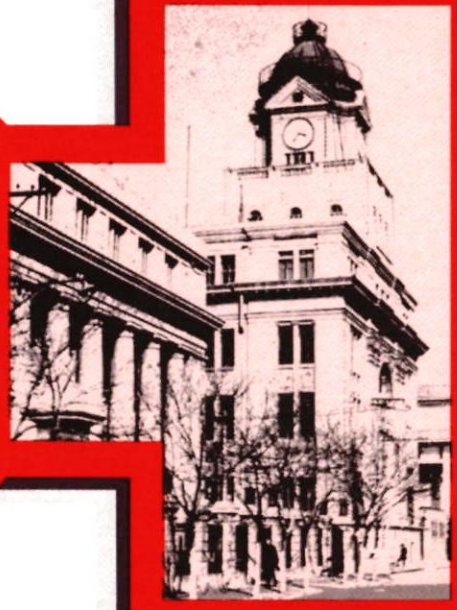
The China Business Review

May–June 1986

Investment: Pieces of the Puzzle



75TH ISSUE

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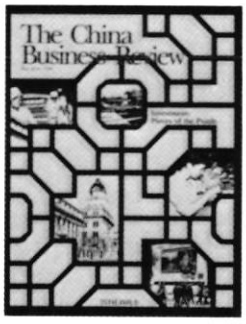
The China Business Review

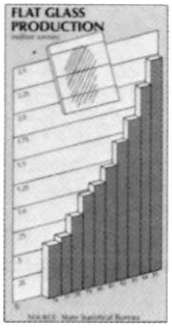
The magazine of the National Council for US–China Trade

May–June 1986 Volume 13, Number 3



Cover: Finding the right investment project, determining how to structure it, and getting it approved can be a puzzling process. *Artwork by John Yanson.*

The Xiamen harbor: While foreign and domestic investment funds flow into coastal regions like Fujian Province, funding for the northwest is less certain. **Page 38.**



Glass: As the uses for glass, reinforced plastics, and aluminum multiply, these industries struggle to keep up with demand. **Page 52.**

Departments

摘要

MALAYSIA'S ECONOMIC DIPLOMACY

The visit of Malaysia's finance minister to China in April represents the latest in a series of recent initiatives the two countries have taken to revive their flagging economic ties. Although two-way trade—expected to exceed $400 million in 1985—has been inching forward at an average annual rate of 3 percent, both sides believe the potential for investment and trade is much greater than the statistics indicate.

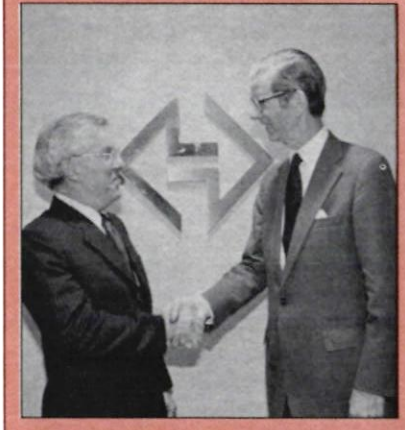
Malaysia's main exports to China—palm oil, rubber, cocoa, and timber—face sluggish demand and depressed prices in world markets. But China's vigorous economic growth is fueling demand for these same products. Malaysian businessmen, for example, are counting on the heavy demand for wood in China to rescue Malaysia's timber industry from massive production cutbacks.

But to capitalize on the growing China market, Malaysia will have to act quickly. Indonesian exports to China jumped from a mere $8 million in 1984 to $259 million during the first 11 months of 1985, surpassing Malaysia's $146 million worth of exports over the same period. Since the countries' exports compete directly, any inroads Indonesia makes in the China market spell lost opportunities for Malaysian business.

The first country in ASEAN to normalize relations with Beijing (in 1974), Malaysia now fears that Singapore, Indonesia, and Thailand (the only country in ASEAN that enjoys a trade surplus with China) have eclipsed Malaysia's early gains. The examples of Indonesia and Singapore, neither of which have normalized relations with China, demonstrate the growing irrelevance of "correct" political ties to economic cooperation among Asian countries, as other world markets recede.

But the trade picture still looks hopeful. Malaysia leads all other ASEAN countries in cultivating and processing raw materials. Its reluctance to transfer processing technology to China thus far rests on its fear of turning China into a major competitor. However, Malaysia may be having a change of heart, easing its objections to technology transfer if China cooperates on other trade issues. Malaysian Prime Minister Mahathir has said that his country is willing to sell China timber processing and mining technology. At the same time, he has urged China to increase imports of Malaysian manufactures and to make good on its promise to expand direct trade. (Malaysian businessmen claim Beijing is still contracting with agents in Singapore to handle trade that should go to import–export companies in Malaysia.)

Even if outstanding irritants in Sino–Malaysian trade are removed, political problems may still obstruct relations. One sore point is China's practice of relying on Malaysia's ethnic Chinese minority (40 percent of the population) to handle direct Sino–Malaysian trade. These policies are criticized as interfering with government efforts to boost the economic position of ethnic Malays, or *bumiputras*, who make up 50 percent of the population.



Outgoing President Christopher H. Phillips (r) congratulates Roger W. Sullivan on assuming the presidency of the National Council for US–China Trade on June 1.

Equally serious is China's refusal to repudiate its support for the pro-Chinese Communist Party of Malaysia (CPM). Chinese foreign minister Wu Xueqian neglected to mention the CPM last year when he declared that China "has no relations" with the Communist parties of Indonesia and the Philippines. Although Mahathir has publicly conceded that the CPM is funded by Chinese-Malaysians rather than Beijing, and has termed the issue a "minor matter," most Malaysian businessmen believe that no dramatic improvement in trade can precede a satisfactory resolution of this issue.

The finance minister's visit to Beijing last April and the prime minister's trip last November (accompanied by the largest trade mission Malaysia has ever dispatched abroad) symbolizes the importance Malaysia now attaches to its economic relations with China. But the next symbolic step must come from China. If the CPM question is resolved, Malaysia is likely to substantially ease travel restrictions and promote private sector trade with China. But Beijing may believe that these initiatives are bound to occur anyway. With trade protectionism on the rise and intra-ASEAN trade going nowhere, Malaysia may have to pursue a more vigorous form of economic diplomacy with China without waiting for political concessions. —DCD

WOMEN AND THE WORKPLACE

The jury is still out on whether economic reforms will prove to be a help or a hindrance to the status of women in China. On the one hand, the reforms have stimulated the production of labor-saving appliances and the growth of the service sector, developments that are helping to alleviate the burden of household chores. But on the other hand, improved efficiency in the workplace has increased the amount of redun-

dant labor—and women, who are concentrated in low-level occupations, are generally the first to be dismissed. Displaced female workers are encouraged to move into sideline production, private businesses, and the developing service sector—but jobs in these areas often require longer hours, provide fewer opportunities for advancement, and lack the job and income security provided by State-sector employment.

Women are now a crucial element of the workforce, accounting for approximately 150 million or one half of the rural labor force, 36 percent of the urban workforce (42 million), and almost a third of the academic and scientific community (2.4 million). But the number of women in leadership positions does not reflect their percentage in the work force. In the science and technology field, for example, female workers account for a third of all employees. Yet they make up only 23 percent of workers at the level of engineer, and 13 percent of senior engineers.

Reforms allowing some workers to choose their managers may help women move to the top. Workers tend to select people who will look out for their needs, and these caring qualities are often associated with women. However, the differential in recommended urban retirement age (60 for men and 55 for women) will keep many women from entering top management levels.

While several women have reached leadership positions in the government, such high-level female appointees are still few and far between. Officials now recruiting the next generation of leadership, commonly called the "third echelon" by the Chinese, are reportedly having difficulty fulfilling their working target of putting women into one-third of these positions. Due to past biases, there simply are not enough women with the necessary qualifications to go around.

But the problem actually begins much earlier. Female high school and college graduates suffer from sex discrimination in job recruitment systems. Many employers hesitate to hire women, believing that family responsibilities detract from a woman's devotion to her work. And the new emphasis on measuring productivity within a factory may compound this problem. Managers may concentrate on training male employees who will not have to take leave for childbearing or take extra breaks from the job to visit the factory's nursery. Meanwhile, two socialist ideals come into conflict for women on the job: equality between the sexes often suffers at the expense of the belief that everyone should be given equivalent care. Thus, male leaders frequently pass over qualified women for promotions on the ground that they already have "too heavy a burden" at home.

THE TAX BATTLE

The Chinese government no longer forces State enterprises to turn all of their profits over to the State. Instead, a nationwide taxation system implemented in late 1984 requires most enterprises to pay 55 percent of their net profits in taxes. But many Chinese units are trying to part with even less.

A national investigation of government agencies and enterprises conducted in 1985 discovered tax evasion to the tune of ¥1.1 billion ($344 million). Another State audit found fully 70 percent of State enterprises involved in some type of evasion. Deception is rampant in the private business sector as well—private entrepreneurs avoid paying at least half of their taxes, with those individuals transporting goods over great distances evading even more. The poorly trained and understaffed local tax bureaus cannot keep up, and the public reaction to tax collectors doesn't help. Collectors have been beaten up, subjected to verbal abuse, and ignored.

Now the government is fighting back in an effort to increase revenues for the State budget and eliminate economic corruption. The tax bureau is rapidly expanding its ranks. Price, taxation, and finance inspection campaigns organized by the State Council will be conducted every year to monitor how enterprises use their funds. As of this January, private entrepreneurs must pay income taxes with progressive rates ranging from 7 to 60 percent on top of their business taxes. And Chinese enterprises aren't the only target. Tax collectors are reaching out to tap a potentially lucrative and more cooperative source—this year the Beijing Tax Bureau has hit representatives of foreign companies with audits to detect under-reporting of personal income taxes. —JSS

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The China Travel Quiz

Carol S. Goldsmith

Chances are that even the most frequent business travelers to China can't keep pace with changing travel conditions today. Newspapers abound with reports of new hotels going up, regional airlines increasing competition, and visas being issued at the airport—true stories to be sure, but ones that create the false impression that traveling to and around China is becoming a snap. Few people realize that the phenomenal growth of business travel during the past year, coupled with a steady increase in tourism, has kept demand one step ahead of supply.

The following "true or false" statements represent some common assumptions about travel in China. You may want to take the quiz yourself before passing it on to your travel agent. The more you both know, the better the chances of a reasonably smooth trip.

1 Any US travel agent can now book hotels and transportation in China directly with China International Travel Service (CITS).

False. CITS, China's primary travel operator, has appointed approximately 60 tour operators as its US agents. These wholesale companies are authorized to sell tour packages for China directly to your travel agent. Relatively few of these wholesale companies handle individual business travelers. In order to book air or train tickets in China, hotels, or a driver/escort for independent travelers, your agent must work through an operator that offers Foreign Independent Travel (FIT) programs. A list of these operators is available from the China National Tourist office in New York, (212) 867-0271.

2 It is now possible to book some hotels in China through an international reservation system.

True, but the number is still small. In the United States, you may book Beijing's Great Wall Hotel or the new Huating Hotel in Shanghai through Sheraton's toll-free number, the Beijing–Toronto (Jinglun) Hotel through Japan Air Lines, Beijing's Lido Hotel through Holiday Inn, Guangzhou's White Swan Hotel through the Leading Hotels of the World, and either the Jianguo Hotel in Beijing or the Garden Hotel in Guangzhou through the Peninsula Group. (Some other hotels may be booked through Hong Kong travel agents, depending on the agent's personal connections.) Since only a limited block of rooms is available through these reservation lines, you may still need to rely on the old method of sending one or more telexes to China directly to book, unless you ask a tour operator that offers FIT arrangements to handle the booking for you.

3 Hotel rooms are only difficult to find during the peak tourist months of May, September, and October.

False. Anyone who traveled to Beijing this spring or late last fall discovered quite a few business travelers sleeping in hotel lobbies. Due to the increase in convention, exhibition, and individual business traffic, a second "peak season" now extends roughly from early March to late November. It is advisable to book your rooms at least six weeks in advance during these periods.

4 Most hotels accept credit cards as a room guarantee.

False. Only a few of the foreign-managed properties take credit cards, usually the American Express card. Even so, you may be asked to pre-pay your room charge if space is tight. Some hotels may only be willing to hold reservations for 24 hours when a line of cash customers is forming outside.

Remember, too, that cancellation policies vary among hotels. You may be required to give three days notice to avoid paying a penalty.

5 Travel agents in the United States can sell confirmed seats on domestic CAAC flights.

True, but chancy. Subject to availability, travel agents can purchase tickets for flights within China through CAAC's general sales agents (GSAs) in the United States, such as Northwest Orient, United Airlines, Japan Air Lines, and other carriers serving the PRC, or through designated wholesale travel companies holding CAAC ticket stock. CAAC also maintains its own offices in New York, San Francisco, and Los Angeles.

Flights in greatest demand, such as Hong Kong–Beijing, may be available only through Hong Kong at peak times. A travel agent there can secure your ticket with a photocopy of your passport and advance payment. In either case, the agent probably will charge a booking fee or mark up the price of the ticket, since CAAC pays no commission on domestic flights.

In the United States, the GSA should be able to confirm your CAAC

Carol S. Goldsmith is director of China Destination Management, the Washington, DC-based member of the Inter Pacific Travel Management Group.

flight given enough advance notice. Nonetheless, in China you must reconfirm each flight—in person—with CAAC at least 72 hours prior to departure, or your reservation will automatically be cancelled. But how can you reconfirm your seat if you happen to be traveling at the appointed time? The best bet is to have your tour operator's China representative office take responsibility for contacting CAAC. If the operator has no China office, ask your Chinese host or representative to reconfirm for you. You will need to provide your passport, flight information, and ticket fare, if not already paid.

6 It is now possible, through CAAC's new computer system, to book roundtrip domestic flights within China.

False. Although CAAC has purchased a computerized reservation system from Sperry Corporation, it will be some time before it is operational. For the time being, domestic reservations will continue to be handled by each CAAC regional office. Travelers flying from Beijing to Xi'an, for instance, must still arrive at their destination before they can purchase a return ticket from the local CAAC branch.

7 Tickets for regularly scheduled flights on certain domestic routes are available directly from China's new regional carriers.

False. Although CAAC's monopoly has been broken and regional carriers are being formed, they are still largely unequipped to carry passengers. Thus, reservations and ticketing for most flights are still handled centrally through CAAC. Eventually, when China's airline system becomes fully "deregulated," CAAC will assume a purely administrative role similar to our FAA. A big question for the short term is how China's emerging airlines will be integrated into CAAC's central reservation system when it finally comes on line.

8 It is now possible to obtain a visa at the airport upon arrival in China.

True, but only when normal channels fail. Last year China set up visa offices in a number of airports and entry points to handle travelers who were unable to secure their visas before departure. According to the China National Tourist Office, these include the international airports in Beijing, Shanghai, Tianjin, Xiamen, Kunming, Hangzhou, and Guangzhou, and the ports of Shanghai, Tianjin, Dalian, Fuzhou, Guangzhou, and Xiamen. The visa authority there will need an official invitation from your host organization, a passport valid for six months beyond the trip dates, two photos, two copies of the visa application form, and a $7 application fee. The system usually works, but is not recommended as standard operating procedure due to the limited staff of these offices. During the peak season, when hotels and flights are in short supply, all travelers should obtain their visas and make travel arrangements well in advance.

9 Tourist visas can be secured in place of business visas.

True. Especially when preparation time is short, business travelers may find it simpler to skip the official invitation process and apply for a tourist visa. The purpose of the trip is stated as "pleasure" on the application form; no ministry or foreign trade corporation need be listed as host. (A tourist visa may even be preferable for persons planning to visit a number of people or agencies in China.)

The normal channel to obtain tourist visas is through CITS' appointed US agents. Some of these operators hold sizable visa blocks for their tour groups. With proof of confirmed travel arrangements in China, they can offer these visas to individuals as well. Fees vary among operators. The service charge may be nominal for travelers purchasing other air or land arrangements. For a visa only, however, the operator may charge $100 or more to cover staff time and costs.

10 You can bypass the tour operator and apply for an individual visa yourself.

True. You can send application forms and fees directly to the PRC embassy or consulates in the United States. But you may find it's not worth the time and effort. To obtain an individual tourist visa, you must show proof of a confirmed hotel reservation in each city—either by a telex, cable, voucher, or reservation number.

11 It is quicker to get a visa in Hong Kong.

True. China Travel Service, the PRC's travel agency in Hong Kong, normally can process a visa in two working days, compared to 10 or more in the United States.

12 "Bed and breakfast" plans are available in most of China's major cities.

True. Known in the trade as a "mini package," this flexible travel option has recently become available through a select number of US tour operators. It includes your hotel, breakfast, and roundtrip transfers between the airport or train station and your hotel. The mini package is ideal for business travelers who need to travel around China on their own. However, if you need a driver, interpreter, or other special arrangement, you should book a full package of travel services. The extra dollars spent will be more than made up for by the time saved during the trip.

Corporate and Product Promotion

How to choose wisely among the growing number of ways to spend promotional dollars in China

Scott D. Seligman

Information about foreign products and services is greedily devoured in China today, as anyone who has ever watched tens of thousands of promotional brochures disappear in minutes from a Chinese trade exhibition can testify. China has a voracious appetite, unsatisfied for more than 30 years, for knowledge of foreign companies and the makes, model numbers, and specifications of their products. And companies now have a myriad of tools at their disposal to help satisfy that appetite.

Less than a decade ago there were few methods available to foreign companies wishing to make their products better known in the PRC. Advertising was certainly not an option; the industry became moribund during the Cultural Revolution and remained so for some time thereafter. A firm's best bet in the late 1970s was to deliver technical seminars in China on the products it had to offer. The seminars were relatively dry affairs, attended by small groups of unidentified cadres who had been selected by intermediaries. It was not entirely clear whether a company was reaching the right audience, and it was extremely unlikely that materials brought along would ever be passed on to other interested parties.

As decentralization has multiplied the numbers of people with a say in selecting which products are imported into China, the technical seminar has declined as a cost-effective strategy. To keep pace, firms are now seeking ways to promote their products more broadly to many different audiences. Not entirely by coincidence, the number of vehicles available to reach Chinese audiences has risen dramatically in recent years. Chinese media outlets have grown by leaps and bounds, and virtually all have opened the door to foreign advertisers. Publications are also becoming more receptive to editorial input from abroad. A company's dilemma is no longer how to get a message across to the Chinese; it is how to choose wisely among the plethora of ways now available to spend promotional dollars in the PRC.

Choosing a promotional strategy: mass advertising to targeted PR

If a foreign firm is willing to spend the money, it can now make use of China's mass media to tell almost a billion Chinese—or any smaller group from Manchurian metalworkers to Tibetan peasants—why they should buy its products. But few firms require the awareness of the Tibetan peasantry to accomplish their marketing objectives, and the broad-brush exposure now available through Chinese television and radio is not necessarily the first option for all—or even most—firms with an eye on China.

As elsewhere, choosing the proper mix of promotional tools in the PRC depends on a firm's marketing objectives. Companies with products on sale in local markets, or those with ultimate designs on the Chinese consumer market may be well-advised to cast their lots with the mass media right now. Mass advertising in China is relatively cheap when one considers the size of audiences, and it provides companies with an excellent opportunity to acquaint consumers with their names, reputations, and products.

The Gillette Company, which is party to a joint venture in Shenyang producing razors and blades for the local market, is following this strategy by concentrating on product awareness and brand recognition. The firm is using TV commercials and billboards to "re-awaken latent awareness" of the Gillette name in a generation of Chinese who remember King C. Gillette and the traditional blue blades sold in China prior to 1949, explains William Kalan, director of advertising services for Gillette International. "At the same time we want to introduce the name to a new generation."

But few companies currently share Gillette's access to the shelves of local stores. Most consumer products exported to China are sold only in the country's hard currency or "Friendship" stores, frequented by foreigners and the handful of Chinese with access to foreign exchange. Even companies limited to this small market sometimes opt for mass advertising, not so much to generate immediate sales as to establish product awareness and position themselves for a payoff when products can be sold more broadly, and when commercial time and space may not be available so cheaply.

Even advertisements for products that are not in the stores can help to create popular demand. The experience of many Japanese manufacturers, which began using China's mass media to promote consumer products in the PRC in the early 1980s, is instructive: Sony tapes, Seiko watches, and Sanyo tape players, for example, eventually appeared in the marketplace, available—though at a

Scott D. Seligman, senior account executive and coordinator of China affairs for the public relations firm of Burson-Marsteller, has advised companies on their marketing communications in the PRC for many years. He previously worked at the National Council for six years as Beijing representative and as director of Development and Government Relations.

premium—for local currency.

Companies with more limited potential markets in the PRC—by far the lion's share of China's trading partners—usually avoid mass media. If a firm wants to sell machinery to factories, for example, it is far more cost-effective to take out an ad in a journal with a large readership of technicians and factory managers than to broadcast the company name to the general public. Manchurian metalworkers watch TV, too, but an ad in *Machinist Cold Metalworking*, a domestic trade magazine, will also hit the target audience, and it is vastly cheaper.

Targeted PR efforts can do wonders for a firm's image in China. The Chinese tend to put a good deal of faith in the veracity of the printed word, and foreign companies are increasingly using press conferences, press releases, and media events as promotional tools in China. Firms with small numbers of potential customers may be best advised to undertake efforts that focus directly on the Chinese units with which they want to do business. For these firms, activities such as hosting delegations, participating in exhibitions and seminars, donating equipment, and even sponsoring Chinese trainees—activities that confer direct benefit on the Chinese—may often be the very best use of promotional dollars in the PRC.

Revival of the domestic advertising industry

Advertising embarked on its road to rehabilitation in 1979. Its revival was justified by *People's Daily* as a way to invigorate the economy by "bridging gaps between production and marketing and speeding up the flow of commodities." Advertising also afforded foreign companies their first opportunity to reach the Chinese masses, and before the end of 1979 firms such as Westinghouse, Eastman Kodak, Seiko, and Philip Morris were already placing ads in the PRC (*see The CBR*, Jan–Feb 1984, p. 12).

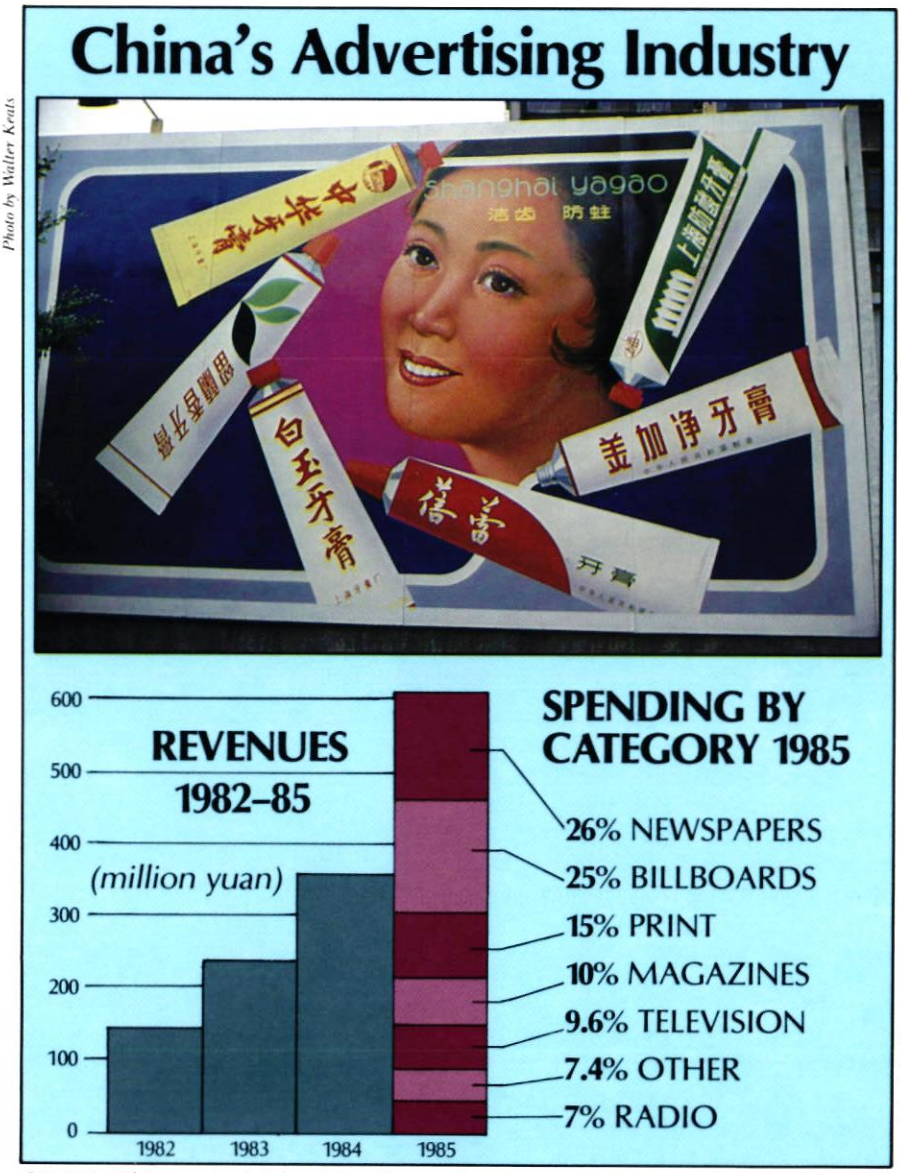
By 1982 the Chinese advertising industry had grown into a ¥150 million business ($79.3 million at then-current exchange rates), and by 1985 total billings had more than quadrupled to ¥605 million ($206 million) (*see* chart). Last year about ¥63 million (over $20 million), or 10.5 percent of this total, represented hard currency billings from foreign advertisers, a percentage that has grown slightly over the last three years. By far the lion's share of the foreign advertising component—between 70 and 80 percent—comes from Japanese firms. By contrast, China is spending only about $20 million on its own export advertising abroad.

According to *China Daily*, advertising revenues are expected to reach ¥1.5 billion by 1990, or about half a billion dollars at current exchange rates. In the shorter term, Zhou Lichen, deputy general manager of the business department of China United Advertising Corporation (CUAC), predicts that ad spending will continue to grow at a rate of about 40 percent per year.

Outdoor advertising accounted for 25 percent of local billings last year. There are now more than 7,000 billboards in China, with more than 600 in Beijing and Shanghai alone. Billboard advertising was exceeded in revenues last year only by newspaper advertising (*see* chart).

The largest category of domestic advertising reportedly comes from nonconsumer products such as machinery, equipment, and chemicals; in 1983 these accounted for 39 percent of total domestic spending. Advertising of consumer products and domestic appliances came next with 27 percent of the market, while food and traditional medicines claimed less than 10 percent each.

Many Chinese organizations have gone into the advertising business—the number jumped from just 10 in 1978 to more than 6,000 last year—although probably only a few dozen



SOURCE: China United Advertising Corporation
Data obtained by Zheng Xiao, project advisor, National Council Beijing office

of them actually resemble foreign ad agencies in their scope of business. The industry now employs just over 40,000 people. Most advertising activity is overseen by the State Administration for Industry and Commerce (SAIC), which registers business units throughout the PRC and controls the use of billboards. SAIC set up the China United Advertising Corporation (CUAC) in 1981 to help local agencies in 25 cities engage in national campaigns and raise advertising standards generally.

The Ministry of Foreign Economic Relations and Trade (MOFERT) entered the field in the same year when it set up the China National Foreign Trade Advertising Association to work with the network of more than 30 local advertising corporations specializing in foreign trade and to coordinate China's expenditures on export advertising placed abroad. MOFERT ventured further into this area early last year when it established a profit-making entity called China International Advertising Corporation (CIAC), a company that handles transregional foreign trade advertising for both domestic and overseas clients. CIAC, with a staff of over 50, has worked mostly for Japanese clients through their ad agencies.

TV advertising—the medium for the masses

Of the many promotional vehicles available to foreign firms in the PRC, television deals have been among the fastest growing and most widely publicized. First was CBS's groundbreaking agreement in 1984 to provide 64 hours of off-the-shelf programming like "60 Minutes" and "NFL Football" to CCTV, China's only network, in exchange for 320 minutes of advertising time. CBS originally planned to market the time to 10 companies in 32-minute parcels at a flat rate of $300,000, sharing revenues with CCTV. Although it fell a bit short of this goal, CBS managed to attract six advertisers in the first season, and eight so far this year: Boeing, Colgate-Palmolive, Dupont, International Hydron, Eastman Kodak, Phillips Electronics, Stauffer Chemical, and Weyerhauser.

Cooperative exchanges of this type are encouraged, since they earn foreign exchange and do not require the Chinese to spend hard currency for the programming. CCTV negotiated an arrangement similar to the CBS deal with Yue-sai Kan, a Chinese-American who produces and hosts a Sunday night program entitled "One World," which introduces Chinese viewers to life in foreign countries. Kan has already signed Procter and Gamble and General Foods as sponsors for 52 weeks at a rate of $450,000 for two 30-second commercials per week, and Xerox Corporation at the same rates for half the year. Any profits after production costs will be split between Kan and the network.

China/USA Communications, a US–China joint venture involving a subsidiary of CCTV, sells network advertising time at a rate of $10,000 per minute. The company also creates and shoots commercials in the PRC for its clients at up-to-date facilities provided by the Beijing Film Institute, and it plans to produce the spots that Xerox Corporation will air on "One World." China/USA also offers international teleconferencing services which foreign firms can use for special promotions in the PRC.

Even one-shot deals can be structured along these lines. Chicago-based TLI International, which represents a number of Chinese journals, broadcasters, advertising agencies, and newspapers (including *People's Daily*) in the US market, contracted with CCTV to provide a Chinese-language version of the Superbowl, which was broadcast in its entirety across the PRC in March, "Superbowl Shuffle" and all. Hewlett-Packard, McDonnell-Douglas, Nike, Gould, and the state of Illinois bought commercial time at a rate of $50,000 for a 60-second spot.

Local Chinese stations are catching on to the idea too. According to China/USA's President Clifford Jones, there is an "increasing independence and aggressiveness" on the part of the local stations, which are now less mired in bureaucratic red tape. "They are out to make deals; they want to do it quickly and make it happen." Shanghai TV negotiated an agreement with a Los Angeles firm called Chinese World Television to obtain 90 minutes of programming in exchange for commercial time that the firm attempted to market at $2,500 per 30-second spot. At those rates it was a difficult sell, however, and the American firm eventually withdrew from the deal. Soon after, the local station agreed to allow another American company, San Francisco-based GBH Enterprises, to market commercial time on its behalf in the United States and Europe. GBH hopes to provide programming in exchange for commercials presented at 30-minute intervals, a break from the tradition of restricting advertising to slots before and after feature programs. Prime time slots will sell for a hefty $5,000 for a 30-second spot and $10,000 for a minute—about the same as CCTV's charges for nationwide broadcasts.

Advertising rates for these special packages vary, but in all cases they are somewhat higher than those charged foreign firms sponsoring domestically produced programs, and far higher than a domestic corporation would pay for the same time. On CCTV, a minute of "golden time,"—the hours from 7:00 to 11:30 pm; the Chinese equivalent of prime time—normally sells for the equivalent of $1,400 to Chinese organizations and $8,000 per minute to foreign sponsors. Sponsors of "One World" pay $8,650 for a minute, and CBS's rates work out to $9,375. Similarly, Shanghai TV time normally costs $1,200 for a 30-second spot, but foreign firms are asked to pay more than four times as much by GBH. The justification given for these price differentials is the vast audience drawn by foreign programming.

Reaching decision-makers through print media

China's print media are multiplying at an astonishing rate (*see The CBR*, Sept–Oct 1985, page 10), and a long list of Chinese publications are opening their pages to foreign advertising. Advertisers may also choose from a growing number of foreign publications produced expressly for the China market. Pioneer journals such as *International Industrial Report* and *China Computerworld* have been joined more recently by Chinese-language editions of such general-interest publications as *Scientific American*, Time-Life's *Discover*, *Science News*, and a host of specialty technical journals including McGraw-Hill's *Aviation Week and Space Technology, American Machinist,* and *Byte*. Many of these publications produce only one or two special Chinese-language editions per year.

The foreign publications generally depend on advertising to defray production costs and reimburse the for-

eign partners for their expenses, and not all of them are yet running in the black. Advertising rates tend to be rather steep: in some cases the journals are distributed for free in China, so all production costs must be recouped from advertisers. *China Computerworld*, for example, asks $3,300 for a full page black-and-white ad. Its circulation in the PRC is 100,000, and it claims that a high pass-along rate actually puts its readership in the millions. The Chinese-language edition of *Byte* charges slightly more, and *Discover* asks $6,250 for a one-time insertion.

Journals like these generally reach important decision-makers. *China Automotive Journal*, for example, published by The Adsale People in Hong Kong, is circulated without charge to 15,000 organizations in the PRC, including ministries and commissions, plants and factories, foreign trade corporations, and research institutes. Among the subscribers, according to the publisher, are corporate managers (28.8 percent), plant managers (22 percent), trade officials (9 percent), and other government officials (6.9 percent).

These publications are viewed as good buys by many firms wishing to reach specific technical audiences. Recent advertisers in a Chinese-language edition of *Modern Plastics International*, a McGraw-Hill publication, include B. F. Goodrich, Borg-Warner Chemicals, Cabot, Eastman Chemical, and Monsanto. The journal, which charges only $2,500 for a single page ad, enjoys a circulation of about 15,000 in China, and is sent to a list of carefully selected decision-makers in the plastics industry. It also makes use of "bingo cards," which readers may mail in if they wish to receive further promotional materials from the advertisers.

Chinese publications offer even better bargains. Although *People's Daily*, the official news organ of the Communist Party, commands a rather hefty $85 per column centimeter from those who would reach its 5 million readers, specialty journals with wide circulations can offer extremely attractive rates. *Electric Science and Technology*, for example, a monthly with a nationwide circulation of 60,000, offers advertisers a full black-and-white page for just $850. And $1,255 will buy a similar ad in *Machinist Cold Metalworking*, which reaches over 3

The Boeing Company hopes to make its name better known in the PRC with TV spots aired in connection with programming provided by CBS. The inscription under these cherubic Chinese children reads "Boeing Airplane Company brings people together happily."

"Wang Computers Provide China with a Rapid Mastery of Advanced Computer Technology" reads this ad, which ran in* People's Daily *last year. The image underscores the message with a head that is half traditional Chinese opera mask, half computer chips.

Many older Chinese remember King C. Gillette and the traditional blue blades, which are featured prominently on billboards and in television ads. The Gillette Co., party to a joint venture producing blades and razors for the local market, is also trying to introduce its products to a new generation.

million readers across China.

Public relations comes to China

Advertising is not always the promotional tool of choice, and with the advent of public relations in China, other methods are becoming more feasible. "Investors who have already dealt with the problems of getting their manufacturing capability in place are starting to think about marketing," says China/USA's Jones, "and many for which mass advertising is not a reasonable option are thinking seriously about public relations and communications work, at least as a start."

Although foreign PR firms have handled ad hoc projects for clients in China since the late 1970s, two international public relations companies, Burson Marsteller and Hill and Knowlton, made their official debuts in China only within the last year or so. And the first national Chinese PR agency, China Global Public Relations, was set up in 1985. A subsidiary of the Xinhua News Agency, China Global signed an exclusive agreement with Burson-Marsteller to provide its clients with a full range of communications services delivered throughout the PRC through the Xinhua domestic network.

Public relations offers companies some channels that are more subtle than mass advertising, and that can be very effective at reaching target audiences. Announcements of contracts and other significant events may now be accompanied by press conferences. Just as in other countries, appropriate media and even particular reporters can be targeted, media advisories issued, and press packets distributed. Local reporters and foreign correspondents alike generally attend in force.

In many respects, China is actually a PR practitioner's dream. Far from worrying about poor turnout at a press conference, promoters often need to work out a reasonable method of limiting attendance, since every invitation generally draws a participant. Press releases, provided they deal with subjects relevant to the PRC, have an excellent chance of being picked up by local media and are frequently reprinted in their entirety. Even announcements that are clearly commercial in nature may make their way into articles, since any item dealing with foreign trade is generally deemed newsworthy.

BellSouth International mounted a highly successful press conference in Beijing late last year. It was a banner week for the company, which opened its first international office in Hong Kong and co-sponsored a major telecommunications conference in China within a matter of days. The firm made company spokespeople available at a luncheon for foreign and local press, and drew a capacity crowd. Many newspapers and CCTV's nightly news broadcast picked up the story, and five months later BellSouth Corporation was still being profiled in Chinese trade magazines.

CCTV itself used effective public relations in promoting viewership of "One World" earlier this year. It sent in camera crews to film a press conference with foreign reporters set up for Yue-sai Kan, and followed a news announcement of the program's debut with a 10-minute interview with Kan featuring preview footage of an upcoming program.

Staging media events in the PRC is an increasingly popular and effective

CREATING PROMOTIONAL MATERIALS FOR THE CHINA MARKET

When writing ad copy or press releases for the Chinese market, several commonly accepted "old saws" should be taken into account. Among them: emphasizing product specifications and performance in lieu of more subjective factors such as feelings and image; avoiding sexual references, which are far likelier to offend than to please; eschewing humor, which may be culture-bound and hence not funny in translation; and avoiding the use of flags and maps, which are too often politically charged.

Language must be appropriate to the audience. This means standard Mandarin soundtracks for videos and simplified Chinese characters for printed matter. Materials produced for the Taiwan and Hong Kong markets are generally not appropriate without some adjustments. Translations of technical terms should be in accord with current PRC usage and should always be checked with native speakers. Translations of company and individual names should be done with great care to avoid unfortunate associations that can occur if the rules of phonics are followed slavishly. It is no accident that "Seven-Up," for example, is rendered in Chinese as "Seven Happinesses." A literal translation would have signaled "agitated" or "perturbed" in Chinese.

