist countries is prohibited.

■ Currency convertibility

Despite recent rumors in Beijing and Hong Kong, China's accession to the GATT will not necessarily require an immediate shift in Beijing's currency practices. The GATT does not explicitly require contracting parties to make their currencies freely convertible, though members pledge to consult with the IMF about foreign exchange problems and to accept the Fund's determination on whether their country's convertibility policies are in accordance with IMF policies. While China has recently stated its ultimate objective is to make the *renminbi* freely convertible, accession to the GATT is unlikely to bring about rapid change. Controls on the convertibility of China's domestic currency will likely continue for at least three-five years.

Ultimately, inconvertibility of the *renminbi* may allow China to continue to control import levels by restricting access to foreign currency and forcing up the prices of many foreign goods beyond the means of the Chinese people—despite GATT language stating that members are forbidden from using exchange policy to frustrate the intent of the GATT or the IMF.

■ Antidumping and countervailing duties

A final area of concern for US companies is dumping, particularly as the number of cases against China has risen sharply in the last few years (see *The CBR*, July-August 1991, p.34). The GATT permits the imposition of antidumping duties on foreign imports, and foreign companies in the United States and the EC can be expected to petition to impose these duties to halt the increased levels of Chinese goods that will flow into their home markets after China joins the GATT. Even if China is not found to be selling goods below cost, GATT members may argue that Chinese prices are artificially low and impose sanctions anyway.

The GATT also permits its members to impose countervailing duties (CVDs) against the exports of other contracting parties in cases where the producer or exporter is found to have received a government subsidy. Currently, the US Department of Commerce does not accept CVD cases against Chinese companies on the grounds that China is a non-market economy. China's accession to the GATT, however, will probably make the United States and other countries willing to recognize "bubbles of capitalism" in China and therefore willing to consider CVD cases against Chinese companies.

The Clinton factor

Despite the political and practical constraints to GATT accession, China could conceivably enter the GATT within 12-16 months, although the change of administration in Washington might slow the process. Trade and structural reforms that will be negotiated in China's protocol of accession should make its economy and trade regime more open to foreign cooperation and more comprehensible and predictable to foreign businesses. There are important limits, however, to what the GATT can and will do to improve the business climate in China—GATT entry will not require *renminbi* convertibility, the elimination of all import controls, or lower tariffs on all products.

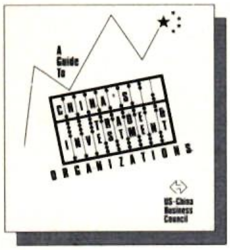
Recognizing that China's accession to the GATT will involve negotiation and compromise, the US business community should urge the new Administration to support China's entry, but also work to ensure that China takes adequate steps to reform its economy and trade regime to GATT norms. To this end, the United States must negotiate an escape clause in China's protocol of accession in lieu of invoking Article 35, and should take a leading role in the negotiation of China's tariff reductions and protocol of accession. 完

Special Offer! All Pre-1990 Council Publications Now Reduced 40-60%

Guide to China's Trade and Investment Organizations

Easy to use, concise reference to seventy of China's key investment and trade organizations. Entries provide contact names, addresses, and functional descriptions. The book also features straightforward summaries of the role of China's various organizations in trade and investment. 100 pages. June 1989.

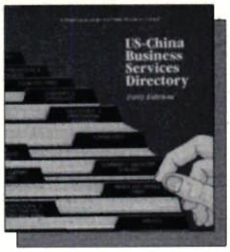
Council members--~~$65~~ $30
Nonmembers--~~$95~~ $55



US China Business Services Directory

Directory of more than 900 US, Hong Kong, and Chinese companies providing China business services. Includes consultants, agents, architectural and construction engineers, freight forwarders, attorneys and more. This indispensable resource will assist in all aspects of your China business. 104 pages. January 1989.

Council members--~~$45~~ $25
Nonmembers--~~$57~~ $35.



SPECIAL PACKAGE OFFER
Opportunities in China's Major Projects & ICB Report

1) Resource guide to 257 of China's key projects. Organized by sector and includes location, status, and total investment. Analysis of US sales, key factors affecting the competitiveness of American firms. 245 pages. August 1988.

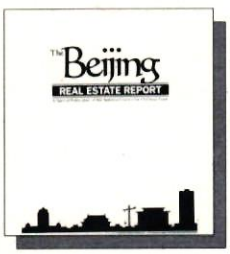
2) International Competitive Bidding Report: Guide for American Companies in China. 98 pages. April 1990.

Council members--~~$145~~ $60
Nonmembers--~~$220~~ $95

The Beijing Real Estate Report

Unique guide to office, apartment, and hotel accommodations, including specifications for all accommodations; detailed profiles of 56 facilities; China's real estate rules and regulations; maps locating all projects and other places of interest to expatriates. 104 pages. January 1988.

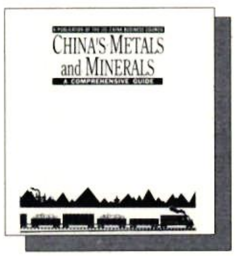
Council members--~~$35~~ $20
Nonmembers--~~$50~~ $30.



China's Metals and Minerals: A Comprehensive Guide

Detailed assessment of China's metals and mineral reserves, production facilities, and development strategies. Includes maps of major deposits, organizational charts, and data on productivity, investment and trade. 125 pages. November 1988.

Council members--~~$140~~ $70
Nonmembers--~~$200~~ $100



Electrical Power Development in China

Comprehensive guide to China's electric power market. This study provides information on buyers of power equipment and related services; analysis of the market for various types of equipment and services;power projects planned for the 1990s. 136 pages. January 1988.

Council members--~~$185~~ $90
Nonmembers--~~$270~~ $125

US-CHINA BUSINESS COUNCIL PUBLICATIONS ORDER FORM

Name ____________________

Title ____________________

Company ____________________

Address ____________________

____

City ____________________ State____ Zip ____________

Country ____________________ Council Member? __ Yes __No

___Payment is enclosed ___Charge my __VISA __MASTERCARD

Acct # ____________________ Expiration Date ____________

PUBLICATION TITLE	QUANTITY	PRICE

International Airmail : $10 per title $______

Total (Including International Airmail Charges if applicable): $______

Make checks payable in US$ to:

The US-China Business Council
1818 N Street, NW * Suite 500C80
Washington, DC * 20036 * USA
Tel: (202) 429-0340
Fax: (202) 775-2476

Most Favored Immigrants?

A new US law will significantly ease permanent residence requirements for Chinese citizens

■ **T.K. Chang and H. Reid Shaw**

Attracting little notice in the US press, a law signed by George Bush last October could grant thousands of Chinese nationals that most prized possession—a permanent residence visa, or "green card."

The Chinese Student Protection Act of 1992 applies to any Chinese national who arrived in the United States on or before April 11, 1990; has resided continuously in the United States since then, and has spent no more than 90 days in China since that date. Such persons are entitled to apply for green cards starting July 1, regardless of any immigration quotas applicable to the People's Republic of China (PRC). Furthermore, the law waives the requirement for employment-based green cards that the Department of Labor certify that the alien is seeking to fill a vacancy for which there is no ready, willing, and able American worker.

