The China Business Review

May–June 1988

the Council's

15th Anniversary

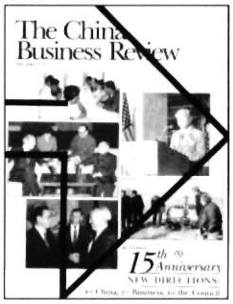
NEW DIRECTIONS:

for China, *for* Business, *for* the Council

The China Business Review

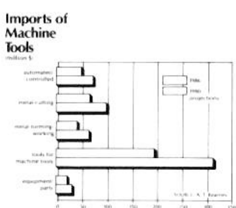
The magazine of the National Council for US–China Trade

May–June 1988 Volume 15, Number 3



Cover: Flashing back through 15 years of Council history: faces from the past, present, and future. *Design by John Yanson*

Timeline: From greetings to agreements, the main events in US-China trade. **Page 12.**



Machine Tools: China is revamping this key sector, and foreign companies have a small but significant role to play. **Page 38.**

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TRENDS & ISSUES

摘要

TRANSPORTATION STALLS; ENERGY GETS A JOLT

As State Councilor Song Ping presented it to the NPC late last March, the proposed new Ministry of Transportation—a combination of the ministries of communications and railways and the Civil Aviation Administration of China (CAAC)—would "improve macrocontrol over the communications and transportation sector [and] combine forms of transportation of goods." China's enormous need—and almost total lack—of coordination among the various transportation subsectors undoubtedly fueled the decision to implement this mega-ministry.

It never, however, got off the ground. The official explanation: in the wake of a series of railroad and air disasters, NPC delegates felt that it would be more appropriate to concentrate on safety issues for the time being rather than spend effort and resources on reorganization.

What else lay behind the decision? Some Western analysts maintain that the mega-ministry was doomed from the start due to resistance from the individual bureaucracies involved. CAAC and the railroad authorities are, in the words of one US analyst, "two of China's most curmudgeonly, tough, and deep-rooted bureaucracies," each unwilling to relinquish authority for the sake of greater coordination and cooperation.

Contributing to potential turf battles was the question of who would head the new ministry. Just days before the NPC opened, Ding Guangen, the leading candidate, resigned his post as minister of Railways as a gesture of responsibility for the recent spate of train crashes.

The failure to unify transportation contrasts with the creation of a new Ministry of Energy encompassing the former ministries of petroleum, coal, nuclear power, and hydropower. Like transportation, energy is a keystone of modernization and involves a vast range of technologies that compete for resources and priority. The effectiveness of the new ministry remains to be seen—a previous attempt to bring energy subsectors together was tried in 1980 and abandoned in 1982—but its existence alongside the transportation status quo will allow the leadership to compare different approaches to planning in two of China's most important sectors.

The decision to scrap the Ministry of Transportation after its official announcement also highlights the new role of debate in the NPC. Instead of the usual rubber stamp, Song's report received active consideration and criticism. The transportation sector may continue to plod along, but perhaps the political reform process is speeding up.

—SER

TAKING A CHANCE FOR CHARITY

A tooth-filled grin gleams from the front page of a February *China Daily*. Li Shaopei looks like a man who won a lottery—and as a matter of fact, he did. Li, a company manager, bought five ¥5 lottery tickets, and took home ¥10,000 from Beijing's first official lottery to benefit social welfare.

Li's chance to take a chance would not have been possible three years ago. In 1985 the State curtailed China's budding lottery system after discovering that many enterprises were using the "lotteries" to make money while unloading inferior and overstocked goods as prizes. More troubling than this corruption was the enormous popularity of such contests. The appeal of getting rich in one swift stroke undermined State efforts to promote hard work and self-sacrifice. The March 1985 circular banning commercial lotteries claimed the games were "impairing the interests of the masses and corrupting people's minds."

Out of this opprobrium was born an opportunity. Not long ago some socially conscious citizen suggested that the money earned from lotteries could be channeled into charity. In June 1987 the China Social Welfare Lottery Committee was set up under the Ministry of Civil Affairs to raise funds for such disadvantaged groups as indigent old people, the handicapped, and orphans. The first lotteries were held last July and October, and to date 125 million tickets have been sold, generating $9.5 million in welfare funds. This year China plans to issue $135 million worth of tickets.

Thus have lotteries made a comeback—although they are now restricted to raising money for social welfare and other worthy causes. Some 50 percent of ticket revenues go to charity, with an additional 15 percent earmarked for operating costs. The winners—who number up to 10 percent of ticket purchasers—take home 35 percent of the pot.

Li told *China Daily* that he plans to invest his winnings in his 13-year-old son's future. Thanks in part to purchases by Li and other hopefuls, China's less fortunate may have a brighter future, too. —SER

RENTS GO THROUGH THE ROOF

Housing in urban China is a serious social problem. While high-level cadres often have spacious homes, the less privileged are usually crowded into extremely close quarters. China's average urban dweller had just 8.04 square meters of housing space to call his own in 1986. Although this almost doubles the average in 1979, the first national housing survey—completed in 1986 by the State Council Leading Group for Housing Reform—found that one in four urban residents had much less. Many young couples must wait years to tie the knot simply because they have no place to live.

The State also suffers from the housing burden. Construction, maintenance, and rent subsidies cost the government ¥30 billion each year. And with rents averaging just ¥.13 per square meter each month, earnings on China's 2 billion square meters of public housing don't even cover maintenance costs.

In March China's State Council proposed a three-year plan to commercialize the urban housing system. The plan features increased rents for public apartments (a minimum of ¥1 per square meter), higher housing subsidies, and efforts to encourage more urban residents to buy apartments. Planners hope higher rents and down payments on housing will soak up some excess savings and cut down on runaway purchases of consumer products. Rent currently accounts for only 1.5 percent of average living expenses, and under the plan is expected to rise to between 6 and 8 percent.

These reforms were tried out in five cities last year. In Yantai in Shandong Province, rents climbed from an average of ¥.07 to ¥1.28 per square meter, and workers received housing vouchers to cover part of the increase. Bengbu in Anhui Province took a different route, giving workers a cash housing allowance to ease the pinch when rents went up. Similar experiments will be extended to each provincial capital and several other cities this year.

Each city will also take steps to encourage home ownership. Would-be apartment purchasers are expected to use their savings for a 30 percent down payment, then take out long-term, low-interest mortgages. Some large work units may also offer financial support.

Efforts to develop a real estate market are likely to bump into some problems. Demand for new apartments is sure to be strong, while older homes with higher upkeep costs may move more slowly. More important, the local focus of reforms and general lack of central-level control may make it easier for bureaucrats to stymie progress. Under the plan, after all, rents on the large houses of high-level cadres will rise the most. —JSS

FROM BACKWATER TO BOOMTOWN?

"Asia's 5th Tiger"; "The Hawaii of the Orient"—Hainan Island's recent upgrade to provincial status, approved by the National People's Congress in April, has generated no lack of hyperbole. In fact, the Chinese press has described Hainan's economic potential in such glowing terms that 120,000 young people—80 percent of them with college degrees—have abandoned State jobs across China since last August to sell dumplings or take other odd jobs in the island cities of Haikou and Sanya.

What they find may fail to live up to its gala billing. This sleepy island of 6 million people is primarily agricultural. China's largest source of rubber, Hainan also boasts rich deposits of iron, copper, titanium, gold, bauxite, and natural gas. But the island's infrastructure is in sad shape, with minimal energy, transportation, and communications facilities.

Expansion of the road and railroad networks, increased port capacity, and a new airport are all on the drawing board. But these plans are expensive, and the State promises to grant only ¥200–¥300 million annually in low-interest loans to upgrade Hainan's infrastructure. How far this will fall short is speculative, but Shenzhen—an area one-hundreth the size of Hainan—spent some ¥10 billion to build the necessary infrastructure for a thriving economic zone.

China's planners have been devising strategies to attract foreign dollars to Hainan since 1984, when the island was given special economic status. At this spring's NPC planners went one step further, designating the entire island-province China's fifth special economic zone. A package of special investment incentives, due out later this year, together with bold reforms in land-use rights, are expected to make Hainan one of China's most attractive areas for foreign investment—at least on paper. But foreign executives who have visited the island question whether these incentives will be enough to balance the infrastructure drawbacks and attract foreign industry and tourism. So far the island's foreign investors consist mainly of a few Hong Kong companies.

Both economically and politically, the stakes are high. Some China-watchers theorize that Hainan is being developed as a model for China's larger island cousin to consider. If Hainan becomes a fairly autonomous province with attractive economic policies, Taiwan may think twice about rejoining the fold. And foreign investors may be willing to inject some of the capital that the island so badly needs. —AED

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To Your Health

Ann Elizabeth Dean

Last winter's hepatitis outbreak in Shanghai focused international attention on health risks in China. The epidemic—nearly 300,000 fell ill—caused many foreign businesspeople to delay or cancel trips, and forced the postponement of at least one international exhibition in Shanghai.

Only a very small number of business travelers get seriously ill when they travel to China. But many suffer from colds, respiratory problems, and stomach upset—or all three. Whatever the illness, no one, least of all the business traveler, can afford to get sick in China. Awareness of potential ailments, pre-departure inoculations, and careful attention to hygiene while in China are indispensable for a healthy trip.

The risk of disease

As a less developed country, China plays host to many diseases that are now uncommon or nonexistent in the United States. The US State Department and Public Health Bureau recommend that all travelers to China have updated vaccinations against measles and tetanus. Those venturing into remote regions should also be protected against meningitis, typhoid, and polio.

Summer brings additional worries, with outbreaks of malaria not uncommon in southern China. Taking malaria tablets can provide significant protection, but choose the type of medication with care as mosquitos in some areas of Guangdong, Hainan, Guangxi, and Yunnan provinces are now resistant to one or the other of the two commonly prescribed medicines. And mosquitos may also transmit encephalitis—more commonly known as "sleeping sickness." The US Embassy in Beijing now offers a vaccination against this rare but deadly disease and suggests that Americans living in China or planning to stay throughout the summer consider getting inoculated against the disease.

An individual's length of time in China, overall travel itinerary, and medical history all combine to determine which vaccines to get. The decision should be made in consultation with a physician.

Hepatitis poses the most serious health risk to travelers in China. Infectious hepatitis, or hepatitis A, is the more common of the two strains of the disease. Spread through unsanitary food and water or contaminated utensils, the disease lasts from several weeks to several months, and the only known cure is a generous dose of rest. Hepatitis B, transmitted through contact with the blood of an infected person, is more difficult to get, but also more dangerous, as it poisons the blood and may result in such serious problems as liver cancer.

Vaccines exist for both strains. Gamma globulin is the most common protection against hepatitis A, and a single shot is effective for six months. The US State Department and the Center for Disease Control recommend gamma globulin for all Asia-bound travelers. A hepatitis B vaccine is also available, and runs about $100 for a series of three shots.

An individual's length of time in China, overall travel itinerary, and medical history all combine to determine which vaccines to get. The decision should be made in consultation with a physician.

Health formalities

All visitors to China must fill out a simple health form upon arrival, stating where they are coming from and if they've had any infectious illnesses within the past two weeks. Short-term travelers need not show proof of inoculation unless they are coming from an area infected with cholera or yellow fever.

Expatriates who plan to live in China for more than a year are now required to present China's Public Security Bureau with a certified doctor's report stating that they are free of AIDS, leprosy, venereal disease, tuberculosis, and psychosis. Although current foreign residents are exempt, those who leave China for any length of time are required to present a certified health report upon reentry. Certification of the doctor's report is available through the Chinese Embassy and consulates in the United States, but the test results must go through an official validation process involving notarization and State Department certification before the Chinese Embassy will give the required stamp of approval. Travelers returning without the test results must undergo a medical examination in China.

Medical facilities for foreigners

The business traveler who suffers from a cold, a case of "turista," or an asthma attack can usually find relief. Aspirin, cold medicines, and com-

Ann Elizabeth Dean recently joined the The China Business Review *as associate editor. Previously she co-authored a study of the China market for the US lumber and plywood industry and has advised many sick travelers in her work as a China tour leader.*

mon drugs like tetracycline are readily available, and many hotel clinics provide simple treatment. Language often proves the greatest barrier, as few doctors have an English vocabulary that extends beyond the basics, but Chinese hosts or hotels can often arrange for an interpreter to serve as an escort to the nearest clinic.

Hospitals that care for foreigners can be found in most major cities. And a number of large hospitals are building advanced medical wings specifically catering to foreigners and overseas Chinese, financing the modern facilities by charging hard currency for services.

If sickness strikes in some out-of-the-way spot, don't panic. Local doctors tend to be familiar with local diseases—and you can be assured of plenty of personal attention. If the problem is serious, however, try to arrange transport to the nearest major city as quickly as possible.

Emergency options

In the past, travelers suffering heart attacks, strokes, broken bones, or other serious problems requiring immediate medical attention have had little choice but to rely on the nearest hospital. Today, the number of emergency options has grown.

On April 1 International SOS Assistance, an agency based in Geneva and Philadelphia, signed an agreement with China's Ministry of Health to establish five emergency medical facilities in China. The 24-hour "alarm centers" will be equipped with state-of-the-art emergency medical treatment (EMT) and critical care equipment. English-speaking Chinese doctors with EMT training will staff the centers, which will be managed by personnel from Hong Kong. The centers will specialize in aeromedical medicine so patients can be treated while in transit within China to the nearest center. The centers will also arrange medically supervised repatriation for especially difficult cases. The first center opened in Beijing in April, and other openings are scheduled for Guangzhou in May, and Xi'an, Chengdu, and Shanghai in 1989.

The US Embassy and consulates can arrange US Air Force Medivac (medical evacuation) services for US citizens who need medical attention outside China. In addition to being costly and time-consuming to arrange, however, the Medivac service is only available for extreme emergency cases that are deemed untreatable locally.

China United Airlines also offers evacuation services to major Chinese cities for a fee, and has access to China's many military airfields as well as commercial airports. CUA's evacuation service does not include medi-

Photo courtesy of Ayer Public Relations

Staff members of the new SOS Alarm Center, based in the Beijing Emergency Center, pose in front of new ambulances, donated by the Italian government.

PRE-DEPARTURE CHECKLIST

To remain healthy in China, the business traveler should take some basic precautions before setting out.

✔ Call the US Public Health Service (202/443-1774) to find out if any travelers advisories have been issued for the areas you plan to visit. You can also call the Center for Disease Control (404/639-3311) for updates on the health situation in specific regions of the country.

✔ See your doctor. If you have a condition requiring regular medication, take an abundant supply, since many specialized medications are not available in China and doctors in Hong Kong will not honor overseas prescriptions.

If you are going to live in China, you must obtain and have certified a doctor's report stating that you are free of AIDS, leprosy, venereal disease, tuberculosis, and psychosis. More information on this is available from the Chinese Embassy (202/328-2561) or the State Department (202/647-1488). In addition, bring copies of important medical records including relevant X-rays, doctors' opinions, and a case history to facilitate treatment. Also, be aware that China does not stock Rh-negative blood.

✔ Short-term travelers should pack an appropriate medical kit after consultation with their doctor. The kit might include vitamin supplements, medication for stomach problems, and salt and sugar packets for dehydration following severe bouts of diarrhea. For travel outside major cities, you might consider adding water purification tablets, alcohol swabs for utensils, a topical disinfectant, and bandages for light cuts. Don't forget to bring a strong sunscreen if traveling in high altitudes.

✔ Visit the dentist and have any outstanding problems fixed, since Chinese dental facilities and techniques are not always inviting. Any problems that arise are best attended to at home if you can wait.

✔ Talk to your insurance company and find out if your policy covers overseas illness, including the cost of evacuation and obtaining health certification for Chinese authorities. Keep clear, signed receipts of any health care provided in China for your insurance company.

cal treatment.

An ounce of prevention

Preparation doesn't eliminate the need for street-smart behavior. In China this starts with making sure that drinking water is always boiled and that food is clean. Most hotels provide each room with containers of both hot and cooled boiled water. In high altitudes such as Tibet or Qinghai provinces water boils at a lower temperature, so make sure that water has been boiled for 5–10 minutes, or bring along water purification tablets for absolute certainty. Ice, popsicles, and street soda should be avoided in all but the largest cities. Fresh fruit should be peeled and vegetables well cleaned and thoroughly cooked.

For those tempted to tackle the cuisine in local restaurants or street stalls, don't hesitate to take along your own chopsticks and bowl. Or you can discreetly rinse a restaurant's utensils with boiled water or tea before eating. And alcohol swabs—available in many US camping stores or Hong Kong pharmacies—can be tucked in a pocket or purse and used to wipe utensils.

The most important advice for a healthy trip to China is, of course, also the most difficult to follow when on a hectic business schedule. Eat well, drink plenty of fluids—the cup of tea offered in every meeting would be a good start—and get enough rest. An ounce of prevention is far preferable to the cure.

FACILITIES CATERING TO FOREIGNERS

Beijing

Beijing Union Medical College Hospital (Capital Hospital)
Foreigners Services Entrance at 1 Dong Shuaifuyuan Hutong, about two blocks from the Beijing Hotel
Tel: 553731, ext. 565, 217, 274; emergencies: ext. 214

Sino-Japanese Friendship Hospital
95 Yongan Lu, Xuanwuqu
Tel: 338671, ext. 441, 442

Beijing International SOS 24-Hour Assistance
Beijing Emergency Medical Center
103 Qianmenxi Lu, Sixth Floor
Tel: 6016531; ambulance service: 120

Embassies
Doctors at the French, West German, Australian, and Japanese embassies have office hours open to all foreigners. The US Embassy clinic is for embassy staff only.

Chengdu

West China University of Medical Science Affiliate Hospitals
Renmin Nan Lu, near the Jinjiang Hotel
Tel: 27905

Fuzhou

Fujian Provincial Hospital
Dongda Lu
Tel: 33352

Guangzhou

First People's Hospital of Guangzhou
Panfu Lu, Renmin Bei Jie
Tel: 33090

First Hospital of Zhongshan Medical College
Foreigners Outpatient Clinic
2 Zhongshan Lu
Tel: 78223

Hangzhou

Zhejiang Hospital
Lingyin Lu
Tel: 21357

Hefei

Anhui Medical College Affiliated Hospital
Jixi Lu
Tel: 63411; clinic: 79931; emergency: 74077

Jinan

Shandong Medical College Hospital
Wenhua Xi Lu
Tel: 21941

Shanghai

First People's Hospital
190 Suzhou Bei Lu
Tel: 24-0100
(The American Medical Center, housed in this hospital, is scheduled to open in January 1989.)

Huadong Hospital, Foreigners Clinic
257 Yanan Lu, Sixth Floor
Tel: 530631

Tianjin

No. 1 Central Hospital
Heping District, at the entrance to Munan Dao
Tel: 34646

Xi'an

Xi'an Medical University Affiliated Hospital No. 1
Jiankang Lu, Xiaozhai, Nanjiao
Tel: 52981, 52911

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New Directions: A Letter from the President

Roger W. Sullivan

Anniversaries are occasions for looking back. But strong organizations, like healthy individuals, apply the insights gained by looking back to plan better where they are going. The Council is not ready for the nostalgia of old age; our eyes are fixed on the future even as we celebrate our past.

Our sole reason for existence is to provide effective support to companies doing business with China. With China changing so rapidly, the Council must not only adapt to but anticipate the changing needs of its membership. In some cases this has meant deemphasizing or abandoning such once-useful programs as organizing general trade delegations to and from China. More often it means finding new ways to satisfy the demands of companies for the more complex and sophisticated information and advice that success in China now requires.