Explicitly comparing Chinese and foreign products is risky business, and should be avoided at all costs. Among the offenses for which domestic advertising has recently been castigated in the local press is the "parading of foreign goods to the belittlement of our own." Though the criticism was aimed at domestic corporations that publicize foreign technology and parts used in the manufacture of their products rather than at foreigners themselves, it is still worthy of note.

Most of the companies buying time on Chinese television shy away from a hard sell and concentrate either on relatively subtle product promotion or on corporate image projection. A favorite technique is the "infomercial," designed as much to inform as to sell. IBM, for example, has presented TV spots on the applications of computer technology to daily life. And Eastman Kodak, whose products are sold only in hard currency outlets, uses ads promoting photography in general while featuring its own products.

There are also legal restrictions on promotional materials. The State Council has declared it a crime to place fraudulent advertising. Certain claims—such as efficacy of medicines and foodstuffs—must be verified by government authorities. Advertising must conform to State policies, and may neither "detract from the national character" nor "pander to low tastes." Although there is no published reference to tobacco and alcohol promotion in any of the regulations, it has been government policy for some time to ban both types of advertisements, except in point-of-purchase media at hard currency stores frequented by foreigners.

Some good bets in writing promotional copy: use case studies if they tell the best story, but don't refer to examples in politically sensitive areas like Taiwan and South Korea. Use photographs and drawings showing the product off to its best advantage. Emphasize the benefits the product will confer on the purchaser. Give product specifications and performance information when possible. Associate your firm with a commitment to China's future and modernization process, and stress that you are an "old friend" with an eye on the long term.

—SDS

way to get publicity. Hotel openings, groundbreakings, ribbon cuttings, and factory openings do well in the local press, which seems to have an insatiable appetite for stories portraying China in the process of modernization. General Motors mounted a product demonstration in Beijing last year in which people were invited to test drive GM cars. Chinese media turned out for the event, and their articles multiplied considerably the number of Chinese who learned about GM in the process.

Article placement is a low-cost but extremely useful tool. Technical journals, always on the lookout for new information about foreign products and technology, often welcome editorial material from abroad. If the material has educational value and is of broad interest, Chinese publications will often do their own translations. They sometimes even offer discounts on advertising to corporations that provide such information.

Firms can also earn considerable notoriety in the PRC by underwriting sporting and cultural events. The Chinese are proving extremely flexible on the types of promotion permitted in connection with such events. The China Sports Service Corporation, for example, has given a green light to media accompanying visiting teams, television broadcasting back to the host countries, filming commercials, and even allowing sponsors to place identification on players' uniforms.

Domestic organizations have expressed keen interest in the field of public relations in the last two years. PR societies are forming in some cities, and many government units and State-owned enterprises have established their own public relations offices—Guangdong Province alone boasted 60 such entities in January 1986. Though these occasionally amount to little more than the old "propaganda department" restyled and reincarnated, there is growing awareness of the value of public relations and a good deal of curiosity about how its practices can be adapted to China's needs. "As the mouth and the eyes of a new enterprise," says an official of Guangzhou's Baiyunshan Pharmaceutical Factory according to the *China Youth News*, "the PR department is largely concerned with publicity and diplomacy. This is why we allocate so much money for its operation every year."

Media and audience data hard to come by

Some estimates place the total number of Chinese television viewers as high as 600 million, a figure that is probably far too high. Projections of the audiences for foreign programming are generally in the range of 200–300 million. Not that there are any hard numbers to back up such claims, since there has not yet been much audience measurement in the PRC, for television or for any other medium.

China is actually a PR practitioner's dream. Far from worrying about poor turnout at a press conference, promoters often need to work out a reasonable method of limiting attendance.

The need for dependable audience data has become clear as more and more firms consider expensive promotional vehicles like TV packages. "People want to know pretty quickly what they're getting for their money," says William Kalan of Gillette.

Reliable audience research, scarce at the moment, may be just around the corner. The Chinese Institute of Journalism has already begun conducting media surveys in some areas. A poll of over 88,000 families in Guangdong Province revealed that 20 percent of the respondents had television sets, and projected that 25 million viewers in the province watch an average of three hours of television per day. A poll in Zhejiang Province established that 96 percent of respondents listened to the radio, 75 percent watched television, and 67 percent read newspapers.

CBS has already underwritten some audience research of its own to measure viewer awareness of the corporate identities and products of its foreign advertisers. The network hopes to prove the efficacy of the ads it places to augment its further marketing efforts, and was heartened by the results of its first poll, which concentrated on urban residents of Beijing, Shanghai, and Guangzhou. Over 50 percent of respondents reported seeing American programs on TV between five and 12 times. Half the respondents named Boeing as the first aircraft manufacturer that came to mind, and eight out of 10 named Kodak spontaneously as a film manufacturer, with 57 percent mentioning it first. Many of those polled also recall specific contents of the CBS sponsors' ads.

Etching on a "blank slate"

The various options now available offer unparalleled opportunity to create a corporate image in the PRC. But it has always been possible to spend vast sums of money in China and obtain little or no "bang for the buck." A communications strategy for the PRC, as for any other country, must proceed from a clear idea of the market and an accurate assessment of the target audiences. It must also take into account the peculiarities of reaching the Chinese audience (*see* box).

Chinese awareness of foreign corporations is still something of a blank slate. The nation's isolation during a critical period of the 20th century has resulted in a significant knowledge gap, and many world-renowned Fortune 500 companies and products are still unknown. Because of the fervent Chinese interest in learning about life in developed countries, a foreign promoter can generally count on the public's undivided attention. At a time when advertisers in the West fret about consumers "zapping" TV ads, Chinese viewers tend to find commercials fully as interesting as the feature shows they punctuate.

The future belongs to those companies that are already making their bids for the public's attention and attempting to etch on this blank slate. They are positioning themselves for significant participation in the China market in years ahead. 完

A step-by-step guide to finalizing a contract in China

Investment Approval

Sue-Jean Lee and Andrew Ness

China's complex bureaucracy can pose formidable problems for foreign companies contemplating investment. Getting approval for a proposed project is a cumbersome process that can take years and has daunted many determined investors. To make matters worse, accepted practice often differs from locality to locality, frustrating efforts to define a standard procedure for companies to follow.

In recent interviews with officials from the Ministry of Foreign Economic Relations and Trade (MOFERT) and other investment organizations, we asked for clarification of the approval process for foreign investment projects. A national perspective on the process emerged, with theoretical guidelines on how the system should work.

Although not an exact road map of what individual companies can expect, the following description of procedures and organizations applies generally to the approval of equity joint ventures, and is also relevant to contractual joint ventures and wholly foreign-owned enterprises. The approval process is discussed in several discrete steps, not all of which apply to every project. Moreover, getting through one stage does not guarantee success in the next—nor does it ensure eventual realization of the project. For that, only time will tell.

1. Approval of project proposals

Since China has a planned economy, joint venture project proposals are usually reviewed by the government and, if approved, included in either the local or national economic plan long before contracts are signed with foreign firms. The initiative for project proposals can come from many different levels, but these proposals are ultimately approved by the Local Planning Commission (LPC) or by the State Planning Commission (SPC) if the value of the project exceeds local approval authority. Only the State Council may approve projects involving a total investment of ¥100 million or more. Companies should be aware, therefore, of the project approval limit within a particular locality (*see* p. 20). The approval limit refers to the total value of investment for a project, not simply the amount of foreign currency involved. To avoid delays caused by the intervention of higher authorities, local government entities sometimes deliberately structure project proposals so that they will remain within the locality's approval limits. It should be kept in mind, however, that MOFERT is authorized to review *all* project proposals of any size to ensure compliance with applicable regulations. And whether approval occurs at the national or local level, foreign parties generally do not play an active role in the process at this stage.

When a company enters into discussions on a proposed project, it should therefore first ascertain the project's official status—i.e., whether or not it has been formally approved. In cases where a project proposal is drawn up only after initial Sino–foreign discussions, the foreign company should make sure that the proposal receives approval before proceeding with more serious negotiations. Companies can check with MOFERT's Foreign Investment Administration or, if a local project, the local foreign economic relations and trade commission (FERTC) to try to ascertain the project's status, since these organizations generally keep a record of proposed projects.

During preliminary meetings, companies may be asked to sign one or more letters of intent or memoranda of understanding. These are generally not legally binding documents, but merely statements that both parties agree on common goals or premises and would like to pursue further discussions. Sometimes a memorandum of understanding may simply be minutes of a meeting, intended to serve as a record of the issues being discussed. In any case, such agreements do not necessarily mean that the project concerned has already been approved.

2. Preliminary feasibility study

For certain types of projects a preliminary feasibility study is conducted by the Chinese entity to provide documented support for its project proposal. "Large" projects (valued at ¥30 million or more) generally require a preliminary feasibility study before the authorities will make a decision on the project proposal. Projects that involve manufacturing a product on MOFERT's list of controlled imports will also require a preliminary feasibility study to justify going ahead with the project despite the import controls, which are presumably in place because demand can be adequately met by existing facilities. No explicit regulations govern this area, however, and many smaller projects forego this step.

In a preliminary feasibility study, rough estimates can be used to predict the value of the projected investment, scope of production, price of raw materials, energy consumption, economic return, etc. Much of this

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data may be derived from national sector averages rather than from a detailed analysis of the actual conditions of the proposed project.

The Chinese partner usually bears sole responsibility for the expense and preparation of a preliminary feasibility study, although the foreign partner's assistance may be requested—particularly in instances where the prospective partner is already known to the Chinese side. There is little chance that a foreign company will be reimbursed for its help on a preliminary feasibility study, although this might be possible to negotiate in advance.

For most projects, there are no strict rules on when to submit the preliminary feasibility study. It is sometimes submitted together with the project proposal or, in other cases, in lieu of a project proposal. But service sector projects (such as hotels) that require a total investment of over $30 million may submit the preliminary feasibility study at the same time as the project proposal, while manufacturing ventures of this size should have the preliminary study approved first.

Depending on the locality, the preliminary feasibility study is approved by either the LPC or the local FERTC. Again, for projects exceeding local approval limits, the study must be passed to the SPC for approval.

3. Joint feasibility study

A more detailed and formal feasibility study is required by Chinese law for all but the smallest Sino–foreign equity JVs, and this usually takes place after a project has been approved but before a contract has been signed. It is a joint effort undertaken by the Chinese and foreign partners, covering all aspects of the proposed project. The importance of conducting a thorough feasibility study has become increasingly apparent as poorly prepared reports and insufficient coordination between decision-making departments have led to problems implementing joint ventures.

While a good feasibility study can isolate and help solve potential problems ahead of time, companies should be aware that a detailed feasibility study may also work against them. For instance, companies may be held to figures in the study that were intended only as estimates, or have since become outdated. In one case, a study's estimates of expenses for a project's planned expatriate staff was later interpreted by the Chinese approval authorities as the actual negotiated salary level. Therefore, when the project was implemented two years later, the foreign partner was not allowed to increase its earlier estimates to reflect current costs.

The Chinese and foreign partners to a venture may conduct the feasibility study themselves, if they have the in-house capability, or hire an outside consultant, either Chinese or foreign, to help. The cost of the study is shared by the project partners according to negotiated terms. In the event that each side hires its own consultant, the consultants should work together since both should be operating on the same assumptions.

A joint venture contract is often confused with a joint venture agreement. The agreement formalizes the main points and principles governing the venture rather than the rights and obligations of the partners, and is usually drawn up before the contract, if at all.

In December 1985 the State Council promulgated a rule that, during the Seventh Five-Year Plan, all feasibility studies for joint venture projects involving technical renovation valued at ¥30 million or more at collective or State-owned enterprises must be appraised by the China International Engineering Consulting Corporation (CIECC). The regulation also states that CIECC must review feasibility studies for all joint capital construction projects that require SPC approval. Expenses incurred by CIECC in appraising a feasibility study requested by the SPC will ultimately be included in the project's production costs. Since these costs are generally borne by the joint venture partners, companies involved in such projects should anticipate this expense. CIECC may also act as consultant directly to the joint venture in conducting its feasibility study, relying on a network of corporations that can subcontract with CIECC for work on certain aspects of the study.

As part of the feasibility study, the Chinese partner must submit reports to each local department whose cooperation will be needed for project implementation. The reports should state exactly what the project will need from the department throughout the course of its operations. The local departments must reply to the report in writing, whether or not they agree to supply the goods or services. Their approval of the venture's requests, if given, is considered binding, but companies should be aware that problems could still arise. If the local department claims it is unable to provide the agreed-upon services, or is simply uncooperative, the Chinese partner may ask the LPC to intercede on the project's behalf to improve compliance. But there is no guarantee of success in these situations, which may be an early warning signal for the project.

The LPC plays a very important role in the feasibility study process. In most localities the LPC approves formal joint feasibility studies, in consultation with the local FERTC. But Shanghai and Jiangsu, for example, are exceptions in which the power of approval lies with the local FERTC, which merely consults with the LPC prior to approving or rejecting the study.

Even if a project exceeds the scope of a given locality's approval authority, the LPC must still ride herd on local organizations to secure their eventual cooperation in the project. The LPC is presumably familiar with local conditions, politics, and personalities that might later affect project implementation. The SPC in Beijing simply lacks the manpower to actively obtain cooperation at the local level. But if the locality cannot meet a given project's needs, the SPC will become more active and assign the task of resolving the problem(s)—usually to the ministry that oversees the sector involved. The fact that the locality lacks the required resources, however, necessitating central government intervention, might be a sign of problems to come.

With the subject of foreign exchange becoming a major negotiation issue for most investment projects in China, MOFERT has also become more active in reviewing the

joint feasibility studies. Joint ventures that anticipate problems balancing their foreign exchange are expected to propose a plan for resolving profit repatriation as part of the study. According to one MOFERT official, if countertrade is part of the proposed solution, the joint venture itself must actively seek out a supplier of the second product it wishes to export. If that product is "in plentiful supply" in the local area, then local FERTC approval of the proposal will be sufficient. If it is a product whose export requires a license, then it will be necessary to obtain approval for an export quota from MOFERT's Import–Export Department. If putting together a countertrade arrangement requires the cooperation of a second ministry that is reluctant to go along, however, MOFERT can only discuss the matter with the uncooperative party, but will not pressure the ministry on the joint venture's behalf. Indeed, MOFERT officials claim that they have little clout in these matters—although they have also indicated that regulations pertaining to putting together a countertrade arrangement in the context of a joint venture should be issued sometime this year.

In reviewing feasibility studies MOFERT pays close attention to the quality and general competitiveness of the product and, particularly, whether or not the product will actually be saleable in the markets it has staked out. These factors all have a direct bearing on the joint venture's ultimate ability to balance its foreign exchange, the issue to which MOFERT attaches greatest importance.

4. The contract and other documents

A joint venture contract, as defined in the 1983 Joint Venture Implementing Regulations, is a legally binding document signed by the joint venture partners that spells out the rights and obligations of each partner. A carefully prepared feasibility study covering all the major issues of concern to the partners should form the framework for the contract, leaving only the precise wording to be negotiated and worked out.

The experience of many companies suggests that, in drawing up the contract, it is advisable to follow the sample joint venture contract published by MOFERT as closely as possible. Clauses that are not entirely agreeable to one of the partners can be tempered with provisos that clarify the partner's position. When MOFERT officials review a contract that follows a format familiar to them, they are likely to have fewer questions, and the contract may be approved more readily. Also, wherever possible, foreign companies should build into the contract balanced and equal provisions that protect both parties, rather than one-sided demands.

A joint venture contract is often confused with a joint venture agreement—a separate document occasionally drawn up by the partners to a joint venture. According to the Implementing Regulations, the agreement formalizes the main points and principles governing the venture rather than the rights and obligations of the partners, and is usually drawn up before the contract. Of the two documents, the contract is clearly the more important since its terms prevail if a conflict occurs between the two documents. If the partners agree, they may forego the agreement and conclude only a joint venture contract. In practice, very few

FEASIBILITY STUDY CHECKLIST

As feasibility studies gain acceptance in China, their format becomes ever more detailed. While an official format has not yet been established, the following provides a basic guide to what a feasibility study might include. Based on the specific needs of equity joint ventures (JVs) in China, much of the information will also be relevant for other types of investment projects. Each feasibility study is unique, and the degree of detail required will vary from project to project. This checklist is intended, therefore, only as a general outline of issues to be presented and considered in drawing up a feasibility study in China.

PART I GENERAL DATA
- JV name, location, objective
- Description of partners (include sponsor in China and name of persons with primary responsibility for the project)
- Business scope, legal format (limited liability company) and duration
- JV administrative structure (include name and number of positions to be filled)
- Summary of total investment

—Proportion, value, and form of each partner's contribution
—Loan details, if applicable

PART II MARKET ANALYSIS
- Current and future market for product

—Sales estimate (total and by price category)
—Projected foreign and domestic distribution
—Local industry conditions and prospects
- Past product imports and projected trends
- Role of the industry in national economy
- Anticipated competition (local and foreign)

PART III LOCATION AND SITE
- Land (site) use arrangement (include land-use fee and local department in charge if land not part of equity contribution)
- Complete layout of JV plant/buildings and capacity
- Infrastructure improvements required

PART IV PRODUCTION/OPERATIONS PLAN
- Quality of product/service (include international technical standards if appropriate)
- Estimated annual output/turnover (both before project reaches full capacity and each year thereafter)
- Transport and local storage requirements
- Product testing and quality control
- Trial production procedures and equipment
- Products, by-products, and waste (include estimated annual cost of waste disposal)
- Environmental protection plan (include projected pollution problems and treatment)
- Details on separate work locations, if applicable (input/output of each location, amount processed annually, value added at each facility, labor costs)

PART V MATERIAL INPUTS
- Approximate input requirements for all materials
- Present and potential sources of supply
- Availability of utilities, especially power
- Transport routes planned
- Rough estimate of annual cost of local and foreign inputs

PART VI PROJECT ENGINEERING
- Description of technology and equipment to be used

companies have opted to sign a joint venture agreement in addition to the contract.

There may also be other types of agreements drawn up to govern specific aspects of the joint venture not covered in the main contract, such as a licensing contract for the transfer of technology, a technical assistance contract, or a labor management contract. These can be negotiated separately, but should be submitted for approval together with the joint venture contract.

5. Approval and registration

The documents that must be submitted to MOFERT or to the local FERTC (if a project is within local approval limits) for final examination and approval of a joint venture include an application for joint venture approval; a copy of the approved project proposal; the preliminary feasibility study if applicable; the feasibility study prepared by the joint venture partners; the joint venture agreement (if any); the joint venture contract; the articles of association; a list of the JV board members; and supplemental statements from the department in charge of the Chinese partner and the local and other authorities as relevant to the joint venture. MOFERT or the local FERTC are responsible for coordinating review of the documents by the relevant authorities (such as tax and customs) before making a final decision on the joint venture contract.

Within one month of being granted final approval, a joint venture must register and apply for a business license at the local administration for industry and commerce. This process is outlined in and governed by both the Joint Venture Implementing Regulations and the Regulations on the Registration of Joint Ventures. It may be useful to notify the local administration of industry and commerce early on during project negotiations. In one case in which the partners did not do so, an otherwise uncomplicated process of final joint venture approval met with unexpected registration delays of many months.

6. Variations involved in other forms of investment

While other forms of investment involve approval procedures similar to those of equity joint ventures, the complexity of the form of investment determines how strictly the procedures will apply.

The easiest element of the approval process to compare across the different forms of investment is the feasibility study. Reviewing the feasibility study requirements for different forms of investment provides some insight into how general investment guidelines may vary in their application. All **equity joint ventures** require a detailed joint feasibility study according to MOFERT, with two possible exceptions: small projects valued at only several hundred thousand dollars, and oil exploration joint ventures that are conducted by open bidding and already require submission of detailed analyses. Many large **coproduction ventures (or contractual JVs)** that involve manufacturing and services also require a feasibility study. **Wholly foreign-owned enterprises** must submit detailed project proposals. If the proposal is approved by the LPC, the project can be implemented without a feasibility study, since the foreign company will assume all the risk. However, if the LPC feels the proposal is unclear or not in accordance with China's law, it may re-

- Cost estimate (include, if applicable, technology transfer fees, royalty rate, and terms of payment)
- Rough layout of proposed equipment and costs
- Rough layout of civil engineering works and costs

PART VII ORGANIZATION AND OVERHEAD COSTS
- Planned organization structure (production, sales, administration, management)
- Estimated overhead (factory/operations, administrative, financial)

PART VIII MANPOWER
- Estimated manpower requirements (local/foreign staff by major category of skills)
- Units where employees will come from and positions they will fill
- Estimated wage scales, including overhead
- Personnel training plan

PART IX FINANCIAL AND ECONOMIC EVALUATION
- Estimated total investment costs (include working capital, fixed assets and amortization)
- Project financing
—Proposed capital structure
—Proportion and value of each partner's contribution
—Terms of proposed financing, if applicable
- Production cost
—Initial establishment/installation cost
—Annual operation cost, analyzed by work location if applicable
—Cost of technology, training, material inputs, transport, utilities, overhead
- Levy of taxes, duties, insurance (include expected rebates, reductions, and exemptions)
- Financial evaluation based on above-cost estimates (factoring in inflation)
- Projected annual profits (RMB and foreign currency)
- Profit distribution plan
- Cost analysis for products to be introduced later on, if applicable
- Statement of plan for balancing foreign exchange income and expenditure (must be separately approved by MOFERT or local FERTC depending on size and nature of project)
- Evaluation of project impact on the national economy

PART X JV IMPLEMENTATION SCHEDULE
- Overall time schedule proposed
- Schedule for preliminary operations and estimated cost
- Subcontractors and consultants involved (Chinese and foreign)

PART XI ACCOMPANYING DOCUMENTATION
Indicate documents to be prepared, by whom, and specific responsibilities:
- Market studies, technical studies, economic studies, as applicable
- Accounting statements
- Financing plan
- Written guarantees granted to investors, if applicable
- Written statements of opinion from relevant government organizations
- Formulation of JV agreement and/or contract
- Formulation of the JV articles of incorporation
- Other relevant documents, understandings, agreements

PART XII WORK PLAN PRECEDING ESTABLISHMENT OF THE JV
- Detailed plan for each stage of feasibility study, work flow chart

SOURCES: National Council interviews with Chinese officials, information provided by Chinese officials to foreign companies during negotiations; UNIDO: *Manual for the Preparation of Industrial Feasibility Studies* (Note: MOFERT officials have indicated that the model feasibility study provided by this manual closely follows their requirements); Department of Commerce: *Joint Venture Agreements in the People's Republic of China*, appendix S.

GOVERNMENT ORGANIZATIONS INVOLVED IN INVESTMENT APPROVAL

The following is a list of many of the organizations directly or indirectly involved in the approval of foreign investment projects and a brief description of the role they play. Their participation may vary with the size and complexity of each project.

STATE COUNCIL: Approves large projects requiring total investment of ¥100 million or more.

STATE PLANNING COMMISSION (SPC)/LOCAL PLANNING COMMISSION (LPC): Approves project proposals and feasibility studies; involvement depends on project size.

STATE ECONOMIC COMMISSION: May be involved in reviewing project proposals; oversees implementation of State plans.

MINISTRY OF FOREIGN ECONOMIC RELATIONS AND TRADE (MOFERT)/LOCAL FOREIGN ECONOMIC RELATIONS AND TRADE COMMISSIONS (FERTC): Responsible for final approval of all investment contracts; may examine and approve project proposals and feasibility studies in some localities; may be involved in partner selection and negotiation.

CHINA INTERNATIONAL ENGINEERING CONSULTING CORPORATION (CIECC): Appraises technical renovation projects and reviews joint capital construction projects at SPC request; can provide consulting services for feasibility study preparation.

CENTRAL INDUSTRIAL MINISTRY (OR MINISTERIAL CORPORATION)/LOCAL INDUSTRY BUREAUS OR CORPORATE BRANCHES: Oversee development of the industry; allocate funds; supervise factories; approve preliminary feasibility reports for proposed projects; may be directly involved in negotiations; may take equity position; or, as parent entity, become joint venture partner.

MINISTRY OF FINANCE (MOF): General Tax Bureau manages State tax revenues and handles joint venture tax issues; the Accounting and Management Department oversees joint venture accounting practices.

MINISTRY OF LABOR & PERSONNEL/LOCAL LABOR MANAGEMENT BUREAUS: Administer overall labor and wage aspects of enterprises; approve labor contracts; review employee dismissal; may supply labor to joint ventures.

STATE BUREAU OF SUPPLIES & MATERIALS/LOCAL GOODS REGULATORY DEPARTMENT: Organize and direct allotment, supply, and management of goods controlled by the State; undertake storage and transportation of materials.

STATE ADMINISTRATION OF COMMODITY PRICES/LOCAL PRICING BUREAUS: Determine domestic prices for import and export goods; prices of JV products sold domestically may be subject to review and approval.

STATE ADMINISTRATION OF INDUSTRY & COMMERCE (SAIC)/LOCAL BUREAUS OF INDUSTRY & COMMERCE: Protect legal business operations; issue business licenses; register all businesses including equity joint ventures, contractual joint ventures, wholly foreign-owned enterprises, and foreign company offices; also register trademarks.

GENERAL ADMINISTRATION OF CUSTOMS/LOCAL CUSTOM BRANCHES: Supervise and control import and export activities; levy customs and other tariffs; approve applications for customs tariff reduction or exemption.

STATE ADMINISTRATION OF EXCHANGE CONTROLS (SAEC)/LOCAL EXCHANGE CONTROL BRANCHES: Administer foreign currency income and expenditure of all economic entities, including JVs and wholly foreign-owned enterprises. SAEC approval needed before joint ventures or wholly foreign-owned enterprises can set up accounts with and/or borrow funds from foreign banks.

AUDIT OFFICE: The Foreign Investment Audit Bureau supervises income and expenditures of JVs, foreign businesses, and State firms using foreign investment.

STATE COUNCIL SPECIAL ECONOMIC ZONE OFFICE: Approves investment incentives offered in SEZs as well as the zones' development plans.

LOCAL LAND MANAGEMENT DEPARTMENT: Approves use of site by JVs if land is not contributed as part of equity; regulates land-use fees.

LOCAL BUREAUS OF ELECTRICITY USE AND PLANNING: Approves power allocation for enterprises with high energy consumption.

BANK OF CHINA (BOC)/BOC TRUST CONSULTANCY COMPANY (BOCTCC)/LOCAL BRANCHES OF BOC AND SUBSIDIARIES OF BOCTCC: Not directly involved in project approval but provide financial support to Chinese entity or joint venture through loans or taking equity positions. —SJL

quest a feasibility study to clarify certain items or provide evidence that the project conforms to the State's plan and laws. **Processing and assembly deals** do not require a feasibility study. The contract itself is sufficient. **Compensation trade** requirements vary according to the size of the project. Smaller projects usually do not require a feasibility study, but projects involving several million dollars do. Even for these larger projects, the feasibility study can be less detailed than those required for equity joint ventures, since compensation trade does not involve creation of a separate entity. **Technology transfer projects** that are not part of joint venture arrangements require a feasibility study conducted by the Chinese entity, which usually does not involve the foreign party.

Taking an active role

Potential foreign investors approaching the Chinese bureaucracy can expect to find repetitive procedures, responsibility fragmented into many complex levels, and often poor communication between the organizations involved. Although foreign investors will deal primarily with their Chinese venture partner and the local FERTC or MOFERT, they will benefit from having more than a vague understanding of the myriad other "responsible departments" that will become involved. Since these vary from place to place, it is well worth the foreign company's effort to identify them early and learn as much as possible about what needs to be approved, by whom, and when. This knowledge can be used to assist the Chinese partner, who is responsible for making reports to all the different entities.

Some localities, such as Shanghai, have established their own distinctive procedures for project negotiations, examination, and approval. The foreign company should ask its prospective Chinese partner as well as local FERTC officials whether such special procedures exist.

Careful monitoring of the approval process will help prevent major setbacks and enable the foreign partner to play a more active role in promoting the project. Although Chinese bureaucratic procedures are complicated, they generally can be followed by well-informed and patient foreign investors. 完

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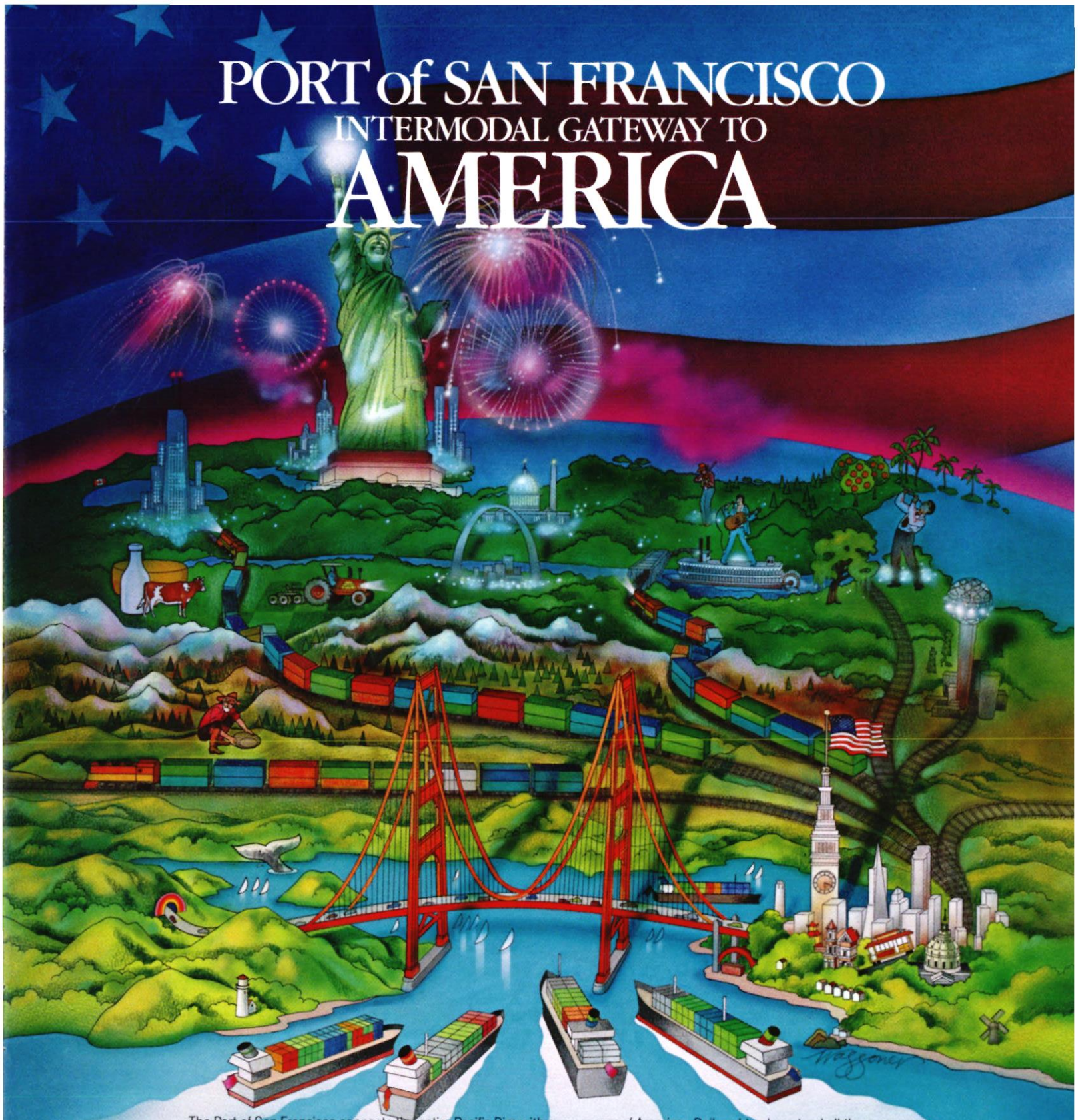

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OVERVIEW OF INVESTMENT INCENTIVES

China may be opening to foreign investment in fits and starts, but there's little doubt that significant progress has been made. What began as a limited experiment in the late 1970s in four small "special economic zones" spread to major population centers on the east coast in 1984, and today touches on almost every part of the country. Even the most remote provinces and cities have announced guidelines and special incentives to lure foreign investment. While local guidelines are often far from clear, and sometimes seem to be mere restatements of existing national policy, they illustrate the extent to which a national consciousness of foreign investment issues has emerged.

This table provides the prospective investor with an initial point of comparison between special economic zones, open cities, inland cities, and the provinces by highlighting the basic forms of preferential treatment being promoted in each. Such a compilation cannot be exhaustive given the quickly multiplying and changing list of incentives offered, and the sporadic nature of published information. Nevertheless, familiarity with the types of preferential treatment available is an excellent starting point for discussions. Potential investors should always check with a given locality for the latest local guidelines, keeping in mind that most incentives are negotiable and that additional concessions may be available from provincial, city, and even county governments for high priority projects. Most forms of preferential treatment are not granted automatically. They must be specifically requested and are subject to approval by the relevant State or local authorities on a case-by-case basis. While the various reductions and exemptions in taxes and fees offered to foreign investors may not always be the main factor that determines where to locate a project, they are often a key part of the investment decision.

LOCATION/INVESTMENT APPROVAL CEILINGS	ENTERPRISE INCOME TAX (EIT)
NATIONWIDE Provinces, autonomous regions, and open cities generally have local approval ceilings of $5 million unless otherwise noted. The inland cities of *Chongqing, Harbin, Jinan, Shenyang, Wuhan,* and *Xi'an* may also approve projects valued up to $5 million independent of the provinces in which they are located	• New JV contracts for 10 yrs or more: —tax exempt for first 2 profit-making yrs —50% tax reduction for subsequent 3 profit-making yrs • JVs with long-term capital recovery, or in underdeveloped, remote areas, or engaged in low-profit operations such as farming, forestry, animal husbandry, and deep-pit coal mining: —15–30% tax reduction for 10-yr period after expiration of exemption and reduction, with approval from the Ministry of Finance —40% refund on tax paid on income reinvested in China for 5 or more yrs by a foreign JV participant • Wholly Foreign-Owned Enterprises: —tax exempt in first profit-making yr —50% tax reduction for subsequent 2 yrs —15–30% tax reduction extension for 10-yr period after expiration of exemptions and reductions, with approval from the Ministry of Finance LOCAL EIT: • Projects may be reduced or exempt at discretion of local authorities
SPECIAL ECONOMIC ZONES (SEZs) *Shantou, Shenzhen, Xiamen, Zhuhai* Heavy Industry: ¥50 million Light Industry: ¥30 million Nonindustrial: (e.g., hotels) ¥100 million	• For foreign investments of $5 million or more in: Service trades: —tax exempt for first profit-making yr —50% reduction for following 2 yrs High technology: —tax exempt for up to 5 yrs • For *Xiamen SEZ*: Contracts of 10 yrs or more involving upgrading of export oriented enterprises: —exempt for first 4 profit-making yrs —50% reduction next 5 profit-making yrs • Low profit enterprises in SEZ Xiamen —reduced or exempt
14 COASTAL CITIES and HAINAN ISLAND *Shanghai* and *Tianjin* ($30 million); *Dalian* and *Guangzhou* ($10 million); *Hainan Island* ($5 million). In April 1986 the central government rescinded the approval ceiling of $5 million for the rest of the original 14 cities—*Qinhuangdao, Yantai, Qingdao, Lianyungang, Nantong, Ningbo, Wenzhou, Fuzhou, Zhanjiang,* and *Beihai*—although some of these cities still claim this right. Foreign investment in these 10 cities must now be officially approved by their respective provincial governments.	• For most industries, 20% reduction of regular rate for specified period • 15% tax rate may be granted to: —technology-intensive enterprises —enterprises involving $30 million foreign investment —projects in energy development (excluding oil), transportation, port construction (criteria for approval varies with each city)
Economic and Technological Development Zones (ETDZs) in 14 Coastal Cities	• 15% tax rate • For investments in transportation, energy, and telecommunications, less than 15% • *Fuzhou* ETDZ: low-profit enterprises may be granted reduction or exemption of income tax LOCAL EIT: • Reduction or exemption may be approved by local government • *Qingdao* ETDZ: exempt for first 2 profit-making yrs; 50% reduction for next 3 yrs • *Tianjin* ETDZ: exempt until 1990

Tax exemptions, reductions and incentives noted below are based on the following standards:

- *A standard 30 percent national enterprise income tax (EIT) on the net profits of equity joint ventures (JVs) and a local surtax levied at 10 percent of the national tax bring total enterprise income tax for JVs to 33 percent of net profits. Wholly foreign-owned enterprises pay a progressive tax of 20–40 percent as well as the 10 percent local EIT. The tax rates for contractual joint ventures can fall into either category, depending on how the project is structured.*
- *The industrial and commercial consolidated tax (ICCT), similar to a sales tax on domestic, imported, and exported goods, ranges from 1.5 to 69 percent for products, and 2.5 to 7 percent for services.*
- *Preferential treatment involving customs duties on imports tends to follow ICCT guidelines for imported products. Normal customs duties range from 5 to 400 percent.*
- *Land use fees vary widely by location and industry sector, and should be checked in each area.*

This survey of investment incentives throughout the country was compiled by Abigail R. Jahiel and Deborah C. Diamond.

