The China Business Review

May-June 1982

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Inside China's Economic Bureaucracy

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The China Business Review

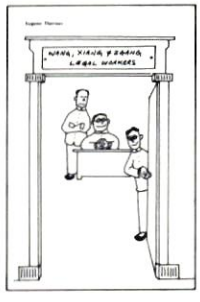
The magazine of the National Council for US–China Trade

May–June 1982 Volume 9, Number 3

Cover: In 1976 Deng Xiaoping made this pledge: no more campaigns and no more radical policy swings. But drastic reforms are still needed to propel China's decision-shy bureaucrats into the modern era, p. 22. *Artwork, based on M.C. Escher's Trappenhuis, by John Yanson.*

Investment: China's ambitious program to attract foreign investors is filled with magic numbers. For $889 million, firms can participate in 130 projects worth a staggering $1.6 billion, p. 36.

Arbitration: Does your contract contain a clause requiring arbitration in China? If so, be prepared to get a Chinese lawyer on your side, p. 38.



摘要

TOEING THE HARDLINE

The emerging compromise between China and the US over the Taiwan arms sale issue is attributable on the Chinese side to the enormous political skills of Vice-Chairman Deng Xiaoping. To pull off the compromise, he has had to maneuver himself along a slippery path between hardliners in China who feel that the US intends to control China through Taiwan, and US hardliners who feel that US arms sales to Taiwan are none of China's business. Deng seems to have successfully argued to Chinese skeptics that his hard-nosed tactics moved the US administration from its preoccupation with Taiwan to an acceptance of the principle of China's sovereignty over the island—which to the Chinese implies an eventual phase-out of US arms sales. Beijing may continue to distance itself somewhat from Washington in rhetoric—but that is a small price for Deng to pay to keep the US-China relationship fundamentally on course.

PETROCHEMICAL COMEBACK

China's petrochemical industry is slowly coming out of the doldrums. Even though refineries cannot run at more than 70 percent of capacity on the average, the government has decided to revive certain suspended projects due to the pressing need for their end products. One example is a giant imported polyester plant in Jiangsu; 180,000 tons of its potential capacity should be onstream by 1985. Another is the Daqing complex based on by-product natural gas, which will produce acetaldehyde, oxalcohols, and polyethylene. Three badly needed imported fertilizer projects in Xinjiang, Zhejiang, and Shanxi are also on this year's construction agenda. Even a Beijing acrylic acid plant, previously canceled, is now approved for construction. At the same time, China has recently signed its first new petrochemical plant contracts since readjustment began, with the recent purchase from Japan of two small plastic facilities for the Lanzhou complex. In general, small projects will be the rule for development in the immediate future. The two giant complexes at Nanjing and Shengli, which would require significant new crude oil feedstock, remain suspended.

CONTROLLING COMPETITION

The Chinese government is making a major effort to clear up the chaos created by earlier moves to decentralize foreign trade, while still maintaining certain features of decentralization. An export licensing system, under the jurisdiction of the new Ministry of Foreign Economic Relations and Trade, has been established to control exports of certain products for which blind intramural competition has had particularly strong effects on markets and prices, such as minerals, metals, and menthol. In the case of pig iron exports, for example, such competition was responsible for knocking down prices 33 percent within a year and a half.

MOFERT will allocate six-month quotas within fixed price ranges to selected exporters, and customs will be instructed to block unlicensed exports for goods in these categories. In other cases, organizations which formerly were allowed to compete in their exports are now being ordered to complement each other's efforts. An example is the recent decision to allocate exports of machine tools solely to EQUIMPEX under the Ministry of Machine Building, while reserving handtools for MACHIMPEX under MOFERT.

RE-ENTRENCHMENT

China's entrenched bureaucrats are finding many ways to soften the new provisions for orderly retirement, one of the centerpieces of the State Council reforms. Although age limits of 65 for ministers and 60 for vice-ministers have been set, there are apparently no comparable ceilings for corporation board chairmen. Thus, some supposedly retired ministers and vice-ministers are in fact retaining positions as chairmen of the board of powerful corporations. Examples include former Coal Vice-Minister Kong Xun, the chairman of the China National Coal Development Corporation (the ministry's arm for dealing with foreign coal companies), and former First Machine Building Minister Rao Bin, who is chairman of the newly formed Automotive Corporation directly under the State Council.

FEEDING THE GLUT

The international oil glut is already having its effect on China. Previously unable to fulfill its long-term crude oil supply promises to Japan, Beijing is now asking the Japanese to increase their imports this year from the agreed-upon 8.3 million tons. China would like to see purchases of 9 million tons, even though domestic production is not scheduled to increase. This is attributed to the reluctance of Southeast Asian countries to continue purchasing China's waxy crude at the asking price of $34.90/barrel—90 cents above the benchmark for lighter Saudi oil, and considerably more than spot-market prices.

Lower crude oil export prices or export volumes could accelerate the trend to substitute higher value-added petroleum products for crude oil. Worldwide, China's petroleum product exports may have reached $2 billion last year, with crude exports at perhaps $2 billion.

REORGANIZATION—PHASE TWO

The second phase of China's governmental reorganization, announced May 4, represents a further entrenchment of the Deng Xiaoping-Chen Yun economic policy. Altogether the 52 ministry-level agencies were cut to 41,

and at least 20 State Council bureaus were consolidated or abolished.

In the 38 ministries and commissions so far affected, the number of ministers and vice-ministers was reduced from more than 500 to 167, a cut of two-thirds; the number of bureaus and departments was cut by about one-third. Bureau and department directors suffered a 40 percent reduction in force.

At the same time, the average age of remaining officials has been lowered and their level of education raised. Ministers and vice-ministers now average 58 years, down from 64 previously. Slightly over half now have a college education, compared with just over one-third before reorganization.

The changes that took place were expected, by and large. Still, a few surprises did emerge. The principal changes were:

■ The number of vice-premiers was reduced to two. As expected, they are Deng protégé and economic troubleshooter Wan Li, and Chen ally Yao Yilin.

■ Ten state councilors were appointed; all but two former vice-premiers became councilors. Two surprises: First, the military's only professional representative, Zhang Aiping, was dropped from the top State Council ranks. Second, Kang Shien, widely expected to be dropped, was retained as a councilor. This probably signals the continued influence of the "energy clique," but may also be an attempt to calm the nerves of foreign oil companies, jangled by frequent political controversy and personnel changes in the Ministry of Petroleum.

■ Anhui Provincial Party First Secretary and former Minister of Finance, Zhang Jingfu, was returned to Beijing as chairman of the State Economic Commission. Yuan Baohua will step down to serve as vice-chairman of the SEC.

■ Controversial "energy clique" member Tang Ke was moved from the Ministry of Metallurgy to head the Ministry of Petroleum. No policy change is expected.

■ The People's Bank of China will be headed by former Vice-Minister of Finance Lu Peijian.

■ The machine-building sector was reorganized. The 6th Ministry was dissolved and its responsibilities were taken over by the China State Shipbuilding Corporation. All other ministries were renamed by function. Zhou Jiannan, a former vice-minister of the 1st Ministry and former vice-chairman of the Import-Export Commission, will oversee the modernization of the civilian machinery industry, and will promote its exports.

■ A new Ministry of Urban and Rural Construction and Environmental Protection will consolidate the functions of several previously existing agencies, including much of the State Capital Construction Commission.

■ A new Ministry of Labor and Personnel, under Zhou Shaoyi, will attempt to solve China's growing unemployment problem.

■ Chen Puru, former Liaoning governor, will run the railroads. Former vice-chairman of the Planning and Energy commissions, Yang Bo, will head the Ministry of Light Industry.

■ Some ministers moved up from vice-minister: Li Dongye at Metallurgy, Li Qing at Communications, Cui Yueli at Public Health.

■ Some ministries have been given new blood: Yang Zhong at Forestry, the youngest minister promoted, is 50 years old. He is former vice-governor of Sichuan. Mme. Zhang Chen jumped from bureau director to minister of Nuclear Industry.

FOREIGN STUDIES

The Chinese are beginning to show a greater willingness to pay for consulting engineering services—a move that is undoubtedly related to the central government's demand for feasibility studies before undertaking major projects. But by and large, the Chinese seem to be seeking reviews of work they have already done on their own.

Notable recent examples include California-based Jacobs Engineering's contract for a feasibility/engineering study for a potassium extraction facility along the Chaerhan Salt Lake in Qinghai, and Fluor's agreement to design an expansion program for the Fushun coal mine. Both contracts followed long periods of unreimbursed discussion of the projects.

In the hydropower area, making proposals acceptable to international lending agencies is an important consideration. At the same time, China has been quite successful at obtaining outside sources of funding—from the World Bank in the case of studies by Morrison-Knudsen at the Shuikou site in Fujian and Snowy Mountain (Australia) at Lubuge, Yunnan; and from the Canadian government for Zhaoping in Guangxi. The US government seems prepared to fund similar work at Tianshengqiao, Guangxi.

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CALENDAR

事历

BUSINESS

☐ **Stamford and New Haven, Connecticut; Elizabeth, New Jersey; Westbury, New York; Providence, Rhode Island; Springfield and Boston, Massachusetts; June 3–24.** Seminars on export documentation, traffic procedures, letters of credit, and alternate methods of payment. For information and registration, contact EDIT, Inc., (800) 221–5869.

☐ **Chicago, Thursdays, June 17–July 22.** "Background to Business With China," a series of lectures on how China's culture shapes trade practices and policies. For information, contact the Field Museum of Natural History, Adult Education Program, Roosevelt Rd. at Lake Shore Dr., Chicago, IL 60605; (312) 322–8855.

☐ **Beijing, September 19–22.** Meeting of the American Institute of Chemical Engineers and the Chemical Industry and Engineering Society of China. For information and registration, contact the AIChE Meetings Department, 345 E. 47th St., New York, NY 10017; (212) 644–8015.

☐ **Washington, DC, November 8.** Eighth Annual Mineral Economics Symposium, "Inernational Minerals Issues, a US Perspective." The symposium includes a session on the impact of the USSR and China on world mineral markets. For information, contact Mineral Economics Symposium, % Stevens, 2127 California St. #203, Washington, DC 20008.

EXHIBITIONS

☐ **Guangzhou, June 22–29.** Edit Expo International (France) exhibit of foreign education equipment in the Foreign Trade Center.

☐ **Guangzhou, July 7–14.** Food Processing and Packaging Expo/China '82, featuring preparation, processing, and packaging equipment; and supplies and services for the production of food and foodstuffs. For information, contact Minor Scott, Industrial and Scientific Conference Management, Inc., 222 W. Adams St., Chicago, IL 60606; (312) 263–4866.

☐ **Atlanta, July 10–14.** Exhibits in the Asian Gift Show sponsored by the Shanghai branch of the National Arts and Crafts Import and Export Corporation during the Atlanta National Gift Market. For information, contact A.J. Robinson, Atlanta Market Center, Suite 2200, 240 Peachtree St., Atlanta, GA 30043; (404) 658–5616.

☐ **Guangzhou, September.** China Promotion, Ltd. (Hong Kong) exhibit of financial and economical exchange in the Foreign Trade Center.

☐ **Beijing, September 7–18.** International trade fair, "Environmental Protection, New Sources of Energy and Related Products." Sponsored by May Lee International, to be held in the Beijing Exhibition Center. For information, contact Joanna Ball of May Lee International, 11 Broadway, Suite 1061, New York, NY 10004; (212) 425–4347.

☐ **Beijing, September 15–29.** Japan Measuring Equipment and Energy Economy Equipment Technical Fair, sponsored by Japan External Trade Organization (JETRO).

☐ **Tianjin, October.** International exhibition of fisheries and processing and packaging equipment for aquatic products. For information, contact the organizers, Kaliford, Ltd., 7th Floor, Fung Woo Bldg. 279–281, Des Voex Rd., C., Hong Kong; telephone, 5–457087; telex, 74045 GSTCL HX.

☐ **Beijing, October 15–19; Qingdao, October 19–23.** US light industry and textile equipment product literature exhibition, sponsored by China Translation & Printing Services (CTPS). For information, contact CTPS-USA (SF), Inc., 1111 Market St., San Francisco, CA 94103; (415) 431–5883.

☐ **Guangzhou, October 15–November 15.** Chinese Export Commodities Fair.

☐ **Beijing, November.** "CHINACOM 1982," a telecommunications equipment exhibition organized by Clapp & Poliak International, endorsed by the Department of Commerce and the National Council for US–China Trade, and sponsored by Electronic Industries Association. The exhibition has expanded to include defense electronics, semiconductors, computers, and World Bank loan educational equipment. For information, contact Clapp & Poliak International, 7315 Wisconsin Ave., Suite 1147N, Bethesda, MD 20014; (301) 657–3090.

☐ **Beijing, November 23–28.** First China Manufacturing, Processing, and New Technology exhibition and conference, cosponsored by the China Trade corporation in New York and the CCPIT. For information, contact Charles Abrams, China Trade Corporation, 136 E. 57th St., New York, NY 10022; (212) 759–6970.

☐ **Guangzhou, November 24–28.** A business equipment exhibition, organized by Industrial and Trade Fairs International. For information, contact the firm's US representative, Kallman Associates, 5 Maple Court, Ridgewood, NJ 07450; (201) 652–7070.

☐ **Guangzhou, December.** China Hotel and Catering Equipment Show.

☐ **Beijing, March 1–9, 1983.** International Textile Machinery Exhibition, sponsored by Industrial & Trade Fairs, International, Ltd. For information, contact the company's US representative, Kallman Associates, 5 Maple Court, Ridgewood, NJ 07450; (201) 652–7070.

☐ **Beijing, March 30–April 6, 1983.** Machine tool exhibition, sponsored by the National Machine Tool Builders' Association. For information, contact Elwood H. Hasemann, administrative director, 7901 Westpark Dr., McLean, VA 22101; (703) 893–2900.

☐ **Shanghai, April 12–18, 1983.** Multinational Instrumentation Exhibition (MICRONEX), sponsored by the Department of Commerce and held in conjunction with the Instruments Society of American Symposium. For information, contact Nancy Rinehart at the Department of Commerce, (202) 377–4405.

One foreign bank has a Chinese nickname that goes back over 120 years.

The Chinese characters stand for "Mai Jia Li" (Makalee)

We've been known by this name in China since August 1858 when we opened our first branch in Shanghai.

No one knows for sure how the name originated, but some say it's the Chinese version of Mackellar, the name of our first manager in China.

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China's Modern Spice Trade

An ancient tradition has now flowered into an important line of business.

Though Columbus might have envisaged a bigger spice trade with the Orient than has actually developed, Chinese exports of ginger, nutmeg, cassia, chillies, and other spices and essential oils currently occupies a respectable 12 percent of the US market.

China claims to produce 112 kinds of spices and essential oils, 200 synthetic aromatic chemicals, and 456 compound essences derived from essential oils. Of these, the US imported 21 kinds of spices, 11 essential oils, and two perfume-related aromatics—heliotropin and terpineol. The 1981 value: $25.5 million.

Photo by New China Pictures Co., Beijing

Uniform rows of peppercorn plants are tended at the Maihao People's Commune on Hainan Island.

As in Columbus's day, finding the right trade route to China still presents difficulties, inasmuch as little hard information is available on Chinese marketing plans, and on the regions and factories growing and processing products for export. Even the two national exporting entities, CHINATUHSU (China National Native Produce and Animal Byproducts Import and Export Corporation), and CEROILS (China National Cereals, Oils, and Foodstuffs Import and Export Corporation), overlap and compete with each other, as well as with their provincial branch offices.

Unlike other exporters, the Chinese do not publish any information on seasonal production, by region or by quantity. This has given rise to complaints that China is skillfully playing the market, withholding supplies to bolster prices and seldom admitting when there is a glut. As one trader put it, "The Chinese are very sharp and good at bargaining. They are now trading like capitalists—all of them are out to make a profit. If you keep your eyes open and know what is going on, you won't be caught off guard."

A fundamental problem in the spices and oils trade is quality control. Spice-growing communes are very often in the most remote parts of China (Xinjiang, Yunnan, and Sichuan). Distillation plants are small, and often not in close contact with production areas or major ports. Since foreigners rarely get beyond the wholesale centers in Shanghai and Guangdong, problems often arise when traditional Chinese production standards are at variance with what Western buyers need or want.

An example of this is the unwillingness of the Chinese to wash their spices in a chlorine bath to kill molds. They claim they do not have the chlorine. Because the Chinese often refuse to allow an FDA clause in their contracts, Chinese products shipped to the US, especially ginger and chillies, are frequently detained.

The Chinese balk at accepting standard American contracts, preferring to use their own. This leads American buyers to worry about protection if problems arise. Without the security of contract provisions, some American traders are hesitant to shake hands on a deal.

In sum, the spices and oils trade remains a rather risky business. The future outlook depends on several factors.

The First Essential Oils Joint Venture

A $1 million 60/40 joint equity venture to produce flavors and fragrances from Chinese raw materials was set up last September in Shanghai by Florasynth, Inc. (the major shareholder), Cintco, Inc. (a New York investment company specializing in joint ventures with China), and two Chinese investors, the Shanghai Daily Chemical Corporation, and SITCO (Shanghai International Trust and Investment Corporation).

Called Cosfra Ltd., the new company will market its entire production abroad through Florasynth, a major New York company with plants in the US, France, Mexico, Canada, England, and Brazil. It is contructing its own plant with machinery and equipment from abroad, and is totally separate from the 26 other essential oil and fragrance plants owned and operated by the Shanghai Daily Chemical Corporation.

▶ In the near term, the market will continue to be affected by the general recession, which has led to cutbacks in consumption across the board. "The entire essential oils market is in the doldrums," says one oils trader. Future trends in the spices and oils trade will reflect the general economic trends in the US.

▶ Worldwide demand, and especially American demand, is unlikely to slacken in the long run, since the price of synthetic substitutes is not expected to drop any time soon.

▶ Chinese consumers are increasing their demand for inexpensive luxury goods using spices or oils—soap, perfume, candy, and even cosmetics. This trend will probably divert a larger share of future production away from foreign sales and to the home market.

Photo by New China Pictures Co., Beijing

Polar Bear brand vanilla is packaged in tins at Shanghai's Xinhua Spice Factory.

Key developments in the main product lines:

Another aromatic chemical, terpineol, is used chiefly in perfumes, soaps, in denaturing alcohol, and as a solvent. It has the scent of lilacs or of hyacinths, depending on its preparation and the raw materials used. The Chinese began exporting terpineol to the US in 1981, taking over 18.1 percent of the market in the first year.

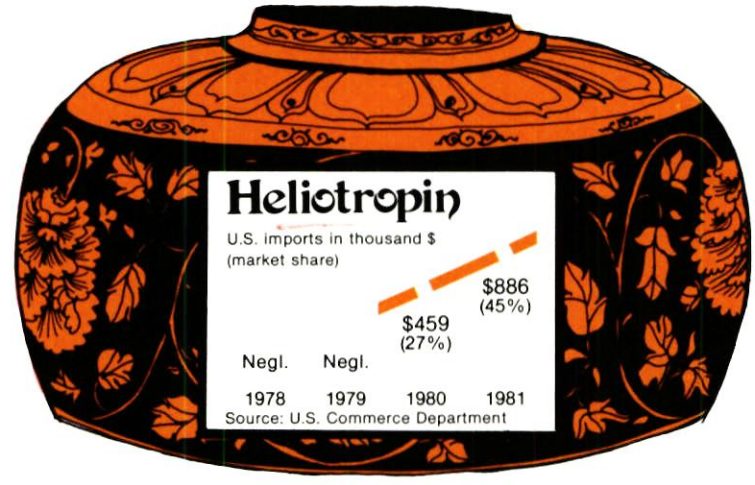
Terpineol prices increased in early 1982, and currently range between $1.60–$1.75 per pound. The Chinese product is consistently priced below terpineol from France, the other major producer.

Chinese cedarwood oil is used mainly in soap perfumery and as an industrial perfume. It is not easily interchangeable with the cedarwood oil produced in the US. China supplies almost all of US imports of cedarwood (93.8 percent of US imports in 1981), with the balance coming from other scattered sources at much higher prices.

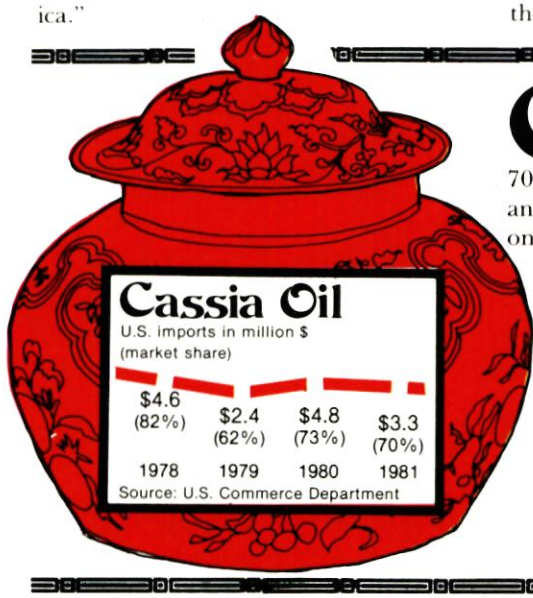
When the Chinese announced in mid-December 1981 that they had oversold in cedarwood and would not put any more on the market, the world cedarwood market was thrown into disarray. Prices increased sharply for all cedarwood, and have remained high. Some people feel that the Chinese are playing the market, waiting to establish prices at a high level before they offer any more for sale. Others feel the situation will ease because, as one trader put it, "the Chinese need the business." In the meantime, there is no Chinese cedarwood for sale in the US, and the price for domestic cedarwood has risen from $0.80 in late 1981 to $2.50 in March 1982.

Heliotropin, described as the "workhorse of the industry," is an aromatic chemical derived from sassafras, or ocotea cymbarum. It is a necessary ingredient in perfumes, and an important flavoring in vanilla, ice cream, and bread. China supplies 45 percent of US imports of heliotropin, with Japan supplying the other 55 percent.

Only one US company, American Bio-Synthetics, is still manufacturing heliotropin. "We have complained bitterly to the government because of unfair competition with China," one executive of the company recently remarked. "Ever since China gained most favored nation status a year ago, we have had a very hard time competing in the heliotropin market. It's not a question of making a buck, it is the question of survival for small business in America."



The price of heliotropin follows ocotea cymbarum, its primary raw material. When heavy rains reduced the ocotea cymbarum crop in Brazil, the world's leading grower, the price of heliotropin increased from about $6.25 per pound in 1981, to $9.25–$10.25 in the first part of this year. Chinese heliotropin exports are derived from domestically grown ocotea cymbarum.



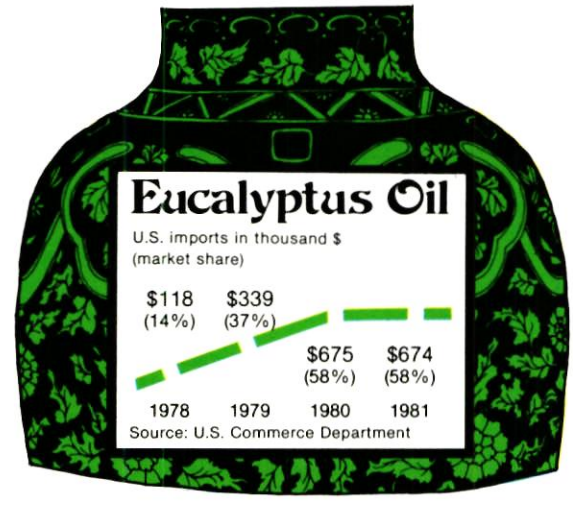
China is a major supplier of cassia oil for the US market, with exports to the US comprising 70.4 percent of US imports in 1981, and 73.2 percent in 1980. Japan is the only other US supplier. The drop in China's share of the market in 1981 was probably caused by Japan's decision to lower its price from an average of $44.91 per pound in 1980 to $33.19 per pound in 1981, while China raised its price from $33.04 to $37.67 per pound during the same period.

It is definitely a sellers' market for this highly concentrated and expensive oil. The suppliers—the Chinese government and private Japanese concerns—closely control prices and supplies. Still, supplies have been fairly constant over a five-year period, and there is no reason to expect that they will change dramatically in the future.

Eucalyptus oil is used for perfumes, flavors, and pharmaceutical products such as cough drops, gargles, mouthwashes, and toothpastes. China's sales of eucalyptus oil have grown steadily since 1976, displacing Portugal as the primary US supplier. (Spain and Brazil, formerly minor producers, had dropped out of the export market, though Spain reentered the market in 1981.) Chinese eucalyptus oil comprised 57.6 percent of the US market in 1981.

This market has been disorderly of late; production problems caused Portugal to run short of supply, and China has so far declined to make up the difference. As one buyer put it, "The Chinese are sitting on their eucalyptus oil waiting for the market price to rise."

Right now they are in a strong position. The price for Spanish eucalyptus oil (the only oil currently on the market) has risen from approximately $1.80 per pound in late 1981 to $2.55–$3.10 per pound (depending on concentration and quality) in March 1982.

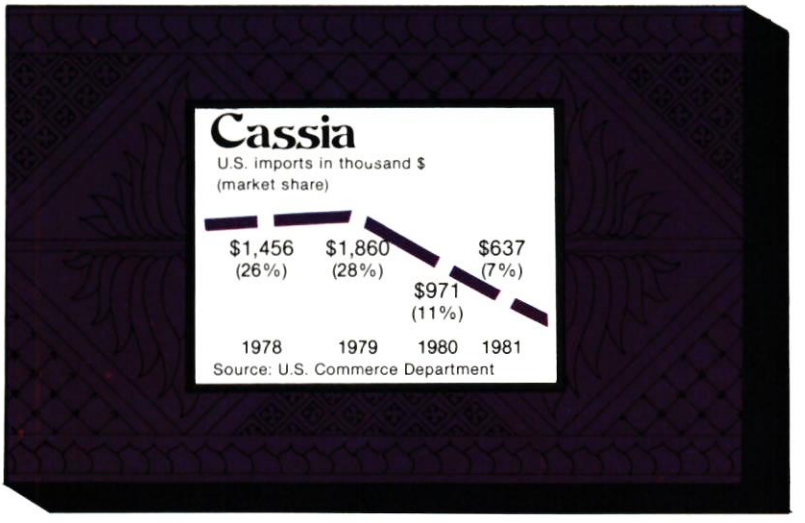


Because Spain has cut back on production, the price will likely remain high until Portugal reenters the market, or China slackens its policy of tight supply.

Citronella oil is used for low-cost perfumes, soap flakes, detergents, floor waxes, and insecticides. It is "an industrial perfume used in almost every household product," according to the *Chemical Marketing Reporter*. Demand has been down in recent years; terpenes have provided an inexpensive substitute in some cases. But experts claim there will always be a market for the natural product.

China is the largest source of US citronella imports for two reasons: its price, and Taiwan's declining citronella oil production. Imports account for 3 to 10 percent of the US domestic market for citronella, with China supplying 39.8 percent of all imports of the product in 1981. The second largest supplier is Indonesia, which generally supplies about 30 percent of US imports.

Exports of citronella from China have been erratic over the past few years. In 1979, the Chinese lost an entire crop of citronella because of the border war with Vietnam, which forced them to delay deliveries eight months. Eventually they delivered everything promised by contract. In the meantime, however, the price of citronella rose dramatically until, in mid-1981, it collapsed—from $4.00–$4.25 to $3.00–$3.25 per pound. Both price and supply have stabilized recently, with prices at $2.50–$3.50, depending on quality.

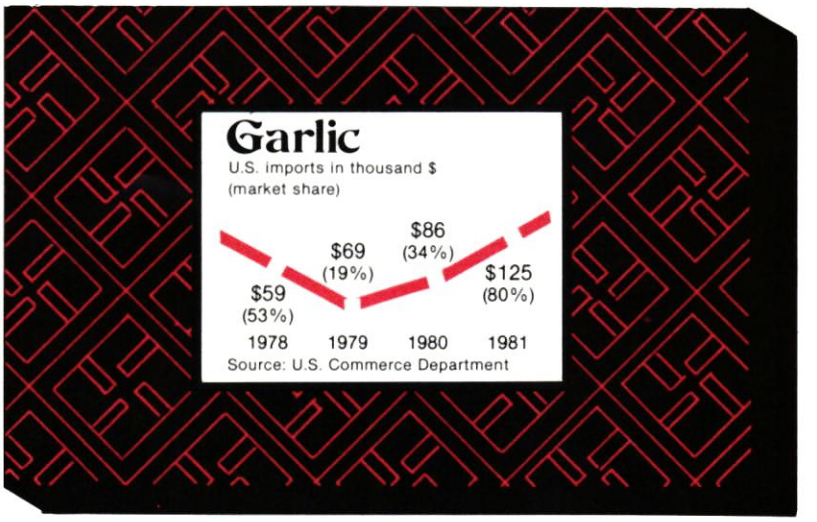


China's production of cassia—a spice related to cinnamon—is centered in Xinjiang Province. Although its cassia production has dropped steadily in the past five years, China continues to set its price higher than the average price from Indonesia, the industry's price leader and largest supplier. Indonesia captured 94 percent of the US market in 1981.

Buyers would like to see a more competitively priced Chinese cassia gain a greater share of the world market, since the Indonesians often use their near monopoly to manipulate prices.

Garlic from China is sold to US buyers in dehydrated form. Sold through CEROILS, mainly to the food processing industry and on the retail market, Chinese garlic captured an 80 percent share of US imports in 1981. This is a substantial increase from the product's 34 percent share in 1980, and 19 percent share the year before.

Other exporters—Taiwan, Argentina, Japan, and Canada—have been erratic in their supplies, leaving China the only consistent supplier. Prices have stayed fairly constant in the past two years, hovering around $0.65 per pound. These past prices may not reflect future trends if China remains in a price-setting position.



Spices and Oils Exporting Organizations

Most kinds of spices and essential oils are handled by CHINATUHSU (China National Native Produce and Animal Byproducts Import and Export Corporation) through its Beijing head office and its major branches in Shanghai and Guangdong Province. CEROILS (China National Cereals, Oils, and Foodstuffs Import and Export Corporation) generally only handles ginger (whole, sliced, powdered, and candied), and garlic (dehydrated) through its Beijing head office and a number of provincial branch offices.