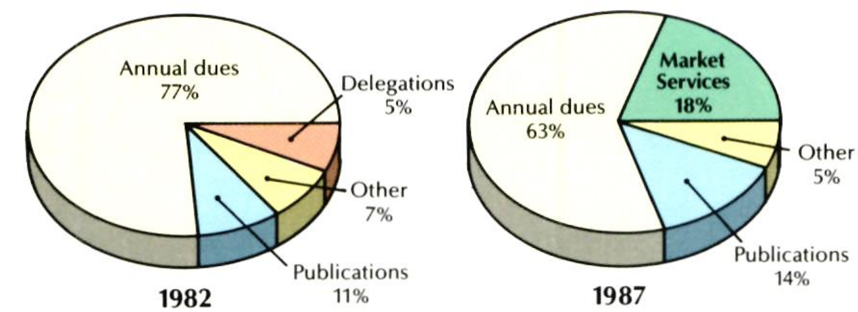
Companies have many more options in China today than they did before investment was possible and when trade was conducted only through a handful of foreign trade corporations. In planning their approach to China, companies need to look at regional versus national strategies, and decide whether to approach the market through straight sales, licensing, leasing, countertrade, an equity joint venture, cooperative joint venture, or wholly owned subsidiary. They have to know, or be able to find out, how the business environments in various cities and provinces in China compare. They need information on who makes decisions and how the laws and regulations in the separate localities differ, not only in wording but in implementation. And they need help in choosing and evaluating potential partners in China. The list goes on and on. Perhaps of most importance, they want their concerns about obstacles to trade and investment and their recommendations about needed changes in law, regulation, or practice brought effectively to the attention of the people in the Chinese or American governments who can take appropriate action.

To help meet these needs we are reallocating Council resources following the principle that we will offer what companies cannot do alone or would rather not do themselves. Most companies realize, for example, that it is not cost-effective to rely on in-company resources to try to keep up with the fast pace of change in China. They look to us either as the primary source of current data and advice or as a valuable, and low-cost, second opinion.

Companies also realize that when there is need to raise complaints or propose changes to either the Chinese or American governments, it is preferable to speak collectively through an organization, and the Council has demonstrated its effectiveness in this role. Our work on export licensing is well known. On investment we brought the concerns of the American business community to the Chinese in a way that they actually welcomed. As a result we were able to influence the drafting of new regulations. Much remains to be done, but our effectiveness to date has earned us a "hotline" to China's State Council Leading Group on Foreign Investment. We are well-positioned, therefore, to maintain a continuous dialogue with the Chinese government on issues of general concern as well as to "trouble shoot" for companies that run into problems with local interpretation or implementation of new regulations.

The changing needs and evolving services of the Council have implications for how we finance ourselves as an organization. Companies require more types of general information, but they also ask us for individualized services in the form of company-specific briefings or market research on the ground in China. These services cannot be supported from general dues revenue, and our income figures reflect this. In 1982, for example, dues represented 77 percent of total revenue. Last year dues were down to 63 percent, while publications and new category, "market services," accounted for 32 percent of revenue. Our goal is to have 55 percent of income come

National Council Sources of Revenue



from dues and 45 percent from non-dues revenue. Such a split would be healthier for the Council, making us less vulnerable to short-term fluctuations in these three sources of income. The division of activity implied by such a split would also satisfy members' perceived need for both general and proprietary services.

In acknowledgement of the new realities of doing business with China and to underscore the Council's changing role in support of its member companies, we are proposing to change our name from "The National Council for US–China Trade" to "The US–China Business Council." The staff and Board of Directors believe that this new name more accurately reflects what we are: a private business organization that represents and serves its membership, not a government or quasi-governmental group. Important also is that the proposed new name is one people can more readily remember—seldom is our current name cited correctly. Members will vote on this change at our annual meeting in June.

Another change you will be hearing more about in the coming months is our recent creation of a tax-exempt (501(c)3) subsidiary, called *The China Business Forum*, which will undertake the kind of longer range research and educational activities companies have asked for but that are difficult to fund within a dues-supported (501(c)6) organization like the Council. Possibilities include seminars in China bringing American and Chinese companies together to improve understanding of standards for doing business internationally and in China. Also under consideration are proposals to research long-range competitive problems and prospects for American companies in China.

These new activities and services will reinforce the Council's commitment to providing member companies with the practical, up-to-date, and accurate information and advice they need to compete today. Through roundtable meetings and other working groups we will expand our trouble-shooting and representational roles. And the number of high-quality, business-relevant publications will increase. Most important, we will remain flexible and open to change—qualities that have been the great strength of this organization for the past 15 years. 完

MESSAGE OF GREETING

To the National Council for U.S.-China Trade:

On behalf of the Chinese Government, I would like to extend my warm congratulations to the National Council for U.S.-China Trade on the occasion of your 15th anniversary.

In the last 15 years, particularly since the establishment of diplomatic relations between China and the United States in 1979, Sino-U.S. trade has expanded steadily and the economic and technological cooperation developed rapidly, to which the National Council for U.S.-China Trade has exerted productive efforts and made important contributions. I sincerely hope that the Chinese and American governments, trade and commercial organizations, and people of business communities of both countries will make joint efforts to solve problems cropping up and promote the development of the Sino-American trade and technological cooperation in breadth and depth.

I hope the National Council for U.S.-China Trade will make even greater contributions in subsequent years to enhancing the mutual understanding and friendship between the peoples of China and the United States and promoting the economic and technological exchanges between the two countries.

李鹏

LI PENG
Premier, the State Council of
the People's Republic of China

Date: May 3, 1988

THE WHITE HOUSE
WASHINGTON

April 21, 1988

I am pleased to send warm greetings to members of the National Council for U.S.-China Trade as you celebrate your 15th anniversary.

I congratulate you on the Council's impressive accomplishments in developing American trade and investment in China. You have led the way to greater opportunities for American companies by providing timely and detailed information on markets, customs, and regulations. Your efforts have helped American companies compete effectively in the fast-growing Chinese economy.

The National Council will continue to play a key role in strengthening commercial ties with China. You have my best wishes for success in this important mission.

Ronald Reagan

中国国际贸易促进委员会
CHINA COUNCIL FOR THE PROMOTION OF INTERNATIONAL TRADE
Fu Xing Men Wai Street, Beijing, China
Cable: COMTRADE BEIJING Telex 2231 CCPIT CN

MESSAGE OF GREETING

To the National Council for US-China Trade:

On behalf of the China Council for the Promotion of International T ade and in my own name, I would like to extend my warm congratulations to the National C uncil for US-China Trade on the occasion of its fifteenth anniversary.

Since its founding in 1973, the National Council for US-China Tra has made positive efforts, played an active role as a bridge and made valuable contributions to omoting the trade, economic and technical exchanges between the United States and the People Republic of China. CCPIT highly values its long-standing, friendly and cooperative relation with the National Council for US-China Trade and wish this cooperation be further developed.

Looking ahead, we see the broad propects for Sino-US trade, eco omic and technical cooperations. CCPIT would like to continue its efforts, together with the lational Council for US-China Trade, to promote the further development of the trade and economic relations between the two countries.

Jia Shi 贾石

Chairman of CCPIT

April 18, 1988
Greeting

Anniversary Musings

From the exotic to the everyday, the course of US-China trade has shaped the work of the Council

Karen Green

An anniversary retrospective can be immensely reassuring. Stepping back from the myopic blur of monthly import totals and quarterly investment figures, worries about the latest bureaucratic reorganization or the implications of a new law, a larger picture comes into focus—how far US–China trade has come, and the National Council along with it.

In 1973, two-way trade was only $805 million. By 1987 it cleared $10 billion. Even more striking than the numbers are the progressive forms US–China business has taken, from the simple sales of the early years to complex and now common arrangements such as joint ventures and countertrade. New issues, such as liberalizing export controls and protecting intellectual property, have been added to the agenda of ongoing concerns like contract fulfillment and quality control. As the range of US–China business has broadened, the National Council also expanded its scope from sponsoring delegations and tracking industries to studying cross-sectoral issues and providing US executives a forum to speak out on the key issues of the US business community.

Getting to know New China

Links with China had so long been broken after the Communist revolution of 1949 and the ensuing Cold War that when the Shanghai Communique reforged relations in 1972, Americans regarded China as extremely mysterious—and moderately threatening. All contact merited the highest degree of official scrutiny.

Yet both sides were eager to promote trade. In a 1972 National Security Council memorandum, the Secretary of Commerce was instructed to establish a "prestigious private organization" to serve as a forum for discussing trade policy issues with the Chinese and as a contact point between the US business community and China. In a symbolic demonstration of Chinese support, Han Xu, then deputy chief of the Chinese Liaison Office and now Chinese ambassador to the United States, addressed the National Council's kickoff session in May 1973, marking the first time a PRC official appeared at a public, nongovernmental meeting in the United States.

In January 1974 the first (black and white) issue of *The China Business Review* introduced the Council to the still-small China business community, offering advice on trade contacts and emphasizing the Council's role as coordinator of delegations and exhibitions. At the time of that first issue, there had been no exhibits arranged by either side in the other's country. By contrast, in 1987 15 US exhibitions were held in China while

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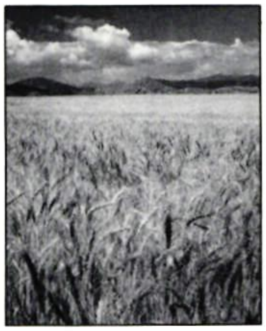
Karen Green, currently director of Business Advisory Services, joined the National Council in 1983. She has advised member companies in many sectors, ranging from minerals and shipping to textiles and tourism.

SIGNIFICANT EVENTS IN US–CHINA TRADE

June 1971
US ends 21-year embargo on trade with China

February 1972
President Nixon and Premier Zhou Enlai sign Shanghai Communique

September 1972
First US grain sale to China



October 1972
More than 40 US firms attend Canton Trade Fair for the first time

April 1973
Western Union announces agreement to set up direct satellite link between New York and Beijing

May 1973
Chinese Liaison Office opens in Washington, DC; US Liaison Office opens in Beijing

May 1973
Inaugural meeting of the National Council for US–China Trade

August 1973
M.W. Kellogg Co. signs licensing contract for 18 ammonia plants in China

November 1973
First National Council board trip to China

Chinese groups participated in 12 in the United States.

Delegation fever

The first step in setting up business ties with China was to establish contact between US and Chinese business entities. The Council found its counterpart in the China Council for Promotion of International Trade (CCPIT), sending a 10-member board of directors delegation to Beijing in November 1973 to meet with CCPIT representatives. It was the first broadly based delegation of American executives to visit China since 1949.

The Council also set about arranging contact between importers and exporters and their Chinese counterparts. Imports and exports were the main trading categories, with foreign investment and loans to China strictly taboo. Commented the Minister of Foreign Trade at the time, "We will never grovel for foreign loans, nor will we permit foreigners to exploit our natural resources."

For most American businesspeople, getting an invitation to the Guangzhou (Canton) Trade Fair was priority number one. Two of the Council's first actions were to help members obtain these sought-after invitations and set up a liaison office at the Fair offering advice, translation, secretarial services, and access to office equipment. And in December 1973 the Importers Steering Committee was formed to increase Chinese sales to the US by familiarizing China with US markets. In that year, imports from China totaled only $740 million, compared to $6.91 billion in 1987.

Exports took a little longer to develop, as the nationalist sentiment that persisted in China through the mid-1970s discouraged use of foreign products. The Council's Exporter Services Department formed 18 separate sector committees in March 1976, and the first export delegation traveled to China that November, presaging a dramatic increase in US exports that began in 1977 and continued upward through the end of the decade.

Soon the Chinese joined the delegation traffic, eager to scout out US markets. In February 1975 the Council hosted the first Chinese delegation, a group from the textile industry. According to former Council staff member Carolyn Brehm, "They were taken to department stores and even grocery stores to illustrate the ABCs of marketing, distribution, regular delivery, styles, and fashion."

Early delegations both to and from China were cause for a great deal of excitement, providing US companies scarce access to Chinese decision makers. American executives were eager to tour China to assess the market for foreign goods. Often representatives of competing firms traveled in the same group, working together to get a feel for conditions in their sector rather than competing for deals. By 1978 delegations were so numerous that the Council formed a Delegations Department to handle all the arrangements.

The Council opened its Beijing office in November 1979 to provide additional advice and support for traveling members. At a time when no US companies had offices in China, the Council's nonprofit, nongovernmental status gave it unparalleled access to Chinese officials and ministries for information and clarification.

By the end of the first decade, the trickle of visits had become a torrent, and their novelty and usefulness began to diminish. Companies found that the sheer number of delegations undermined the authority and purchasing power of individual groups. Instead of general contact, companies now required advice and assistance on structuring specific deals with Chinese enterprises. The Council disbanded its Delegations Department in 1981 in order to focus on these needs.

Getting down to business

Diplomatic recognition of China and the passage of the Joint Venture Law occurred only six months apart, in January and July 1979, opening a new era in US–China trade. With the stumbling block of recognition removed, the potential for China trade appeared limitless, and hundreds of previously uninterested companies dreamed of easy profits from this market of 1 billion. Within a few years many of those same companies pulled out of China after finding that great enthusiasm and little patience combined to generate more problems than profits. Council membership reflected this trend, ballooning to 652 companies at the end of 1979 but falling to 430 in 1982.

The Joint Venture Law opened up new types of business opportunities. Companies began to experiment with

February 1975
National Council hosts first Chinese delegation to the US

December 1978
Coca-Cola signs first distribution deal with CEROILS

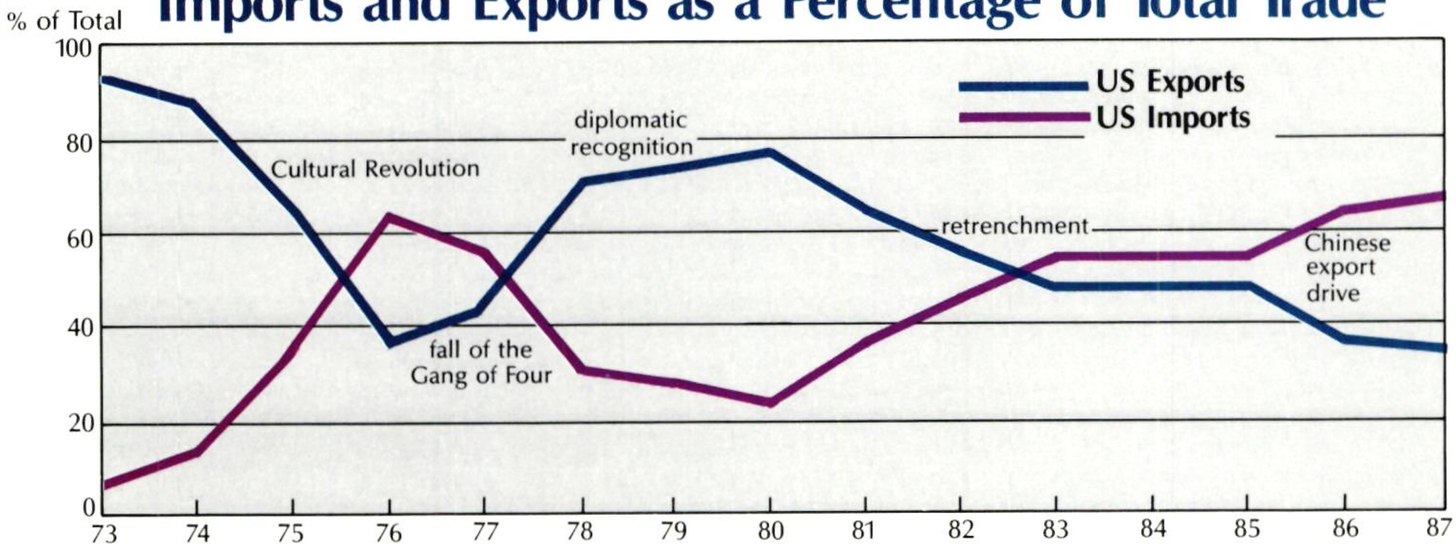
March 1979
Chinese petroleum delegation visits the US; ARCO signs first agreement for an offshore seismic survey

January 1979
National Council hosts Deng Xiaoping and President Carter at a Kennedy Center gala in honor of Deng's visit to the US

January 1979
US-China diplomatic relations established

January 1979
China's Joint Venture Law promulgated

US–CHINA TRADE:
Imports and Exports as a Percentage of Total Trade



SOURCE: US Department of Commerce

licensing, service agreements, engineering and design, and technology transfer. To keep pace the Council restructured the Importer and Exporter Services departments in 1982 into the expanded Business Advisory Services, equipped to advise and assist on any type of transaction with China.

While eager to take advantage of new business opportunities, US executives found their decisionmaking in the early 1980s hampered by the lack of hard knowledge about their sectors in China. The Chinese were—and remain to a degree—reluctant to make economic data public. Perfectly ordinary statistics concerning pricing and production were often deemed "classified," and available figures were sketchy and misleading. Monitoring sector developments involved scanning myriad publications in several languages and piecing together information from personal contacts. Most companies could not afford the cost of such an undertaking.

Council staffers became adept at this type of detective work, and their expertise in a wide range of industries including petrochemicals, nonferrous metals, and textiles represented a valuable resource for companies seeking markets and deals. The Council's Beijing office came into its own, drawing on high-level contacts for detailed statistics and clarification of the ever-evolving system of policies and regulations.

Increasing information and investment

Since the early 1980s, China has become a great deal more open. In 15 years the number of Chinese entities conducting foreign trade has jumped from eight to over 1,000, with a corresponding increase in the amount of information available. For example, in 1982 China began to publish annual economic and trade statistics.

Companies have taken advantage of this openness, beginning to closely follow developments in their own sectors. Many not only routinely send personnel to China but have perma-

October 1979
First US joint venture contract signed by ES Pacific Development Co. and CITS to build the Great Wall Hotel in Beijing

January 1980
US awards Most Favored Nation status to China subject to annual renewal.