INDUSTRIAL & COMMERCIAL CONSOLIDATED TAX (ICCT)	LAND USE FEES	ADDITIONAL INFORMATION/TARGET SECTORS
ON IMPORTS • Exemption from raw materials, parts, components, and packing materials imported by foreign partner for processing or assembly into complete production or for making export goods • Exempt with approval of tax authority: —equipment/materials imported as part of investment	• Preferential treatment at discretion of local authorities, usually provided for cultural, educational, scientific, or public welfare enterprises. For other sectors, see individual listings	Special concessions for harbor construction projects: • for contracts of 15 yrs or more: —income tax rate 15% —exempt from tax during first profit-making yr —50% reduction next 5 yrs (may be extended for enterprises in financial difficulty) • exempt from 10% profit remittance tax • guarantee of docking fees high enough to help generate projected incomes
ON IMPORTS: • With approval, the following are exempt: —machinery, equipment, components, parts, raw and semi-finished materials, fuel, and automobiles for use in construction and production in SEZ —foodstuffs and tableware for use in hotels, catering trade, tourism, and food industries —machinery, equipment, and accessories imported for offshore oil exploitation • 50% reduction on wines, liquors, tobacco, and daily necessities other than those restricted for import by MOFERT ON EXPORTS: Products produced in SEZ are exempt (*Note:* goods purchased from inland but exported via SEZs are subject to applicable export duties) ON DOMESTIC SALES IN SEZs: • 50% reduction on items such as mineral oil, liquors, and cigarettes produced in SEZs • Local government may approve reduction or exemption on certain products ON DOMESTIC SALES IN THE INTERIOR: All items transported to and sold in the interior of China are taxed according to rate set by tax law	• For *Shenzhen SEZ*: projects involving advanced technology may be exempted from local land-use fees • For *Xiamen SEZ*: contracts of 10 yrs or more involving upgrading of export-oriented enterprises exempt during construction period and first 5 yrs of operation	• Exempt from 10% profit remittance tax • 50% depreciation on machinery and equipment during first yr of use • CUSTOMS DUTIES: Incentives offered are similar to ICCT import guidelines • *Shantou SEZ*: petrochemicals, electronics, textiles, plastics, toys, building materials, metal products, agriculture, tourism, real estate, electricity, transportation • *Xiamen SEZ*: electronics, microcomputers, precision machinery, instruments and meters, building materials, fine chemicals, textiles, food processing, tourism, transportation, communications • *Zhuhai SEZ*: building materials, electronics, daily-use chemicals, food, machinery, petroleum
ON IMPORTS: • Production equipment, business facilities, and building materials imported as part of investment, as well as vehicles to be used by enterprise are all exempt • Raw materials, spare parts, components or packing materials imported for producing export products are all exempt. (Will be taxed if goods are sold domestically.) ON EXPORTS: With the exception of a small number of products controlled by the State, all other export products are exempt ON DOMESTIC SALES: Products sold in China are taxed according to rate set by tax law		CUSTOMS DUTIES: Import of production equipment, building materials, raw materials, parts and fittings, components, motor vehicles, and articles for office use are exempt
	Ningbo ETDZ: reduction in land-use fees *Guangzhou ETDZ*: foreign firms providing badly needed technology will be exempt from land-use fees	• All ETDZs exempt from 10% profit remittance tax • Products made by JVs, that use 70% domestic raw materials and are badly needed by China, may be sold wholly or partly on China's domestic market • *Guangzhou ETDZ*: Overseas Chinese from HK, Macau, and Taiwan: —granted extended tax exemption or reduction if they reinvest share of profits in China —if investment is in advanced technologies, investor may sell products on China's domestic market during first 2 yrs

LOCATION/ INVESTMENT APPROVAL CEILINGS	ENTERPRISE INCOME TAX (EIT)
Beijing ($10 million)	
Fujian ($10 million)	• Overseas Chinese investors: —new contracts of 10 yrs or more: 5 yr exemption from enterprise income tax, 50% reduction during remaining period —For investments in low-profit industries or for enterprises in underdeveloped areas, after first 5 yrs of exemption and reduction, may be granted tax reduction of 15–30% for following 10 yrs
Gansu ($5 million)	• Exempt for highly advanced technology
Guangdong ($10 million) Guangzhou: $10 million Hainan: $5 million	• For investments in low-profit industries or for enterprises in underdeveloped areas, after first 5 yrs of exemption and reduction, may be granted tax reduction of 15–30% for following 10 yrs • Investments in the province's mountainous counties granted additional preferential treatment
Guangxi ($5 million)	• JVs in underdeveloped, remote areas exempt from enterprise income tax during first 5 yrs • For investments producing advanced internationally competitive products: —exempt for 2 yrs —50% reduction for next 4 yrs LOCAL EIT: • JVs in underdeveloped, remote areas exempt • Exempt if annual income less than ¥ 1 million
Guizhou ($5 million)	
Hebei ($5 million)	Low-profit enterprises pay reduced rate or are exempt during first 5 yrs
Heilongjiang ($5 million) *Harbin:* $5 million	
Hunan ($5 million)	Low-profit enterprises exempt for first 5 yrs LOCAL EIT: JVs having difficulty paying taxes exempt for first 5 yrs
Jiangxi ($5 million)	• For new JVs of 10 yrs or more: —tax exempt in first 2 profit-making yrs —reduction for next 6 yrs • For investments of $10 million or more, or investments in advanced technology industries, or for long-term projects (i.e., energy exploration and harbor development): enterprise income tax rate reduced to 15—24% • Additional 10–15 yr period of 30% reductions for investments in agriculture and animal husbandry LOCAL EIT: • Exempt for investment of $10 million or more, or investments in advanced technology industries, or for long-term projects
Liaoning ($10 million) *Dalian:* $10 million *Shenyang:* $5 million	
Nei Mongol ($5 million)	
Ningxia ($5 million)	JVs with contracts of 10 yrs or more: —tax exempt for first 5 profit-making yrs —20–40% tax reduction for following 10–15 yrs
Qinghai ($5 million)	*Xining City:* —enterprises importing capital technology exempt for 3–5 yrs —flat tax for 5 yrs; project involves technical transformation of existing enterprise (check with local authorities on rate)
Shaanxi ($5 million) *Xi'an:* $5 million	JVs involved in agriculture and forestry or located in towns and villages: —exempt from income tax in the first 5 yrs of operation —15–30% reduction in following 10 yrs
Shanxi ($5 million)	5–10 yr tax holiday for the following types of enterprises: • those with low profit activities in the agriculture, forestry, and animal husbandry sectors • those in underdeveloped mountainous areas or other remote regions • those involving investment of more than $3 million or hi-tech projects that have a long lead time to recoup investment LOCAL EIT: Exempt for 5 yrs
Xinjiang ($5 million)	• Foreign partners' reinvesting profits in area for 5 yrs or more can claim 50% reimbursement of income tax already paid on reinvested sum LOCAL EIT: • exempt for 5 yrs • 50% reduction for enterprises with annual profits less than $1 million
Yunnan ($5 million)	• 15–30% reduction of income tax from the 6th to 10th profit-making yrs for JVs and cooperative enterprises with terms of 10 yrs or more • For agriculture and forestry projects as well as enterprises outside of *Kunming* area, enterprise income tax reduced by 30%
Zhejiang ($5 million)	15% tax rate for production of import substitutes or advanced technology products on approval

SOURCES: National Council files, various investment guides and other published sources, National Council Beijing office

INDUSTRIAL & COMMERCIAL CONSOLIDATED TAX (ICCT)	LAND USE FEES	ADDITIONAL INFORMATION/TARGET SECTORS
		Food processing, electronics, textiles, building materials, machinery, metallurgy, chemicals, agriculture, animal husbandry
	50% reduction in land use fees for overseas Chinese	Infrastructure (including harbors, railways, power stations, and highways), mining, home appliances, microcomputers, precision instruments, chemicals, engineering, building materials, textiles, food processing, aquatic products
	• Fees may be waived during construction period for certain projects • Reduced by at least 50% based on national average	Water conservancy, textiles, leather, pharmaceuticals, timber, metallurgy, tourism
2-yr exemption for certain products approved for sale in China (excluding sugar, cigarettes, wristwatches, spirits, TVs, and cassette recorders)		• Exempt from 10% profit remittance tax • Energy, communications, transportation, food processing, textiles, building materials, ceramics, mining, offshore oil, petrochemicals, electronics, microcomputers, agriculture, animal husbandry, fish farming
	• Production of internationally competitive products exempt from provisional urban real estate tax for 7 yrs, 50% reduction for following 3 yrs • Hi-tech JVs exempt from land-use fee	• Quicker depreciation of fixed assets for JVs in underdeveloped areas • Telecommunications, shipping, hydroelectric power, food processing, household electrical appliances, chemicals, minerals, machinery
	Low-profit enterprises exempt for 1–3 yrs from provisional urban real estate tax	Energy (coal and hydropower), transportation, building materials, metallurgy, machinery and electronics, textiles, agriculture, tourism
		• Exempt from 10% profit remittance tax • Food processing, textiles, building materials, electronics, chemicals, tourism, animal husbandry
	• Average land use fees less than in neighboring provinces and cities • Prior to 1987: —3 yr exemption on land use fees —70–90% reduction of on-site development fees	Minerals, agriculture, timber, coal mining, petroleum processing, heavy machinery, precision instruments and meters, livestock breeding, poultry farming, pharmaceuticals, sugar-refining, papermaking
	Lower land use fees for investments in advanced technology industries	Food packaging, textiles, electronics, machine building, metallurgy, chemicals, construction materials, transportation, electric power, posts and telecommunications
Reduction or exemption of ICCT on certain products approved for sale in China	• Exempt or reduced on approval • Investments in animal husbandry and agriculture exempt from land use fees for 5 yrs	Animal husbandry, aquaculture and food processing, building materials (including cement, glass, and gypsum), minerals, porcelain, chemicals, transportation, electronics (including computers), communications, leather tanning, plastics, textiles, power plants
	Shenyang City: foreign investments greater than $2 million or total investment of more than $6 million, producing 70% of their products for export are eligible for significant reductions of land use fees, and for a 50% reduction in site development fees	Machine-building, electronics, petrochemicals, building materials, metallurgy, light industry, textiles, transportation, communications, nuclear power
	Land use fees 30–50% less than in coastal cities	Machine-building, metallurgy, energy, electronics, chemicals, textiles, leather, food processing, packaging, animal husbandry, porcelain, railroad construction, building materials
		Food, light industry, textiles, electronics, machine-building
		Nonferrous metallurgy, animal husbandry, leather processing and tanning, food processing, light industry, textiles, machinery, plastics
		• Export goods produced in this inland province will receive free transportation • Machine-building, textiles, electronics, light industry, mining, tourism
Exempt, upon approval, from taxes on export products	• Enterprises in underdeveloped or remote areas or those in coal and chemical industries eligible for preferential land use rates • Hi-tech projects and nonprofit-making ventures exempt from land use fees • All projects exempt from property tax for 1–3 yrs • The following may be exempt from property tax for 3–5 yrs: low profit investments, projects in remote or mountainous regions, projects involving investment of more than $3 million, high-tech projects requiring significant lead time	• Overseas Chinese investors applicable for further preferential treatment • Raw materials, fuel, and electricity sold at local market prices (usually lower than in coastal regions) to enterprises involving foreign investment. Up to 10% discount if paid in foreign exchange • Coal mining, glass, ceramics, gas, light industry, chemical fibers, construction materials, food processing, animal husbandry, tourism
Export products (excluding products restricted by State) are exempt	• Enterprises engaged in agriculture, animal husbandry, and irrigation can enjoy lower rate or exemption of land use fees average for area is ¥1–30/m²/yr) • 50% reduction in property tax for 5 yrs	Textiles, papermaking, electronics, detergent making, fur processing
	Enterprises with contract periods of 10 years or more eligible for preferential land use fees at the rate of ¥2–30/m²/yr	Energy development, transportation, nonferrous metals, forestry (including timber processing and development of natural spices), agriculture, animal husbandry, machine building, electronics, textiles, pharmaceuticals, building materials, tourism
	Enterprises with advanced technology or in tourism are eligible for unspecified preferential land use fees	• Exempt from 10% profit remittance tax • Carpet-making, marble, tourism

New breed of advisers and financiers appears in China

Financing: Domestic Sources of Assistance

William B. Johnson and David Richter

Foreign companies seeking to invest in China often find the procedures time consuming, complex, and—above all, expensive. Although there are no ready solutions to these problems, companies may now find help in financial matters from a new breed of domestic financial institutions. These firms not only offer the now-routine consulting and matchmaking services, but are able to make loans, take a financial stake, and even become a project partner.

Apparently with Chinese government encouragement, these companies, many of them formed in the last year or two, take a more active role in channeling technology and investment into China than was common in the past. They not only promote, but also target, projects for investment. While one or two major players in China performed this function in the past, now they are forming spin-off companies and joint ventures to perform more specialized investment services.

New financial practices

The amount of capital required to start up a joint venture in China can be substantial—especially in view of stringent regulations issued last January covering debt/equity requirements for joint ventures—so companies are eager to find new sources of financing. One option has been to borrow from domestic banks. The BOC has taken the lead in funding Sino–foreign joint ventures, lending $240 million to more than 220 joint ventures in 1985 alone. Some 75 percent of all Sino–foreign joint ventures in China have received loans from the BOC since 1981. Other banks, such as the Agricultural Bank of China and the People's Construction Bank of China, have lent to joint ventures, but on a much smaller scale and usually in renminbi (RMB) only.

Another option recently made available to Sino–foreign joint ventures is borrowing funds from the onshore offices of foreign banks. Foreign banks were restricted from offering full branch services from their China-based offices and instead performed mainly liaison services until 1985, when the Chinese government granted approval to a limited number of foreign banks to extend loans from their offices in the special economic zones.

But if foreign banks in China are eager to find lending opportunities, they are leery of the risks associated with Sino–foreign joint ventures. Since these ventures are essentially new companies with no track record, foreign banks usually insist on loan guarantees, either from the foreign partner or Chinese government organizations, before extending substantial credit.

These guarantees are difficult to come by, however. Few of the Chinese government organizations authorized to give guarantees have been willing to do so, preferring instead to limit obligations on their foreign exchange; of those who have been willing to take a risk, none have guaranteed the full amount of the loan. The only recourse in such cases is to have the foreign partner guarantee all or part of the loan. This, however, puts the foreign partner in the position of having to add a greater amount of debt to its books.

Thus, Chinese organizations that can either finance debt for the joint venture with loans, or are willing to take an equity position, are of great interest to potential investors. Among the first to provide foreign companies with both equity financing and consulting services was the China International Trust and Investment Corporation (CITIC). Established in 1979, CITIC is authorized to introduce foreign investment and technology to China and to take equity positions in selected joint ventures. CITIC was an equity partner in 39 joint ventures by the end of 1985, usually contributing 10–20 percent of the investment.

Since CITIC was founded, other 'ITICs' or trust and investment organizations, performing many of the same services as CITIC, have been organized in a number of provinces and municipalities. Although they often work together with CITIC, these ITICs are not CITIC subsidiaries. There are currently some 18 regional and municipal ITICs, and their numbers are growing steadily.

Rising stars

Several new organizations are now following CITIC's lead and offering both consulting and equity financing. Although they tend to be overshadowed by CITIC's high profile, they should not be overlooked.

China Incomic Development Corporation, established in April 1985, originated—like CITIC and the Hong Kong-based Everbright Corporation—from the All China Federation of Industry and Commerce (ACFIC), an organization composed of former industrialists and businesspeople. CITIC, Everbright, and Incomic are referred to as the "Three Sisters" corporations because they are headed by the chairman of ACFIC and two vice-chairmen respectively. This close association means they often cooperate, and may share both personnel and resources.

China Incomic began in 1984 by providing consulting services to foreign companies. Then, on April 1, 1985, it broadened its business scope to include investment and foreign trade, as well as consulting. Incomic has also received authorization to import equipment for projects it invests

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A primary virtue of these organizations may be their ability to identify projects that have already received approval to peruse joint ventures or other forms of investment . . . . And sometimes when worthwhile projects are proposed but not included in government plans, these organizations may lobby on behalf of the project. Using their government connections, they can often promote a specific project to the various approval authorities and help obtain initial approval.

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in and to act as agent for the venture's products.

In addition to its consulting and advisory services, Incomic is authorized to invest in both domestic and Sino–foreign joint ventures. Incomic is currently negotiating 10 joint ventures with foreign companies, including one with the Beijing Winery and Pernod Ricard of France, in which it is expected to take a limited but as yet unknown stake.

Incomic reports that it focuses on small- to medium-size local projects. It usually contributes only a small percentage of the equity (about 10 percent). Additionally, Incomic looks for projects that can balance foreign exchange through exports or that help conserve foreign exchange by developing import substitutes. The joint venture with Pernod Ricard, for example, will provide wines for the growing tourist industry and thus earn foreign exchange.

Incomic has done consulting work for General Electric, Babcock & Wilcox, and Union Carbide among others. As part of their agreement with GE, Incomic participated in negotiations on the GE contract to coproduce 600-megawatt generators in Sichuan. Incomic has also done consulting work for several Japanese, French, and South American clients. Although Incomic reports that it has been approached by a number of foreign companies, it has on occasion declined to represent companies in cases of conflict with the interests of existing clients.

Incomic is reportedly capitalized at approximately $30 million, with authorization from the BOC to convert one third of these funds into foreign exchange. This gives Incomic the capability to import equipment and provide foreign exchange loans as part of its equity contribution. Based in Beijing, Incomic has a staff of about 50, one-third of which are advisors with specialized backgrounds (e.g., lawyers, accountants, and retired high-ranking ministry officials). Incomic can also tap the resources of over 500 local units of ACFIC. This is particularly useful in identifying and evaluating local projects for investment.

China Development and Investment Corporation (CDIC) is another small but growing company, established in April 1985 by the BOC Trust and Consultancy Corporation and MOFERT's China National Export Commodity Base and Construction Group (CNECBC). The CNECBC Group cooperates with manufacturers and foreign trade corporations to develop products suitable for export.

Headed by ex-MOFERT deputy minister Lian Tianjun, CDIC receives considerable guidance from MOFERT and holds a status equivalent to that of a MOFERT foreign trading company. CDIC's goal is to help develop China's export industry by providing financial support to renovate facilities at selected factories in China. Backed by a total registered capital of ¥50 million (contribution split: 50 percent MOFERT, 50 percent BOC), CDIC has the authority to invest in projects either with RMB or foreign exchange. Although based in Beijing, CDIC can draw on the regional offices of both the BOC and MOFERT to increase its reach into China's interior for investment projects.

CDIC focuses primarily on small- to medium-size projects, but if a large project proves attractive, CDIC can borrow addtional funds from the BOC. CDIC officials say they will generally consider only projects that plan to export a majority of their product, although exceptions may be made for projects that will supply an important product not otherwise available domestically.

To date, CDIC has participated in 30 projects including some Sino–foreign joint ventures. One of these is a $12 million joint venture with Nestle Foods to produce infant milk powder formula, in which CDIC holds a majority of the Chinese share (45 percent of total investment).

China Venturetech is one company taking a less risk-averse approach to investment. Billed as "China's first national source for technological innovation, risk investment, and high-tech development," Venturetech is a joint venture with a 40 percent interest held by the State Science and Technology Commission and 60 percent held collectively by CITIC, the Ministry of Electronics Industry, the Ministry of Petroleum Industry, the Ministry of Coal, the Great Wall Industrial Corporation, and the China National Petrochemical Corporation.

According to company officials, Venturetech plans to work primarily with projects valued between ¥600,000–¥2 million that need financing to develop and market new technologies such as data processing, biology, electronics, and new materials.

According to Venturetech director Ms. Xiao Yang, Venturetech also weighs heavily the quality of an enterprise's management and labor force in choosing projects. Since opening

for business, Venturetech has received over 300 requests from local enterprises seeking investment, of which Venturetech has chosen only 12. Although there is no limit to the amount it can invest in a given project, Venturetech plans to establish a firm foundation with smaller investments before looking at larger projects. Venturetech reports that it has been contacted by a number of foreign banks and corporations, but has yet to sign any formal cooperative agreements with them.

According to Venturetech management, the company is authorized to draw upon foreign exchange from some projects to repay foreign partners of other projects that have a foreign exchange shortfall. But given the higher level of risk that the company is willing to assume on such projects, it is not certain that Venturetech will have sufficient reserves of foreign exchange to draw upon in all cases.

Venturetech is authorized to perform bond issues, investment, leasing, and lending services. It differs from a bank, however, in that it cannot engage in commercial loans or short-term fluid capital loans. Although its staff of 40 is reportedly well trained, there are not yet enough specialists to provide in-depth consulting services.

Regional organizations: In addition to these nationally focused investment and consulting companies, a number of new finance and trust corporations focus their attention on specific regions or sectors. One example is the Pearl River Basin (Zhujiang) Finance and Trust Corporation, established in December 1984 by the Shenzhen, Guangzhou, Foshan, and Zhuhai branches of the Industrial and Commercial Bank of China. Headquartered in Shenzhen, the corporation extends loans to joint ventures and cooperative enterprises for energy, telecommunications, and real estate projects in the Guangzhou, Shenzhen, Zhuhai, Foshan, and the Pearl River Delta area.

The Zhongyuan Development, Trust, and Investment Corporation in Zhengzhou, Henan Province, is another. A State-owned financial institution, Zhongyuan Corporation was established to invest in and loan funds to domestic and foreign joint ventures that will explore and tap petroleum, natural gas, and other mineral resources in the region.

The established bankers

While these organizations might be called the rising stars among financial and consulting organizations in China, there are two more established organizations—one already a leader and the other in a position to make a significant contribution—that should be considered.

The Bank of China Trust and Consulting Company (BOCTCC) dominates the field in both size and activity. BOCTCC was established in 1983 when the BOC decided to become a major force in foreign investment. BOCTCC acts as BOC's investment arm, making equity investments in various domestic industrial projects, including Sino–foreign joint ventures. BOCTCC operates through the offices of BOC in a number of major cities such as Beijing, Shanghai, and Guangzhou.

According to its statute, one of BOCTCC's primary objectives is to help foreign companies form joint ventures and wholly owned corporations in China. To this end, it may take an equity position in the enterprise if the project "will significantly benefit China." BOCTCC has made investments totaling $270 million in 133 joint ventures since its incorporation in 1983. Some of the most prominent joint venture projects in which it has participated include the Shanghai Volkswagen Corp., Shanghai Yaohua Pilkington Glass Co., and Beijing International Service Center, a joint venture with the China Base Development Co. Ltd. (HK) and the Capital Iron and Steel complex of China.

While the BOC maintains its role as the primary supplier of foreign exchange credit in China, the BOCTCC has become a major source for large foreign investment funding. During the Seventh Five-Year Plan (1986–1990), it plans to increase its present level of investment by 150 percent.

The China Investment Bank (CIB), although not in the same league as the Bank of China and BOCTCC, is poised to make a small but significant impact on the project financing scene. Established in December 1983 with assistance from the People's Construction Bank of China, the Ministry of Finance, and the World Bank, CIB has granted loans to more than 250 projects, although only one of these went to a Sino–foreign joint venture. Officials at the World Bank report that while loans to Sino–foreign joint ventures are planned, they have not been a priority in the past.

With funds coming primarily from the World Bank, CIB was established to act as a financial intermediary for industrial lending on a smaller scale than the World Bank normally undertakes.

CIB loans are generally small (averaging $1.5 million, while the largest to date has been $9 million), long term, and a mix of RMB and foreign exchange. CIB's loans have gone to textile industries, metal goods, light machinery, chemicals/pharmaceuticals, and consumer electronics.In addition to CIB's own evaluation, projects seeking more than $1 million must also be evaluated and approved by the World Bank. It is im-

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Telex: 22254 BCHO CN

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portant to note that CIB loans are for capital expenditures only; PBOC or other lending institutions will need to be tapped to provide the complementary working capital.

Help with the approval process

Are these organizations worth going to for assistance? Although few have a proven track record, even the newest of these financial/consulting institutions would appear to offer potentially attractive services to foreign companies at several important stages in the project negotiation and approval process.

Before any joint venture can be established under China's joint venture laws, it must be approved by the central or local authorities. Since mid-1985, project approval has become more difficult than ever to obtain. The Chinese government stresses that, to conserve foreign exchange, it will only approve projects falling within an industry sector targeted by the Seventh Five-Year Plan. But since specific project details contained in the Seventh Five-Year Plan are for internal consumption only, the foreign investor has little way of knowing whether or not his project falls into the plan—a vital first step in considering investment in China. A primary virtue of these organizations may be their ability as an insider to identify projects that have already received approval to pursue joint ventures or other forms of investment.

Sometimes these organizations may be able to do more than merely identify projects included in provincial, municipal, or State plans. When worthwhile projects are proposed but *not* included in government plans, these organizations may lobby on behalf of the project. Using their government connections, they can often promote a specific project to the various approval authorities and help obtain initial approval—in which case a more extensive feasibility study will be required before a decision is made on final approval. But in the current climate of tight foreign exchange and worrisome trade imbalances, these companies, no less than other government organizations, are evaluating projects more carefully than before.

Foreign companies generally carry out a detailed feasibility study before deciding whether or not to invest in a project, and all of the organizations discussed can offer the foreign investor, or the joint venture itself, assistance in performing a feasibility study.

Once the feasibility study has been completed and analyzed, and a contract signed, important financing decisions follow. Most of these corporations can be a source of debt or equity. If the organization has been involved in the feasibility study it may be in an even better position to judge whether or not to invest in a given project, and how.

Distinguishing factors

Because many of these organizations are less than two years old, their value has yet to be fully tested. However, foreign companies who have worked with them generally report satisfaction with the services received. Before settling on the services of one such domestic financial institution, a foreign firm should evaluate and compare the influence and goals of each organization with its specific needs.

To help determine the Chinese company's abilities, the foreign firm should keep the following questions in mind: 1) How much power does the organization have to deliver? Who are its sponsors? directors? With which other groups does it have connections? 2) How much local help can the company provide? How influential and knowledgeable is the company at the provincial, county, and municipal levels? Does it have connections with other regional firms that would facilitate a wide-ranging search for business opportunities? 3) Are its financial services sound? Does the institution have a working relationship with the BOC? Does it have access to foreign exchange? If so, how much?

The fact that many of these newer companies offer similar services raises the issue of whether or not they are competitors. Chinese officials from several of the companies insist they are not. Because these organizations must first get approval from the State Council, the PBOC, or MOFERT before dealing with foreign companies, officials maintain that the government can effectively limit competition by restricting the number of such organizations promoting investment activities. Besides, they add, there is plenty of business to go around.

Distinctions can, however, be made between them. For instance, BOCTCC tends to be involved in larger projects involving more complex financing and structuring. Newer companies primarily engage in liaison and consulting. Each organization has at least vaguely defined its target lending sectors and project size specifications. While many are either wholly-owned subsidiaries or joint ventures between major government organizations such as PBOC, MOFERT, and ICBC, some do have limited private backing and, perhaps, more flexibility to deviate from official guidelines.

More investment organizations on the horizon?

The number of domestic investment advisors is likely to continue to rise. First, there will probably be increased activity by the major lending and advising organizations. BOCTCC, for instance, plans to get involved in more Sino–foreign joint ventures. These large lenders are well equipped to handle the projects of greater size, sophistication, and complexity that are emerging.

Second, new specialty companies will probably continue to appear. Most of the companies discussed are less than a year-and-a-half old and offer some type of specialized services, either by industry, geographic region, or both. Among them, Incomic offers the broadest range of services throughout China. With more projects than ever seeking foreign investment, and interest among investors still high, it is a safe bet that more of these specialized consulting/investment companies will appear on the horizon. As one BOCTCC official observed, "There will be more of these small companies offering services similar to ours. But we are confident that our services will attract larger companies. There are many smaller projects that these companies can promote and arrange for foreign investment."

To aid in the process of absorbing foreign investment, technology, and management expertise, and to help control the flood of new projects, the Chinese government has begun to delegate some authority for guiding this foreign investment to a growing number of domestic organizations. As the Chinese economy grows and investment increases, these organizations may become a more integral part of China's efforts to attract and apply foreign investment. 完

China's new provisions introduce creative ideas, but few practical solutions

The Foreign Exchange Quandary

Timothy A. Gelatt

The thorniest problem facing most foreign companies pursuing investment projects in China can be summed up in two words: foreign exchange. From the outset of China's opening to foreign investment, foreign firms interested in penetrating the China market have confronted the dilemma of how to repatriate earnings from a country with a non-convertible currency.

Recently, China's State Council issued long-awaited regulations that foreign investors had hoped would provide explicit and liberal solutions to the foreign exchange problem. Called "The Provisions of the State Council on the Question of the Balancing of Foreign Exchange Receipts and Expenditures of Chinese–Foreign Joint Ventures," the Provisions apply to equity and cooperative ventures in all but the finance and insurance fields. Even more than other recent Chinese business legislation, the Provisions are replete with vague language that cries out for the interpretation that the Ministry of Foreign Economic Relations and Trade (MOFERT) is expected to publish soon in the form of implementing regulations. At least until they are interpreted and some key questions are answered, the Provisions are not likely to measurably encourage foreign investors.

Prior legislation lacks explicit guidelines

Previous Chinese legislation, beginning with the 1979 Joint Venture Law, encouraged equity joint ventures to export their products—at least in sufficient quantity to balance their foreign exchange receipts and expenditures. With the foreign exchange earned from these exports, foreign investors could in theory repatriate profits, purchase foreign raw materials and equipment, and pay expatriate salaries and technology royalties.

While the implementing regulations of the Joint Venture Law that appeared in 1983 reiterated the general policy that joint ventures should export their products, they introduced a new measure of flexibility by allowing joint ventures producing import substitutes or other urgently needed products to sell their products "primarily" on the Chinese market. Complementing that provision was the much heralded Article 75 which, in a highly ambiguous way, indicated that provincial or central authorities would "resolve" the foreign exchange imbalance of ventures that were approved to sell goods on the domestic market. Although Article 75 was not a self-implementing "guarantee," it provided an unprecedented legal basis for converting renminbi earnings into foreign currency for repatriation.

A few companies have subsequently negotiated provisions based on Article 75 in their joint venture feasibility studies and contracts, in which a local or central authority agreed to resolve foreign exchange deficiencies resulting from local sales, at least during part of the contract period. But if such provisions were difficult to negotiate in 1984, they were virtually impossible to come by in 1985: the pressure on equity joint ventures to export and be self-sufficient in foreign exchange has regained strength as China's foreign exchange reserves have dwindled. As a result, more than a handful of foreign companies put their China investment projects on the back burner last year—if they did not take them off the stove altogether. It should come as no surprise, then, that the new Provisions were eagerly awaited and are being carefully scrutinized by the foreign business and legal community to see what China is prepared to do to resolve the foreign exchange problem.

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New provisions may be more restrictive than past guidelines

The Provisions, which were promulgated by the State Council in January and took effect on February 1, reaffirm the familiar proposition that joint venture products should be "exported to a great extent, to generate more foreign exchange and to achieve a balance of foreign exchange receipts and expenditures." If, however, a venture produces "highly sophisticated products with advanced technology" or "products of superior quality that are internationally competitive," and if the products are urgently needed in China and pass muster with unspecified "departments in charge," the Provisions allow "preferential treatment" for the venture in terms of its ratio of domestic sales to exports.

This section of the Provisions is more restrictive than the 1983 joint venture regulations in several respects. First, the 1983 rules specifically provided that a venture could sell "primarily" on the domestic market. The Provisions are less explicit, offering only "preferential treatment" on the percentage of domestic sales.

Second, whereas the 1983 rules made it possible, at least in principle, for any joint venture producing import substitutes to obtain special treatment on domestic sales, the Pro-

visions narrow the field to high technology and superior quality, internationally competitive products. The stipulation that products must be internationally competitive is puzzling, since it does not seem relevant to the question of domestic sales.

Third, the Provisions add the requirement that, to qualify for special dispensation on local sales, the products in question must be appraised by the departments in charge. Since decisions on special foreign exchange dispensation must be made at the feasibility study stage—before the joint venture has been established—the Provisions imply that the foreign investor's products will be the ones appraised. What is not clear is whether an additional appraisal of the joint venture's products will follow once the venture begins production. If so, could a joint venture whose own products fail the test that the foreign investor's products passed have its benefits revoked?

Can MOFERT rob Peter to pay Paul?

On the most crucial question—what foreign exchange assistance the Chinese government will provide to ventures that are permitted to sell domestically—the Provisions again appear to cut back on the scope of the 1983 regulations. Under the Provisions, foreign exchange deficits are to be resolved by central or local authorities "from among the foreign exchange receipts" of joint ventures approved at the relevant central or local levels. This rule seems to imply that MOFERT or other authorities have the right to rob Peter to pay Paul—to requisition foreign exchange from one joint venture to make up for the deficit of another. But if this were what the rule intended, it would contradict the frequently repeated Chinese position that joint ventures can use the foreign currency they earn without interference from the Chinese government.

In informal conversations, MOFERT officials have assured foreign firms that Chinese authorities will not force joint ventures to relinquish their foreign exchange. Rather, the officials explain, foreign exchange voluntarily converted by exchange-rich joint ventures needing renminbi for local costs will be held in reserve and used to meet the needs of deficit-ridden ventures that sell domestically.

But reserves derived in this manner cannot be expected to provide a substantial base for assisting needy joint ventures. Relatively few joint ventures established in China to date enjoy the luxury of a foreign exchange surplus that might be converted, in part, into local currency. The joint venture hotels that have opened in China's major cities are the main exception, but few additional hotel ventures are expected given the current moratorium on these projects in several key cities, including Guangzhou and Shanghai.

The Provisions seem to imply that MOFERT or other authorities have the right to requisition foreign exchange from one joint venture to make up for the deficit of another. But if this were what the rule intended, it would contradict the frequently repeated Chinese position that joint ventures can use the foreign currency they earn without interference from the Chinese government.

If, as the Provisions imply, excess foreign currency turned over by joint ventures will be the only source of direct foreign exchange subsidies for deficit-ridden ventures, then the outlook seems decidedly more bleak than it did under Article 75 of the 1983 rules. That article, at least in principle, appeared to make the Chinese government's own exchange reserves available to joint ventures that qualified for special treatment.

Rules for import substitutes

If the Provisions promise little in the way of direct government assistance to joint ventures, they do formally set out a number of interesting approaches that joint ventures may take to help resolve foreign exchange problems on their own.

The first option is to be approved by the relevant central or local authority as an import substitution venture. But instead of explicitly stating that joint ventures producing import substitutes may sell them for foreign exchange to Chinese customers, the Provisions merely state that economic relations and trade departments should "actively support" Chinese units wishing to buy import substitution products "according to international prices." Government support, however, does not guarantee that import substitution ventures will find domestic customers able and willing to pay for their products in hard currency. The Provisions imply that Chinese buyers with no other source of foreign currency will have to draw upon the already limited pool of foreign exchange derived from the excess receipts of joint ventures, rather than from government funds. It is therefore unclear if, before concluding a deal, a foreign investor will be able to obtain adequate assurance that Chinese customers will have the foreign exchange necessary to purchase from the venture.

Equally uncertain is the prospect that Chinese units with sufficient foreign currency will indeed use it to buy from joint ventures. One venture trying to use the import substitution approach reports that convincing Chinese purchasers to overcome their customary preference for products from abroad is no easy task, even if the venture can offer identical goods at a lower price.

Another section of the Provisions provides that even joint ventures not engaged in import substitution may seek payment from Chinese enterprises in foreign currency if they have the approval of the foreign exchange control authorities. Article 8 indirectly implies that no such approval is needed for foreign exchange sales in the SEZs and the economic and technological development zones of the 14 open coastal cities, although no published rules extend this blanket permission. MOFERT should quickly clarify this point, particularly in light of last year's foreign exchange scandals in southern China that have raised con-

cerns among foreign investors.

New hopes for countertrade?

Another approach the Provisions sanction is "overall compensation," by which joint ventures may "utilize the sales connections" of the foreign investor to sell Chinese products on the international market. In the past, many foreign companies have suggested the possibility that, if foreign exchange is scarce, the foreign party could take out some of its profits in the form of a product available in China. The company could then use this product in its own operations or resell it to other users.

In practice, this approach has seldom worked unless the product the foreign company wants to buy is produced either by the joint venture itself or by the same ministry as the one to which the Chinese joint venture partner is attached. Chinese units under separate authority usually cannot be persuaded to sell their goods to a joint venture for renminbi when they could earn foreign exchange by selling abroad directly or to a foreign trade corporation.

The Provisions themselves offer no guidance on this still unresolved problem. One can only hope that, if MOFERT approves a joint venture to carry out "overall compensation," it will require the relevant Chinese producers to make their products available for this purpose. MOFERT recently established a special countertrade division to coordinate compensation trade efforts (*see* page TK), although it remains to be seen what role this new office will play.

Another complication with the compensation approach is that, if the product the foreign company wants to obtain requires an export license, then MOFERT must give "special approval" to the transaction. The number of products subject to export licensing stood at 235 in February and is constantly growing. Initial reports are discouraging: MOFERT, no doubt under pressure from foreign trade corporations protecting their monopolies, has been reluctant to grant licenses for the export of Chinese products by foreign investors.

Opportunities for currency trading among joint ventures

Yet another carrot the Provisions dangle is the opportunity for a foreign investor with two or more joint ventures to use the foreign exchange surplus of one to balance the deficit of another. This idea has been floated in the context of so-called "umbrella ventures," several of which have already been concluded. In these projects, the Chinese and foreign investors set up a joint venture holding company that in turn establishes several subsidiary ventures. In negotiating these holding company deals, the Chinese have indicated that the subsidiary ventures might be allowed to trade among themselves to balance their respective needs for foreign and local currency. The Provisions imply that, even when a holding company is not involved and the same foreign investor establishes two or more unrelated joint ventures, some form of currency trading may be allowed.