Despite its title, the law applies not only to students, but to all PRC nationals who meet the above three criteria. Thus, tourists in the United States who overstayed their visas, H-1 visa holders serving as temporary professional workers, and even those L-1 visa holders working as intra-company transferees in the United States meet the requirements. Any PRC national who is or was on an Exchange Visitor J-1 visa for study, research, or other purposes will be exempt from the normal J-1 requirement that he reside in his own country for a two-year period prior to appying for another visa status. Finally, PRC nationals lacking valid visas or passports, but who otherwise meet the three criteria, may also apply for green cards under the new law.

Eligible individuals may not have spent more than 90 days (in total) in China since April 11, 1990; presumably, any person who has done so cannot be said to legitimately fear a safe return to China. Although the law requires the PRC national to be in the United States "continuously" since April 11, 1990, "brief, casual, and innocent absences" are permitted.

PRC nationals have until July 1, 1994 to apply for the green card, which will be issued regardless of whether there are any remaining slots in the PRC immigration quota available at the time of application. To make up for those who are admitted under this law, the immigration quota for China will be reduced by 1,000 each year, to approximately 24,600. Without the Department of Labor review, the application process should be relatively quick.

The US Immigration and Naturalization Service (INS) estimates that over 80,000 Chinese nationals could be eligible for green cards under the new law. Once these individuals have received their green cards, they will be entitled to apply for permanent residence for their immediate families; the number of persons ultimately eligible for immigration benefits, therefore, could be much higher. After five years, green-card holders may apply for US citizenship.

The Chinese Student Protection Act could be nullified if President Clinton determines and certifies to Congress before July 1 that conditions in the PRC permit the safe return of Chinese citizens. Given his past positions on China issues and probable political pressures, however, such a scenario appears unlikely. Clinton would face strong opposition to such a move from many in Congress, who would likely point to the experiences of Shen Tong, a student who returned to China last year and was later arrested and eventually deported.

Over the last few years, American companies doing business with China increasingly have come to realize the value of hiring Chinese nationals because of their understanding of the Chinese social and political systems and their networks of informal contacts in China. With the Chinese Student Protection Act of 1992, George Bush and Congress have given American business a potentially large pool of employees who could help make US companies more competitive in China.

■ **T.K. Chang and H. Reid Shaw are partners in the New York office of Marks & Murase, an international law firm specializing in business relating to Greater China, Japan, Korea, and Latin America.**

Members Assess Business Implications of Political Change at Forecast '93

"May you live in interesting times"—with this tongue-in-cheek reference to an old Chinese curse, Council President Donald M. Anderson opened the Council's annual Forecast meeting on January 28. Around 150 representatives from 92 member companies convened in Washington, DC, to discuss how the recent Communist Party Congress in China and the presidential election in the United States would affect business prospects in 1993. While participants were cautioned that politics within China and relations between the two countries were far from stable, the outlook for most industries was decidedly upbeat.

The mood in Washington...

The potential for volatile partisan politics, coupled with the public's negative perceptions of China, could spell trouble for US-China relations during the Clinton presidency, warned Michael Barone, senior writer of *U.S. News & World Report* and co-author of *The Almanac of American Politics*. Barone, the morning's first speaker, characterized the current time as a period of great oscillation in voter expectations, which could lead politicians in both parties to exploit issues for short-term gains without regard for long-term consequences.

Morning speakers provided a big-picture perspective of the year ahead.

Nevertheless, Barone said, Congress—including the Republican minority leadership—seems inclined to let the Administration take the lead on China policy. And neither Clinton nor Secretary of State Warren Christopher appears eager for a rupture in US-China relations. Barone claimed that most of the American public—including the government and the media—remains unaware of the economic changes that have taken place in China since Tiananmen, and said US business could play an important role in bringing such (positive) information to their attention.

Michael Barone advised companies to inform the press about their successes and prospects in the China market.

...and Beijing

Following Barone's speech, Forecast participants heard China Analyst Christopher Clarke of the Department of State's Bureau of Intelligence and Research discuss the political climate in Beijing. While Clarke believed that the 14th Party Congress last fall was an impressive victory for Deng Xiaoping, whose imprint was clearly visible in all personnel appointments and policy pronouncements, Clarke noted that the Congress failed to put forward a clear successor—or to establish a succession process—for the post-Deng era.

One of the most striking aspects of the Congress, according to Clarke, was the clear fall in stature of both President Yang Shangkun—who many observers thought would temporarily succeed Deng after the patriarch's death—and his half-brother Yang Baibing, who was removed from the Central Military Commission and is now reportedly under house arrest. The downfall of the Yangs supposedly stems from suspicions that the brothers had too much influence over the military, and many of their supporters have recently been purged from the armed forces. Though Yang Baibing appears to have been the primary target of the shakedown, Yang Shangkun was damaged by the ouster of his brother and may no longer be able to play a strong role in the inevitable succession struggle. The eventual victor of this struggle, Clarke said, may well be somebody not currently in the spotlight.

Business looks good

Rounding out the morning session was a presentation by John Frisbie, director of the Council's China operations. Frisbie predicted that if political factors do not interfere, 1993 could be another good year for US businesses in China. Last year, US trade and investment with China increased by 16 percent and more than 200 percent, respectively, and these trends seem likely to continue. However, overheating of the economy remains a distinct danger, and it is unclear whether Beijing has the means to cool the economy without stifling growth completely, as occurred in 1989-91. Frisbie also advised member companies to monitor closely the upcoming National People's Congress (NPC), as important changes in foreign trade-related personnel and ministries will likely be announced.

Lisa Bolton of Sino-American Axess Corp., David Rogers of Allied Signal Inc., and Glen Knight of Perseco System Services reflect on the morning presentations at lunch.

Talking specifics

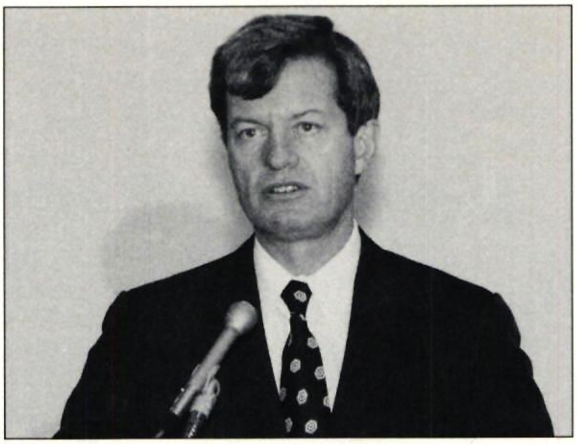
Following lunch, each Forecast participant attended one of three afternoon workshops dealing with project finance, personnel management, and China's newly opened service sector. The project finance workshop featured a presentation by the International Finance Corp. (IFC), the private sector arm of the World Bank Group. Mumtaz Khan, division manager for Asia at the IFC, discussed the parameters for IFC participation in foreign investment projects in China and answered the audience's many questions. The IFC can finance up to 25 percent of total investment costs by providing long-term, commercial-rate loans or by becoming an equity shareholder in the project. The IFC can also arrange syndicated financing of additional loans. With over $10 billion invested in 90 countries, the IFC is currently expanding its China program, and anticipates its portfolio there to surpass $200 million by 1995.