China's two major marketing channels for spices and essential oils:

CHINATUHSU

Head Office
Address: 82 Donganmen Dajie, Beijing
Telephone: 55-4124
Cable: CHINATUHSU BEIJING
Telex: 22283 TUHSU CN

US Subsidiary
Sunry Import and Export Corporation
Address: Paramus Plaza II, Suite 125, North Paramus, NJ 07642
Telephone: (201) 967–7320
Director, Native Produce: Li Fengxiao

Branch Offices
Anhui
Address: 135, Hongxing Lu, Hefei Anhui Province
Cable: ANHUITUHSU HEFEI

Fujian
Address: 40 Dong Jie, Fuzhou, Fujian Province
Cable: PROFUJIAN; BYPRODUCTS FUZHOU

Guangdong Native Produce
Address: 486 Liersan Lu, Guangzhou, Guangdong Province
Cable: PROCANTON GUANGZHOU
Telex: 44072 KTNB CN

Guangxi
Address: Qixing Lu, Nanning, Guangxi Zhuang Autonomous Region
Cable: PRONANNING NANNING

Hebei
Address: 8, Jichang Lu, Shijiazhuang, Hebei Province
Cable: TUHSUBRAN SHIJIAZHUANG

Hubei Native Produce
Address: 766 Zhongshan Dajie, Hankou, Hubei Province
Cable: PROWUHAN HANKOU

Jiangsu
Address: 50, Zhonghua Lu, Nanjing, Jiangsu Province
Cable: CHINATUHSU NANJING

Jiangxi
Address: Waimao Dalou, Zhanqian Lu, Nanchang, Jiangxi Province
Cable: 5420 NANCHANG

Sichuan Native Produce
Address: 305 Jiefang Zhong Lu, Chengdu, Sichuan Province
Cable: NATIVE CHENGDU

CEROILS

Head Office
Address: 82, Donganmen Dajie, Beijing
Telephone: 55-8831
Cable: CEROILFOOD BEIJING
Telex: 22281 CEROF CN; 22111 CEROF CN

US Subsidiary
Address: One Penn Plaza, Room 1514, New York, New York 10001
Telephone: (212) 947–2466
Director, Exports: Wang Yongkang

Branch Offices
Fujian
Address: 40 Dong Jie, Fuzhou, Fujian Province
Telephone: 33-253
Cable: FOODCO FUZHOU

Guangxi
Address: Qixing Lu, Nanning, Guangxi Zhuang Autonomous Region
Telephone: 3629
Cable: CEROILFOOD NANNING

Hebei
Address: 58, Jichang, Shijiazhuang, Hebei Province
Cable: CEROILFOOD SHIJIAZHUANG

Hunan
Address: 103 Wuyi Lu, Changsha, Hunan Province
Telephone: 25222
Cable: REDEAST CHANGSHA

Jiangxi
Address: Waimao Dalou, Zhanqian Lu, Nanchang, Jiangxi Province
Telephone: 64-987
Cable: 1120 NANCHANG

Liaoning Foodstuffs
Address: 145 Stalin Lu, Dalian, Liaoning Province
Cable: DALFOOD DALIAN

Shandong Foodstuffs Branch
Address: 70, Zhongshan Lu, Qingdao, Shandong Province
Telephone: 28–603
Cable: FOODSTUFFS QINGDAO

Shanghai Foodstuffs Branch
Address: 26, Zhongshan Dong Yi Lu, Shanghai
Telephone: 21-6233
Cable: FOODSTUFFS SHANGHAI
Telex: 33070 FOODS CN

Sichuan
Address: 15 Renmin Zhong Lu, Chengdu, Sichuan Province
Telephone: 7048
Cable: CEROILFOOD CHENGDU

Tianjin Foodstuffs
Address: 136 Chifeng Dao, Heping Qu, Tianjin
Cable: FOODCO TIANJIN
Telex: 22503 TJFDS CN

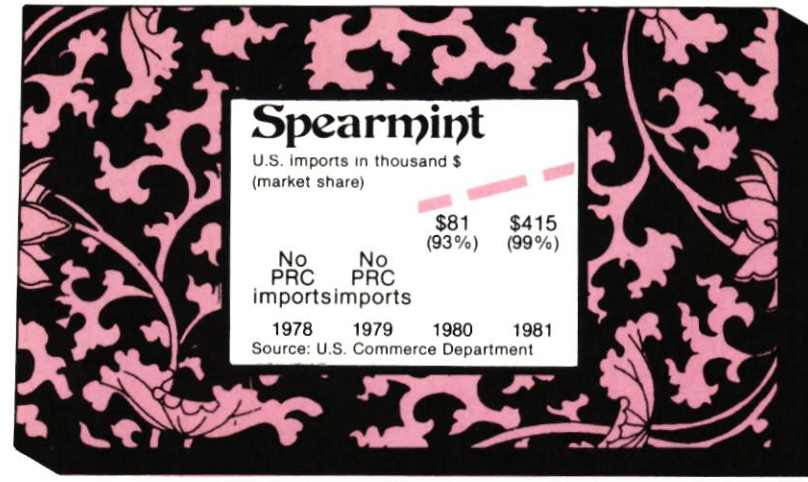
Yunnan
Address: 113, Huashan Nan Lu, Kunming, Yunnan Province
Telephone: 4434
Cable: CEROILFOOD KUNMING

In the US, demand for spearmint—a product commonly used in pharmaceutical flavorings—is met principally by domestic production. Imports from China (27,366 kilograms in 1981) probably account for less than 10 percent of all the spearmint used in the US. But almost all of the spearmint that is imported comes from China.

A recent federal study on marketing orders, including those restricting spearmint and peppermint oil production, has created a controversy. Marketing orders that establish a base price for a commodity and limit production are defended by American producers as keeping market prices stable while meeting market demand in the US. But a recent study argues that marketing orders are a misallocation of resources, and that removal of the orders will restore free market conditions to the benefit of American consumers.

Some change in the system is likely in the near future, though the orders may be modified rather than removed. Even a simple modification in the present system, however, is likely to increase Chinese spearmint exports to the US.

The market for spearmint oil is weak this year, due to overproduction and lack of demand, a situation that has prompted American growers to cut back on acreage planted for next year. Depending on the resolution of the marketing order issue, China may be in a position to move into the market next year, if it offers a competitive price.



Chinese menthol is another product that has been the subject of much controversy in recent years. A suit filed in June 1980 by Haarman & Reimer, a US manufacturer, accused the Chinese of engaging in unfair trade practices by dumping menthol on the US market at less-than-fair-value prices. In May 1981, the International Trade Commission ruled that menthol was indeed being sold in the US for less-than-fair-value prices. The margin of dumping was established at 2.5 percent, below the preliminary estimate of 13.5 percent. A tariff duty of 2.5 percent for Chinese menthol was added to the $0.17 per pound already levied on menthol imports.

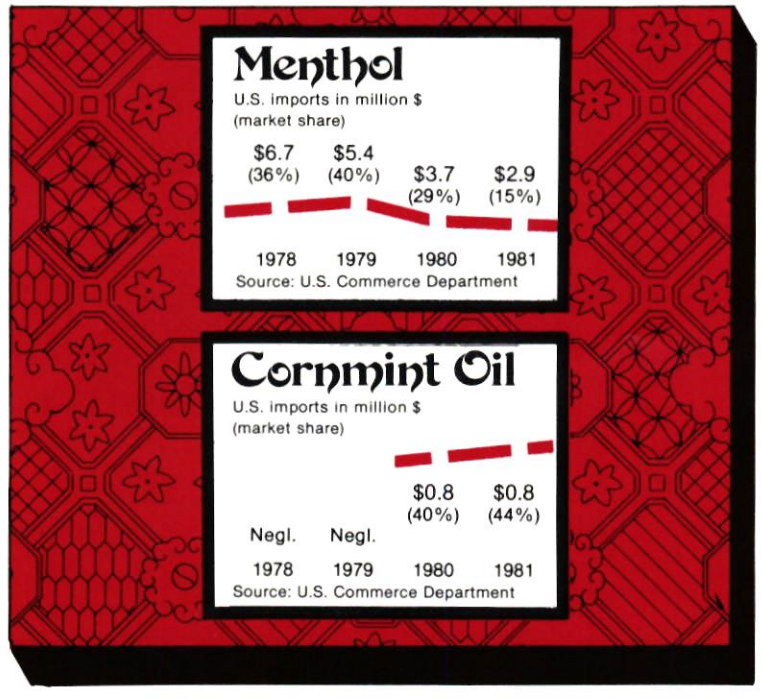
Then, in June 1981, the commission ruled four to zero that imports from China were not injuring American producers. Between the initial complaint and the final dismissal, however, many importers suffered from the 13.5 percent interim duty as well as from uncertainty about the final ruling.

The market is back to normal now. Chinese menthol crystals U.S.P. continue to sell for $5.00–$5.25 per pound, a lower price than that for Brazilian menthol, the closest competitor.

Experts predict that Brazil may be getting out of the market and switching to more profitable crops. "China may soon be the only methol-producing country," commented one trader. Another added, "Prices should remain stable. I think the Chinese are asking as much as they will get for their menthol." The price of synthetic menthol, which establishes a ceiling price for the natural product, is stable at about $6.50 per pound.

Since the controversy erupted over menthol, the product is handled only by China's major wholesale centers, namely, CHINATUHSU's head office in Beijing and branch in Shanghai. The menthol is grown and processed primarily in Jiangsu Province, with Nanjing the center of the provincial industry for both menthol crystals and cornmint oil.

Cornmint oil, also known as dementholized peppermint oil, is a byproduct of menthol production. China began exporting this product in 1980 and has found a fairly strong market for it in the US. That market is likely to remain stable.



The type of red pepper known as capiscums, or chillie, is grown in countries all over the world, including India, Mexico, Africa, and the US. The Chinese variety, grown mainly in Yunnan and Sichuan, closely resembles Indian chillie. Shipped in dry form in 25-kilogram burlap bags, Chinese chillies have captured a 35 percent share of the US market.

Chinese chillie prices are up in 1982, ranging between $0.88 and $1.10 per pound, depending on quality. (The average 1981 price was $0.59 per pound.) The increase came after reports of widespread flooding damage to chillie crops. Indian prices continue to be lower than Chinese prices.

In the last three years, FDA commercial import detentions for chillies due to insect filth, damage, or mold, amounted to one percent of total imports from China. The high number of detentions is likely to pose a problem until the Chinese change their processing and packaging procedures.

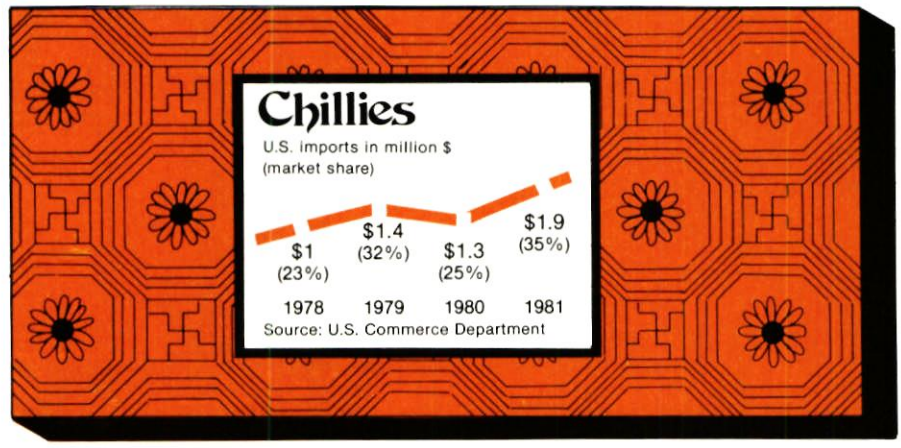
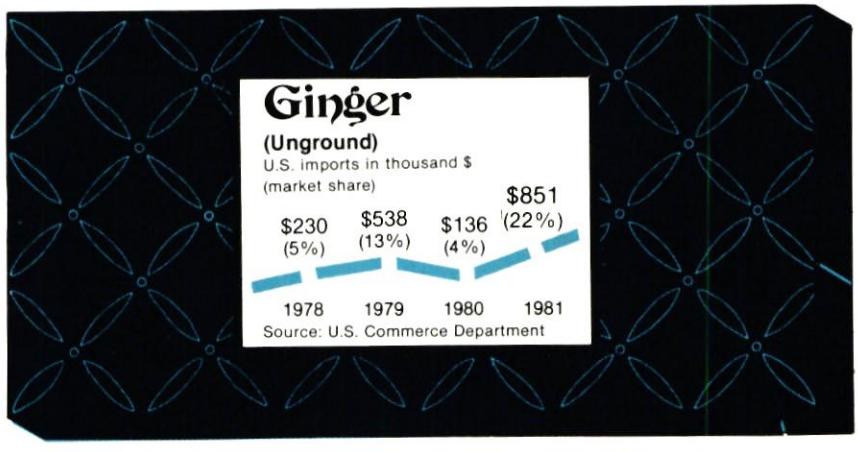


Photo by New China Pictures Co., Beijing

Commune members in Guangu County, Gansu Province, sell their hot pepper crops to the state.



Chinese ginger comes in several forms: In addition to the ginger root sold whole, sliced, or ground, it may also be candied or preserved. Through the salesmanship of CEROILS, China has become a major supplier of ginger root. In unground form, Chinese ginger took 28 percent of the US market in 1981; in ground form, 47 percent.

One reason for the increased sales is the drop in China's prices—a development that puts China in the position of price leader for ginger. Indeed, China in recent months has pushed up the price of Cochin ginger, taking advantage of a sharp increase in the price of the Indian variety. Chinese Cochin ginger is now at $0.82–$0.84 per pound, depending on quality, up from $0.45 per pound in December.

Joan Marie Richards has been an intern at the Council, Importer Services Department, for the academic year. This May, she received a Masters in Foreign Service from Georgetown University with a concentration in international business. Her major project at the Council has been compiling a directory of American firms importing from China.

The Art of Advertising

Young & Rubicam has woven strands of legendry, artistry, and salesmanship into the United States' first three-way promotional campaign with China.

Carol S. Goldsmith

Drawing from ancient tradition, master dyemaker Li Shouren recreates nature's own palette of splendorous color—a total of 600 distinct shades in all. His spectrum can depict even the slightest tonal variations in a flower petal. . . . (A)fter many years, the hues remain as vivid as they are the day the carpet leaves the loom. And the colors of nature at its peak are captured forever.

Drawing from ancient Chinese lore and modern advertising techniques, Young & Rubicam has created for Beijing's Tian Tan carpets a stylish, professional ad campaign—the first of its kind in America. Master sculptor Xiong Qilong uses his special shears to fashion the delicate shape of an Asian horse in the pages of *Architectural Digest*. From the brush of artist Jia Mian bursts a vivid pink peony in full bloom, the model for a Tian Tan carpet.

A lavish, 12-minute television film called *The Endless Strand* weaves a tale of the artistry, beauty, and craftsmanship that go into each of these carpets. "To truly appreciate the artistry," the film suggests, "we must follow that strand. . . ."

American advertising agencies have been following the ups and downs of this "potential market of a billion people" since China first started window shopping in the West. Young & Rubicam was among the first worldwide agencies to enter China in 1975. Others followed, and advertisers' interest seemed to peak around the end of the decade. By then readjustment had reinforced China's natural hesitancy about embarking on a promotional campaign. Better leave that job, they reasoned, to American importers.

That gave Young & Rubicam an idea. If China had the desire but not the funds to promote its products, and importers had the money but not the drive, why not take the elements each had to offer and spin out a full-scale promo campaign?

The result is the first multimedia advertising and education campaign sponsored jointly by a Chinese corporation and US importers. The Beijing Carpet Branch of CHINATUHSU, along with the Beijing Advertising Corporation, are cooperating in this effort with three American carpet importers: Amiran, Middle East Rugs, and G.A. Gertmenian & Sons.

This spring the first tangible signs of the two-year program have been appearing across the country—in

magazines, on television, and in department stores. The program, now entering its second year, consists of five promotional components, all based on a common strategy. Each meets a specific need in promoting Tian Tan carpets. First is the series of four-color print ads, slated for trade publications and such elite national magazines as *Architectural Digest*, *Town & Country*, and *Smithsonian*. Through these ads Jia Mian, Li Shouren, and other Chinese artists draw attention to the personal care and craftsmanship that move their carpets from the mind's eye to the loom.

Three versions of a color film made by Young & Rubicam introduce different aspects of Tian Tan carpets to different audiences. An 18-minute sales film will instruct retail salespeople about the carpets' design, construction, and value. Suzanne Reynolds, Y&R's China consultant, says preliminary research showed that salespersons' lack of knowledge about Chinese carpets tends to work to the advantage of the competition.

A six-minute video cassette will serve as an in-store visual aid for retail customers. And the 12-minute film entitled *The Endless Strand*, with its subtle interplay of Chinese folklore, scenes of Beijing, and promotion of the Tian Tan brand, will reach audiences as a public service segment on commercial TV.

Media kits are going to magazines and newspapers, and point-of-sale materials are being sent to department and other retail stores for their China displays. Y&R is designing new product labels to give Tian Tan carpets a more lasting identification.

Individual catalogs and brochures that utilize the campaign theme will be produced for participating importers, says C.Y. Chang, account executive of Y&R Special Markets. The whole umbrella program, in fact, has been developed around the theme and the needs of the individual. For example, each importer will have its own magazine ads appearing in different publications. Consumers who read these ads will understand that each Tian Tan carpet has been created individually, specifically, for them. . . .

Identifying the need for this program (and convincing the Chinese of it) took time and a great deal of research. First, Y&R asked the Beijing Advertising Corporation for a list of product areas China would like to promote. Then Y&R began market research in the US and PRC. Carpets stood out early as a prime growth area. Chang estimates the 1981 retail value for imported oriental carpets in the US to be $500 million; 25 percent of that—or $125 million—represents Chinese carpets' market share.

"Given the very short period since the normalization of US–China relations," remarked Chang, "25 percent is significant. And it's gaining steadily," aided somewhat by import problems with Iran and other Middle Eastern countries.

By November 1980, Y&R had begun work on a program proposal at the request of the Beijing Carpet Branch. In February, Reynolds accompanied Y&R Special Markets President A.C. Dalton to China to discuss Y&R recommendations. The agreement was struck and a two-year start-up budget approved. Program costs would be shared by the Beijing Carpet Branch and the three importers.

Despite the obvious differences between Chinese and American advertising, Chang says the partners collaborated well. Y&R's six-member crew arrived in Beijing to film *The Endless Strand* last April; within three weeks production was complete.

"One obvious difference between our [advertising] approaches," said Chang, "is that the Chinese advertising thinking is much more fact-oriented. They want to tell consumers the facts about the carpets: how many styles there are, the type of construction, etc. Our 12-minute film first creates a feeling, an environment that the American audience will find attractive, and then we tell them the facts."

How well the Chinese received the Y&R films seemed to depend, said Chang, "on the degree the individual had been exposed to the West. Everybody understood that they're not meant for China."

Y&R initially had hoped to do a blanket program covering all Chinese carpets, with each of the CHINATUHSU carpet branches contributing. The feeling is that China would benefit most from an overall, rather than a branch-specific, promotion. For, as Reynolds put it, "The average American can't distinguish between an Indian-Chinese and a Chinese-Chinese carpet, let alone one from Beijing or Tianjin."

Ideally, too, CHINATUHSU would have accepted the sole responsibility for funding and directing the program, just as US manufacturers do for their promotions. But these are not ideal times. None of the parties was in a position to undertake the program fully on its own. So Y&R was put in the interesting position of tailoring a campaign to the needs of the Chinese exporter, and to the interests of competing importers, as well.

"The advantage of doing it this way," remarked Chang, "is that importers have in-depth knowledge of the US market, and their financial contributions to building carpet demand mitigate China's current concern for, and shortage of, foreign exchange." By working together, the Chinese manufacturers and American importers promote not only the carpets, but also their business relations.

"Realistically," said Chang, "this is the best of all possible worlds."

Photo by New China Pictures Co., Beijing

In carving this hand-knotted Chinese rug, the artist carries on the traditions and artistry of ancient carpet-making.

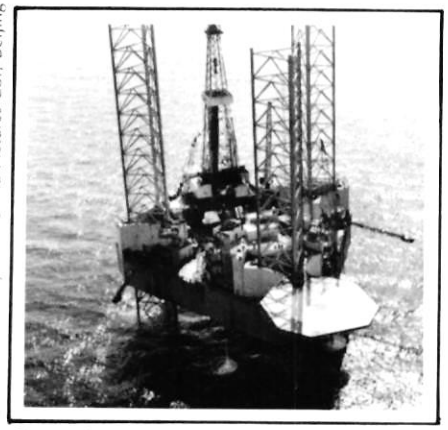


Photo by New China Pictures Co., Beijing

The Nanhai I jackup drilling platform is operating in the Yingge Sea.

Offshore Business

Aggressive equipment suppliers and service subcontractors are moving into China even before the big oil companies sign exploration contracts.

Stephanie R. Green

On the afternoon of August 17, all the bids will be in. Foreign oil companies competing for a piece of the action on China's continental shelf will deliver their proposals to the China National Offshore Oil Corporation (CNOOC)—and then sit back and wait.

Since February, the pace of events in China's offshore oil development has accelerated dramatically. The PRC issued calls for bids on February 15 and March 15 from the 46 international oil firms which shot the seismic data, and requested expressions of bid interest by March 30 and April 25. The all-important petroleum regulations were released on February 10; the China National Offshore Oil Corporation was formally established on February 15; the tax law promulgated February 22; and the customs regulations for offshore equipment and the export of crude published on April 1. Finally, there was the invitation to come to Beijing on May 10 to pick up the long-awaited bid packages.

These events rapidly shifted companies' attention to the opportunities for offshore equipment sales and service. The industry grapevine is filled with speculation about deals to supply drilling fluids, blowout preventers, rock bits, helicopters, telecommunications centers, drilling rigs, and other equipment and services to support the exploration of China's continental shelf.

Indications also are very strong that the IRS will soon issue a favorable ruling declaring China's petroleum tax to be creditable against US income taxes.

Standard Oil of Indiana (Amoco) requested a formal IRS ruling in January, and informed its competitors in the industry of its action. A Washington tax consultant close to the proceedings expects a favorable ruling by June, noting that "the IRS is handling this case more expeditiously than I've ever seen it do a ruling."

Contracts by First Half of 1983

The February 15 call for bids covered four major areas including 65 blocks in the northern part of the Yellow Sea. A total of 33 firms are qualified to bid. At the same time, 22 areas in the Pearl River Basin—including over 280 blocks—were made available to 31 qualified companies. By the beginning of May, at least two US firms, Kerr McGee and Tesoro, had withdrawn from the bidding.

The March 15 call for bids included the southern part of the Yellow Sea, the western part of the Yingge Hai Basin, and the southern part of the Beibu Wan, or Gulf of Tonkin. Extensive areas under the Ministry of Petroleum, and 21 offshore locations (including one of the discovery wells in the Pearl River Basin) under the Ministry of Geology, have been reserved for China's exclusive exploration and are not up for bidding.

Firms eventually may be invited to bid on part of the separate ARCO area south of Hainan Island, according to ARCO, as well as on tracts in the East China Sea. Several discoveries in the latter area have been mentioned prominently in the Chinese press. CNOOC also has told several firms that it is interested in East China Sea development.

Forty of the 46 original participants in the seismic survey phase, including 21 US firms, responded to the Chinese calls for bids. On May 10 they crowded into Beijing to pick up one locked suitcase each with 14 bid documents, including the certificate of qualification for bidding, the offshore petroleum regulations, model contract, bid proposal form, tax laws, and other documents. May was the first opportunity the companies had to see the eagerly awaited model contract.

Some oil executives reacted with surprise after reading the model contract. "It's like nothing I've ever seen," declared one executive. Not only does it incorporate aspects of the Indonesian, Norwegian, British, and Brazilian contract models, but it contains elements of a joint venture, production sharing agreement, and servicing contract. It also provides for a 12.5 percent royalty tax and a 5 percent sales tax. Exploration costs are to be borne totally by the foreign company, and the exploration period is between five and seven years. Companies will be able to negotiate the split on profit oil. Some executives are worried that the amount of profit provided for in the contract would not warrant the risk necessary.

Companies now are about one-third of the way through a fixed 100-day period (running from May 10 to August 17), during which time they may formulate bid proposals. When these are submitted, along with a $1 million signature bonus, the Chinese will spend one to three months evaluating them before inviting companies to Beijing for two or three months of contract negotiation. CNOOC President Qin Wencai predicted in March that the contracts would be signed by year's end. But company estimates as of early May were more conservative, ranging from early to mid-1983, partly because of Christmas and the Chinese New Year.

After the awarding of contracts, exploratory (wildcat) drilling will not be-

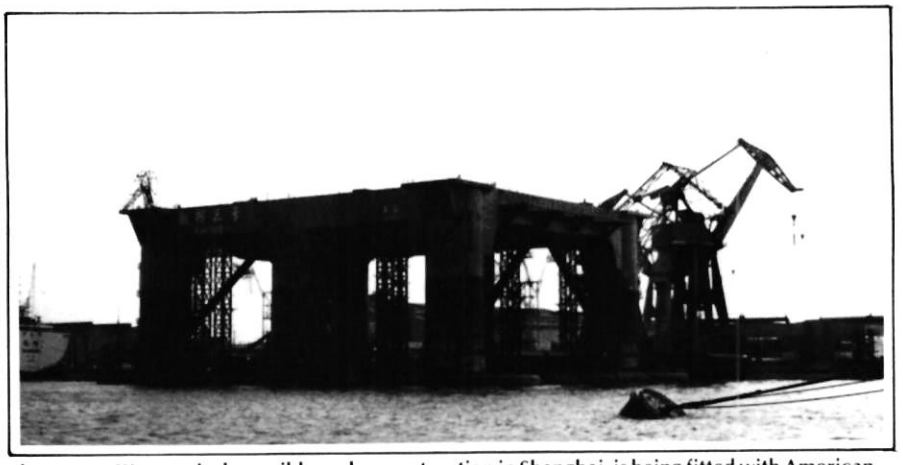


Photo by New China Pictures Co., Beijing

The Kantan III, a semisubmersible under construction in Shanghai, is being fitted with American subsea equipment.

gin for another 6 to 18 months, depending on the area. Southern offshore areas are expected to be ready for drilling sooner, as less additional seismic work is required to locate specific drill sites.

The agreements signed between the Chinese and foreign companies stipulated that only those firms which participated in the initial seismic surveys would be invited to join in later steps of offshore development. However, a spokesperson for CNOOC President Qin Wencai recently revealed to the National Council that previously uninvolved firms would be accommodated in some fashion, most likely in future rounds of bidding or in subcontracting from the bidders with the approval of the Chinese.

Meanwhile ARCO, the only firm with an individual area, at press time remained stalled over the completion of its operating contract. According to Paul Ravesies, president of ARCO International Oil and Gas Co., the agreement will not be finalized until July or August. He confirmed that initial drilling sites have been selected. Other sources conjecture that these sites are 80 kilometers offshore.

Sharing the Risk

In the invitations to bid released in February, CNOOC stipulated that bids could be made individually or in groups. Companies could bid on any area available as a whole or on several contiguous blocks. The same bidder, however, could bid on a particular area only once, either individually or as a member of a group.

Grouping is attractive because it allows the parties to spread the risk capital, share their expertise and, in the event of multiple bid awards, allocate their funds and personnel in a number of areas at the same time.

At least 11 companies seriously interested in forming groups have come to the attention of *The CBR*. But only one group, composed of BP, the Canadian companies Ranger and Petrocanada, the Australian firm Broken Hill, and Brazil's Petrobras, is definite. At least two groups of three US companies were "semi-committed" to each other. Most of the groups waiting in the wings will move forward when a few questions are answered: Can different members of the same group be operators in different areas? Or, if one member of a group drops out, can the remaining parties continue without any change in status?

Larger firms, such as Amoco, Mobil, and Exxon, can be expected to bid alone. Even some of the firms considering groups would prefer to work individually. "If the potential economic terms are good enough, we would rather go it alone," commented one company representative.

CNOOC: Taking the Lead

The China National Offshore Oil Corporation has full authority over offshore development, according to China's petroleum regulations. The China National Oil and Gas Exploration and Development Corporation (CNOGEDC), which handled offshore operations prior to that time, has been reduced to an onshore company; it can be expected to take a back seat in petroleum development for the next few years. All contracts already signed with CNOGEDC were transferred to CNOOC.

CNOOC has established four major branches: the East South China Sea Branch, the West South China Sea Branch, the Yellow Sea Branch, and the Bohai Bay Branch.

It is not known when the statutes governing CNOOC's operation will be available, but it appears that CNOOC, CNOGEDC, and the Petroleum Corporation of China will report directly to the Ministry of Petroleum, although conjectures lean to the former. It also is not known how CNOOC will incorporate the offshore responsibilities of CNOGEDC, or when it will establish further subsidiary corporations besides those already announced for Ocean Engineering and Services, Offshore Petroleum Design and Engineering, Shipbuilding, and Offshore Aviation Service.

Qin Wencai, formerly a CNOGEDC official, is president of the new corporation. Probably as a result of China's current large-scale bureaucratic reshuffle that has reduced the number of vice-ministers throughout the government, he lost his rank of vice-minister of Petroleum in early May. This should not affect his overall status, however.

CNOOC vice-presidents are You Dehua, Zhao Zhongmai, and Liu Dongming. How they intend to divide responsibilities is not known. At present, CNOOC has been sharing other personnel with CNOGEDC, but this is not expected to continue. You Dehua told a visiting company representative, "We first will determine our business needs, and then switch people from the Ministry of Petroleum to CNOOC."

Of concern to many oil companies is the fate of Zhao Shengzhen, deputy director of Foreign Affairs in CNOGEDC, who has handled all liaison on bidding documents. He has yet to receive a title in CNOOC, and has reportedly been subject to criticism. In early May it was unclear what Zhao's official position in offshore development would be.

Recent changes in Ministry of Petroleum personnel should have no effect on CNOOC operations. Tang Ke, former minister of Metallurgy, has assumed the position of minister of Petroleum that Kang Shien held until April. Tang is a past vice-minister of Petroleum and a close associate of Kang; his appointment should represent no policy changes. His deputies, Li Tianxiang and Li Jing, are the only two of Petroleum's former vice-ministers to

keep their posts. Both were in the ministry already, and represent a continuation of existing policies and practices.