The catch is that, before this form of adjustment may be used, approval must be obtained from all of the joint venture parties concerned. It is highly unlikely that a Chinese party to a joint venture with a foreign exchange surplus would agree to trade foreign exchange with an unrelated venture for renminbi—unless the foreign exchange authorities, who must also approve the transaction, will allow the use of an exchange rate well above the official one. Under current policies, only the offically posted exchange rate may be used in joint venture dealings.

Reinvesting profits in export-oriented ventures

Yet another creative idea contained in the Provisions would allow a foreign investor short of foreign exchange to reinvest renminbi profits in a domestic enterprise capable of "newly generating" foreign exchange. In addition to obtaining the 40 percent income tax rebate on reinvested profits promised by the joint venture tax law, the foreign party would be able to obtain foreign exchange to repatriate from the enterprise in which it invests.

Although perhaps the most intriguing of the Provision's offerings, this arrangement, like the others, raises troubling questions. The reinvestment tax incentive to which the Provisions refer is interpreted by China's Ministry of Finance to require that the reinvestment be made in either the original joint venture, another Chinese–foreign joint venture, or a new joint venture created by the investment. If that interpretation carries over to the Provisions, then the domestic enterprise into which the foreign investor places its renminbi funds will be an equity joint venture subject to all of the relevant rules—including the requirement that the foreign party normally take at least 25 percent of the equity.

Even assuming a foreign investor's excess renminbi profits are sufficient to meet the 25 percent rule, why would a Chinese enterprise already "capable of newly generating foreign exchange" be interested in sharing 25 percent or more of its earnings with a joint venture in return for a renminbi investment? If "newly generating" means that more foreign exchange could be generated with the assistance of the foreign investor, then the only types of reinvestments likely to be approved would be those in which the foreign company agreed to assist in exporting the end products. Yet the foreign company's inability or unwillingness to export in its original venture may well have led to the need for reinvestment in the first place.

If the Provisions leave many issues open, one thing is clear. If a foreign investor agrees in the joint venture contract or feasibility study to assist the venture in exporting a certain percentage of its products, and it fails to meet this quota, the authorities will not make up any resulting foreign exchange deficit. An investor wishing to apply for whatever direct State assistance the Provisions provide must do so at the initial approval stage. Presumably, however, the Provisions' various "self-help" mechanisms described above will, in principle, be available to joint ventures on an ad hoc basis during the course of their operations if the foreign exchange situation does not pan out as predicted in the project's feasibility study.

Investors must know where they stand

One of the first questions that MOFERT needs to address, even before interpreting some of the detailed aspects of the Provisions, concerns the relationship of the Provisions to previous legislation. Will the foreign exchange stipulations of the 1983 joint venture regulations become obsolete or will they supplement the Provisions? The Provisions do not directly address this question, but state generally that if

any earlier stipulation on the foreign exchange balance question "conflicts" with the Provisions, the latter will prevail.

While foreign investors currently involved in negotiations ponder the significance of the new Provisions to their deals, foreign companies already granted special foreign exchange treatment under the 1983 joint venture regulations will want to clarify where they stand. The 1985 Foreign Economic Contracts Law contains the ambiguous provision that foreign investment contracts approved prior to the promulgation of new legislation "may" continue to be implemented according to the pre-existing regime. Chinese legal officials interpret this optimistically to mean that, where more restrictive rules are promulgated than those in effect at the time of a contract, the contract will not be affected; where an improvement in the regulatory environment occurs, investors can opt to benefit from it in their existing deals.

As noted earlier, the Provisions could well be regarded as offering far less in the way of direct government foreign exchange relief than the 1983 regulations. Even if new investors will no longer be able to rely on the 1983 provisions, the PRC would be well advised to publish an official ruling to the effect that joint ventures already holding foreign exchange guarantees broader than those provided for under the new Provisions will continue to enjoy the benefits of those guarantees, while also being able to partake of the new approaches to the foreign exchange problem set out in the Provisions. Such a ruling, in addition to clarifying the foreign exchange situation itself, would significantly strengthen the confidence of current and potential foreign investors in China. 完

PROVISIONS OF THE STATE COUNCIL ON THE QUESTION OF THE BALANCING OF FOREIGN EXCHANGE RECEIPTS AND EXPENDITURES OF CHINESE–FOREIGN JOINT VENTURES

Article 1. These Provisions are formulated for the purpose of encouraging foreign joint venturers to establish Chinese–foreign joint ventures in China and promoting their balancing of foreign exchange receipts and expenditures in order to benefit their production and operations and the remittance abroad by foreign joint venturers of the lawful profits they obtain.

Article 2. The products produced by Chinese–foreign joint ventures should be exported to a great extent, to generate more foreign exchange and to achieve a balance of foreign exchange receipts and expenditures.

Article 3. In the case of Chinese–foreign joint ventures approved and established according to law whose foreign exchange receipts and expenditures require adjustment, the matter shall be administered and resolved at different levels in accordance with the limits of examination and approval authority.

In the case of Chinese–foreign joint ventures established with the approval of the competent authorities of the State, the competent authorities of the State shall be responsible for making the adjustment and resolving the matter from among the foreign exchange receipts of Chinese–foreign joint ventures within the entire country. The competent authorities of the State may also make the adjustment and resolve the matter together with the local people's governments according to an agreed upon ratio. In the case of Chinese–foreign joint ventures established with the approval of the local people's governments authorized by the State Council or entrusted by the competent authorities of the State, or with the approval of relevant departments under the State Council, the respective local people's governments or departments shall be responsible for making the adjustment and resolving the matter from among the foreign exchange receipts of Chinese–foreign joint ventures whose establishment they approved.

Article 4. In cases where the foreign joint venturer provides highly sophisticated products produced with advanced technology or key technology, or products of superior quality that are internationally competitive, if such products are urgently needed in China, after the products have been appraised and found by the departments in charge to be up to standard, preferential treatment with respect to the

proportion of domestic sales and the period of domestic sales may be granted upon approval in accordance with the limits of examination and approval authority and the examination and approval procedures stipulated by the State. The aforesaid domestic sales shall be specified in contracts signed by the producer and the purchaser.

The foreign exchange balancing plans of ventures referred to in the preceding paragraph shall be formulated by the approval authority in accordance with Article 3, Paragraph 2 of these Provisions. The foreign exchange balancing plans formulated by the approval authority shall be submitted, in accordance with the administrative hierarchy, to the Ministry of Foreign Economic Relations and Trade or to the local economic relations and trade departments for examination and comment. After such plans have been reported to and approved by the State Planning Commission or the local planning commission, they shall be incorporated into the long-term or annual plans for the use of foreign exchange, and the matter resolved in this manner.

Article 5. Chinese–foreign joint ventures that produce products that China needs to import over the long term or urgently needs to import may, in accordance with the quality, specification requirements, and import circumstances of the products in question, upon approval of the departments in charge under the State Council or the local departments in charge, carry out import substitution. This substitution shall be specified in the Chinese–foreign joint venture contract signed by the two parties or in the contract between the producer and the purchaser.

The economic relations and trade departments shall actively support Chinese end-user units in concluding purchase and sales contracts, according to international prices, with the Chinese–foreign joint ventures referred to in the preceding paragraph. Their foreign exchange use plans shall be formulated in accordance with the provisions of Article 3, Paragraph 2 of these Provisions, and shall be submitted, in accordance with the administrative hierarchy, to the Ministry of Foreign Economic Relations and Trade or the local economic relations and trade departments for examination and comment. After such plans have been reported to and approved by the State Planning Commission or the local planning commission, they shall be incorporated into the long-term or annual plans for the use of foreign exchange for imports, and the matter resolved in this manner.

Article 6. In order to seek to achieve a balance between foreign exchange receipts and expenditures, Chinese–foreign joint ventures may, with the approval of the foreign economic relations and trade departments, utilize the sales connections of foreign joint venturers to market domestic products for export, and carry out overall compensation. However, in the case of products that are centrally managed by the State, those for which there are export quotas and those for which export licenses must be applied for and obtained, the matter must be reported to the Ministry of Foreign Economic Relations and Trade for special approval. Without approval, Chinese–foreign joint ventures must not engage in the business of exporting such products.

Article 7. If a Chinese–foreign joint venture does not complete the export and foreign exchange generation tasks it has undertaken as stipulated in the contract, and an imbalance between foreign exchange receipts and expenditures is caused as a result, the relevant authorities shall not undertake the responsibility for adjustment and resolution of the matter.

Article 8. With respect to products sold by Chinese–foreign joint ventures to enterprises with the ability to make payment in foreign exchange in areas other than the special economic zones and the economic and technological development zones of the coastal open cities, with the approval of the State foreign exchange control departments, it shall be permitted to compute the price and settle accounts in foreign currencies.

Article 9. When the same foreign joint venturer establishes two or more Chinese–foreign joint ventures within China (including in different locations or with different departments), and some of the ventures have a surplus in the foreign exchange portion of their lawful income while some have a deficit, upon the approval of the State foreign exchange control departments, adjustment may be made and the matter resolved among the various joint ventures established by the joint venturer in question.

Agreement to the adjustments referred to in the preceding paragraph shall be obtained from all the joint venture parties.

Article 10. With the approval of the foreign economic relations and trade departments and the foreign exchange control departments, a foreign joint venturer in a Chinese–foreign joint venture in which foreign exchange receipts and expenditures cannot be balanced may, in accordance with Article 7 of the Law on Chinese–Foreign Joint Ventures*, reinvest its renminbi profits distributed by the Chinese–foreign joint venture in domestic enterprises capable of newly generating foreign exchange or newly increasing their foreign exchange receipts. In addition to enjoying the preferential treatment of receiving a refund of a portion of the income tax already paid, the foreign venturer may use the foreign exchange obtained from the newly increased foreign exchange receipts of the enterprise receiving such investment to remit its lawful profits abroad.

Article 11. These Provisions shall apply to Chinese–foreign cooperative ventures established within China, and to joint ventures and cooperative ventures established in the interior of China by corporations, enterprises, and other economic organizations of the Hong Kong, Macau, and Taiwan regions, and shall also apply to joint ventures and cooperative ventures established with overseas Chinese investment.

These Provisions shall not apply to ventures in the finance and insurance fields established within China by foreign joint venturers, or to ventures in these fields established in the interior of China by joint venturers from the Hong Kong, Macau, and Taiwan regions.

Article 12. If any stipulation made before the promulgation of these Provisions regarding the balancing of foreign exchange receipts and expenditures of Chinese–foreign joint ventures conflicts with these Provisions, these Provisions shall prevail.

Article 13. The Ministry of Foreign Economic Relations and Trade shall be responsible for interpreting these Provisions.

Article 14. These Provisions shall go into effect from February 1, 1986.

**Note:* Article 7 of the "Law on Chinese–Foreign Joint Ventures" provides that:

After payment, pursuant to the provisions of the tax laws of the People's Republic of China, of the joint venture income tax on the gross profit earned by the joint venture and after deduction from the gross profit of a reserve fund, a bonus and welfare fund for staff and workers, and a venture expansion fund, as provided in the articles of association of the joint venture, the net profit shall be distributed to the parties to the joint venture in proportion to their respective contributions to the registered capital.

A joint venture that possesses advanced technology by world standards may apply for a reduction of or exemption from income tax for the first two to three profit-making years.

A foreign joint venturer that reinvests in China its share of the new profit may apply for refund of a part of the income taxes already paid.

These Provisions were promulgated by the State Council on January 15, 1986. Translated by Paul, Weiss, Rifkind, Wharton & Garrison.

Renewed interest, little action

Countertrade Update

Carolyn L. Brehm

Countertrade is back in the spotlight as Chinese and foreign companies grapple with ways to prolong China's buying spree despite the country's current squeeze on foreign exchange expenditures. But despite renewed enthusiasm, very little countertrade has actually taken place. Countertrade is not a panacea for China's foreign exchange problems. In fact, many businesspeople believe that it is even more difficult to conclude a successful countertrade arrangement today than in previous years.

Many countries discourage the use of countertrade and consider it an inefficient and expensive way to do business. Nevertheless, using countertrade as a marketing tool is regarded as a necessary evil in foreign exchange-strapped countries.

Bureaucracy discourages forms of countertrade

Countertrade is a broad term referring to various trade arrangements that require the purchase of products as a condition of sales. Barter, compensation trade, counterpurchase, and evidence accounts are all considered forms of countertrade (*see* box).

China's attitude toward countertrade has generally been ambivalent at best. In the recent past, countertrade was not emphasized. Cash was readily available for priority purchases either through regular channels or gray market trading of renminbi (RMB) for foreign exchange. Instead of countertrade, official policy stressed equity joint ventures and technology transfer because they could generate foreign exchange while at the same time upgrading technical levels of key industries.

The lack of a central countertrade policy and facilitating mechanisms also discouraged countertrade. China's rigid trade structure, in which ministries and foreign trade corporations strictly control well-defined categories of products, does not promote flexible interaction among organizations. To complicate matters further, the trade decentralization launched in 1978 gave local entities greater control over import and export, and splintered the once-powerful foreign trade corporation bureaucracy. Unlike Eastern European countries, China has never had an umbrella organization with direct control over imports and exports or a central bank mechanism to record trade credits earned from purchases. Countertrade transactions that require crossing ministerial or corporate lines have failed miserably as a result.

There are exceptions to this general rule. Bilateral barter agreements with developing countries, for example, are actively promoted by Beijing and orchestrated by MOFERT. Motivated largely by political rather than economic factors, these arrangements allow for such exchanges as Chinese rice for Pakistani jute; tea and cotton for Polish vehicles; and crude oil for Brazilian steel.

Another deviation from the trend has been China's support of compensation trade agreements in which the foreign party accepts payment for the sale of technology or equipment in the form of goods manufactured with that equipment. This is the only form of countertrade for which national guidelines were drawn up as early as 1978. These simple compensation trade deals work well within the Chinese trade structure because the buyer and seller are usually the same Chinese factory or corporation. According to MOFERT statistics, more than 1,300 compensation trade arrangements worth $890 million were concluded from 1978 to mid-1985.

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MOFERT's countertraders

In response to the resurgence of interest in countertrade, and to fill the void in countertrade policy, MOFERT formed a new countertrade division in May 1985. Under the ministry's import and export department, the group has a staff of five and plans to expand. Headed by Yang Fan, the countertrade division is charged with coordinating and facilitating countertrade, although compensation trade and bilateral trade agreements are handled by another division. MOFERT's countertrade division expects to play the role of matchmaker, helping a foreign company bring together the two Chinese units serving as buyer and seller in a deal. But rather than initiating countertrade proposals, MOFERT will step in only if a deal is in an advanced stage. MOFERT officials acknowledge that difficulties will persist if the two Chinese organizations are in different provinces or ministries, and they recommend involving provincial or municipal trade corporations that have both import and export responsibilities to coordinate countertrade arrangements.

MOFERT itself does not intend to sign countertrade agreements or play a role as principal in these deals. MOFERT, moreover, will not promote countertrade that involves traditional Chinese export products or products that might disrupt the normal business of the foreign trade corporations. A good indication of the products off-limits to countertrade arrangements is the list of centrally controlled commodities that require an export license—at last count over 230 commodities accounting for more than half of China's exports by value. MOFERT has indicated recently that all import and export commodities will eventually be

COUNTERTRADER'S LEXICON*

COUNTERTRADE
Duixiao maoyi 对销贸易
Refers broadly to various trade arrangements that contain a requirement to purchase products as a condition for sales, or that involve payment for the sale of goods or services with goods. Compensation, counterpurchase, and switch are types of countertrade.

BARTER
Yihuo maoyi 易货贸易
A one-time exchange of product for product, normally performed under a single agreement or contract.

COMPENSATION TRADE
Buchang maoyi 补偿贸易
Involves technology and/or equipment that is sold and paid for in full or in part by goods manufactured with the technology or equipment. The foreign partner accepts responsibility for marketing the finished goods outside China.

COUNTERPURCHASE
Fan goumai 反购买
A sale to China that is paid for in goods that are not made from or related to the imported product, equipment, or technology.

EVIDENCE ACCOUNT
Jizhang maoyi 记帐贸易
The foreign or Chinese parties agree to balance sales with purchases over a period of time, normally two to five years. The Bank of China keeps records of the account for the two parties.

OFFSET
Dixiao maoyi 抵销贸易
A counterpurchase obligation on the part of the foreign partner, associated with a large ticket purchase of capital equipment or a turnkey plant.

SWITCH
Zhuankou maoyi, or zhuanshou maoyi 转口贸易，转手贸易
Involves a third party that is brought into a countertrade arrangement to accept goods that the original foreign company is unable to use or market itself. This is also known as a three-way counterpurchase deal.

* Revised and updated from *The CBR*, Sept–Oct 1983.
Chart prepared by Carolyn L. Brehm.

placed under license.

The countertrade division continually updates a lengthy list of products available for countertrade that currently includes raw cotton, jute bags, black tea, minerals, machinery, PVC products, and steel products. But an American trader noted that most of the approved products are predictably in oversupply on world markets or are not competitive due to poor quality.

Creative solutions proposed

Although it is too early to know how helpful MOFERT's countertrade division will be, a number of companies are already proposing creative methods to resolve obstacles to countertrade in China. Delegations from several major American corporations have visited Beijing in recent months to discuss the feasibility of various countertrade schemes to sweeten import deals and expensive capital-intensive projects. As one hopeful Hong Kong-based banker put it, "Countertrade's time has come."

General Foods Corporation sponsored a seminar in January in Beijing and Shanghai on "International Trade Certificates" (ITCs). Promoted worldwide by General Foods' trading arm, the concept involves an internationally accepted document, the ITC, issued by a seller to a foreign buyer. The certificate, validated by the seller country's central bank, grants the foreign buyer the right to sell products back to the country for payment in foreign exchange or to sell the certificate to another exporter. For example, a Chinese foreign trade corporation would issue an ITC to a US firm that has bought Chinese goods. With this documented proof of its purchases, the US firm should then find it easier to sell products back to China and be paid in foreign exchange. Czechoslavakia recently approved the use of ITCs, and some 17 countries are said to be studying the proposal.

According to a foreign banker involved in the seminars, the Chinese think ITCs are a good idea, but implementing measures must still be worked out, and "no one wants to commit to trading away foreign exchange revenues." As with most new concepts, the Chinese are likely to try ITCs on a case-by-case basis rather than introduce them as a general policy.

In what could be a precedent for countertrade that crosses bureaucratic lines, McDonnell Douglas announced the formation of a trading company in December 1985 to purchase $300 million in Chinese products for export. McDonnell Douglas and the Shanghai Aircraft Industrial Corporation are assembling MD-82 aircraft in a coproduction agreement. To fulfill McDonnell Douglas' offset commitment, the trading company has obtained preliminary approval to purchase products outside the purview of McDonnell Douglas' Chinese partner, including raw materials and general industrial products, although no purchases have been made yet.

Another precedent-setting offset proposal was discussed during China's negotiations earlier this year with Kraftwerk Union, a subsidiary of West Germany's Siemens AG, for a $1.64 billion nuclear power plant. Although the project became a victim of retrenchment in China's nuclear industry plans, Kraftwerk had planned, with West German government backing, to bring in the metals conglomerate, Metallgesellschaft, to take back up to half the project's cost in tin, tungsten, antimony, copper, and other metallurgical products from China.

A number of companies have also approached MOFERT about establishing an evidence account on the central level to balance China-wide sales with purchases. In some cases, foreign traders want recognition and credit for the foreign exchange they have generated through purchases in China. In other situations, particu-

larly those in which a company is accumulating RMB from joint venture sales or sales of products on the local market, a central accounting system for purchases of Chinese products for foreign exchange might help establish a case for allowing exchange of RMB into a convertible currency. This would go a long way to facilitate the difficult problem of repatriation of profits.

Central coordination plays key role

But centrally administered evidence accounts do not address the fundamental problem with countertrade—how to convince a Chinese entity selling goods for foreign exchange that it is in their interest to engage in countertrade instead. The difficulty of transferring or sharing foreign exchange across bureaucratic boundaries makes countertrade far less appealing to Chinese units than other forms of trade.

One foreign resident attempting to structure a deal cites the ignorance of countertrade among Chinese trade officials as a real hindrance. Any successful deal, he believes, requires the foreign side to organize all elements of the program, including the sale of products to China, the identification of Chinese products to be taken back, and the third party to whom the products are sold.

Despite MOFERT's attempt to facilitate countertrade deals, it is doubtful the ministry has the power to direct ministerial or provincial units to cooperate. Only in the most prominent and capital-intensive projects, such as the McDonnell Douglas coproduction venture or the aborted Kraftwerk nuclear power plant deal, will the central authorities be in a strong enough position to make countertrade work. Even then, foreign companies may demand a better selection or more competitive list of Chinese products to export.

Although countertrade appears to be an attractive short-term proposition in these times of tight foreign exchange, the long-term direction of Chinese economic reforms argues against its widespread use. As import and export powers become more decentralized, it may be increasingly difficult to achieve the coordination necessary to pull off a successful countertrade deal. 完

Little-known resource for foreign firms

Provincial Liaison Offices in Beijing

Andrew Ness

Foreign companies trying to gather information in China may want to add to their list of contacts the Beijing liaison offices maintained by each of China's provinces, autonomous regions, and provincial-level municipalities. These offices form a little-known resource on provincial projects and priorities, and can be helpful in the often-frustrating task of gathering trade and investment information in China.

Companies are well-advised to learn as much as they can about the sectors and organizations that interest them *before* going to China, since Chinese host organizations often know little about what others are doing and are primarily interested in promoting projects under their own jurisdiction. Once in China, companies may be able to benefit from the regional perspectives offered by the liaison offices. And they can take advantage of the offices' free information on selling, supplying technology, and investing in the provinces and regions—without having to leave Beijing.

Network of offices aids in domestic supply and procurement

First established in the early 1950s, the Beijing liaison offices' primary responsibility is to represent provincial interests before the central government and relay central government directives back to the provinces. The offices also act as legal watchdogs for their provinces, taking up the cudgel in disputes with central government organizations, and presenting the province's side of the argument before an arbitration panel in the State Council.

Each liaison office in Beijing maintains three departments: a general office, in charge of political liaison work; a guest house, responsible for receiving provincial officials in Beijing on business and supporting their work in the capital; and a business department. The liaison offices are typically at or just below the level of a bureau within the provincial government hierarchy, giving them considerable administrative clout.

Since 1984 the business departments of each liaison office have been allowed to deal directly with foreign firms. Previously, each business department focused exclusively on representing the province's or region's commercial interests in Beijing and promoting economic cooperation between the province and other regions of China.

Most provinces also maintain liaison offices in Shanghai, Guangzhou, Shenzhen, and one or two other areas with which they have especially close trade or industrial relations. But these liaison offices generally have more specialized missions and less authority than those in Beijing. One of the most important services they perform is helping to procure production supplies and sell above-plan production to other provinces. Since Shanghai is the most important market for above-plan production supplies, provincial liaison offices there are mainly engaged in procurement—ensuring that their home provinces get the full quota of production materials allocated to them under the State plan, and making up for provincial shortfalls by purchasing above-plan production supplies. The Guangzhou and Shenzhen liaison offices are responsible for exporting those commodities left over after the provinces have fulfilled the export quotas assigned to them by MOFERT.

Remote and underdeveloped provinces and regions are more likely to maintain a broad network of liaison offices than easily accessible ones. Ningxia, for example, with its population of only 3 million and prodigious appetite for production materials, technology, and investment, maintains eight liaison offices nationwide. By contrast, prosperous Guangdong, with a population of over 60 million, maintains liaison offices only in Beijing and Shanghai.

Andrew Ness is deputy representative of the National Council's Beijing office.

When to use the liaison office

By the same token, the more remote and previously overlooked a region is, the greater the importance it attaches to the foreign business development functions of its liaison office in Beijing. Although offices in other cities are allowed to supply information to foreign companies, the Beijing liaison offices in particular are viewed as convenient places for out-of-the-way regions to make contact with foreign companies and organizations.

Among the functions performed by the Beijing liaison offices are the staging of press conferences to unveil priority projects for which provincial governments are seeking foreign technology and investment. All the liaison offices have lists of such projects on hand. Companies seeking more information about already publicized projects, ongoing negotiations, or updates on contracts already signed would be well advised to visit the Beijing liaison office of the province concerned.

The Beijing liaison offices can help companies with little previous experience in China to establish initial contact with provincial foreign trade and industrial organizations or arrange an inspection tour of facilities in the province. The liaison offices also usually have up-to-date information on opportunities for foreign firms involving traditional products that the region excels in producing, such as the wool of Xinjiang, the furs of Ningxia, or the ceramics of Jiangxi.

Business departments within the Beijing liaison offices are not full-fledged business consultants, however. They offer foreign companies a direct line of communication to their provincial governments, but exercise little independent decision-making power. Exceptions are the Ningxia and Nei Mongol liaison offices, both of which are empowered to sign letters of intent on behalf of their re-

gions' enterprises, and the Xinjiang office, which can sign commodity import and export contracts on behalf of the region's foreign trade corporations.

Although some business departments will soon include permanent representatives from the province's economic bureaus and departments, most are still staffed by generalists, rather than specialists in industry or foreign trade. And because these business departments are nonprofit government service organizations, they are usually not as highly motivated as organizations with a direct monetary stake in promoting Sino–foreign economic ties. For this reason, foreign businesspeople hoping to glean valuable information must be willing to invest time and effort to build up relations of trust with the provincial staff.

Pros and cons of the provincial perspective

A survey of 14 US company representative offices in Beijing revealed that only four of them had ever used the services of any of the Beijing provincial liaison offices, and some were unaware that the liaison offices even existed. Many companies claimed their business required working directly with long-standing personal contacts in foreign trade corporations within the provinces, while others reported that understaffing permitted them little time to deal with minor players like the liaison offices. Most companies relied mainly on their host organizations in China for general advice.

But there are times when the provincial liaison offices may be able to provide a useful provincial perspective for foreign firms. Those companies that have gone to the liaison offices were given assistance in contacting provincial trade authorities and attending provincial exhibitions, information on provincial projects and industrial capabilities, and data and back-up support for ongoing negotiations with provincial authorities.

In approaching the business departments of the Beijing provincial liaison offices, remember that their task is solely to promote the interests of their provinces, and their strong loyalties to provincial authorities color any information they might provide. However, this loyalty can work in the interest of a foreign company, providing them with a source of information devoid of a Beijing bias. If companies rely only on national-level corporations, ministries, and bureaus to provide information about potential investment partners, they run the risk of learning only about centrally administered factories that are targeted for foreign assistance.

Provincial liaison offices in Beijing provide their own perspective on economic priorities in the provinces. Consulting them ensures that foreign firms do not overlook qualified provincial entities in the search for appropriate partners in China. This sort of cross-checking is increasingly indispensable given the looser, but more complex, web of loyalties and affiliations emerging under decentralization. As the Beijing representative of one US company recently noted, "In a country like China, it is simply impossible to have too many channels of information." 完

BUSINESS DEPARTMENTS OF THE LIAISON OFFICES IN BEIJING

Photo by Zheng Xiao

The Xinjiang provincial liaison office in Beijing.

Anhui. Hepingli Xijie, Beikou. Tel: 465093.
Fujian. Deshengmenwai, Madian. Tel: 669331.
Gansu. Hepingli Xijie, Beikou. Tel: 464020.
Guangdong. Beiwacun Lu. Tel: 893757.
Guangxi Zhuang Nationality Autonomous Region. Donghuan Nan Lu. Tel: 782048.
Guizhou. Hepingli Xijie, Beikou. Tel: 465253.
Hebei. Zhuiba Hutong, Dianmennei Dajie. Tel: 442031.
Heilongjiang. Fuxingmen Bei Lu. Tel: 867495.
Henan. Guangqumennei. Tel: 751287.
Hubei. Baishiqiao Lu. Tel: 896256.
Hunan. Xuanwumen Xi Dajie. Tel: 341531.
Jiangsu. Xuanwumen Xi Dajie. Tel: 341531 ext. 225.
Jiangxi. Qianmen Xi Damochang. Tel: 755569.
Jilin. Zhubaoshi Lu. Tel: 333801.
Liaoning. Maxian Hutong, Dongdan. Tel: 554653.
Nei Mongol Autonomous Region. Chongwenmennei Dajie. Tel: 557904.
Ningxia Hui Autonomous Region. Andingmenwai, Fengsiting Hutong. Tel: 447587.
Qinghai. Hepingli Xi Dajie, Beikou. Tel: 466749.
Shaanxi. Toufa Hutong. Tel: 666040.
Shandong. Xiaojiangfang Hutong, Xichengchu. Tel: 654415.
Shanghai. Beichang Jie. Tel: 657046.
Shanxi. Langfang Toutiao. Tel: 332386.
Sichuan. No. 5 Gongyuan Xijie Toutiao, Jianguomennei. Tel: 551114 ext. 401.
Tianjin. Heping Jie. Tel: 463017.
Xinjiang Uygur Autonomous Region. No. 23 Sanlihe Lu. Tel: 890141 ext. 360.
Xizang (Tibet) Autonomous Region. Gulou Xi Dajie. Tel: 443658.
Yunnan. Hepingli Xi Dajie, Beikou. Tel: 466575.
Zhejiang. Beitaipingzhuang, Madian. Tel: 2011148.

Addresses of the provincial liaison offices in the cities of Shanghai, Guangzhou, and Shenzhen are available from the National Council for US–China Trade.

Pace-setting province tackles foreign investment problems

Fujian's Open Door Experiment

Victor Falkenheim

Fujian Province has set the pace for much of China's open door strategy. Drawing on a large overseas Fujianese community willing to invest in the homeland, the province has attracted more than $600 million in pledged foreign investment and close to $150 million in foreign loans and credits over the past five years.

At the same time, success has brought problems. While the number of joint ventures has increased rapidly, the share of foreign investment coming from Hong Kong and Macau remains high, although it dropped from 90 percent to 70 percent during the last two years. This high rate makes Fujian captive of a single source of income and vulnerable to the charge that the province is able to attract investment only from relatives. And despite its relative success in attracting overseas investment, Fujian is still burdened with many of the same trade and foreign exchange problems that afflict other open areas throughout the country.

Pioneering development with foreign funds

For many years Fujian was considered a risky site for large-scale investment due to its proximity to Taiwan. Now, with Beijing's push for reunification, Fujian's strategic location has become an asset: in recent years the province has been expected to showcase development on the mainland and serve as the economic and trade link to Taiwan.

Many years of neglect left Fujian with a poor infrastructure, but significant improvements have been made since 1980. Total provincial capital construction expenditures exceeded ¥2.5 billion from 1980–85, of which ¥1.7 billion was spent in the Xiamen SEZ alone. By 1984 Xiamen boasted four new berths at Dongdu Port, an expanded airport, and basic facilities at Huli Industrial Park, the industrial and processing zone northwest of the city. Meanwhile, the provincial capital of Fuzhou spent ¥750 million on capital construction, redredging Mawei harbor and similarly adding four new berths, bringing the total cargo handled at Mawei to 3.5 million tonnes in 1985.

The money for these and other large-scale development projects came from a variety of sources, both foreign and domestic. Perceived as a financial innovator, Fujian has been very successful in tapping overseas sources of funds. The Xiamen airport expansion was funded by Kuwaiti banks, and the first phase of expanding the province's merchant fleet (which grew from 30,000 tonnes to over 100,000 tonnes between 1979 and 1985) was assisted by $38 million in loans from the First National Bank of Chicago. To help the province relieve chronic power shortages, Kuwait funded construction of the Shaxikou hydropower facility (expected to come onstream in 1989), and the World Bank is assisting with the financing of a 1.4 billion-kilowatt (kw) hydropower station at Shuikou scheduled for construction in the 1990s.

Innovative provincial financiers

But foreigners are not the only financial backers of provincial development. The provincially owned Fujian Investment and Enterprise Corporation (FIEC) helped Fujian become the first province to raise funds through an overseas bond issue with a J¥5 billion issue in Japan in 1983. The province pioneered again last November with the first non-Bank of China guaranteed bond issue in Japan. The J¥10 billion issue, which received an AA minus rating, will help fund an oil refinery in the Meizhou Bay area, the Kodak-equipped Xiamen Sensitive Materials Corporation, and the Xiamen Aviation Company. The province reportedly plans a $50 million dollar-denominated bond issue in Europe later this year.

A pathbreaking consortium set up in 1983, the Xiamen SEZ United Development Corp., links five Hong Kong and Macau banks with the FIEC and the Xiamen SEZ Construction and Development Corporation. The consortium has funded industrial and commercial construction and, most recently, provided leasing for the Xiamen Overseas Electronics Consortium, a new joint venture planning to upgrade electronics production lines in 13 factories.

China's first joint venture bank, the Xiamen International Bank, links the FIEC, the provincial branch of the Industrial and Commercial Bank of China, and the Hong Kong Panin Finance Group. Formed in late 1985, the bank provides both commercial and investment banking services. Xiamen SEZ authorities view it as part of a planned large-scale reform of the banking system, which will prepare the zone for its future role as a free port by integrating a central bank, a regional bank (plans for a bank with capital of ¥100 million are currently awaiting approval from Beijing), two joint venture banks, and several foreign bank branches.

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Xiamen SEZ expands its role

A large portion of the province has been opened to foreign investment and trade through three officially designated investment zones: the Xiamen Special Economic Zone (SEZ), the open coastal city of Fuzhou, and the Southern Fujian Economic Zone.

Xiamen's Huli Industrial Park, authorized by the State Council as one of China's four SEZs in 1979, was the first focal point of Fujian's efforts to attract foreign investment. Local pressures and the national desire to expand the open door policy prompted a broadening of the scope and functions of the Xiamen SEZ in July 1985 to encompass all 131 square kilometers of Xiamen municipality and the island of Gulangyu. Redesignated a "comprehensive" zone, the scope of Xiamen SEZ widened from being an export-oriented industrial zone to include commerce, tourism, and overall industrial development.

Xiamen SEZ's careful selection of projects that emphasize technology and industrial manufacturing over simple export processing has enabled it to avoid some of the criticism recently directed at other SEZs. For instance, the SEZs have been accused of focusing on processing instead of introducing widely applicable technology and management skills. Since Xiamen's processing operations in 1984 netted only $8 million in fees, accounting for less than 2 percent of provincial foreign exchange earnings, the zone has not received the scrutiny of Shenzhen, where processing accounts for 10 percent of foreign exchange revenues.

But Xiamen has run into other problems. Critics point to overbuilding: many buildings in the Huli park are still without tenants. And although the Huli zone has attracted high-profile investments from R. J. Reynolds and Wang Laboratories, Inc., few other large-scale projects conforming to zone policies have been forthcoming, and the pace of industrial output has been slow as a result.

The national government's endorsement of "free port" facilities at Xiamen, including a duty-free transhipment and processing center, should encourage more investment. The free port plans are being implemented gradually, with the first step

to commence next year. If Xiamen does become a free port, and realizes its plan to raise the annual handling capacity to over 20 million tonnes by the year 2000, the city may become the major regional trading center for southeastern China.

New investment areas define roles and interrelationships

In 1983 Fujian provincial planners realized that Xiamen alone could not earn enough foreign exchange to pay for the province's industrial growth plans. Their solution was to designate the entire southern Fujian area, including the three cities of Xiamen, Quanzhou, and Zhangzhou and their 11 subordinate counties, as an open "economic zone" early in 1985. Creation of a broader economic unit encourages agricultural exports from the province's interior, such as fruit, to take advantage of Xiamen's port facilities. Formation of the Southern Fujian Economic Zone has also stimulated work on road development and Quanzhou harbor modernization, while strengthening the existing natural links between the port cities and the agriculturally oriented interior.

An integrated plan for the region attempts to eliminate competing facilities. For example, since Xiamen possesses advanced canning technology, excessive canning capacity in the province's interior is now discouraged. While Zhangzhou will continue to operate its established canning factories, it has agreed not to build new factories. In return, a pulp and paper plant based on canning residues, originally planned for Xiamen, will now be built in Zhangzhou, closer to raw material supplies.

The spring 1984 designation of Fuzhou as one of China's 14 open coastal cities targeted northern Fujian and the lower Min River valley for foreign investment for the first time. Although Fuzhou was not among the four priority open cities slated for central funds in the cutback of the 14 coastal cities policy in mid-1985, the city has proceeded with the development of both its own economic and technical development zone at Mawei and a fishing/fish processing zone several miles downriver. Fuzhou has done well in attracting investment, trailing only Shanghai, Beijing, and Tianjin in the number of foreign investment contracts signed in the first half of 1985.

Provincial planners originally envisioned an integrated plan for the province, with Xiamen entering international markets wearing a "light pack" (electronics and light industry) while Fuzhou "shouldered responsibility for the rear"—i.e., heavy industry, chemicals, and machinery. The division seemed logical since Fuzhou was already the heavy industrial center of the province, with twice the industrial output and number of enterprises of Xiamen. But in practice, since each area makes its own investment decisions, guidelines are often ignored in the effort to obtain any project that will justify their investment in infrastructure. Thus Fuzhou is competing with Xiamen for electronics projects. As a result of this competition, the 50 electronics lines imported by the province during the last four years have lifted it from 16th to sixth nationally as a producer of electronic equipment. A recent shift in guidelines recognizes this changing reality, and encourages Fuzhou to develop electronics, as well as food processing and forestry.

Joint ventures pick up speed after a slow start

Fujian is beginning to see the payoff for its broad and innovative development strategy. Foreign investment surged dramatically during 1984 and 1985 with the completion of key construction projects and the rapid expansion of areas open to investment. Of the provincial total of 304 joint ventures signed between 1980 and 1984 (134 equity joint ventures, 162 cooperative ventures, and eight wholly foreign-owned ventures), 262 were signed in 1984 alone. In the first nine months of 1985, 327 additional venture agreements were signed, most involving tourism, commercial and residential development, as well as electronics, chemicals, and aquatic industries. Fifty of these projects were capitalized at more than $1 million, including 14 at more than $5 million and seven exceeding $10 million. Forty percent of Fujian's investment remains centered on the Xiamen SEZ, where contracts for 144 projects worth $474 million were signed during 1985.