January 1980
China allowed to buy US items with potential military applications

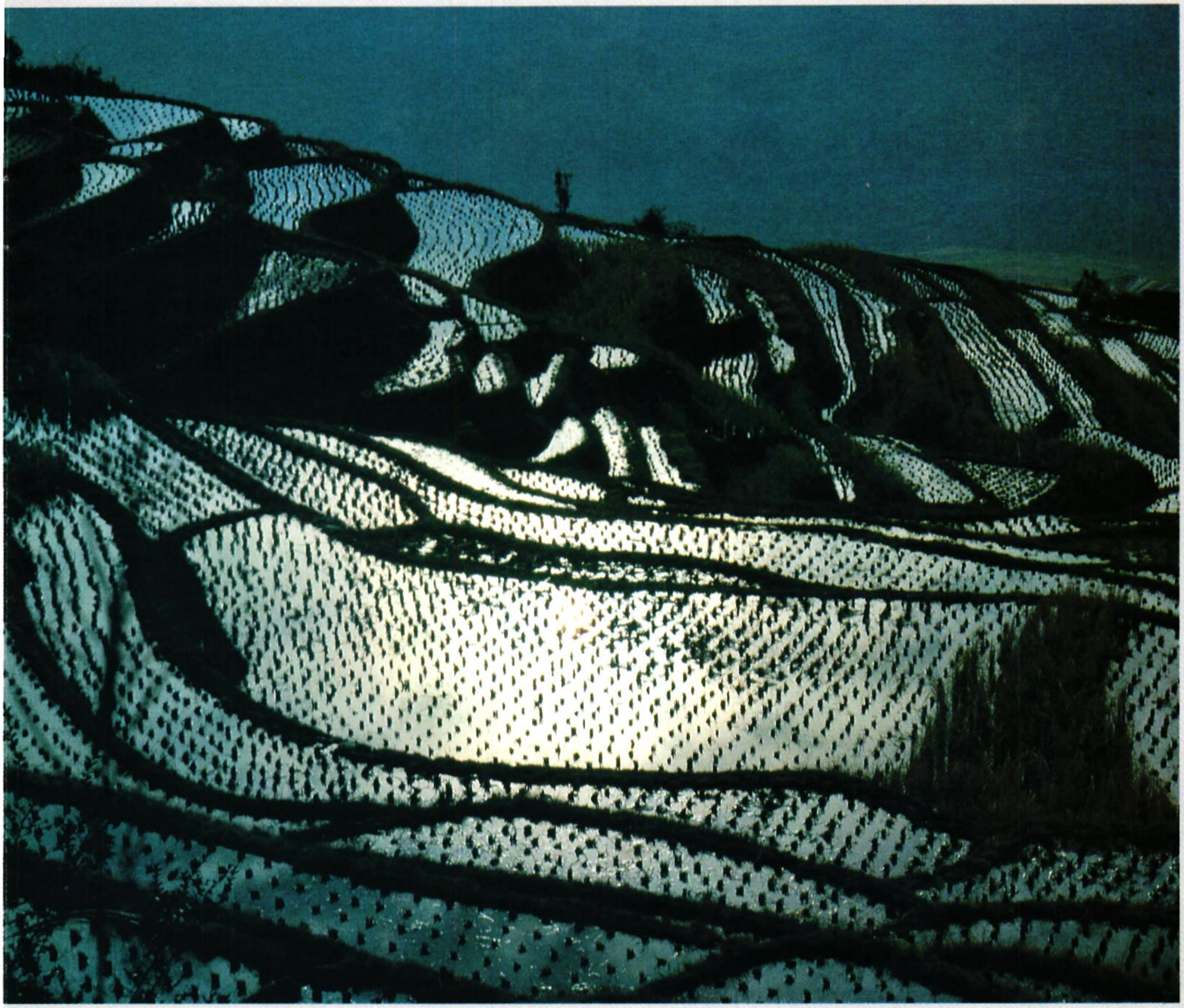
April 1980
China assumes seat in IMF and World Bank

April 1982
First US manufacturing joint venture contract approved between Foxboro Co. and Shanghai Instrument Industry Co.

May 1983
China deemed a "friendly, nonaligned nation" for US export controls purposes; "green zone" created for US exports to China

June 1983
Former President Nixon speaks at the 10th anniversary of the National Council

Well-cultivated in China



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nent offices there. US firms have opened over 200 offices in Beijing and more than 50 in Shanghai.

The growing presence of US companies in China has sparked a demand for in-depth research into Chinese markets. The Council began to offer market research services in 1985, and now draws on its staff in Washington and Beijing to gather and analyze information no other organization can match in quality or depth. Council market studies routinely involve meetings with senior Chinese ministers and extensive interviews with both producer and enduser factories, research institutes, and trading companies.

Changes in China's legislative framework as well as increased access to information have encouraged more companies to explore options beyond trade—particularly the possibility of investing in China. Members now need information and advice on everything from choosing a Chinese partner to negotiating a contract. The Council established its Investment Advisory Program in 1985 with partial funding initially provided by the Overseas Private Investment Corporation to advise companies on all aspects of their investment strategy.

Exploring cross-sectoral concerns

As members became more proficient at tracking their own sectors, the Council progressively turned toward thematic issues such as project financing, intellectual property protection, facilitating countertrade, and export licensing. Companies gather in specialized, cross-sectoral committees such as the Export Controls Working Group to discuss issues, formulate strategies, and in many cases, draft recommendations for both the US and Chinese governments on ways to improve the business climate.

As members became more proficient at tracking their own sectors, the Council progressively turned toward thematic issues such as project financing, intellectual property protection, facilitating countertrade, and export licensing.

As early as 1977, for example, the Council influenced the China National Chemicals Import–Export Corp. (SINOCHEM) to agree to test and label pharmaceuticals in accordance with US law. Similarly, the 1987 import substitution regulations were issued after a November 1986 Council delegation to Beijing held extensive meetings with China's top investment planners.

From the US policy perspective, the Council's recommendations helped bring about the 1983 breakthrough in the US export control liberalization process for China, and have since kept the process moving forward. The Council continues to act as an advocate for US industry in the ongoing liberalization process.

As part of the gradual shift from sectoral developments to broad issues, the Council now hosts only delegations led by a select few high-ranking policy makers such as He Chunlin, executive director of the State Council Leading Group on Foreign Investment, who met with some 120 Council member companies during a September 1987 visit. And Vice Premier Tian Jiyun, the chief architect of China's international economic policy, gave a major policy address under Council auspices in May this year. The Council also hosts missions with well-defined purchasing priorities of specific interest to member companies, such as last year's visit of Chinese air traffic control officials.

Toward business normalization

In the past 15 years, US–China trade has ceased to be a novelty. Investment, impossible only a few years ago, is now an option for companies—although still a difficult one. Despite the changes and the improved regulatory environment in both the United States and China, doing business with China is still far different from doing business with other foreign countries. The goal of business normalization is to eliminate the differences. But until that day arrives, the Council will keep working to give our companies the kind of in-depth information and practical help they need to take advantage of opportunities in China. 完

December 1983
China joins the Multilateral Fiber Agreement

January 1984
Premier Zhao Ziyang speaks at National Council luncheon in Washington

November 1984
3M sets up first US wholly foreign-owned enterprise in China

July 1985
PRC President Li Xiannian visits National Council

July 1985
Foreign Economic Contract Law promulgated

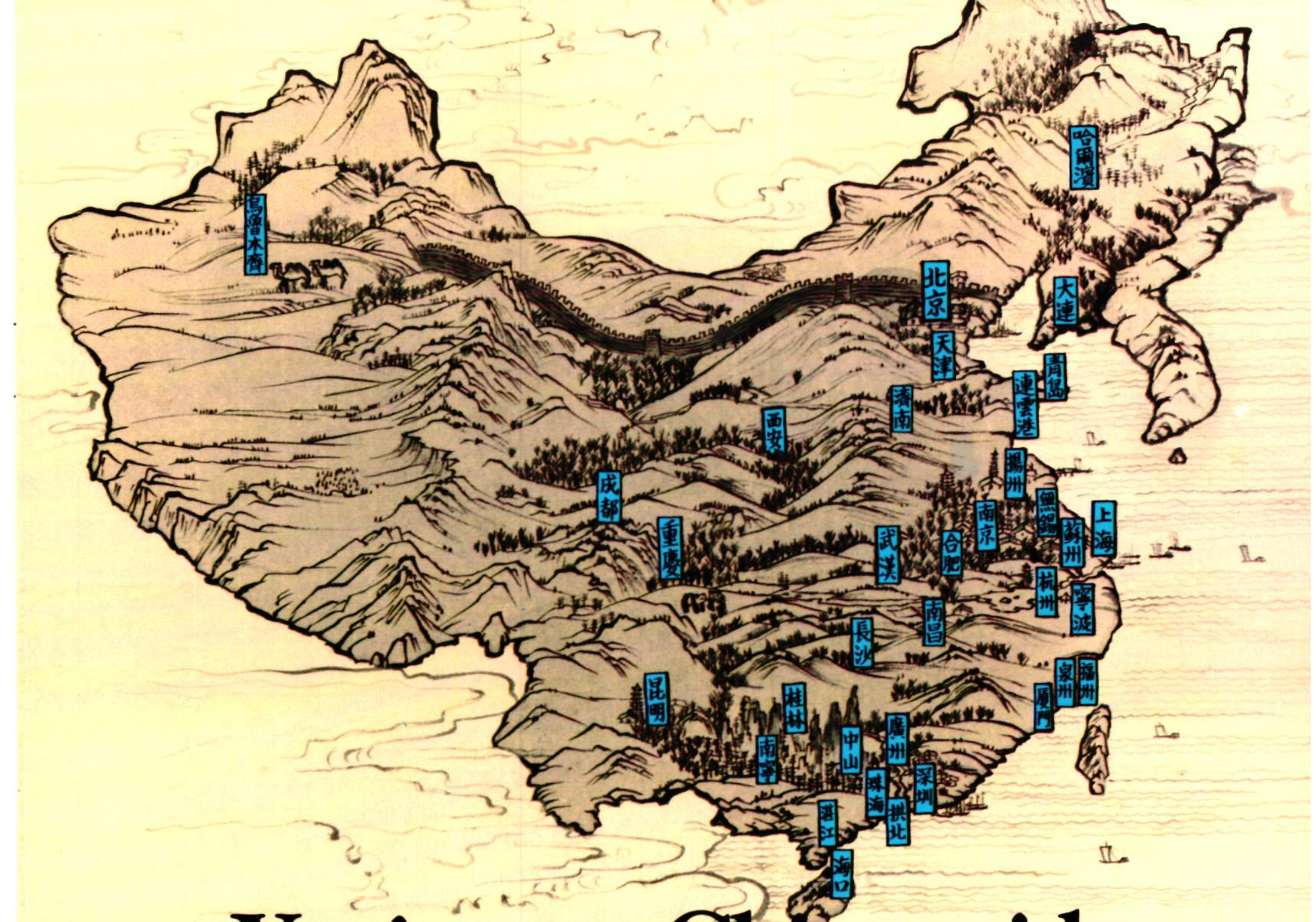
January 1986
US-China Bilateral Tax Treaty signed

February 1987
China applies to join the GATT

May 1987
President Yang Shangkun, then-vice chairman of China's Military Affairs Commission, visits the National Council

September 1987
He Chunlin, executive director of the State Council Leading Group on Foreign Investment, discusses investment problems with National Council member companies

March 1988
7th NPC announces new organizational reforms and promulgates Contractual Joint Venture Law



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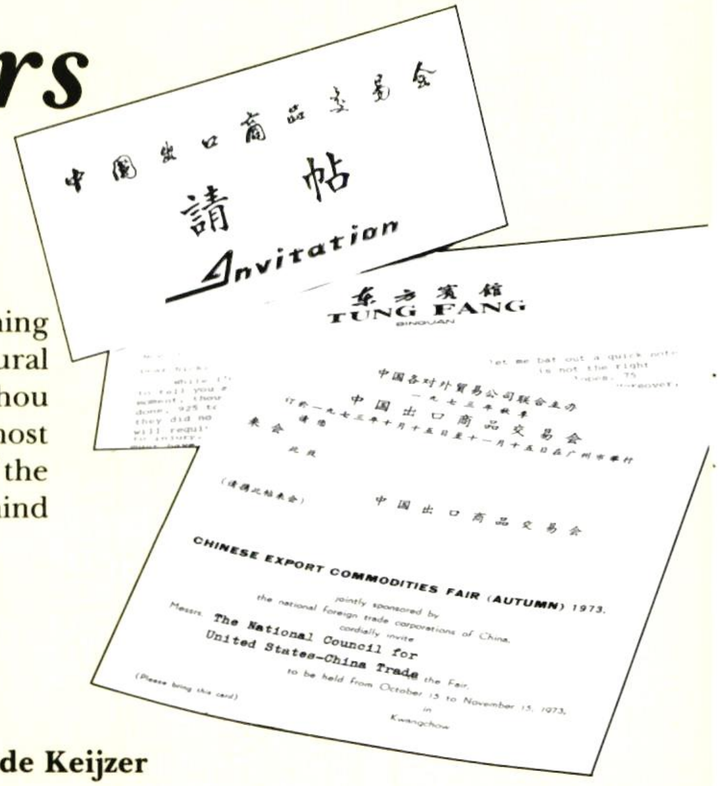
The Early Years



Those who became involved with China trade in the early 1970s belong to a special club, thrown together by the shared experiences of dealing with a country long closed to the outside world. The business climate they found is slowly vanishing . . . .Gone are the xenophobic remnants of the Cultural Revolution, the central importance of the Guangzhou (Canton) Trade Fair, the curtain obscuring all but the most basic information. In this collection, several pioneers of the modern China trade share their memories . . . and remind us of how far we have come.

Christopher Phillips

1970s: President, National Council for US–China Trade
1988: Member, Board of Directors, National Council for US–China Trade (Honorary); Associate Member, Consultants International

"The National Council's Board of Directors' trip to Beijing in 1973 was the first US trade delegation to visit the PRC. The high point of the trip was a meeting with then-Vice Premier Li Xiannian, who later became president. One of the board members posed a question about China's future as an oil producer. 'Well,' said Li, 'our preliberation rulers concluded there was little oil in China. But we don't agree. We told our engineers that they should drill as deeply as necessary to find oil, but they shouldn't drill so deeply as to come out in the US.' 'But' he quickly added, 'we will not need the help of foreigners.'"

Arne de Keijzer

1970s: Program Director, National Committee on US–China Relations; New York Representative, National Council for US–China Trade
1988: President, A.J. de Keijzer & Associates

"In 1973 the Dongfang Hotel used the same table cloths for two to three days straight. The tips (or change) left by traders would pile up on them because workers were unwilling to touch it. Finally, when the cloths were changed, the money would end up in the large glass-front amoire in the lobby that served as the public lost and found."

Judith Lubman

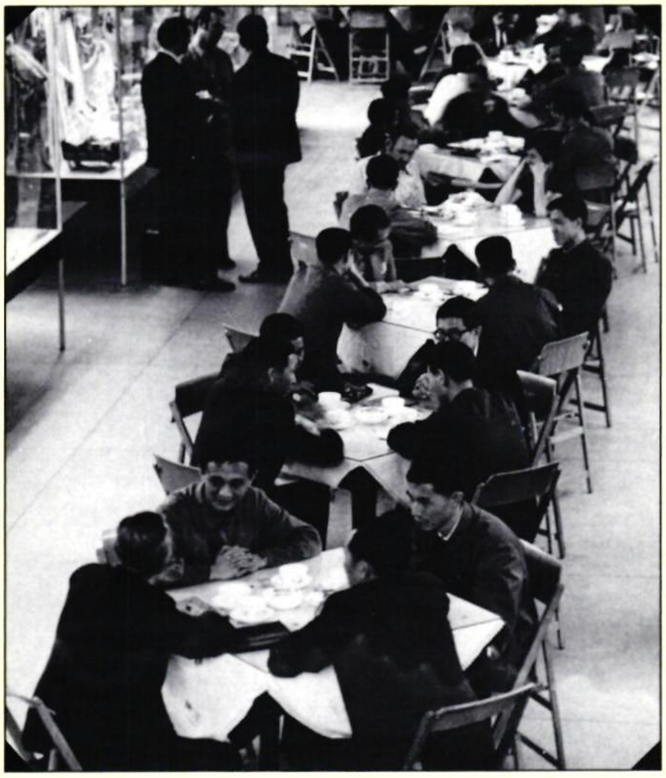
1970s: President, Lubman and Company
1988: President, Lubman and Company

"My most vivid memory was the day in 1976 when the Guangzhou Trade Fair was closed. China's foreign trade officials paraded through the streets carrying posters and signs proclaiming the fall of the Gang of Four. No trade had been done during the first week of the fair because the Chinese did not know what was happening politically. After the parade, trade began in earnest. At the time, we foreigners didn't appreciate this symbol of change."

Suzanne Reynolds

1970s: Associate Editor, *The China Business Review,* and Director, Import Services, National Council for US–China Trade
1988: President, S. R. Reynolds & Associates

"When The China Business Review *was first published, the Chinese—in their Cultural Revolution mentality—would carefully scrutinize the issue, criticizing us for everything we printed. We quickly learned to write "PRC" instead of "Mainland China" and not to call Taiwan "The Republic of China." And the Chinese faulted us for showing Hong Kong as a country, rather than a part of China."*



John Kamm

1970s: Hong Kong representative, National Council for US–China Trade
1988: General Manager, a Far East business based in Hong Kong

"My most vivid memories are those associated with putting together and running the Council's Canton Office during the biannual trade fairs. The office was a haven for American business, offering all manner of assistance and comfort, particularly the liquid kind. Every evening as the fair closed, representatives of the American contingent would arrive on our doorstep. We'd log them in, pour them drinks, and let them talk about what was going on across the street. The information obtained was put into untraceable and somewhat vague terms and fashioned into the trade fair reports subsequently published in the Council magazine."

Charles Rostov

1970s: President, Trans-ocean Import Company
1988: Chairman of the Executive Committee, Trans-ocean Import Company

"My most vivid recollection of my first trip to China in 1972 is the stark contrast between the warm social atmosphere and the cold business climate. The warmth of our reception by the Chinese and the ready hospitality they extended was unequalled anywhere in the world. However, getting down to business was an entirely different matter. As long as you wanted to buy products made in the Chinese way and shipped whenever they were ready, there was no problem. Since this did not suit the American market, it took a herculean effort, spread over several years, to convince them to change their products to our specifications and to ship them on time."

Compiled by Julia S. Sensenbrenner

The Council analyzes issues in US–China economic cooperation

CHINA, THE UNITED STATES, AND THE WORLD

A guide for policymakers in the US and China

Beyond Normalization

Roger W. Sullivan

The US–China relationship has run out of road map. For 15 years, beginning with President Nixon's trip to China, the United States has followed a policy of "normalization." In the 1970s that meant ending mutual hostility and establishing diplomatic relations. Since 1979 the goal has been the normalization of military and economic relations. Through this process, both sides have sought to remove legal, regulatory, and policy obstacles to all aspects of a normal, friendly relationship.

The process of "normalization" is for all practical purposes now complete. This does not mean the United States and China have resolved all their differences, but rather that the remaining problems have their root in something other than 20 years of mutual hostility. Solutions, therefore, will not come by continuing to follow a policy that has already achieved its clearly stated goals. And so the relationship is floating without direction because neither side seems able to define what it wants from the other or even to see the possibilities beyond "normalization."

Bringing commercial relations into perspective

The transition to a new policy is doubly difficult because the area of greatest potential for mutually beneficial interchange rests in the sphere of commercial relations—and international commerce is not the strong suit of either government. Rhetoric to the contrary, both countries approach the rest of the world with outdated perpectives and attitudes.

The United States government too often sees trade as an instrument of foreign policy, in stark contrast to its competitors, who use foreign policy to advance their commercial interests. Behind this tendency on the part of American government officials lies the tacit assumption that the United States is still, as it was from 1945 to about 1970, the dominant economic power in the world. The American export licensing policy is based on a related fallacy: that our presumed economic dominance means we can control, either unilaterally or by pressure on allied nations, all significant international technology transfers.

At the same time, the Chinese still retain elements of the "middle kingdom" view of the world and China's place in it. This attitude fosters the illusion that independence and cultural integrity can best be preserved through self-reliance. Both countries need to overcome these anachronistic world views if the full potential of US–China economic relations is to be achieved.

The problems both countries have in adjusting to the realities of the modern competitive world are not, of course, simply bilateral, but affect each of them worldwide. The damage to the US–China bilateral relationship is likely to be particularly severe, however, because the potential benefits are so great. Given the right conditions, Sino–American trade and investment should grow rapidly. All the truisms are true: our economies are complementary; American industrial strengths match China's priorities; China will in all likelihood be the fastest-growing economy in the world over the next quarter century. The only cloud of doubt is whether the two countries can overcome the inertia of outdated thinking. The increased attention being paid in both Beijing and Washington to "competitiveness" suggests some awareness of the problem, but the terms in which the discussion is framed in both countries reveal a muddled view of what competitiveness requires.

Defining US competitiveness

In the United States the "competitiveness" being talked about in the Congress and the administration is the competitiveness of "American" firms. There are two problems with this view. First, what do you define as an American firm—one that is predominantly owned by Americans, or one that manufactures in the United States, hires American workers, and pays American taxes?

Even more fundamental are the problems that got Americans talking

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Roger W. Sullivan is president of The National Council for US-China Trade.

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about competitiveness in the first place—the trade deficit and the alleged loss of higher paid manufacturing jobs. These problems could be exacerbated as companies seek to make themselves more competitive by sourcing abroad or shifting manufacturing abroad to take advantage of export financing facilities and a more flexible export control system than found in the United States. Clearly, urging American companies to become more competitive will not solve the United States' problem of lacking competitiveness as a nation.