Regional differences in worker attitudes were identified at the workshop conducted by Christine Casati, managing director of China Human Resources Group. Casati cited Shandong employees as especially hardworking and noted a new-found zeal among Shanghainese eager to take advantage of the latest economic reforms. Worker demands for greater salaries—a headache mentioned by workshop participants—could prove an ever greater source of problems for foreign employers as competition for skilled Chinese personnel increases.

Participants at the service sector workshop discussed the growing opportunities in China's tertiary industries. Frank Schwitter of Arthur Andersen & Co., James Heimowitz of Chase Manhattan Bank, Lucille Barale of Coudert Brothers, and Steven Drake of Fleishman-Hillard discussed developments in accounting, banking, law, and public relations, respectively. While most foreign firms in these sectors are generally providing services to foreign joint ventures, foreign firms in accounting and insurance, in particular, are eagerly targeting domestic Chinese enterprises and consumers.

Christine Casati (center), chair of the afternoon workshop on personnel issues, said recent economic reforms have inspired Shanghai workers to work harder.

Council Praises MFN Efforts of Senator Baucus



Senator Max Baucus (D-MT)

"MFN has kept the channels of communication open," declared Montana Senator Max Baucus on January 7 at a breakfast meeting sponsored by the Council and other members of the Business Coalition for US-China Trade. Several hundred members of the Washington business community gathered at the Stouffer Mayflower Hotel to honor the senator for his efforts over the past two years to preserve China's unconditional Most Favored Nation (MFN) trading status. The Coalition awarded Senator Baucus a plaque acknowledging his leading role in the Congressional fight over MFN.

During his remarks, Baucus argued that the policy of constructive engagement with China has been successful. He pointed to recent Sino-US agreements on market access, intellectual property rights, and prison labor as signs that China is willing to help ease the bilateral trade deficit and improve human rights conditions. These agreements, he noted, would have been impossible to achieve if the United States had withdrawn China's MFN status. Though he stated that "Breaking ties with China would only hand its future over to the hard-line Marxists who sent the tanks into Tiananmen," Baucus also said that "China must abandon repression as a policy if it expects to be respected as a responsible member of the world community."

The senator expressed optimism about the Clinton Administration's desire to work with Congress to forge a bipartisan policy on China for the first time since 1989. Baucus also recommended that Clinton's China policy team undertake the following:

- Establish a bilateral task force to discuss human rights
- Encourage the US embassy in China to stress the importance of human rights
- Urge the State Department to enforce vigorously the memorandum on prison labor
- Issue a strong statement in support of democracy in Hong Kong
- Work with the Department of Commerce and new US Trade Representative to monitor compliance of bilateral agreements
- Ensure that the US Customs Service continues to intercept mislabeled and improperly transshipped textiles
- Push for China's accession to the GATT with a reasonable protocol
- Instruct US intelligence agencies to monitor China's adherence to the Nuclear Non-Proliferation Treaty and Missile Technology Control Regime and impose sanctions if warranted
- Seek China's adherence to the Threshold Test Ban Treaty
- Expand radio broadcasts to China

Senator Baucus advocated that these measures be used as part of a targeted, "scalpel-like" approach to China policy rather than resorting to "the quick but emotionally satisfying use of the MFN 'big stick.'"

Council President Accompanies Commerce Secretary to China

Council President Donald M. Anderson, along with other industry and government representatives, visited China with then-Secretary of Commerce Barbara Franklin last December. The delegation met with Chinese officials in Beijing and Shenzhen, where they voiced concerns about the United States' growing trade deficit with China and pressed for further opening of the China market to US goods.

While in Beijing, Franklin resumed meetings of the Joint Commission on Commerce and Trade (JCCT), a bilateral trade commission that had been suspended since Tiananmen. She and Ministry of Foreign Economic Relations and Trade (MOFERT) Minister Li Lanqing agreed to consider resuming talks on a bilateral investment treaty and to set up a working group to promote US trade and investment in the energy, telecommunications, and transportation sectors.

Council President Donald M. Anderson and Commerce Secretary Barbara Franklin greet Chinese Premier Li Peng.

China Leading Companies 1992

Secaucus, NJ: China Statistical Information and Consultancy Service Center and Hualin International, Inc., 1992. 576 pp. $200 hardcover.

This publication, a cut above most reference books on Chinese industry, provides quality information in a user-friendly format. The information is also available on diskette ($300) and as a combined text/diskette package ($400).

The compendium lists industrial enterprises as well as the country's leading foreign trade companies, hotels, financial institutions, retail stores, and construction firms. Industrial corporations are ranked in order of gross sales or revenues and banks and insurance companies by total assets. An alphabetical index provides valuable contact information in Chinese and English, including each company's address, telephone number, and director. Fax numbers, unfortunately, are not included.

Beyond these basics, the type of data provided in each section varies. For instance, the industry section indices include net income before taxes, net fixed assets, export percentages, labor productivity (*renminbi*/person-year), pre-tax profits as a percentage of total funds, and product development funds. The listings for retail stores similarly detail gross sales and net income before taxes, but also include statistics on costs and expenses, average annual funds, number of employees, business space (in sq m), and original fixed assets. While useful comparisons between companies can be made, the source of some figures is vague and these numbers should not be taken at face value. It is not clear, for example, how profitability is computed.

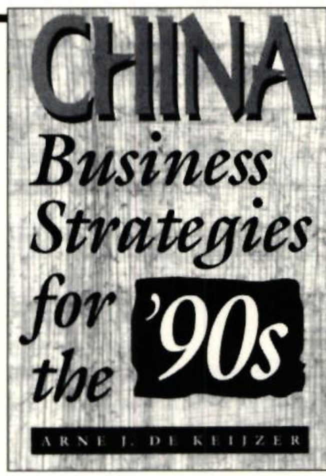
Nevertheless, the material is well presented, and appears to have been carefully proofread by a native English speaker. However, the book continues the irritating Chinese tradition of burying the table of contents behind several pages of requisite introductions by Chinese government luminaries, and fails to cross-reference all the companies listed. These are minor flaws, though; most foreign firms operating in China would find *China Leading Companies 1992* a useful addition to their libraries.

—*Richard Brecher*

Richard Brecher is director of Business Advisory Services at the US-China Business Council.

China Business Strategies for the '90s

by Arne J. de Keijzer. Berkeley, CA: Pacific View Press, 1992. 279 pp. $24.95 softcover.