Although 46 percent of investment in the Xiamen SEZ during the 1980–85 period went to manufacturing and industrial projects, the majority of other provincial investment projects focused on nonproductive tourism and commercial development, where returns on investment can be recouped fairly rapidly. Thus, joint ventures have not significantly increased the province's industrial output. The output of Xiamen's foreign joint ventures was only ¥70 million in 1984, less than 5 percent of the city's total industrial output. However, authorities expected exponential growth in joint venture output during 1985, based on the hope that two to three new joint venture factories will come online. Fujian's goal for the next five years is to boost the proportion of industrial joint ventures to 60 percent of the total. The target appears achievable considering that Shenzhen, with a two to three year

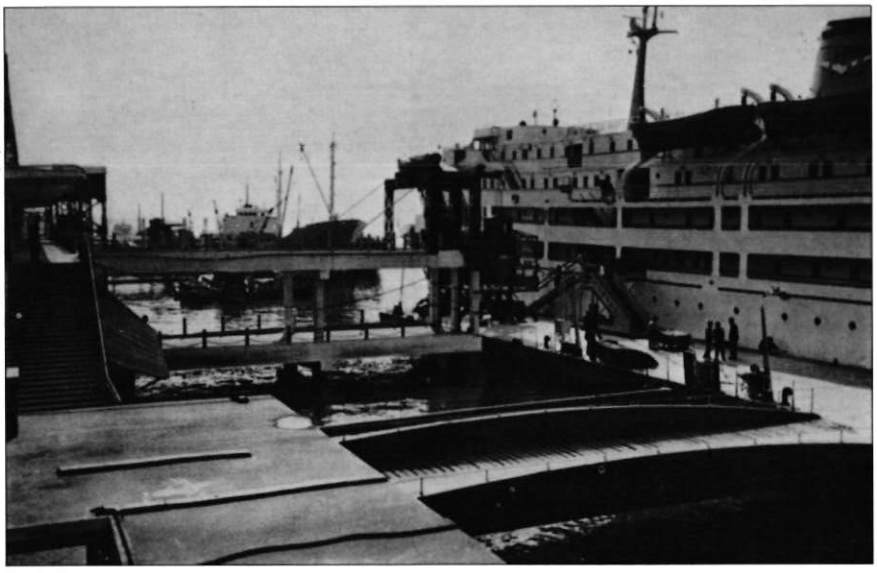
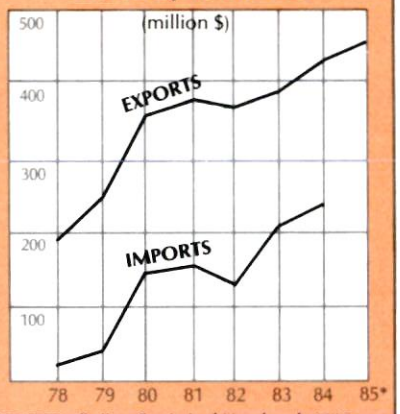


Photo courtesy of New China Pictures

The Heping wharf at Xiamen port.

FUJIAN PROVINCE'S TRADE, 1978–85



SOURCE: *Fujian Statistical Yearbook 1985*, Xinhua News Agency

*1985 exports based on Jan–Nov; 1985 imports NA

head start, has already surpassed this goal.

The quest for foreign exchange

Perhaps the biggest problem is the fact that joint venture operations have not significantly boosted Fujian's foreign exchange reserves through export earnings. Provincial analysts report the average 1984 rate of foreign exchange earnings was a disappointing 12.5 percent. Although Fujian's exports jumped from $202 million in 1978 to $380 million in 1981, they remained disappointingly flat for several subsequent years, exceeding $400 million only in 1984. The picture may be improving due to a vigorous export promotion program—exports earned $465 million in 1985—but over the past five years Fujian's import expenditures have also increased. Even though the province consistently exports far more than it imports, its voracious appetite for foreign exchange means that Fujian cannot relax its export drive.

One consequence of the gap between foreign exchange needs and supply is a slowdown in the pace of enterprise technological renovation. Of the 718 renovation projects involving foreign firms approved between 1979 and 1984, only 473 had reached final contractual form by year-end 1984, and only 239 were in production. The foreign exchange bill for the province's 1985–87 technical import plan alone comes to $150 million annually. Even in the relatively advanced Xiamen zone, the $20–$50 million per year in export

earnings falls far short of meeting the need for funds to upgrade the city's plants.

Under provincial policy guidelines, enterprises equipped with new product lines or key equipment are expected to begin recouping expenses through export earnings within two to three years, a timetable that cannot always be met. The Fuzhou Medium Density Fiberboard Plant, a domestic joint venture involving provincial and national building materials agencies, demonstrates some of the problems. Specialized equipment ordered from a US plant and shipped to China in 1982 was supposed to be fully operational by the end of 1983. However, a dispute over defective equipment has yet to be resolved, and the fiberboard plant is mired in debt and unable to repay its Bank of China foreign exchange loans. Only high-level government intervention enabled this firm, originally hailed as a model project, to stave off collapse.

In other cases, bureaucratic obstacles delay or obstruct implementation of approved renovation plans. Only three out of the 30 projects approved in Quanzhou in 1983 reportedly got off the ground due to conflict between the bank, light industrial bureau, and customs over where equipment should be installed.

Fujian can be legitimately proud of the leading role it has taken in development and investment strategy. But for Fujian to move ahead as a showcase of industrial development using foreign investment, the province must work in tandem with national authorities to solve the foreign exchange and other problems that are hampering the growth in foreign investment throughout the country. 完

New development strategy relies on diverse sources of support

Northwest China: Shifting Gears

Valerie J. Chang

Northwest China was once an integral part of the nation's economy, when the Silk Road snaked through the region and brought traders and goods from Central Asia into the Middle Kingdom. Today, however, it has become a modern-day outback that lags far behind the rest of the country in economic development. The five provinces and regions of the northwest—Shaanxi, Ningxia, Gansu, Qinghai, and Xinjiang—account for 32 percent of China's total land area but currently contribute only 5 percent of the country's total agricultural and industrial output.

The northwest is sparsely populated and underdeveloped, but holds vast potential for economic growth. Large reserves of oil and coal remain untapped. The region is the depository for many minerals; 115 are found in Xinjiang alone. Expanses of pastureland well-suited to animal husbandry are underutilized.

A shortage of funds, technology, and transport facilities have prevented greater exploitation of these resources. The northwest has traditionally relied heavily on the central government for what funds it had, and now even this is set to change. At the August 1985 conference on "Economic Development of China's Western Region," provincial and regional authorities acknowledged a cutback in State funding that will spare only those large projects too costly for local governments.

The region has responded by stepping up the search for alternative sources of funds. Government rhetoric continues to call for developing the northwest so that it can become an industrial base in the 21st century, but achieving this goal may be impossible if the region does not succeed in diversifying its base of support.

Transportation needs are great

Large-scale development of the northwest is hindered by a poor transportation system, and the central government won't be offering much help in the near future. The Seventh Five-Year Plan allocates approximately ¥33 billion for railway development nationwide, but gives priority to lines in the congested northeast and coastal areas.

Recent press statements reiterate the government's commitment to extending a rail line from the east coast through the northwest to link up with a Soviet line at the Alataw Pass, in order to increase trade with Central Asia, the Middle East, and Europe. But this project has been on the books since the Second Five-Year Plan (1958–62) and is still far from complete. Construction now focuses on a 240-kilometer section running from Xinjiang's capital of Urumqi westward to Usu. The Ministry of Railways is providing approximately half of the funding for this ¥200 million expansion project, with local government money making up the balance. Formerly, this type of project would have been funded solely by the central government, but now the autonomous region is depending on a combination of central and local money.

The line from Urumqi to Usu is actually of little consequence to overall rail system plans in the northwest. Several other rail lines will be more important to the region, but funds for them may be even harder to secure. More direct lines to western coal fields and oil processing centers are badly needed. For instance, current rail capacity is simply insufficient to move large quantities of coal from the northwest to the east. The

Valerie J. Chang, an MA candidate at the Johns Hopkins School of Advanced International Studies, has previously written on agricultural mechanization for The CBR.

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northwest holds approximately 32 percent of China's total coal reserves, but accounts for only 11 percent of the nation's coal output. Large western coal mines—Shenmu in Shaanxi and Huating in Gansu—will not be developed anytime soon because there is no money to build the necessary new spurs to connect the mines with the rail system.

Development of the northwest's oil industry may also be hampered by inadequate rail lines. Should extensive exploration now underway in Xinjiang reveal significant oil reserves, better transportation will be vital. Eventually, the Chinese government could build a pipeline from Xinjiang to the east, but until finds large enough to warrant such an investment are made, the inefficient rail system would be the only alternative. The Karamay field, which now produces 40,000 barrels per day, is a day's train trip from the nearest major refinery.

Generating power for eastern industries

In contrast to the transportation sector, the central government has lavished substantial resources on power development in the northwest, but even this is primarily to benefit eastern industries rather than support nascent industries in the northwest. The northwest is endowed with rich hydropower and coal resources, and in the period 1981–85 the State invested close to ¥3 billion in the region's power industry, raising the annual output by 5.3 percent. Construction accelerated on two large hydropower stations—Longyangxia on the Yellow River in Qinghai and Ankang on the Han River in Shaanxi—and five power plants were expanded or built: Qinling (Shaanxi), Qiaotou (Qinghai), Liancheng (Gansu), Dawukou (Ningxia), and Hongyanchi (Xinjiang). The Seventh Five-Year Plan calls for completing construction on the Longyangxia and Ankang hydropower stations, which will increase capacity by over 2,000 megawatts (mw), and for raising the installed capacity of these and other northwest power plants by 4,000 mw to a total of 11,000 mw. Transmission lines will also be extended and transformer substation capacities raised.

Since the northwest is the only region of the country that produces more electricity than it consumes, efforts have focused on expanding installed capacity and linking the northwest to other grids so that power can be supplied to other sections of the country. Beginning in 1982, the northwest power system began supplying 1.4 billion kilowatt hours (kwh) annually to other parts of China. By the 1990s it is hoped that the northwest will be able to supply 9 billion kwh to Beijing alone. Although the State is willing to invest heavily in large power projects that will ultimately benefit the eastern cities, it has provided minimal aid for small-scale projects, forcing local regions to raise the money to build more than 3,000 small power stations for rural areas.

Regional projects are usually smaller than State projects, and designed to benefit localities rather than adhere to an overall regional development plan. Large infrastructure projects, which will suffer most from State cutbacks, are unlikely to be undertaken by other provinces.

Industries that consume large amounts of energy, such as nonferrous metallurgy, are being encouraged to shift operations from the energy-short east to take advantage of the northwest's abundant power. The northwest is slated to become the center of China's growing aluminum industry, and the first phase of construction on China's largest aluminum plant in Qinghai is already complete. Other large metallurgical works are located in Gansu and Ningxia. While establishing such plants is a significant step in developing industry, further growth could again hinge on the ability to transport materials to and from the plants.

Assistance from eastern provinces

Due to limited State funds, regional cooperation has received increasing emphasis as a means for developing the northwest. Both the Sixth and Seventh Five-Year Plans mention the need for greater regional cooperation. In a nutshell this means that eastern China should provide investment funds, advanced technology, and trained management and labor in exchange for raw materials and energy from the western region.

The overall impact that regional cooperation will have in the northwest is difficult to assess. While undoubtedly contributing to development in certain pockets of the economy, assistance from eastern provinces cannot compensate for large reductions in central government aid. Regional projects are usually smaller than State projects, and designed to benefit localities rather than adhere to an overall regional development plan. Large infrastructure projects, which will suffer most from State cutbacks, are unlikely to be undertaken by other regions.

Although interregional projects tend to be smaller than State projects, they are more numerous. By 1984 over 17,000 project were being negotiated or implemented under interregional agreements, twice the number in 1983. These agreements range from co-production to joint ventures, personnel training, and long-term assistance. In 1985 alone, Gansu signed 208 contracts with other regions, bringing in nearly ¥300 million in funds.

Regional cooperation is based on the principle of relative strengths. The northwest has strong potential to expand agricultural processing, animal husbandry, and animal by-products processing. Regional products with a potentially wide market include the reknowned Hami melon of Xinjiang and herbal medicines from Gansu. Numerous opportunities exist for developing food processing and packaging, meat canning, hide tanning, and textile weaving among others.

Valuable technical aid for light industries such as these has come from eastern China. So far, technology transfer projects have focused on textiles, food processing, and building materials. The Gaoya Cement Factory in Gansu, for example, received a ¥20 million loan from the China National Shipbuilding Corporation to purchase automated

equipment that can treble the plant's output. The Shipbuilding Corporation receives badly needed cement to pay back the loan. Shenyang, the capital of Liaoning, will help upgrade Qinghai's textile, leather, and food industries, and also aid in mineral exploration in the Qaidam Basin. Qinghai, in return, will provide Shenyang with wool.

Shanghai has long been active in technical cooperation with the northwest, with relations dating back to early post-liberation days. Today, Shanghai institutes and factories are engaged in projects ranging from consulting and technology transfer to training programs and joint ventures. Jiaotong University, which is proud of its many programs in Xinjiang, has sent specialists to survey the region and serve as economic consultants. On a factory-to-factory level the Shanghai No. 1 Television Factory assisted the Xinjiang Radio Factory in producing color television sets for local consumers. The Shanghai Zhentai Rubber Factory and the Xinjiang Urumqi Tire Factory formed a joint venture to produce 200,000 tires annually. Some projects are designated to source raw or semi-processed materials: Shanghai will put up ¥80 million for an aluminum project in Ningxia, receiving aluminum in exchange.

Region looks inward for help

Within the region itself, there are wide disparities in the level of development, and the potential for cooperative projects among localities is also being tapped. Despite its general economic backwardness, the northwest has advanced nuclear and aerospace facilities and is home to several other high-technology industries. The foundations for such industries were laid by strategic investment in the region in the 1950s and 1960s. Shaanxi Province, for instance, with the region's highest industrial output, leads the nation in designing and manufacturing aircraft, precision tools, and certain power equipment. Shaanxi has sent technicians to Xinjiang to improve plant designs and processes, and train technical workers.

The five provinces and autonomous regions of the northwest have convened three conferences aimed at strengthening economic and technical ties among them and pinpointing areas for cooperation. They agreed to establish trade agencies throughout the region and to form a regional group to oversee improvements in telecommunications and transportation. They also jointly sponsor national and international investment symposiums. In July 1985 the West China Cities Economic Information Association was set up in Lanzhou, Gansu, to serve as a clearinghouse for economic and technological information from the 18 member cities. Although such programs are just beginning, regional coordination is likely to become more important as central efforts diminish.

Foreign investment focuses on energy and textiles

Although limited to date, foreign investment is being actively sought for energy and mineral development, as well as light industrial projects. Foreign projects in the northwest are commonly resource-related, introducing advanced technology and processing equipment.

Resource development projects put up for foreign cooperation include improvement of processing plants for aluminum, beryllia, titanium, copper, and magnesium. Bechtel Corporation has already signed four letters of intent with the Xinjiang government for resource development projects, including the possibility of a joint venture engineering company, copper-nickel and possibly gold mines, and plants to produce lube oil and ethylene. Kellogg-Rust, Inc. (US) will modernize two ethylene plants in Gansu, doubling ethylene yields.

Foreign companies are being recruited to help with oil exploration and train the Chinese in up-to-date geophysical techniques in Xinjiang. American geophysical crews are exploring the Tarim Basin and French crews are working in Karamay and the Junggar Basin. The government is so far unwilling to formulate plans for jointly developing oil fields, possibly because it hopes to develop these resources without obligation to foreign partners, but major foreign oil companies remain interested in expanding the level of cooperation.

Xinjiang has been the most active recruiter of foreign investment in the northwest. Its first investment symposium, in September 1985, attracted over 400 businessmen from 17 countries and Hong Kong. Twenty-one industrial production contracts were reportedly signed, including a fruit canning factory, a

wool fabric plant, a sugar refinery, and a winemaking operation. The largest contract, valued at over $90 million, was signed with the Hong Kong Gold Key Group to set up a joint venture paper mill producing printing paper from reeds. A total of $169 million in foreign investment was pledged at the meeting.

The largest American joint venture in Xinjiang is a $40 million cotton spinning and weaving plant that will use the high-quality, long-staple cotton grown in Xinjiang to produce gray and dyed cloth for export. The Globe Textile Corporation will provide $5.6 million to the venture, scheduled to begin operation in 1987. Another textile venture already in operation is the Xinjiang Changji Cotton Mill, a compensation trade project between Changji Autonomous Prefecture and Japan.

In an unusual undertaking, the Capital Bank of Miami has reportedly set up a direct correspondent banking relationship with the Bank of China through its branch in Urumqi. Capital Bank, the eighth US bank to establish such a relationship with a Chinese bank, recently received approval to act as an agent between the PRC and international businesses. Currently, Capital Bank and the Urumqi branch are working together to finance the Globe Textile Corporation venture.

Ningxia's first joint venture was signed in 1984 with the US International Environment Resource Center for the manufacture of agricultural and environmental monitoring equipment. Ningxia has also imported a production line from West Germany for knitting plastic fibers into bags, and has begun construction on a chemical factory that will import equipment from Japan and the Netherlands. As the home for over 1 million Muslims of the Hui minority, Ningxia is also eyeing the international Islamic community for help. In mid-1985, the China Ningxia Islamic International Trust and Investment Corporation was established to attract capital from Islamic countries and act as an agent and consultant for investors. This strategy has gotten off to a good start—during a recent trade symposium, Arab countries concluded contracts to provide Ningxia with textile technology in exchange for afforestation, grass planting, and sand controlling technology.

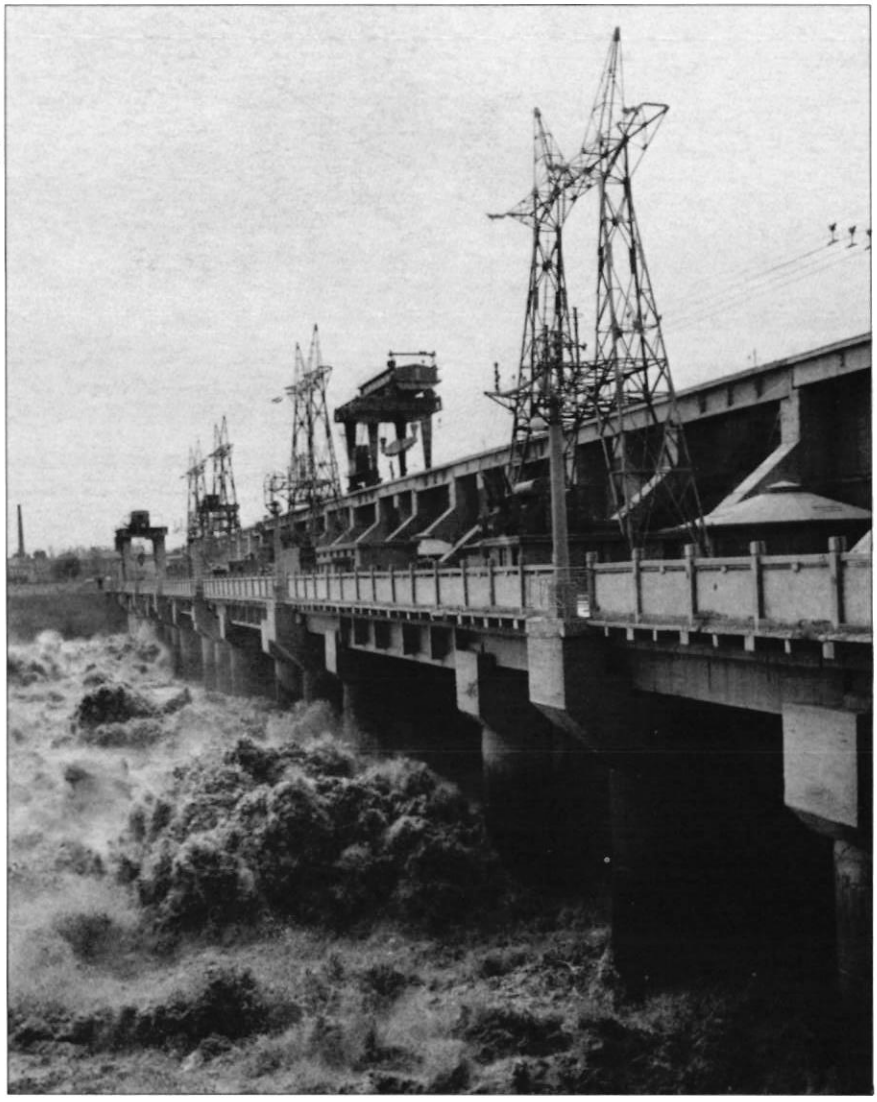

Photo courtesy of New China Pictures

The northwest is the only region of the country that produces more electricity than it consumes. The Qingtongxia Gorge water conservancy project in Ningxia is part of the region's growing hydropower network.

Setting regional goals

The Seventh Five-Year Plan recognizes different levels of development within China and outlines three individual strategies for developing eastern, central, and western areas. The advanced eastern region is to develop new industry and technology, absorb foreign investment, and aid the rest of the country. The central region is to focus on developing energy resources and raw materials while promoting select advanced industries where possible. The underdeveloped western region, including the northwest, is to give top priority to agricultural activity, especially farming, forestry, and animal husbandry, as well as transportation, to lay a foundation for further growth. Development of the northwest's resources and processing industries is also encouraged by the plan, but given less emphasis.

The central government recognizes that it cannot satisfy the massive investment needs of the northwest region, and thus supports the region's quest for more regional and foreign assistance. While this may lessen the government's ability to control the types of projects undertaken, it is the only pragmatic course to follow given the cutback in central funds. Having been left behind in development plans before, the northwest is anxious to ensure that it doesn't happen again. Thus it will continue to actively recruit help from other channels, in the hope of being able to greet the 21st century as a region that can contribute to, rather than hold back, the nation's progress. Whether or not this can be achieved will depend on the response it gets from those who have the money and technology to make it happen. 完

The good news is that Shanghai has many foreign investment laws. The bad news is that no one knows about them.

Shedding Light on Shanghai's Laws

Ellen R. Eliasoph

Since 1982 Shanghai's draftsmen have created a comprehensive body of local legislation governing critical issues for foreigners doing business in Shanghai (*see* box). But unlike many other cities in China that are seeking investors, Shanghai has not adequately publicized these laws or utilized them in business negotiations. Indeed, prior to the January 1986 publication of the Shanghai Overseas Investment Utilization Manual—which contains English translations of some but not all of Shanghai's foreign investment legislation—foreigners unable to read Chinese had virtually no way of learning about the laws and regulations governing their business activities in Shanghai.

Although Shanghai's solid industrial base and proximity to the thriving markets of Jiangsu, Zhejiang, and Jiangxi have attracted many potential foreign investors, the difficulty of obtaining reliable information about laws and regulations may well be one of the factors contributing to a growing disillusionment among foreign companies and the recent closing of several Shanghai offices.

A recent survey of a representative cross section of foreign businesspeople working in Shanghai illustrates the problem. Except for one manager whose Chinese counterparts provided him with Chinese texts of some regulations, none of the businesspeople had ever been apprised of the Shanghai legislation described in this article—notwithstanding its direct relevance to their business operations and ongoing negotiations.

Law on a "need to know" basis

The dearth of information on Shanghai's foreign investment legislation stems from a Chinese belief that law is a sensitive subject, and legal information should be held in strict confidence. While attitudes have changed somewhat in other cities, many Shanghai officials are still reluctant to provide legal information. "Foreigners don't need to know the laws," a visitor was recently told by an official from the Shanghai Municipal Foreign Economic Relations and Trade Commission (SMERT). "We have special work units that deal with foreigners. They'll take care of everything for you."

Recently, a foreign representative office was accused by SMERT of violating a law concerning the hiring of PRC locals. The foreign company asked SMERT for a copy of the law in question. When SMERT failed to respond, the company finally obtained a copy from another Chinese agency. Although the law dated from 1982 and described "the procedures relating to registration, personnel residency, and engagement of staff by existing and future resident representative offices . . . established in Shanghai Municipality," it had never been translated into English or circulated to representative offices. Shortly after this incident, SMERT issued a notice to "reiterate" the con-

Ellen R. Eliasoph, formerly the resident Beijing attorney for the international law firm Paul, Weiss, Rifkind, Wharton & Garrison, now serves as the firm's resident attorney in Shanghai.

SHANGHAI'S LEGAL REGIME FOR FOREIGN BUSINESS

With the exception of the SEZ/14 Coastal Cities Tax Provisions, which is national legislation applicable to all of China's 14 coastal cities, the following laws and regulations consist entirely of local legislation formulated by Shanghai Municipality between 1982 and early 1986. When a given subject is also addressed by national legislation, both the national and local laws should be consulted to obtain a comprehensive picture.

Note that all of Shanghai's legislation concerning equity joint ventures also applies to cooperative ventures and wholly foreign-owned enterprises until separate legislation concerning this form of investment is promulgated. Now that the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises has come into effect (on April 12, 1986), investors contemplating wholly foreign-owned enterprises should consult both the general Shanghai legislation and the Foreign-Owned Enterprise Law.

Resident Representative Offices

Shanghai Municipal Import-Export Office Circular, Import-Export Volume 4 (82) No. 50, (April 1, 1982)

Shanghai Municipal Foreign Economic Relations and Trade Commission Notice, Hujingmao Maoguanzi (86) No. 209, (January 30, 1986)

Residence and Visa Matters

The Shanghai Municipal Public Security Bureau Provisional Regulations Concerning Aliens Applying for Residence, Temporary Residence Registrations, and Different Types of Visas and Certificates (October 1, 1983)

Examination and Approval of Foreign Investment Projects

Provisions Concerning the Negotiation of and Examination and Approval Procedures for the Establishment of Chinese–Foreign Equity Joint Enterprises and the Acceptance of Foreign Investment for the Establishment of Wholly Foreign-Owned Ventures in Shanghai Municipality (for Trial Implementation) (July 1, 1984)

Implementing Measures for the Provisions Concerning the Negotiation of and Examination and Approval Procedures for the Establishment of Chinese–Foreign Equity Joint Ventures and the Acceptance of Foreign Investment for the Establishment of Wholly Foreign-Owned Enterprises in Shanghai Municipality (for Trial Implementation) (September 1984)

Joint Ventures

Shanghai Municipality Rules for the Implementation of Labor Management in Chinese–Foreign Equity Joint Ventures (for Trial Implementation) (November 1, 1984)

Administrative Provisions Concerning the Procurement and Sale of Materials and the Prices of Commodities for Chinese–Foreign Equity Joint Ventures in Shanghai Municipality (for Trial Implementation) (December 20, 1984)

Shanghai Municipality Trial Measures for the Administration of the Site Use Rights of Chinese–Foreign Equity Joint Ventures and the Site Use Fees to be Charged (undated)

Construction Projects

Shanghai Municipality Regulations on the Administration of Construction Projects Undertaken by Foreign Design and Construction Units (January 1, 1986)

Taxation

Interim Provisions of the State Council of the People's Republic of China Concerning the Reduction of and Exemption from Enterprise Income Tax and Industrial and Commercial Consolidated Tax in the Special Economic Zones and 14 Coastal Port Cities (November 15, 1984)

Shanghai Municipal Taxation Bureau Notice Concerning the Issue of Appropriately Extending the Deadline for Resident Representative Offices of Foreign Enterprises to File Tax Returns and Pay Industrial and Commercial Consolidated Tax; Document Hushuiwai (1986) No. 40, (March 7, 1986)

Shanghai Municipal Taxation Bureau Notice on the Question of How to Calculate and Pay Tax in Cases in which Individual Income Taxes Payable by Employees of Companies and Enterprises are Paid on their Behalves by Their Companies and Enterprises; Document Hushuiwai (1986) No. 42, (March 13, 1986)

Commodity Inspection

Shanghai Municipality Rules for the Implementation of the Inspection of Commodities Imported and Exported Using Foreign Funds (For Trial Implementation) (January 1, 1985)

tents of the 1982 circular. However, in transmitting this new notice to the resident representative offices in Shanghai, SMERT still failed to provide an English translation.

In another incident, a would-be foreign investor referred to an English translation of some of Shanghai's legislation during joint venture negotiations. The local lawyers representing the Shanghai investor asked to see the document, and, apparently caught by surprise, declared the legislation nonexistent and—even if in existence—not in effect. They implied that the foreigner might wrongfully have obtained "secret" information. Finally, (never having seen the Chinese text) they clinched their argument. The translation, they said, was lousy.

In several other cases, foreign companies conducting business in Shanghai wound up in tax disputes. Their Shanghai counterparts have withheld money from the payments due the foreign entity and paid the sum directly to the Shanghai Tax Bureau. While the withholding of tax by Chinese licensees and agents is a common practice, required in many instances by Chinese law, the manner in which it is carried out in Shanghai—often with no advance notice to the foreign side and no clear explanation of the basis for calculation—creates problems. In this as in many other matters, Shanghai officials tend to regard legal matters as of no concern to the foreigner.

Shortage of lawyers contributes to confusion

Shanghai's tentative attitude toward law is in part a reflection of the extreme shortage of lawyers in the city. With a population of 12 million, Shanghai has less than 300 full-time lawyers, many of whom are either older professionals whose careers were interrupted by the Cultural Revolution or very junior lawyers just entering the profession. Only a fraction of them—about 30 according to one Shanghai attorney—specialize in international economic relations. This serious shortage of legal assistance, together with conditions that hinder dispersal of information—computers and copying machines are rare commodities and the phone call completion rate is a dispiriting 40 percent—creates an environment in which very few local enterprises have access to legal ad-

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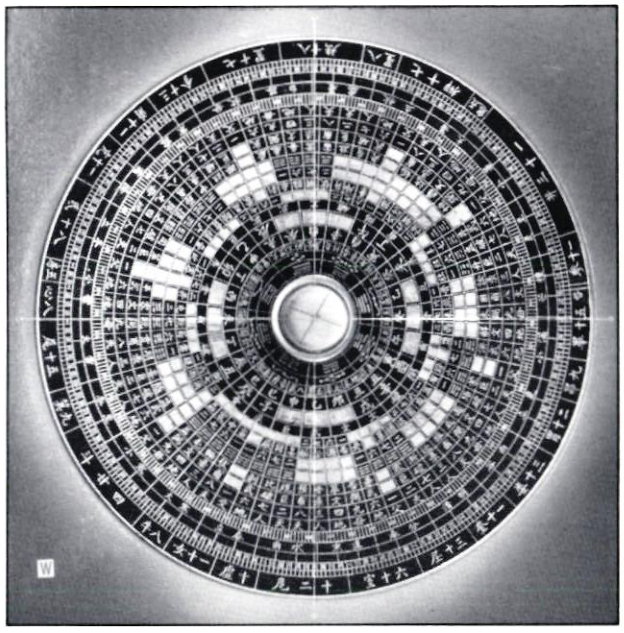

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While attitudes have changed somewhat in other cities, many Shanghai officials are still reluctant to provide legal information. "Foreigners don't need to know the laws," a visitor was recently told by a Shanghai official. "We have special work units that deal with foreigners. They'll take care of everything for you."

vice and information, particularly in the area of foreign investment. It can take weeks to obtain a copy of a law or the answer to a simple question.

The failure of Chinese negotiators to distinguish among law, policies, and various internal guidelines that plagues many business negotiations in China runs rampant in Shanghai. During a recent joint venture negotiation in Shanghai, the US negotiating team was told that "China's law" prohibits the value of the technology contributed by the foreign side as part of its equity contribution from exceeding 20 percent of the total value of the venture's registered capital. Since Shanghai has not promulgated legislation specifically relating to technology transfer, the US side could not find a legal basis for this statement. The only published regulations containing such a prohibition are the Shenzhen Special Zone Technology Transfer Regulations, which apply only in Shenzhen. Puzzled, the group consulted the US Consulate in Shanghai, which ascertained that the 20 percent limit is a general "internal guideline" SMERT has formulated, not a law.

Foreigners attempting to learn about the debt-equity requirements for investment projects have encountered similar difficulties. Although negotiators in Shanghai, as elsewhere, have insisted since mid-1985 that "the law" requires Chinese–foreign investment projects to adhere to certain fixed debt/equity ratios, they have consistently failed to produce written documentation confirming, defining, or explaining these requirements.

In another example, a prolonged debate arose when a Shanghai entity insisted during negotiations, contrary to the provisions of China's joint venture legislation, that the Chinese text should govern in the event of discrepancies between the Chinese and English versions of a joint venture contract. The reason for this claim emerged later; the Shanghai negotiators had seen such language in a model joint venture contract drafted by the Ministry of Foreign Economic Relations and Trade and had mistaken the model contract for law.

Coping with the vague legal environment

There are some encouraging signs that Shanghai is attempting to improve the level of legal awareness among local entities. Many units that have frequent dealings with foreigners are sending junior officials overseas to study law. Shanghai negotiators are coming to meetings with copies of SMERT's Shanghai Overseas Investment Utilization Manual or other legislation in hand. The authorities are beginning to distribute tax notices and new legislation to foreign company offices more promptly. These efforts should help ease the mutual suspicions that currently pervade many business negotiations in Shanghai. But in the meantime, foreign companies—which may have better access to information on Shanghai's laws than their Chinese counterparts—should take the initiative in establishing their business on a firm legal footing and keep the following steps in mind:

- Companies setting up representative offices in Shanghai should first consult Shanghai's representative office and visa legislation and maintain copies of such legislation in their offices.
- Nonresident companies deriving revenue from business in Shanghai should pay special attention to the 1984 SEZ/14 Coastal Cities Tax Provisions that discuss the tax consequences of contemplated transactions with their Shanghai counterparts.
- Foreigners coming to Shanghai to negotiate investment and construction projects should bring both English and Chinese versions of Shanghai's legislation concerning project approval, joint ventures, and registration, as applicable, as well as relevant national legislation. They should also request that time be set aside at the start of negotiations for the parties to jointly review the legislative regime that will govern their project.
- US companies contemplating business in Shanghai should be aware of the services provided by the US Consulate's commercial section as well as foreign consulting, accounting, and law firms with offices in Shanghai. Such organizations gather up-to-date information about law and policy in Shanghai, much of which, in the absence of any Shanghai-sponsored law and business reporting system, still tends to travel by word of mouth.

These steps will help both sides close gaps in their understanding of the legislative regime and gain a clearer picture of the procedural road ahead. Beginning a working relationship in this manner may also encourage both parties to be attentive to changes in the legal environment—such as the promulgation of new laws and regulations and the implementation of regulatory changes—and to keep each other apprised of such changes. 完

For the 12 months ending December 31, 1985, National Council revenues totaled $2,553,302. Expenses for the year were $2,504,344, yielding a surplus of $48,958. An audited financial report prepared by Arthur Andersen and Company is available to Council members.

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Sustained efforts and foreign technology prime the industry for rapid growth

Modernizing Flat Glass Production

Kelly Ho Shea

Flat glass and other building materials have been referred to in China as the "food and fodder that come before the troops and horses"—items without which industrialization cannot proceed. Taking these words to heart, the industry has performed impressively, achieving an annual growth rate of more than 25 percent in production over the last 10 years, compared to 11 percent from 1965–75. And this may be just the beginning. The industry now boasts two of China's largest Sino–foreign joint ventures, and foreign technology and equipment are being widely recruited.

Demand for flat glass products shows no sign of letting up anytime soon. New hotels and apartment buildings are rising in all of China's major cities. Even peasants can now afford to foresake traditional farm houses made of mud and wood in favor of two-story concrete and steel homes—with plenty of windows. A recent survey by the State Administration of Building Materials (SABM), the ministerial-level organization that coordinates developments in the building industry, indicated that 8.5 million of China's 170 million rural households plan to expand or build new homes each year.

Despite its good record to date, the glass industry must still struggle to satisfy rising domestic demand. Nevertheless, it has managed to keep the lid on imports. In recent years, imports have made up less than 1 percent of the flat glass in use.

But if the flat glass industry is not buying glass from foreign companies, it *is* buying the technology and equipment to produce it. By 1990 the industry hopes that continued equipment purchases for flat glass production will help China to reach its flat glass target of between 3.8 million and 4.4 million tonnes per year.

Antiquated facilities lead to inefficiencies of production

The flat glass industry consists of more than 200 glass plants around the country, most of them directly controlled by provincial or local authorities. But almost half of total national production comes from the 13 plants administered by SABM. The SABM facilities include China's largest glass plants, in Liaoning, Hebei, and Henan provinces, and several medium-sized plants.

The majority of China's glassworks employ the older vertical drawing technique to produce sheet glass, using either Fourcault or Colburn furnaces. Some very old facilities were built as far back as the 1920s (including the Qinhuangdao Yaohua plant in Hebei Province), but many were built between the late 1950s and late 1970s. According to industry sources, many of these older glasswork furnaces have as little as one-half the capacity of similar furnaces now used in industrialized countries.

In addition, glass produced at these older plants often has uneven surfaces and poor transparency. Outdated equipment and the poor quality of some of the raw materials used at many of the plants make it difficult to improve production standards. By China's own admission, flat glass rated as first-grade in China would garner only a second- or third-grade rating on the international market.

Another serious problem in the older plants is high energy consumption. One Western industry source estimates that a typical sheet glass furnace in the United States uses 8 to 11 million btu per tonne, whereas in China the same furnace uses 11 to 14 million btu per tonne.

Aside from inefficient production, the industry has been hampered by glass breakage during transport to endusers. The problem would be even more severe were it not for the fact that many of the smaller sheet glass plants are located in close proximity to consumers.