The final approval for offshore contracts will fall within the authority of the new Ministry of Foreign Economic Relations and Trade, which absorbed the former Financial Investment Commission.

Equipment and Services

Drilling fluids. In early May, four US companies and at least one Japanese firm were locked in competition for a contract to supply drilling fluids and services. The Chinese seek technology to upgrade their supply of drilling chemicals to meet standards of the American Petroleum Institute. Dresser's Magcobar division, NL's Baroid, Reed's Milchem, and Imco were among the firms which submitted proposals in early May. Discussions should take place in Beijing in the next several months. The resulting contract will most likely be an equity joint venture.

The Chinese told the Council's Beijing office that the list of chemicals in which they are interested includes bentonite, CMC, and ligno sulfonates.

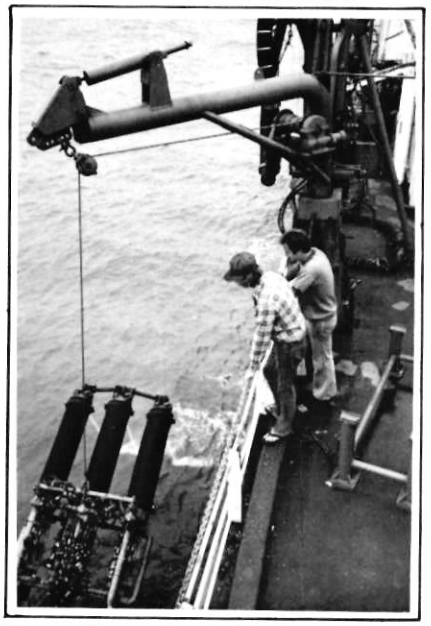
Mud logging. Dresser's Atlas division recently publicized its equity joint venture, originally signed with the Chinese in October 1980, to provide mud logging services to international oil companies. Called the Logging Company of China, or LCC, its formal title is the China Petroleum Logging-Dresser Atlas Corporation Service Company. On the Chinese side, the board of directors includes He Yuanqing, a vice-president of CNOGEDC. The firm has performed three jobs for Total Chine and is slated to service JNOC and Elf Aquitaine.

Blowout preventers. NL Shaffer beat out Hydril in early May for a contract to supply an 18 ¾ 10,000-PSI subsea blowout preventer system to the Ministry of Geology. Sold through MACHIMPEX, the system will be installed on the Kantan III semisubmersible rig which belongs to the ministry.

Vetco also won a substantial portion of the contract, and will integrate NL's BOPs into the overall BOP stack, as well as supply motion compensation equipment.

Thus far, the Ministry of Petroleum has not sought BOP proposals for the more substantial offshore development within its bailiwick.

Photo by New China Pictures Co., Beijing



Two workers on Exxon's ship *Bravo* sink an air gun into the water while conducting geophysical prospecting in the South China Sea.

Rigs. Ingalls Shipbuilding, a division of Litton Industries, signed a February memorandum paving the way—the company hopes—for an offshore rig construction contract. Bethlehem Steel, which last year signed a licensing agreement for a jackup rig scheduled for completion in March 1983, is in the process of negotiating a second agreement, with CNOOC, for a semisubmersible rig.

Meanwhile, another company in the rig business said that it has no active inquiries from China, but expects to sell a rig currently under construction once the offshore contracts are awarded. "Until then," a company representative commented, "there is no real potential."

Warehouses. Christensen recently concluded an agreement for a bonded warehouse in Tianjin to supply Bohai offshore areas, as well as Shengli, Dagang, and Renqiu. NL already has two warehouses in northern China supplying the Bohai with specialty mud chemicals other than barite, bentonite, and caustic soda.

Several US firms are beginning to talk about similar warehouses to supply southern offshore areas. These will probably be located in Zhanjiang.

Production platforms. China plans to spend about $11 billion in the next few years building new drilling and production platforms. In March, Brown & Root established a joint company with the China Corporation of Shipbuilding to provide part of China's production platforms, while Baker Marine signed three contracts in early 1982 to jointly construct semisubmersible drilling rigs. Dresser also is working on a production platform cooperative arrangement.

Telecommunications center. The ministries of Petroleum and Posts and Telecommunications are planning a two-phase telecommunications network to support offshore drilling and services, projected to be worth $150 million by the end of the first five years. The center will consist of two complementary stages: a high-frequency network with channels for helicopters and supply boats, which could be constructed in a few months; and a satellite communications network using INTELSAT, designed to send huge volumes of seismic data to onshore bases. That project will take a longer period of time to complete. Bases such as Shekou and Sanya will be equipped with gateway stations to communicate with Beijing.

Rockwell International will bid for part of the project. Other companies expected to bid on all or part of the project are the Harris Corporation, Digital Communications Corporation, Scientific Atlanta, Japan's Nippon Electric, and some European companies.

The Chinese hope to sign contracts in June or July. If so, it would be possible to complete the high-frequency phase by the end of 1982, and the satellite communications phase by the end of 1983.

Turbines. General Electric is discussing turbines to be used on offshore platforms.

Rock bits. The Chinese are seeking US rock bit technology, but no other US companies have expressed interest thus far, apart from Hughes Tool, which set up a bit plant in Hubei earlier this year. The plant originally was slated for Sichuan, but after difficulties arose, the company was forced to change locations.

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A Creative Partnership: Deng Xiaoping and Chen Yun

One wants rapid change, the other orderly change. But both are moving in the same direction when it comes to cleaning up the Communist Party.

Martin Weil

China's most powerful leader, Deng Xiaoping, is well known the world over. The second most powerful figure, on the other hand, is another septuagenarian who is hardly known outside of China. He has no official title in the Chinese government, and is usually referred to in the Chinese press only as "comrade," occasionally as Party vice-chairman, or as chairman of the Party's Discipline Inspection Commission. He gives no interviews to the foreign media, and never receives foreign dignitaries, perhaps in part because of the uncertain state of his health.

Chen Yun, however, is absolutely central to policymaking and political stability in China. In terms of influence and prestige, he and Deng are in a class by themselves. They embody, more than any other living Chinese leaders, the idealism and sense of vision that launched the Communist revolution in the first place, and which they find so lacking in the more recent generations of Communists. The two have a uniquely close working relationship that is based on over 40 years of shared political exhilarations and traumas.

Most major policy initiatives originate with either one or both of them. Their views on a number of issues are by no means identical, but most policy lines will reflect some combination or amalgamation of their ideas. As Vice-Premier Bo Yibo recently put it, "It was under the leadership of these old revolutionaries, first of all Deng Xiaoping and Chen Yun...that so much has been done in these last several years." Nowhere is their cooperation and leadership more apparent than in the ongoing campaign to restructure the government and combat corruption.

In the upper echelons of the government, their protégés are well entrenched and somewhat balanced against each other. Premier Zhao Ziyang, and Vice-Premier Wan Li, as far as can be determined from the outside, are Deng men. Planning Commission Chairman Yao Yilin, the other vice-premier, is a long-time follower of Chen's. In the Communist Party, Deng's disciples seem somewhat more numerous and highly placed. Chairman Hu Yaobang, who is being groomed as the future Party strongman, is an old crony of Deng's. Chen has his followers there too, though, most notably Deng Liqun (no relation to Deng Xiaoping), who has propagated Chen's economic theories for years, and served as a vice-chairman of the Academy of Social Sciences and an important staff assistant to the Party secretariat. Deng Liqun was recently appointed head of the Party's Propaganda Department, a powerful ideological post, which suggests that his star is rising.

Chen Yun actually rose to the highest Party echelons faster than Deng. By the early 1940s, he had become head of the Party's Organization Department, a key personnel position. Contacts from those days may account for his powerful position today.

By the early 1950s—before Deng even reached the politburo—Chen was number five in the entire Party, and the key figure behind economic and financial policy. Behind the growth of his prestige are undoubtedly the economic successes of the early 1950s, and his principled, courageous resistance to Mao's disastrous Great Leap Forward. For that, he was stripped of much of his power (although Chen apparently did not stand with then-Defense Minister Peng Dehuai when the latter mounted an unsuccessful frontal attack on Mao in 1959).

Chen was rehabilitated in fact, though not in title, in the early 1960s. And it was at this time that he probably began to work closely with Deng Xiao-

Illustration by John Yanson

Deng Xiaoping and Chen Yun

ping in cleaning up the mess of the Great Leap during China's first readjustment. Deng by this time had become secretary-general of the Party, replacing Chen as number five in the hierarchy. Deng's pragmatic spirit, which he expressed in his famous phrase, "It does not matter whether the cat is black or white as long as it catches mice," undoubtedly appealed to Chen, ever the sober-headed planner. Chen's and Deng's prestige rose still higher with the successful recovery of the early 1960s.

Then came the Cultural Revolution. Deng seems to have suffered personally more than Chen; it was senior Party apparatchiks such as Deng for whom Mao reserved his greatest anger, rather than economic policymakers such as Chen. Even though Deng fell further, he recovered more quickly. He became de facto number-three man in 1973, fell briefly in 1976 during the heyday of the Gang of Four, reentered the scene as number three in 1977, and finally became the indisputably most powerful figure in China by the end of 1978. His tactical skills, large Party following, and prestige in the Party and society at large resulting from his opposition to the Gang of Four, all contributed to Deng's forceful comeback.

In a twist of fate, it was Deng, the senior official, who brought Chen back into the leadership at the historic Central Committee plenum of December 1979. Since then, Chen has consolidated his position as the Party's number-one economic theorist and policymaker, and number-six ranked individual in the Party's hierarchy.

Today Chen is publicly acknowledged as the mastermind of China's readjustment policies, and as the Party's chief disciplinarian in his capacity as chairman of its powerful Discipline Inspection Commission.

Chen apparently has parlayed his position as head of the commission into one of enormous influence over internal Party organization, ideology, and the conduct of Party members. Chen probably played a key behind-the-scenes role in the formulation of the document assessing Mao Zedong's pluses and minuses last July; his protégé Deng Liqun reportedly did a great deal of the actual drafting work.

Chen has had no public identification with foreign policy, but this is probably because the leadership publicizes extraordinarily little of its deliberations on this subject. It would be surprising indeed if someone of Chen's stature suddenly stepped back from the fray when it came time to discuss foreign policy. Some of the recent rumblings in the PRC's foreign policy may well reflect his influence.

On many important issues—such as economic liberalization, foreign investment, propaganda, cultural policy, and quite possibly foreign policy, Chen seems to occupy a middle position between Deng, a proponent of relatively rapid change, reform, and liberalization, and the more conservative forces in Chinese politics who feel threatened by these changes. If true, this makes Chen a bellweather, or "swing vote," in politburo deliberations. He may well be responsible for softening Deng's more controversial policies, making them more palatable to the old guard.

No one disputes that Deng is anything less than a masterful politician. But Deng has on occasion shown evidence of a certain rashness or impulsiveness, both in his policies and his personal style. By comparison, the adjectives the Chinese press always uses to describe Chen are "earnest" and "sober-minded." Chen always seems to be in the position of saying "slow down."

When Deng reportedly pushed for the execution of Mao's widow Jiang Qing, following last year's Gang of Four trial, Chen argued instead for life imprisonment, claiming that execution would only make Jiang a martyr. The report in a Hong Kong magazine that claimed to be privy to these high-level deliberations said that "Since Chen is well known for being practical, his opinion should be respected." Eventually, Deng is supposed to have come around to Chen's position. Even if only apocryphal, this story hits the essence of a creative symbiotic political relationship that is reminiscent of that between Mao Zedong and Zhou Enlai.

China's Economic Bureaucracy

Reforming the bureaucracy will require persistence and an appreciation of the system's basic flaws.

Michel Oksenberg

In February 1982, the Chinese leadership began to restructure the State Council and its ministries, reduce the number of government personnel at all levels of the central and provincial bureaucracy, crack down on corruption, and complete the drafting process for a new state constitution. The leadership intends to shape a more efficient, durable, technologically proficient government.

Among the principal changes now under way:

- The number of ministries and ministry-level agencies under the State Council is being reduced from 98 to 52.
- The number of personnel staffing State Council bureaucracies is being reduced from 49,000 to 32,000.
- Officials above the age of 60 (65 if a minister or vice-minister) are to retire. Equally significant, officials who gained their positions through their rebellious behavior during the Cultural Revolution or through affiliation with Lin Biao or Jiang Qing are to be dismissed.
- Communes are to be subdivided into political-administrative components (to be called townships, or *xiang*) and economic units (retaining the name commune).
- A head-of-state is to be named. Among the official's responsibilities will be to head a new government military council presiding over the defense establishment.

To be sure, considerable time must pass before the full consequences of the changes can be assessed. In China, as elsewhere, bureaucratic reform is more easily proclaimed than implemented. Indeed, some of the changes appear more sweeping than in fact is the case. For example, the merger of the Ministry of Commerce and the All China Supply and Marketing Cooperative brings together two agencies that were merged once before and still share the same building. The actual reduction in personnel may end up being less than implied, if older officials become "advisors," for example.

Nonetheless, a major effort is under way to make the Chinese system more effective. In some ways, the reforms entailing major personnel shifts—that Deng Xiaoping, Premier Zhao Ziyang, and Party Chairman Hu Yaobang have initiated since 1978—will probably be the most difficult to implement. The leadership—no doubt itself divided—recognizes that they are presiding over a faction-ridden, slothful, duplicative, cumbersome bureaucratic apparatus. The effort to invigorate the bureaucracy is neither the first such effort since 1949, nor is it likely to be the last. No nation with 20 million civil servants, working at 5 tiers of government (center, province, special district, county, and commune) can escape bureaucratism. Repeated efforts are necessary to keep Chinese organizations lean and responsive.

When I intervjewed Chinese officials in Beijing in the summer of 1981, I had a chance to investigate how economic decisions are made. This helped me appreciate the serious problems confronting the recent reform effort, and the extent to which these problems are the consequence of the deep wounds caused by the 10 years of turmoil during the Cultural Revolution (1966–76).

Legacy of the Cultural Revolution

At the time of Mao's death in 1976, China's top planning agencies lay in total disarray. Few government departments either in Beijing or the provinces had been exempt from the initial terror imposed by marauding Red Guards in 1966–69, and by such subsequent campaigns

Illustration by John Yanson

Premier Zhao Ziyang and Party Chairman Hu Yaobang

as "Struggle, Criticism, and Transformation," "One Hit, Three Anti's," and "Criticize Bourgeois Rights."

Scores of top officials had been sent to May 7th Cadre Schools for thought reform. Others, while still officially listed on their organizational rosters, were in humiliating circumstances, forced to reside in "cow sheds" and assigned menial tasks. Gradually, from the early 1970s on, leaders who had been identified as "capitalist roaders" reappeared as rehabilitated officials.

As administrative units regrouped, officials quietly stored memories of previous injustices and lost battles, to be acted upon when the opportunity presented itself. In the typical Party or government agency, tensions ran high. The decade of chaos and turmoil left personal animosity and distrust, hindering cooperation between work units. Exploring ideas and sharing information without fear of retribution were limited to one's most intimate and reliable friends. Rather than breeding ideological cohesion, in short, the external pressures of the Cultural Revolution had splintered each government agency into warring factions staffed by extraordinarily cautious, circumspect, and isolated individuals. As of 1981, the wounds of those tumultuous years had not yet healed.

Power is still vested as much in individuals as in institutions. All attuned bureaucrats that I met were consummate "Pekingologists," closely charting how their chief was doing in the government pecking order. The situation reminds one of Washington in the Nixon, Carter, and Reagan administrations, where bureaucrats begin their day turning to read *The Washington Post* and the *New York Times* to see how their bosses fared yesterday against rivals and in the eyes of the president, and how the president fared in the eyes of the press.

A high-level policymaker in Beijing is similar to a patron or sponsor, with many loyal followers and subordinate staffers, who in turn are patrons of lower level groupings. The ravages inflicted on China's administrative structure during the Cultural Revolution deepened the sense of loyalty, mutual obligation, and, given the atmosphere of the times, shared vulnerability that seems to have created the notoriously tight-knit administrative units that puzzle foreign executives who try to get quick answers, or, more commonly, explanations for the lack of answers.

China's top economic leadership today is divided in two layers: those politburo members such as Deng Xiaoping, Chen Yun, and Li Xiannian, who chart broad economic strategy; and premiers, vice-premiers, and several State Council Standing Committee members, who manage the economy on a day-to-day basis. These principal operators are the premier, Zhao Ziyang; vice-premiers Yao Yilin and Wan Li; and committeemen Bo Yibo, the former head of the powerful Machine Building Commission that is now part of the Sate Economic Commission, and Zhang Jingfu, former Minister of Finance and party head of Anhui Province, who was recently named to head the State Economic Commission.

In the summer of 1981 the premier and vice-premiers in charge of the economy were members of the Standing Committee of the State Council, a group that met once a week, usually on Friday afternoon, both to discuss broad policy issues and to resolve particular problems. In the spring of 1982 the government formalized this system by announcing that the committee had been replaced by a new State Council Standing Committee consisting of the premier, two vice-premiers, a secretary general, and ten members with specific responsibilities.

The agenda of these committee meetings, as of mid-1981, was set by the State Council Staff Office. The secretary general of the State Council played a key role in preparing and circulating the documents for the meetings. These documents provided the background for the discussion. If the issue was a large policy issue, then the relevant information may have included statistics generated by the State Statistical

Bureau, reports from the field as to how particular units had coped with the problems at hand, and policy analysis prepared either by one of the research offices within the State Council or a research institute within the Chinese Academy of Social Sciences (CASS). The search was for consensus, and, in the absence of agreement, a decision on a difficult issue frequently was postponed.

All attuned bureaucrats that I met were consummate "Pekingologists," closely charting how their chief was doing in the government pecking order.

As a result of his heading the all-important Planning Commission, and also perhaps because of his close ties to Chen Yun, Yao Yilin particularly carries great weight. In fact, it is Yao Yilin who spearheaded the SPC's recent comeback. In 1979–81 his commission's authority had been diluted by the rising importance and creation of other planning agencies, notably the State Agricultural Commission, State Capital Construction Commission, State Energy Commission, and the State Machine Building Commission. With obvious exasperation at the confusion that had ensued in the intervening years, Yao early last year called for a return to "unified control" by the SPC over all aspects of the economy. Indeed, in March all four commissions were merged with the State Economic Commission, the SPC's implementing arm that carries out annual plans based on the SPC's long-range plans.

Inside the State Council

Inside the State Council's Zhongnanhai premises in the august grounds of the Forbidden City, the premier and vice-premiers each have only two or three personal secretaries or administrative assistants. As of mid-1981, they did not provide policy advice.

The premier and vice-premiers turned to three places to secure the policy support they needed. First, they drew on a common staff in the Zhongnanhai complex, which included economic specialists. Secondly, commission heads often turned day-to-day management of their commissions over to the ranking vice-commissioner in order to devote time to policy questions. These could be researched by the commission. Thirdly, research could be carried out at one of the institutes under the Academy of Social Sciences. In this case, the research team's terms of reference might be set through consultation between the premier and vice-premier, the institute director, and the designated head of the research team.

Large numbers of interagency and interprovincial disputes cascade upon the State Council. In fact, a major structural weakness of the Chinese bureaucracy is the inadequate means for resolving interagency disputes. The SPC and State Economic Commission do act as filters. They are forced to become embroiled in disputes, according to my interview sources, because most interagency differences involve either efforts to alter the plan in midcourse or instances of nonfulfillment of, or noncompliance with, the plan.

In the summer of 1981, if the dispute involved ministries within the jurisdiction of a single commission, then the pertinent commission made an effort to reconcile the differences. But since commissions did not possess line authority over the ministries, they were able to reject commission recommendations and plead their cases before the State Council Standing Committee and its economic staff.

The minister appeared personally to plead his case. To be sure, such appeals carried inherent risk, since the vice-premier whose commission had recommended a remedy sat on the State Council Standing Committee and outranked the petitioning minister. Nonetheless, I sensed that the vice-premiers were overburdened by various interagency disputes, and much negotiation was necessary to resolve them.

With the vice-premiers immersed in energizing the bureaucracy and settling disputes, it was no wonder that they turned to brain trusters and troubleshooters to assist them. Though not in the limelight, such people as Du Runsheng in agriculture or Ma Hong in industry played crucial roles in assisting the vice-premiers. Such people held a variety of posts in the commissions, the State Council apparatus, and the CASS research institutes. They had all the necessary security clearances and saw the minutes of high-level meetings that they did not attend. They were encouraged to comment on policy deliberations and propose solutions to specific problems. Moreover, because other officials knew that these officials enjoyed the confidence of certain top officials, their influence was very great, though contingent upon the power of their particular supporters and the success of the programs they were implementing.

The premier and vice-premiers not only met frequently and commented on draft documents and directives that circulated among them, but they were also in frequent telephone contact, often reconciling differences among their bureaucracies over the phone. This proved vexing to their aides, since the top officials frequently had different interpretations of the agreement and therefore summarized the conversation differently to their secretaries and subordinates. The staff of the two top officials then had to piece together the likely agreement, or ask their superiors to address the matter again. (Such phenomena are of course as ubiquitous in the White House as in Zhongnanhai.)

While the economic vice-premiers had distinctive responsibilities, they also shared in many decisions. In a very real sense, many of the most important policies were collective decisions, requiring a high degree of consensus. On some specific decisions, in fact, many agencies had to concur. For example, the importation of machinery from abroad, depending on its value, level of technology, source of funding, and implications for capital construction and the plan, could easily have required the approval of half a dozen agencies. No one figure, not even Deng Xiaoping, was so dominant that he could unilaterally circumvent the process and impose his will.

While our description concentrates on the daily and weekly routine, the policy guidelines which established the parameters for daily activities were decided at Central Party Work Conferences and enunciated in programmatic speeches of the leaders and central directives issued by the Party Central Committee.

Commissions and Ministries

Most of China's principal economic agencies are located in western Beijing, just to the east and north of the Diaoyutai Guest House complex. A few, such as the Ministry of Water Conservancy and Electric Power, are in the southwestern part of town. Some ministries—Commerce and Foreign Economic Relations and Trade—are strung out along Changan Jie.

The agencies are located in multi-storied concrete or brick buildings in walled compounds, the architecture ranging from vintage Stalinist at the high end to the drab. Soldiers guard the entryways in the seemingly languid Chinese fashion, but unauthorized visitors rarely escape their eyes. The halls are dank and ill-lit. The weather thoroughly penetrates the buildings: summer heat, winter cold, spring dust. Beds occupy many offices, to be used for naps or perhaps by workers who find it more convenient to remain in the compound.

Ministry buses transport some of the officials from the agency residential blocks to agency headquarters. A fleet of chauffeured agency cars is at the disposal of higher level officials. A typical agency will run a canteen where the employees eat lunch, and frequently other meals; a bathhouse; a day-care center; and occasionally other facilities. The agency most likely disburses coupons for hard-to-obtain consumer durables and tickets to cultural and sporting events.

In most bureaucracies, about 50 percent of the employees perform support or logistic tasks. The remainder are clerks, secretaries, and administrators. The physical setting, and the diverse functions agencies perform for their employees, are not necessarily conducive to crisp, efficient execution of administrative responsibilities. In discussing Chinese bureaucracy, one must never forget one is analyzing organization in a Soviet-style economy, in a developing country, and in the Chinese cultural environment.

The number of administrative cadres in a ministry or commission typically hovers around 500, with a range from 300 to nearly 1,000. These figures are deceptively low, however, since the number does not include officials attached to the ministry from the provinces who are included in provincial manpower ceilings. Nor do they include manpower in service agencies, such as computer centers, or in certain subordinate but administratively separate agencies or corporations. Ministry- and commission-level agencies have a similar structure: functional bureaus; staff bureaus such as planning, statistics, finance, research, and personnel; a political bureau (the Party propaganda arm); and a staff office.

Typically, commission vice-chairmen or vice-ministers divide their responsibilities, each supervising one or more bureaus. The general office is the operational command, the central staff office for the agency. It maintains the seal (required on bank drafts and important documents), arranges for the circulation of documents within the agency, and issues documents in the name of the agency. In most agencies, a weekly staff meeting of bureau chiefs is held to coordinate work within the agency and develop a coherent agency position vis-a-vis other agencies when that is appropriate. The general office manages the agenda and documents for this meeting, though bureau chiefs can put an item on the agenda on request. The timing of these meetings apparently provides some clue as to the role each agency plays. In mid-1981, the SPC staff meetings usually occurred early in the week, in anticipation of the Friday State Council Standing Committee meeting.

The SPC clearly is the first among equals, the commission with the broadest mandate: to formulate and supervise the annual and five-year plans; and to control all financial aggregates, including the money supply, the state budget, and the nation's balance of payments. The SPC, in some respects, serves the functions of the US Office of Management and Budget.

Without making all the necessary qualifications, the SPC currently draws up annual production targets for around 300 commodities such as coal, steel, nonferrous metal, lumber, cement, sulfuric acid, and even motor vehicle tires. On January 1 of each year, the responsibility for achieving these targets passes to the State Economic Commission. Since its Beijing staff consists of just a few hundred individuals, the SEC must turn for help to the ministries and provinces, which elaborate more detailed plans covering nearly 600 "category two" commodity categories. Local planning bureaus, in turn, plan for over 10,000 "category three" commodities. Because these categories are still rather broad, municipal planning bureaus regularly convene material allocation conferences so that enterprises can get together and write into their purchase and delivery contracts the specific type of, say, cement, bicycle, or industrial boiler that is desired. At least in theory, the system makes it possible for Beijing's "desktop" planners to communicate their priorities right down to the shop supervisor.

The Bureau Level

As in the American executive branch, the bureau is the basic building block of the Chinese bureaucracy. Ministries come and go; bureaus are more likely to remain, shuffled from one conglomerate to another as ministries merge and split.

Only during the Cultural Revolution, when entire ministry-level units were literally abolished, did many bureaus cease to exist. To understand Chinese bureaucratic practice and to identify the key operational figures, therefore, require penetrating to the bureau level: discovering who the chiefs are, with whom they are connected, and what precise programs they implement.

The overwhelming first impression I obtained of the bureau chiefs I met in 1981 was that they were savvy, experienced, articulate bureaucrats. They seemed to be imbued with their agencies' missions, eager to defend them, reluctant to alter them, and aware of the many shoals around which they must steer. Typically, they were in their mid-fifties and had served in their area of expertise (though not in the same bureau) for 25 years, from the mid-1950s, with a four-to-ten-year enforced absence under varying degrees of duress during the Cultural Revolution. They understood the logic of current practices so clearly that one could sense their keen ability to identify why those practices should not be altered or reformed. They also were circumspect, capable of obfuscating an issue when that seemed appropriate. They seemed to be well aware that knowledge is power.

Clusters of bureaus in different commissions and ministries have very similar functions. For example, the SPC, Ministry of Finance, and the State Bureau of Supplies all have energy bureaus, while the various energy ministries such as Coal and Petroleum have planning and capital construction bureaus. Greater informal communications exist among these overlapping bureaus than conventional wisdom acknowledges, at least during the planning process. Indeed, the SPC deliberately staffs its bureaus with personnel from bureaus in other agencies with similar responsibilities, so that any given SPC bureau has personal connections with other agencies. The US Office of Management and Budget employs a similar personnel practice, where officers are drawn from throughout the US government to facilitate interagency understanding.

I was told repeatedly that in setting plans, budgets, and policies, relevant bureaucracies keep each other informed; where differences among bureaus in different ministries exist, bureau chiefs are aware of the differences at an early stage and inform their superiors. Thus, vice-ministers in different ministries presumably are able to anticipate issues that are coming to their attention. In the implementation of policy, however, I noted that when tasks are subdivided and given to action or line agencies, the level of voluntary consultation and coordination seems somewhat less. In general, I am no longer content with my prior assumption that horizontal communication is very weak in the Chinese bureaucracy.

An even stronger impression I gained was that each agency has its own sense of mission and purpose, or "organizational ideology." On only a very few occasions did I leave an interview doubting that were it not for that agency, the Chinese economy would collapse, that this agency played an indispensable role in maintenance of the economy, be it setting prices, allocating labor, designing and approving capital construction projects, setting the budget, or making the plans. My interviewees were impressive in delineating the turf of their "system" nationwide. The boundaries tended to be expansive, intruding into other chains of command at lower levels. For example, the State Statistical Bureau included in its "system" statistical personnel in other ministries or in factories. It was not unusual, therefore, for me to be assured by the national agency that it was at the apex of a system of several hundred thousand personnel.

While agencies tended to be expansive in identifying their personnel, the tendency was quite the reverse when describing the scope of their responsibilities. An example suffices to make the point. The State General Bureau of Labor is responsible for, among other things, securing employment for urban middle school graduates. When asked whether unemployed youth existed in Shanghai, however, the bureau's spokesman assured me that the situation was under control, and that few youths were unemployed. When pressed, the spokesman said the bureau's task was to find employment for youths at their place of official registration, or *hu-kou*. To be sure, the official admitted, many youths whose *hu-kou* was in Xinjiang in Northwest China had returned illegally to their family homes in Shanghai. Since employment awaited them if they returned to their locale of official registration in Xinjiang, as far as the Labor Bureau was concerned, they were employed and the bureau had no responsibility for them. The spokesman did admit that from the perspective of Shanghai's municipal leaders who had to deal with the problems of idle youth, an unemployment problem existed. But as far as his agency was concerned, no problem existed.

Differences Among Agencies

The subtle differences among the economic agencies in China are often more important than the formal ones. Naturally, there are differences in élan and efficiency, but a key difference is that agencies suffered unevenly during the Cultural Revolution.

Some, such as the State Bureau of Supplies, were totally devastated. The State Statistical Bureau was placed under the State Planning Commission and suffered enormous cuts in its manpower ceiling. Others, such as the State Economic Commission, suffered less damage. Some began their recovery in 1971–72, while others were not resuscitated until 1976, and yet others were creatures of the post-Third Plenum reforms of 1978. The sense I obtained in the course of my summer's research and residence in China also was of momentum and surges: Some agencies were gaining in power, such as the SPC, Ministry of Finance, and the People's Bank of China; others, such as the State Capital Construction Commission, were bearing the brunt of the reforms, reorganization, and retrenchment. Yet others felt stymied, eager to launch important programs but unable to do so.