Arne J. de Keijzer's new book, *China Business Strategies for the '90s*, promises a wealth of information on doing business in China. Although it is most appropriate for the novice China trader or investor, the book serves up something for everyone. While this guide relies heavily on the work of others, including *The China Business Review*, de Keijzer synthesizes the information into a single, readable volume. The style is straightforward, and the book does a good job of addressing various concerns of those involved in China business.

Part I includes "The 15-Minute China Briefing" and the basics of trade and investment strategy and implementation. Here, de Keijzer offers a detailed look at the evolution of China's trading system bureaucracy, but fails to include the important new Economic and Trade Office. The section on "Seven Reasons Why China Might Be Worth the Risk" might be particularly useful for businesspeople struggling to convince their bosses that China is a market that should be seriously considered.

In Part II, 25 case studies documenting the experiences of US and other foreign companies pursuing trade, technology transfer, equity ventures, and service sector opportunities make for fascinating reading, along with 2 case studies written from the Chinese perspective. *China Business Strategies* doesn't gloss over the difficulties encountered by foreign investors. In the story of Jardine Matheson's car maintenance joint venture, for example, the Hong Kong firm's troubles ran the gamut from an uncooperative and then vengeful Chinese deputy general manager to battles with the local price bureau.

Parts III and IV examine strategic planning, negotiations, human resource management, and "Guidelines for Success." If you've got limited time for reading, head straight for the "Guidelines"—a list of maxims culled from the experiences of a number of US companies in China.

To the author's credit, the book doesn't skimp on advice about where to turn for more help. The planning chapter includes a discussion of different types of information and consulting resources, and the excellent bibliography and resource lists provide ample fodder for the serious China businessperson.

—*Karen Kullgren Juh*

Karen Kullgren Juh is vice president of the US-China Business Council.

China in Our Time: The Epic Saga of the People's Republic, From the Communist Victory to Tiananmen Square and Beyond

by Ross Terrill. New York, NY: Simon & Schuster, 1992. 366 pp. $25 hardcover.

Ross Terrill first visited China in 1964 as an Australian student and has been traveling between China and the United States ever since. The author of many volumes on China, including a best-selling biography in China of Mao Zedong and Jiang Qing, Terrill also penned articles that were required reading for President Nixon before his 1972 trip to China. Now a research associate at Harvard University's East Asian Research Center, Terrill, in his latest book, offers a free-flowing monologue peppered with insights into China's past, present, and future.

The book begins with the author's first trip in the 1960s, when China appeared to many foreigners as a buoyant, highly organized society. Terrill, however, describes the Chinese as machine-like in their conformity. Subsequent chapters delve into Mao's foreign policy, the Cultural Revolution, the reestablishment of US-China relations, and the power struggles within the leadership before Mao's death. The second half of the book is devoted to the Deng era and the impact of the opening to the West on Chinese society.

Over the course of two decades, Terrill himself has evolved from an enthusiastic student of China to a more critical observer. He finds flaws "deep in the bones" of Chinese communism, such as dictatorial rigidity, secrecy, repression of opinion, and the denial of human rights. He then goes beyond the malaise of communism to examine how aspects of Chinese culture have reinforced authoritarianism and hindered China's integration into the community of modern nations. Two weaknesses are pointed out: a lack of individual autonomy, which has made the Chinese conformist and vulnerable to collectivist passion; and an ethnocentric obsession with the uniqueness of the "Middle Kingdom" that has alienated Chinese from the rest of the world.

But Terrill is not without hope. According to the author, Tiananmen tolled the bell for Chinese communism; he predicts the demands of a growing middle class will eventually lead to greater individualism—and to democracy. But this process will not be easy, because such a shift requires cultural change as well as political change. Terrill pins his hopes on the current generation of Chinese youth, whom he believes to be open-minded and individualistic. As the popular rock-and-roll singer Cui Jian would say, China could have more to offer the world than Chinese food.

On the whole, *China in Our Time* is rich in both descriptive personal accounts and incisive analysis. Yet a few inadequacies leave the book less than perfect. While acknowledging the crucial role played by rural China in any fundamental political change, the author does not discuss in any depth this "center of gravity." In addition, although the book is autobiographic in style, it is at times loosely structured, and some accounts of the author's experiences or thoughts are repetitive. But his final message is a welcome one: that the West's unrealistic fixation on China's exoticism needs to be abandoned in favor of a realistic approach in which China is stereotyped neither by its imperial history nor its communist past.

—Xiaojie Zou

Xiaojie (Windy) Zou, an intern at the US-China Business Council, is a graduate student at the American University's School of International Service.

The China-Hong Kong Connection

by Yun-Wing Sung. Cambridge, UK: Cambridge University Press, 1991. 183 pp. $49.95 hardcover.

If a theoretical perspective on Hong Kong-China economic relations is what you're after, *The China-Hong Kong Connection* will be of interest to you. It focuses on Hong Kong as an intermediary in the China trade, and explains why the territory's role has become more—not less—important as China opens up to the rest of the world. According to the author, Hong Kong actually plays a four-fold role in China's open-door policy: financier, trading partner, middleman, and facilitator. A detailed analysis of these functions forms the heart of the book.

The book examines the 1979-89 period, but also incorporates relevant earlier data. Occasional comparisons with other Asian business centers such as Singapore help provide a regional context to understand the importance of these entrepots. Sung, an economist at the Chinese University of Hong Kong, supports his assertions with tables throughout the text, and for the most part, writes in a manner easily accessible to non-economists.

Though *The China-Hong Kong Connection* is neither a "how-to" business guide nor a source of information on the fast-paced developments since 1990, it provides a useful academic discussion of Hong Kong's role in China's open-door decade. This topic and the tighter economic links forged between Hong Kong and China in the last two years merit more such serious study—and an update as soon as possible

—Madelyn C. Ross

Madelyn C. Ross, a former editor of The CBR, *is a writer and consultant on China.*

Trade and Investment Opportunities in China: The Current Commercial and Legal Framework

by Dong Shizhong, Danian Zhang, and Milton R. Larson. Westport, CT: Quorum Books, 1992. 265 pp. $49.95 hardcover

This publication discusses a range of issues confronting any foreign businessperson in China. Unfortunately, in their attempt to be comprehensive, the authors omit many points that are essential to an accurate reading of China's business climate. The effort to be synoptic also leads the authors to list important elements of various laws, rather than offer much analysis or explanation of their application.

The book begins with a general overview of China's economic and legal development. Later chapters touch on barriers to trade, the role of the Ministry of Foreign Economic Relations and Trade (MOFERT), US-China trade disputes, and China's accession to the GATT.

Many critical details are omitted from these discussions, however, sometimes creating a misleading picture. For example, a description of MOFERT's many functions gives only a passing reference to China's foreign trade corporations, and the discussion of US antidumping legislation leaves out any mention of the International Trade Commission's injury test. And while the book details China's quest for GATT membership and provides excellent background information on the accession of other non-market countries, it fails to mention the GATT China Working Group meetings, the controversy over Taiwan's accession, and GATT and US requirements for State enterprises.