UPCOMING EXHIBITIONS

CHINA GLASS '86/INTERNATIONAL GLASS INDUSTRIAL EXPO June 4–8, 1986. Shanghai. *Contact:* Dame Associates, 51 Church Street, Boston, MA 02116 (Tel: 617/482-0097).

CHINAGLASS TECH '87/INTERNATIONAL GLASS & CRYSTAL TECHNOLOGY & EQUIPMENT EXHIBITION FOR CHINA September 23–28, 1987. Guangzhou. *Contact:* James W. Teele, Business & Industrial Group USA, Inc., 1327 Conwed Tower, 444 Cedar Street, St. Paul, MN 55101 (Tel: 800/626-2295) or B&I Group in Hong Kong (Telex: 32334 BIPC HX).

GLASSWORK CHINA 87/INTERNATIONAL EXHIBITION OF MACHINERY, EQUIPMENT & MATERIALS FOR THE GLASS & GLASSMAKING INDUSTRIES September 1987. Beijing. *Contact:* Jessica Daniels at Council member company SHK International Services, Ltd., One Liberty Plaza, 4th Floor, New York, NY 10080 (Tel: 212/766-6192/3).

Kelly Ho Shea conducts market research at the National Council, and follows developments in the telecommunications and chemical industries.

Despite these problems, the industry has made progress in diversifying its products to meet demand. China now produces not only window pane and plain hardened glass, but figured plate glass, reinforced, laminated, wired, and electrically heated glass, glass for tanks, and bullet-proof glass.

Float glass technology helps raise quality

Modernization of the industry began in the late 1960s with experiments on float glass technology. Glass produced by the float process has uniform thickness and a bright-fired polished surface that obviates the need for mechanical grinding and polishing. Moreover, float glass production is much more energy efficient, consuming about 6 million btu per tonne in the United States, for example. By 1971 the Luoyang Glassworks succeeded in converting an existing glass production line into a crude float glass line, China's first. Smaller domestically built float lines have since been installed at Nanning in Guangxi Province and Tongliao in Nei Mongol.

While development of float glass technology at Luoyang is considered a milestone for the industry, China's adaptation of float glass technology has not been an unqualified success. The Luoyang float glass line had to be upgraded three times before it attained current levels of quality and output. Foreign industry sources say that even now the quality of China's float glass is substandard. A second float line at Luoyang completed in July 1985 has, according to the Chinese, met with far more success than the first line. Built with equipment and technology from Belgium, Japan, and the United States, it not only produces more glass than Luoyang's first float line, but does so with fewer workers, 350 vs. 450.

Joint ventures introduce technical advances, but face problems

The Luoyang experience indicates the direction in which China's glass industry is moving. Though China now has a float glass capacity of over 260,000 tonnes per year (tpy), domestic technology simply has not been able to match the quality of glass produced using foreign technology and equipment; thus many expansion projects currently underway or on the drawing board involve for-

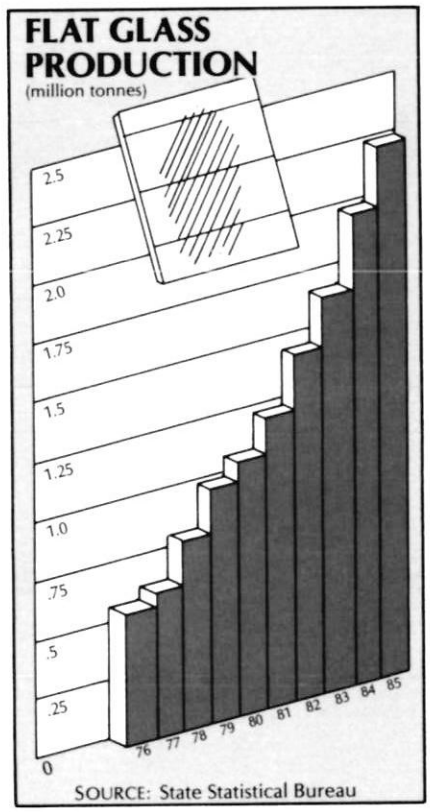
eign cooperation. China is actively negotiating a one-time licensing arrangement for float glass technology, although discussions with several foreign companies have yet to lead to a signed contract.

China's glass industry has courted the assistance of major glass companies in the United States—PPG Industries, Libbey-Owens-Ford, AFG, and Guardian—as well as those in Europe and Japan. In addition to the more common sales and technology transfer agreements, PPG Industries and Pilkington Brothers, PLC (UK), have signed separate joint venture contracts, and will transfer float glass technology to their Chinese partners. Pilkington's $120 million project involves construction of what will be the country's largest float glass plant—a 220,000 tpy float glass facility being built near the older Shanghai-Yaohua Glass Works. PPG's $50 million-plus joint venture in Shenzhen will produce 180,000 tonnes of glass annually. Construction on the project, known as the Guangdong Float Glass (GFG) Plant, is already well underway.

Each of these projects represents a significant advance for China's float glass industry. Pilkington-Yaohua will produce such products as transparent glass, electro-float process and IVC-processed glass, coating glass and cut glass, all of varying thickness, for the automotive, aviation, and construction industries. One-half of the GFG plant's output will be sold on the international market, reflecting the vast quality improvements expected in China's float glass. And whereas Luoyang requires 350 workers for a factory one-half the size of GFG, the latter facility aims to employ only 250 workers—the standard for a 500-tonne-per-day float glass plant.

These joint ventures have not been immune, however, from the problems, delays, and cost overruns that plague the rest of China's glass industry. For example, pre-construction preparations at the Shanghai facility had to be extended when it was discovered that the chosen site was too close to a tidal creek. Even more serious difficulties have arisen in sourcing key raw materials for glass manufacture. In the case of soda ash, for instance, China had guaranteed a domestic supplier for the Shanghai plant, but then postponed construction of a major new soda ash facility in Jiangsu Province. Although more expensive than domestic soda ash, imports may be the only way to obtain the material until supply shortages are relieved; imports may be preferable in any case, given the quality of most of China's soda ash.

The problems of raw material supply and quality are certainly not restricted to joint venture projects. Domestically built glass plants also face serious shortages that can inhibit their ability to bring on expansion projects. Float glass projects, in particular, face quality problems because of their greater need for high-grade materials. And while SABM may help ensure a supply of imported raw materials for major plants under its jurisdiction, other facilities have difficulty paying for higher priced im-



MAJOR FLAT GLASS PLANTS

Plant/ministerial aegis	Current capacity	Expansion details
Qinhuangdao-Yaohua Glass Factory, Ltd., Hebei/SABM	200,000 TPY. Two lines in operation: 1) 140,000 TPY line. Has been upgraded with Belgian and Japanese equipment. 2) 60,000 TPY line. Completed end 1985. New furnace added. Total cost of expansion ¥52.8 million.	100,000 TPY (Float). Under construction; onstream end 1986. May seek second float line expansion.
Shenyang Glassworks, Liaoning/SABM	Produced 180,000-200,000 tonnes in 1985.	SABM's plan to add new float line (180,000 TPY) not yet approved.
Luoyang Glassworks, Henan/SABM	166,800 TPY (Float) Two lines operating: 1) 74,800 TPY. Chinese-built float line. Completed 1971; renovated 1974 and 1978; reached present capacity 1981. 2) 92,000 TPY. Onstream July 1985. Equipment and technology from Belgium, Japan, and the US. Cost: ¥52.8 million.	Construction of third float line (estimated capacity: 180,000 TPY) to begin 1986.
Dalian Plate Glass Plant, Liaoning/SABM	Produced 120,000 tonnes in 1985. Three furnaces used. Mixing equipment imported from Glaverbel (1984).	Proposes new float glass facility (500 TPD, 180,000 TPY). Approved by Dalian Municipal Planning Commission but central government approval uncertain.
Zhuzhou Glass Factory, Hunan/SABM	124,000 TPY. Produced 84,000 tonnes in 1985. New furnace adds 60,000 TPY, onstream June 1985.	Plan to build new float line (110,000 TPY) not yet approved.
Lanzhou Dongfanghong Glass Factory, Gansu/SABM	110,000-120,000 TPY. Produced about 56,000 tonnes in 1985. New furnace onstream June 1985, adds 120,000 TPY.	SABM's plan to add new float line (180,000 TPY) not yet approved.
Shanghai Yaohua Glass Plant/SABM	52,000 TPY.	220,000 TPY. (Float using Pilkington technology.) Onstream late 1987, full capacity mid-1988. Largest glass joint venture in China: $120 million. Pilkington Brothers Company Ltd. (UK) share: 12.5%. United Development Bank share: 12.5%. Chinese partners, Shanghai Yaohua, Bank of China Shanghai, and China National Glass, Ceramics Industries Corp., share: 70%.
Nanning Plate Glassworks, Guangxi/SABM	48,000 TPY (Float) Chinese-built float line. Completed 1984.	
Tongliao Glass Plant, Nei Mongol/SABM	48,000 TPY (Float) Chinese-built float line.	
Hangzhou Glassworks, Zhejiang/SABM	Produced about 48,000 tonnes in 1985.	40,000 TPY. Under construction; onstream end 1987.
Beijing Glass Plant/Beijing Building Materials Bureau	Produced about 46,000 tonnes in 1985.	Plant's plan to build new float line not yet approved.
Kunming Plate Glass Plant, Yunnan/SABM	40,000-48,000 TPY.	—

ported raw materials such as soda ash.

Construction of 10 new float lines already underway, including the two joint venture projects, will add over 1 million tpy to China's float glass capacity. In spite of problems, China's glass industry plans to continue working with foreign companies to improve float glass production. The Chinese often purchase key components for a factory from a foreign firm and do the rest themselves. King, Taudevin, and Gregson Ltd. (UK) agreed earlier this year to supply China with an all-electric float glass furnace. The turnkey project, to be located in Kunming, Yunnan Province, will have a capacity of 40,000 to 45,000 tpy. In addition, Glaverbel (Belgium) supplied equipment to Luoyang and is providing equipment for another line in Taiyuan, Shanxi Province.

Upgrading sheet glass production

Although the industry is moving increasingly toward float technology, it has not ignored sheet glass production. Chinese planners are counting on significant improvements in the quality of sheet glass production to supplement float glass supplies, which will not satisfy domestic demand for some years. Sheet glass plants are generally smaller in size and hence less capital intensive than the larger float lines being planned. Moreover, reliance on these smaller plants to serve local needs reduces the distance between supplier and enduser, thus lessening the risk of glass breakage and lightening the burden on China's transport system.

In order to upgrade sheet glass production, the industry will have to use imported technology and equipment, as it has for float glass production. Tianjin has already imported a furnace and three production lines which, when fully operational, will produce 80,000 tonnes of glass a year. More recently, PPG Industries granted a license to the Bengbu Design Institute for production of sheet glass using its Pittsburgh process. The license will be used to build a new facility making 300 tonnes per day of glass in Wuhan. China is expected to also use the license to renovate a number of smaller Fourcault-process plants.

SABM strengthens its hand

In addition to the facilities already under construction, a number of additional float glass facilities are planned for the next five years. Over the long term, SABM hopes that float glass will become the principal type of glass used in China. To this end, SABM hopes to build at least five new float lines with capacities in the 180,000 tpy range to raise the percentage of float glass in the country's total flat glass production from about 10 percent to 40 percent by 1990—a goal it may come close to meeting based on the number of float lines already under construction.

SABM will be instrumental in determining the extent of foreign involvement in new float glass plants, even for those plants not technically under its jurisdiction. Ninety percent of the new float glass capacity already under construction is at SABM plants. And according to regulations issued during 1985, both SABM and MOFERT must now approve the import of foreign technology and equipment for float glass production, making it more difficult to initiate new glass developments at the local level without central support. Dalian's plan to expand production is a case in point. The SABM-controlled factory, one of China's largest and oldest sheet glass producers, wants to build a new float glass line. The project has already been approved by the municipal planning commission and land has even been set aside for it. SABM, however, does not support the project, and instead proposes to build a new 500-tonne per day float line at the Shenyang Glassworks, another SABM plant in Liaoning.

The 1985 regulations appear to be aimed less at minimizing foreign imports than securing central government control over future developments in the industry. Provincial and local authorities, eager to build their own float glass lines, will probably be unable to do so without the active

Jilin Glass Works No. 1, Jilin/Jilin Building Materials Bureau	Produced about 40,000 tonnes in 1985.	SABM's plan to add new float line (180,000 TPY) not yet approved.
Jiangsu Glassworks, Jiangsu/Jiangsu Building Materials Bureau	Produced about 40,000 tonnes in 1985.	Additional 40,000 capacity being added. Expected completion 1988.
Xiamen Glass Plant, Fujian/SABM	About 40,000 TPY	40,000 TPY. (Float) Turnkey project for electric float furnace with King, Taudevin, and Gregson (UK). Onstream by 1990.
Bengbu Plate Glass Plant, Anhui/SABM	Produced about 24,000 tonnes in 1985.	80,000-100,000 TPY (Float). Preparations for construction completed end 1985. Expected onstream by 1990.
Sichuan Glass Works, Zigong, Sichuan/ Sichuan Building Materials Bureau	Produced about 16,000 tons in 1985.	80,000 TPY (Float). Under construction. Expected onstream by 1988.
Tianjin Glass Factory/Tianjin Building Materials Bureau	NA	80,000 TPY. Full production by 1990. Furnace and three production lines purchased from Glaverbel (Belgium). First line (40,000 TPY) in trial production end 1986. Total cost of project estimated at $24 million; Glaverbel's contract is $8.3 million.
Henan, Sigou in Bo'ai County/Henan Building Materials Bureau	NA	48,000 TPY (Float). Construction began 1985. Onstream by 1990.
Guangdong Float Glass, Shenzhen/ SABM	New plant	180,000 TPY (500 TPD) (Float using PPG (US) technology). Construction begun April 1985; onstream by 1987. China's second largest glass joint venture, valued at $50+ million. PPG's affiliate Thai Penns Ltd. has 50% share and China Southern Glass 50%. One half of output for export.
Shandong/SABM	New plant	SABM's proposal to build new float line (180,000 TPY) not yet approved.
Chongqing, Sichuan/SABM	New plant	SABM's proposed new float line (180,000 TPY) not yet approved.
Taiyuan, Shanxi/SABM	New plant	100,000 TPY (Float). Under construction; expected onstream 1987-88. Some equipment imported from Glaverbel.
Wuhan, Hubei/SABM	New plant	110,000 TPY (300 TPD). Will use newly purchased PPG sheet glass license. PPG (US) will provide engineering, technology, and help in plant startup.
Jiangmen, Guangdong/SABM	New plant	60,000 TPY (Float). Under construction; expected onstream 1987-88.
Dongsheng, Nei Mongol/Nei Mongol Building Materials Bureau	New plant	Province proposes to build new sheet glass plant (60,000 TPY) with help of foreign investment but the ¥40 million project not yet approved.
Hailar, Nei Mongol/Nei Mongol Building Materials Bureau	New plant	Province proposes to build new float line (48,000 TPY) with aid of foreign investment but has not yet received approval for ¥99 million project.

involvement of SABM at some point in the negotiation process.

China's reliance upon foreign expertise for modernizing the flat glass industry and its interest in negotiating a one-time licensing arrangement suggest a continuing desire for foreign participation, and present trends point to the prospect of further imports of foreign technology and equipment. At the same time, SABM is ready to exercise stricter control over developments throughout the industry, to ensure that the expected rapid growth takes place in an orderly fashion. 完

Modernizing on a low budget

The Reinforced Plastics Industry

Alice Davenport and Peter J. Morrow

Reinforced plastics (which include all fiberglass and other fiber reinforced plastics) are the practical answer to many of China's construction and industrial needs, and have already been widely applied in such key sectors as defense, construction, communications, and transportation. They also have great potential as substitutes for wood, which is in critically short supply, and as relatively low-cost alternatives to high-grade steel and aluminum. Given China's current emphasis on conserving natural resources and protecting the environment, reinforced plastics are likely to play a growing role in meeting China's domestic needs, and will also enhance the competitiveness of China's industrial exports. The rapid growth of China's reinforced plastics (RP) industry in recent years attests to its value in the modernization program. In 1984 production reached some 50,000 tonnes (*see* graph), and by 1995 total RP production is expected to reach 160,000 tonnes per year.

Another advantage for the industry is that basic glass reinforced plastic plants are relatively easy to maintain and operate. Because of the difficulty and expense of shipping bulk finished products and the low initial investment required to set up an RP plant, smaller plants geared to regional needs are often more cost-effective than one large plant.

Although China's RP industry does not figure among national industrial priorities in the Seventh Five-Year Plan (1986–1990), it is an important, labor-intensive industry that suits China's domestic needs and circumstances. The RP industry should, in the long run, present some attractive opportunities for foreign firms.

Civilian applications and production on the rise

The RP industry in China has followed the same development pattern as that of the industry in the United States. That is, the technology was first used by the military before civilian applications were introduced. The Chinese military established the RP industry in Beijing and Shanghai in 1958, while it wasn't until the early 1970s that RP products were developed for civilian purposes.

The major RP consumer in China is still the military, with Beijing, Shanghai, and Harbin as the centers of military RP production and research. Civilian production is concentrated along China's eastern coast, from Heilongjiang in the north to Guangdong in the south. This populous region is also China's major market for RP products.

China's highest quality civilian RP products are used by the building materials industry, which consumes about half of the country's annual RP output. The building industry uses reinforced plastic in roofing, corrugated sheeting, decorative panels, bathroom fixtures, electrical insulation, rain gutters, and other products.

Reinforced plastics are also important to China's chemical and petrochemical industries for anticorrosive pipes, tanks, and lining materials, as well as for heat exchange towers. The pulp and paper industry and the sporting goods industry are beginning to use more reinforced plastics, and China uses RP extensively in condensation and cooling towers—in large modern hotels for example.

Chinese reinforced plastics products generally consist of glass fiber and some kind of resin. In its simplest form the process requires glass fiber, polyester resin, a catalyst (curing agent), and a mold. The glass fiber and catalyzed resin are laid in the mold by hand; the product then cures in the shape of the mold.

China now has over 10 large- and

UPCOMING EXHIBITIONS

CHINAPLAS '86/THIRD ANNUAL INTERNATIONAL EXHIBITION ON RUBBER AND PLASTICS INDUSTRIES June 10–16, 1986. Beijing. *Contact:* Stanley Chu at Adsale Exhibition Services in Hong Kong. (Telex: 63109 ADSAP HX) or George Kallman, Kallman Associates, 5 Maple Court, Ridgewood, NJ 07450 (Tel: 201/652-7070).

PLASTECH '86/CHINA INTERNATIONAL PLASTICS & RUBBER INDUSTRY TECHNOLOGY EXHIBITION November 25–December 1, 1986. Guangzhou. *Contact:* Daniel Cheung at Expo Management Ltd. in Hong Kong (Telex: 73546 EML HX).

CHINAPLAS '87/FOURTH ANNUAL INTERNATIONAL EXHIBITION ON RUBBER AND PLASTIC INDUSTRIES November 24–30, 1987. Beijing. *Contact:* Stanley Chu at Adsale Exhibition Services in Hong Kong (Telex: 63109 ADSAP HX) or George Kallman, Kallman Associates, 5 Maple Court, Ridgewood, NJ 07450 (Tel: 201/652-7070).

Alice Davenport, formerly with China Energy Ventures Inc. of Washington, DC, now writes from Nanjing, Jiangsu Province. Peter J. Morrow is managing director of Hawk Mountain, Ltd., a Hong Kong-based company that represents US RP companies in China.

medium-size continuous glass fiber plants, with annual outputs ranging from 2,000 to 8,000 tonnes each. In addition, many smaller plants produce glass fiber for local needs. In 1984 China produced 60,000 tonnes of glass fiber, up from 34,000 tonnes in 1980. About 30 percent of all glass fiber produced in China goes into RP products for reinforcement. Only recently has China's RP industry begun to introduce polyethylene, polypropylene, polyvinyl, and nylon reinforcement.

China's resin technology has not advanced much since the mid-1970s, although production rose from 11,000 tonnes in 1980 to 40,000 tonnes in 1984. Ninety percent of RP resins are unsaturated polyesters, including general purpose polyesters (65 percent of total sales volume), water tolerant polyesters (11 percent), and fire retardant polyesters (10 percent). These resins are not suited to new RP techniques like pultrusion—where glass fiber strands are pulled first through a resin bath and then through a die formed in the shape of the product. Production of thermoset resins, which involves high temperatures for curing and sophisticated techniques, is limited, as is production of epoxy and phenolic resins. As electronics, aviation, and other high technology industries develop, China will require greater amounts of these resins.

By far the largest producer of reinforced plastics products for civilian use is Jiangsu Province. The city of Changzhou is the provinces's most important RP production center, followed by the cities of Nanjing, Wuxi, and Suzhou. Jiangsu's RP industry includes at least 500 factories (producing chemical resin, glass fiber, and finished product) as well as research and development institutes that emphasize civilian applications of RP technology. Established as recently as 1972, Jiangsu's RP industry now produces about 40 percent of China's total RP output and almost half of China's glass fiber each year.

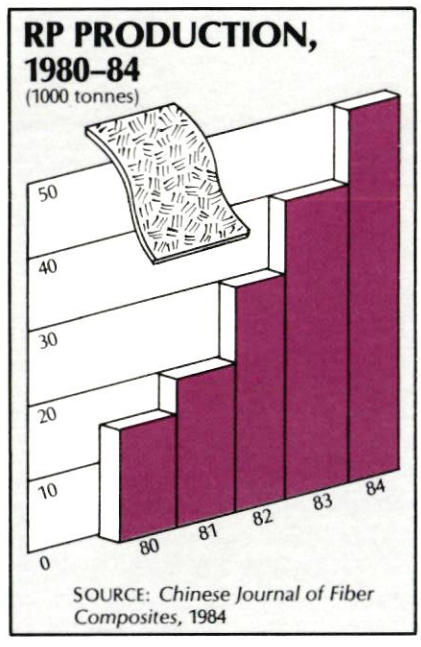
RP boats have large potential market

Lightweight and waterproof, reinforced plastic is an attractive product for boatbuilding. It is also durable—in contrast to wood, which is liable to rot, and steel, which may corrode. But RP's biggest advantage lies in its efficiency of production. Once the reinforced plastic mold is made, the factory can use it over and over again to produce individual parts. One RP mold can produce as many as 300 parts before requiring major maintenance. In contrast, each steel boat must be set up on a jig, which greatly reduces efficiency.

China has a large potential market for boats that can be used for inland water transport, especially in the south where small boats provide basic transportation for many peasants. The RP industry is likely to benefit from the Seventh Five-Year Plan's emphasis on the development of inland water transportation, although it may have to compete with the aluminum industry for this lucrative market.

The luxury boat market also holds potential. Taiwan has already been successful in producing luxury boats, and China may also decide to enter this market. The hull and the deck of such boats are made of reinforced plastics, but up to 90 percent of the rest of the construction may require labor-intensive handiwork. Wuxi Shipyard in Jiangsu has already done some work with a US firm, and hopes to build fiberglass boats through some form of joint venture arrangement. In addition, plants in the cities of Shekou and Xiamen have been producing pleasure craft for over a year.

But China's RP boat industry lacks the quality glass fiber products and resin necessary to produce boats that are strong and light. The RP industry also cannot yet provide an attractive, lustrous finish for boats, since it has not sufficiently mastered the tooling skills needed to produce high-gloss molds, and lacks certain technical aids. If China wants to succeed on the world market, it must produce a boat that is both attractive and durable.



SOURCE: *Chinese Journal of Fiber Composites*, 1984

Outdated technology hampers competitiveness

In boatbuilding as well as other RP industries, China still has far to go. The RP industry's largest problem is scarcity of high-quality raw materials. China lacks sufficient quantities of reinforcing materials like surface veils and continuous strand mat, as well as less sophisticated fiber reinforcing products. Also lacking is quality chopped strand mat necessary for building light, strong RP products. This makes Chinese glass fiber products heavier, and therefore much less competitive in the aircraft, automotive, and boatbuilding industries.

Besides being scarce and of indifferent quality, RP raw materials are relatively expensive compared to traditional materials, raising the price of finished RP products. In the United States, finished steel costs about 250 percent less than finished RP, while in China the price differential is more than 700 percent. Until China can bring down the prices of RP raw materials, finished RP products may have difficulty competing with steel on the domestic market—although China's steel industry has its own quality-control problems, and high-grade steel is often expensive and hard to come by.

China's RP industry also faces technical limitations. More than 80 percent of all RP products still use the hand lay-up method, and the industry hopes to gradually reduce this figure to 50 percent by increasing the use of injection, spraying, winding, or pressing techniques.

Like many other industries in China, RP factories have quality control problems resulting, in part, from a lack of adequate product standards. The problem is particularly serious in tooling RP molds, but should be relatively easy to solve. A small investment in personnel training would greatly improve the quality of RP products. China already possesses the skills to make high-quality molds in the woodworking and ceramics in-

THE NANJING REINFORCED PLASTICS INDUSTRY

The Nanjing area has about 50 reinforced plastics (RP) factories, which produced some 1,554 tonnes of finished RP products last year, from bathtubs to cooling towers. In 1985 Nanjing also produced 2,120 tonnes of glass fiber, 1,500 tonnes of unsaturated polyester resin, and 400,000 complete sets of sanitary wares.

Nanjing RP factories and research institutes are eager to acquire advanced technology and equipment from the United States, Europe, and Japan, and several agreements have already been concluded. The Nanjing Research Institute, for example, recently decided to import three sets of RP injection equipment for Resin Transfer Molding (RTM) from Venus Products, Inc. (US). In a larger deal with the Filon and Silmar divisions of Standard Oil Chemical Co. (US), the Nanjing FRP Co. (which produces FRP unsaturated resins and corrugated sheets) bought a Filon production line to produce transparent corrugated sheets of FRP, with a capacity of about 1.5 million square meters per year. Filon has agreed to let the Nanjing FRP Co. use its trademark for export purposes if the sheeting is up to Filon standards. The factory also bought Silmar polyester resin technology and 106 formulas for producing unsaturated polyester resin including button resins, transparent resins, and shipmolding compound resins. Nanjing FRP Co. plans to sell these resins on both domestic and international markets.

Nanjing hopes to import more foreign RP equipment and technology, and the industry has applied for $10 million in foreign exchange for 1986. Given recent across-the-board cutbacks in foreign exchange allocations, however, this sum is by no means assured.

The reinforced plastics industry receives strong support from the Nanjing Municipal government. Deputy Mayor Wu Dingzhu, formerly an engineer in the glass fiber industry, previously served as head of Nanjing's FRP Research Institute and director of the Municipal Department of Construction and Building Materials. Nanjing plans to set up a Nanjing-area Fiber Reinforced Plastics (FRP) Association in 1987, and host the upcoming seventh session of the International FRP Composite Materials Seminar. —AD

Photos of the Nanjing FRP factory by Alice Davenport

NANJING RP FACTORIES AND RESEARCH CENTERS

Factory	Output	Products	Details
Nanjing FRP Factory	500 tonnes/year fiberglass and fiberglass cloth; 150 tonnes/year finished FRP products.	Fiberglass cloth and FRP products including cooling towers, small boats, sheets, anticorrosive pipes and banks.	Currently using hand lay-up production method. Interested in acquiring injection method equipment and technology, filament winding technology
Nanjing No. 2 FRP Factory	280 tonnes/year fiberglass; 820,000 meters/year fiberglass cloth; 320 tonnes/year finished products (1984 total value of FRP products = ¥4.7 million).	Fiberglass, fiberglass cloth. FRP products include sanitary ware units, vans, corrugated sheets, bodies for trucks, and tanks for acids and cooling towers.	Currently using hand lay-up method. Wants to acquire more sophisticated hand lay-up method technologies as well as injection technology from the US. Also interested in glass fiber mat production technology. Has recently developed a new printing machine FRP product. Produces a printing panel that is made of both lead and RP.
Nanjing No. 5 FRP Factory	NA	Sanitary wares. Main product is high and low tanks for toilets.	Mainly uses the injection method. Interested in acquiring information on chemical make-up of sanitary wares in US.
Nanjing Aeronautics Institute			Special composite materials department. Has produced a small, light RP aircraft.
Nanjing Hydraulic Institute			Research on using RP to reinforce cement.
Nanjing University			Research on coupling agents to strengthen glass fiber.
Nanjing Technical Institute			RP research.
Nanjing FRP Research Institute			Established in 1978. Product design and research in cooperation with RP factories in Nanjing, including bathtubs, chemical tanks, cooling towers, radar equipment covers, and scientific soil sampling boxes.

SOURCE: Authors' research, Nanjing FRP Research Institute

dustries and, if bureaucratic roadblocks could be overcome, it would be relatively simple for the RP industry to tap these skills. Moreover, China's plastics industry has already begun to make better quality molds. In the early 1980s the plastics industry realized that it must upgrade its molds and invest in training if its products were to compete successfully on the international market. A marked improvement in the quality of Chinese plastic products over the last few years has been the result.

But the RP industry has yet to fully address the problem of low-quality molds, in part because the domestic market does not yet demand a better product, but also because the RP industry, which operates under the aegis of the State Administration of Building Materials (SABM), has little contact with potential RP users in the shipbuilding, aircraft, or automotive industries. If China's RP industry can upgrade its product standards by tooling better molds, Chinese RP products should become much more competitive, for the cost of the labor required to tool a mold contributes significantly to the price of glass fiber end-products in developed countries like the United States. As it is, many of China's better RP products already use molds that are tooled with foreign technical assistance, including the boat and building materials industries.

Some industry observers argue that, because manufacturing RP is so labor-intensive, the industry should focus on training technicians instead of buying new equipment and technology. This viewpoint overlooks the fact that selective imports of equipment and technology can greatly enhance the efficiency and international competitiveness of the RP industry. And even with sufficient technical staff, RP factories would still face the management problems common across Chinese industries—ranging from overstaffing to lack of information about world market conditions—that training alone cannot address.

RP industry looks at foreign technology

The Chinese RP industry is particularly eager to draw on foreign technology and equipment to upgrade its resin technology and production lines, but few major deals

have been concluded. In the past few years China has imported some technical know-how and production lines, including 10 cultured marble production lines from Germany, and molds from France and Italy. A number of Japanese companies are also looking into opportunities in the RP industry, but meetings between Japanese and Chinese experts have not yet led to large sales of equipment or processes.

The US industry, with the world's most advanced RP technology, is of great interest to Chinese experts. A few American RP companies have entered the market, including Venus Products, Inc., which has sold lower-cost, small-scale RP equipment in China for several years. And in 1985 the Silmar and Filon division of Standard Oil Chemical Company agreed to provide polyester resin technology and FRP panels, among other RP items, to the Nanjing FRP factory in Jiangsu.

Because the RP industry is not given priority in the Seventh Five-Year Plan, it is unlikely that it will receive a large allotment of foreign exchange from the government. It will thus have to rely on methods of acquiring foreign equipment or technology other than outright purchases, such as attracting foreign investment.

China's RP industry has a number of serious problems to solve before its products reach world standards. The most pressing need is for raw materials to improve resin and glass fiber production. The Chinese RP industry also needs better molds, and equipment to tool molds. This, in turn, must be supplemented by training programs and better quality control techniques.

But the industry has a number of strengths as well. Compared to many other Chinese industries, relatively little time and investment will be required to upgrade and modernize the industry. And China's current emphasis on developing the chemical and petrochemical industries should help the RP industry by lowering the price of raw materials. Finally, China's increasing domestic demand will stimulate the industry. Continued growth of the chemical and petrochemical industries, inland water transportation, and the construction industry ensure a promising future for China's RP industry. 完

In the midst of a costly transition

Producing Aluminum Against the Odds

Carolyn Bevans Dowling

Undeterred by low world prices and high electricity costs that are forcing aluminum production cutbacks and smelter closings in the United States and Japan, the China National Nonferrous Metals Industry Corporation (CNNC) is striving to increase production. Official statements indicate that the high priority placed on nonferrous metals development during the Sixth Five-Year Plan will carry over into the Seventh. Aluminum will retain its place at the top of the list with plans to double current production to about 1 billion tonnes by 1990.

Just how extensively foreign companies will figure in these ambitious plans remains uncertain. Since 1979 CNNC and the Ministry of Metallurgical Industry, which handled nonferrous metals before CNNC's formation in 1983, have experimented with various forms of foreign cooperation. But CNNC has yet to establish—for itself or potential investors—a commitment to long-term foreign involvement.

At least over the short term, the greatest number of opportunities for companies seeking to invest in China's aluminum sector are likely to be in the small but growing aluminum processing industry. China's recent construction boom and new emphasis on light industrial development have produced new constituencies for what was once an industry designed primarily to support military and heavy industrial production. As demand from both traditional and new consumers grows, more emphasis is being placed on the search for overseas suppliers of rolling mills, extrusion presses, and other kinds of aluminum processing equipment.

Imports fill gap between supply and demand

From aircraft frames to ballpoint pens, China is short of aluminum. High levels of industrial growth and a greater consumer orientation have placed added strains on already tight supplies. Last year the price of ingots—the metal bars that are remelted during processing—rose sharply in the northeast, and free market prices reportedly were more than double the State price. Shanghai factories complained bitterly of irregular shipments in aluminum from processing plants in Chongqing and other cities with whom they had contracted. Those plants blamed unexpected ingot price increases on production shortfalls. CNNC urged industries throughout the country using aluminum and other nonferrous metals to cut consumption by finding substitutes, but the recommendation has had little impact.

Although imported smelters in Guizhou, Ningxia, and Gansu provinces have added almost 200,000 tonnes to total production capacity in the past two years, the increase in demand continues to outpace the development of domestic production. The shortfall has led to greater reliance on imports, much to the dis-

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may of China's nonferrous metals planners. From 110,000 tonnes in 1980, aluminum imports soared to 469,000 tonnes in 1985 (*see* chart). Total domestic production is not published for national security reasons—aluminum is an important material in the defense industry—but independent estimates indicate that imports constituted more than half of domestic production in 1985.

China's continuing need to import aluminum stems not only from a shortage of smelters, but also from a shortage of alumina to feed the smelters. China has plentiful reserves of diasporic bauxite, which it refines into alumina using a combination sintering-Bayer process. Current production of alumina is approximately 1 million tonnes per year. Much more will be needed if ingot production is to be doubled by 1990.

Efforts are underway to increase production of mined bauxite and alumina by expanding China's largest alumina processing facility at Zhengzhou in Henan Province by 200,000 tonnes, and by constructing a new 200,000-tonne-per-year facility at Hejin in Shanxi Province. Foreign involvement in alumina production has been limited, though Aluminum Pechiney of France has recently been asked by CNNC to provide a bauxite digestion facility for the Hejin plant.

But, even with these efforts, China is unlikely to reduce its aluminum shortfall in the near future and will continue to import at considerable cost in foreign exchange.

The high cost of self-reliance

The most significant obstacle preventing China from bringing domestic production up to levels of demand is a shortage of the energy required for aluminum ingot production. In the United States electricity accounts for approximately one-third of the cost of aluminum production. Energy consumption levels are even higher in China's aluminum industry. Most smelters are small, ranging in capacity from 5,000 to 35,000 tonnes per year, in contrast to the more energy efficient 100,000–300,000 tonne models overseas. These smaller plants lack much of the automation and computer control that boosts energy efficiency in newer smelters. China's most antiquated smelters consume up to 20,000 kilowatt hours (kwh) per tonne, compared to the world average of 15,500.

Even China's larger plants are not up to world standards. China's Sixth Five-Year Plan called for reductions in average power consumption per tonne of electrolytic aluminum from 17,050 kwh per tonne in 1980 to 16,090 kwh per tonne in 1985, still significantly higher than the average.

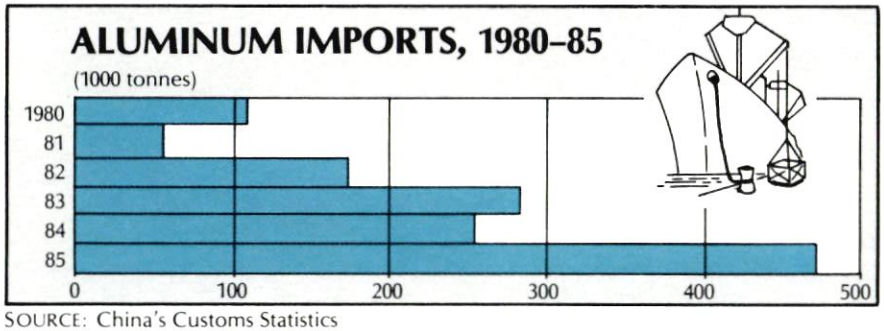
The bulk of China's aluminum ingot production is located along the eastern coast and in the north, areas that suffer from electricity shortages so severe that some factories operate only three to four days a week. China's largest smelter, the Fushun Aluminum Plant in Liaoning Province, now operates at only 20 to 40 percent of its 100,000-tonne capacity due to the shortage of electric power.

Weighing the alternatives

China's long-term goal is import substitution—the development of domestic production to replace primary aluminum imports. On the surface, self-reliance appears to be a sound strategy. A steady domestic supply of aluminum would protect China from sudden increases in world prices and conserve the precious foreign exchange now spent on imports. But many economists and China analysts wonder if now is the right time for China to develop more smelting capacity. Aluminum prices are likely to remain low, and there is excess capacity on the world market. The cost of developing the industry is high, involving not only the construction of smelters, but also the development of bauxite mines, alumina production facilities, thermal and hydroelectric power resources, and transportation.

When evaluated in terms of opportunity cost, the decision to step up domestic aluminum production makes even less economic sense. William Byrd, an economist with the World Bank, estimates that importing aluminum rather than building up domestic capacity would save enough electric power to produce goods worth up to 25 times the value of imports.