The single most important factor, which the middle-level bureaucrats implied determined their fate, was the political strength and interest of the premier or vice-premier responsible for their agency. For example, one frustrated bureau chief intimated that his agency was suffering from having a lower ranking vice-premier holding the portfolio of his agency. He saw hope in the signs that a higher ranking vice-premier was taking an interest in the work of his agency, though he despaired that an agency closely affiliated with his own was under yet another vice-premier. Under these circumstances, he doubted sufficient coordination would be achieved in his area.

In another instance, the Bureau of Cultural Relics was so low on the totem pole that only a deputy secretary general in the State Council, rather than a vice-premier, had responsibility for it. Some in the bureau bemoaned the lack of deep personal interest evinced by any vice-premier for the preservation of China's historic sites. While the situation had improved since the Cultural Revolution days, the bureau looked with nostalgia on the fifties and sixties, when Zhou Enlai and Chen Yi took close and personal interest in its activities.

Personal connections are not the only source of an agency's strength. Its financial resources also are important. Agencies that preside over revenue-producing enterprises speak with greater power than agencies that run chronic deficits. The latter are known as "red" agencies. The ministries of Public Health and Grain, for example, are considered to be "red" agencies. This does not mean "red" agencies inevitably lose when their views conflict with those of revenue-producing agencies; they just labor under a handicap. One example, I discovered, had to do with cigarette smoking. Public Health was convinced of the dangers smoking poses to health, and wished to undertake a range of measures to reduce smoking. But the Ministry of Finance reaps sizable tax revenues from smok-

ing, and the relatively poor provinces of Yunnan and Guizhou make money on tobacco. Against this weight, Public Health lost. This aspect of bureaucratic politics in China, of course, helps explain both the reluctance of agencies to surrender revenue sources and their eagerness to seek additional sources.

Low Capacity to Plan

The low capacity of agencies to make accurate plans was particularly revealing. Obviously climatic uncertainties make long-range forecasting difficult in China's predominantly agriculture-based economy.

But a more decisive factor limiting the capacity of the leaders to develop accurate plans is inadequate, unreliable statistics on many aspects of the economy. The statistical network is still recovering from the damage of the Cultural Revolution. On the eve of the Cultural Revolution, the professional manpower ceiling of the State Statistical Bureau central office was roughly 400. At its nadir, when made into a section in the Planning Commission, the office had a staff of only 13 or 14 people. After 1971, it expanded to 40—its number at Mao's death. Its ceiling in the summer of 1981 approached 350, and there were plans to keep growing to its pre-Cultural Revolution level. However, since no statisticians had been trained in Chinese universities in the past 15 years, the bureau was unable to fill its available slots, and its actual manpower was about 280. Thus, a group of 280 professionals was expected to direct and monitor the activities of the statisticians in the ministries, provinces, and basic level units. They were struggling valiantly with the challenge, but did not indicate to me that they were fully on top of the problem. In such professional areas as sampling techniques, questionnaire construction, and sophisticated techniques of data control and analysis, recent computer advances in the West were just beginning to be acquired.

Without an extensive capacity to generate its own data, the Statistical Bureau was dependent on the figures supplied it by ministries and the provinces, both of which aggregated statistics from lower levels. But within line agencies, there was an awareness of the softness of some of the data. Indeed, it was not unusual for an entire agency or set of agencies to propagate figures which all knew to be inaccurate.

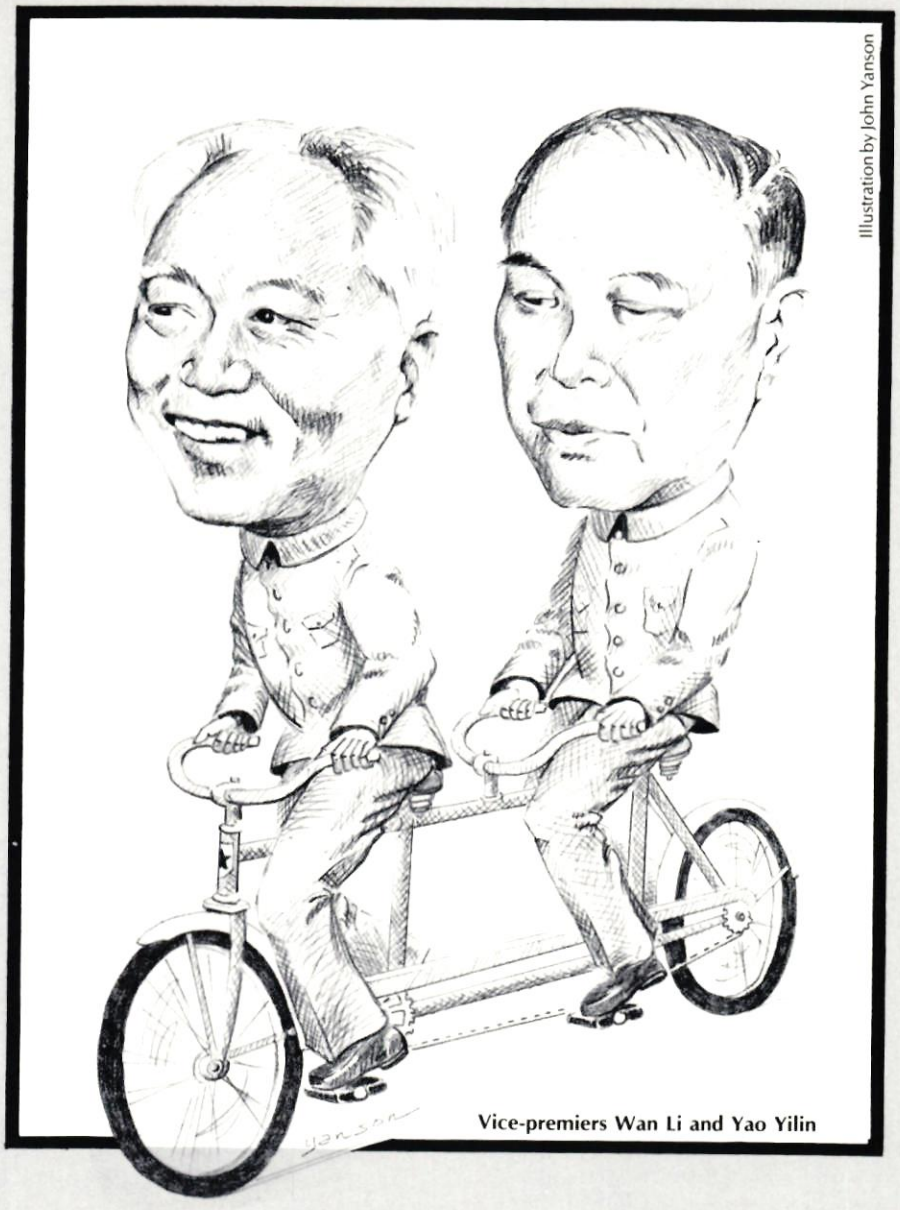

Illustration by John Yanson

Vice-premiers Wan Li and Yao Yilin

An example in late 1978 was the sown cotton acreage. County officials knew that the state's purchase price for cotton was too low for communes and brigades to make money, so they required localities to plant only 90 percent of their cotton acreage quotas, agreeing to look the other way concerning the other 10 percent of the government's quota. But county officials reported a full planting of the quota. Provincial officials knew better, but accepted the false figures.

The total harvest figures that came in, which were generally accurate, showed the not-too-surprising result that per-unit yields were 10 percent lower than in fact they were. At least in Hebei, the inaccuracy was well understood, and interviews in Beijing suggested agricultural officials knew what was going on. Yet, no one spoke up to expose the conspiracy of silence. Their attitude: "Why bother, since everyone knew the truth." To expose the problem would call into question the adequacy of the entire agricultural policy—the scissors crisis affecting the peasants, the costs of the "taking grain as the key link" policy, and the need to boost cotton procurement prices.

In 1974, such a direct questioning of government policy would have been seen as an attack on the Cultural Revolution and as a championing of material incentives. When cotton procurement prices increased substantially in 1978 and 1979, and an expansion of

sown acreage was encouraged, communes were again expected to meet 100 percent of their acreage quotas. No one went back to correct the inaccuracies in the statistical time series, which continues to reveal a sudden 10 percent increase in per-unit yields—an increase probably now attributed to gains from the fall of the Gang of Four. Nor should one conclude that such statistical practices ended in 1978. One official intimated in my 1981 interviews that a similar underreporting of sown grain acreage is still tolerated.

This situation provides the context for understanding the slogan, "Seek truth from facts." In many ways, the Cultural Revolution greatly intensified the propensity, to put it bluntly, to lie. When survival was at stake, lying was justifiable. It then became a way of life in the bureaucracy, the easy way to escape responsibility.

While quick to admit its problems, the Statistical Bureau believed its figures provided an adequate guide to key economic trends. But policymakers had a different perspective. Those I spoke with believed that they presided over a society reluctant to "seek truth from facts," and that the statistics supplied them were frequently not reliable. Since important decisions could not be based exclusively on quantitative data, they often felt it necessary to dispatch factfinding teams around the country. Draft directives for solving problems could then be tested in a few locales and discussed nationwide, with the feedback altering the directive. (This method, of course, was the preferred process for generating information in the Maoist era.) The investigation and policy formulation process, however, was somewhat protracted, and as much as a year passed between recognition of an incipient problem and articulation of a policy to cope with it. In the interim, the problem could intensify, as happened with excessive capital construction in 1980.

Another factor in Beijing's inability to plan accurately was the imperfect mechanisms of control available to the central government. Plans and orders could be issued, but they were not necessarily obeyed. The excess of capital construction in 1979 and 1980 demonstrated how easily lower level units could divert resources to unauthorized projects. The decentralization measures of 1979 intensified this problem.

For all these reasons, many officials believed China really does not have the capacity to develop reliable five-year plans. Indeed, what pass for five-year plans today are just a few overall targets which are changed, if need be, every year during the five-year period. Annual plans tend to be linear projections of the previous year's trend.

The depredations of the Cultural Revolution certainly made the restoration of China's cumbersome bureaucracy a welcome return to normalcy. Though progress has been made, the government has yet to eliminate the factionalism and reliance on personal ties which the Cultural Revolution intensified. Personal relations remain at the heart of the system. Interagency conflict is rife. Separate organizational ideologies flourish.

Clearly, much has changed since 1976. Most important of all is Deng's pledge for the era: no more campaigns, and no more radical swings between periods of stability and mass campaigns. But further change can be expected if the leadership persists in its effort to build a lean, effective, technologically proficient bureaucracy.

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China's New Foreign Trade Structure

The staff has been streamlined and the authority consolidated in a move designed to raise efficiency and cut red tape.

Nicholas H. Ludlow

For the first time in nearly two decades, all of China's foreign economic relations have been placed under one authority. The decision to combine two ministries and two commissions into a single entity—the new Ministry of Foreign Economic Relations and Trade (MOFERT)—demonstrates the importance the government attaches to streamlining and improving its economic relations with the rest of the world.

The reform was announced by Premier Zhao Ziyang last November and implemented on March 8 by the Standing Committee of the Fifth National People's Congress. While not affecting day-to-day trade operations, the reorganization will help to further separate ordinary business relations with foreign countries from overall trade planning.

The new ministry is a merger of China's former Foreign Investment Control Commission and Import-Export Commission, and the ministries of Foreign Trade and Economic Relations with Foreign Countries. Its head is Chen Muhua, 61, an alternate politburo member and former minister of Economic Relations with Foreign Countries. Chen, who speaks no foreign language, has been busy in recent years coordinating foreign aid and United Nations projects in China. She attended the signing of a bilateral investment treaty with Sweden earlier this year. Under her direction, the Ministry of Economic Relations with Foreign Countries gained a reputation for professional competence and integrity.

In the words of a senior ministry official, the general purpose of the reorganization is to raise efficiency and "cut red tape." Another aim is to lower the average age of key officials in the ministry, in line with China's new mandatory retirement age of 65 for ministers and 60 for vice-ministers and all department directors. The number of vice-ministers also will be cut. Four have been named to MOFERT: Jia Shi, Lu Xuejian, Wei Yuming, and Zheng Tuobin. The average age of the ministers and four vice-ministers is 58.

The new ministry has one-third less staff than the organizations it replaced, and two-thirds fewer departments. Its staff quota is about 1,000, a drop of 1,500, and its departments number 20, down from 60. Each department has its own quota of personnel, but as of mid-April these quotas had not been fully implemented. A search and selection process to find qualified people is continuing.

The selection process going on to find the right person for the right job in the new Ministry of Foreign Economic Relations and Trade appears to be significant: never has there been such a rigorous effort in Beijing to select qualified people. Now the emphasis will be on professional staffing, a most welcome development.

The new ministry will handle all the responsibilities and functions of the ministries and commissions it absorbed. For example, MOFERT will assume the authority that had been vested in the Foreign Investment Control Commission to give final approval to offshore oil contracts as ordained in Article 6 of the offshore oil regulations promulgated on February 10.

The new ministry is the approving agent of the State Council for these contracts. It answers directly to China's premier and two vice-premiers.

MOFERT also will supervise the China Council for the Promotion of International Trade (CCPIT), and provide guidance to the China International Trust and Investment Corporation (CITIC). Both entities were previously under the guidance of the Foreign Investment Control and Import-Export commissions. Though they must regularly report to and consult with MOFERT on major policy questions, they will continue to operate as quasi-independent state organs.

The reorganization of the ministry is to be completed by the end of 1982, but

Prior to heading up China's new Ministry of Foreign Economic Relations and Trade this March, Chen Muhua, 61, took charge of such diverse endeavors as preschool education, birth control, tourism, and public sanitation. She speaks no foreign language, but has traveled widely in Asia and Africa, and has visited Romania. Assisting Chen are four able vice-ministers: Jia Shi, Lu Xuejian, Wei Yuming, and Zheng Tuobin. Thus far, most important policy statements have been made by Wei Yuming, 58, a Shanxi-born coal industry expert who worked closely with Chen before becoming vice-chairman of the Foreign Investment Control Commission, the powerful foreign trade planning entity that was absorbed by Chen's new ministry on March 8, 1982.

consolidation of the provincial branches of the former ministries and commissions that comprise MOFERT will not begin until 1983.

The ministry has seven administrative and 13 regional and functional departments. Most are now located in the old Ministry of Foreign Trade buildings on Chang An Road. MOFERT's 13 main departments:

1. General Planning, which is responsible for investment and trade;
2. Finance and Accounting;
3. Treaties and Law;
4. Foreign Trade Administration, which manages China's foreign trade system;
5. Import and Export, which is in charge of approving import and export contract licenses;
6. Foreign Aid, which deals mainly with Third World countries;
7. Foreign Economic Relations, which handles labor exports and investment in foreign countries;
8. Foreign Investment Administration, previously the Foreign Investment Bureau under the Foreign Investment Commission, which is responsible for approving investments in China;
9. Technical Import and Export, which supervises TECHIMPORT and is responsible for technology transfer;
10. Relations with International Organizations, which serves as China's liaison to the United Nations and other multinational organizations;
11. First Department of Regional Affairs, which is in charge of Asia (including Japan), Africa, and Latin America;
12. Second Department of Regional Affairs, which is in charge of Eastern Europe and the Soviet Union;
13. Third Department of Regional Affairs, which is in charge of industrialized Western countries, including Europe and the United States.

The departments of Treaties and Law, and Foreign Investment, have direct responsibility for the two areas of greatest interest to foreign investors: the laws governing foreign investment and offshore oil exploration. The Treaties and Law department has no head as yet, but has two deputy directors—Liu Yiming and Liu Chu.

The Treaties and Law Department has a staff quota of 28 (only 20 have been recruited so far). Its four divisions are responsible for negotiating investment protection and insurance treaties; drafting investment guidelines, such as the pending joint venture implementation regulations and model joint venture contract; foreign trade and aid affairs (the division is now drafting an omnibus foreign trade law covering compensation and countertrade); and a general office that conducts research and maintains a library.

The director of the Foreign Investment Administration is Li Lanqing, an engineer, who previously headed the FICC's loan department, which handled loans from Japan and the World Bank.

The Foreign Investment Administration has a staff quota of 60 (also still to be filled) and 3 functional divisions in charge of heavy industries (the No. 1 division), light industries (No. 2), and tourist and agricultural projects (No. 3). The department also has a Planning Division, which selected the 130 major projects for the June Guangzhou investment meeting cosponsored with the United Nations Industrial Development Organization; three direct foreign investment divisions, concerned with public sector financing of projects; and a Compensation Trade Division, responsible for compensation and countertrade.

Both departments, which include specialists drawn from industrial ministries, play a major role in drafting investment regulations and approving projects. They will not become involved in negotiations directly, however. Together the departments have the final authority to approve (following consultation with the China National Offshore Oil Corporation) offshore oil exploration and development contracts. In this capacity, both departments have contributed to the drafting and review of the offshore oil regulations, model contract, charter of the China National Offshore Oil Corporation, and bidding documents.

Tightening Up

Centralized planning is back, and so is the fear that free markets can be dangerous.

Martin Weil

Gone are the heady days of just two or three years ago, when reform was the watchword and China seemed on the verge of adopting a market socialism more radical than almost any other socialist country. The reforms, now recognized as being hasty and poorly coordinated, are blamed for contributing to the government's loss of control over the economy.

Curtailing the reforms and reestablishing central control are the top priorities of China's planners, as they continue to cope with budget deficits and inflation—not to mention corruption and smuggling. The move toward greater control is evident in everything from the reorganization of the State Council to the campaign against pornography.

Yet reform is by no means dead. Certain policies are being retained even now. And there is an apparent consensus that in the long run, market-oriented incentives must replace bureaucratic rules if economic management is ever to achieve better results. China's dilemma is how to bring about the necessary reforms while rebuilding the country's shattered planning system. It will not be easy to put Humpty Dumpty together again and regain the control that China's planners have lost over a period of 15 years.

State Council Reorganization

Undoubtedly one of the most significant aspects of the ongoing restructuring of the State Council is the increased authority given to the State Planning Commission. The SPC (along with the State Economic Commission) not only has absorbed the functions and part of the personnel of several rival commissions abolished in March, but it also seems to have acquired new powers over industrial ministries.

Similar to the Soviet Union's GOSPLAN, the SPC is meant to be the preeminent agency charged with drawing up the plans the economy is supposed to follow. But the power of China's SPC was greatly weakened, first by the Great Leap Forward, and then by the Cultural Revolution. Aside from gutting its personnel, the Cultural Revolution decreased the SPC's authority by dispersing considerable financial powers to the provinces, and by devastating many of the SPC's instruments of control, such as the State Bureau of Supplies (the nation's wholesaler for critical commodities). The SPC's ability to resist or alter the grandiose plans of powerful ministerial interests was reduced—a situation exacerbated by the close personal ties between its former chairman, Yu Qiuli, and Yu's friends in heavy industry and the so-called "energy clique."

The SPC's authority was further diluted by the State Capital Construction Commission, which began to approve major construction projects on its own authority and by the formation in late 1980 of the Machine Building, Agricultural, and Energy commissions. These changes created new channels through which special interests could thwart central priorities. And to the extent that the overlapping agencies created bureaucratic paralysis at the top, it became easier for ministries and provinces to beat the system.

By eliminating the Agricultural, Energy, and Machine Building commissions, the leadership has strengthened an SPC through which it can improve the effectiveness of central planning. One sign of the SPC's more active role is its reclaimed authority to allocate coal shipments and overrule, if necessary, the allocation decisions of the Ministry of Railways. The provinces, however, still retain a great deal of power.

Somewhat lost in the reports on bureaucratic reshuffling is the fate of China's most ambitious reform of all—gradually transforming industrial ministries from administrative organs to independent, for-profit corporations. These plans seem to have been considerably set back, although not totally abandoned.

The idea, as recently as late 1980, was for the new commissions to set policy and developmental guidelines, while the actual running of factories would be turned over to specialized corporations that were the erstwhile departments and bureaus of ministries. The abolition of the commissions would seem to shelve this plan. Right now, the only ministry that has turned itself into a corporation is the former Sixth Ministry of Machine Building which, together with certain plants under the Ministry of Communications, has become the China State Shipbuilding Corporation. At the same time, an automotive vehicle corporation has been carved out of the Ministry of Machine Building, to which its relationship is not clear.

Moratorium on Decentralization

Ever since the Central Work Conference of December 1980, when readjustment policy was strengthened, attacks have been directed at the policy of giving financial autonomy to localities and enterprises. The sharpest criticism concerns the right of certain "autonomous" enterprises to sell part of their output to the highest bidder, and not just to the government.

Premier Zhao, an early supporter of the reform, delivered the most damaging blow with his announcement in March that there would be a moratorium on any further reforms in 1982, and that, after review, certain "inappropriate" reforms might be rolled back.

As is usual in a Chinese policy speech, Zhao did not outline exactly what the "appropriate" measures would be. But they might well involve some restrictions on the right to freely market above-target output of critical goods under the state plan, such as steel, timber, and coal. Also, some

tougher restrictions might be placed on the amount of money enterprises and government departments can keep under various profit-sharing arrangements.

Moves to weaken the latter reform have already been taken, in fact, in the form of compulsory purchase of government bonds. In 1982, the government will require enterprises and government organs to buy ¥2 billion in bonds. Such purchases are analogous to "windfall profits" taxes on units judged to have benefited excessively from the reforms.

Following are some of the other grave problems that have forced the government to consider counterreform measures:

Regionalism and departmentalism are out of control. Provincial autonomy has been on the rise for a number of years, but certain reforms granting the provinces financial power have increased that even further. This can be seen in the duplicate construction of small consumer goods factories in areas which produce agricultural raw materials. These compete with more advanced and efficient units in big cities. As a result, enterprises and provinces are adding unnecessary production capacity. In a market economy, such excess capacity usually forces down the price of a good, discouraging new investment. But in China prices are set by bureaucrats, not the market, so units frequently go on expanding the production of over-supplied commodities.

This problem has prompted provinces to erect "economic blockades" against each other, to keep goods from other provinces from flooding the local market. Ministries, too, are guilty of this. The Ministry of Coal, for example, has been trying to foist its own equipment on mines at the expense of the Ministry of Machine Building. It is surprising that foreign companies sell as much as they do in China, given the intense pressure tactics used by ministries and provinces to make factories "buy Hubei," or "buy Shanghai."

Finally, the State Council put its foot down and granted enterprises the right to go to court if their provincial or ministerial superiors deny them the right to buy outside.

Competition with the free market is ruining the state plan. There are many documented instances of enterprises withholding goods from the state supply agencies in favor of the free market, or bargaining down their quotas. Alternately, they are saving high-quality goods for the market, saddling the state with inferior goods. Bolder enterprises have even gone so far as to charge the state the same prices prevailing on the free market. For some goods in especially short supply, including tobacco and down, the state plan has for all practical purposes lost its meaning.

Corruption and embezzlement are on the rise. Central government leaders are now arguing that the freedom to market has led to an upsurge in the illegal circulation of goods, as well as embezzlement and bribery. This is probably true, but the trend undoubtedly predates the reforms. In an economy of scarcity, any bureaucratic unit is tempted to use its control over a little piece of the action to extract advantages.

Even tax evasion is on the increase. The opinion was expressed last year that the decline in profits submitted to the state resulted from the fact that enterprises kept more of their revenues. Although this was later refuted, it is true that there has been an increase in attempts to defraud the state.

The real culprit: too much attention to profits. One of the most serious obstacles to reform is that profit is a misleading indicator in China of efficiency and rationality. Not only has an emphasis on profit often failed to lower production costs, but in many cases it has created new irrationalities.

Profit is mainly a function of product mix. Due to the peculiarities of China's state-fixed prices, certain goods yield high profits simply because the state has assigned them high prices. Other goods lose money because of their low fixed prices. Taxes also figure into the calculation. Not only do sales tax rates arbitrarily differ according to product, but because they are levied on a turnover basis, they favor enterprises with vertically integrated production over those that must buy parts outside.

Therefore, certain industries have benefited more under the reforms than others—for totally arbitrary reasons and despite complicated formulas the government has adopted to try to even out the advantages and the disadvantages among enterprises. On the other hand, the reforms have driven many enterprises to slant their product mix toward high-profit products, while ignoring low-profit goods. This may be true even, as is often the case, when the former are overstocked and the latter are in short supply. This is as true in agriculture as it is in industry; peasants are starting to neglect low-profit grain and vegetables in favor of high-profit cash crops such as tobacco and oilseeds.

Efforts to reform the economy at the factory level cannot succeed, the leadership now realizes, until China deals with macroeconomic distortions.

Price reform would be a solution to a large part of this problem. But the leadership so much fears the inflationary chaos that price reform would entail that it has decided to forego this move for the time being, in all except the most incremental steps. This necessarily means a renewed reliance, at least in the short run, on administrative measures to guide production. Microeconomic reforms, the leadership now realizes, cannot be successful until macroeconomic distortions are corrected.

Controls on Individuals

The central government is just as worried about the loss of control over individuals as over the economic activities of enterprises. In part because of the government's own heady rhetoric, purchasing power has been rising faster than the production of consumer goods, which is continuing to cause some inflation, despite a lowering of the state budget deficit.

One of the areas where the government is trying to clamp down hardest is in bonus abuse. Particularly galling to leaders is the widespread tendency to give equal bonuses to all workers, or to maintain bonus levels (currently around 15–20 percent of base wages) even when profits decrease. Apparently, managers are learning accounting tricks such as adding bonus payments to production costs, rather than deducting them from profits.

Finally, there is the issue of planned birth, which also has a critical influence on the rate at which consumption increases. Particularly in the countryside,

more liberal economic policies created advantages for families with large numbers of workers, and weakened the Party's birth control campaign. The answer seems to be a redoubling of the Party's draconian and unpopular measures to promote the one- or two-child family.

Tighter Cultural Control

The move to tighten control is evident in the cultural as well as economic sphere. Party censors are less lenient toward literary works that damage Party prestige. Whereas in November 1980 a dying actor could publish a letter in the *People's Daily* critical of Party control over art, today attacks have been organized against writers such as Bai Hua, whose filmscript *Sun and Man* doubted the sincerity of the Party's self-criticism for Cultural Revolution excesses, and compared Mao to a Buddha. Bai has been forced to publish two demeaning self-criticisms in the Party press. The clampdown on literature stands in contrast to the Party's own recent frank revelations about corruption in its ranks.

Equally striking is the movement against decadent bourgeois culture and pornography. Top party leaders, including Chairman Hu Yaobang himself, have taken a personal interest in the campaign.

The Communist Party newspaper in Gansu Province—about as far as one can get in China from "bourgeois" influence—recently railed for an entire column about two Taiwan love songs commonly heard on cassette recorders, entitled "Unforgettable First Love" and "Puppy Love." Another somewhat comic aspect of the movement was the recent decision to first install, and then remove, Mah Jongg tables and slot machines from the Dongfang Hotel in Guangzhou.

Politics of Control

The fact that tightening up is taking place on so many fronts strongly suggests that political as well as economic considerations are involved. It is difficult to avoid the conclusion that the movement against reform is an attack on the policies of Deng Xiaoping and his disciple, Premier Zhao, the most enthusiastic advocates of economic reform. Deng himself reportedly outlined the shape of the now-aborted "corporate China" plan in an August 1980 speech to the politburo. And it was a Deng ally who, as editor of the *People's Daily*, printed the letter from the dying actor about artistic freedom. Deng and Zhao, of course, are both savvy enough politicians to roll with the punches and wait to fight another day.

The name most associated with tighter control is Vice-Chairman Chen Yun, who has been quoted liberally in recent months on the virtues of a planned economy. That Chen would be leading the fight against reform is at first glance ironic, given that he acquired a reputation in the 1950s as an opponent of rapid collectivization, and supported the idea of limited free markets. Indeed, Chen was savagely attacked for these views during the Cultural Revolution.

Chen's position begins to make more sense when it is considered that he has always been opposed to movements that threaten to spin out of control. Chen's slogan is "to make planned economy primary, and market economy secondary." In other words, the free marketing of noncritical consumer goods and services is all right as long as the government controls top-priority goods. Thus, he is not opposed to the reforms of 1979–80, only their irrational consequences. And the formation of a new Commission for Reform of the Economy, headed by Premier Zhao, suggests that a top-level consensus still exists in favor of continued reform in the future.

Few dispute that, once the economy is on sounder footing, China must move toward market-oriented solutions to combat the inefficiencies of a command economy. A more sophisticated tax policy, as well as some kind of price reform, seem to be in the cards some time in the future. Likewise, the use of bank interest (currently at only 4 percent for industrial loans) to induce the efficient use of fixed and working capital has many advocates. Already a large number of construction projects are being funded with bank loans. And China is in the process of setting up a central bank to regulate money supply somewhat in the manner of the Fed.

Chen himself will eventually have to face the question of whether Soviet-style planning has the flexibility to coexist with a market economy. In the experience of many foreign businesspeople, bureaucratic behemoths like the Ministry of Railways or the Port of Shanghai are simply too big to be run from Beijing. And even if they can be controlled, there is the distinct possibility that control will come at the expense of another goal Chen Yun holds dear: improved efficiency.

Tighter Control on Foreign Trade

Martin Weil

A tightening of control in China has traditionally been accompanied by a return to the theme of self-reliance, and the current policy switch is no exception. Rising foreign influence has always been, and will undoubtedly continue to be, looked on with some suspicion in Beijing.

Most recently, China has begun to blame foreigners for cultural contamination and corruption, as well as for the breakdown in government control. And yet, leaders are taking pains to point out that the trade door to the West and Japan remains open, and that self-reliance and the importation of foreign technology remain compatible.

Even as controls are tightened, China is initiating the offshore oil bidding process, and signing a feasibility study agreement for coal mine development with Occidental Petroleum.

As self-reliance rhetoric has picked up, so have signs that China will increase its foreign plant and equipment purchases. In early 1982, for example, two small plastics plants were bought from Japan for the Lanzhou Petrochemical Complex—the first petrochemical plant purchases since the ill-fated import program of the late 1970s. Three small polyester plants worth about $15 million were also sold recently by Japanese interests to Shanghai and Tianjin. Significantly, these imports were paid for by the municipalities themselves out of retained foreign exchange earnings.