The chapter on foreign secured lending is what makes this volume worth reading. It examines the current tension between socialist tenets and the ownership of private property, a theme that could have served to tie this otherwise disjointed book together. A good general introduction to some trade and investment issues, *Trade and Investment Opportunities in China* should be used in combination with other works to obtain a complete and accurate picture of business in the People's Republic.

—Susan Mac Cormac

Susan Mac Cormac is a J.D. candidate at Duke University.

The Economic Contract Law of China: Legitimation and Contract Autonomy in the PRC

by Pitman B. Potter. Seattle, WA: University of Washington Press, 1992. 246 pp. $50 hardcover.

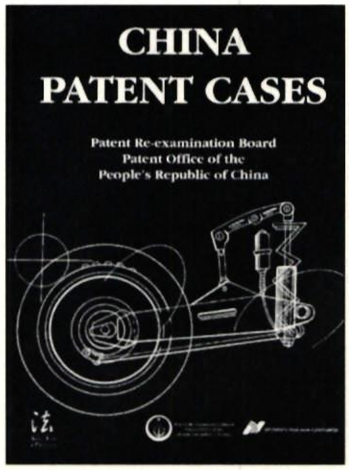
Although written primarily for lawyers and academics, *The Economic Contract Law of China* avoids legal jargon so that businesspeople and students of China can also gain from Potter's insights into one of the cornerstones of China's economic reforms. A far cry from a "how-to" business guide, this book instead analyzes whether the norms set forth in the 1982 Economic Contract Law (ECL) are being accepted and relied upon by economic actors in China. Potter's analysis of the problems that may arise for foreign entrepreneurs in the formation or enforcement of domestic contracts in China is particularly welcome.

The volume concentrates on examining the effectiveness of the ECL rather than on explaining its provisions. Potter explains how the ECL corrected some of the problems endemic in past contract regulations, but reinforced the inherent conflict between the pre-existing norm of collectivism and the ECL norm of autonomy. His chief premise—that increased autonomy results in increased reliance on economic actors—is extremely well-argued, making this book a joy to read. In addition, Potter's prediction that the ECL will gain legitimacy and become a more effective regulator of economic activity in the future makes this book a timely read. Though some references are slightly outdated, *Contract Autonomy in the PRC* gives the reader considerable background to understand Chinese contract practice today.*—Susan Mac Cormac*

China Patent Cases: Selected Decisions

by the Patent Office of the People's Republic of China. Hong Kong: Asia Law & Practice Ltd., 1992. 122 pp. $490 softcover.

Although China promulgated a patent law in 1985, uneven application of the regulations can present serious difficulties for holders of foreign patents. *China Patent Cases*, a compilation of case studies, can help foreign patent-



holders better understand the legal rationale behind the Chinese Patent Office's decisions and thereby improve their chances of obtaining effective patent protection.

The cases outlined here cover products ranging from "electrostatic capacity type encoders" to "lollipops." Each application is reviewed with regard to four major concepts: inventiveness, novelty, patentability, and disclosure. Each case outlines in simple terms the applicant's arguments, the examiner's arguments, the reasoning of the re-examination board, and the final decision.

This reference book is a valuable guide to understanding the focus of Chinese patent reviews and may help foreign companies avoid the expense of delays during the patent approval process—and litigation later on.

—Chris Concannon

Chris Concannon, a legal intern at the US-China Business Council, is a J.D. candidate at Catholic University.

Books Received

Case Studies of Chinese Economic Reform, edited by Timothy King and Zhang Jiping. Washington, DC: World Bank Publications, 1992. 196 pp. $11.95 softcover.

China Briefing, 1992, edited by William A. Joseph. Boulder, CO: Westview Press, 1993. 198 pp. $36.85 hardcover, $14.85 softcover.

China: Reforming Intergovernmental Fiscal Relations, by Ramgopal Agarwala. Washington, DC: World Bank Publications, 1992. 76 pp. $7.95 softcover.

The Chinese Economy in the Early Twentieth Century, edited by Tim Wright. New York, NY: St. Martin's Press, 1992. 220 pp. $70 hardcover.

Chinese Industrial Firms Under Reform, edited by William A. Byrd. Washington, DC: World Bank Publications, 1992. 438 pp. $39.95 hardcover.

Fires of the Dragon, by David E. Kaplan. New York, NY: Macmillan Publishing Co., 1992. 559 pp. $25 hardcover.

Human Development Report 1992, by the United Nations Development Program. New York, NY: Oxford University Press, 1992. 216 pp. $16.95 softcover.

Intersectoral Resource Flows and China's Economic Development, by Yuming Sheng. New York, NY: St. Martin's Press, 1993. 188 pp. $69.95 hardcover.

Peasant Power in China, by Daniel Kelliher. New Haven, CT: Yale University Press, 1993. 264 pp. $30 hardcover.

The Re-emerging Securities Market in China, by Mei Xia, Jian Hai Lin, and Phillip D. Grub. Westport, CT: Quorum Books, 1992. 185 pp. $42.95 hardcover.

The Struggle for Tiananmen, by Nan Lin. Westport, CT: Praeger Publishers, 1992. 232 pp. $45 hardcover.

Technological Change in China, by Richard Conroy. Paris, France: Organization for Economic Cooperation and Development, 1992. 276 pp. $54 softcover.

Torture in China, a report by Amnesty International. New York, NY: Amnesty International, 1992. 60 pp. $5 softcover.

Toward a Democratic China, by Yan Jiaqi. Honolulu, HI: University of Hawaii Press, 1992. 285 pp. $34.95 hardcover, $15.95 softcover.

IN THE NEXT ISSUE

DON'T MISS THESE EXCITING ARTICLES:

- Financing your China sales/investments
- New opportunities in the aviation sector
- Inspection turf wars
- Your responses to our US-China relations Survey on page 55

■ **Windy Zou**

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 rate quoted in the International Monetary Fund's International Financial Statistics.

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 editor of *The CBR*.

SALES AND INVESTMENT THROUGH January 15, 1993

Foreign party/Chinese party **Arrangement, value, and date reported**

Banking & Finance

INVESTMENTS IN CHINA

Coopers & Lybrand (US)/CIEC CPA

Will form the Coopers & Lybrand CIEC joint venture to provide auditing, accounting, tax, and consulting services. 12/92.

OTHER

Sun Alliance Group P.L.C. (UK)

Will set up a representative office in Beijing as part of its effort to become licensed in China. 12/92.

Chemicals, Petrochemicals, and Related Equipment

CHINA'S IMPORTS

Toyo Engineering Corp., Mitsui Corp. Ltd. (Japan), Snamprogetti Corp. (Italy)/CTIEC

Will sell equipment to produce synthetic ammonia and urea. 1/93.

Badger Co. Inc., Fluor Corp. (US)/Guangzhou municipal government

Will sell equipment and technology to an ethylene project under construction in Guangzhou. $60 million. 1/93.