This simple but fundamental point is not generally understood in Washington. The type of "competitiveness" that will reduce the trade deficit, increase the number of manufacturing jobs for American workers, and raise the US tax base is increased competitiveness of the business environment in the United States. Just as companies have for years moved within the United States, so transnational companies today can—and do—move internationally in response to economic incentives and disincentives. If the United States remains noncompetitive in export control procedures and export financing, transnational companies will simply solve their competitiveness problems by operating out of some other country. The problem, then, is not for companies but for the country. The issue is not whether companies will profit but whether the workers they pay are American and whether the taxes they pay are to the United States or to another government.

Toward a more strategic US economic policy

If the US government were to adopt policies that truly promote competitiveness, the implications would be far-reaching. Government officials might finally begin to act on the principle that commercial interests should not always be subordinate to all others. Economic benefit would be understood as an integral part of the national interest rather than as separate from it.

What a different export control system we would have if the view that trade is a residual, to be tolerated only as long as exporters can demonstrate there is no risk to the national security, were replaced with a policy that shifted the burden of proof. The new policy would be based on the principle that the government should interfere with trade only when there is a clear and demonstrable threat to national security serious enough to override the commercial and competitive loss. To ensure that both national security interests, narrowly defined, and national commercial interests are considered, the process should mandate an impact analysis study before a final decision to prohibit sales abroad could be made. Under current procedures, the State Department uses trade restrictions to advance diplomatic interests or to express its frustration with the behavior of other nations. And the Defense Department can restrict trade whenever it decides the risk to national defense interests is too great. No one speaks effectively for the nation's commercial interests.

The process of normalization is for all practical purposes now complete. This does not mean that the United States and China have resolved all their differences, but rather that the remaining problems have their root in something other than 20 years of mutual hostility.

The US government also needs a more realistic attitude toward a foreign assistance program and improved project financing. US government officials still view foreign assistance primarily as an instrument of foreign policy, based on thinking developed during the postwar years of American economic dominance. Some officials in the Agency for International Development (AID) also see the purpose of aid as development for its own sake and as a way of promoting international peace and stability. Both goals are valid as far as they go, but the goal of advancing the commercial interests of the United States should also be taken into consideration. This view, however, is regarded as philistine even by an administration that considers itself pro-business. Even in this administration, "advancing commercial interests" is misperceived as promoting private benefit when in fact it is essential to competitiveness and thus to the national interest of the United States.

Modifying current policies would help US companies regain competitiveness in China. Concessional financing from Japan, West Germany, and many other European nations currently undermines US sales of engineering and equipment for major projects (*see* p. 28). And the US government's rigid interpretation of US export control regulations severely hinders US companies' efforts to sell advanced technology—from computers to telecommunications equipment—to China.

Export-led growth no longer China's answer

China, of course, also needs a clearer understanding of what "competitiveness" requires. Chinese officials often wonder why some of their foreign economic policies do not attract more companies to China, and they have received a lot of advice on this score over the past several years. Every World Bank, government, or private sector expert who goes to China reminds officials that China must overcome its middle kingdom perspective and realize that it is competing with other countries for scarce resources—investment dollars surely, but also executive time.

This advice is useful in helping China recognize that self-reliance is a dead end. But to truly prosper China must make a more fundamental adjustment and abandon the dream of building economic growth on the availability of low-cost labor.

Economists and officials in China who advocate the Newly Industrialized Countries (NIC) model of export-driven growth dependent on cheap labor and protection of the domestic market are harboring an illusion. The NIC strategy will not work for China because it is out of date. As management expert Peter Drucker pointed out in a recent article, labor costs as a percentage of total costs are falling, making wage levels increasingly irrelevant in world competition. The route followed by Taiwan, South Korea, Singapore, and

even postwar Japan will not remain open much longer. Countries like China, he believes, will have to find new development strategies based on the domestic market. In other words, China must become an efficient economy, not just a center for cheap labor.

This means moving more rapidly to implement an open, market-driven economy. In the early stages of economic development, China will of course need to provide some temporary protection for infant industries, but the country must move through this phase as quickly as possible, resisting the temptation to protect inefficient industries. Exposing domestic industries to foreign competition will be essential if China is to develop the ability to produce internationally competitive products. Opening the economy would also enable China to more easily identify where its comparative advantages lie, preventing precious resources from being wasted on inefficient industries.

There are, of course, difficulties and risks for China in following a development strategy based on building an efficient, open economy. Chief among them, perhaps, are inflation and balance of payments difficulties. But these risks can be managed. Most important is that Chinese leaders recognize that they may have no alternative, since the window of opportunity is closing rapidly on the NIC model of export-generated growth based on "cheap" labor.

Facing up to international realities

There is one obvious conclusion from all this. Neither China nor the United States can afford to ignore changing international realities. But old ways of looking at the world die hard. Certainly no one in authority in the United States would assert today that our country dominates the international economy or can realistically control international technology flows. Yet as a government, we still act as though the United States exercises such dominance.

Chinese leaders, for their part, appear to understand that the Chinese economy needs to be opened, but the siren call of self-reliance remains strong. The National People's Congress in March, for example, called for self-sufficiency in grain production, a goal inconsistent with a policy of striving to make the economy more efficient. The strength of outdated ways of thinking is evident in both countries, so one cannot be overly optimistic about the prospects for a rapid adjustment to new realities.

If, however, the two sides are able to adapt to the requirements of competitiveness, the future for the bilateral relationship is bright. The easy route followed by the NICs may be closing for China, but an efficient Chinese economy could continue to grow rapidly through a combination of market-driven domestic growth and exports of products in which China has a comparative advantage. And if the US can maintain a business climate attractive for companies doing business with China, we can participate in and benefit from a rapidly expanding Chinese economy. The two countries could forge a new bilateral relationship built on the foundation of mutually beneficial commercial relations. 完

Trade statistics show American firms holding their own in most sectors

US Market Share In A Growing China Trade

David L. Denny

The course of 15 years of US–China trade has been a series of upswings and downturns rather than a constant, smooth ascent. For perspective on the dramatic—and sometimes disturbing—yearly fluctuations, it's important to note that the US share of the China market has in fact remained quite stable over the years, being affected more by the status of China's foreign exchange reserves than by trade difficulties or policy differences between the two countries. Looking ahead, the good news for all foreign sellers is that China's rapidly expanding export earnings have dramatically reduced the foreign exchange deficits accumulated in 1984–85 and allowed China to begin to pay off its debt. China will need more materials and technology to fulfill the production and modernization goals in the last two years of the Seventh Five-Year Plan period.

US chemicals and machinery maintain market share

America's share of China's total imports has fallen sharply in the past 10 years—largely due to reductions in agricultural sales as China's agricultural reforms took hold. But despite this overall decline, the US share of most Chinese import categories has remained surprisingly stable. Chemical exports, for example, accounted for 20 percent of the China market in 1987, only a fraction less than the 1983 share. Machinery exports went from 14.5 percent of the market in 1983 to 12 percent in 1987.

Trends in market share for specific categories of machinery support this picture of stability. In 1983 the United States sold nearly 40 percent of the computer and office equipment China bought from abroad. This share fell somewhat in 1985 but increased to around 50 percent in 1986 and 1987 as Japan's market share dropped sharply. The US market share for scientific equipment (around 35 percent) and telecommunications equipment (approximately 5 percent) varied only slightly throughout this four-year period.

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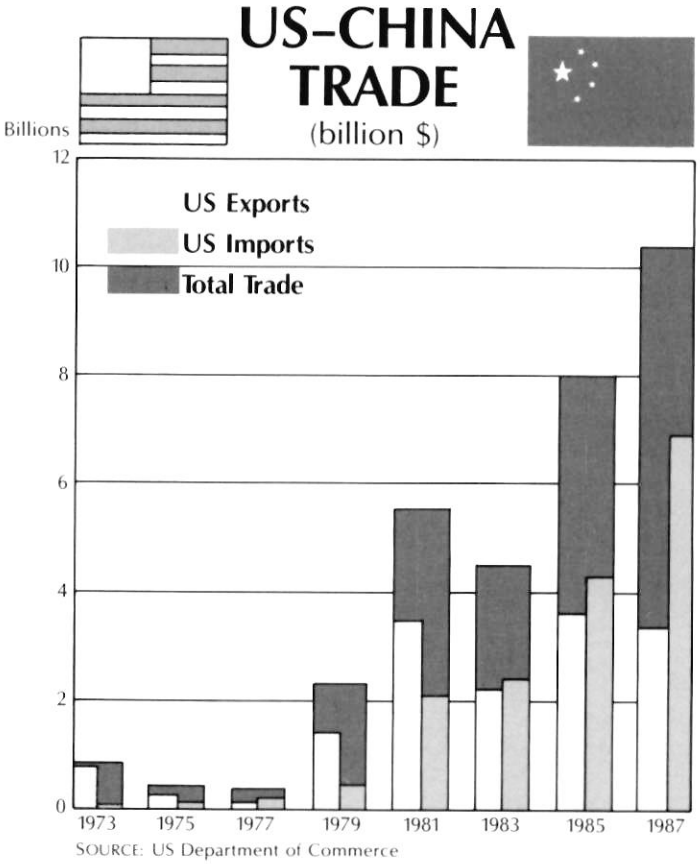

And despite fluctuations up and down, both power-generating equipment and transport machinery captured close to the same share they had in 1983, about 22 percent and 18 percent, respectively. These statistics attest to China's continuing high regard for US technology and equipment as well as the Chinese goal of not relying on just one or two nations for its supplies.

Hong Kong and West Germany coming on strong

The top four countries exporting to China—Japan, Hong Kong, the United States, and West Germany—have had varied fortunes over the past four years. Hong Kong moved into second place by increasing its share of exports from 11.2 percent in 1985 to 19.7 percent in 1987, while West Germany rose from almost 5.8 percent to 7.5 percent. The United States saw its share drop from 11.9 percent to 9.8 percent, while leading exporter Japan suffered a major blow, falling from 35.8 percent to 23.6 percent.

Hong Kong's rapidly growing trade with China reflects its proxy status for China's expanding unofficial trade with South Korea and Taiwan, estimated at a total of $1.2 billion and $2.3 billion, respectively, for 1987. Hong Kong also continues to play its more traditional role as the prime entrepot for US and Japanese trade with China. In 1987 the United States sent a total of $500 million worth of goods, mostly office machinery, inorganic chemicals, tobacco, and specialized machinery, through Hong Kong to China markets. And Japan exported $166 million through Hong Kong, primarily telecommunications equipment, electronic machinery apparatus and appliances, and photographic equipment and supplies. Hong Kong's additional commercial ties such as investment generate a whole range of cross-border commercial activity and further inflate Hong Kong's export figures.

After dipping slightly in 1984, West Germany's exports more than doubled in 1985 and increased 29 percent and 22 percent in the following two years. Like other countries in the EEC, West Germany has aggressively used government aid and subsidies for its China exports and has pursued an active technology transfer policy, earning itself goodwill by helping China along the road to self-sufficiency.

Trade with Japan declines

Japan's share of the China market has fallen substantially, triggered by China's reluctance to become dependent on any single foreign trading partner. And in the past two years, Japan's sharply appreciating currency has made it much less competitive vis-a-vis the United States in particular.

Other more sensitive issues complicate the picture and have helped improve the position of US and Western European exporters. Japan's $5.99 and $4.18 billion bilateral trade surplus with China in 1985 and 1986 convinced the Chinese that Japan was not doing enough to open its markets to Chinese imports. Also, the Chinese are dissatisfied with Japan's levels of direct investment and technology transfer, which lag greatly behind Hong Kong, the United States, and West Germany. Finally, when Japan stiffened its export control policies in the wake of Toshiba Corporation's controversial sale of submarine milling equipment to the Soviet Union, many sales to China were delayed. The Chinese responded by cancelling some large import orders from Japan.

Self-sufficiency makes for a shifting market

While China no longer considers self-reliance a viable short-term policy, it remains a long-term national goal. China's planners continue to focus on ways to substitute more domestic products for imports over time. With foreign exchange in chronic short supply, industrial enterprises have strong motivation to learn to manufacture products domestically rather than import them.

As China gradually acquires the means to manufacture more basic products itself, the country's import needs will focus on more advanced products and technology. Although China is not an expanding market for all products, US companies will continue to be major suppliers if they remain on the cutting edge of technology—and if the United States maintains a competitive exchange rate.

For the next few years, the outlook for US firms in most sectors is positive. China's improved balance of payments situation, purchasing needs for the last two years of the five-year plan, and progressive reforms all point to growing imports. The United States stands to benefit and could moderately increase its market share across a broad range of commodities and sectors. 完

Banks and companies around the world are vying for a piece of the action

The Foreign Role In Major Projects

David Richter

Most US companies involved in China have heard of the mammoth Three Gorges Dam or the Pingshuo open-pit coal mine. But China is working on many other projects just as important to the country's overall industrial development. At any one time, about 1,000 medium and large construction projects are in progress in China. About 100 of these are considered "key projects," whose construction costs are in the hundreds of millions of dollars. Since some type of foreign participation in construction, design, technology, or equipment is usually involved, annual foreign exchange expenditures for these large projects reach about \$5–\$6 billion each year. Most of this money must be borrowed from abroad.

To acquire the foreign exchange needed to meet economic development goals, China's outstanding debt ballooned from \$14 to \$33.6 billion between 1984 and 1987, according to International Monetary Fund (IMF) figures. China has been very successful at tapping a variety of international sources for assistance with its major projects. Both China and foreign suppliers have benefited from the arrangements.

Commercial borrowing for a few

Commercial borrowing, including bond issues and commercial loans, now accounts for more than half of China's debt. Commercial loans are acceptable for industrial projects that have foreign exchange-earning potential or those that promote import substitution. Soft loans, on the other hand, will continue to be used for infrastructure projects such as highways, railroads, and ports for which it is difficult to earn foreign exchange to pay back loans.

Although China has borrowed commercially for several years, 1987 was a turning point. China decided to utilize commercial funds for a number of large projects, thereby opening the door for more liberal borrowing policies in the future.

US banks are emerging as key players in commercial loan projects. One of the largest commercial loans extended to China is the \$210 million syndication for the Panzhihua Steel Mill involving the First National Bank of Chicago and 23 other banks. The nine-year loan carries an interest rate of Libor plus three-eighths of a percent. Financing for a new ethylene plant in Shanghai with 300,000 tonne annual capacity comes from three 10-year loans—a \$150 million loan from a consortium of four banks led by Citibank, a \$70 million loan from the International Bank of Japan and 17 other banks, and a \$26 million export credit from the Italian government via Citibank.

Since 1982, when the China International Trust and Investment Corp. (CITIC) made the PRC's first bond issue in Tokyo, China has also borrowed almost \$4 billion in international bond markets. Here again 1987 proved a banner year in which disputes over defaulted bonds in both the United States and Great Britain were resolved, allowing China to make its first bond issues on the important New York and London markets. Gaining access to dollar issues in these two markets is a major achievement as China tries to diversify debt denomination.

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Multilateral lending sources

China has been particularly successful in attracting soft loans from multilateral organizations to finance major projects. These loans carry strict guidelines and require competitive bidding procedures.

The **World Bank** has provided the most support for Chinese projects—a total of 52 loan agreements worth \$5.6 billion from 1981 through 1987. This money usually goes to large infrastructure or industry projects with a significant foreign technology component and a high foreign exchange bill. Several projects already slated for 1988 are in the port, highway, railroad, and aluminum sectors.

In 1987 the World Bank agreed to a Chinese request to expand its China program to \$3 billion a year by 1990, but this will probably take until 1992. In building up to this level, the Bank predicts 1988 loan commitments of \$1.65 billion.

The World Bank awards projects to the lowest bidder that meets bid specifications, regardless of differences in technology. The lower value of the dollar helped several US companies such as Combustion Engineering win major World Bank tenders in China in 1987.

After joining the **Asian Development Bank** (ADB) in March 1986, China's first two loans were approved in 1987 for a total of \$133 million. These 24-year loans carry a variable interest rate, currently about 7 percent. Four projects are tentatively in the pipeline for 1988–89 with loans totaling \$251 million. ADB project criteria and bidding procedures are similar to those of the World Bank, although there are some differences. The ADB decided to fund the Laiwu Steel Plant in Shandong Province, for instance, although the World Bank rejected a similar project at the Meishan Steel Plant in Jiangsu Province due to political pressures from the US steel lobby.

The **United Nations Development Program** (UNDP), the largest technical assistance program in China, provides grants to a variety of industries from agriculture and building materials to power generation and telecommunications. From 1986–90, the UNDP plans to spend \$138 million on projects focusing on human resources, technology transfer to existing enterprises, develop-

ment technology, improvement of living standards, and development of electronic data processing. Because many of the UNDP's technical assistance grants in China are closely tied to major projects, they provide a means for companies to get a foot in the door for follow-on engineering work or equipment supply.

Controversy over concessionary financing

China also gets money at low interest from government-to-government agreements with about 20 different countries, including Japan, West Germany, France, Italy, Sweden, and Great Britain. Usually this type of funding is project-specific and contingent upon China's selection of an equipment or technology supplier from the sponsoring country. France, for example, signed a protocol in 1987 pledging 2.5 billion French francs for projects such as the Luohuang Thermal Power Plant in Sichuan, chemical projects in Liaoning and Hebei provinces, and equipment for a plastic wrapping paper factory. Italy has pledged $576 million for 1987–89, including a $95 million grant with the remainder at 1.5–2.25 percent. This loan carries a 13–20 year repayment period and a two-year grace period. Previous Italian mixed credit loans have been used to support Fiat's light truck production in Nanjing and Olivetti's work at the Yunnan Electrical Equipment Factory.

Governments usually offer a concessional loan when a specific company or industry has a special interest in a project. If China's Ministry of Foreign Economic Relations and Trade (MOFERT) accepts a foreign country's offer of support, the project is usually not put up to bid, effectively knocking other foreign competition out of some major projects. To prevent this type of practice from becoming too widespread, the United States has led efforts through the Organization for Economic Cooperation and Development (OECD) to redefine and limit mixed credit packages. Some 22 national agencies have reached a "gentlemen's agreement" on guidelines for official development assistance, making it more costly to "buy" a large project by offering a major aid package blended with export credits. Beginning in July 1987, the group agreed to uphold a minimum grant element of 30 percent of the total contract value. And in July this year the minimum rises to 35 percent. While this arrangement substantially increases the price countries must pay to win major contracts, its success depends on the voluntary cooperation of all involved. At this point it appears that many foreign countries continue to provide soft loans, viewing them as a necessary cost of maintaining a strong market share.

Japan's program: the largest and most flexible

With $4.2 billion pledged to China from 1984–90, Japan is China's largest donor country. The funds are used mainly for port expansion, railway construction, hydropower projects, and a telecommunications project linking Beijing, Shanghai, and Guangzhou. Other projects include an ethylene project in Daqing Oilfield and the Baoshan Iron and Steel Complex near Shanghai.

Projects for 1987 carry a 20-year repayment period with a 10-year grace period and an annual interest rate of 3 percent. China has requested that Japan triple the next yen credit package covering 1991–96 to $12.6 billion to finance 28 power plants, a railway, and an airport project. China also wants the loans to begin in 1989, two years ahead of schedule. The package is currently under negotiation and is expected to win Japanese approval.

Although China would prefer not to take on additional yen-denominated debt, Japan's **Overseas Economic Cooperation Fund** (OECF), the country's main agency for concessional financing, is an important source of funds for projects many other lenders will not support. The OECF generally lends to major infrastructure projects with no potential to generate exports that can compete with Japan's own overseas sales.