Many Chinese advocates of self-reliance in aluminum production seem reluctant to address the issue of opportunity cost. But in what may be an encouraging step in the other direction, China International Trust and Investment Corporation (CITIC) recently expressed interest in obtaining a 10 percent share of Alcoa's Portland aluminum smelter project in Australia. The project is currently on hold pending financing, with Bankers Trust Australia seeking to



SOURCE: China's Customs Statistics

UPCOMING EXHIBITIONS

METALLURGICAL INDUSTRY EXPO/CHINA '86 (to include ferrous and nonferrous metals and alloys). June 24–30, 1986. Beijing. *Contact:* Andrew Kay at China Promotion Ltd. in Hong Kong (Telex: 76270 CHOCH HX) or Ingrid Boyd at Glahe International Inc., 1700 K Street, NW, Washington, DC 20006 (Tel: 202/659-4557).

MINING CHINA '86/INTERNATIONAL MINING EQUIPMENT EXHIBITION (to include equipment and machinery for the mining of nonferrous metals). September 11–17, 1986. Beijing. *Contact:* Stanley Chu at Adsale Exhibition Services in Hong Kong (Telex: 63109 ADSAP HX) or George Kallman, Kallman Associates, 5 Maple Court, Ridgewood, NJ 07450 (Tel: 201/652-7070).

CHINA METALS '87/INTERNATIONAL METAL MINING & METALLURGICAL ENDUSER TECHNOLOGY EXCHANGE CONFERENCE & EXHIBITION April 8–17, 1987. Maanshan, Anhui Province. *Contact:* George Roman or Amy Lewis at Council member company Roman Associates, 3572 Terrace Way, #1, P.O. Box 1607, Lafayette, CA 94549 (Tel: 415/284-9180).

arrange a syndicated loan on behalf of CITIC. The Australian smelter will produce 300,000 tonnes of aluminum annually when it goes onstream in 1988.

The more expedient and less expensive alternative of expanding existing facilities (which China is pursuing in numerous other industries, such as iron and steel) is not considered a viable option for smelters in north and eastern China due to extreme electricity shortages. In fact, some provincial and local authorities have diverted electricity away from power-hungry smelters to other, more energy-efficient industries. In *The Shenyang Smelter* Byrd describes how Liaoning authorities tried to persuade CNNC and other central officials to move the State-run Fushun Aluminum Plant to another part of China. Although the central authorities prevailed, they had to compromise by approving new thermal power plants not previously planned for the area.

Starting from scratch in western China

The government has devised a radical solution to the aluminum industry's problem of electric power shortages—it decided in the late 1970s to shift all new aluminum smelting projects to the northwest and southwest to take advantage of hydropower potential there. This means that basically CNNC has had to start from scratch. Despite the need for renovation at older smelters to bring operations to full capacity, the State Planning Commission recently indicated that, during the Seventh Five-Year Plan, existing aluminum smelters in the east will neither be expanded nor revamped. This policy continues to affect the proposed aluminum complex in Zhengzhou, which is unlikely to receive permission to go ahead with the construction of a planned 100,000-tonne-per year smelting facility during the current five-year plan period. The proposed Xi'an smelter in Shaanxi has also been stalled for this reason, although it may be approved following planned construction of an additional thermal plant there.

As part of the policy to shift the aluminum industry westward, industrial cities in the east are being encouraged to invest in smelters in the west to ensure adequate supplies of ingots for their fabrication plants. Tianjin responded by investing ¥40 million in the Qingtongxia smelter in Ningxia, which put the funds toward the purchase of a used smelter from Mitsubishi Light Metals.

Little foreign role in ingot production

In the late 1970s China whetted the appetites of foreign companies with invitations for proposals detailing how China should develop its aluminum industry. Expectations of substantial foreign involvement, however, have not materialized. Despite ambitious plans to build what amounts to almost an entirely new industry, CNNC does not appear to have decided on the appropriate role of foreign involvement. In part, CNNC and the State Planning Commission, which must approve all smelter projects due to their size and lack of an exportable end-product, appear to be waiting to evaluate the achievements of a domestic project—the Qinghai Smelter, located near Xining. The 110,000-tonne-per-year smelter, due to come onstream in 1987 in conjunction with the Xiaoyi bauxite mine and Hejin Alumina Plant in Shanxi, and supplied with electricity from the Longyangxia hydropower station, has used little foreign equipment aside from fume control devices. Its technology for modern pre-bake anode pots was developed at the Fushun Aluminum Plant and is already being used at the Baotou smelter in Nei Mongol, which was renovated during the Sixth Five-Year Plan.

Because of CNNC's reduced ability to pay for imports due to the present foreign exchange shortage, it no longer imports new turnkey smelters

EXPANSION OF MAJOR ALUMINUM PLANTS IN CHINA

Name	Target Capacity	Details
Baiyin Aluminum Plant Baiyin, Gansu	50,000 tonnes ingots (1987)	Imported equipment from Showa Smelter, Chiba, Japan. Power supply: Northwest China grid—part thermal, part hydroelectric. Further expansion expected after 1987.
Pingguo Aluminum Complex Pingguo, Guangxi	300,000 tonnes alumina and 100,000 tonnes ingots (1990); 1,000,000 tonnes alumina (2000)	Feasibility study by George Wimpey PLC (UK) underway. Subcontractor Aluminum Pechiney (France) to provide technical assistance. Project could be jeopardized by poor infrastructure, foreign reluctance to take equity share or accept product as compensation.
Guizhou Aluminum Complex Guiyang, Guizhou	400,000 tonnes alumina and 100,000 tonnes ingots (1987)	Built with 30,000 tonnes capacity ingot production. In 1979 purchased complete plant with 80,000 tonnes ingot capacity from Japan. (Technology supplied by Japan, France, Switzerland, West Germany, Italy, US.) Plant has not reached full capacity due to technical difficulties and alumina shortages, and has imported alumina from Japan in recent years.
Zhengzhou Aluminum Plant Zhengzhou, Henan	700,000 tonnes alumina (1990)	Largest alumina plant in China, with 500,000 tonnes capacity. Construction of accompanying aluminum plant postponed due to electric power shortage. Projected power supply: thermal.
Qingtongxia Aluminum Plant Yinchuan, Ningxia	NA	Current capacity 30,000 tonnes ingots. Technology supplied by Mitsubishi Light Metals (Japan).
Qinghai Aluminum Smelter Xining, Qinghai	100,000 tonnes ingots (1987), 200,000 tonnes ingots (1990)	Top priority project under the Seventh Five-Year Plan. Foreign involvement limited to date. Estimated cost of project: ¥500 million. Power supply: Longyangxia Hydropower Station.
Shaanxi Smelter Xi'an, Shaanxi	200,000 tonnes ingots (postponed to 1990)	Have discussed purchase of used smelter from Japan. Project delayed due to difficulty finding adequate power supply. Projected power supply: thermal.
Tongchuan Aluminum Plant Tongchuan, Shaanxi	—	9,500 tonnes capacity electrolytic aluminum (end-1985).

or even secondhand smelters. In the past, when more foreign exchange was available, CNNC purchased a turnkey 80,000-tonne-per-year capacity smelter from Nippon Light Alloys to bring the Guizhou Aluminum Plant up to 110,000 tonnes per year. It also imported two used plants from Japan to expand the Baiyin Smelter in Gansu and the Qintongxia Smelter in Ningxia, respectively. Part of the reason for purchasing these smelters outright instead of using a compensation trade arrangement was CNNC's unwillingness to export a product in such short domestic supply.

But the option of foreign participation in the industry remains open. Foreign exchange considerations may force CNNC to consider foreign investment more seriously. CNNC has begun to advertise the proposed Pingguo aluminum complex as a joint venture in the hope of attracting foreign investment. It admits, however, that attracting a foreign partner willing to market the aluminum outside of China may be difficult in light of the currently overstocked world market.

Processing holds brighter prospects

Smaller in scale, much less energy-intensive, and possessing a more likely product for export, the aluminum-processing industry probably offers greater immediate opportunities for foreign involvement. Traditional consumers of China's aluminum production such as the defense, energy, and aeronautics industries must now compete with new end-users in the light industry and construction materials industry. Whereas iron and steel once sufficed for door and window frames, demand is now growing for lightweight and rust-free aluminum. To meet this demand, China is asking foreign companies to supply aluminum extrusion equipment and technology in exchange for export of products.

China's growing volume of consumer exports has also led to foreign assistance in the development of aluminum packaging. In addition to aluminum foil production technology for exports of cigarettes, tea, and pharmaceuticals, the Chinese are interested in importing cold rolling mills to step up production of aluminum cans. In December China's first aluminum pull-top beverage can production line, provided by Reynolds Metal, Inc. (US) in exchange for cans for export, went into production at the Changjiang Electrical Appliances Plant in Chongqing.

While the Chinese do have the capability to produce machines for aluminum foil and extruded parts production, they appear to be concentrating on imports of foreign technology in these two areas. The Guangzhou Aluminum Fabricating Works is currently seeking foreign assistance to help expand its production of aluminum plate, corrugated sheet, and foil to 56,000 tonnes per year. The China Investment Bank is supporting construction of a new aluminum foil mill in Shanghai that will produce light and heavy gauge aluminum foil primarily for cigarette packaging. Davy McKee (UK) has been awarded the contract for a cold rolling mill, light and heavy gauge foil, slitting machines, and laminating machinery and has subcontracted with US firms for some of the equipment.

As for the aluminum processing sector as a whole, its greater level of fragmentation may have contributed to more extensive foreign participation than can be seen in the primary aluminum industry. Companies seeking opportunities in aluminum processing will find that CNNC is not the only place to look. Other departments and corporations involved include the Ministry of Machine-Building Industry, the Ministry of Aviation, the China National Technical Import–Export Corporation, and municipal authorities.

The smaller scale of the aluminum products industry and its ability to produce readily exportable products—and thereby earn foreign exchange—make this likely to be a dynamic sector in the short term, both for domestic producers and foreign equipment suppliers. This may offset the slower pace of foreign involvement in China's primary aluminum smelting activities, which is constrained by foreign exchange shortages and the sector's more self-reliant stance. 完

National Council files

The high demand for processed aluminum products offers potential opportunities for foreign investment.

Compact Reference

STAY UP TO DATE ON CHINA'S ECONOMY !

The *1986 China Statistical Handbook* is the first systematic presentation of official data on China's 1985 economic performance. Prepared by Rock Creek Research, the *Handbook* will give you the most recent statistics in an historical context, with both actual data and their growth rates clearly laid out from 1981 through 1985.

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书刊介绍

Until recently, obtaining useful information about investment in China beyond what was printed in journals and newspapers was difficult. MOFERT's 1982 publication, *Guide to Investment in China*, was the first volume by Chinese authorities to lay out the policy and framework for investment. This guide has since evolved into an annual edition (*see* No. 1 below) edited by China International Economic Consultants, a MOFERT subsidiary. Another current, authoritative source is *Foreign Investment in China: Questions and Answers* (*see* No. 3), which draws on the past experience of MOFERT's Foreign Investment Department. A sizable portion of the information made available by Chinese investment authorities takes the form of Chinese official responses to questions on foreign investment (*see* Nos. 3 and 5), which elaborate the fine points of the process of setting up a joint venture. Lacking in these sources are detailed step-by-step guidelines on how to enter, negotiate, and operate a joint venture. In contrast, Business International's *Corporate Guide* (*see* No. 2) provides practical checklists and details on procedures of vital concern to potential investors.

Recent literature is also beginning to evaluate the experiences of the joint venture pioneers. *China's Open Door Policy* (*see* Bookshelf, *The CBR*, Nov–Dec 1984) does an excellent job of analyzing some of the early joint ventures. Other, more recent, foreign company experiences are presented as case studies and are more commonly available in investment guides and periodical sources (*see* Nos. 1 and 2).

Several books analyze the application of foreign investment legislation promulgated since 1979. Owen Nee's commentary in *Commercial, Business and Trade Laws: People's Republic of China* (*see* Bookshelf, *The CBR*, Jan–Feb 1986) describes how recent investment laws are applied in practice. In *Foreign Trade, Investment and the Law in the People's Republic of China* (*see* Bookshelf, *The CBR*, Jan–Feb 1985) Michael J. Moser examines these laws in depth. An early look at these laws was undertaken by various legal experts in *Legal Aspects of Doing Business in China 1983*. Texts of the laws have been reprinted many times—the most current complete collection is found in the *China Investment Guide 1986* (*see* No. 1) and in two looseleaf legal reference services published by Oceana Press and Commerce Clearing House.

Data on investment and joint ventures in China had not been released systematically until recently. The 1984 and 1985 versions of the *Almanac of China's Foreign Economic Relations and Trade* offer joint venture lists and information on the aggregate value of investment. Nai-Ruenn Chen's booklet (*see* No. 4) compiles investment data previously released by a multitude of Chinese sources.

The constantly evolving nature of foreign investment in China often dates books prior to publication. However, many journals, newsletters, and newspapers published in China and abroad help keep one abreast of recent events, and often contain useful advice not published elsewhere.

1. ***The China Investment Guide 1986,*** by China International Economic Consultants, Inc. London: Longman Group, 1985. 809 pp. $125 plus $4.50 shipping and handling.

An updated version of the *China Investment Guide 1984/85*, the *1986 Guide* is an excellent, authoritative reference source for commercial information vital to investing in China. Organized in the same fashion as the previous *Guide* (*see* Bookshelf, *The CBR*, Jan–Feb 1985), some portions have been expanded to incorporate new material gathered through June 30, 1985. In addition to chapters describing the economy and foreign investment potential of each of China's provinces, special economic zones, and 14 coastal cities and Hainan Island, a new chapter describes the open economic zones of the Yangtze River, Zhujiang River, and southern Fujian deltas. Chapter 7, which provides an overview of China's major industrial sectors, has been updated to include 1984 data and plans for 1986 to 2000. Much of the material covering central government and investment-related organizations remains the same, although the Audit Office has been added. The two chapters that list trust and investment and consulting corporations contain some new listings, while some listings from the previous edition are not repeated.

The joint venture case studies contained in Chapter 15 are all new, except for one that has been revised. This chapter also contains a table listing 651 of the 741 joint equity ventures and 26 wholly foreign-owned venture contracts signed in 1984. The collection of Chinese foreign investment and trade laws and regulations has been updated to include laws released through mid-1985. This edition contains a more useful set of appendices than in the past, including a list of foreign banks registered in Beijing; a brief list of airlines, other transportation, and travel agents; and the application forms for registering a foreign office in China.

2. ***Joint Ventures in the People's Republic of China: A Corporate Guide.*** Hong Kong: Business International Asia/Pacific Ltd. (1111-1119 Mount Parker House, 11th Floor, City Plaza, Taikoo Shing, Quarry Bay), 1985. Two vol. 702 pp. $2,200, additional copies $220.

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

This well-organized study is a comprehensive guide to setting up a joint venture in China. An excellent information source for foreign companies seeking to enter into an equity joint venture, this multiclient study also touches upon cooperative and wholly foreign-owned ventures.

The study takes the potential investor through the steps of planning, negotiating, and operating a venture. This report has compiled a great deal of the useful information published on joint ventures, organized it in a clear, logical fashion, and embellished it with pertinent case studies drawn from interviews with 50 joint venture foreign partners and an equal number of foreign companies negotiating ventures. The study takes a realistic look at setting up a joint venture, outlining the perils and pitfalls as well as the motives for undertaking such a step in China. Advice on how to select a Chinese partner and tips for successful negotiations are offered, and the venture's management, labor, financial considerations, marketing, technology transfer, and production decisions are described in detail. Ten case histories illustrate the experiences of successful foreign companies.

The appendices in Volume II list many of the current joint equity ventures, oil industry service and supply joint ventures, and hotel and tourism ventures for which data is available. A compilation of the major laws affecting joint ventures is included, along with a sample model contract and articles of association.

Although the *Corporate Guide* is expensive, it may well pay for itself by preventing a foreign company from making costly mistakes.

3. ***Foreign Investment in China: Questions and Answers,*** by Chu Baotai. Beijing: Foreign Languages Press, 1986. Distributed by China Books and Periodicals, 2929 24th St., San Francisco, CA 94110. 281 pp. Bilingual. $9.95 + $1.50 postage and handling.

Written by the deputy director of MOFERT's Foreign Investment Administration, this handbook answers 103 basic questions about investing in China—on topics ranging from foreign investment protection, to pay scales and bonus systems for equity joint ventures, to liquidation of a full-term joint venture. Answers to the questions reflect MOFERT's experience and interpretation of China's investment regulations, and are arranged under topical headings. Appendices contain the joint venture law and implementing regulations.

4. ***Foreign Investment in China: Current Trends***, by Nai-Ruenn Chen. Washington, DC: International Trade Administration (Office of the PRC and Hong Kong, US Dept. of Commerce, Washington, DC 20230), 1986. 30 pp. Free, although only a limited number of copies are available for distribution.

In 1985 foreign investment in China rose 57 percent over 1984. This is the kind of information that comes to light in this useful booklet, which contains the most complete set of statistical data published on foreign investment in China to date. Its 23 tables detail China's investment trends from 1979 to the present, using year-end 1985 information when available. After briefly reviewing the history of foreign direct investment in China, the author explains how investment terms are defined and elaborates on these various types of investment.

Data for direct foreign investment is enumerated in Tables 1 and 2 by type, country of origin, and coastal city. A major portion of the data in this compilation deals with equity joint ventures, and related charts list joint equity ventures by number, year, value, type, foreign countries, province, SEZ, and coastal city. Statistical information is less available for the other five forms of investment, but the number and usually the value are provided.

The report concludes with a summary of the outlook for these forms of investment in China, painting a bright future for most. The author provides a list of Chinese sources for the investment data, although sources for individual tables are not cited.

5. ***Guide to Equity Joint Ventures***, edited by External Services Dept. of Economic Daily, Beijing. Hong Kong: Economic Information & Agency (342, 12th Floor, Hennessy Rd.), 1985. Bilingual. 223 pp. $40.

This compilation contains reprints of useful documents concerning equity joint ventures from the weekly newsletter *China Economic News* and other sources. The joint venture law and implementing regulations as well as the sample contract for joint ventures and sample articles of association are included.

A large portion of the book consists of Chinese legal experts' answers to questions on the joint venture implementing regulations. Included here are answers to a wide variety of issues that concern foreign companies entering into a joint venture agreement: how the Chinese define their terms, the parameters within which joint ventures can be undertaken, the approval process, staffing, loans, prices, technology fees, operations, marketing, taxes, dispute settlement, and others. These questions and answers unfortunately are not grouped by topic; the reader must scan the entire 57 pages to avoid missing a pertinent point.

6. ***Partnership with China: Sino-Foreign Joint Ventures in Historical Perspective***, by David G. Brown. Boulder, CO: Westview Press, 1986. 175 pp. $17.50.

This book traces the history of China's commercial opening to the outside world from its beginnings in the 5th century BC to the present day. The author describes how this opening came about, discusses the nature of foreign investment in China today and the prospects for investment in the future.

By examining the roots of foreign commerce in China, the author provides a historical context in which to view present Sino–foreign business relations. He points out that today's joint ventures are "neither unique nor fortuitous," and that foreign commercial activity in China in the distant past is actually the prototype for joint ventures undertaken today.

A detailed description of pre-1976 commercial activity between China and foreigners is followed by a chapter covering commercial activity from 1976 to 1985, the era of foreign investment in China as we know it today. Examples of compensation trade, joint equity and cooperative ventures, and oil development are given as well as a summary of the institutional framework for laws and special economic zones. The author closes with a brief outlook for the future of foreign investment in China.

中外贸易

Betsy Saik
Research Assistant

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

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

中外贸易

CHINA'S IMPORTS THROUGH MARCH 31

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agricultural Commodities	
(Denmark)/Guangzhou Yantang Agricultural-Industrial-Commercial Integrated Co.	Exported 200 milk cows. 12/85.
DeKalb AgResearch, Inc. (US)/Guangdong NA	Signed agreement to provide stock for 650-sow Guangdong farm and to sell additional hogs to farm in future. 12/30/85.
(Thailand)/CEROILS	Signed trade agreement to export additional 80,000 tonnes of rice and 150,000 tonnes of maize. 2/5/86.
(Canada)/Foreign Trade Animal By-Product Import/Export Co., Liaoning	Exported 86 milk cows. 3/86.
Li Min Trading Co. (HK)/ NA	Signed contract for purchase of 10,000 cubic meters of American timber for rural water supply project financed by World Bank loan. $870,000. 3/86.
Agricultural Technology	
Hickman's Micro System, Inc. (US)	Sold 14 miniature micro dry-weighing ingredient feeders (Micro Systems). 11/85.
AnemTech Ltd. (US)	Received contract to sell frozen cattle embryo transplants. 12/2/85.
Foss Electric Co. (Denmark)	Won contracts for infrared milk product analyzers and milk-fat testers for north China pastureland building projects funded by IFAD loan. $228,974 (Kroner2.05 million). 2/86.
Franz Kirchfeld GMBH (W. Germany)	Won contracts to supply ammonia compressors, air coolers, and vacuum packaging units for north China pastureland building projects funded by IFAD loan. 2/86.
Hemmer GMBH (W. Germany)	Won contracts to supply combined scouring and milling machines for north China pastureland building projects funded by IFAD loan. 2/86.
Hong Kong Cambridge Co. Ltd.	Won contract for milk separators for north China pastureland building projects funded by IFAD loan. $70,791 (DM173,000). 2/86.
Karl Kolb GMBH (West Germany)	Won contracts to supply AC and smoke generators for north China pastureland building projects funded by IFAD loan. 2/86.
Sumitomo Corporation (Japan)	Won contracts to provide tractors, hayrakes, mowers, cultivators, grain seeders, and light harrow ploughs for north China pastureland building project funded by IFAD loan. $1.5 million (J¥300 million). 2/86.
Chemicals and Chemical and Petrochemical Plants and Equipment	
Stamicarbon (Netherlands)/CNCCC	Signed contract to supply inspection equipment and train inspectors for CNCCC urea plants. 1/13/86.
Stamicarbon (Netherlands)/SINOPEC	Signed contract to modify urea plant to allow retrofitting of computer-based control system and to supply appropriate software. 1/13/86.
Smelt (Yugoslavia)/ SINOPEC, Guangdong	Signed contract to build 15 million barrels/ year, 98-octane, lead free gasoline refinery. $21 million. 1/22/86.
SCM Chemicals (UK)	Received order for titanium dioxide. $250,000. 1/29/86.
Mitsui & Co. Ltd. (Japan)	Signed contract to sell 4,000 tonnes of phosphate fertilizer. $840,000. 2/86.
Fluor Daniel Ltd., subs. of Fluor Corp. (US)/Gas Utilization Corp. of CNOOC	Awarded contract for first phase of South China gas utilization project including 620-mile gas pipeline and four compressor stations. 3/86.
Tecnimont, of Iniziativa M.E.T.A. and Montedison Group (Italy)/CNCCC	LIC: Signed contract to supply license, knowhow, and engineering services for isobaric double recycle technology used to modernize Luzhou, Sichuan urea plant. 3/20/86.
Construction Materials and Equipment	
Columbia Machine Co. (US)	Won contract to build 10 million tile/year capacity concrete roofing tile plant in Hubei. $1 million. 2/86.
Hino Automobiles Association (Japan)/China Beifang Grasslands Project	Awarded contract to sell 4 dump trucks and related parts. $54,981 (J¥11 million). 2/86.

NA = Not available.

NOTES: Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in *International Financial Statistics (IMF)*. Contracts concluded over two months ago are also included if they were not reported in the last issue of *The CBR*. Leasing (LEAS), Licensing (LIC), Compensation (CT), and Assembling (ASSEM) deals are now included in the "China's Imports" section.

Hino Automobiles Association (Japan)/China Beifang Grasslands Project	Awarded contract to sell 55 trucks and cranes. $804,718 million (J¥161 million). 2/86.
Terex Equipment (UK)/ China North Industries Corp.	ASSEM: Received order for 40 dump trucks and spare parts for mining applications throughout China. $5.7 million (£4 million). 2/20/86.
GEC Hong Kong/ Longquan Hotel, Beijing	Awarded contract to supply and install air-conditioning and ventilation equipment. $770,000 (HK$6 million). 2/24/86.
Japan Steel Works Ltd. and Takiron-Rowland Co. (Japan)/Beijing Spectacles Factory	Acetate fiber board production line went into operation. $550,000. 2/24/86.
Misawa Homes (Japan)	Won contract to supply materials for Kunming Resort Hotel. 3/86.
Sekisui House (Japan)	Supplied prefabricated parts for two-story, four-bedroom home at Shanghai Tongji University. $124,956 (J¥25 million). 3/86.

Consumer Goods

NA (W. Germany)/Shanghai No. 2 Daily-Use Chemical Factory	CT: Commissioned skin lotion production line with 70% of products to be sold by German company for three years. 12/85.
Rinnai Corp. (Japan)	Concluded technology transfer agreement to produce 600,000 portable gas heaters per year in Guangzhou, 300,000 heaters per year in Taiyuan and Lanzhou, and 200,000 rice cookers per year in Jilin. $3.2 million (J¥643 million). 2/17/86.

Electronics and Electrical Equipment

Gould Instruments Ltd. (UK)/CEIEC	Received order for digital storage oscilloscopes and digital waveform processor. 11/85.
Prime Computer (US)/ Nineteenth Steel Corp.	Formalized agreement for CAD/CAM equipment. 11/15/85.
ANT (W. Germany)	Sold newsroom computer system offering split-screen, two-language simultaneous display capability. 1/86.
L/F Technologies (US)/ Ministry of Education	Signed agreement to supply over 200 microcomputer systems and peripherals. $1.5 million. 1/86.
Perry Offshore Inc. (US)/ Oriental Scientific Instruments Import/Export Corp. of China Academy of Sciences and Shenyang Automation Institute	Sold 15-year supply of technology for manufacturing underwater robots. 1/86.
Philips Hong Kong, subs. of Pye Telecom (UK)/ Guangzhou	Awarded contracts to design and supply police radio communication system including 100 portable pocket phones, 30 mobile transmitters, and 3 four-channel base station transmitter receivers. 1/86.
Zenith (US)/Shanghai Instrumentation and Electronics Corp.	Reached agreement to sell projection TV monitors including technical training, production, and testing of equipment for final assembly. $3 million. 1/8/86.
Matsushita Electric Trading (Japan)/Television Equipment Agency	ASSEM: Shipped 1,000 VCR kits. 1/20/86.
State of Minnesota (US)	Signed protocol to run software laboratory. 1/22/86.
Electrak International (UK)	Will build assembly plant to produce plug and keyhole-shaped sockets. 1/23/86.
Crosfield Electronics (UK)	Won order for computerized printing equipment for stamp manufacturing plant. $1.4 million (£1 million). 1/25/86.
Prime Computer (US)/ Beijing Institute of Technology	Sold 9750 minicomputer and Medusa CAD/ CAM software package for Wuhan network design and bridge construction. $600,000. 1/27/86.
Sofrecom (France)/CEIEC	Won contract to supply research center for integrated circuitry in Wuxi. $60 million (F450 million). 1/27/86.
Philips (Netherlands)/MEI	Will develop automatic teller machine system with language capabilities, recovery functions, and security measures tailored to China market. 1/30/86.
Honeywell Information Systems Inc. (US) and Honeywell Yamatake (Japan)	Agreed to supply additional technology for TDC 3000 digital process control system. 2/86.
IBM (US)/Industrial and Commercial Bank of China and Hangzhou Financial Management Institute	Will set up computer technical training center using IBM 4381 computer system. 2/86.
Jiada Semiconductor Co. Ltd. (HK)/Leshan Radio Factory, Sichuan (MEI)	Signed contract for two diode production lines. $1.6 million. 2/86.
Miller Electric Manufacturing Co. (US)/EQUIMPEX	Signed technology transfer agreement (subject to US and Chinese government approval) for Shanghai Electric Welding Machine Works to manufacture arc welding equipment and power supplies for mainland market. 2/86.
Northwest Instrument Systems (US)/Beijing Micro Electronics Technology Application Research Institute and CEIEC	LIC: Announced technical cooperation agreement to manufacture and market NWIS products. $2.5 million. 2/86.
Recognition Equipment (Asia) Pte Ltd. (Singapore)/NA	Sold Tartan computer system including 62 terminals, six disk drives, two tape drives, one line printer, and two printers for offshore data entry. 2/86.
Kanematsu-Gosho Ltd. and Mitsumi Electric Co. (Japan)/MACHIMPEX, Guangdong branch	Concluded deal to export magnetic head manufacturing and testing equipment for recording devices to Shenzhen plant. $6.5 million (J¥1.3 billion). 2/1/86.
Acrobe Automation Technology Inc. (US)	LIC: Signed contract to manufacture industrial robots for paint-spraying, point- and arc-welding, and cargo-carrying. 2/10/86.
Hardware Software Technology, Inc. (US)	Will sell computer equipment and consulting services. $171,531. 2/10/86.
National Research Center (France)/Shenyang Institute of Automation	Discussing robot technology technical transfer programs. 2/10/86.
Hitachi Ltd. (Japan)/BOC	Received order for 15 large and medium-sized computers for setting up on-line system to link main office with branches. $25-$30 million. 2/13/86.
Olivetti Co. (Italy)/Yunnan Electronic Equipment Factory	Signed agreement for technology and equipment to produce 16-bit microcomputers. $500,000. 2/17/86.
Lamp Metals (UK)	Won contract to supply capital equipment and install production line to manufacture tungsten used in electric lamps. $47.4 million (£33.3 million). 2/22/86.
John Fluke Mfg. Co., Inc. (US)/Beijing Radio Research Institute	Signed agreement for production of 9000 Series Microsystem Troubleshooter. $1 million. 3/11/86.
Autodesk Inc. (US) and Kanematsu-Gosho Ltd. (Japan)	Will sell Auto CAD software. 3/15/86.
Fuji Electrochemical Co. (Japan)/Shanghai External Trade Corp.	Signed contract to export 20 million/year capacity alkaline battery plant. $3 million (J¥600 million). 3/27/86.
Kanematsu-Gosho Ltd. (Japan)/Beijing Sixth Semiconductor Factory	Received order for set of semiconductor production equipment for TV production. $3.5 million (J¥700 million). 3/29/86.

Electronics (Consumer)

Corning Glass Works (US)/Hengyang, Hunan	Negotiating construction of color TV glass manufacturing plant. 3/12/86.
Corning Glass Works (US)/Shijiazhuang, Hebei	Negotiating construction of black-and-white TV glass manufacturing plant. 3/12/86.

Corning Glass Works (US)/Xi'an	Negotiating expansion of TV glass manufacturing plant. 3/12/86.

Engineering and Construction

CRS Sirrine Inc. (US)/ Nantong, Jiangsu	Will provide engineering design, equipment procurement, and construction management services for new cellulose acetate cigarette filter manufacturing facility. 2/27/86.
Franki Contractors Ltd., subs. of Franki Investments Ltd. (HK)	Awarded three contracts including foundation work for Guangdong bridge, piling work for Shajiao, Guangdong power plant, and new Shenzhen stadium. $6.4 million (HK$50 million). 3/11/86.

Finance

Sumitomo Trust and Banking Co. (Japan)/Industrial and Commercial Bank of China	Concluded correspondent banking agreement. 3/5/86.

Food Processing

Tyler (US)/National Trading Import Corp. and Luoyang Refrigeration Machinery Factory	LIC: Will provide manufacturing equipment and technical expertise for manufacturing refrigerated display cases, walk-in freezers and coolers, and other equipment. 1/86.
NA (US)/Tianjin-US Foodstuffs Co. Ltd.	Imported Maxwell instant coffee production line and plans to import powdered drink production line. 2/86.
Japan International Cooperation Agency	Will provide technical cooperation in meat processing. 2/86.
Restaurant Technology Group Inc. (US)	Will build 12,000 TPY non-citrus juice plant. $4-$5 million. 2/86.
Brewing Products Ltd. (UK)	ASSEM: Won contract to export beer kits. 2/6/86.

Machine Tools and Machinery

Mitsubishi Heavy Industries and Devron-Hercules (Japan)/Jiamusi Paper Mill	Received order for Devronizer steam shower to be installed on Mitsubishi/Beloit bi-nip press. 12/85.
Battenfeld (Switzerland)	LIC: Will produce injection molding machines. 1/86.
King, Taudevin, and Gregson (UK)	Won orders to design and supply three glass furnaces. $5.7 million (£4 million). 1/21/86.
Elof Hansson Co. (Sweden)/China Light Industry Foreign Economic and Technological Cooperation Corp. and Jilin Paper Mill, Guangzhou	Signed contract to provide second-hand 20-tonne/day paper production line including equipment, materials, spare parts, fittings, and technological documents. $4.8 million (Kroner36.3 million). 1/27/86.
Motoren Werke Mannheim AG (W. Germany)/ China Shipbuilding Trading Co. Ltd.	LIC: Concluded contract to produce diesels for agricultural and construction equipment, generating sets, and marine propulsion. 2/86.
Hotoku Company (Japan)/China Handicrafts Import/Export Corp.	Received order for metal chair manufacturing equipment including welding machines, tube-bending machines, and woodwork machines. $500,000 (J¥100 million). 3/86.

Medical Equipment

Health Packard Co. (W. Germany)	Signed contract to sell 50 neonatal monitors for medical colleges, hospitals, and health centers in Shanghai, Sichuan, Shandong, Ningxia, and Heilongjiang. $220,000. 3/86.

Metals, Minerals, and Processing Technology

Padaeng Industry Co. Ltd. (Thailand)/ MINMETALS	Signed contract to supply 2,000 tonnes of zinc ingots. $1.5 million. 1/3/86.
Continuous Properzi (Italy)/China Harbin International Economic Technical Cooperative Development Corp.	Signed contract for aluminum rod production line at Harbin Cable Factory, Heilongjiang. 2/86.
Continuous Properzi (Italy)/Shenyang Cable Factory	Received order for aluminum rod production line. 2/86.
Takeuchi Press (Japan)/ Hua-Tai International Economic Cooperation Corp.	Exported aluminum manufacturing plant. $5.6 million (J¥1.13 billion). 2/86.
Darlington and Simpson Rolling Mills (UK)/ MINMETALS	Won order to supply hot-rolled profiles to manufacture steel windows. $2.85 million (£2 million). 2/12/86.
Nippon Steel Corp. and NA (Japan)/MINMETALS	Received order for 1.6 million tonnes of rolled steel products. 2/24/86.
Aluminium Pechiney, subs. of Pechiney SA (France)	Signed contract to provide 660,000 TPY bauxite digestion unit for Hejin, Shanxi alumina production plant. 2/28/86.
Mitsui Mining and Smelting Co. and Toho Zinc Co. (Japan)/Xibei Smelter, Gansu	Signed contract to supply zinc smelting equipment and technology. $5 million. 2/28/86.
CLMC Group (Philippines)	Signed six contracts for 50,095 tonnes of steel products for rural water supply project financed by World Bank loans. $8.17 million. 3/86.
Sairex SA Co. (Switzerland)	Signed two contracts for welding tubes and 5 MM high-intensity steel wire for rural water supply project financed by World Bank loans. $690,000. 3/86.
Six major steelmakers (Japan)	Received order for 650,000 tonnes of steel products including carbon steel products, such as plates, wire rods, and cold rolled sheet for shipment first half 1986. 3/12/86.

Military Equipment

GEC Avionics (US)/CATIC	Will supply radars, airborne computers, and head-up displays to upgrade F-7 interceptors. $42 million. 1/23/86.

Mining Equipment

Brown and Ward Co. (UK)/Shanxi	Won contract to supply two automatic turning machines to produce spindles for coal mining conveyors. $142,490 (£100,000). 1/7/86.
Komatsu (Japan)/ Heilongjiang Sanjiang Plain Development Project	Signed contract to buy land levellers. 2/86.
Mitsubishi (Japan)/ Heilongjiang Sanjiang Plain Development Project	Signed contract to buy flatbed tricycles. 2/86.
Ireco Co. Ltd. (US)/China National Nonferrous Metal Import/Export Corp.	Signed contract to sell dynamite mixing trucks, emulsified dynamite technology, and designs for dynamite manufacturing plant for construction of Dexing Copper Mine, Jiangxi. 2/17/86.

Packaging Equipment

Burwell, Reed, and Kinghorn, British subs. of Rockwell (US)	Won contract to supply mould-making technology and specialized machinery for moulding glass containers. $1.4 million (£1 million). 1/3/86.
Metal Box Engineering (UK)	Awarded two contracts to supply packaging systems. $3.9 million (£2.75 million). 1/29/86.
Guarantee Instrument Systems (US)	Building modular high-speed beverage can manufacturing line. 2/14/86.
(Switzerland)/Zhanjiang Canning Factory	Sold set of high-frequency welding equipment. $450,000. 3/86.

Petroleum, Natural Gas, and Related Equipment

American Bureau of Shipping (US)/Petroleum Corporation of China	Awarded class and certification contract for three offshore platforms for development of oil/gas field. 1/8/86.
Barnes Drill Co. (US)/ MACHIMPEX	Signed contract to supply six drill honing systems, including filters, fixtures, and tooling to manufacture equipment for petroleum industry. $3 million. 2/86.
Nippon Steel Corp. (Japan)/MACHIMPEX	Construction of oil terminal at Shengli Oilfield, Shandong. $25 million (J¥4 billion). 2/86.