INVESTMENTS IN CHINA

Honeywell Inc. (US)/Sinopec

Will set up the Sinopec-Honeywell (Tianjin) Ltd. joint venture to develop technology systems for the hydrocarbon processing industry and to market its integrated control systems. $4 million. 1/93.

CHINA'S INVESTMENTS ABROAD

Sinopec (Hong Kong) Ltd./NA (HK)

Will form a joint venture to raise funds on Hong Kong markets to finance its domestic expansion. 1/93.

OTHER

Tecnimont SpA (Italy)/Guangzhou Economic Construction Development Co., BOC Guangzhou Branch

Will provide loans for imported technologies for an ethylene plant in Guangzhou (115,000 tpy). $127.5 million. 12/92.

US Export-Import Bank (US)/People's Construction Bank of China

Will support the sale of US equipment and services to be used in the construction of an ethylene plant at the Maoming Petrochemical Complex. $17.4 million. 12/92.

Mitsui & Co., Mitsui Engineering and Shipbuilding Co. (Japan)

Will build a 40,000 tpy polypropylene plant near the Daqing crude oil field with loans provided by the Export-Import Bank of Japan. $40.1 million. 12/92.

Consumer Goods

INVESTMENTS IN CHINA

Matsushita Denko Co., Mitsui Bussan Co. (Japan)/Beijing Stone Group Corp.

Established the Stone-Matsushita Denko Co. joint venture to produce and market lighting equipment, wiring devices, and small household appliances. $40 million. (Matsushita:52%; Mitsui:8%-PRC:40%). 12/92.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Import-Export Corp.; CATIC: China National Aero-Technology Import-Export Corp.; CCTV: China Central Television; CEIEC: China Electronic Import-Export Corp.; CEROILFOODS: China National Cereals, Oil, and Foodstuffs Import-Export Corp.; CHINALIGHT: China National Light Industrial Products Import-Export Corp.; CHINAPACK: China National Packaging Import-Export Corp.; CHINATEX: China National Textiles Import-Export Corp.; CHINATUHSU: China National Native Produce and Byproducts Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CMC: China National Machinery Import-Export Corp.; CNCCC: China National Chemical Construction Co.; CNOOC: China National Offshore Oil Corp.; CTIEC: China National Technical Import-Export Corp.; ETDZ: Economic Technological Development Zone; ICBC: Industrial and Commercial Bank of China; INSTRIMPEX: China National Instruments Import-Export Corp.; MLI: Ministry of Light Industry; MMEI: Ministry of Machinery and Electronics Industry; MOE: Ministry of Energy; MOTI: Ministry of Textile Industry; MPT: Ministry of Posts and Telecommunications; 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.

Amway Corp. (US)
Will build a factory in Guangzhou to manufacture products to sell in China. $29 million. 11/92.

CHINA'S INVESTMENTS ABROAD

Yingkou Washing Machine Factory [a joint venture with Matsushita Electric Industrial Co. (Japan)]
Will set up a factory in Russia to produce washing machines. 12/92.

Electronics and Computer Software

INVESTMENTS IN CHINA

Donnelly Corp. (US)/Yantai No.1 Radio Factory (Shandong)
Established the Donnelly Yantai Electronics Corp. Ltd. joint venture to produce LCDs. (US:50%-PRC:50%). 12/92.

Compaq Computer Hong Kong Ltd., a subsidiary of Compaq Computer Corp. (US)/Qinghua University, Eekon Computer Systems (China) Ltd., ComputerLand China
Established a computer training center at Qinghua University. $1 million. 12/92.

OTHER

Microsoft Corp. (US)/NA (PC manufacturer)
Signed a licensing agreement for installation of MS-DOS software. 11/92.

Engineering and Construction

INVESTMENTS IN CHINA

Onada Cement, Mitsui Corp. (Japan)/State Raw Material Investment Corp., Nanjing Yangtze Cement Corp.
Will set up the Jiangnan-Onada Cement Co. joint venture in Nanjing. $163.55 million. (Onada:45%-PRC:NA). 1/93.

Otis Elevator Co., (a subsidiary of United Technologies Corp.) (US)/Guangzhou Nanfang Elevator Factory
Will form the Guangzhou Otis Elevator Co. Ltd. joint venture to manufacture and market elevators and escalators in China. (US:80%-PRC:20%) 11/92.

Environmental Technology and Equipment

OTHER

United Kingdom
Will donate a research grant to an environmental project in Shanghai. $3.8 million. 12/92.

Asian Development Bank
Will provide a loan to the Qingdao Environmental-Improvement Project to improve air and water quality. $103 million. 12/92.

Foreign Trade Agreements

Indonesia/China
Signed agreements on trade and economic cooperation in machinery, chemistry, and native products. $800 million. 12/92.

Russia/China
Signed accords to grant loans to Russia for economic and trade cooperation. 12/92.

Pakistan/Xinjiang Province
Signed a memorandum for promotion of bilateral economic and trade relations. 12/92.

Vietnam/China
Reached an agreement to expand trade and re-open cross-border railway lines. 12/92.

Machinery and Machine Tools

CHINA'S IMPORTS

Savio Co. (Italy)/CMC
Will sell autowinder production technology to the Qingdao Textile Machinery Factory. 12/92.

SRS Inc. (US)/China Die and Mold Industry Association
Will sell die-making technology and start-up materials. 11/92.

Metals, Minerals, and Processing Equipment

CHINA'S IMPORTS

Integrated Industrial Systems Inc. (US)/Pengda Steel Sheet Co. Ltd. (Hainan)
Will sell a steel mill with an $8.25 million guaranteed credit line from the US Export-Import Bank. $12.5 million. 12/92.

Nippon Steel Corp, NA (Japan)/NA
Will sell over 1.3 million tonnes of steel products. 12/92.

GE Drive Systems (US)/Capital Steel & Iron Corp.
Will supply process control and drive automation equipment, DC and AC drives, technical advisory services, and spare parts for a hot strip steel mill to be built near Beijing. $50 million. 11/92.

INVESTMENTS IN CHINA

BHP Minerals Ltd. (Australia)/Sichuan Nonferrous Metals and Ore Resources Exploration Development Corp.
Formed the Kang Dian Exploration Development joint venture to explore for zinc in Sichuan Province. 1/93.

CHINA'S INVESTMENTS ABROAD

Ministry of Energy & Mineral Resources (Bangladesh)/CMC
Will develop a coal mine in Barapukuria. $200 million. 1/93.

Packaging, Pulp, and Paper

INVESTMENTS IN CHINA

Soon Hua Song Group (Thailand)/State Forestry and Paper Mill of Shanwei City (Guangdong)
Will set up an integrated forestry project including construction of a pulp, paper, and wood chip mill and development of afforestation areas. $1 billion. 1/93.

Petroleum, Natural Gas, and Related Equipment

INVESTMENTS IN CHINA

ACT (Italian American Consortium), Agip (Italy), Chevron Corp. (US), Texaco Petroleum Maatschappij (Netherlands), BV (a subsidiary of Texaco Inc.) (US)/China National Offshore Oil Corp.