While most concessional financing programs are generally closed to other foreign companies, the OECF offers three types of awards. Work associated with "tied" loans must be awarded to Japanese companies, while "LDC-untied" and "generally untied" loans are open to a broader field. To date, most OECF loans have been fully tied. Untied project loans are generally limited to equipment that Japanese companies do not produce.

The OECF is likely to continue to tie all engineering and consulting contracts, even for generally untied projects. This gives Japanese companies the inside track since their engineering firms are often closely linked to equipment companies. When the Japanese engineering firm draws up equipment specifications, it usually writes them to favor Japanese equipment suppliers. Other foreign suppliers are not completely closed out, however. OECF guidelines are looser than those of the World Bank and stipulate that contracts should be awarded to the lowest bidder that meets the specifications *and* is most appropriate for the project. End-users therefore have more leeway in choosing a supplier since they can consider technology level and durability in their decision.

US support expands slowly

The United States has not made the same commitment to government-financed soft lending programs as other foreign countries. The **United States Export-Import Bank** (EXIM) has provided only six loans worth $280 million to US companies for China projects since September 1981. But recently the EXIM bank has more aggressively sought to improve US competitiveness on major projects. As of April 1988 the bank had 10 loan offers outstanding totaling $350 million to companies for China projects, and three other loans were under consideration.

Lending policies are also becoming more flexible. On the Shidongkou Power Plant in Shanghai, EXIM extended full loan coverage for a US bid that included up to 15 percent foreign content. Previously loans were given only if each piece of equipment met the 15 percent maximum foreign content rule, rather than the package as a whole. EXIM officials say that this precedent may be applied to other projects in China, giving companies with large contracts the option to include a few pieces of foreign-made equipment or systems within the overall package.

EXIM also offered loan coverage for local content for the first time at Shidongkou. Evidently these new initiatives helped US firms: Combustion Engineering won the boiler portion of Shidongkou and the "balance of plant" contract went to Sargent & Lundy. EXIM's interest rate for China is currently 8 percent

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and loans are generally for seven to 10 years. On the Shidongkou project EXIM's rate (at that time 7.4 percent could compete with the lower interest rates on Japanese and European currency denominated loans due to the current low value of the dollar.

The official EXIM policy is to offer soft loans only to counter concessionary offers made by competing exporters in other nations. Sometimes this isn't enough. In December EXIM reportedly made a $38 million soft loan offer to the Huaneng International Power Development Corporation to counter a French loan offer. The EXIM loan was to support Foster Wheeler's bid to supply the boiler island of the Luohuang Power Plant in Sichuan. The contract was nevertheless won by the French, who threatened to withdraw their concessional support of the remaining portions of the project (for which their were no American companies competing) if the boiler contract went to a US company.

Since 1984 the **United States Trade and Development Program** (TDP) has given a total of almost $16 million to about 46 projects in China. The main emphasis of TDP's program is providing grants for feasibility studies conducted by US companies. During 1988 TDP's approximately $6.25 million China budget is expected to go to projects such as natural gas, offshore oil, a syringe plant, and technical training. In the past year TDP has also started to provide funds to support the training component of the US companies' bids—including two for the aforementioned Shidongkou project that helped swing the contract in the two US companies' favor.

Increasing interdependence

In the past year the linkages between agencies funding China projects has increased. The Huaneng Fuel Conversion Project is one example: TDP provided $600,000 for the initial feasibility study, and on the basis of this study the ADB awarded a $33.3 million loan and the UNDP provided a $350,000 technical assistance grant. The importance of the relatively small UNDP and TDP programs in China is growing as they are increasingly linked to early stages of World Bank and ADB projects. The smaller programs also provide an excellent avenue for companies that want to get a leg up on the competition by participating in a project at the early stages.

Without this type of foreign participation, many of China's priority projects would be stalled. As recently as the late 1970s China remained strongly opposed to foreign borrowing or participation in its major projects. But in the past few years China has accepted the need for outside funds and technical assistance to supplement its own limited resources. The benefits are becoming clear to all involved. 完

International economic organizations are bringing change to China

Joining The World Economy

Karen Green and Sharon E. Ruwart

China abandoned its isolationist, strictly self-sufficient policies only in the past decade. Yet in this short time, the country has made great economic changes—in part due to conditions it had to meet to join international organizations like the World Bank and the International Monetary Fund (IMF). China's current bid to join the General Agreement on Tariffs and Trade (the GATT), may change China the most.

China gains many benefits from membership in these "three pillars" of the international financial community. First and foremost is access to funds, either through loans from the World Bank and IMF or increased foreign exchange earnings from the expanded trade and lower tariffs that accompany GATT membership. Politics are also a consideration, with membership solidifying China's position as an actor in the modern world and cementing its claim as the legitimate government of all China, including Taiwan.

At the same time, the obligations of membership are forcing China to conform more closely to international norms in its foreign trade and economic policies. One major ramification is that China now can—and in some cases must—release accurate statistics on production and trade.

Joining these international economic organizations and complying with their rules is compelling China to turn more and more toward Western economic models as it undertakes reforms. And wider exposure to other countries is altering China's perception of its own economy and the world as a whole. As China becomes more enmeshed in the activities of these international organizations, the possibility of reversing reform declines.

IMF unlocks the door

The IMF is regarded as the first step for a country moving toward integration into the world economy because members must pledge compliance to widely accepted codes of financial behavior. IMF membership is also a prerequisite to joining the World Bank.

A founding member of the IMF and the World Bank in 1944, China stopped participating after 1949, and rejoined both in 1980. Since then, China has drawn on the Fund's resources three times, twice in 1981 and again in 1986, to ease temporary balance-of-payments crises.

The IMF holds annual consultations with China to discuss financial policies and make recommendations. It also provides technical assistance in compiling balance-of-payment statistics, managing external debt, and formulating policy and monetary instruments. By providing funding, training, advice, and supervision, the IMF has helped build a foundation for China's attempts to reform and modernize its financial system according to accepted international practices.

World Bank provides capital

Since rejoining the World Bank, China has received loans totaling $5.6 billion for 52 projects. Almost half of the money has gone to support China's transportation and energy sectors, including major port renovations and large power plant construction projects. Through these loans, the Bank has also promoted better project management techniques—such as using feasibility studies as the basis for project formulation and opening projects to competitive bidding.

The Bank seeks not only to fund specific projects, but to encourage the Chinese to improve and modernize their economic practices. For example, China has traditionally measured the health of its economy according to the gross value of agricultural and industrial output (GVAIO). The World Bank has encouraged China to look instead at per capita consumption and to move away from strictly quantitative goals that do not take into account the value of production by China's thriving service sector.

A new type of loan may prove to be an even more effective policy tool. In March the Bank announced its first "structural adjustment" loan to China. The $300 million will be used to promote market-oriented policies in the agricultural sector, such as experiments allowing supply and demand to determine grain prices in selected areas. A second large adjustment loan is reportedly under consideration to help China's forestry sector. The Bank plans to provide more of these policy loans to China in the future, which should give the Bank greater influence over the direction of reforms.

GATT is both carrot and stick

Pursuing GATT membership appears a logical next step that China is anxious to take as it enters the world economic community. Membership would bring potentially significant trade benefits such as permanent most-favored nation status and access to the US General System of Preferences (GSP) that lowers tariff barriers for developing countries. In addition, since 85 percent of China's trade is with GATT members, China is already to some degree affected by GATT policies. Membership would allow China to participate in negotiating broad trade issues more efficiently than conducting bilateral talks with each country.

China has been a GATT observer since 1982, joined the GATT Multilateral Fiber Arrangement (MFA) in December 1983, and launched its formal membership bid in February 1987 with a memorandum describing its foreign trade system. The 93 member nations responded with over 400 detailed questions in June, to which China provided extensive answers in November. A working party is now hammering out the issues that remain in negotiations that are expected to take several years.

An opportunity to affect China's trade practices

Since GATT's most important goal is to reduce barriers to trade, each new contracting party must negotiate concessions such as lower tariffs and the removal of import licenses. Thus the current negotiations will decide the degree to which China must adjust its trade policy.

The US government has taken the most aggressive role in attempting to influence how China should reshape its foreign trade system. Hesitant about the potential impact such a large nonmarket economy will have on the GATT system, the United States has resolved not to let China slip in without first making substantial reforms.

The US government has proposed a five-point framework that would greatly increase the consistency of China's foreign trade policy. The main points are a single national trade regime with a consistent trade policy; a published and public foreign trade law; removal of nontariff trade barriers such as import licenses; scheduled, verified price reform; and selected safeguards against possible market disruption caused by surging Chinese exports.

China appears likely to make many of these concessions. It has already agreed to accept all obligations under Article 10 on transparency, stating it will publish all foreign trade regulations. As a further assurance of consistency, Chinese negotiators have also indicated that China will

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probably sign the Customs Valuation Code even before the country attains GATT membership. The code sets an international standard for valuing imports for the purpose of assessing customs duties.

Privileges and obligations

China's membership in these international economic organizations parallels its growing contact with the world on all levels—from trade to tourism—and reflects its increasing significance as a leader among developing countries. The organizations provide a broad and public arena in which China can voice its concerns, gain support for its programs, and influence worldwide policies.

At the same time, the privilege of participation carries obligations that will render China answerable to outside forces and bring its foreign economic policies more into line with international standards. Meeting GATT requirements, in particular, should improve the general business climate while pushing China toward a more decentralized, market-driven economy. 完

New solutions to old problems

Changing The Foreign Trade System

Madelyn C. Ross

This year China has unveiled a new chapter in foreign trade reform. The Draft Plan for Restructuring the Foreign Trade System in 1988 gives a greater role in foreign trade decisions to enterprises, trading companies, and governments at the provincial and local level. But, at the same time, the number of rules governing their actions is also on the rise.

These rules are more indirect than in the past. Laws, regulations, and contract obligations are replacing strict quantity quotas and other forms of administrative fiat. Whether such indirect controls will work remains to be seen; previous attempts at decentralization have led to chaos and uncontrolled spending sprees. But if planners stick with the reforms—instead of retreating from them as in 1980 and 1985—the latest plan should gradually move China toward its goal of replacing mandatory foreign trade planning with guidance planning and market regulation.

The rise of the contract, the decline of MOFERT

A new "contract managerial responsibility system" is at the heart of the current foreign trade reform. Each of China's provinces and provincial-level municipalities must now sign annual contracts with the Ministry of Foreign Economic Relations and Trade (MOFERT) specifying their projected export value, foreign exchange earnings, and the amount of foreign exchange they will turn over to the State. This year, for instance, Guangdong Province—China's largest provincial exporter—has set a target of \$5–\$6 billion in total exports.

To meet these targets, the provincial governments contract, in turn, with the trading corporations based in their province. The foreign trade corporations (FTCs) then sign import and export contracts directly with enterprises.

The FTCs now act as contractual "agents," receiving commissions from Chinese enterprises for their services. Whereas China's foreign trading companies once dictated the terms of trade, the enterprises now in effect hold the more powerful position since they can choose the trading company they want, and control the goods that are the source of the FTC's income. This system begins to shift the FTCs source of livelihood from MOFERT—which used to control and subsidize their activities—to the enterprises themselves.

Some enterprises need no longer trade through an FTC at all. In recent years a few dozen large enterprises have been authorized to conduct foreign trade on their own, and many more are now expected to earn that privilege. In the machinery and electronics sector, for example, factories whose export value exceeds \$3 million per year will be permitted to sign contracts with foreign companies on their own.

The localization of foreign trade

In addition to giving enterprises a more active trading role, the trade reforms also give more weight to provincial governments. This shift is seen most clearly by the fact that the branch offices of MOFERT's foreign trade corporations, each formerly under the jurisdiction of a national FTC office in Beijing, were transferred to the control of the provinces early this year.

A new classification system for trade commodities clarifies the division of responsibility between national and provincial traders. The head offices of the FTCs in Beijing will retain monopoly trading rights over what are called "category one" or "first tier" commodities, which remain under central control largely because of their significance as staple resources and the volume in which they are traded. Category one covers such items as rice, pork, raw silk, diamonds, crude oil, tungsten, ginseng, and royal jelly.

Provincial trading companies will handle category two commodities. These are also relatively important to the national economy and include poultry, sugar, salt, steel, magnesium, and rare-earth metals.

The amount of decentralization will vary from one product area and one FTC to another. The national office of the China Native Produce and Animal Byproducts Import–Export Corp., for example, still controls trade in tea and bean cakes, but will pass responsibility for trade in other products to provincial officials. And the China National Silk Import–Export Corp. continues to handle raw silk, while the provinces

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will take over trade in fabrics, garments, and finished goods.

The national offices of FTCs will also retain other responsibilities. They are to oversee barter trade with Soviet bloc countries and will continue to manage a few provincial branches, usually in cases where these branches handle goods for more than one province. For instance the Shanghai, Liaoning, and Shandong provincial offices of the China National Cereals, Oils, and Foodstuffs Import–Export Corp. handle products from interior provinces, and will therefore still be controlled by the national office in Beijing.

At least for now, major trade decisions will still be made by the government, albeit often at a lower level. Provincial trade officials rather than MOFERT officials in Beijing are simply taking over the job of setting trade targets and overseeing the contracts signed between FTCs and enterprises. At this point the localization process is therefore not so much a fundamental change as it is a transfer of authority to a lower rung of the government bureaucracy.

A more significant development is the creation of a third category of trade commodities that seems to consist of anything not in the first two categories. Trade in category three items can be handled strictly by local trading firms, with minimal government involvement. Many small trading companies are expected to spring up to deal in these local goods. Chinese authorities claim that these items already make up the bulk of China's foreign trade and should continue to grow in proportion to category one and two items.

The foreign exchange incentive

The main emphasis of these trade reforms is on developing strong export industries that meet the requirements of the international market. As a result, a variety of reforms are being introduced to encourage local export initiatives. Most important, many factories, trading companies, and local governments can now keep a percentage of the hard currency they earn from overseas sales. This percentage varies by region and industry, but rises in all cases after initial export targets are met.

These reforms are being extended to a number of industries beginning with textiles, light industrial goods, and arts and crafts. Hand-picked factories in these trial sectors have formed export production networks eligible for numerous incentives including tax breaks and preferential access to transportation and materials. Most get to keep about 50 percent of the hard currency they earn, but the rate rises to 70 or 100 percent for enterprises producing more advanced products. Thus, the foreign exchange incentive not only stimulates exports but also encourages factories to add more value to their exports.

Another goal of the foreign exchange reforms is to cut down on "parallel trade," or export through illegal channels. In the past, many exporters sidestepped the designated foreign trade channels and sold their goods to Hong Kong agents who paid them in foreign exchange. The resulting "export at any price" mentality drove down the international price of many Chinese goods. MOFERT estimates that in 1985, parallel trade through Hong Kong decreased the value of China's exports by ¥2 billion.

By legitimizing the right of factories to keep some of their hard currency earnings, the new foreign exchange retention system should make parallel trade less attractive, although it may not go far enough. Foreign exchange earned under the retention system can only be used for approved purposes such as importing raw materials and equipment to support export production—whereas foreign exchange obtained through parallel trade can be freely spent.

Controlling export prices

To safeguard against parallel trade problems, export commodity associations are being created to monitor and adjust the price of key export commodities. These are essentially government-sponsored cartels that meet from time to time to set export prices. Some of these associations are also expected to set export quality standards and oversee product promotion and marketing. Thus many trade regulatory functions formerly exercised directly by MOFERT will now simply pass to these export associations, which will be affiliated with the ministry.

The price-setting system was first introduced to stabilize the export price of China's tungsten ore last year in the face of US dumping charges. Now trade officials are setting up larger export associations to cover broader product areas such as machinery and electronics; textiles and garments; light industrial goods; minerals and metals; and agricultural produce. The ability of the associations to control prices will vary, but their presence should help national trade officials ensure that decentralized export incentives do not get out of hand.

Keeping imports under control

Foreign trade planners are also refining their ability to control and regulate imports. In the past several years the central government has issued a growing body of laws setting general guidelines for the type of goods China should buy. These new regulations supplement more traditional means of control such as tariffs, import quotas, and licensing.

New import inspection rules, for instance, came into force last October to regulate the quality of imported goods. At the same time China published its first national import substitution law, dealing with products made by foreign investment enterprises in China. And a 1985 law governing technology imports was supplemented this January by more specific guidelines for authorities to follow in reviewing technology import contracts.

Another area of indirect control over imports is restrictions on foreign borrowing by Chinese enterprises. Central controls over borrowing money from abroad have been strengthened this year, supplementing last year's rules to help authorities track the size of China's foreign debt.

These rules are designed to ensure that China doesn't spend its hard-earned foreign exchange on goods that are frivolous or shoddy, items it already has, or products that can be made just as well at home. Their ability to limit China's huge demand for a wide variety of imports will now be put to the test.

Facing the trade challenge

The 1988 foreign trade reforms grant more authority to enterprises and local governments. And as trade officials realize from past experience, these changes pose risks.

Already there are signs of short-term disruptions in trade patterns. The export price of certain commodities has shot up as suppliers flex their new-found trade muscle and demand more money for their goods. Faced with recalcitrant suppliers, some FTCs have tried to renegotiate with foreign buyers to pass on the higher price—or alternatively, to cancel the contract altogether.

General confusion over who is authorized to make trade decisions is another problem. Many trade newcomers, from factories to local trading companies, claim to be able to negotiate their own deals. Overseas traders worry, often with good reason, whether such relatively inexperienced Chinese trading entities can deliver the goods or payment as promised. Foreign trade reforms in 1984 led to such a proliferation of small and unreliable local trading companies that MOFERT shut many of them down in 1985 and 1986.

But Chinese officials profess to have learned from past mistakes. And, indeed, this year's formula for foreign trade does offer some new approaches to old trade problems. Most important, the system has many more built-in rules and indirect methods of control. These should help central officials monitor trade developments and, when necessary, provide mechanisms for them to adjust policies before things get out of hand. 完

China's industrial modernization depends on solving fundamental problems in this sector

Forging a Modern Machine Tool Industry

Alice Davenport

Since the beginning of the modern industrial era, the quality of the machine tools used in any industry—from food processing to shipbuilding—has been a critical measure of overall production capabilities. For China, the success of its ambitious industrial renovation program depends in large part on how quickly the machine tool industry can be upgraded.

Machine tools are usually defined as relatively large, power-driven machines, used to cut, form, or shape metal. Most are installed as permanent fixtures in industrial plants and are built to last. In China, the automotive, machinery, aeronautics, and energy sectors are heavy users of machine tools.

China's machine tool industry faces a number of major problems. Many of the machine tools it produces are not as carefully engineered or manufactured as those of advanced industrial countries. This results in lower levels of accuracy and efficiency, and a shorter useful life for many of the basic tools used in China's less technologically sophisticated industries.

China is also far from the cutting edge in terms of technology. Recent advances in the international machine tool industry have focused on electronic enhancement of basic cutting, shaping, or forming tools. This has taken two main forms: development of highly specialized tools; and development of complex, numerically controlled machining centers that can be programmed to produce a wide array of tools. China's production in these areas lags behind demand from the country's more technologically advanced industries.

History of misguided investment

The current problems of China's machine tools industry can be traced to national investment patterns in the 1950s and 1960s. To build up the country's economic base as quickly as possible, national planners set aside funds in the 1950s to establish a core of machine tools factories and import machine tool technology—mostly from the Soviet Union. Tools produced by these factories were simple, but satisfied domestic needs as the nation struggled to build an industrial base.

By the 1960s China wanted to develop more sophisticated tools, especially for its defense industry. But after relations cooled with the Soviet Union, China was forced to upgrade the machine tool industry on its own. The efforts of determined engineers enabled China's defense industry machine tools to achieve the same technological caliber as those in Japan, Italy, and Great Britain by the end of the decade.