Thwarting the government's current emphasis on self-reliance is an equally potent force: the traditional preference of many Chinese for foreign-made equipment. A case in point is the Hangzhou plant that makes industrial steam turbines under a mid-1970s licensing agreement with Siemens of West Germany. Though technically advanced, the plant is reportedly operating below capacity because Chinese buyers tend to prefer imports, believing that the Hangzhou machines are of inferior quality.

While equipment imports and licensing agreements seem to be on the increase, consumer goods imports are another story. Renewed calls to eliminate "unnecessary" imports of luxury items, or goods that China already makes itself, have been aimed at consumer durables such as cars and TVs. Even the importation of TV components and kits for assembly in China, which rose markedly after the first ban on TV imports last year, have come under attack. Recently, the press extolled a native Chinese soft drink in what could be interpreted as a slap at imports of Coke and Pepsi, both of which are also bottled in China.

Export Licensing System

The tightening up in foreign trade principally has taken the form of stronger export controls. Corrective action was needed, leaders felt, to stop enterprises and departments from engaging in cut-throat competition. In the case of pig iron, for example, China's export price to Japan dropped from about $160 per ton (fob) to $105 per ton in the short space of a year and a half, due to blind intramural competition between China's various metal trading organizations. Even more revealing is the story of an Indian tender for pig iron which attracted 50 bidders—40 of which were rival Chinese organizations or their foreign representatives. Tungsten has been another disaster area, with competing Chinese organizations exporting the metal in different physical forms without the least sign of price consistency.

The licensing system gives the central headquarters of the new Ministry of Foreign Economic Relations and Trade (MOFERT) the power to allocate physical quotas (at fixed prices) to exporting organizations over a fixed time period (six months in known cases). In practice, this seems to be benefiting the head offices of the traditional foreign trading corporations under MOFERT, which have had the easiest time getting their export licenses approved, no doubt due to their connections with the licensors. Premier Zhao has called upon the nine coastal provinces and municipalities to lead the effort to stop mindless export competition, suggesting that export controls will rely on customs enforcement. There have as yet been no reported violations of license regulations.

The government's current emphasis on self-reliance is being thwarted by a potent force: the traditional preference of many Chinese for foreign-made equipment.

The licensing system complements the decentralized system administered by the former Ministry of Foreign Trade (MFT). Under it, industrial ministries and localities were allowed to export directly, provided that they had delivered their quotas to the MFT under the state plan. Enterprises and localities could retain a certain percentage of the foreign exchange they earned from direct exports. For most products, the amount retained was 20 percent, to be split among the exporting province, enterprise, and ministry (if the plant belonged to a ministry). For a few products the ratio has been as high as 40 percent (telecommunications equipment), or even 100 percent (aircraft).

The license system seems to be a very creative attempt to keep the benefits of decentralization while avoiding its pitfalls. Only certain products for which markets and prices have been severely disrupted currently require a license, including certain metals and minerals, feathers and down, menthol, cotton shoes, and leather gloves.

Foreign Investment and Loans

Tightening up likewise seems to have had little effect on the policy of accepting foreign loans and investment. It is reported that China is finally beginning to draw down sizable portions of the private foreign lines of credit offered in recent years—including nearly $6 billion from Japan at 6 percent interest.

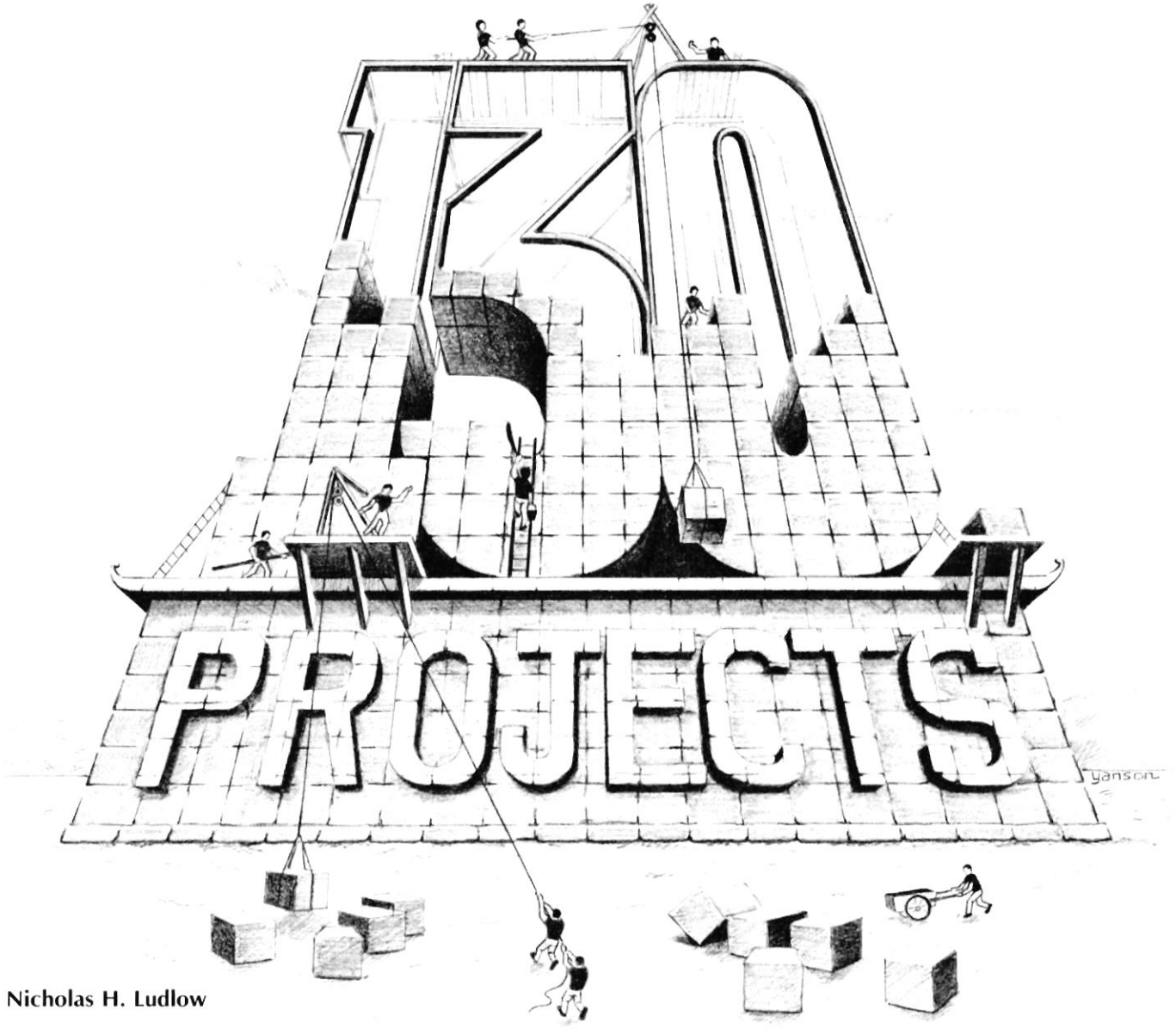
The special economic zones, which still remind some Chinese of the hated foreign concessions of pre-liberation days, are coming under close scrutiny. "Even some people in high places wonder whether sovereignty in the zones has been impaired by the importation of foreign investment," one official has commented.

There has been an obvious change in tone in recent months regarding the zones. The most significant statement recently came from Premier Zhao, who quoted Chen Yun: "The first priority of the SEZs is to earnestly sum up experience." The euphemism "sum up experience" generally means slow down and take stock. References have been made to the need to avoid cultural contamination in the zones. It is hardly coincidental that one of the most publicized cases in the anti-corruption campaign was the smuggling case involving the Shenzhen branch of the China Electronics Import and Export Corporation.

All this contrasts sharply with last summer, following the sixth Central Committee plenum, when Deng and Zhao personally rammed a series of measures through the State Council that eased the bureaucratic obstacles to investing in the SEZs, and offered more attractive terms to foreigners. At that time, the talk was of quickening the pace of development in the zones, rather than "summarizing experience."

But apart from the rhetoric, SEZ policy remains unchanged. Zhou Yang, a top propaganda official, is reported to have said, "I have had a look at the special zones. Everything seemed fine. . . . As well as absorbing foreign capital, we should also learn from other people's management experiences. For example, the service personnel at the Shijingshan tourist center are all very polite. . . . Popular music in the form of disco is part of 'folk culture' and should not be dismissed out of hand. It is also an art form and there are people who appreciate it. . . . Disco is not necessarily bad."

The fact that this was printed in the *Ta Kung Pao*, a Hong Kong communist newspaper that never strays too far from the official Beijing line, should be quite reassuring to potential investors in the zones.



Nicholas H. Ludlow

For a mere $889 million, foreign firms can take their pick of projects—encompassing coal mines, paper mills, and virtually everything in between.

China is finding that extra effort is needed to attract foreign investment in these recessionary times. The job is even harder when so much is at stake: 130 projects worth a staggering $1.6 billion. China has committed itself to $711 million of the total, and is asking foreign companies to come up with the remaining $889 million.

The focus of China's latest fund-raising campaign is the June 7–11 Guangzhou Investment Promotion Meeting, organized by Beijing's new Ministry of Foreign Economic Relations and Trade and UNIDO, the United Nations Industrial Development Organization.

Significantly, the meeting shows every sign that China did its homework on these projects before opening negotiations. For the past year, the 130 projects were screened and researched, and well over a hundred were eliminated before the final list was drawn up.

Moreover, the conference was preceded by an opinion survey conducted among foreigners who have experience in negotiating in China. The survey results showed, not surprisingly, that foreign firms are impatient with China's slow-moving bureaucracy, the prevalence of interministry conflicts, shortages of raw materials and power, and the government's lack of attention to feasibility studies.

The results have prompted the government to cut red tape and expedite the 130 projects in every way possible. This was the message of the three-man advance team from the Ministry of Foreign Economic Relations and Trade (MOFERT) that visited the US in April, under National Council and UNIDO auspices, to promote the Guangzhou forum.

The Chinese have worked for over a year to ensure that when potential investors meet Chinese negotiators and factory representatives, all necessary information on raw materials, energy, domestic suppliers, and labor is ready. Factory officials have been trained by the MOFERT in Beijing to negotiate each project. The State Planning and Economic commissions have inspected and approved all the proposals.

Detailed documents and supporting materials will be distributed to any interested foreign investor; however, the investor must be prepared to undertake formal feasibility studies before the projects can go ahead. Liu Chu, who led the

three-man team that recently toured the US, emphasized that China wants the projects to get started "as soon as possible."

Most of the 130 projects fall into the $5–$15 million range, though some call for a total investment of as much as $150 million. Foreigners are expected to invest 55.4 percent ($889 million) of the $1.6 billion required. But the foreign exchange component differs from sector to sector, ranging from about 75 percent in metallurgical industries to 35 percent in meters and instrument factories. About two-thirds of the proposed investments are in coastal areas, with the balance inland. Altogether 22 provinces and municipalities are involved.

The Guangzhou forum will be the first of many promotional efforts to publicize the projects. Firms are welcome to contact factories directly (the National Council and UNIDO have the list), either before or after the Guangzhou event. Council members wanting fuller details on the 130 projects can obtain them at the National Council by calling (202) 828–8371, or from UNIDO in New York by calling (212) 754–5966.

Provincial Projects

Following the central government's example, China's major cities and provinces have begun aggressively promoting their own projects to attract foreign investors. Using the same marketing techniques developed by UNIDO and the Ministry of Foreign Economic Relations and Trade, at least half a dozen provinces have published lists of projects—including the foreign exchange cost and equipment required—for the consideration of foreign investors.

These local projects number about 200 and are worth at least $4 billion. These numbers do not count those already included in the central government's list of 130.

Since these projects fall primarily under the jurisdiction of cities and counties, investors can begin negotiations by contacting the local authorities directly. One drawback, however, is that less research seems to have been done in those areas than for the 130 projects. Shandong's Zhaizhen coal mine project, for example, calls for a foreign investment of $61 million, though the project's total cost is only $67 million. In view of the province's insistence that the mine not involve large imports, and that "all the equipment will be made in China," it seems strange that 92 percent of the project's cost is in foreign exchange.

Even harder to understand is the large size of some of these projects. Fujian is promoting two hydroelectric dams, a paper mill, glass factory, cement plant, alloy metal works, and two other projects—each needing over $50 million in hard currency. It is not clear how these giant investments will be guaranteed and repaid.

Altogether, Fujian has advertised 97 projects. Guangxi has 19 (pared back from 300 in February); Liaoning, 67; Anhui, 40; Shandong, 30; and Tianjin, 9. It is hoped that Beijing's handling of the 130 projects will give these provinces and cities tips on marketing and will help build confidence at the same time.

The author organized and accompanied a Chinese delegation that recently toured the US giving investment seminars to more than 250 firms on China's investment policies and on the 130 projects. Mr. Ludlow is executive director of publications, research, and planning at the National Council.

The 130 Projects

Most of the projects are in light industry and electronics, and fully 125 involve the expansion of existing plants.

	Total investment (million $)			Foreign investment (million $)			Type of investment arrangement			
Category	**No.**	**Total**	**Average**	**Total**	**Average**	**% total investment**	**Joint venture**	**Compensation**	**Coproduction**	**Not decided**
Light industry	29	349.32	12.05	191.11	6.59	55	15	3	9	2
Textiles	11	84.19	7.65	38.52	3.5	46	4	5	1	1
Chemicals	11	252.35	22.9	124.66	11.3	49	5	4	2	—
Building materials	19	358.51	18.87	250.51	13.18	70	9	8	2	—
Machine building	21	241.41	11.5	180.83	5.18	45	9	3	7	2
Meters/instruments	4	16.9	4.225	6.1	1.52	36	2	—	1	1
Medical appliances and instruments	3	6.6	2.2	2.6	0.86	39	2	1	—	—
Metallurgy	11	83.76	7.6	62.67	5.7	75	2	8	1	—
Electronics	18	177.58	9.86	86.2	4.79	49	12	—	5	1
Forestry	3	33.02	11.0	17.8	5.9	54	—	1	2	—
Total	**130**	**1,603.64**	**12.34**	**889.0**	**6.84**	**55.4**	**60**	**33**	**30**	**7**

SOURCE: UNIDO, and *China Economic News*.

Arbitration in China?
You may need a Chinese lawyer

Eugene Theroux

If you have a clause in your contract requiring arbitration in China, or you are considering agreeing to such a clause, you may be among the first foreigners required to retain local Chinese legal counsel.

Article 14 of the Joint Venture Law says that "disputes arising between the parties to a joint venture . . . may be settled through . . . arbitration by an arbitral body of China or through arbitration by an arbitral body agreed upon by the parties." The Chinese have concluded joint venture agreements and other contracts that provide for arbitration in third countries. In a few instances, accepted clauses provide for arbitration in the United States.

Nonetheless, the Chinese side in contract negotiations can usually be expected to press hard for a clause requiring that arbitration, if it becomes necessary, will take place in China. Governing the proceedings would be the Foreign Economic and Trade Arbitration Commission (FETAC) of the China Council for the Promotion of International Trade (CCPIT). These Provisional Rules of Procedure, which were adopted in 1956 and remain in effect today, contain provisions that have made the prospect of arbitration in China unattractive to some foreign parties.

For example, the rules provide that hearings must be held in China (Article 19), that Chinese be the official language of the Arbitration Commission (Article 36), and that arbitrators must be selected from among the members of the FETAC (Article 4c). Still, there are other reasons that make China a less than desirable place for arbitration.

In seeking to persuade foreign parties to accept a clause calling for arbitration in China, Chinese negotiators have often pointed out, by way of reassurance, that the foreign party could be represented by the foreign legal counsel of its choice. Article 18 of the rules provides, in full, that "A disputing party may confer with the Arbitration Commission on matters relating to the proceedings either in person or *by attorney agents. Such attorneys may be* citizens of the People's Republic of China or *foreign citizens*" (emphasis added).*

Article 7 of the 1954 Decision of the Government Administrative Council of China, which gave authority for the establishment of an Arbitration Commission and the promulgation of the rules, contains language that is similar to Article 18 of the rules. It specifies that such attorneys may "*defend the interests* [of a disputing party] *during the proceedings* of a case before the Arbitration Commission" (emphasis added). The foregoing English translations of Article 18 of the rules and Article 7 of the decision were made and published by the CCPIT.

On January 1, 1982, China's Provisional Regulations on Lawyers went into effect. These regulations made clear, by implication at least, that foreigners are not qualified to practice law in China. To qualify as a lawyer an individual must be a Chinese citizen (Article 8), one of the "State's legal workers" (Article 1), who "must serve the cause of socialism and the interests of the people" (Article 3) in "litigation and nonlitigation matters" (Article 5).

The Regulations on Lawyers, read together with the Law of Civil Procedure provisionally adopted on March 8, 1982, may mean that a foreign attorney will *not* be permitted to represent a foreign party in an arbitration in China, effectively nullifying Article 18 of the Arbitration Rules. The Xinhua translation of highlights of the Law of Civil Procedure says that "Foreign Nationals, stateless persons, and foreign enterprises and organizations *must entrust their cases to lawyer agents of the People's Republic of China if they want legal representation in taking or responding to an action*" (emphasis added).

Professor Yao Zhuang, a Beijing law specialist and a Fulbright scholar at Harvard Law School, joined Professor Jerome Cohen in telling a March 11 National Council conference that, in their view, the term "an action" includes an arbitration; therefore, a foreign party must retain a Chinese lawyer if it wishes to have legal counsel for an arbitration proceeding. Moreover, a foreign attorney—notwithstanding the Arbitration Rules—might not be permitted to act on the foreign party's behalf.

Clarification of this point has been sought informally from the CCPIT. The preliminary response has been that, while the Arbitration Rules have not changed, a foreign attorney may "attend" as a "legal agent" an arbitration in China on a foreign party's behalf. Furthermore, the attorney may present evidence and arguments, and cross examine on behalf of his principal, but the attorney "may not call himself the 'lawyer' of the disputing party." It remains to be seen whether this means that the foreign party must also retain Chinese counsel.

It is not clear how a foreign party would go about identifying or retaining Chinese counsel, though it may be inferred from articles 13 and 17 of the Regulations on Lawyers that Chinese lawyers will not have private practices but, instead, will be employed by "Legal Advisory Offices," "public institutions" which, *inter alia*, accept cases and collect fees. According to Article 20, regulations on fees will be published by the Ministry of Justice. Most importantly, perhaps, it is not clear to what extent one of the "State's legal workers" can be sufficiently independent of the government apparatus to advocate fully and effectively against a Chinese party in an arbitration (or a lawsuit, for that matter).

Until this issue is clarified and foreign parties are reasonably certain their claims in an arbitration will be properly advocated, another reason has evolved for resisting arbitration in China.

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*Official translations provided by the China Council for the Promotion of International Trade.

Eugene Theroux is a partner in the Washington, DC office of Baker & McKenzie. Theroux is vice-chairman of the National Council's Legal Committee. In 1981 he gave extensive presentations to China's Foreign Investment Commission in Beijing on aspects of doing business with the United States. Theroux was the Council's first vice-president and has been involved in the China business for more than a decade.

On January 1, 1982, China's Provisional Regulations on Lawyers went into effect. These regulations made clear, my implication at least, that foreigners are not qualified to practice law in China.

Getting a Shoe in the Door

E. Sabina Brady

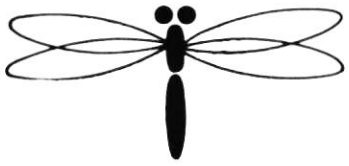
China is gaining a foothold in the American shoe market. Every spring more consumers here seem to be sporting the classic cotton gong fu shoe, an imported version of the black, single-strap sandal Chinese peasants have worn for years. China is fitting Americans with an increasing variety of footwear—work boots, plastic sandals, women's and children's vinyl shoes, and men's leather dress shoes. US imports of Chinese shoes last year totaled $41.9 million, a 75 percent increase over 1980.

The performance has been a respectable one. The potential is a different matter. The following story examines China's capacity to produce footwear for American consumers from the vantage points of nine US importers and manufacturers. Their interests and experiences vary, and their stories range from successful compensation trade deals to run-ins with exclusive arrangements. Despite their differences, however, these companies share some fundamental perceptions—both good and bad—about China's footwear industry.

On the positive side, their experiences point to the overall high quality of China's shoe exports, the increased willingness of factory managers to follow design specifications, and the country's growing—albeit slowly—understanding of American importers' needs.

Less positive is the picture drawn of China's weak supporting infrastructure that continues to handicap shoe manufacturing, marketing, and ultimately China's export potential.

蜻 蜓 牌



DRAGON-FLY

SCA: Both Feet on the Ground

Importers often voice the view that it will take China at least five years to become a versatile, reliable, high-volume footwear producer. The country lacks the necessary raw materials and components. There simply are not enough facilities or trained workers to increase production significantly. Delivery delays are a fact of life.

And yet, despite the inadequacies, China is making noticeable progress. It also is managing to meet the needs of importers who have been realistic in their demands.

SCA International, a subsidiary of SCOA Industries, is well on its way to scoring two small successes in China with its take-it-slow approach. SCA's Gary Kaye said the company decided several years ago that China has the potential to become a major footwear producer—even of quality fashion shoes. What is needed on the importer's side, he said, is a lot of hard work, flexibility (especially with regard to packaging and delivery), and a stake large enough to test China's manufacturing capabilities but "not so large as to lose one's hat."

To date, SCA has imported slightly less than $65,000 worth of nonbrand women's sandals. The quality of production samples and the finished product has been excellent, says Kaye; he describes the initial shipment of leather high-heeled sandals as "the best seen anywhere."

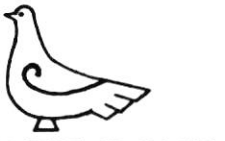
For that order, SCA was required to bring in plastic heels from England, since the Shanghai factory had neither the technical nor mechanical capacity to produce them. Kaye notes that the Chinese recognize their production deficiencies and wish to acquire the necessary machinery, technology, and raw materials. In line with that, by the time the Shanghai factory began producing its second SCA order the following season, it had secured the needed machinery and training.

The savings from that purchase were nonetheless offset, at least partially, by the need to use imported urethane for SCA's second order. This was due to China's shortage of cow leather. As part of its compensation trade agreement, SCA purchased the urethane from Taiwan and deducted the cost from the price of the footwear being produced.

Deficiencies again became evident in the areas of style and delivery time. The one type of shoe that is easily overlooked on China's supply list—the fashion or style-tied shoe—comprises an important part of the US footwear market. Chinese exports include few examples of that style, however, because production cannot keep pace with fashion.

Kaye says SCA has learned to work around China's lengthy turnaround time by ordering "spring shoes in fall colors." Such foresight paid off when the first spring delivery arrived in early autumn. The second shipment that was due here last autumn was reportedly "on the water" at press time.

白 鸽 牌



WHITE DOVE
BRAND

Tri-Union and Kinney: Straightlaced Strategy

Of course some companies can't afford to be quite that flexible. Their livelihood comes from moving large volumes of high turnover lines. And so they have turned to China for the production of classic, nonseasonal footwear such as work boots, athletic shoes, canvas and rubber shoes, and slippers.

Tri-Union Trading and Kinney Shoes have capitalized on the strategy of keeping their China imports simple. Neither is involved in compensation trade with the PRC; complications are avoided to the extent possible by sticking to straight purchasing agreements.

Tri-Union Trading, Inc., which began operations in the summer of 1980, actively imports cleated athletic shoes and sporting goods from the PRC. The company's Hong Kong agent buys its footwear solely from an INDUSTRY-controlled (China National Light Industrial Products Import and Export Corporation) factory in Beijing. Because there are no special designs or manufacturing requirements, Tri-Union does not worry about brand names, packaging, the use of imported components, or the manufacture of footwear under different buyer-specified standards. The company so far has been able to accommodate delivery delays.

Kinney Shoes entered the China market several years ago with definite purchasing plans. At the outset, the company decided to work with four or five major shoe factories throughout the country that had experience in manufacturing for the foreign market. Establishing a few long-term relations, it was reasoned, would help ensure quality and reliable delivery.

Secondly, Kinney decided to keep to the more classic or conservative footwear styles, such as the gong fu, work boots, men's moccasins, boys' dress shoes, and some women's shoes.

Where components are involved—shoe bottoms, leather, buckles, and the like—Kinney specifies the parts to be ordered. But the Chinese factory bears responsibility for obtaining the parts.

Kinney contracted a Hong Kong agent to coordinate and oversee the operation. Twice yearly company representatives accompany him to China to maintain their contacts.

Kinney's Rod Welty says the company approached China expecting long lead times, some delivery problems, and the need for patience. Indeed, delivery problems have diminished considerably since 1979, to the point where they are now "livable." The products themselves are described as "good in quality" and "very good in value."

At the moment Kinney is contemplating indirectly importing shoes from China. The company also may expand its imports into athletic footwear. If that happens, one option may be to buy the shoes landed-US, and gradually move into direct sourcing and purchasing in China two or three years down the line. That way Kinney could purchase the footwear "as if it were a domestically made item," Welty said, avoiding many import problems.

Such an arrangement would increase Kinney's purchase price. But Welty notes that the higher price could well be offset by savings in time and effort. Even so, if Kinney were to buy athletic

shoes landed-US, Welty foresees a time when the company could begin sourcing directly in China as it now does for its other lines.

Green Market and NIKE: Stepping into Production

While straight purchasing agreements tend to reduce complications and delays, this marketing approach has its drawbacks. China's footwear industry needs support in everything from machinery to material to technical know-how. By refusing to get too involved in production, a buyer limits his choices to what China offers.

A number of US companies have become involved in various aspects of footwear production in China. Chief among them is NIKE, which hopes to source a quarter of its world production of athletic shoes in the PRC. (*See The CBR*, Jan.–Feb. 1982, p. 42). The company at present has four factories in Shanghai and Tianjin, as well as plans for two more.

Green Market Services, a US distributor and wholesaler of men's shoes, purchases men's moccasins, and dress and casual shoes from Shanghai factories through compensation arrangements. Company President Robert Green says his firm supplies the factories with cow leather—which China lacks—as well as with ornaments and zippers.

Since entering China in 1973, the company has endured delivery problems and turnaround times of six months or more, which Green says is double the usual amount of time. This he attributes to China's inadequate port facilities and internal transportation system. As a result Green, and undoubtedly other importers, must carry large inventories as backup insurance.

Still, Green's longevity in the market attests to China's ability to produce quality footwear to specification. The company president says he is now having "conversations" with the Chinese regarding further types of trade and development—possibly a compensation deal involving the supply of footwear machinery in return for shoes.

Genesco and Domino Footwear: Exclusive Troubles and Triumphs

It was China's ability to produce low-cost, made-to-order shoes that sparked the interest of a Tennessee footwear manufacturer in the late 1970s. But it was a joint venture proposal from the Shanghai branch of CHINATUHSU that actually started them talking in 1978.

Genesco, a Nashville-based firm, began negotiating a technical and material assistance program whereby it would renovate and equip a Shanghai footwear factory, provide technological education on shoe production and tanning, and receive footwear in return. Under this arrangement, widely reported at the time, Genesco's return would come from the 6,000–7,000 pairs of shoes the factory was to produce daily. The first shipment was scheduled to arrive in the fall of 1979; by 1981, the products were to be marketed under the brand name Cedar Chest.

And yet, despite all the talks and visits by the Chinese to Nashville, no factory was ever renovated and no shoes were produced.

In the late stages of negotiation, the Genesco proposal ran aground in the exclusive territory of Green Market Services. Daniel Gregory of Genesco explains that the company operated "under the assumption" that the Shanghai factory would be renovated to produce men's shoes. (While Genesco does handle women's footwear, 70 percent of its production and distribution is devoted to men's.) The Chinese supposedly gave no indication they were involved in an exclusive arrangement with Green Market Services, even when the Chinese visited Genesco as part of a delegation hosted by Robert Green.

It was not until the final day of a US trip in 1979, in which the Chinese and Americans were tying up the financial ends, that the delegation informed Genesco of the Green-Shanghai exclusive for distributing men's shoes in the US. The Chinese thereupon proposed that the factory be renovated to produce women's shoes instead, with Genesco supplying a range of components that had not originally been discussed. At that negotiating impasse, the two sides parted company.

Genesco is not entirely disappointed. Gregory says that problems with a European venture have convinced the company to concentrate investments "in its own backyard." And while it is "close-minded" about a joint manufacturing agreement with the PRC, it remains "entirely open-minded about buying footwear from China." Apparently the company is willing to overlook the 14 months it took to receive its first "token order" of conservatively styled shoes from China in 1978.

Progress has been made in China's footwear industry since Genesco's deal fell through. One success story comes from Morton Grove, Illinois, headquarters of Domino Footwear, Ltd.

In November of 1980, company Chairman Sheldon Mantleman signed a one-year exclusive contract with a Shanghai factory for the production of 300,000 pairs of Goodyear Welted Work Oxfords. (The factory reportedly is the only one in China operating Goodyear Welt machinery.) In addition, Mantleman is now considering adding to that machinery through a compensation arrangement. The company, if it accepts the terms, would make a capital investment of $400,000, supply the factory with more Goodyear Welt machinery, and within a year receive shoes in payment. Mantleman believes the investment would enable the factory to double its present rate of oxford production within 12 months.

Domino is negotiating with three other factories in Shanghai and Beijing for similar exclusives. Mantleman's hope is to use China's large indigenous supply of goatskin, pigskin, and canvas in production. For the Goodyear Welted Work Oxfords, Domino is supplying the leather and discussing the supply of machinery.

Domino has experienced some of the typical problems companies have had with China, even though it has a permanent Shanghai representative who oversees and smooths out the production process. Overall, the factory is running six months behind its annual schedule, says Mantleman. Samples

that were sent to the Shanghai representative last year for forwarding to Illinois have yet to be released by Chinese customs.

Because of the type of footwear involved (oxfords haven't changed in 25 years), the delays have not hurt the shoe's marketability. And Domino is pleased with the quality. Any planned expansion, in fact, would be in comparable lines of footwear.

Mantleman feels that Chinese workmanship is excellent, with great attention paid to detail throughout the production process. But workers are not adaptable to style, he says, and cannot change their product rapidly enough to meet Western consumers' tastes. China's footwear industry is hindered by an inability to work under time constraints. Normally, Mantleman explains, if an importer needs a goatskin shoe for this fall he would order it in May or June. If this were done with China, however, the shoes would not have arrived until 1983—at which time the styles would have changed and the market would have dwindled, if not disappeared.