Will develop Huizhou 32-2, Huizhou 32-3, and Pearl Zhujiang Basin 16-08 oil fields. $112 million. (Italy & US:51%-PRC:49%). 12/92.

CHINA'S INVESTMENTS ABROAD

India/NA

China will build a 6 million tpy oil refinery in Orissa, India. $1 billion. 1/93.

Ports

OTHER

World Bank/Shanghai

Approved a loan to improve facilities at the Port of Shanghai. $150 million. 12/92.

Property Management and Development

INVESTMENTS IN CHINA

NA (HK)/Longtoushan Development Zone (Fujian)

Started construction of a comprehensive development zone with total floor space of 14 million sq ft which will house over 150 enterprises in light industry, electronics, garments, and foodstuffs. 12/92.

GT International (Singapore)/Putian City (Fujian)

Will develop an industrial park. $500 million. 12/92.

Vikay Investment Ltd. (Singapore)

Will develop an industrial park. $200 million. 12/92.

Kuok Brothers Group (Malaysia)

Will develop "Everbright City," a 1.24 sq km commercial complex in Zhabei district, Shanghai. $400 million. 11/92.

OTHER

Yohan Co. (Thailand)/China National Aerotechnology International Engineering Corp.

Will market apartment buildings jointly built in Bangkok on the Chinese market. 1/93.

State Tourism Administration

Will sell land in 36 selected scenic spots to overseas Chinese. 11/92.

Telecommunications

CHINA'S IMPORTS

Motorola Corp. (US)/NA (Shanghai)

Will sell mobile telecommunications equipment under a lease agreement for construction of a mobile exchange center in Pudong. $10 million. 1/93.

NA (Italy)/Shanghai Post and Telecommunications Administration

Will sell computer-controlled telephone exchanges and fiber-optic transmission facilities to update the telecommunications network in the Pudong New Area. $70 million. 12/92.

AT&T Network Systems (US)/Changchun City Post and Telecommunications Bureau

Will sell digital telephone switching equipment. $4.3 million. 12/92.

Northern Telecom (Canada)/NA

Will sell mobile telecommunications systems. $8 million. 12/92.

Ericsson (HK) Communications Ltd. (Sweden)/INSTRIMPEX

Will sell radio communications systems to the Ministry of Energy. $1.5 million. 12/92.

GTE Spacenet, a subsidiary of GTE Corp. (US)/China Telecommunications Broadcast Satellite Corp.

Sold an orbiting telecommunications satellite to be used for television broadcasting, telephone services, and data transmission. $31 million. 12/92.

Spa Communications (Canada)/NA

Will sell communications satellite technology. $60 million. 11/92.

INVESTMENTS IN CHINA

3M China Ltd., a unit of 3M Corp. (US)/China International Telecommunication Construction Corp.

Will form the PT 3M Telecom Ltd. joint venture in Shanghai to manufacture and market copper and fiber-optic cables and other communications products. 1/93.

Henderson (China) Investment Co. (HK)/Beijing Catch Co.

Established the China Catch-Henderson Communications Co. to develop telecommunications equipment and systems. $150 million. 12/92.

OTHER

UNDP/MPT

Will provide a technical assistance grant to fund MPT's China's Telecommunications Modernization Program. $7.5 million. 1/93.

Asia Pacific Communications Co. (HK)/Long March Services

Long March will launch a communications satellite for the Hong Kong firm. 11/92.

Hong Kong Telecommunications Ltd. (HK)

Will expand its direct-dial service to 358 Chinese cities and towns. 11/92.

Textiles and Apparel

INVESTMENTS IN CHINA

Onyone Co., Itochu Corp. (Japan)/Shanghai Garment Import-Export Corp., Shanghai Nicheng No. 2 Garment Factory

Will establish the Shanghai Encheng Fashion Co. $3 million. (Onyone: 30%; Itochu: 25%-Shanghai Garment: 25%; Nicheng: 20%). 1/93

Playboy Enterprises (US), Chaifa Investment Ltd. (HK)/NA

Opened a joint-venture factory in Shantou Special Economic Zone in Guangdong to produce Playboy brand garments. $897,400. 12/92.

OTHER

Toyota Automatic Loom Works Ltd., Toyota Tsusho Corp. (Japan)/CHINATEX

Will transfer technology for production of air-jet looms to China Textile Machinery Stock Ltd. 12/92.

Transportation

CHINA'S IMPORTS

Boeing Co. (US)/China Southern Airlines
Will sell six Boeing 777 twin-jets. $800 million. 12/92.

INVESTMENTS IN CHINA

Honda Motor Co. (Japan)/China Jialing Machine
Will set up the Jialing Honda Motor Co. joint venture to produce and sell motorcycles. $13.7 million. (Japan:50%-PRC:50%). 12/92.

Lippo Ltd. (Indonesia)/NA (Fuzhou City)
Will set up a joint venture investment company to develop infrastructure projects including an international airport and port, roads, freeways, and bridges. $1 billion. 11/92.

Chrysler Corp. (US)/Beijing Jeep (US-China joint venture)
Will further expand production with syndicated loans. $30 million. 12/92.

Miscellaneous

INVESTMENTS IN CHINA

Gallup Group (US)/China Market Research Organization
Will set up a joint venture to conduct market research. $1 million. 1/93.

OTHER

US Consulate in Guangzhou (US)/Shenzhen Information Center
Will establish the US-China Business Center of Shenzhen to provide services to US businesses in South China. 1/93.

International Development Association (World Bank)
Approved a credit to help the government strengthen selected key institutions of economic reform. $50 million. 12/92.

American Arbitration Association (US)/Beijing Conciliation Center
Formed a New York Conciliation Center to provide conciliation services in China and the United States. 12/92.

THE US-CHINA BUSINESS COUNCIL

WASHINGTON OFFICE

President: Donald M. Anderson

China Business Review: Pamela Baldinger
China Business Forum: Karen Kullgren Juh
Management and Budget: Richard L. Peterman
Business Advisory Services: Richard Brecher

1818 N St., NW, Suite 500
Washington, DC 20036 USA
Telephone: (202) 429–0340
Fax: (202) 775–2476
Telex: 64517 NCUSCTUW

BEIJING OFFICE

Director for China Operations: John Frisbie
CITIC Building, Suite 22C
Telephone: 5002255, ext. 2263, 2266
Fax: (861) 512–5854

HONG KONG OFFICE

Director of Hong Kong Operations: Dan Reardon
3rd Fl., The Centre Mark
287-299 Queen's Rd., Central
Hong Kong
Telephone: (852) 542-0327

US GOVERNMENT OFFICES IN CHINA

EMBASSY

Ambassador: J. Stapleton Roy
Deputy Chief of Mission: Scott Hallford
Agricultural Counselor: Edwin A. Bauer
Commercial Counselor: Melvin W. Searls, Jr.
Commercial Officers: Craig Allen, Erin Sullivan, Steve Hendryx, Matt Brazil, David Schneider
Economic Counselor: Steven A. Schlaikjer
3 Xiushui Bei Jie
Jianguomenwai, Beijing
Telephone: (861) 532–3831
Telex: 22701 AMEMB CN
Fax: (861) 532–3178, 3297