Despite such success, two serious problems began to emerge in the 1960s: the continuing low quality of machine tools produced and a serious imbalance between the kinds of tools produced and the types demanded by consumers.

From the late 1950s to the early 1970s machine tool factories had focused only on increasing production. In 1955, for example, China produced 13,700 metal-cutting machine tools; by 1975 the total had reached 174,900. Such impressive increases lulled Chinese economic planners into believing that the machine tool industry was capable of meeting national needs many times over.

On the assumption that the nation's machine tools industry was in relatively good shape, Chinese authorities cut back investment funds for technological upgrading and capital construction in the sector during the Fifth Five-Year Plan period (1976–80). During this period, such investment fell to half that of the First and Second Five-Year Plans (1953–57 and 1958–62). Most funds went to meeting machine tool needs in the defense industry.

Mounting stockpiles of simple machine tools

Today, China's industries are feeling the pinch from the past low levels of capital investment in the machine tool industry. Although China now possesses an estimated 3.2 million machine tools, most are based on relatively simple technology.

By the early 1980s only 4 percent of China's machine tools were automatic and .24 percent were numerically controlled, compared to 20 percent and 5 percent, respectively, in the United States. And 43.2 percent of China's production was ordinary, low-efficiency machine tools, compared to just 9 percent in the United States.

Well into the 1980s simple lathes accounted for over half of the annual output value of China's machine tool industry, although such simple, low-technology products no longer sold well on either domestic or international markets. Chinese authorities recognize this problem but are finding it very difficult to rein in nationwide production of simple tools.

As a result, stockpiles of unwanted tools are mounting. In the last half of 1986, machine tool deliveries to customers fell 40 percent from the

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same period in 1985. And in mid-1987, a Chinese survey of 22 large machine tool plants reported a 25 percent increase in stockpiles of unsold products compared with the previous year.

The inability of Shanghai's machine tool industry to meet demand is typical. In 1986 most orders called for high quality, name-brand lathes and milling machines. Sales were down for simpler instrument lathes and medium-sized and small forging machines. One Chinese trade publication suggested that the ratio of supply to demand at Shanghai machine tool fairs might be as high as nine to one.

The extreme decentralization of China's machine tool industry makes coordination of supply and demand difficult. Large production centers are located in Liaoning, Shanghai, Jiangsu, Shandong, Guangdong, Sichuan, and Beijing, but there are smaller factories throughout the country. The aggregate picture of the machine tool sector is very sketchy, with Chinese estimates ranging from 500 to 1,000 plants in total. One reliable assumption is that most of these factories are small and inefficient. Just 10 percent of these enterprises account for half the industry's output value and almost all of the new machine tools developed in China.

The bureaucratic reorganization approved by China's National People's Congress in April may bring some help to the machine tool sector in the form of the new Ministry of Machine Building and Electronics Industry. This is a merger of the former State Machine Building Commission (which oversaw the Machine Tool Bureau) and the Ministry of Electronics. The new ministry is designed to stimulate technological development through better coordination between the two sectors and may help the machine tool sector upgrade its products in the long run. The Machine Tool Bureau, which will continue to oversee the industry, is made up of about 120 major machine tool plants and seven machine tool research institutes.

Raising technical standards

Efforts to improve the industry are starting with the basics. Of the 6 million workers employed in China's forging and machine tools industries in 1986, less than 1 percent were university graduates and less than 25 percent held high school diplomas. To upgrade the educational level of machine tool workers, China has sent many mechanical engineering students to study abroad in recent years, including 740 students now in the United States. In addition, about 800 Chinese machine-building technicians went abroad for training in 1987, while about 2,000 foreign technicians came to China to work and teach. In recent years China has also joined most major international academic organizations on machinery development.

Such efforts have begun to pay off. In important centers for machine tool manufacturing, the knowledge and market sophistication of industry engineers has risen dramatically in the last decade. In 1987, for example, members of the US National Machine Tool Builders Association (NMTBA) were impressed by the breadth of knowledge possessed by even young, relatively inexperienced Shanghai engineers about the world machine tool market.

But the industry's precision standards and performance quality remain low. Most of China's metal-cutting machines lose their accuracy within eight years—well under acceptable tool life in advanced industrial countries. The overall metal cutting efficiency of China's lathes, milling, grinding, drilling, and broaching machines is only half that of advanced industrial countries.

Industry planners are trying to enforce compliance with Chinese national standards—which are generally lower than advanced industrial standards. Between 1980 and 1985, the number of Chinese machine tools able to meet domestic standards increased from 85 to 96 percent. At the same time, China adopted 221 advanced international standards for selected domestic machine tool products.

Targets of the Seventh Five-Year Plan

Recognizing the important role that the machine tool industry plays in industrial development, Chinese authorities targeted the industry for modernization during the Seventh Five-Year Plan (1986–90). By 1990 planners hope machine tool production will double in value due to a higher quality product mix. The goal

Photo courtesy of Xinhua News Agency

Improvement of industrial performance and standards through research and design is a high priority for China's machine tool industry. Here engineers from the Shanghai Design and Research Institute of Mechanical and Electrical Engineering demonstrate a newly developed machine tool that will produce 28-inch bicycle rims for the Shanghai Bicycle Plant.

A PROFILE OF CHINA'S MACHINE TOOL SECTORS

METAL-CUTTING TOOLS

Most of the machine tools produced in China are for metal-cutting. In 1985, China had 239 major metal-cutting machine tool factories, with 293,000 employees. In addition to these plants, China has at least as many small metal-cutting machine tool factories producing simple tools for small-scale local industries. Published Chinese estimates for production of metal-cutting machine tools in 1985 range from ¥2.2 billion to ¥5 billion.

Even though many of China's metal-cutting machine tools use 1950s or 1960s designs, they sold well on China's domestic market until the mid-1980s. In the early 1980s, when China's largest machine tool consumers—automotive and aeronautics plants—no longer needed such simple tools, China's growing rural industries took up the slack with an increased demand for just such tools.

When demand in the countryside slackened in 1986, the limits of China's simple metal-cutting machine tool technology became more evident. Subsequent efforts to upgrade the industry are bringing noticeable improvements. In 1987, for example, a US machine tool delegation to China saw such improvements in the metal-cutting machine tool industry as wider use of high-speed steel and carbide cutting tools and more consistent design and application patterns.

ABRASIVE/GRINDING TOOLS

China now produces at least 500 types of abrasive/grinding tools to over 30,000 specifications. Silicon carbide abrasives account for 70 percent of total production. With ample deposits of the high-quality minerals needed for abrasive production, China is able to meet domestic demand for such products and to export as well. Many countries purchase these abrasive products from China because their workers will no longer accept the health risks associated with abrasive production or factories cannot afford to install government-mandated environmental protection equipment. In 1986 exports of abrasive/grinding tools accounted for almost 75 percent of China's total machine tools exports.

Until now, Chinese planners have felt that the export earnings of abrasive/grinding machine tools outweighed the problems involved in their production. Environment and health issues are slowly being tackled, although much more needs to be done to improve the working environment in abrasive/grinding tools plants. During the Sixth Five-Year Plan (1980–85), six abrasive/grinding tools factories and one research institute were targeted for technological upgrading, including reducing dust in the workshops and decreasing noise levels.

METAL-FORMING (FORGING/PRESSING) TOOLS

The country's production capabilities in this sector are still limited to relatively simple machines. In 1984, for example, China's metal-forming machine tool production included 15,350 mechanical presses, 3,124 hydraulic presses, and 706 automatic presses. Mechanical presses constituted over half of total output, in contrast to the United States, where such presses accounted for only 20 percent of domestic shipments of metal-forming machine tools. In 1984 China had some 87 factories making forging/pressing machines.

In this subsector, China primarily exports relatively simple mechanical presses (most of them small-sized, open-front presses). Other exports include small shearers, simple hydraulic presses, and air hammers.

MEASURING INSTRUMENTS

This subsector is comparatively advanced, with strong export potential, due to China's efforts to bring its measuring instruments up to world standards. The country now produces about 100 types of measuring tools, of which a number of micrometers, dial indicators, and gauges reach world standards.

The most advanced measuring instrument factories are in Shanghai, Tianjin, Sichuan, Liaoning, Jiangsu, and Hebei—all major export centers for such products. Exports include basic steel and fiberglass tape measures, squares and levels, as well as precision tools like vernier calipers and micrometer gauges.

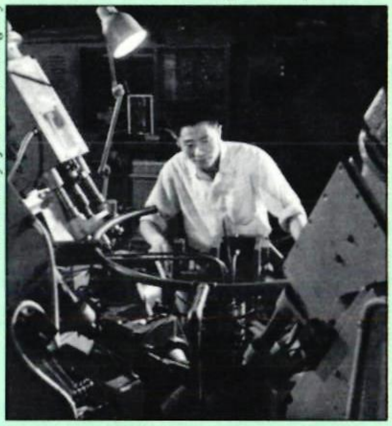

Photo courtesy of Xinhua News Agency

A worker at the No. 2 Automobile Factory in Hubei operates an automatic combined machine tool.

AUTOMATED AND NUMERICALLY CONTROLLED (NC) TOOLS

China is trying to upgrade the machine tool industry by adding digital readout devices and installing more fully equipped numerically controlled (NC) machine tools sets in key industries.

The average interval between failures on China's automatically controlled machine tools has reportedly increased from 200 hours to 3,000 hours, and China is now working on a fifth generation of computerized digital machine readout devices. According to a new study by A. T. Kearney, during the Seventh Five-Year Plan (7th FYP) period, China hopes to produce 20,000 digital readout devices.

Annual NC machine tools production of about 1,000 sets still cannot meet demand. In 1987, for example, Chinese planners estimated that supply would fall short of demand by at least 400 sets. And there is an urgent need within the machine tool industry itself for more NC machines.

Industrial planners must weigh the increasing demand for NC machine tools against the high costs of such equipment—much of which must still be imported. In 1984, for example, a single piece of imported advanced NC processing equipment for the automotive industry cost ¥80,000—compared with only ¥15,000 for the Chinese-made product. In addition, factories equipped with NC machine processing centers require fewer workers to turn out the same number of machine tools. The resultant loss of factory jobs presents problems. Furthermore, many Chinese factories do not require state-of-the-art NC machine tools to produce some products for domestic consumption.

Despite these reservations, national planners hope to upgrade 70,000 old machine tools with computer technology during the 7th FYP. And in early 1987 the State Economic Commission determined that advanced technology for NC machine tools would be a key import item until 1990. By then, China wants to be able to produce NC machine tools at early 1980s technical levels and fulfill 90 percent of all domestic demand for NC machine processing centers, ordinary machine tools, punching presses, and wire cutting-machines. —AD is to upgrade at least 60 percent of China's machine tool stock (most of which is now at 1950s and 1960s technological levels) to late 1970s and early 1980s levels.

In terms of specific products, China plans to decrease production of small-size presses and simple lathes, while increasing the number of large and medium-size presses, casting machines, high-quality cutting tools, electronic measuring appliances, and other precision measuring tools. Special attention will be given to production of automated and numerically controlled (NC) tools.

At the same time, to increase industrial efficiency and avoid costly duplication of efforts, the Machine Tool Bureau is developing a system of auxiliary machine tool parts plants to produce everything from electric bearing machines to standard fasteners. The bureau is also developing supplier plants for special products used in the machine tool industry, such as safety and protective devices, sliding guide accessories, main shaft parts, decelerators, and coolers.

The Seventh Five-Year Plan also calls for increased research and development in the sector. The Machine Tool Bureau plans to upgrade existing research facilities (seven comprehensive research institutes, one factory design research institute, and over 30 specialized research institutes) and establish four computer-aided design, development, consulting, and service centers for machine tools, as well as data banks for cutting and grinding technology.

Market forces threaten inefficient producers

The Seventh Five-Year Plan calls for reducing the share of the machine tools sector under mandatory central planning and expanding the portion regulated by market forces. As such plans are carried out, less of the industry's raw materials are coming from State allocations, forcing factories to purchase more on the open market and absorb a greater share of production costs.

At larger, better-managed factories, the new policies do not appear to have caused major problems. But other factories complain of sharp increases in the market price of raw materials. Some are having so much trouble obtaining sufficient materials on the open market that they have called for a return to more central controls governing allocation.

To encourage production of the types of machine tools demanded by Chinese consumers, planners are also allowing machine tool manufacturers to raise prices for popular items. One 1986 survey found price increases of at least 10 percent for over half of China's lathes, drilling machines, and milling machines, and for about 33 percent of the grinding machines. For one type of lathe, the price jumped almost 60 percent.

Aid from the World Bank

The largest technology import project to date in China's machine tool sector is supported by a World Bank loan of $100 million and a matching Chinese investment of ¥300 million (about $81 million). Loan funds are being used to upgrade 18 plants and two research institutes. The primary beneficiaries are the Shanghai Machine Tool Plant and the Shanghai Machine Tool Corporation (which includes major plants in Shanghai and five provinces). Together these two organizations produce 10 percent of China's machine tools. The Shanghai Machine Tool Corporation is to receive $60 million from the World Bank; the Shanghai Machine Tool Plant will receive the remaining $40 million.

Planners hope that this ambitious project will be the start of a national effort to modernize China's machine tool industry. Bank funds will be used to replace 178 antiquated machines; finance imports of advanced manufacturing and design technology; and develop comprehensive management and engineering training programs to improve technical and management skills in the industry. State-of-the-art technology will be sought to produce basic components like lead screws, gears, precision bearings, precision measuring instruments, and technology for casting and forging.

The World Bank is now considering a second loan to the machine tools industry, a $80 million project to modernize 10 plants in Heilongjiang Province. The project is currently pending, awaiting the report of a prequalification mission sent last October.

Other World Bank projects have aided China's machine tools industry indirectly by providing money for machine tool purchases. For example, the Bank's three railway projects included major imports of machine tools for renovating locomotive and engine plants.

Encouraging exports

Increasing exports of machine tools is a secondary goal of modernization efforts. Most of China's machine tool exports are still relatively simple metal-cutting tools, presses, drills, abrasive/grinding tools, and measuring instruments. Traditional customers in Hong Kong, Southeast Asia, and a few African countries continue to purchase the most, with a few measuring instruments also bought by Eastern European countries.

But in the export arena, as in the domestic market, the continued low technological level of China's machine tools is losing customers. The Beijing No. 1 Machine Tool Plant, for example, watched exports drop from 300 product types in the late 1970s to only 57 types in 1983. In 30 years the product line changed so little that the factory could no longer meet the needs of overseas customers—even customers in the developing countries of Southeast Asia that had previously provided a good market for Chinese machine tools.

China's planners are trying to increase machine tool exports by developing new markets through expanded market research. By bringing a few products up to world standards and offering competitive prices, China hopes to carve out a place in the international machine tool market. For example, by finding new customers and upgrading product lines, annual export earnings for the metal cutting subsector should rise from $18.5 million in 1986 to $38 million in 1990.

So far, China's efforts to sell machine tools abroad have consisted mainly of making sure that the products appear regularly in international machine tool exhibitions. This strategy has its benefits—many more US buyers, for example, are now aware of what China has to offer. But participation in exhibitions has not yet dramatically increased sales of more technologically sophisticated machine tools to the United States. US industry experts say that part of the problem may be due to China's treatment of the United States as a single, homogeneous market, rather than a number of distinct regional markets.

Most Chinese machine tool exports to the United States are part of sourcing arrangements for US firms, in which a US company contracts with a Chinese plant to produce basic machine tools to specification. According to the US National Machine Tool Builders Association, most American companies are pleased with the relatively simple products manufactured under such agreements. But for Chinese planners to be satisfied, current efforts to modernize the machine tool industry will have to take them far beyond this level. 完

China's small but expanding market is expected to top $588 million by 1990

Machine Tools Imports

J. Michael Griem and Mae Shen

China is in the process of overhauling its machine tools industry, replacing tools that use 1950s and 1960s technology with newer models based on technology of the 1970s and 1980s. Although domestically made machine tools will continue to capture 80 to 85 percent of the market, imported machine tools play an important role in the modernization of China's key industries.

China must supplement its basic production by importing more advanced machine tools, particularly automated/numerically controlled (A/C) tools that increase efficiency, and high-precision tools that enhance the accuracy of the finished product. China's machine tool import needs are dictated by modernization priorities, with modern factories in key sectors requiring the vast majority of imported tools.

One example is the automotive industry, China's principal user of machine tools. If China is to achieve its goal of more than doubling vehicle production from 1985 to 1990, the industry must obtain the higher standards of efficiency and accuracy afforded by imported machine tools of all types. China's second-largest machine tool importer is the machinery industry, also a priority sector under the current five-year plan. The industry needs high-quality machine tools to convert imported production technology into hardware on the factory floor. The combined demand of these two industries accounts for over 40 percent of all machine tool imports and an even larger share in the areas of A/C and metal-forming machine tools.

China's serious efforts to modernize its industrial base should help maintain the size of the machine tool import market. The value of imports rose to $479 million in 1985, up from $221 million in 1984, but then slipped back to $370 million in 1986 due mainly to tighter controls on foreign exchange. For the period

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1987–90, China is expected to import between \$400–\$500 million each year, hitting a projected \$588 million total by 1990.

Emphasis on importing advanced technology

China's domestically produced machine tools are currently able to meet 80 to 85 percent of market demand in most of China's light and rural industries. But in priority industries such as electronics, automotive, machinery, and aeronautics, production of high-quality finished products requires a broad range of advanced machine tools.

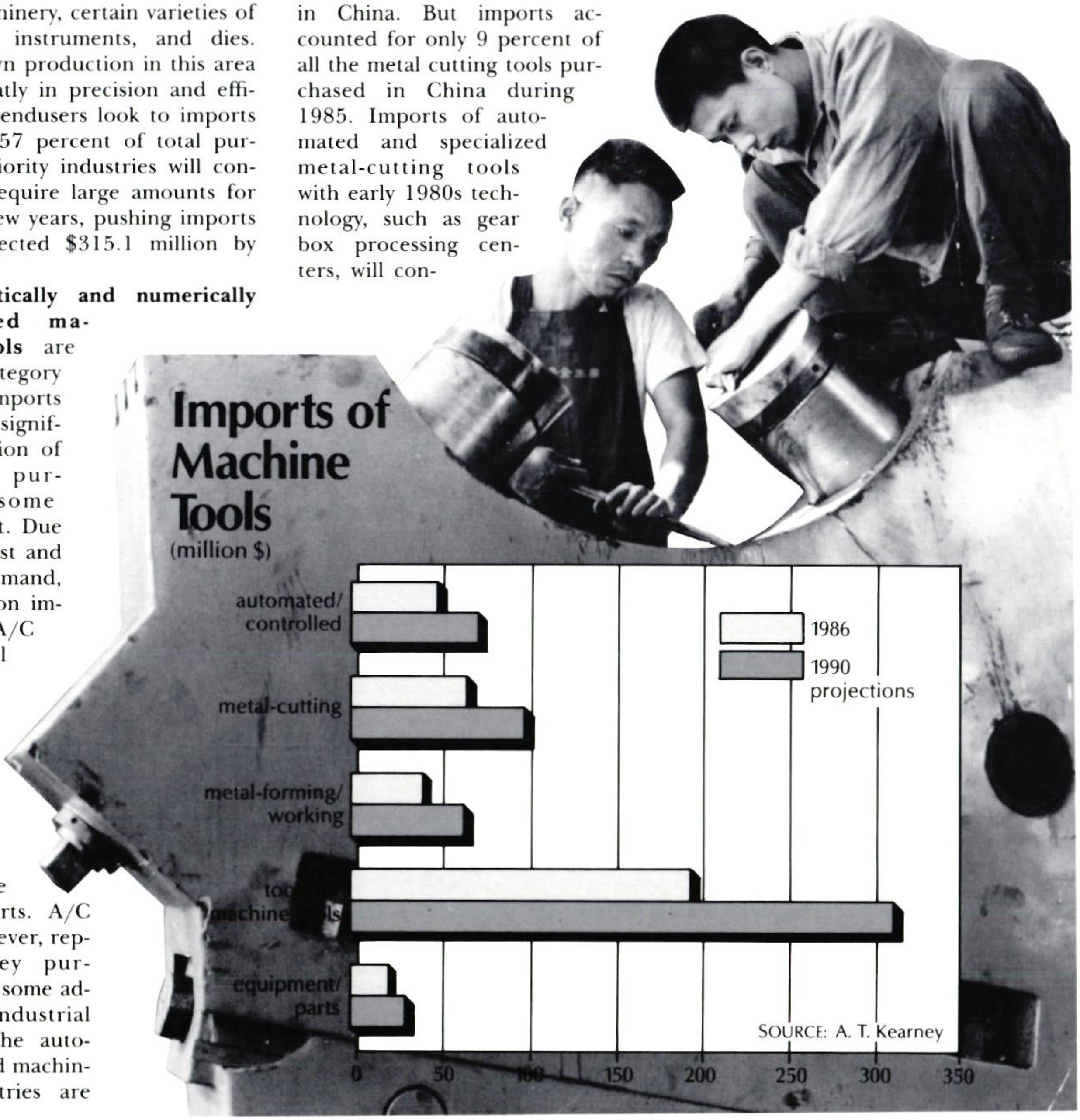
Leading imports is a catch-all category called **tools for machine tools**. In 1985 China imported \$289.9 million in such products, including precision-cutting tools for heavy machinery, certain varieties of measuring instruments, and dies. China's own production in this area varies greatly in precision and efficiency, so endusers look to imports for some 57 percent of total purchases. Priority industries will continue to require large amounts for the next few years, pushing imports to a projected \$315.1 million by 1990.