Mantleman originally had visions of doing much more business in China and of diversifying rapidly. Now the plans are to expand slowly, concentrating mainly on simple and classic footwear styles. The announced plan for the Shanghai factory to produce $10 million worth of shoes in three years appears overly optimistic, he admits. Import volumes will tend to be determined by China's production capacity, and not by Domino's ability to find a market.

The Export Component

One major factor that determines how much footwear China exports is its ability to step up production of the 20–30 components that make up a single shoe. The footwear component industry includes everything from manmade and natural raw materials, to the processing of those materials (tanning and molding, stitching machinery, adhesives, uppers, bottoms, insoles, and all things in between).

This poses little problem for gong fu shoes, low-cost canvas and athletic footwear, and work boots. Made of indigenous materials (goatskin, pigskin, and canvas) and using few design specifications, these can be produced in fairly large volume. For other types of footwear, however, it appears not to be so much a question of workers' skill, as it is of factory capacity and the availability of material.

In response, a number of US companies involved in the footwear component industry have turned to China as a potential market for machinery, material, and technology. In some cases, this interest has even sparked the contemplation of three-way trade arrangements with the Chinese producer, the footwear importer, and the US firm in the footwear component industry that is seeking a market abroad.

One company that has been actively pursuing China in this area is USM, a major US producer of footwear manufacturing equipment. Together with Georgia-Bonded Fibers, USM took part in the Department of Commerce exhibition in Beijing in November of 1980. There, representatives demonstrated how Georgia-Bonded's cellulose fiber was cut into insoles by USM machinery. Both companies also displayed a range of footwear-related products and equipment. In addition, USM participated in the DOC light industrial exhibitions in 1981 and 1982, and last year sent company representatives to China for a total of 100 days.

USM's efforts have paid off, with machinery orders from China dating back to 1978. William Scanlan of USM says that to avoid competition with its customers, the company never gets involved in the actual production or sale of shoes. But USM could consider countertrade arrangements involving payment in machinery or parts in exchange for technology, or more advanced equipment.

To date, the company has traveled extensively throughout China's 13 major shoe-producing provinces and regions. And Scanlan says USM has learned a number of things. First, China does not seem to be concentrating on the development of a specific segment of its footwear industry; thus there is no large-scale demand for one particular type of equipment. Second, China is producing some footwear machinery on its own, although it is not terribly sophisticated. The thrust of China's footwear machinery production is to meet domestic demand, he points out, and to increase the country's footwear production capacity.

Another US company, International Shoe Machinery Corporation, also is trying to follow up some early successes in the China trade. Edward Lynch of ISM says that between December 1979 and late 1981, China purchased two shipments of shoe-lasting machinery, consisting of 10 machines and spare parts. The sales were aided by a visit to the company by a Chinese footwear technical delegation composed of representatives from Shanghai shoe factories, as well as the Shanghai branch of CHINATUHSU.

Georgia-Bonded Fibers has taken a somewhat different approach to the China market than other US firms in the footwear component industry. Despite participation in the DOC exhibitions, the company has turned to the US to establish a place in China.

President James Kostelni explained that the company participated in the two shows to promote sales of Bontex insole materials. It soon became apparent, however, that the China market for his company's products was not extensive. Kostelni claims that China uses inadequate or outdated footwear components that are domestically made, such as wooden lasts that can shrink, distort, and limit shoe size variability. This, he feels, will change only as the production of Western-style footwear is increased for the export market, where design and production specifications are more exacting.

For the time being, Kostelni sees his most likely customers being US footwear manufacturers that are sourcing footwear abroad.

Georgia-Bonded produces the Bontex insole material that goes into every type of shoe requiring an insole. The material lends itself to automation. Kostelni claims that, in manufacturing insoles, the Chinese use bonding agents that are inferior to the copolymers used by Georgia-Bonded and other US firms. In addition, China uses scrap ingredients for its fibers and lesser grades of binder content. The result is insoles that lack dimensional stability and do not lend themselves to mechanized footwear production.

Many footwear manufacturers that source abroad—especially those producing brand name lines—specify the components to be used to help ensure consistency of quality and appearance.

Kostelni reports that a large number of footwear manufacturers require the use of Bontex insole components in their overseas production—including US Shoe, Genesco, Stride-Rite, JC Penney, Brown, and NIKE. Unless China buys the necessary machinery and technology, it will have to import from Georgia-Bonded the specified Bontex insoles in producing footwear for any of these manufacturers.

Kostelni feels that in the near future, China has little hope of producing the insoles on its own. One problem inhibiting China's production of such components is the lack of the necessary raw materials, such as latex, cellulose, and chloroprene. Labor is only a small portion of the component's total cost of production, and Kostelni believes that to be successful, production must first be self-supporting, with exports used primarily as a basis for expansion. China is not yet at this point.

There are other components that the Chinese need as well. One of them is cow leather. Little if any footwear using domestic cowhide is manufactured for export in China, as the leather is only obtained from cows that die off or are slaughtered for meat. What leather *is* used for exports comes from abroad—in an ever-increasing volume.

China in 1981 became the largest US leather export market, with sales (excluding pig leather) totaling almost $40 million, 76 percent over the year before. In contrast, US sales of pig leather to China, excluding glove and garment leather, were down more than 15 percent from the year before. Despite this drop, total leather exports to China rose to almost $68 million, a 22 percent increase over 1980.

It appears that as China's domestic and export footwear industry grows, so does its demand for cow leather and the accompanying tanning and processing technologies. China also needs technology and equipment for pretanning processes, such as the beamhouse preparation. (Italy has been involved in providing this last process.) In addition, technological assistance is being sought in the development and expansion of the plastic shoe industry, and in particular the solving of the problem of ventilation. Interest has been expressed as well in soling technology, including plastic-injection molding for unit soling and the mixing of leather and synthetic soling.

The growth in demand for leather materials and processing technologies and equipment will be aided by the lowered Chinese duty rates on imported leather, which took effect January 1, 1982. In a move to encourage light industrial development, China revised import tariffs on nearly 150 items. While it increased duties on machinery already being manufactured domestically (motor-powered sewing machines and accessories), tariffs were decreased across the board on light industrial items or components, including leather. The new minimum average leather tariff levels, with last year's levels in parentheses, are:

Raw cattle and buffalo	15–20%	(20– 25%)
Raw cowhide	35–45%	(70–100%)
Patent leather	40–60%	(70–100%)
Unlisted leather	40–60%	(70–100%)
Raw horse, mule, donkey	20–25%	(60– 80%)
Vamp leather	35–45%	(70–100%)

Trade statistics reveal that sales to China of other raw materials used in footwear production also have grown considerably. One example is that of synthetic rubber and resins. Between 1980 and 1981, sales increased by over $44 million, to $170 million.

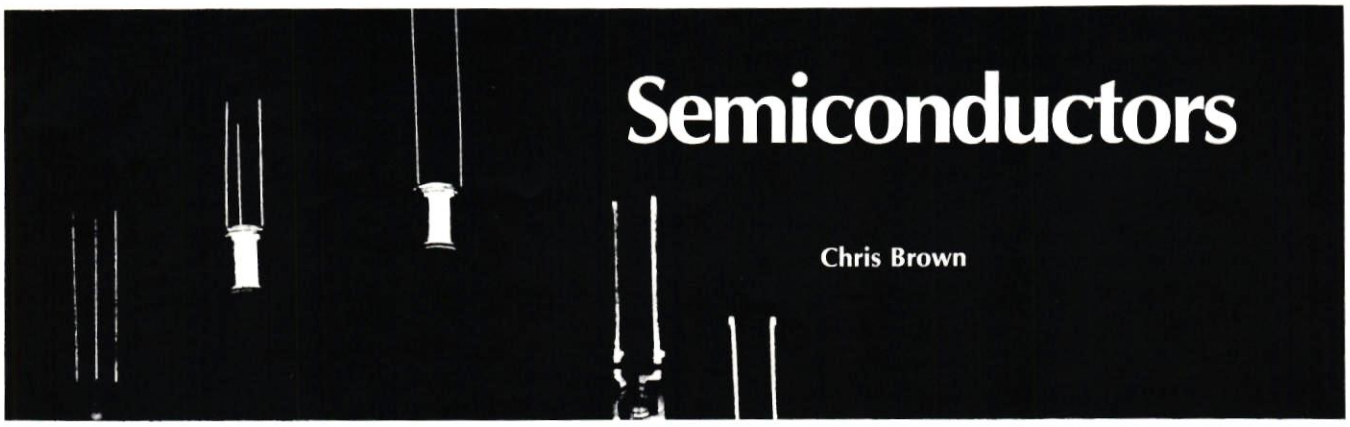
Since the late 1970s, there has been much growth and progress in China's footwear industry. At present, there are approximately 1,100 footwear factories under the Ministry of Light Industry and its bureaus. (And this does not include those owned by collectives, communes, towns, and street committees.) These factories produce around 170 million pairs of shoes annually, 10 percent of which is for export.

Still, problems of an inadequate infrastructure, underdeveloped footwear component industry, and transportation and delivery delays continue to plague US importers and manufacturers. How quickly they can be remedied is tied, in many ways, to the degree of foreign involvement. As China moves to expand its footwear production for both domestic consumption and export, opportunities will increase for creative trade arrangements, as well as for straight purchase and sales agreements. Those in the forefront of this development will include US footwear manufacturers willing to exchange technology, raw materials, and components for shoes; companies in footwear-related industries ready to negotiate creative trade arrangements to provide China with machinery, materials, and technology; and purchasers of footwear who can develop and source those footwear lines that China is able to produce in volume and deliver on time.

Photo by New China Pictures Co., Beijing

Workers at the Shanghai Leather Shoes factory assemble a line of pumps.

Sabina Brady joined the Council in February 1981 and is currently associate of the Importer Services Department. She recently returned from China where she covered the Spring Guangzhou Trade Fair and traveled to Beijing and Liaoning Province.



Semiconductors

Chris Brown

Production may be hampered by a mountain of problems, from export controls to deficiencies in the industrial base. But China is facing the challenge to advance into the age of microelectronics.

The semiconductor chip—a thin slice of crystal silicon in which are embedded minute circuits, sometimes thousands to a centimeter—is the essential ingredient of virtually all modern electronic products. Central to the production of everything from electronic wristwatches to cruise missles, it is the brick and mortar of industrial modernization in consumer goods, telecommunications, industrial process control, computers, and defense.

China, realizing the key position of this technology in its modernization plans, is set on building its own semiconductor manufacturing base to reduce imports and eventually compete in export markets.

Since 1969, when the first semiconductor device was manufactured in China, there has been great progress—despite the lack of modern Western equipment and trained personnel. Still, the industry in China has yet to cross the threshold of large-scale, modern production and must face a number of formidable challenges before it can take that step.

Very rough estimates by US industry observers put China's semiconductor production volume at between 15 and 20 million circuits per year. At present, relatively sophisticated semiconductor products such as large-scale integrated circuits (LSI) and microprocessors are manufactured only in prototype or pilot stage production. Microcircuitry of mid-1970s US vintage is produced in commercial quantities, but not in sufficient volume to satisfy China's burgeoning electronics industry.

China's consumer electronics industry is growing at an astounding rate. Television production, for instance, reached more than 4.8 million units in 1981, a 93 percent increase over the previous year. Much of this increase, as well as the growth in production of electronic watches and other electronic consumer goods, was made possible only by the decision to import semiconductors and other components in large quantities from Hong Kong and Japan for assembly into complete products in China. Japan alone exported more than $250 million worth of semiconductor products to China in 1981.

In an effort to substitute its own production for these imports, China is modernizing its existing facilities and building new lines to go with electronics assembly plants.

The Shadow of Export Controls

Most of China's semiconductor manufacturing equipment consists of homemade prototypes of old US and Japanese models along with obsolete East European equipment. To upgrade this equipment, the Chinese are looking primarily to the US to obtain American know-how and avoid relying upon Japanese equipment for all of the nation's electronic needs. Semiconductors and equipment for their manufacture, however, are two of the most sensitive categories of goods under COCOM export controls.

US export controls are particularly tight. Amendments to advisory notes to the commodity control list, issued at the end of last year to provide liberalized guidelines for exports to China, carried only one addition concerning semiconductor manufacturing equipment. That note specifies that licenses are likely to be granted for exports to satisfactory endusers of conventional optical equipment for mask fabrication and processing, provided that it was introduced into the industry prior to 1977. That this modest relaxation was granted for equipment in only one stage of semiconductor manufacture reflects how closely this technology is guarded as the "family jewels" of the US electronics industry.

Learning the Basics

Beyond this impediment, China is limited in the modern foreign equipment it can absorb by its own industrial base. Not only is there a shortage of technical experts owing to the ravages of the Cultural Revolution, but Chinese management techniques, which are geared to employ as many workers as possible, are also ill-suited to the sophisticated semiconductor industry. As Mel Eklund, president of Integrated Circuit Engineering Corporation (ICEC) put it, "They are in a paradoxical situation—they have all that labor, yet they need automation in order to compete." The need for quality control poses additional problems in a management system unaccustomed to exacting standards.

A competitive semiconductor plant also requires a reliable and inexpensive supply of electrical energy and chemicals. China, characterized by the World Bank as the least efficient energy user

Concentration: Rows of workers keep their eyes glued to the task at a Beijing radio equipment factory.

in the world, and prone to problems of infrastructural bottlenecks and raw material shortages, must take extraordinary measures to guarantee that its imported facilities are adequately supplied.

In addition, it is essential that chemicals used in the process (including deionized water, a variety of acids, polymeric materials, and doping materials) must be extremely pure, a particular weak point in China's support industries. Indicative of the problems in management and industrial base is the wide gap between semiconductor manufacturing at the research stage and at the commercial stage. At universities and research institutes, Chinese engineers have designed such sophisticated equipment as CAD (computer-aided design) systems, ion implantation equipment, photorepeaters, and electron beam exposure systems. Certain vanguard factories produce Intel 8080 microprocessors, and LSIs in the five and six micron range.

On the commercial level, however, factories generally use manual processes to print circuits in the 10 to 15 micron range on 1-inch or 1½-inch wafers. The yield per wafer is about 10 to 15 percent, and quality control is lacking. Modern clean-room facilities and testing equipment are desperately needed in Chinese factories.

Industry Organization

On a broader scale, the embryonic semiconductor industry in China must grapple with the problem of industry organization. A concentration of resources, in technology, personnel, and materials, is necessary for the efficient production of microcircuits; it is not an activity that lends itself well to a cottage industry. Yet, in the present stage of development, there is neither the strong central authority nor the discipline of a free market to limit semiconductor manufacturing to a few efficient facilities. US industry observers estimate that there are less than a dozen major factories operating according to mid-1970 US standards, while hundreds of local shops produce semiconductors at great expense and minimum efficiency.

On the national level, the Fourth Ministry of Machine Building (Fourth MMB) has nominal authority over semiconductor production. However, other ministries have the authority to produce semiconductors for use in their own industries. Most are loath to let the Fourth MMB develop products for them and control future supplies. Though this sometimes fosters healthy competition in the industry, it gives rise to a situation where scattered, underutilized facilities struggle to produce identical products.

A somewhat promising phenomenon on this front is the emergence in China of the joint company. An example is the China Nanjing Radio Company, an integrated complex composed of 37 factories affiliated with the Fourth MMB, Nanjing Electric Instrument and Meter Bureau, provincial authorities, and a number of municipalities and collectives. Established in July 1980, the joint company coordinates the operation of research institutes and factories to produce a wide variety of electronics products and components. Although true cooperation among separate factories and decision-making levels still leaves much to be desired, the complex has succeeded in allowing eight semiconductor transistor factories, which had individually ordered monocrystalline materials in quantities as small as a few dozen kilos a year, to make joint purchases at lower cost and quicker delivery.

Circuits for TVs. The most dramatic development in China's emerging semiconductor industry is the Fourth MMB's effort to construct modern plants to produce semiconductor components for color TVs. The first such plant in Wuxi, Jiangsu, will include a wafer fabricating line using all US equipment. Industry observers have closely followed this ambitious project through its planning and negotiation stages, and through the export control process, to assess what the US is willing to sell and what the Chinese can accomplish with modern equipment.

After three years of negotiations and licensing hassles, the project now looks as though it will go through. Fifty contracts have been signed with 42 companies, and all but four of the contracts have been licensed by the Commerce Department and approved by COCOM. Already, 80 percent of the purchased

equipment has been delivered to the Chinese facility with installation scheduled for mid-summer. The total value of the equipment contracts is about $8.2 million, of which contracts not yet licensed account for $2 million, according to Richard Wolfe, president of the project's sole procurement agent, Exclusitrade, Inc. of Santa Clara, California.

The contracts still snagged in US export controls are: a sputtering system (for diffusion of diodes into the silicon wafer) from Varien Associates of Palo Alto; a plasma etching machine from Tegal, of Novato, California; a 158 C Mark IV electronic measuring system from ITP; GDS-1 CAD/CAM system from Calma; and a license for export of a mask inspection system from KLA Corp. License applications for all of these were submitted to the Commerce Department in July 1980. The KLA application has only recently been submitted and the Calma system is still under discussion between Exclusitrade and the government. The other three were rejected last November, but the decisions are now being appealed. Until the appeals are resolved, there is still the possibility that China will go to Japan to fill in the gaps.

When the facility reaches full capacity, it is scheduled to produce wafers for 24 million linear integrated circuits per year. The ICs will have a line width capacity of about 8 microns. They will be assembled and packaged at a facility being built in Wuxi by Toshiba, and will eventually go into color TVs manufactured at a plant built by Hitachi in China (*see The CBR*, Jan.–Feb. 1982, p. 26).

Major suppliers of US equipment for the wafer fabrication line include: Kayex-Hamco, of Rochester, New York, a subsidiary of General Signal, which sold one crystal puller; Xynetics-Electroglas of Santa Clara, California, another General Signal subsidiary, which sold plotters and wafer probers; GCA of Bedford, Massachusetts, which supplied a model 3000 pattern generator and a 3595 photorepeater; Applied Materials of Santa Clara, which supplied mask aligners; the LA firm of Thermco, which sold diffusion furnaces; CVC of Rochester, which provided sputtering equipment; Pacific Western Systems of Mountain View, California, which sold a vapor deposition system; and Airco-Temascal of Berkeley, which supplied evaporation equipment.

License applications for equipment exports to Wuxi began in 1980 when Exclusitrade submitted applications individually for each piece of equipment. After problems arose in the process, Dana Robinson, then vice-president of Exclusitrade, submitted the applications as an entire package in 1981. A precedent-setting concession made by the Chinese in this case was an agreement to allow Kayex-Hamco to inspect crystal pullers at the plant every six months, and to monitor the facilities' records in order to verify to the US government that silicon material is being used for its stated purpose, and is not being diverted to other industries.

As equipment was being shipped to Wuxi in April, the China Electronic Import and Export Corporation

Cahners Expo Electrifying Success

If the recent Electronics Production/Semiconductor exhibition put on by the Cahners Exposition Group (CEG) is any indication, this may be the year that China gets serious about semiconductors. Off-the-floor sales at the April 15–24 exhibition in Beijing totaled $3.6 million, with indirect sales resulting from the show projected to reach $30 million this year, according to Cahners General Manager Steve Sind. Sind reported that fully 40 percent of the audience was comprised of representatives from provinces, municipalities, and factories. On the basis of exhibitors' response, he said, CEG is planning a similar exhibition for 1984.

There were few problems with licensing at the exhibition, since most of the products exhibited were relatively low-technology "G Desk" items. Problems did arise, according to some exhibitors, from jurisdictional disputes between the China Council for the Promotion of International Trade (CCPIT) and the China Electronics Import and Export Corporation (CEIEC).

(CEIEC) signed another exclusive agreement with a US company to act as procurement and project coordinator for a Fourth MMB semiconductor plant in Beijing. That agreement was signed with the New York-based Bear Stearns Trade Advisors for a production line to be installed at the Beijing Electron Tube Factory. The equipment to be added will cost between $5 million and $10 million, according to Bear Stearns' George Koo. When completed, the line is expected to produce 20 million UHF double-gate field-effect transistors (FETs), 30 million power transistors, 60 million small signal transistors, and 15 million linear mid-frequency range amplifier integrated circuits per year. The components will be used in color TVs produced under assembly arrangements with Japanese companies.

As in the Wuxi deal, the US agent will submit license applications in a package; it has already received approval from the Fourth MMB to allow inspection of the facilities by US embassy staff, private companies, or a designated third party, to determine the end use of the semiconductors after the line goes on stream. Bear Stearns expects orders to begin by the third quarter of this year, with the whole line to be delivered in 1983.

The same trading company has also acted as agent in equipment sales to a plant under the Ministry of Metallurgical Industries (MMI) that manufactures monocrystalline silicon wafers for the electronics industry. The MMI plant in Luoyang, Henan, has been making wafers since the late 1960s and is setting up a pilot facility to evaluate modern technology and equipment. Although MMI is responsible for producing poly- and monocrystalline silicon in China, the Luoyang plant is one of only three or four silicon factories under the ministry. Endusers are reportedly buying from other sources and manufacturing their own silicon for reasons of self-reliance and quality.

The Luoyang factory has already purchased more than $1 million worth of US equipment, including a crystal pulling furnace and polisher from Siltec of Menlo Park, California; silicon ingot saws from Silicon Technology (STC); noncontact measuring equipment from ADE Corp. of Newton, Massachusetts; and clean-room equipment and materials from Flourocarbon, Branson, Semitool, and Silicon Valley Group (SVG).

Electronic watch projects. The Ministry of Light Industry (MLI) has begun to import US equipment in a move to develop its production of complementary metal oxide silicon (CMOS) chips for use in electronic wristwatches. Electroglas recently sold probers to four plants in Beijing, Shanghai, Tianjin, and Xi'an. Accutest of Boston sold testing equipment to the same four factories. The factories are now testing, dicing, and assembling chips bought from Hong Kong, and are planning to expand into fabrication of their own wafers in the near future. MLI has already begun to discuss the purchase of CAD systems from Computervision.

MLI is also investing in a Hong Kong factory that will produce CMOS chips. That project, to be constructed by the Hua Ko Co., will be one of only three plants in the British colony to produce semiconductors. At present, the project is being held up by US export controls. A license for equipment ordered from Varian Associates has been denied by the US Department of Commerce, reportedly because of concern over possible reexport to China. The other two Hong Kong semiconductor plants owned by RCL Semiconductors, Ltd. and Elcap Electronics, Ltd., are also widely rumored to involve Chinese investment.

Instruments. The organization most involved in making semiconductors for instruments is the General Bureau of Instrumentation, formerly part of the First MMB. The bureau runs more than 10 semiconductor factories including major facilities in Dalian, Shenyang, and Xiangtan, Hubei Province. The GBI has imported some equipment, and sent a delegation to Semicon West, a semiconductor equipment exhibition held in California in May, to seek more equipment.

Defense industry. The Seventh MMB, with responsibility for strategic weapons manufacturing, makes semiconductors for its own use and is reported to have exported a small amount. The ministry's major plant in Xi'an is reportedly preparing to produce the 8080 microprocessor for export.

Telecommunications. As China modernizes its telecommunications with sophisticated microwave switching systems, it will increasingly need semiconductor microprocessors. Although the Ministry of Posts and Telecommunications (MPT) is not now producing semiconductors, a shopping list recently released by the ministry for CHINACOM '82, an exhibition to be conducted by Clapp and Poliak in October, with the endorsement of the National Council for US–China Trade and the US government, includes components, technology, and manufacturing equipment to produce integrated circuits. Potential US suppliers of these products are pressing the US Commerce Department and Defense Department for assurances that this equipment can be licensed for export.

Until the MPT formulates large-scale plans for microwave switching systems, however, China's semiconductor purchases in telecommunications will continue to be limited to small, isolated sales to provincial authorities.

Computers. The Chinese computer industry, similarly, has not developed sufficient demand for microprocessors to justify large-scale production. In the near future, only components are expected to be imported for assembly into computers in China.

Assembly Arrangements

There is no question that China needs semiconductor manufacturing equipment to be self-sufficient, and that equipment must be imported. This need is fully recognized by the State Council, which has been willing to allocate hard currency to finance purchases. Hence, imports of US equipment are likely to continue in the consumer electronics industry with an emphasis on modernizing existing facilities and on import substitution in assembly arrangements. There is also a market for used equipment and plants.

In addition, the Chinese have publicized their interest in joint ventures and other cooperation arrangements in semiconductor manufacturing. According to the recently published list of UNIDO foreign investment projects, China is interested in finding joint venture partners for five semiconductor projects with a total proposed capital investment of more than $90 million. Most of these are for expanding and renovating existing facilities. Foreign companies are not expected to rush into negotiations, however, until China is willing to guarantee that some of the output can be sold domestically. After all, getting into the semiconductor market is of paramount concern to US manufacturers, even if the entering wedge is only a tiny slice of silicon.

GENERAL

China Official Annual Report, 1981–82, English Edition. Hong Kong: Kingsway International Publications, 1981. Distributed in the US by Marquis Who's Who, Inc. 820 pp. $80. This English translation of the official Chinese yearbook surveys major events and all facets of China's society and economy in 1980. The indexed volume contains many maps, charts, and tables, and is illustrated with color, and black and white photographs.

China Among the Nations of the Pacific, edited by Harrison Brown. Boulder, CO: Westview Press, 1982. 135 pp. $15 hardcover, $8.50 paperback. The volume contains eight papers presented at a symposium held in May 1980 as part of the twentieth anniversary celebration of the East–West Center in Honolulu. The papers are "The Chinese Economy in the 1980s," by Dwight H. Perkins; "China's New Social Fabric: Views of Inside from Outside," by Godwin C. Chu and Francis L.K. Hsu; "The Great Triangle: China, the USSR, and Japan," by Helen S. Whiting; "China's Food Prospects and Import Needs," by A. Doak Barnett; "China's Population in Perspective," by Chi-hsien Tuan; "China's Role in the Energy Development of Asia and the Pacific: The Next Twenty Years," by Kim Woodard; "China's Maritime Jurisdictions: The Future of Offshore Oil and Fishing," by Choonho Park; and "Southeast Asia Looks at China," by Guy J. Pauker. A foreword by J. William Fulbright and an index are included.

ECONOMY

China Provincial Economic Briefing Series, prepared by the Consulting Group, BA Asia, Ltd. Hong Kong: BA Asia, Ltd., 1981–. In 5 volumes, $975. *Volume 1: The Northeast,* published August, 1981. 262 pp. The Provincial Economic Briefing Series is a set of 5 volumes covering China's geographic areas. Volume 1 and *Volume 2: North China* have been published to date; Volume 3, which covers Beijing, Shanghai, and Tianjin, will be published shortly. The looseleaf format provides for future updates, which will be available to purchasers for an additional fee after the full set has been published.

Volume 1: The Northeast contains a regional introduction and sections on Liaoning (73 pp.), Heilongjiang (78 pp.), and Jilin (57 pp.) provinces. Each section contains an introductory fact sheet and an executive summary, followed by details on geography, economy, agriculture, industry, and foreign trade. Statistics generally are through 1979. A glossary and a bibliography are included.

Chinese Industrial Society After Mao, by Rosalie L. Tung. Lexington, MA: D.C. Heath & Co., 1982. 357 pp. $27.95. The book focuses on the management and the structure of China's industrial organizations, and is essential reading for firms considering investment in China. Seven case studies of Chinese industrial organizations, based on the author's visits in mid-1980, are included. Analyses of the industrial society cover the role of ideology; economic plans and reforms; the political, legal, and educational systems; and foreign trade. Appendices contain texts of 11 Chinese laws. A bibliography and index are provided.

AGRICULTURE

China Report: Agriculture, no. 192, JPRS 80270, which contains selections from *Zhongguo Nongye Nianjin 1980 (China Agricultural Yearbook 1980),* compiled by the China Agriculture Yearbook Editorial Board and edited by Chang Zizhong and Luo Hanxian. Distributed by the National Technical Information Service. 219 pp. $4.50. Portions of the *China Agricultural Yearbook, 1980* translated by the Joint Publications Research Service include the table of contents and many of the book's statistical tables. The tables contain statistics on the general agricultural situation, and 1979 national and provincial data on acreage sown, crop yields, and animal husbandry. The report is an outstanding handbook on Chinese

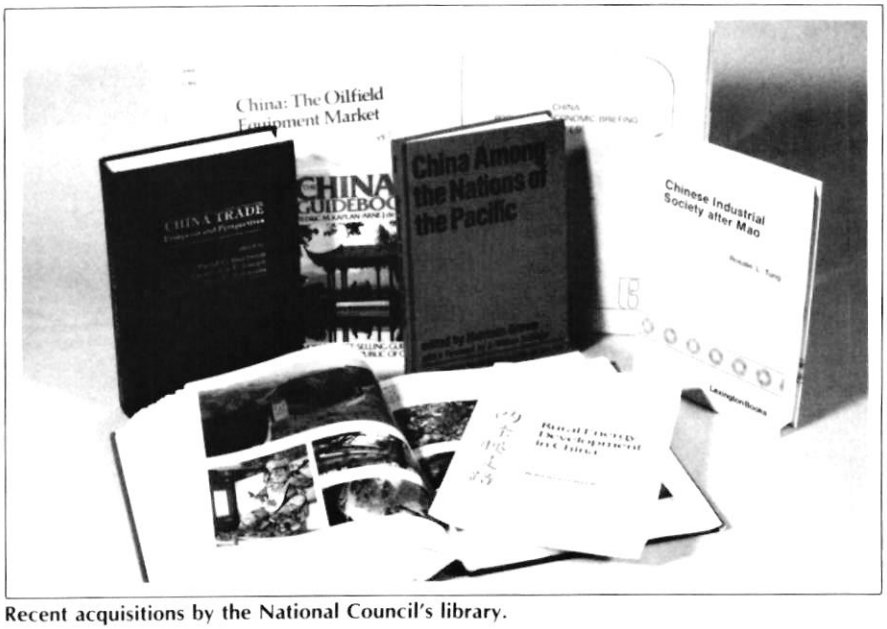


Photo by John Isaacs

Recent acquisitions by the National Council's library.

agricultural production since it contains much information not available elsewhere.