Shime-dzu Co. (Japan)/ Zhongyuan Oilfield Development Project	Signed contract to import automatic X-diffraction instrument and related auxiliary parts. $130,954 (J¥26.2 million). 2/86.
Waltrex International Co. (US)/Zhongyuan Oilfield Development Project	Signed contract to import 18 seismographs for lab use. $24,000. 2/86.
Vetco Gray, subs. of Combustion Engineering Inc. (US)/Petroleum Corporation of China	Received contract to act as well completion contractor, including responsibility for equipment supply, controls, and installation of 9 wells for development of oil/gas field. $13 million. 2/5/86.
Offshore Navigation Inc. (US)	Sold flight-tracking system for use in conjunction with China Sea offshore operations. 3/86.

Pharmaceuticals

Tanabe Seiyaku Co. (Japan)/Yen An Pharmaceutical Factory, Shanghai	LIC: Concluded contract to export Herbesser heart drug technology. 3/15/86.

Ports

OIL (Asia) Pte Ltd., part of Straits Steamship Group (Singapore)	Won contract to manage Zhuhai port and oil supply base. 1/31/86.

Power Plants and Equipment

The Singer Company (US)	Will develop fossil fuel power plant simulator. 1/20/86.
General Electric (US), Babcock and Wilcox (CAN) and GIE Ansaldo (Italy)/Huaneng International Power Development Corp.	Signed contract for two 700 MW coal-fired power plants (2×350) for Dalian and Shijiazhuang. 2/86.
Karl Kolb GMBH (W. Germany)	Won contracts to supply AC generators and smoke generators for north China pastureland building projects funded by IFAD loans. 2/86.
Zung Fu Co. Ltd. (HK)/ Xintang Dairy Farm, Guangzhou	Received contract to supply three sets of electric power generating units. 2/86.
Rees Instruments Ltd. (UK)/Chinese Nuclear Energy Industries Corp.	Received contract to supply closed circuit TV equipment for nuclear plant inspection. $114,000 (£80,000). 2/13/86.
Alsthom, div. of Cie. Generale d'Electricite and Stein Industrie, subs. of Alsthom (France)/ Guangdong	Won order to build 100-MW oil-fired thermal power station in Shantou including supply of two gas turbine generators, one steam turbine, control room, transformers, high-voltage equipment, and two boilers. $36 million (F270 million). 2/18/86.
German Nuclear Society (W. Germany)/Chinese Nuclear Society	Signed agreement to promote peaceful use of nuclear energy and technology including academic and technical exchanges. 2/26/86.
Framatome and Electricite de France (France)/Guangdong Nuclear Power Joint Venture Co.	Signed letters of intent on Daya Bay nuclear power plant with Framatome supplying two 1,000 MW nuclear reactors and EDF responsible for overall engineering design. $3.7 billion (reactors-$1.3 billion). 3/13/86.
Mitsubishi Heavy Industries Co., Mitsubishi Electric Corp. and Mitsubishi Corp. (Japan)/Huaneng International Power Development Corp.	Signed contract for two 700-mw power plants (2×350) for Nantong and Fuzhou. 3/20/86.

Printing Equipment, Publishing & Broadcasting

Rockwell-Gross, subs. of Rockwell International Corp. (US)/Shanghai Press	LIC: Signed agreement for technology to build four newspaper printing presses. 2/5/86.
Paramount Pictures, subs. of Gulf & Western Industries Inc. and Universal Pictures, subs. of MCA Inc. (US)/China Film Corporation.	Signed agreement to exhibit and distribute films in China. 2/7/86.
General Telephone & Electronics Co. (US)	Awarded contract to supply China with official telephone directory. 3/86.

Property Development

Tokai Salvage, Kokusai Soken (Japan)/Tourist Service Co., Shijingshan District, Beijing	Building Beijing International Sports Center. $5 million (J¥1 billion, first stage). 2/86.
Hopewell-Kanematsu Development Holdings Ltd. (Japan)	Sold Shenzhen train station building. 2/1/86.
(Japan)/Dalian Jinzhou Tourist Development Co.	Exported 10 housing buildings and one multifunction bar room. 3/86.

Scientific Instruments

Bausch and Lomb (US)/ China Beifang Grassland Project	Signed contract for set of universal biological microscopes. $14,500. 2/86.
Teca Tor (Sweden)/China Beifang Grassland Project	Signed contract for two automatic protein instruments. $50,069 (Kroner380,000). 2/86.
Air Quality Division, Monitor Labs Inc. (US)/ Import Corp. of Henan	Signed contract for mobile air quality monitoring system for Luoyang Environmental Protection Bureau. $100,000. 2/24/86.
Monitor Labs Inc. (US)/ CNTIC	Signed three contracts for parts, kits, training, and test equipment for Beijing Analytical Instrument Factory to assemble and sell air quality monitoring equipment. $1 million. 2/24/86.
Hewlett Packard Asia Ltd. Co. (US)/MOFERT	Signed 26 contracts under World Bank loans to sell equipment for higher education development projects including meters and apparatus, automatic meterology data collecting system, spare parts for computers, microscopes, multipurpose scanners, frequency and spectrum analyzers, and wide-wave amplifiers. $500,000. 3/86.
John Fluke Mfg. Co., Inc. (US)/Beijing Polytechnic University	Donated two sets of automated electronic test and measurement systems. $70,000. 3/11/86.

Shipping

(Netherlands)	Will cooperate in maritime transport, port construction, shipbuilding, and telecommunications. 1/30/86.
Rickmers Line (W. Germany)	Initiating service between US gulf states and Huangpu, Shanghai, Qingdao, Xingang, and Dalian ports to transport timber and timber products. 2/10/86.
Italy-China Trading Co. (Italy)/Wenzhou	Signed agreement to construct Longwan pier including two 10,000 tonne berths. 3/86.
Baker Marine Corp. (US)/ China Communications Import/Export Service Corp. of Ministry of Communications	Received Maritime Administration approval to sell 6,031-gross-tonne barge. 3/21/86.

Telecommunications

Edmonton Telephone Co. (CAN)/Harbin Municipal Telecommunications Bureau	Will supply 17 2,000-line switchboards, advanced technology, and training. 1/86.
NTT, NIKKI, and Nisshin Software (Japan)	Signed contract to install communication equipment, mainframe and personal computers, PBXs, telephones, and facsimile machines in Beijing's International Exhibition Center. $14.3 million. 1/86.
Plessey Telecommunications (UK)	Won contracts for telephone systems. $1.8 million (£1.25 million). 1/5/86.
BTM Company (Belgium)/Shanghai	Signed two contracts to import 52,000-line Model S 1240 numerical program control telephone exchanges. 2/86.
Matsushita Communication Industrial Corp. and Sumitomo Corp. (Japan)/ Beijing Posts and Telecommunications Academy and Ministry of Posts and Telecommunications	Will export motor vehicle cellular telephone systems. $199,930 (J¥40 million). 2/86.

Saskatchewan Telecommunications Corp. (Sasktel) (Canada)/Jilin Post and Telecommunications Administration Bureau	Signed agreement to supply PBX equipment and training. $355,467 (CAN$500,000). 2/17/86.
GTE Sprint (US)	Will offer long distance telephone service to China. 2/26/86.
Northern Telecom Ltd. (CAN)/CAAC	Signed agreement to supply digital SL-1 private branch exchange, 2400-line SL-IXN for Baiyun Airport, Guangzhou. 3/86.
Northern Telecom Ltd. (CAN)/Shougang Beijing (Capital Steel Factory)	Signed agreement to provide digital SL-1 private branch exchange, 4640-line SL-IXN, for voice and data communications. 3/86.
Siemens AG (W. Germany)/Meishan Telecommunications Equipment Plant, Ministry of Posts and Telecommunications	Signed agreement to export technology and jointly produce analog and digital telecommunications and measuring meters and instruments including microprocessor-controlled programmable meters, digital analyzers, and digital circuit analyzers. $4 million. 3/86.
Siemens AG (W. Germany)/Ministry of Posts & Telecommunications and Hunan Telecommunications Administration	Received order for local and trunk digital exchanges, PCM transmission systems, optical waveguide trunk network, and operation and maintenance center. 3/1/86.
Westinghouse Electric Corporation (US)/Kang Hua Industrial Co., Beijing	Awarded contract for 100 single-channel powerline telephone carrier terminals. $200,000. 3/12/86.

Textiles and Textile Plants and Equipment

Zimmer AG (W. Germany)	Commissioned first block of Nanjing polyester polymer plant including three production lines for direct spinning of 400 tonnes/day of polyester fibers and production of 200 tonnes/day of polyester chips. 1/13/86.
Unitika, Ltd. (Japan)/Synthetic fiber plant, Wuzhou, Guangxi	Will export 1,500 TPY facilities to dissolve and spin polyester filament. $7.5 million (J¥1.5 billion). 2/86.
Rockwell-Rimoldi, subs. of Rockwell International Corporation (US)/North China Industrial Corporation	LIC: Will produce industrial sewing machines at Changsha, Hunan plant. 2/5/86.
Smit Nuovpignons, subs. of Eni Group (Italy)/Shanghai Textile Machinery Manufacturing Works	Concluded technology transfer agreement for shuttleless looms. 3/5/86.

Transportation and Transportation Equipment

(Japan)	Signed bilateral agreement to increase passenger capacity on two-way routes 45% and freight volume 70%. 1/86.
Nippon Cable Co. (Japan)/NA	Will construct high-speed cable car system at tourist site north of Beijing. $2.2 million (J¥450 million). 1/86.
Hino Automobiles Co. Ltd. (Japan)/China Beifang Grassland Project	Signed contract to sell two mini buses. $32,539 (J¥6.51 million). 2/86.
Hino Automobiles Co. Ltd. (Japan)/China Beifang Grassland Project	Signed contract to sell 5 automobiles and parts. $127,955 (J¥25.6 million). 2/86.
Japanese Automobiles Co. Ltd./China Beifang Grassland Project	Signed contract for 26 small goods wagons. $193,000 (J¥38.6 million). 2/86.
Japanese Automobiles Co. Ltd./China Beifang Grassland Project	Signed contract to sell 6 tools wagons. $38,187 (J¥7.64 million). 2/86.
Japanese Automobiles Co. Ltd./China Beifang Grassland Project	Signed contract to sell 17 liquid nitrogen transportation cars and related parts. $150,000 (J¥30 million). 2/86.
T D Materials, Inc. (US)/Xi'an Aircraft Co., Shanghai	Signed 3-year contract to supply aircraft extrusions and other structural components for use in ship-sets for Boeing 737-300 jet transport tail sections. 2/86.
Toho Metal Co. Ltd. (Japan)/Cangzhou Platinum Factory, Hebei	Signed contract to import knowhow and equipment for tungsten contacting point used in motor vehicle ignition systems. 2/86.
Canadian Pacific Airlines	Signed bilateral agreement to provide direct flights between Vancouver and Shanghai. 2/10/86.
NA (Japan)	Signed contract to provide 55 cars for rural water supply project financed by World Bank loans. $213,025 (J¥42.62 million). 3/86.
Italy-China Trading Co. (Italy)/Wenzhou	Negotiating construction of 248 km Jinwen Railway. 3/86.
Numerex Corp. (US)/Beijing Electric Furnace Works	Signed 3-year marketing agreement on heat treatment process (ionitriding) for aircraft parts and carbon, stainless steel, titanium, and titanium alloy cutting tools. 3/3/86.
Ricardo Co. (UK)/Ministry of Railways	Will cooperate to update diesel engines. 3/3/86.
Schienenfahrzeuge Export/Import VE (E. Germany)/MACHIMPEX and Ministry of Railways	Signed five contracts to export 1,000 refrigerated train wagons and two diesel power generation wagons, including 10-year technical transfer contract. $145 million (SFr300 million). 3/7/86.
Daihatsu (Japan)/Tianjin Motor Vehicle Industrial Co.	Signed contract to produce 10,000 Daihatsu Charade automobiles per year. 3/24/86.

Miscellaneous

Kowin Companies (US)/Anhui Province	Signed contract to find US and European funding sources and joint venture partners for high tech, industrial, and other projects. 1/27/86.
Nippon Gakki (Japan)/Central Conservatory of Music	Will provide electronic organs. 2/86.

中外贸易 JOINT VENTURES AND DIRECT INVESTMENT THROUGH MARCH 31

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported

Agricultural Technology

AnemTech Ltd. (US)	Signed letter of intent to form joint venture in cattle embryo transplant technology. 12/2/85.

Chemicals and Chemical and Petrochemical Plants and Equipment

C. Itoh and Co. (Japan) and China Merchant Industries Ltd. (Hong Kong)/Shanghai Petrochemical Complex	Established Shanghai Jingshan United Industrial Co. joint venture to produce 2,000 TPY of plastic film bags. $1 million (HK:30%–JAP:19%–PRC:51%). 2/12/86.
Siope Corp. (Tunisia) and Petrochemical Industrial Corp. (Kuwait)/Ministry of Chemical Industry	Formed Sino-Arab Chemical Fertilizer Co. Ltd. joint venture to build Qinhuangdao plant to produce 480,000 TPY of diammonium phosphate or 600,000 TPY of nitrogen phosphorus potassium. $50 million (Tunisia and Kuwait:60%–PRC:40%). 3/19/86.

Consumer Goods

Pacific Dunlop Ltd. (Australia)/NA	Will build Shanghai factory to produce 2 million pairs of leather footwear per year. (AUST:40%–PRC:60%). 2/19/86.
Sino World Industries (HK)/Beijing ITIC and Beijing Polyester Fiber Mill	Signed 10-year contract to set up KTK Furniture Co. joint venture to produce single bedsteads, single-bed mattresses, bed screens, and sofas. $624,707 (¥2 million). (HK:25%–PRC:75%). 2/24/86.

China International Ventures Inc. and China United Trading Co. (US)/ Tianjin No. 5 Factory and Tianjin SEZ	Will expand Tianjin No. 5 Factory to produce shoes. (ventures:27%, trading: 12%–factory:51%, zone: 10%). 3/26/86.

Electronics and Electrical Equipment

Kexi Company (Japan)/ Tianjin Economic and Technological Development Zone General Company	Signed contract to jointly finance and operate Tianjin (Kexi) Company to produce and develop computer peripheral equipment, computer accessory products, and plasma cutting and welding devices. 1/16/86.
Sanko Development Co. Ltd. (Japan)/Dalian Beiyang Industrial Stock Corp. Ltd.	Signed contract to establish Dalian Beixing Computer Co. joint venture to develop and produce computer software and provide consulting services in computer technology. 3/86.
Yokogawa Hokushin Electric (Japan)/Xi'an Industrial Instruments Factory	Will establish 30-year joint venture to supply and install electronic plant management systems. $3.5 million (J¥700 million). (50–50). 3/86.
Progeni Systems (New Zealand)/CATIC and Beijing Institute of Aeronautics and Astronautics	Will establish computer education center and evaluate joint venture to develop fourth-generation learning system for China and overseas markets. 3/28/86.

Electronics (Consumer)

Huangguangtai Industrial Co. Ltd. (HK)/ Heilongjiang Provincial No. 1 Radio Factory	Concluded agreement to jointly manufacture high and medium grade radio cassette recorders. $2.5 million (50–50). 2/86.

Engineering and Construction

MEI Co. (Singapore)/ Beijing Automatic System Engineering Design Institute	Will jointly design and cooperate on building system projects. 1/86.
Wadaco Corp. (Poland)/ Beijing Automatic System Engineering Design Institute	Will jointly design building systems projects. 1/86.
Japan Engineering Consultants/Beijing Communications and Transport Corp.	Established road construction consulting company through joint investment. $199,930–$299,895 million (J¥40–J¥60 million). 2/86.

Finance, Leasing, and Insurance

Wearne Brothers, subs. of Overseas Chinese Banking Corp. (Singapore)/BOC and Wuhan Leasing Co. Ltd.	Signed agreement to set up Central China International Leasing Co. joint venture. $50 million. (50–50). 2/2/86.
Hutchison Holdings Ltd. (HK)/China Hunan International Economic Development Co. and Tai Cheng International Ltd.	Held inaugural ceremony of Hunan Hong Kong Investment Co. Ltd. established to introduce foreign investment funds and modern technology into Hunan. 2/5/86.

Food Processing and Food Service

(France)/Shaanxi Province	Will cooperate in construction of fruit juice concentrate factory and soft drink factory (See Joint Ventures, Packaging for first phase of agreement.) 2/86.
Compagnie Commerciale Sucres et Denrees (France)/Guangzhou Shitou Enterprise Corporation	Formed Sugar and Foodstuffs Industrial Engineering Company Ltd. joint venture in Panyu Country, Guangzhou. 3/8/86.

Machine Tools and Machinery

Cincinnati Milacron Inc. (US)/NA	Signed agreement with a Beijing institute to open service center to train machine tool maintenance people to install and provide ongoing maintenance of Milacron equipment. 2/3/86.
NA (W. Germany)/China Dalian Diesel Locomotive Research Institute, Hualian Co., Economic and Technological Development Company of Dalian SEZ	Signed contract to provide accessories for automatic industrial chain and sprocket line. 3/86.

Medical Equipment

Cardio-Pace Medical, Inc. (US)/Qinling Semiconductor Factory	Signed 15-year agreement to establish Qinling Medical Co. joint venture in Baoji to produce pacemakers. $1.5 million. (US:49%–PRC:51%). 2/86.
Erma (Japan)/NA (Beijing and Dandong factories)	Will cooperate in production of clinical analysis apparatus. 2/86.
Siemens (W. Germany)/ Beijing Foreign Trade Corporation and Xuanwu Hospital	Opened service center. 3/20/86.

Metals, Minerals & Processing Technology

Hong Kong Industrial Trading Company Ltd./ Xianing Industrial Associated Company, MINMETALS, and MINMETALS, Hubei branch	Established Qining Company Ltd. joint venture in Zhujiawan, Hubei, for exploitation of quartz and production and sale of silicon and silicon products. 2/86.
Robinson Technical Products (US)/NA	Entered into joint venture to manufacture natural soapstone. 2/86.
Hat Rea Company (HK)/ Yunnan Provincial Import/Export Corporation	Formed joint venture to process jade and other gems for export. $450,000. (HK:45%–PRC:55%). 3/4/86.

Packaging

(France)/Shaanxi Province	Signed agreement to jointly construct plastic bottle production line at Ganquan County Mineral Water Factory. $20,000 (F150,000). 2/86.

Petroleum, Natural Gas, and Related Equipment

(Norway)	Opened 12-year Guangzhou joint marine engineering and design company to design offshore projects, carry out offshore oil development feasibility studies, and offer consulting services. 1/29/86.
British Cluff Oil Plc (UK)/ CNOOC	Signed contract on joint oil exploration and development of Yellow Sea block. 2/5/86.
Amoco Orient Petroleum Company (US)/CNOOC	Signed contract for oil exploration and development of Pearl River mouth basin block. 2/18/86.
Occidental Eastern, Inc. (US), UNOCAL Pearl River, Inc. and Japan Petroleum Exploration Co. Ltd./ CNOOC	Signed contract for exploration and development of Pearl River mouth basin block. 3/31/86.

Ports

Japanese consortium (40 companies), Overseas Economic Cooperation Fund (Japan)/Dalian	Will establish Dalian Port Development Study Group steering body to investigate possibility of joint venture for Dalian port expansion including 80 berths and 50 million TEU/year cargo handling capacity (10 berths to be built in first phase). 1/10/86.
Multiterminals International, of Pakhoed Holdings (Netherlands)	Signed joint venture agreement to operate two port terminals at Nantong. Approx. $100 million. 1/24/86.

Power Plants and Equipment

Okano Valve Mfg. (Japan)/Dalian High Pressure Valve Factory	Established Dalian Okano Valve Plant 22-year joint venture to produce power generation valves. $1.1 million (¥3.5 million). (JAP:40%–PRC:60%). 2/86.

Property Development

Huali Trading Co. and Hong Kong Haitong Co. Ltd. (HK)/Ningbo Tourist Co.	Will jointly fund construction of Asian Huayuan Hotel. $7.2 million. 12/85.
Yuanbang Trading Corp. (HK)/Supply and Marketing Cooperatives of Yuyao, Jiangsu	Signed joint venture agreement (pending government approval) to build Longshan Hotel. $6.4 million. 12/85.

Nissho Iwai Corp. and Shimizu Construction/ Agro-Industrial-Commercial Corp. of Haidian District, Beijing and Zhenhai Agro-Industrial-Commercial Corp.	Will construct apartments for foreigners through joint investments. $9 million (J¥1.8 billion). 2/86.
Overseas Chinese Banking Corp. (Singapore)/NA	Expected to sign agreement to build hotel in Xi'an. $43 million. 2/2/86.
NA (Canada)/Guangzhou Municipal Construction and Development Corp.	Signed 20-year contract to establish Tianhe Hotel with Chinese side providing land and Canadian side responsible for investment. $50 million. 3/86.
China Hotel Development Joint Venture (US, Norway, and HK)/All-China Journalists' Assn.	Reached agreement in principle for investment and management of China International Information Center to be located in Beijing. 3/86.
Misawa Homes (Japan)/ Tianjin ITIC	Formed joint venture to build and lease 30 foreign residences. $31.2 million (¥100 million). (50–50). 3/86.

Publishing and Broadcasting

(Algeria)	Signed three-year radio and television cooperative agreement. 1/86.

Shipping

NA (Sweden)/Nanhai Shipping Instrument Equipment Corp. of Shanghai Shipping Research Institute under Ministry of Comm.	Set up Huarui Shipping Equipment Co. Ltd. joint venture to manufacture automatic control and detection equipment and instruments. 3/86.

Telecommunications

Nitsuko Ltd. (Japan)/ China National Electronic Technology Import/Export Corp.	Will establish joint venture company to produce telephones and small-capacity digital PBXs. $1.5 million–$2 million (J¥300–J¥400 million). (50–50). 3/8/86.

Textiles

Maxivac Co. Ltd., subs. of Kaihin Enterprises Co. Ltd. (HK)/Beijing Fengtai District Hua Xiang Industry Co. Ltd.	Established 15-year joint venture to seek advanced foreign technical knowhow to make fashion garments for Chinese and foreign customers. (HK:60%–PRC:40%). 1/22/86.
Italy–China Trading Co. (Italy)/Wenzhou Municipal Economic and Technical Development Co.	Signed 12-year cooperative agreement to build 1.2 million/year capacity plant to manufacture woolens and worsteds. $4 million. 3/86.

Transportation and Transportation Equipment

British Railway Engineering Co./Ministry of Railways	Will cooperate in revamping Changchun Railway Passenger Car Plant and coproduce new types of passenger cars financed with World Bank loan. 3/3/86.
American Coal Enterprise (US)/Ministry of Railways	Signed memorandum of understanding to produce coal-fired steam engines for locomotives at Datong Locomotive Works in Shanxi. 3/5/86.
Captive Air Ltd. (HK), subs. of Captive Air Inc. (US)/Guanghua Trade Development Co., Zhuhai SEZ	Signed 25-year joint venture agreement to establish Tai Ping Co. to manufacture bicycle and wheelchair tires. $4.6 million. (50–50). 3/17/86.

Miscellaneous

American International Group (US)/China Light Industrial Corp. for Foreign Economic and Technical Cooperation Ltd.	Established Light Industrial International Corp. for economic and technical cooperation joint venture to help foreign light industry firms invest in China and Chinese firms buy foreign technology and equipment. 1/86.
Italy–China Trading Co. (Italy)/Wenzhou Municipal Economic and Technical Development Co.	Signed agreement to manufacture leather. 3/86.

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我会活动

BEIJING OFFICE EXPANDS

The National Council's Beijing office has expanded both its staff and office space over the last year and a half to provide more assistance to member companies in China, strengthen liaison services with Chinese officials and organizations, and conduct market research for Council projects and individual member companies.

Chris Brown, director of the office, is joined by deputy directors Sebastian Bonner, Andrew Ness, and David Richter. Liu Jingming serves as assistant advisor and Zheng Xiao as project advisor.

The main office is in Room 1136 of the Beijing Hotel. An annex was added last May in Beijing's Xuanwumen Hotel to allow for more meeting and research space.

Members of the National Council's Beijing office staff from left to right: David Richter, Sebastian Bonner, Andrew Ness, Chris Brown, and Zheng Xiao.

NEW COUNCIL EXECUTIVE VP

Bruce Vernor, former Beijing resident representative and vice-president of Atlantic Richfield Co., has been named executive vice-president of the National Council, replacing Roger W. Sullivan, who becomes Council president in June. Capping off a 32-year career at ARCO, Vernor participated in negotiations with the Chinese for an oil and gas exploration contract over a three-year period. He has lived in Hong Kong, China, Iran, Indonesia, Venezuela, and the United States.

中國數據

KEY INDICATORS

	1980	1981	1982	1983	1984	1985	% change 1985/84
Exchange rate (yuan per US $)	1.4984	1.7050	1.8887	1.9772	2.3200	2.9367	+26.6
Currency in circulation (bil ¥)	34.6	39.6	43.9	53.0	79.2	98.8	+24.7
GDP* (bil. ¥, 1985 constant prices)	486.7	510.5	552.9	607.1	691.5	778.0	+12.5
State budget revenues (bil. ¥)	108.5	109.0	112.4	124.9	146.5	185.4	+26.5
State budget expenditures (bil. ¥)	121.2	111.5	115.3	129.3	151.5	182.6	+20.5
Consumer Price Index	100.0	102.5	104.6	106.7	109.6	118.4	
Gross value of industrial output (bil. ¥)	489.7	512.0	550.6	608.8	704.2	875.9	+24.3
of which:							
heavy industry	258.8	248.3	274.0	313.4	370.7	467.0	+26.
light industry	230.9	267.3	276.6	295.4	335.5	408.9	+21.9
Gross value of agricultural output (bil. ¥)	218.0	246.0	278.5	312.1	375.5	451.0	+20.1
of which:							
grain output (MMT)	320.52	325.02	353.43	387.28	407.20	378.98	−6.9
cotton output (MMT)	2.207	2.968	3.598	4.637	6.077	4.150	−31.7
Population (millions)	994.9	1007.8	1012.0	1025.0	1034.8	1046.4	+1.12

* 1980-83 figures are derived from applying national income growth rates to the GDP figures released from the State Statistical Bureau for 1984 and 1985. The Chinese definition of GDP appears to be similar to that used in the West, although it has yet to be officially defined.

SOURCE: *IMF Financial Statistics*, National Council files, State Statistical Bureau.

All values in current prices unless otherwise noted.

CHINA'S FOREIGN TRADE 1980–1985

	1980	1981	1982	1983	1984	1985	% change 1985/84
Total Trade (fob and cif)							
bil ¥	57.00	73.53	77.20	86.02	120.12	204.4	
bil $	38.04	43.13	40.88	43.48	51.78	69.62	+34.4
Exports (fob)							
bil ¥	27.12	36.76	41.43	43.85	58.06	80.35	
bil $	18.10	21.56	21.94	22.16	25.03	27.36	+9.3
Imports (cif)							
bil ¥	29.88	36.77	35.77	42.17	62.06	124.10	
bil $	19.94	21.57	18.94	21.32	26.75	42.26	+58.0

SOURCE: State Statistical Yearbook

MAJOR ITEMS IN US–CHINA TRADE

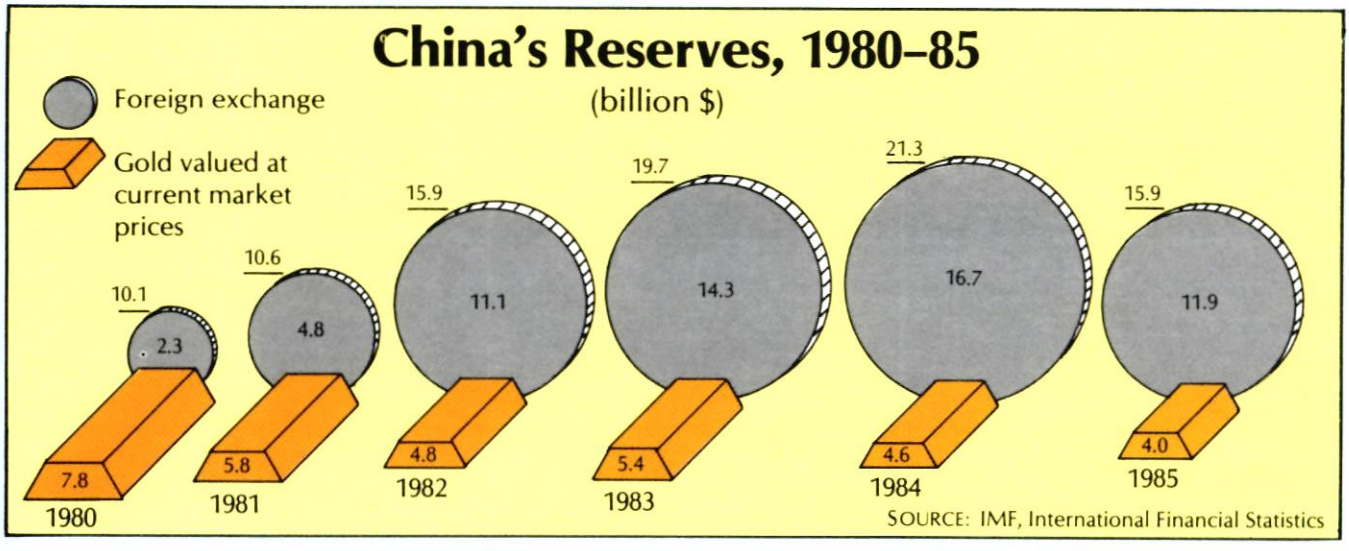
TOP TEN US DOMESTIC EXPORTS TO CHINA IN 1985 (FAS, THOUSAND $)

Aircraft, new, nonmilitary for passenger transport	364,649
Douglas Fir Logs	229,783
Oil & Gas Drilling Machine Parts	202,316
Phosphate Fertilizer	115,939
Textured Yarns	101,362
Aircraft, new, nonmilitary for passenger/ cargo transport	97,237
Wheat	97,009
Western Hemlock Logs	83,720
Digital Automatic Data Processing Machines	80,436
Rotary Wing Aircraft	77,603

TOP TEN US IMPORTS FOR CONSUMPTION FROM CHINA IN 1985 (CUSTOMS VALUE, THOUSAND $)

Crude Petroleum	715,683
Gasoline	194,587
Stuffed Dolls	90,355
Tin	60,126
Stuffed Toy Animals	53,300
Cotton Print Cloth	45,974
Wool Floor Coverings	42,190
Artificial Flowers	40,783
Coins	36,906
Fireworks	36,692

SOURCE: US Department of Commerce Trade Statistics Schedule B Numbers



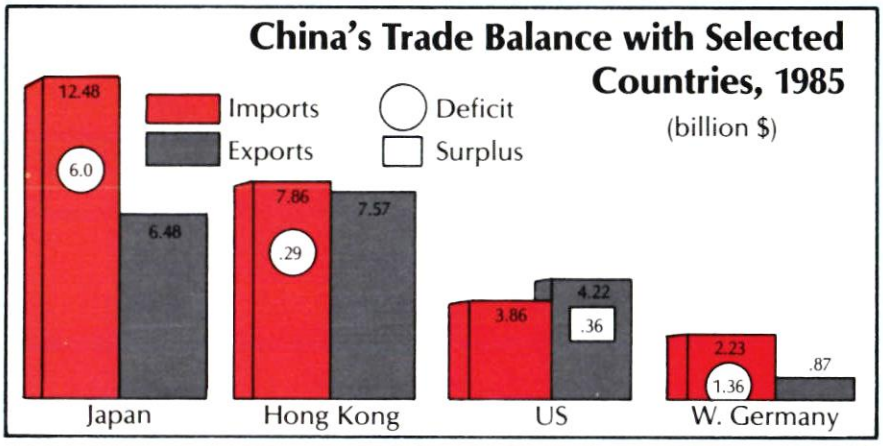
FOREIGN TRADE WITH SELECTED COUNTRIES, 1980–85

(MILLION $)	1980	1981	1982	1983	1984	1985	% change 1985/84
Japan exports (fob)	5078	5095	3510	4912	7216	12477	+72.9
imports (cif)	4323	5291	5352	5087	5957	6482	+8.8
Total	9401	10386	8862	9999	13173	18959	+43.9
Share of 2-way trade	24.7%	24.1%	21.7%	23%	25.4%	27.2%	
Hong Kong exports (fob)	1249	1957	1954	2495	5031	7858	+56.2
imports (cif)	4401	5264	5431	5847	7131	7568	+6.1
Total	5650	7221	7385	8342	12,162	15426	+26.8
Share of 2-way trade	14.7%	16.7%	18.1%	19.2%	23.5%	22.2%	
United States exports (fob)	3755	3603	2912	2173	3004	3856	+28.3
imports (cif)	1164	2062	2502	2477	3381	4224	+24.9
Total	4919	5665	5414	4650	6385	8080	+26.5
Share of 2-way trade	12.9%	13.1%	13.2%	10.7%	12.3%	11.6%	
West Germany exports (fob)	1145	1017	853	1075	1038	2230	+114.8
imports (cif)	808	769	702	768	851	871	+2.3
Total	1953	1786	1555	1843	1889	3101	+64.2
Share of 2-way trade	5.1%	4.1%	3.8%	4.2%	3.6%	4.4%	
Soviet Union exports (fob)	110	60	88	189	380	666	+75.3
imports (cif)	95	68	75	172	415	706	+70.1
Total	205	128	163	361	795	1372	+72.6
Share of 2-way trade	.5%	.3%	.4%	.8%	1.5%	1.9%	
Canada exports (fob)	742	776	1005	1295	968	929	−4.0
imports (cif)	145	201	182	219	284	326	+15.2
Total	899	921	1186	1514	1251	1255	+0.3
Share of 2-way trade	2.4%	2.1%	2.9%	3.5%	1.9%	1.8%	

SOURCE: *IMF Direction of Trade Statistics*, various trading partners' official data

China's Trade Balance with Selected Countries, 1985

(billion $)



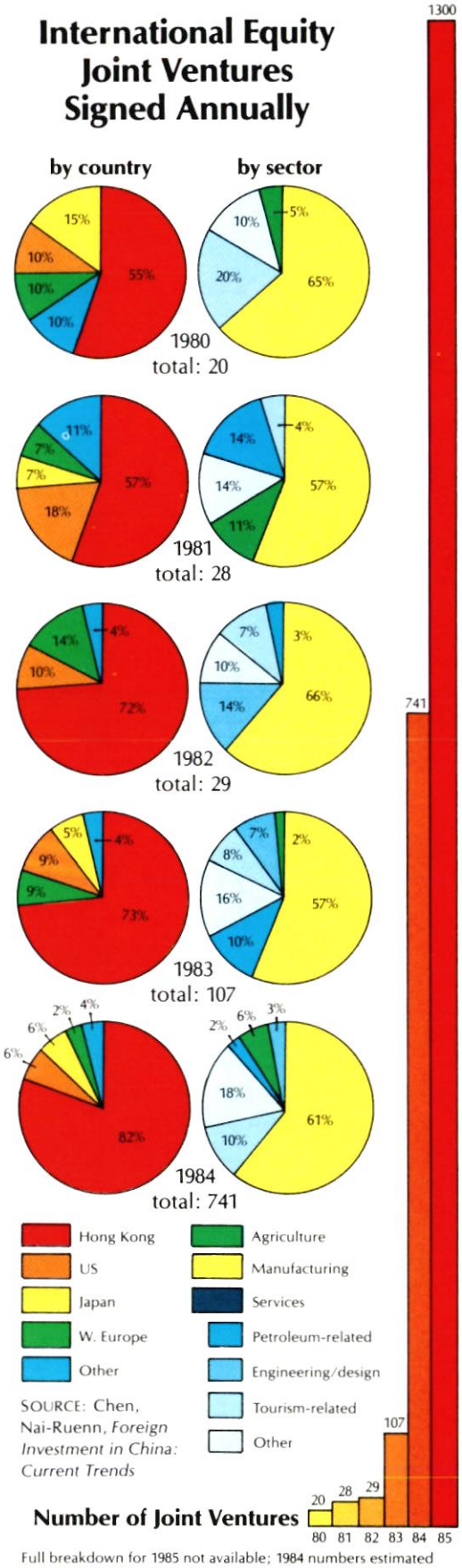
ANNUAL FOREIGN INVESTMENT IN CHINA, 1979–85

TYPE	1979	1980	1981	1982	1983	1984	1985	Cumulative 1979–85
EQUITY JOINT VENTURES								
Number of Agreements	6	20	28	29	107	741	1300	2231
Foreign Investment pledged (mil $)	8	63	28	29	188	1060		
Foreign Investment realized (mil $)					74	250		
COOPERATIVE VENTURES								
Number of Agreements		320	70	402	331	1089	1500	3712
Foreign Contribution pledged (mil $)		500	1300	926	504			
Foreign Contribution realized (mil $)					238	470		
WHOLLY FOREIGN-OWNED VENTURES								
Number of Agreements				33*	15	26	46	120
Foreign Investment pledged					4	99		
JOINT OIL DEVELOPMENT								
Number of Agreements	8	4	0	1	18	0	4	35
Foreign Contribution pledged	110	1112	0	170	1031	0		
Foreign Contribution realized	110				296	520		
COMPENSATION TRADE								
Number of Agreements	417		173	282	181	311		
Value of equipment to be supplied by foreign companies (mil $)	381		79	265	107	160		
Value of equipment actually supplied by foreign companies (mil $)					150			
TOTAL (including processing and assembling arrangements)								
Foreign Contribution pledged (mil $)					2742	2650	5850	
Foreign Contribution realized (mil $)						1254	1570	

*represents 1979–82 cumulative figure.

SOURCE: Chen, Nai-Ruenn, *Foreign Investment in China: Current Trends*; various Chinese sources
Compiled by Valerie J. Chang and Madelyn C. Ross

International Equity Joint Ventures Signed Annually



SOURCE: Chen, Nai-Ruenn, *Foreign Investment in China: Current Trends*

Full breakdown for 1985 not available; 1984 numbers estimated from available data

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