Automatically and numerically controlled machine tools are another category in which imports make up a significant portion of total purchases—some 34 percent. Due to high cost and limited demand, spending on imports of A/C tools will reach only \$74 million in 1990, 12 percent of all machine tool imports. A/C tools, however, represent key purchases for some advanced industrial sectors. The automotive and machinery industries are very interested in purchasing these types of tools, operated automatically by numerically coded programs on tape or punch cards. A/C machine tools can be programmed to do a variety of tasks, reducing the number of operators required and permitting a high degree of precision in production.

At present, China produces 14,000 A/C machine tool sets each year, primarily relatively simple standard tools fitted with digital readout devices. Although China has reportedly developed almost 50 new types of A/C machine tools since 1981, the country will continue to rely on imports through 1990.

Metal-cutting tools, including lathes, grinding, drilling, and milling machines, are by far the largest category of machine tools used in China. But imports accounted for only 9 percent of all the metal cutting tools purchased in China during 1985. Imports of automated and specialized metal-cutting tools with early 1980s technology, such as gear box processing centers, will continue to take priority for the automotive and machinery industries. By 1990, imports are expected to reach \$100.5 million.

China's production capabilities for **metal forming machine tools** are currently limited to relatively simple tools, such as mechanical presses, heavy forging machines, die-casting machines, and shearers, which tend to be low in quality and have frequent operating problems. Until China can upgrade domestic production, the country will continue importing metal-forming tools with higher precision and automation capability. Imports should rise 60 percent in value from 1985, reaching \$15.5 million in 1990. The automotive industry is expected to be the largest single user of metal forming tools,



followed by the electronics industry.

West Germany and Japan in the lead

Germany and Japan claim the largest share of China's market for imported machine tools, with 30 percent and 21 percent of imports respectively in 1986. Switzerland held 15 percent of the market, followed by the US with 12 percent and Sweden with 5 percent. Imported machine tools from Italy, Belgium, the United Kingdom, Austria, and Hong Kong make up the remaining 17 percent of market share.

Each country has tended to concentrate sales in its most competitive product categories. Japan, for example, has a strong hold on the import market for high-precision tools of all types, including A/C tools, machining centers, and tool-grinding machines. West Germany has had great success exporting large equipment such as boring and milling machines and forging presses. The US competes head-to-head with Japan in several areas, including high-precision machining centers and numerically controlled machine tools.

Aggressive marketing techniques

In the early 1980s US machine tools dominated, holding over 30 percent of import market share in 1983. Since then, other countries have used a variety of aggressive marketing techniques to increase sales.

Japan's steadily rising share of the machine tool market can be attributed to a combination of approaches, including conducting market research, holding exhibitions and trade shows, and organizing technical exchanges. These pre-sale marketing costs often add up to 50 percent of projected sales, compared to the industry average of 20–30 percent. Japanese companies also consistently provide free technical training to Chinese personnel, establish maintenance networks to support their products, and offer flexible arrangements such as compensation trade.

West German companies are fighting to maintain their lead. To counter the relatively low freight charge for shipping from Japan to China, some West German companies have kept freight charges artificially low—only 3 to 4 percent of the value of goods shipped. This contrasts with US freight charges ranging up to 15 percent. Other West German companies collaborate extensively with Chinese machine tool builders. Wohlenberg Low assists the Shanghai Heavy-Duty Machine Tool Works in producing precision lathes, while Steiner and Weiler and the Jinan No. 1 Machine Works manufacture numerically controlled lathes together. Adolf Waldrich Coberg cooperates with the Beijing No. 1 Machine Tool Works to produce planer milling machines.

The Italian government has successfully used concessional financing to help Italian companies penetrate the Chinese market, providing $7–$8 million for training, a $112 million loan at 2.5–4.5 percent interest over 15 years, and $100 million in commercial loans to the Nanjing Vehicle Plant on condition that all equipment—including machine tools—be purchased from Italy. While Iveco (Fiat) is the main foreign beneficiary at this diesel engine truck plant, Italian machine tool companies expect immediate as well as long-term profits, anticipating that growth in the auto industry will spur demand for more equipment.

Openings for US companies

The Chinese preference for working with long-term partners presents a hurdle for US companies wishing to penetrate China's machine tool market. But US exporters have gained a pricing advantage as the yen and the mark have appreciated sharply against the dollar in the past two years.

US companies are also making greater efforts to familiarize Chinese endusers with their products and to sweeten deals by sharing machine tool technology with Chinese producers. Pratt & Whitney, for example, is cooperating with the Shenyang No. 3 Machine Tool Plant to produce metal-cutting lathes, and Cincinnati Milacron is sharing internal grinder technology with the Wuxi Machine Tool Plant. Summit Machine Tool Corporation has exported large bore diameter lathe technology to the Tianjin No. 2 Machine Tool Plant, Wilson Automation is collaborating with the Jinan No. 2 Machine Tool Plant to produce presses. And Tree Machine Tool Company, Inc. is working with the Nantong Machine Tool Plant in design and development of a numerically controlled milling machine.

Also promising for US machine tool exporters are the recent sales of engine lines by Chrysler and General Motors—and the potential to move into complete vehicle production in the future. The growing cooperation between the US and Chinese automotive industries should solidify US machine tool industry links with China's biggest tool importer.

Increased export opportunities for US machine tools companies lie mainly in advanced-technology products such as high-precision machining centers, numerically controlled machine tools, flexible manufacturing systems, precision gear-cutting machines, and dies and molds that China cannot yet make for itself.

The key to increasing US market share at this point is raising the profile of the US industry in the Chinese market through exhibitions and trade shows, developing after-sales networks and training centers with Chinese partners, and increasing contacts with Chinese technical personnel through exchange programs and seminars. US machine tools enjoy a high reputation in China for precision and durability, and enhanced marketing techniques should ensure that the word continues to spread. 完

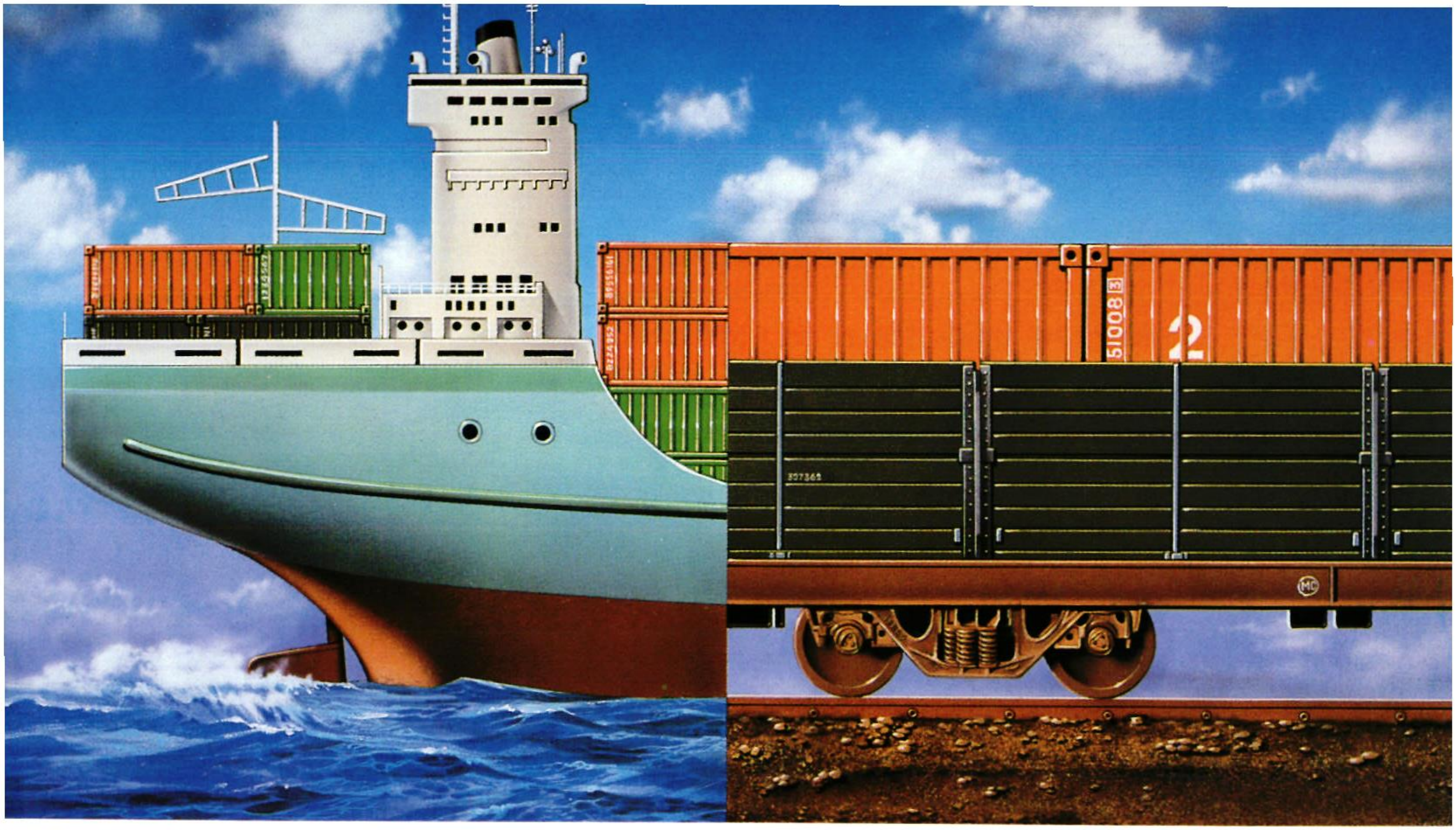
CHINA'S MACHINE TOOL IMPORTS

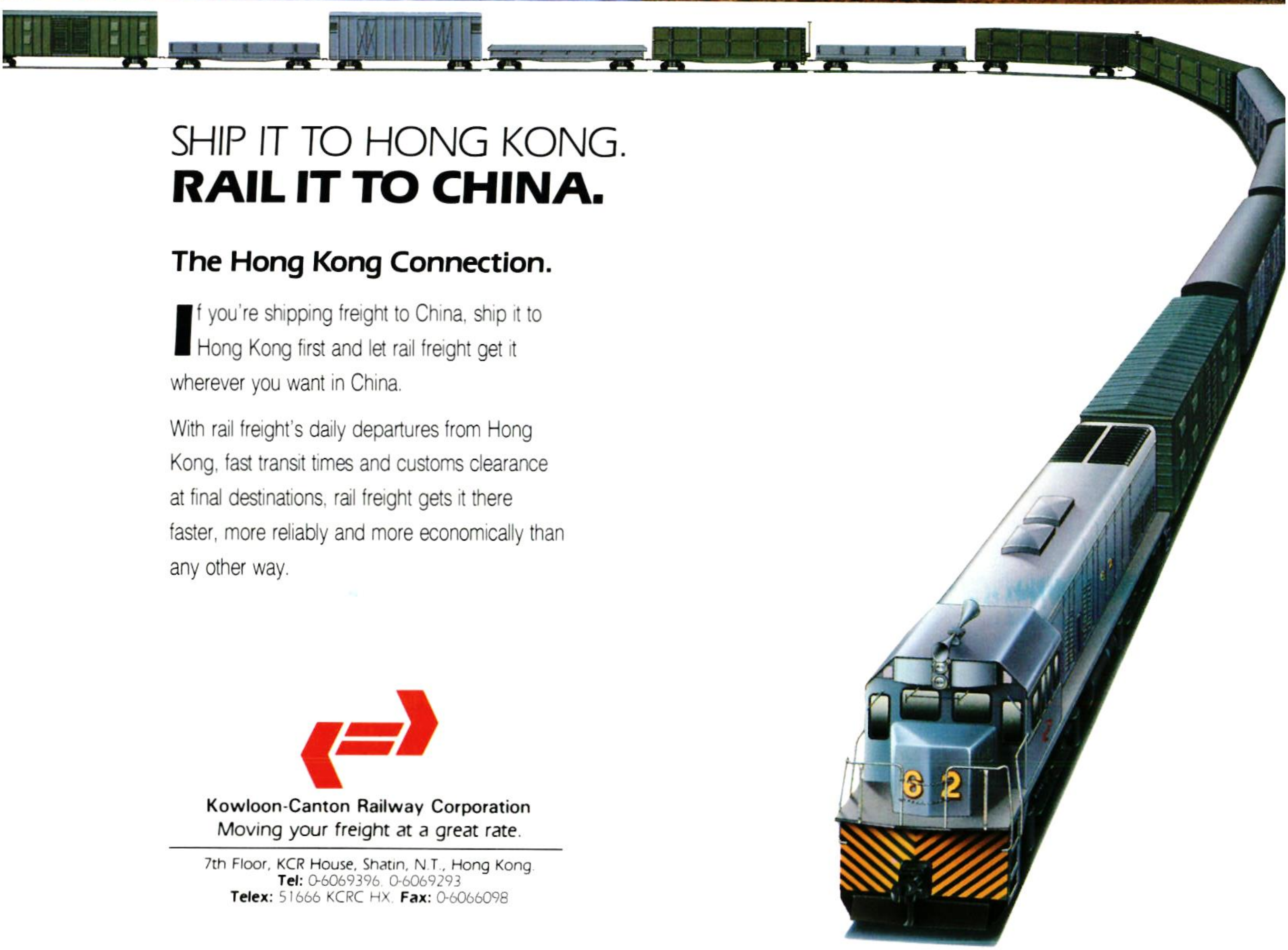
(million $)

Supplier	Automated/ Numerically Controlled		Metal Cutting		Metal Forming/ Working		Tools for Machine Tools		Equipment Parts	
	1985	1990*	1985	1990*	1985	1990*	1985	1990*	1985	1990*
West Germany	5.2	5.7	7.8	18.6	11.0	11.2	86.9	88.9	9.1	9.3
Japan	12.1	12.9	6.1	7.8	17.8	15.7	59.7	56.5	7.6	6.6
Switzerland	3.2	7.1	4.8	15.7	5.8	4.8	43.5	43.5	4.5	4.1
United States	5.7	7.4	8.5	10.1	1.3	4.2	27.6	34.2	4.2	3.6
Sweden	1.2	1.7	4.2	5.7	3.4	3.3	20.3	14.5	3.1	1.5
Other	12.9	39.1	29.1	42.6	18.3	27.1	53.7	77.5	1.8	7.3
Total	**40.3**	**73.9**	**60.5**	**100.5**	**57.6**	**66.3**	**289.9**	**315.1**	**30.3**	**32.4**

* = Projections

SOURCE: Machine Building Industry Yearbook, Customs Statistics, field interviews, A.T. Kearney estimates.





Anticipating 1997

US firms in Hong Kong face current concerns and faraway fears

Carla Sydney Stone and S. Alexander Billon

While debates on the fate of Hong Kong swing between doomsaying and confident optimism, most members of the territory's US business community claim not to have altered their business strategies in anticipation of 1997. American firms are apprehensive about the future of Hong Kong, and some already report that the departure of a number of highly educated Hong Kong Chinese has left them short of skilled and experienced managers. But most of their concerns appear much more distant, including the possibility of changes in Hong Kong's laissez-faire economic policies, higher operating costs, and the imposition of Chinese bureaucratic regulations.

To understand the US business perspective on 1997, the authors sent out questionnaires in the fall of 1987 to 450 US companies with operations in Hong Kong. The 87 responses included a broad cross-section of companies involved in everything from banking to toy manufacturing. The authors also interviewed US expatriate managers, US and Canadian consular officials, and Hong Kong business leaders to discover the mood of Hong Kong's US business community.

A profitable partnership for US firms

Although the British claimed Hong Kong as a colony in 1842, Americans were also there from the start as traders and investors in the territory. Today the two-way flow of trade and investment presents a mutually profitable picture. According to the Hong Kong Government Information Service, the United States is Hong Kong's largest export market, buying $9.34 billion worth of goods in 1987, more than 42 percent of Hong Kong's total domestic exports. Hong Kong ranks 10th among US trading partners, importing $4.13 billion worth of US goods last year.

The United States is also Hong Kong's largest foreign investor, providing 36 percent of the territory's 1987 overseas investment in manufacturing. About 150 wholly or partly US-owned factories operating in Hong Kong employ some 35,000 workers, more than 4 percent of the local labor force.

Many US companies have also found Hong Kong a good base for overseeing their business operations throughout the Asia-Pacific region. More than 70 percent of the companies surveyed cited the access to major Asian markets as a primary reason for locating in Hong Kong.

Doorway to China

Access to China, in particular, attracts US business to and through Hong Kong, since Hong Kong serves as the most important crossroads for US-China trade. Some 80 percent of the American companies surveyed have business relationships with or operations in China, with 50 percent of the companies marketing to China, 22 percent sourcing components or raw materials, and 13 percent operating joint ventures there (*see* table). Virtually all the US executives interviewed said that maintaining an office in Hong Kong is necessary for doing business across the border. And having a Hong Kong office now will give the company valuable "old friend" status with the Chinese after 1997. Even better, some said, is establishing representation in China to supplement the Hong Kong office. Some 57 companies in the survey have done just this, opening offices in major cities like Beijing, Shanghai, and Guangzhou.

Most of these companies with operations in Hong Kong and China plan to keep offices in both locations after 1997, with about half planning to designate the Hong Kong site as the parent of the Chinese subsidiary. Some companies are already using this type of arrangement.

Only one company in the survey reported plans to close its Hong Kong operations after sovereignty is transferred back to China. The manager commented, "The efficiency of the society will not be the same. Increases in trading [with China] will not compensate the losses [of attractive business aspects]. Singapore or Taiwan will replace Hong Kong eventually."

Many of the companies in the survey have blurred the boundary between Hong Kong and China operations by moving production lines to the Shenzhen Special Economic Zone (SEZ) that borders Hong Kong to the north. Shenzhen offers land for expansion and low-cost labor, both in short supply in Hong Kong. While one manager commented that operating in China is more difficult than Hong Kong, he also noted that it is easier than relocating to Thailand, the alternative his company considered. Another incentive pushing US compa-

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nies across the border is improving access to China's domestic market for products made with some local Chinese content.