ENERGY

China: The Oilfield Equipment Market, by Andrew Gordon. New York: Platt's Oilgram News, McGraw-Hill Publications, 1981. 230 pp. $177 in US, $197 elsewhere. The market study reviews Chinese petroleum developments through the third quarter of 1980 and surveys China's capabilities and needs in oilfield equipment. Comprehensive lists of China's purchases of foreign technology and equipment are included. Interviews with three trading company representatives discuss strategies used in approaching this market. The author is optimistic about the trade outlook for oilfield equipment and sees technology licensing as a promising area. The types of equipment most likely to be in demand from Western sources are indicated. Appendices list firms that exhibited oilfield equipment in the US National Exhibition in Beijing, England's export control list, a number of American trading companies in China, and China's income tax laws on joint ventures and on individuals.

Rural Energy Development in China, by Robert P. Taylor. Washington, DC: Resources for the Future, 1981. 274 pp. $10.50. This well-documented study of rural energy development addresses the Chinese experience and its lessons for the developing world. Discussions and analyses concern the rural energy economy before 1949, the current situation, and the decentralization of rural energy development. Details of the Chinese forestry, small coal mine, small hydro and biogas programs are presented. The conclusion points out areas in which other developing countries may learn from China.

TRADE

China Trade: Prospects and Perspectives, edited by David C. Buxbaum, Cassondra E. Joseph, and Paul D. Reynolds. New York, Praeger, 1982. 424 pp. $38.75. The volume provides an excellent picture of China's foreign trade up to early 1980. The contributed papers include background information for traders, developments in several trade sectors, competing countries' activities, case studies, and practical advice. Though the papers are well written and well documented, many changes in both US and Chinese foreign trade policy during the past two years have outdated much of the information presented. The preface, written in October 1981, highlights only some of these changes.

TRAVEL

The China Guidebook, 1982–83 edition, by Fredric M. Kaplan and Arne J. deKeijzer. Boston: Houghton Mifflin; New York: Eurasia Press, 1982. Distributed by Houghton Mifflin. 527 pp. $12.95. The new edition of this excellent guidebook extends its coverage to 80 major cities and locales in China and adds street maps for 20 cities. The range of options available for group and individual travel to China are outlined and procedures described. For travelers with special interests, *The China Guidebook* offers sections on business, education, health care, art, archaeology, religion, and cuisine. A bilingual chapter advises travelers visiting relatives in China. *The China Guidebook* is recommended for all travelers to the PRC.

Jennifer Little
Assistant Librarian

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

National Council members may contact the library (202-828-8376) to obtain a copy of news sources and other available background information concerning the business arrangements appearing below. Moreover, member firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in *The CBR* by sending the information to the attention of Jennifer Little.

中外贸易

EXPORTS TO CHINA: SALES AND NEGOTIATIONS THROUGH APRIL 15

Company/Country	Product/Value/Date
Agricultural Commodities	
Seaboard Lumber Ltd. (Canada)	16–17 million board feet of lumber over the past one and one-half years. NVG. Reported 1/82.
Ross Breeders Ltd. (UK)	6,500 breeding chickens. $65,000 (£35,000). Reported 2/82.
(US)	353 hogs. NVG. Reported 2/1/82.
(Canada)	Ontario flue-cured tobacco. $6.1 million (C$7.4 million). Reported 2/11/82.
(Spain)	10,500 tons of soybean oil. NVG. Contract reported 2/12/82.
(Pakistan)	600,000 bales of cotton. NVG. Reported 3/10/82.
(US)	61,200 mt of soybeans. NVG. Reported 3/15/82.
(Australia)	1 million mt of wheat for shipment during July–December 1982. NVG. Reported 3/26/82.
(Thailand)	5,000 tons of glutenous rice; 20,000 tons of green peas; 10,000 tons of 25 percent white rice; and 50,000 tons of raw sugar. NVG. Reported 3/28/82.
Agricultural Technology	
US Wheat Associates	Equipment, training, and technological input for a model instant pasta plant in Shanghai. NVG. Contract reported 2/6/82.
Chemical Plants and Equipment	
Toyo Engineering Corp. and Marubeni (Japan)	Will provide polystyrene technology and some equipment for a new 5,000-tons-per-year plant in the Lanzhou petrochemical complex. NVG. Reported 3/18/82.
Niigata Engineering Co. and Marubeni Corp. (Japan)	Contract for a 10,000-tons-per-year acrylonitrile butadiene styrene (ABS) resin plant to be constructed at the Lanzhou petrochemical complex, Gansu Province. $16.3 million (¥4 billion). Announced 3/23/82.
Coal	
New Energy Development Organization (Japan)	Agreement with China's General Corp. for the Exploration of Coal Resources for the cooperative exploration and development of the Liuzhuang mining area, . Anhui Province. NVG. Agreement signed 2/18/82.
Occidental Petroleum Corp. (US)	Agreement with the Ministry of Coal to jointly study the feasibility of developing the Pingshuo open-cut coal mine in Shanxi Province to produce 15 million tons per year. NVG. Signed 3/25/82.
Construction Materials and Planning	
New World Development Co. (Hong Kong)	Is negotiating for the construction of a resort city in Xiaomeisha, Shenzhen Special Economic Zone. $257 million (HK$1.5 billion). Reported 2/10/82.

NVG = No value given

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

Club Méditerranée (France)	Is negotiating for the construction of a resort east of Shenzhen City in Dameisha. $20 million. Reported 2/10/82.
Chung To Co. (Hong Kong)	Has signed an agreement in principle to construct a holiday resort in Shenzhen. $14.6 million (HK$85 million). Reported 2/10/82.
Tin Wah Co. (Hong Kong)	Is negotiating for the construction of a tourism project in the Lien Tong area of Shenzhen. $14.6 million (HK$85 million). Reported 2/10/82.
Pak Lee Co. (Hong Kong)	Has signed an agreement in principle to construct a 200-room hotel in Wenkong, Shenzhen. $5.1 million (HK$30 million). Reported 2/10/82.
Ambro-Asia Development Ltd. (Italy)	Has agreed in principle with the Guangdong Construction and Building Material Bureau to build a ceramic tile plant in Guangzhou. $4 million. Reported 2/19/82.

Consumer Goods

Mogul Tobacco Co. Ltd. (Pakistan)	3 million cigarettes. NVG. Reported 3/82.

Electronics

Patrick Computer Systems, Inc. (Canada)	1,000 E-Z 80 educational microcomputers. NVG. Reported 12/10/81.
United Nations	Donation of 21 computers for China's census. NVG. Reported 1/15/82.
University of Wisconsin (US)	A weather computer for the Institute of Atmospheric Physics in Beijing (awaiting COCOM approval). NVG. Reported 2/5/82.
Cable & Wireless Systems Ltd. (Hong Kong)	Six store-and-forward message switches for the Bank of China and the Civil Aviation Authority of China. NVG. Reported 2/8/82.
Core Laboratories (US)	Will provide petroleum engineering computer software and will train representatives of the Scientific Research Institute of Beijing. NVG. Reported 2/28/82.
Cetec Gauss (US)	High-speed audio cassette duplicating systems for the China Broadcasting Co. and Guiyang No. 4 Radio Manufacturing Plant in Guizhou. NVG. Reported 3/6/82.

Food Processing and Packaging

Heineken N.V. (Netherlands)	Is negotiating to expand China's beer-brewing capacity. NVG. Reported 4/8/82.

Machinery

Mitsubishi Heavy Industries Ltd. (Japan)	A 20,000-kw gas turbine to drive a compressor to be installed in an ammonia plant in Anqing, Anhui. $1.3 million (¥300 million). Reported 2/13/82.
Arakawa Chemical Industrial Ltd. and Sangyo Booki (Japan)	Equipment installed for the manufacture of potash soap at the Wuzhou Rosin Plant, Guangxi. NVG. Reported 3/15/82.

Military Equipment

British Defense Sales Org. (UK)	Is negotiating the supply of radars, missiles, and weapon-control equipment for installation aboard China's Luta-class destroyers. NVG. Reported 1/82.

Petroleum and Natural Gas

(Kuwait)	China is negotiating a refinery project in Nanjing, while Kuwait is to provide equipment and ensure crude supplies. NVG. Reported 2/82.
Ingalls Shipbuilding (US)	Preliminary agreement to jointly manufacture with the China Corp. of Shipbuilding Industry two L-780 model 2 jackup offshore drilling rigs. NVG. Memorandum signed 2/10/82.
Nippon Steel Corp. (Japan)	Will offer technical assistance to the Ministry of Petroleum in making parts of offshore drilling units. NVG. Agreement announced 3/2/82.

Power

International Engineering Co. Inc. (subsidiary of Morrison-Knudsen Co. Inc.) (US)	Will provide consulting engineering services for the Shuikou hydroelectric project located on the Min River, Fujian, which the World Bank is considering financing. NVG. Contract announced 3/22/82.

Scientific Instruments

Department of Energy, Los Alamos National Laboratory (US)	Cancer therapy instrument. NVG. Reported 2/82.
Molytek Inc. (US)	Three strip-chart recorders. $12,000. Reported 3/7/82.
Jarrell-Ash (division of Fisher Scientific Co.) (US)	A plasma spectometer. $104,000. Reported 3/7/82.

Shipping

Nihon Hoso Unyu Co. Ltd. (Japan)	Has teamed with China Ocean Shipping Agency to provide intermodal container forwarding service between Japan and China. NVG. Reported 3/2/82.

Steel and Steel Products

Companhia Vale do Rio Doce (Brazil)	China has agreed to buy steel and is negotiating for high-grade iron ore from Brazil in exchange for Chinese coal. NVG. Reported 3/16/82.
(Japan)	1,167,000 tons of steel committed for 1982. NVG. Reported 3/30/82.

Telecommunications

Sumitomo Corp. (Japan) and Cable & Wireless (Hong Kong)	A 2,700-channel microwave communications system to link Hong Kong and Guangzhou. $2.4 million (HK$14 million). Reported 12/30/81.
JPD Entertainment Inc. (US)	Will recommend programming for China Central Television. NVG. Reported 2/8/82.
Anaconda-Ericssen Information Systems (US)	Has installed an ASB 102 telephone system in the Permanent Mission of the PRC to the United Nations. NVG. Reported 2/22/82.
Land Resources Management (US)	A ground terminal for the NASA Landsat earth resources satellite. $9–$10 million. Reported 3/8/82.
ABC News (US)	Is acquainting three technicians from Beijing's China Central Television with ABC's television operations. NVG. Reported 3/11/82.
Extel Corp. (US)	500 teleprinters, model EE 365P for use in the Ministry of Posts and Telecommunications telex network. NVG. Reported 4/2/82.

Textile Plants and Equipment

International Wool Secretariat	Will open a branch in China and provide it with technical equipment to help develop the woolen textile industry. NVG. Reported 2/15/82.
Kammgarnspinnerei Kaiserslautern (W. Germany)	Production equipment and specifications from a bankrupt worsted spinning mill. NVG. Reported 2/16/82.

Toko Bussan Co. (Japan)	Three polyester yarn spinning plants for Shanghai and Tianjin. $14.9 million (¥3.5 billion). Announced 3/12/82.
Transportation	
Citroen (France)	150 "CX Pallas" diesel engines to equip the cars in the Dong Fang Hotel's car pool in Guangzhou. $1.16 million (Fr 7 million). Reported 1/3/82.
Japan International Cooperation Agency (Japan)	Will extend cooperation to China to help improve three of its railways. NVG. Reported 1/12/82.
Imperial International Forwarding Co. (US)	Has signed an agency agreement with PENAVICO to provide door-to-door service from the US to any destination in China. This includes shipments of general commodities, household goods, and personal effects. NVG. Reported 3/15/82.
Miscellaneous	
Port of Seattle (US)	A gift of an Alaskan Indian totem pole to the Port of Shanghai. NVG. Reported 2/11/82.
(Japan)	Has established the Japan-China Industrial Technical Exchange Association comprised of more than 20 small and medium Japanese enterprises. NVG. Reported 3/8/82.
Terry Corley and Marty Fink (US)	Have signed a contract with China Film Coproduction Corp. to film "The Lady and the Panda." $7 million. Contract reported 3/16/82.
(France)	Has agreed to exchange film exhibitions. NVG. Agreement announced 3/23/82.
Air Couriers International Inc. (US)	Has begun a document delivery service to Beijing and Shanghai for nondutiable items. NVG. Announced 3/24/82.

中外贸易 CHINA'S EXPORTS: SALES AND NEGOTIATIONS THROUGH APRIL 15

Company/Country	Product/Value/Date
Agricultural Products and Equipment	
(Colombia)	Technical assistance in bamboo planting and weaving. NVG. Reported 2/3/82.
(Comoros)	20,000 tons of rice. NVG. Reported 2/15/82.
(Sierra Leone)	A sugar refinery and sugarcane farm. NVG. Reported 3/10/82.
Construction	
(Jordan)	Construction by the China National Aerotechnology Import and Export Corp. of 462 homes located in Maan. $9.7 million (JD 3.2 million). Contracts reported 1/29/82.
Chronicle Consultants (Hong Kong)	Has placed 350 Guangdong workers in Iraq, 150 in Libya, and hopes to send 3,500 to North Yemen to work for foreign companies. NVG. Reported 2/19/82.
(Burma)	The Shanghai Light Industrial Bureau will build a monosodium glutamate plant which will produce 600 tons per year. NVG. Contract reported 3/82.
(Benin)	Technical aid in construction of a stadium located near Cotonou City. NVG. Reported 3/3/82.
(Iraq)	China's Complete Plant Export Corp. will send 164 engineers and technical workers to the Mosul Textile General Corp. to provide labor and technical services. NVG. Reported 3/15/82.
(Nigeria)	Construction of a railway between Oturkpo and Ayangba by the Chinese Civil Engineering Construction Corp. NVG. Reported 3/15/82.
(Liberia)	Chinese assistance in the building of a national sports complex. NVG. Reported 4/6/82.
Electronics	
Japan Computer Engineering	Will import JCE-designed computer programs from the China Desk Computer & Calculation Corp. after the Chinese have done the final coding, debugging, and testing. NVG. Reported 2/22/82.
Machinery	
(Pakistan)	560 diesel engines manufactured at the Hunan Motor Plant and the Xiangtan Diesel Engine Plant. $150,000. Reported 10/12/81.
Metal Mining and Processing	
Standco Industries Inc. (US)	Tungsten powders and asbestos. NVG. Reported 2/8/82.
Federal Emergency Management Agency (US)	Refractory-grade bauxite. $3.8 million. Reported 2/11/82.
Bethlehem Steel Corp. (US)	15,000 tons of fluorspar for delivery in 1982. NVG. Reported 3/17/82.
Armco Inc. (US)	A small amount of carbon chrome purchased in 1981. NVG. Reported 3/17/82.
Jones & Laughlin Steel Corp. (US)	Tin and fluorspar bought in 1981. NVG. Reported 3/17/82.
Military Equipment	
(Egypt)	2 submarines. NVG. Reported 2/19/82.
Shipping	
(W. Germany)	A 12,300-ton multipurpose cargo container. NVG. Reported 2/24/82.
Sentinel Supply Ships Ptd. Ltd. (Singapore)	Nine offshore supply vessels to be built by the Hudong Shipyard, Shanghai. $50 million. Reported 2/26/82.

Hitachi Shipbuilding Corp. (Japan)	Discussion of technical cooperation with the Dalian Shipyard for the construction of a 65,000-ton oil tanker and a 27,000-ton bulk freighter. NVG. Reported 3/15/82.
American Bureau of Shipping (US)	Has signed two protocols with the Register of Shipping, one covering surveys of ABS-classified vessels built in China, and the other covering surveys after construction of vessels built to either ship society's classification. NVG. Reported 3/19/82.
Neptune Orient Lines (Singapore)	Two container ships to be built by the Jiangnan Shipyard. $14.7 million each. Reported 4/5/82.
Textiles	
Central Silk Board (India)	250 tons of silk yarn. $5.4 million (Rs50 million). Reported 12/31/81.
Transportation	
Hong Kong Aircraft Engineering Co.	Aerospace ground equipment and tooling for Hong Kong's Kaitak airport. Reported 3/82.

JOINT VENTURES: PRESS REPORTS THROUGH APRIL 15

Foreign Party/ Chinese Party	Technology/Terms/Value/Status
Orientimex (Australia)/China National Metals and Minerals Import and Export Corp., and China Native Produce and Animal Byproduct Import and Export Corp.	Has formed a joint trading company, called Jiangsu Trade Center Pty. Ltd., to handle general trade. NVG. Reported 2/1/82.
Chan Brothers (UK)/Bank of China and Fujian Foreign Trade Corp.	Have established London-based China Consolidated Enterprises Ltd. which will be responsible for the import and export of all products to and from Fujian Province and the EEC. $923,350 capital (£500,000). Reported 3/82.
Dresser Pacific (US)/Ministry of Petroleum	Have set up the Logging Co. of China in Zhanjiang to serve as a functional subsidiary to China National Offshore Oil Corp. NVG. Reported 3/12/82.
Daiei Trading Co. Ltd. (Japan)/Tianjin Municipal Foreign Trade Corp.	Have set up the Tianjin-Daiei Co. Ltd., a trading corporation of joint ownership, to expand Sino-Japanese trade. NVG. Reported 3/15/82.
Riverrun Shipping Ltd. (HK)/China National Foreign Trade Transportation Corp., Guangdong Branch, and Guangdong Province Hong Kong/Macau Navigation Corp.	Have created Mayer Shipping Ltd. to provide scheduled container-shipping services between Guangzhou and Hong Kong and handle exports to Europe. NVG. Reported 3/31/82.
Yau Sun Transportation Co. (HK)/China National Foreign Trade Transportation Corp., Guangdong Branch, and Guangdong Province Hong Kong/Macau Navigation Corp.	Have created Y.S. Container Associates Ltd. to provide scheduled container-shipping services between Guangzhou and Hong Kong and handle exports to North America. NVG. Reported 3/31/82.

OTHER ARRANGEMENTS: 1982 PRESS REPORTS THROUGH APRIL 15

Foreign Party/ Chinese Party	Technology/Terms/Value/Status
Aalborg Vaerft A/S (Denmark)/China Corp. of Shipbuilding Industry	Have agreed to coproduce ship auxiliary boilers. NVG. Agreement signed 10/14/81.
Suzue International Ltd. (Hong Kong)/China National Foreign Trade Transportation Corp., Tianjin Branch	Contract which calls for Suzue to act as agent for CNFTT. Suzue will import vehicles from Japan and export repaired vehicles for CNFTT. NVG. Announced 10/23/81.
Software Industry Promotion Assoc. (Japan)/NA	Proposal to ask Chinese for computer programs for import by the association in exchange for Japanese instruction in software. NVG. Reported 11/12/81.
Romanian Bucharest Co. for Mining & Geological Cooperation (Romania)/China National Technical Import Corp.	Have signed a contract for the preliminary design of the Bailong coal mine and a coal preparation plant in Huoxian, Shanxi. NVG. Contract announced 11/16/81.

Bank for Commerce Industrial Cooperatives (Japan)/Guangdong Trust and Investment Corp.	Agreement to aid smaller Japanese firms to start joint ventures. NVG. Announced 11/24/81.
Hopewell Holdings Ltd. (Hong Kong)/Development Corp. of the Shenzhen Economic Zone	A 30-year cooperative agreement including the clearing of construction sites, road building, and other infrastructural work for the development of Shenzhen. $354 million (HK$2 billion). Reported 11/25/81.
Hong Kong Records Co. and Pacific Operations/China Records, Beijing	Licensing: production of long-playing records. NVG. Reported 12/81.
Dart & Kraft Inc. (US) and Compagnia Tecnica Internazionale (Italy)/Yan Shan Petrochemical General Corp.	Licensing: Wilson Fiberfill, a subsidiary of Dart & Kraft Co. will provide fiberglass and mineral reinforced molding compounds. CTI is the general contractor. $80 million. Reported 12/23/81.
Thomson International Corp. (US)/China Machine Building International Corp.	Licensing: production of passenger car and truck engine thermostats and related temperature control products in No. 2 truck plant, Shi Yan, Hubei. May develop into a joint venture. NVG. Reported 1/5/82.
Honda Motor Co. (Japan)/Jialing Machine Factory, Sichuan Province	Licensing: Honda will provide production technology and know-how for mass production of motorcycles, as well as production machinery, equipment, and parts, in exchange for royalties. NVG. Reported 1/9/82.
NA (Hong Kong)/Yichun Forestry Pharmaceutical Factory	Compensation trade: construction of factories and tea-making equipment in exchange for 40 tons of tea annually. NVG. Reported 1/18/82.
Wah Chang International (Singapore)/China Corp. of Shipbuilding Industry	Coproduction of a second semi-submersible rig in China to be built to a Bethlehem Steel design. $80 million. Memorandum of understanding reported 2/82.
Cogis-Compagnia Generale Interscamibi S.p.A. (Italy)/Textile Mill, Heilongjiang Province	Compensation trade: will provide flax finishing equipment in exchange for flax textiles. $5.03 million. Reported 2/1/82.
Riccar Co. (Japan)/Beijing Sewing Machinery Factory	Compensation trade: Riccar will supply sewing machine parts and technological guidance in exchange for mechanical household sewing machines. NVG. Reported 2/2/82.
Security Pacific National Bank (US)/Shanghai Investment & Trust and Tianjin International Trust and Investment Corp. and Guangdong Trust Investment Corp.	Have signed agreements to provide for mutual cooperation in the exchange of information and the training of personnel. NVG. Reported 2/8/82.
China Oriental Leasing Co., Ltd. (China-Japan joint venture)/China National Import and Export Service Corp. for Light Industry	Have signed an agreement to lease Chinese and foreign-made light industrial machinery, equipment, and instruments to enterprises at home and abroad. NVG. Reported 2/8/82.
C and A Petroleum (Esso's Hong Kong agent)/China Petroleum Corp.	C and A will construct a petrol station in Shenzhen to sell Esso's products. China Petroleum Corp. will provide the land. $514,580 (HK$3 million). Reported 3/82.
Matsushita Electric Industrial Co. (Japan)/Liaoning Yingkou Washing Machine Factory and China Light Industry Import & Export Service Corp.	Matsushita will provide assistance to improve the Liaoning Factory's production. In return, the Chinese will buy equipment and parts from Matsushita. NVG. Reported 3/82.
BICC Ltd. (UK)/China Machine Building International Corp. and Shanghai Cable Works	Licensing: BICC will transfer the know-how for the manufacture of high performance cables. NVG. Contract reported 3/82.
Brown & Root Inc. (US)/China Corp. of Shipbuilding Industry	Will establish a joint company to contract for design and production of China's offshore oil rigs, pipes, and other facilities. NVG. Memorandum reported 3/8/82.
Westinghouse International Technology Corp. (US)/China National Technical Import Corp.	Licensing: Transfer of know-how for manufacturing molded case circuit breakers. NVG. Reported 3/29/82.
Nippon-Zoki Pharmaceutical Co. Ltd. (Japan)/Ministry of Health	Have joined to form a hematology and immunology research center in Shanghai. NVG. Reported 3/10/82.

Trade Agreements

(US)	Have agreed on the mutual exemption from taxation of transport income of shipping and air transport enterprises. Signed 3/5/82.
(Thailand)	Agreement on scientific and technical cooperation. Protocol signed 12/23/81.
(Czechoslovakia)	1982 goods exchange and payment agreement. Signed 2/17/82.
(E. Germany)	Goods exchange agreement. Signed 2/22/82.
(N. Korea)	Goods exchange agreement. Signed 3/4/82.
(Romania)	Have signed a 1982 goods exchange and payment protocol. China will provide Romania with coke, nonferrous metals, light industrial and textile products, chemical products and machine tools, while Romania will supply China with rolled steel, chemical products, machinery, and equipment. Reported 3/8/82.
(Upper Volta)	Trade agreement and medical protocol. Signed 3/13/82.
(Syria)	Have signed a protocol in which payment for trade between the two countries will be made in convertible currency. Reported 3/16/82.
(Cuba)	Trade protocol signed. Reported 3/18/82.
(Brazil)	Scientific and technical cooperation agreement. Signed 3/25/82.
(Hungary)	Goods exchange agreement in which Hungary will export machine lines for incandescent lamps, medical equipment, instruments, pharmaceuticals, and fertilizers in exchange for Chinese clothes, stationery, porcelain, nonferrous metals, and base materials for medicines. Agreement signed 3/26/82.

CHINA DATA

中國數據

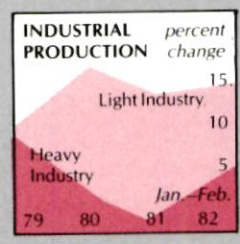
INDUSTRIAL OUTPUT

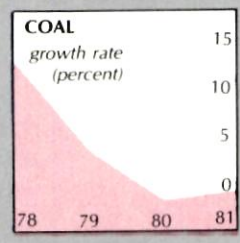
(Million metric tons unless otherwise indicated)

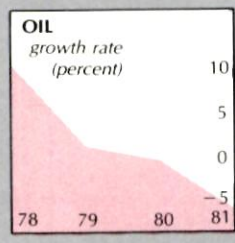
	1979	Percent change	1980	Percent change	1981	Percent change	1982 Jan.–Feb.	Percent change over same 1981 period
Gross value of industrial output (billion yuan, 1970 prices)	¥459.1 $295.2	8.5 17.5	¥499.2 $333.2	8.7 12.9	¥517.8 $303.7	4.1 −8.9	¥81.6 $45.5	11.7 − 0.6
Of which:								
Heavy industry	¥261.1 $167.9	7.7 16.6	¥264.8 $176.7	1.4 5.2	¥252.4 $148.0	−4.7 −16.2	¥38.6 $21.5	8.4 − 3.4
Light industry	¥198.0 $127.3	9.6 18.6	¥234.4 $156.4	18.4 22.9	¥267.5 $156.9	14.1 0.3	¥43.0 $24.0	14.8 2.2
Steel	34.48	8.5	37.12	7.7	35.58	−4.1	5.7	3.3
Rolled steel	24.97	13.1	27.16	8.8	26.668	−1.8	4.4	7.5
Pig iron	36.73	5.6	38.02	3.5	34.185	−10.1	5.6	2.0
Coal	635.0	2.8	620.0	− 2.4	617.0	−0.6	96.0	13.4
Crude oil	106.15	2.0	105.95	− 0.2	101.179	−4.5	16.6	1.4
Natural gas (billion cubic meters)	14.51	5.7	14.27	− 1.7	12.57	−11.9	2.0	−5.9
Electricity (billion kilowatt-hours)	281.95	9.9	300.6	6.6	306.6	2.0	50.5	8.1
Cement	73.9	13.3	79.86	8.8	83.3	4.3	12.4	8.9
Sulfuric acid	7.0	5.9	7.64	9.1	7.763	1.6	1.3	12.4
Chemical pharmaceuticals (thousand metric tons)	41.7	2.5	40.1	− 3.8	38.0	−6.4	6.0	42.4
Chemical fibers (thousand metric tons)	326.0	14.4	450.0	38.0	524.0	16.3	92.0	12.8
Cotton yarn	2.63	10.5	2.93	11.4	3.167	8.2	0.5	13.0
Machine-made paper and paperboard	4.93	12.3	5.35	8.5	5.242	−1.9	0.8	12.4
Chemical fertilizers (based on 100 percent effectiveness)	10.654	22.6	12.32	15.7	12.491	1.4	2.1	10.8
Of which: Nitrogenous	8.821	15.5	9.99	13.3	9.867	−1.3	1.7	9.0
Phosphate	1.817	75.9	2.31	26.9	2.613	13.2	0.4	17.5
Potash (thousand metric tons)	16.0	− 23.8	20.0	25.0	11.0	−45.5	—	—
Chemical insecticides (thousand metric tons)	537.0	0.8	537.0	0.0	507.0	−5.5	79.0	−0.6

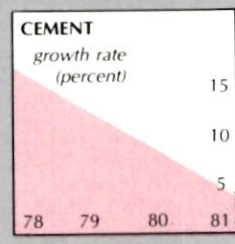
EQUIPMENT OUTPUT

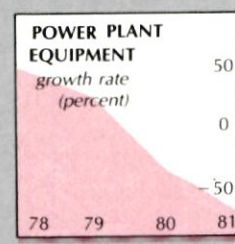
	1979	Percent change	1980	Percent change	1981	Percent change	1982 Jan.–Feb.	Percent change over same 1981 period
Machine tools (thousand units)	140.0	− 23.5	134.0	− 4.3	100.3	−25.2	13.6	—13.4
Power generating equipment (million kilowatts)	6.212	28.4	4.193	− 32.5	1.467	−65.0	0.1	11.0
Motor vehicles (thousand units)	186.0	24.8	222.0	19.4	175.1	−21.1	28.4	− 10.7
Locomotives (units)	573	10.0	512	− 10.6	398	−32.3	64	− 1.5
Railway passenger coaches (units)	856.0	9.2	1,002	17.1	1,159	15.7	96	− 38.5
Railway freight wagons (units)	16.042	− 5.4	10,571	− 34.1	8,779	−17.0	1,516	65.7
Tractors (thousand units)	126.0	10.5	98.0	− 22.2	52.9	−45.9	6.9	− 42.5
Hand tractors (thousand units)	318.0	− 1.9	218.0	− 31.4	196.5	−9.8	39.6	51.1

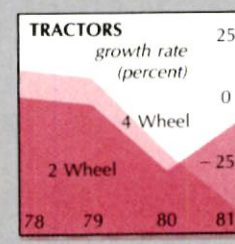






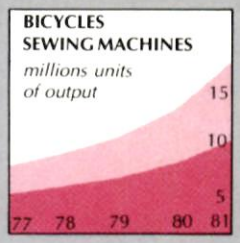


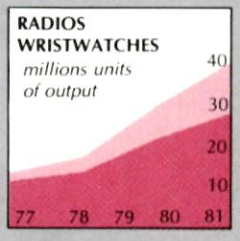




CONSUMER GOODS OUTPUT
(Million units unless otherwise indicated)