CHENGDU CONSULATE GENERAL

Consul General: Donald Camp
Economic/Commercial Officer: John Brennan
Jinjiang Hotel
180 Renmin Road
Chengdu, Sichuan
Telephone: (8628) 582–222
Fax: (8628) 583–520
583–792

GUANGZHOU CONSULATE GENERAL

Consul General: Dennis Harter
Deputy Principal Officer/Economic Section Chief: John J. Thacik, Jr.
Agricultural Officer: Philip A. Shul
Economic Officers: Lee A. Brudvig, Shirley Long
Dongfang Hotel
Telephone: (8620) 888–8911
Fax: (8620) 886–2341
Commercial Officers: Jonathan Marks, Denny Barnes
China Hotel
Telephone: (8620) 667-7842
Fax: (8620) 666-6409

SHANGHAI CONSULATE GENERAL

Consul General: Jerald C. Ogden
Political/Economic Section Chief: Lisa Kubiske
Commercial Officers: David Murphy, Rosemary Gallant, Vivian Stephenson
1469 Huaihai Zhong Lu
Telephone: (8621) 433–6880
Fax: (8621) 433–4122
433–1576

SHENYANG CONSULATE GENERAL

Consul General: Morton J. Holbrook, III
Commercial Officer: Sharon Beerman
No. 40, Lane 4, Section 5
Sanjing St, Heping District
Shenyang, Liaoning
Telephone: (8624) 220-038
Fax: (8624) 220-074

HONG KONG CONSULATE GENERAL

Consul General: Richard Williams
Deputy Principal Officer: David G. Brown
Agricultural Officer: Phillip C. Holloway
Commercial Officers: Thomas Lee Boam, William Brekke, Henry Richmond
Economic Section Chief: Gilbert J. Donahue
26 Garden Rd.
Telephone: (852) 523–9011
Fax: (852) 845–1598

PRC GOVERNMENT OFFICES IN THE US

EMBASSY

Ambassador: Zhu Qizhen*
Minister Counselor for Commercial Affairs: Wang Tianming
2300 Connecticut Avenue, N.W.
Washington, DC 20008
Commercial: (202) 328–2520 through 2527
Visas: (202) 328–2517
Fax: (202) 232–7855
Telex: 440038 PRCC UI

CHICAGO CONSULATE GENERAL

Consul General: Wang Li
Commercial Consul: Dai Youde
104 S. Michigan Avenue, Suite 900
Chicago, IL 60603
Commercial: (312) 580–7403, 7245
Visas: (312) 346–0288, 580–7406
Fax: (312) 580–7402

HOUSTON CONSULATE GENERAL

Consul General: Zhu Qiusheng
Commercial Consul: Luo Jizhong
3417 Montrose Blvd.
Houston, TX 77006
Commercial: (713) 524–4064
Visas: (713) 524–4311
Fax: (713) 524–7656

LOS ANGELES CONSULATE GENERAL

Consul General: Wang Xuexian
Commerical Consul: Liang Bihua
501 Shatto Place, Suite 300
Los Angeles, CA 90020
Commercial: (213) 380–0587, 0669
Visas: (213) 380–2506 & 2507
Fax: (213) 380–1961

NEW YORK CONSULATE GENERAL

Consul General: Zhang Weichao
Commercial Consul: Song Guibao
520 12th Avenue
New York, NY 10036
Commercial: (212) 330–7428 & 7427
Visas: (212) 330–7410
Fax: (212) 502–0248

SAN FRANCISCO CONSULATE GENERAL

Consul General: Zheng Wanzhen
Commercial Consul: Liao Qicheng
1450 Laguna Street
San Francisco, CA 94115
Commercial: (415) 563–4858
Visas: (415) 563–4857
Fax: (415) 563–0494

*Ambassador Zhu will step down in March.

SURVEY

America's China Policy: What's Your Opinion?

Welcome to our new department, Survey—a forum to highlight *your* views on timely subjects. In this Survey, we've focused on a topic on everyone's minds—US-China relations under the new Clinton Administration. We've singled out the most critical decisions facing US policymakers in order to guage the business community's views on these issues. The results will be published in the next issue of *The CBR*.

The Survey is only a page long and takes just a few minutes to complete; all responses will be confidential. When you have finished answering the questions, please mail or fax this page **by March 22** to:

The China Business Review • 1818 N St., NW Suite 500 • Washington, DC 20036 • Fax: 202/775-2476

1 **Does your company:**
❒ export to China ❒ import from China ❒ invest in China ❒ other (please specify) __________

2 **Where is your company headquartered?**
❒ US ❒ Hong Kong ❒ China
Other (please specify state/country) __________

Where is your office located?
❒ US ❒ Hong Kong ❒ China
Other (please specify state/country) __________

3 **How much China-related business does your company conduct each year?**
❒ less than $10 million ❒ $10-50 million ❒ $50-100 million ❒ $100-500 million ❒ more than $500 million
Approximately what percentage of your company's total business does this represent? __________

4 **If the United States were to withdraw MFN from China, how would your company be affected?**
❒ gain business ❒ no affect ❒ lose business—approximately how much? *(see below)*
❒ $0-5 million ❒ $5-10 million ❒ $10-15 million ❒ $15-50 million ❒ more than $50 million
❒ lay off employees—approximately how many? __________
❒ be forced out of business

5 **If conditions are imposed on renewal of China's MFN status, how will this affect your China business plans?**
❒ no change ❒ will project a decrease in business—by how much? __________
❒ will project an increase in business—by how much? __________

6 **Do you support China's accession to the GATT?** ❒ YES ❒ NO

7 **Do you support further negotiation of the terms of China's accession to the GATT?** ❒ YES ❒ NO
If yes, for which areas?
❒ transparency of laws and regulations
❒ periodic review of China's membership in the GATT
❒ escape clause so US would still be able to review and/or revoke China's MFN status
❒ tariff reductions (for which specific items?) __________
❒ import quota reductions (for which specific items?) __________
❒ removal of import license requirements (for which specific items?) __________

8 **Does your company have a written code of business ethics?** ❒ YES ❒ NO

9 **Does your company have a written code of ethics specifically for China?** ❒ YES ❒ NO

10 **Are your Chinese employees required to attend weekly political study groups?** ❒ YES ❒ NO ❒ NOT APPLICABLE
If yes, are these sessions held on work premises? ❒ YES ❒ NO
If yes, are these sessions held during work hours? ❒ YES ❒ NO

11 **Does your company have procedures/take precautions to ensure that no inputs used in your China operations have been produced with prison, convict, or child labor?**
❒ YES ❒ NO *(If yes, please explain:)*

12 **Do you support legislation that would mandate a code of ethics for US investment projects in China?**
❒ YES ❒ NO