	1979	Percent change	1980	Percent change	1981	Percent change	1982 Jan.–Feb.	Percent change over same 1981 period
Bicycles	10.09	18.1	13.02	29.0	17.45	39.0	3.2	41.3
Sewing machines	5.87	20.8	7.68	30.8	10.198	32.8	1.8	38.6
Wristwatches	17.07	26.4	22.16	29.8	28.821	27.1	4.6	16.4
TV sets (thousand units)	1,329.0	157.1	2.492	87.5	4.842	94.3	857.4	80.2
Radio sets	13.81	18.2	30.04	117.5	39.515	31.6	3.6	−38.4
Cameras (thousand units)	238.0	33.0	373.0	56.7	596.0	60.0	118.0	69.1
Light bulbs	850.0	11.8	950.0	11.8	960.5	1.1	150.0	13.2
Cotton cloth (billion square meters)	11.43	11.1	12.80	12.0	13.4	5.0	2.2	12.0
Woolen piece goods (million meters)	90.17	1.5	101.0	12.2	112.9	11.8	18.8	10.3
Silk textiles (million meters)	663.45	8.7	759.0	14.5	852.4	12.3	134.0	34.0





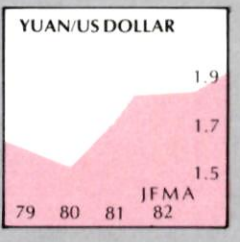
CHINA'S FOREIGN TRADE
(Million US dollars)

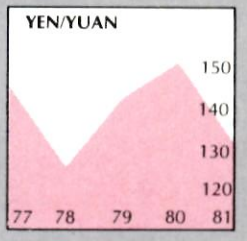
	1977	1978	1979	1980	Percent change	1981*	Percent change
Exports (fob)	$7,520	$9,955	$13,614	$18,179	33.5	$21,560	18.7
Imports (cif)	$7,148	$11,131	$15,685	$19,407	23.7	$21,566	11.3
Total	$14,668	$21,086	$29,299	$37,586	28.3	$43,126	14.6
Trade surplus (+) or deficit (−)	$372	−$1,176	−$2,071	−$1,228	—	−$5.9	—
Trade with China by principal trading partners:							
United States							
Exports (fas)	$171.3	$823.6	$1,716.5	$3,749.0	118.4	$3,599	−4.0
Imports (customs value)	$202.7	$324.1	$592.3	$1,058.3	78.7	$1,895	79.1
Total	$374.0	$1,147.7	$2,308.8	$4,807.3	108.2	$5,494	14.3
Share of China's total two-way trade	2.5	5.4	7.9	12.8	—	13.0	—
Japan							
Exports (fob)	$1,955	$3,074	$3,674	$5,109	39.1	$4,971*	−2.7*
Imports (cif)	$1,560	$2,045	$2,933	$4,346	48.2	$5,298*	21.9*
Total	$3,515	$5,119	$6,607	$9,455	43.1	$10,269*	8.6*
Share of China's total two-way trade	23.9	24.0	22.5	25.2		24.3	
Hong Kong							
Exports (fob)	$44	$63	$82	$1,249	227.0	$1,841*	47.4*
Imports (cif)	$1,735	$2,249	$3,021	$4,401	45.7	$5,107*	16.0*
Total	$1,779	$2,312	$3,403	$5,650	66.0	$6,948*	23.0*
Share of China's total two-way trade	12.1	10.9	11.6	15.1		16.5	

*Estimates

EXCHANGE RATES
(Period averages)

	1978	1979	1980	1981	1982 Jan.	1982 Feb.	1982 Mar.	1982 Apr.
Yuan per US dollar	1.6836	1.5550	1.4984	1.7050	1.77	1.82	1.84	1.85
US cents per yuan	59.4	64.3	66.7	58.7	56.6	55.0	54.5	53.9
Japanese yen per yuan	125.0	140.9	151.3	129.3	127.1	129.4	135.0	131.6
Hong Kong dollar per yuan	2.772	3.201	3.329	3.315	3.281	3.246	3.161	3.139
Pound sterling per yuan	0.309	0.303	0.287	0.289	0.300	0.298	0.303	0.305
W. German marks per yuan	1.193	1.179	1.213	1.326	1.297	1.302	1.308	1.294

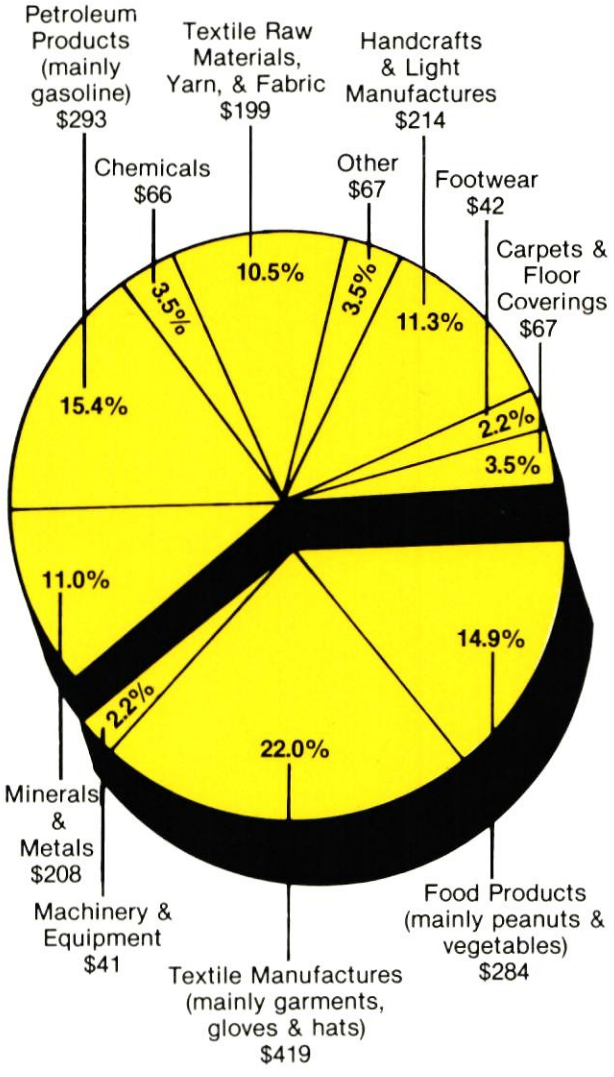




SOURCES: State Statistical Bureau, Ministry of Finance, Bank of China, *International Financial Statistics* (IMF), *Direction of Trade Statistics* (IMF), *and US Commerce Department.*

Composition of US–China Trade, 1981

(In million US dollars)



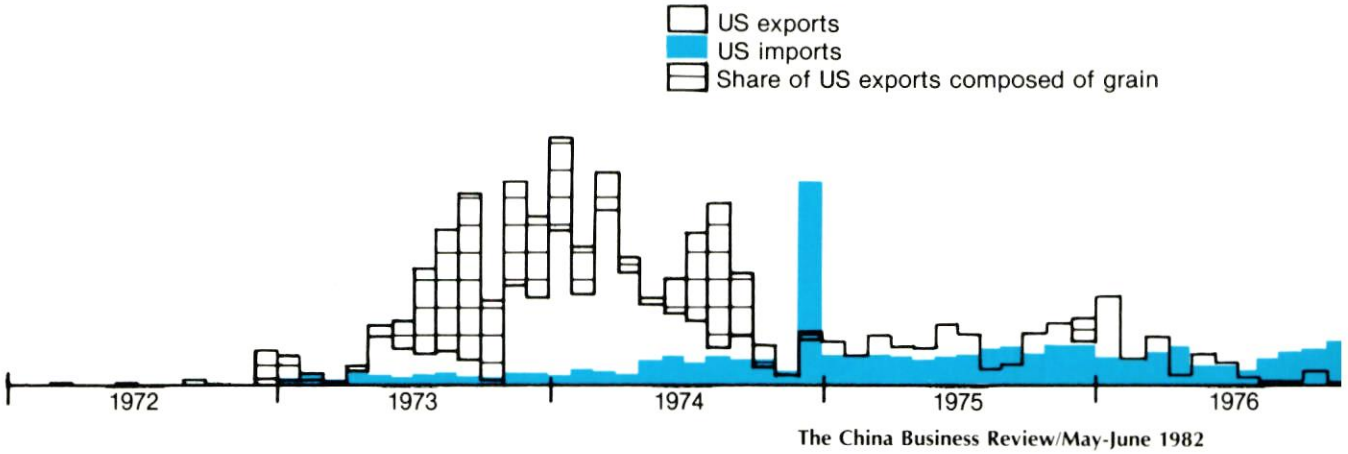
US IMPORTS

	1978	1979	1980	1981
Machinery and equipment	0.5	1.3	6.2	40.8
Industrial supplies	160.6	277.5	522.0	827.9
Minerals and metals	35.5	60.4	158.9	208.5
Petroleum products	0.0	96.4	134.7	293.5
Chemicals	18.5	25.2	55.2	65.6
Agriculture-derived supplies	43.9	35.0	57.6	50.0
Of which:				
Feathers and down	25.4	9.6	24.8	24.0
Hog bristles	7.0	9.6	9.1	6.9
Forestry-derived supplies	2.2	3.1	6.6	8.9
Textile raw materials	56.1	65.7	146.7	213.9
Of which:				
Silk	6.2	9.1	11.6	19.4
Cotton fabric	38.3	24.7	45.4	89.0
Consumer goods	162.8	309.0	526.0	1,025.0
Foods	26.3	52.2	58.8	283.8
Textiles	63.4	150.8	247.0	418.6
Carpets and floor coverings	13.6	22.0	49.5	66.8
Footwear	3.4	18.4	24.0	41.9
Handicrafts and light manufacture	56.1	65.7	146.7	213.9
Of which:				
Baskets	15.2	20.0	34.1	58.2
Artwork	12.3	15.9	38.4	26.3
Fireworks	12.1	15.6	23.3	24.9
Not classified	0.1	4.5	4.1	1.6
Total	**$324.0**	**$592.3**	**$1,058.3**	**$1,895.3**

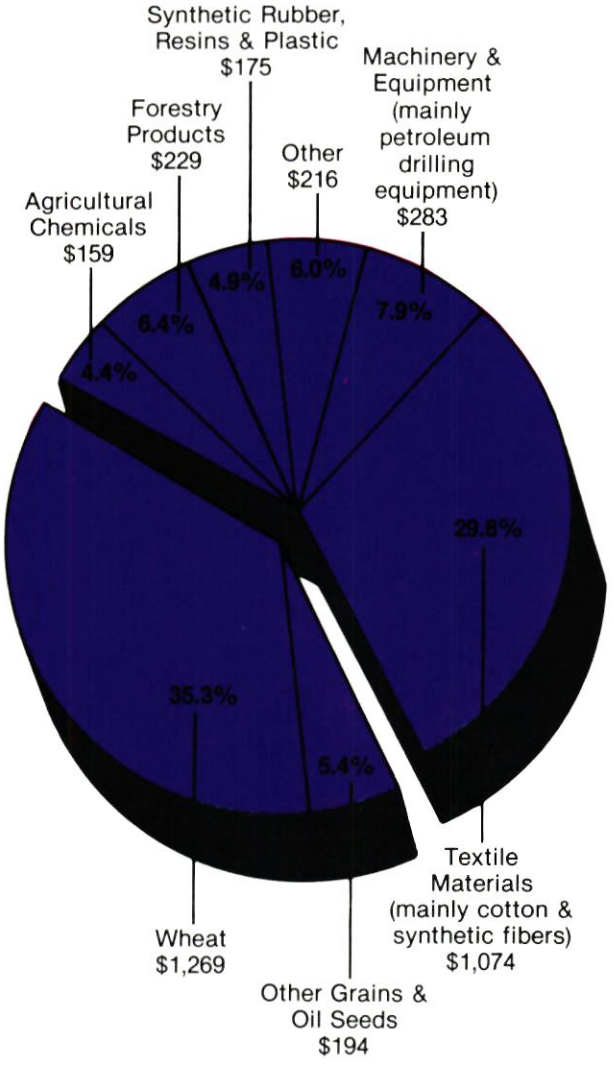
Source: U.S. Department of Commerce

Note: Subtotals may not sum to totals indicated due to rounding.

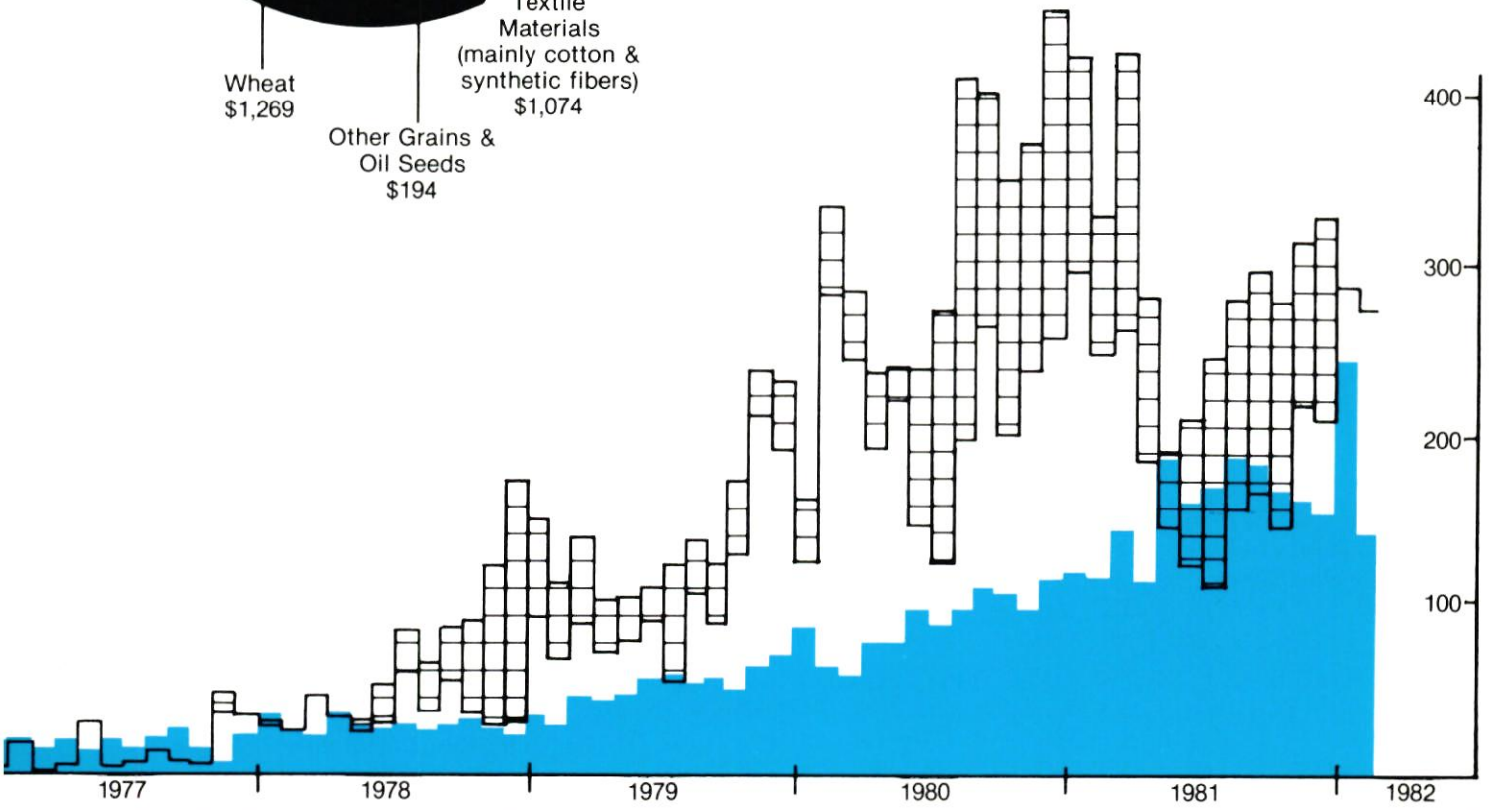
Monthly US-China Trade



US EXPORTS



	1978	1979	1980	1981
Machinery and equipment	118.1	405.8	435.0	283.3
Agricultural	0.9	2.0	9.6	2.5
Transportation	13.3	59.9	188.6	39.9
Power generation	10.9	4.4	6.5	6.7
Special industrial	30.7	71.0	83.5	96.0
Petroleum mining and drilling	44.6	205.2	73.5	45.2
Electrical	17.7	63.4	73.2	93.2
Industrial supplies	271.9	643.9	1,695.0	1,674.8
Minerals and metals	9.4	72.3	68.7	19.6
Metal products	1.0	5.2	17.0	6.4
Chemicals	11.6	61.7	204.8	251.2
Agriculture-derived supplies	38.5	47.2	136.7	94.6
Forestry-derived supplies	4.5	3.8	240.1	228.7
Textile fibers, yarns, and fabrics	206.9	453.1	1,026.8	1,073.8
Agricultural chemicals	49.0	64.0	184.8	159.5
Fertilizer	38.7	44.6	152.6	131.0
Pesticides, fungicides, and herbicides	10.3	19.4	32.2	28.5
Consumer goods	379.2	601.5	1,432.1	1,476.4
Wheat, corn, and other grains	377.6	595.1	1,419.6	1,462.6
Printed materials	0.1	1.2	4.5	4.1
Other	1.6	5.2	8.0	9.6
Not classified	0.0	1.3	2.1	4.6
Total	**$818.2**	**$1,716.5**	**$3,749.0**	**$3,598.6**



ENVIRONMENTAL PROTECTION DEAL

Council member Thermo Electron Corporation of Waltham, Massachusetts has signed a contract to supply more than $1 million worth of equipment for the first comprehensive air monitoring system in a Chinese city. Under the recent contract, the US company will furnish the Beijing Environmental Monitoring Center with instruments to measure the concentration of major pollutants. When completed, there will be 30 monitoring stations throughout the Beijing area. Thermo Electron will train the center's engineers in the operation of the equipment, which is scheduled to be installed in 1983.

Thermo Electron had previously sold about $500,000 worth of similar instruments, but in piecemeal fashion to universities, research institutes, and urban monitoring centers. This contract may be the forerunner of future deals as other Chinese cities follow Beijing's lead and set up their own monitoring systems—a move that many visitors feel is long overdue.

FLUOR STEPS IN ON MINE RENOVATION

In the first US involvement in China's mine renovation program, Fluor Corp. has signed a contract to conduct an engineering study for the expansion of the Fushun open-pit coal mine. Nearly two years of on-again, off-again negotiations culminated in the April agreement. The study will examine how to raise production at Fushun, which has been declining in recent years, to 5 million tons of coal and 8 million tons of oil shale. Fluor will review and expand on a general plan the Chinese have already developed, focusing on slope stability and the optimum combination of trucks, conveyors, and trains. Engineers from the Ministry of Coal Industry will participate in the study in California, scheduled to be completed in 1983.

EXTEL BAGS TELEX ORDERS

Despite rumors that US companies have lost out in the China telecommunications market, Extel Corp. of Northbrook, Illinois, has just signed a contract for $700,000 worth of telex terminals. The new teleprinters were ordered by INSTRIMPEX for the Ministry of Posts and Telecommunications, and may help the ministry reduce China's backlog of orders from foreign companies for telex service. Extel plans a follow-up visit to Beijing in June to discuss a possible assembly-joint venture agreement to produce teleprinters, according to Vice President, International Sales and Marketing, Lawrence Hagemann.

With this latest deal, Extel has sold a total of more than 2,000 terminals to China since 1978; 1,100 units were purchased by the Xinhua News Agency. The remainder, according to Hagemann, have gone to MPT.

COMETALS—SINOCHEM EXCLUSIVE

COMETALS, Inc., a subsidiary of Commercial Metals Company, has won an exclusive marketing agreement with the China National Chemicals Import and Export Corporation. Signed in April, the agreement allows COMETALS to be the sole distributor of Chinese barium nitrate in the US. The chemical is used in the manufacture of barium salts, optical glass, ceramic glazes, pyrotechnics, and other specialty products. COMETALS Assistant Vice-President Herbert Spitzer said the company expects to import 1,000 to 1,500 tons of barium nitrate in the first year of the agreement.

This contract follows an exclusive marketing agreement for barium carbonate signed between SINOCHEM and COMETALS in December, 1981. Under that agreement, the New York company imports between 2,000 and 3,000 tons of the chemical per year. COMETALS has been purchasing from China, and selling small amounts of specialty chemicals for some 15 years. In November of last year, the company opened an office in Beijing and is now negotiating a Chinese joint venture.

CLEANING UP AT XIQU

The Denver Equipment Division of Joy Manufacturing is increasing US involvement in China's coal washing development with its multi-million dollar contract to supply a dryer to the 3-million-tons-per-year coal preparation plant at the Xiqu mine in Shanxi's Gujiao District. The dryer will be China's first exposure to indirect heat exchange technology. And, with a capacity of 90 metric tons per hour, it will be the largest unit of its kind in the world. The plant is due to start up in late 1984, when Xiqu mine construction is completed.

Previously, the coal ministry bought a plant that included some Denver machinery through the US engineering firm of Roberts and Schaefer. For Xiqu, the ministry is purchasing selected equipment from foreign suppliers while doing the engineering on its own. Denver Equipment expects to make further sales to Xiqu, and hopes eventually to license technology to China.

SHUIKOU ENGINEERING CONTRACT TO IECO

International Engineering Company Inc. (IECO) of San Francisco, a wholly owned subsidiary of Morrison Knudsen Company, has begun to offer consulting engineering services on the Shuikou hydroelectric project. Under a contract signed in March between IECO and the World Bank (on behalf of the Ministry of Electric Power) the company has already completed a review of the facility's basic layout and design. After the World Bank appraises that review and gives its go-ahead on the project, IECO will go on to consult in construction planning and scheduling, in preparation of detailed cost estimates, and in preparation of construction tender documents. The consulting agreement was financed by the United Nations Development Program and is scheduled to be completed by late 1983.

The Shuikou project, located on the Min River upstream from Fuzhou, the capital of Fujian Province, is planned to produce 1,400 megawatts of electricity. It will include a concrete gravity dam 330 feet high with a 2,600-foot crest length, an adjacent spillway, navigational lock for small vessels, and a power house enclosing 7 200-megawatt generating units. Although the Chinese intend to do their own engineering on the project, IECO will offer further consulting as the project develops.

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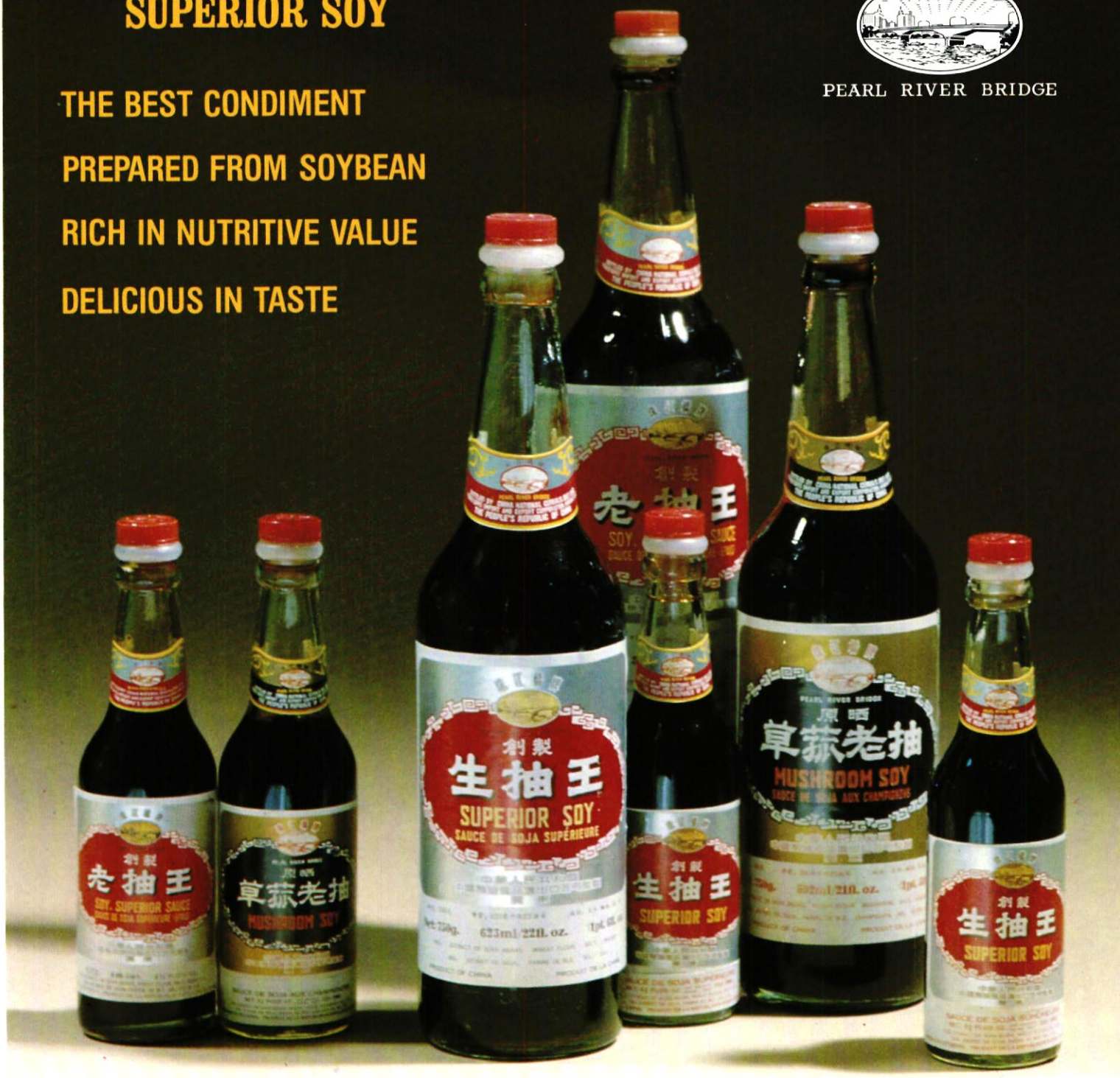

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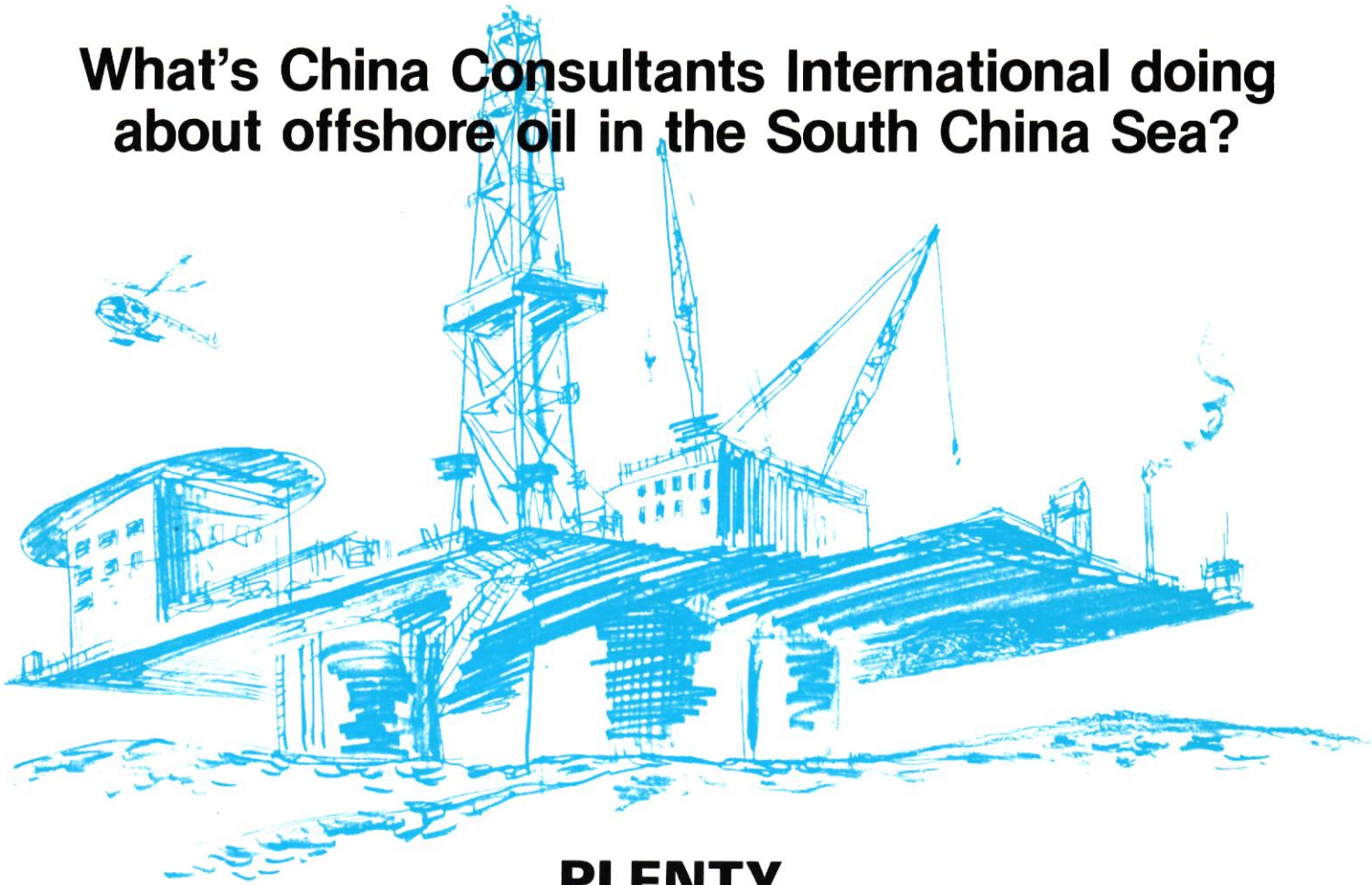

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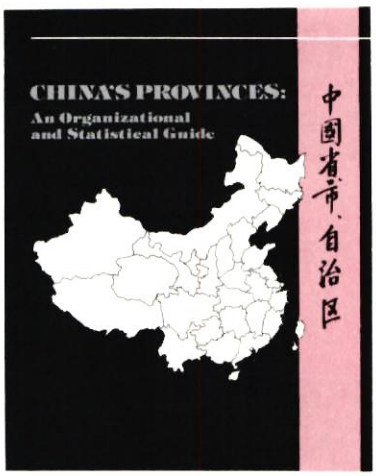

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