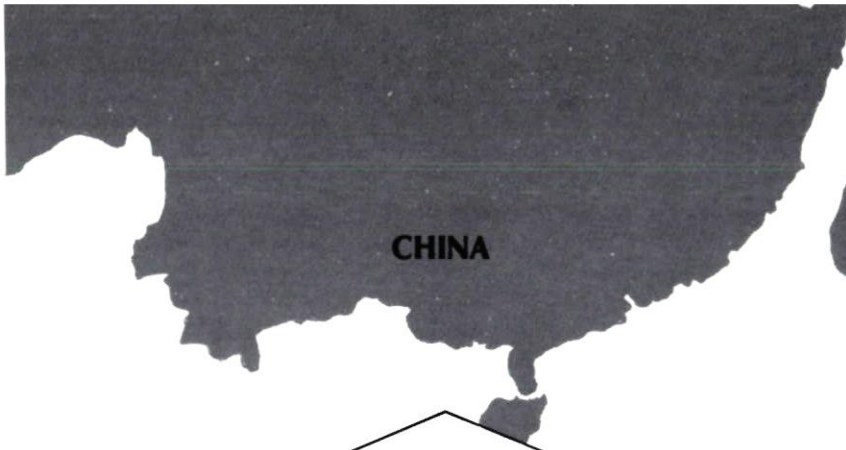
Relocating in Shenzhen is not without drawbacks. While unskilled labor is plentiful and cheap, importing skilled managers runs up the overall bill. One company with a factory in Shenzhen keeps two quality control inspectors permanently on-site and sends seven other managers across the border regularly—all at great expense. "No one from Hong Kong wants to live there [in Shenzhen]. We have to pay a 25–50 percent bonus plus allowances [to induce employees to go]."

Will Hong Kong lose its attractions?

In addition to regional access and proximity to China, many other features attract US companies to Hong Kong. The excellent port and harbor facilities, modern living conditions for expatriates, and easy access to capital and financial services were all frequently noted as significant lures to the territory (*see* table). Lenient corporate tax rates and liberal foreign exchange and profit remittance policies are also prominent attractions, along with the territory's free port status.

American managers are, however, worried that China's need for foreign exchange could compel Beijing to tamper with any or all of the financial policies that make Hong Kong such an attractive place to do business. Even if financial policies remain intact, some survey respondents fear that China may export some of its bureaucratic customs to Hong Kong, entangling foreign companies in the mass of confusing regulations that affect foreign business operations in China.

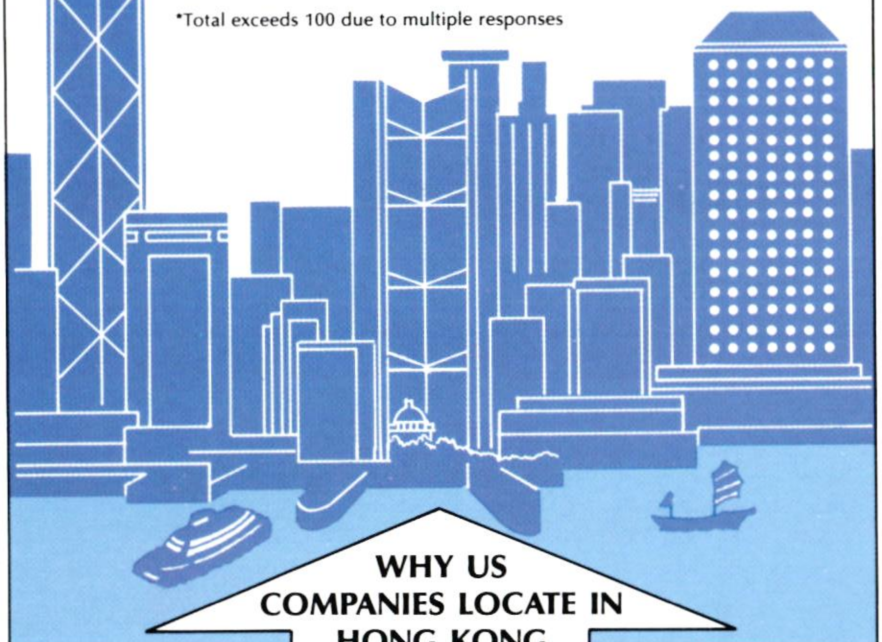
Hong Kong's sophisticated telecommunication and postal facilities are a major attraction, bringing ease—and freedom—of communication. In interviews, some US managers expressed the concern that post-1997 Hong Kong may no longer be up to the challenge of uncensored state-of-the-art communications. As one manager noted, "Communist countries control the media. There are no problems [in Hong Kong] so far, but under new ownership [the government] will become more aggressive" about controlling the media.



HONG KONG-BASED US COMPANIES DOING BUSINESS IN CHINA

Type of China business	Frequency of response* (% of 87 US companies surveyed)
Sales	50
Sourcing	22
Joint Ventures	13
Contract Manufacturing	11
Manufacturing under license	11
Banking/Financial services	9
Tourism/Hotels	3

*Total exceeds 100 due to multiple responses



WHY US COMPANIES LOCATE IN HONG KONG

Reason	Frequency of response* (% of 87 US companies surveyed)
Access to Asian markets	71
Telecommunications/Postal facilities	38
Tax policies	36
Access to China	32
Foreign exchange/Profit remittance policies	28
Operating costs (compared to other Asian locations)	23
Skilled/Experienced labor	21
Free Port Status/Access to raw materials	20
Workforce wages	20
Other	20
Port/Harbor facilities	14
Expatriate living conditions (compared to other Asian locations)	14
Keeping up with competitors in Hong Kong	13
Access to capital/financial services	13

*Total exceeds 100 due to multiple responses.

Shortage of skilled managers already a problem

A large number of survey respondents cited the access to trained and experienced labor as a significant reason for operating in Hong Kong. But some US managers report that the supply of experienced middle-level managers is already falling behind demand. They fear that the situation will only get worse.

Young Hong Kong Chinese managers are generally well-educated (often in the United States and Western Europe), earn handsome salaries, and are just beginning to ascend the upper rungs of the corporate ladder. In 1997, they will be in their 40s and 50s, entering what should be their peak years of earning and responsibility. Fearful that Chinese employment policies after 1997 might dictate or limit their ambitions, these young people are applying for visas in record numbers to secure a "safety net" in another country, especially in the United States, Canada, Australia, and Great Britain. One American manager termed the movement "a massive exodus." In a highly publicized example, the Hongkong and Shanghai Banking Corporation reported losing 50 of its 670 locally hired employees to emigration in 1987.

US companies surveyed, particularly in high-tech sectors, are already finding their operations affected by the brain drain. To alleviate the problem, some managers try to find positions in the company's overseas operations for their valued Hong Kong employees to keep them within the company should they decide to emigrate. Other US managers say they are becoming reluctant to hire Hong Kong Chinese for critical positions for fear of losing them to emigration. Said one, "We want foreign passport holders at upper levels of management." Those who already hold documents allowing them to live and work in other countries are considered more likely to stay in Hong Kong for now.

Another American manager noted that the shortage of qualified personnel with eight to 10 years of experience is driving up salaries across the board. He added, "We expect this problem to become more severe. We do not think relocation is an option, but some operations in marketing may have to be built up in other locations in the region as local staff become more expensive and less available."

Most worries still seem far away

Aside from these pressing labor concerns, worries about 1997 have had little impact on the day-to-day operations of US companies in Hong Kong. None of the companies surveyed has decreased its investment or changed its Hong Kong business operations in anticipation of 1997, and few have even begun considering transition strategies. Virtually all plan to maintain operations in Hong Kong as they enter into or expand their business dealings with China. One large US company participating in the survey reported that it had recently purchased a Hong Kong company, supporting the widely held view that there's still plenty of time to make more money before 1997.

With the transfer of sovereignty still almost a decade away, American managers believe that Hong Kong will remain a vital world financial center for at least the next five years—a long-term view in this small colony. As a US consular official said, anyone who tries to predict events even seven years into Hong Kong's volatile future is "visionary." 完

The Chinese Workforce

Reforms in the domestic labor system complement innovations at foreign-invested enterprises

Jamie P. Horsley

All foreign-invested enterprises in China—no matter how large or small—must deal with the issue of managing a Chinese labor force. For a company to operate successfully, managers must have the tools to motivate and guide workers, workers must perform to certain standards, and labor costs must be kept under control. Recent changes in Chinese labor legislation grant foreign-invested enterprises more autonomy and flexibility in pursuing these goals—within the boundaries of China's existing social and economic systems.

Five years ago, when foreigners asked about labor law, Chinese investment officials usually insisted that, apart from the 1980 Provisions for Labor Management in Chinese–Foreign Joint Ventures, China really had no labor law. Today, a plethora of national and local laws govern many different aspects of labor issues. Some of the national joint venture labor legislation well known to foreign investors is also applied in practice to cooperative ventures and wholly foreign-owned enterprises (*see* box). However, due to the generality of such legislation, it must be read in conjunction with the more detailed—and often obscure—domestic labor laws. In addition, a host of local labor regulations implementing and supplementing the national laws must be consulted.

HIRING AND FIRING

The Chinese domestic labor system is moving away from permanent, State-mandated employment to a system of temporary contract labor, with accompanying reforms to establish unemployment insurance, a pension system, and rules governing hiring and firing. While the vast majority of Chinese workers are still employed under the old system, regulations passed in September 1986 stipulate that most new workers are to be hired through—and may be fired under—a competitive contract system. These major initiatives to break the so-called iron rice bowl of guaranteed lifetime employment at Chinese enterprises reinforce and complement innovations in the labor system being introduced in foreign-invested enterprises.

Implementing the contract system

Until recently Chinese workers did not sign individual contracts with their employers. Joint ventures simply signed one collective labor contract with the local labor department or the venture labor union, specifying the terms applicable to all employees. Under 1986 domestic labor reforms, however, all new workers are to sign individual labor contracts with their employers. These contracts may be short term (from one to five years) or long term (more than five years). This trend also allows foreign-invested enterprises much more flexibility. SmithKline reports that its joint venture now signs three-year individual contracts with both management and workers.

Under the new rules, either party may decide not to renew the contract upon expiration or to terminate the agreement under certain circumstances. These include unsatisfactory work performance, violation of labor discipline, chronic illness on the part of the worker, and bankruptcy, failure to maintain security or health standards, and inability to pay the agreed wages on the part of the employer.

While some localities such as Beijing now require joint ventures to use individual labor contracts, most managers in foreign-invested enterprises still encounter resistance to the idea. As a legal matter, the trade union and local labor department still have a role in negotiating and supervising the implementation of labor contracts and they often press for collective contracts.

In some instances, the Chinese partner prefers to sign a collective labor contract with the venture itself, setting forth general employment terms and overall compensation figures. In this case, the Chinese side usually retains control over labor management, assuming responsibility for recruiting, supervising, and handling the Chinese labor force on its own, for a fee. Some foreigners prefer this arrangement because the Chinese side assumes most of the responsibility and the total compensation package can be fixed for a specific period of time.

In most cases, however, the foreign partner prefers a direct employer-employee relationship so that individually tailored incentives and Western management techniques can be introduced more effectively. Most foreign partners believe that joint ventures that leave labor matters to the Chinese partner have more trouble, while those in which both partners play an active role achieve higher productivity and worker discipline. In addition, Chinese employees are more likely to develop loyalty to the joint venture if the venture,

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rather than the Chinese partner, is handing out the paycheck and formulating and enforcing work rules.

Recruiting labor

While China does not yet have a true labor market, the chance of recruiting labor on one's own has improved. Under new domestic regulations, nonprofessional workers are to be recruited publicly rather than assigned jobs by the State. Some cities have inaugurated "labor fairs" and established employment agencies, and jobs are occasionally advertised in local newspapers. Closed recruitment from among friends or relatives and other forms of nepotism are officially prohibited.

These domestic rules, which are still in the experimental stage, fit nicely with the sort of system that foreign-invested enterprises have been seeking since the Law on Chinese-Foreign Joint Ventures was passed in 1979. Under regulations issued by the Ministry of Labor and Personnel in November 1986 (the "Labor Autonomy Provisions"), foreign-invested enterprises are assured the right to determine their staffing needs and recruit (or fire) necessary personnel on their own. Most workers, however, still must be recruited from within the immediate locality.

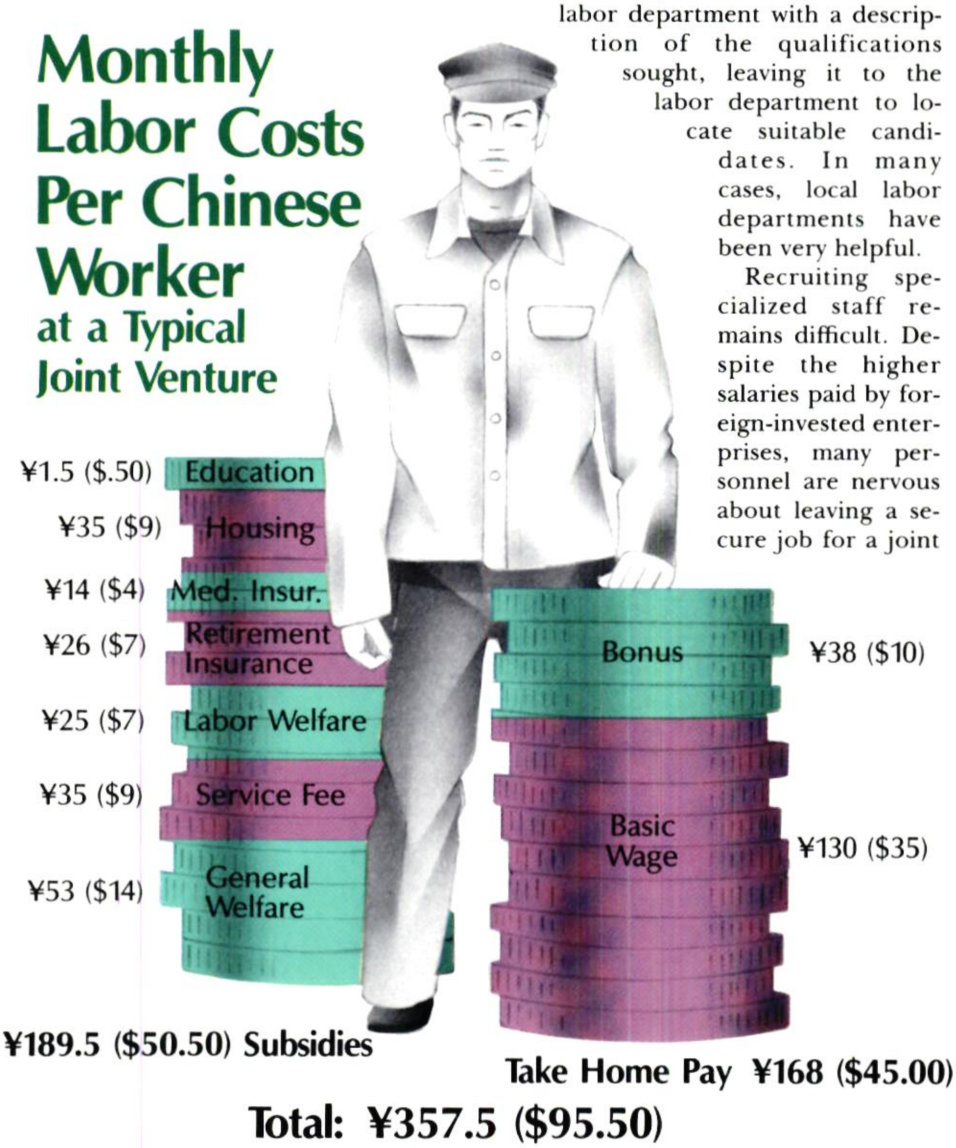
Foreign-invested enterprises must coordinate with the local labor department, which is responsible for supervising all aspects of labor management in foreign-invested enterprises. In order to hire recent university or polytechnic school graduates, for example, joint ventures are sometimes discouraged from recruiting on campus directly. Instead they must contact the local labor department with a description of the qualifications sought, leaving it to the labor department to locate suitable candidates. In many cases, local labor departments have been very helpful.

Recruiting specialized staff remains difficult. Despite the higher salaries paid by foreign-invested enterprises, many personnel are nervous about leaving a secure job for a joint venture with foreign management and a limited term. This problem is compounded by the shortage of highly skilled technical and managerial personnel, since employers are understandably reluctant to let trained people leave. Regulations now instruct Chinese enterprises to allow the transfer of any managerial and technical personnel a foreign-invested enterprise wishes to hire. But this has proven difficult to enforce, especially if such personnel are not from the immediate locality or are not subject to the jurisdiction of the same government agency or subdivision as the joint venture. Some joint ventures report having to pay a fee to the original work unit, in one case as high as ¥10,000.

Hiring recent college and research institute graduates who do not yet have a work unit is one way to avoid these tug-of-wars. Young graduates also have not yet developed bad working habits in some other enterprise, although the required training to bring them up to speed can prove costly.

Most joint ventures test job candidates and hire them for a probationary period that lasts three to six months, depending on local legislation. Employees may be retested or let go when their contracts come up for renewal.

A joint venture can also hire preexisting employees of the Chinese partner for a probation period, although it is sometimes more difficult to reject these people later. The Chinese partner and the local labor department are responsible for finding a new position for the rejected candidate, but this is not always easy given the increase in unemployment in recent years. One survey conducted in Xiamen reports that on average one-third to one-half of the existing staff of Chinese partners became redundant when the partner was merged into a joint venture. The Shanghai Foxboro Co. Ltd. reportedly hired only 100 of the 597 original employees of its Chinese partner, and the Tianjin Otis Elevator joint venture dropped some 200 former Tianjin Elevator Works employees because they did not meet new standards. In addition to finding new jobs for the "redundant" employees, pensions must be paid to those who are thereby retired early. Chinese labor authorities admit they have not yet resolved how to handle



SOURCE: *US Joint Ventures in China: A Progress Report* published by the National Council for US-China Trade all of these problems.

Dismissing workers

Dismissal of staff and workers for cause has been permitted under both domestic and foreign-related legislation for some time, but it has been difficult to implement. A senior Chinese industrial official recently complained that sacking a worker is "harder than going to heaven." China's incipient labor market and fledgling unemployment insurance and pension fund systems should provide some social and economic support to both Chinese and foreign-invested enterprises trying to exercise their right to hire and fire.

A joint venture is only entitled to dismiss employees if they become superfluous as a result of changes in production and technical conditions, and if, after training, such employees cannot meet new work requirements and are not suitable for transfer to other work; or if they violate venture rules, causing "bad consequences." These grounds are more restrictive than those applicable to Chinese enterprises under 1986 labor legislation. They may be modified in practice, however, by provisions inserted in individual labor contracts.

As is the case with hiring, joint ventures cannot dismiss workers entirely on their own. The venture must generally notify the government department in charge of the venture and the local labor department of dismissals "for the record," although official approval is no longer required. The venture's labor union must be notified in advance and has the right to protest the discharge. Any disputes over dismissals are to be resolved through arbitration.

Joint ventures must compensate dismissed workers based on the length of their employment with the venture. National legislation requires workers to be paid one month's average joint venture wage for each full year of employment, with an extra half-month's average wage for each full year served in excess of 10 years. Greater detail on the computation and payment of severance pay is contained in some local legislation. A few joint ventures have managed to stipulate in labor contracts that no compensation need be paid if the employee is dismissed for breach of contract.

Many joint ventures successfully dismiss personnel. The Tianjin Otis elevator joint venture, for example, reportedly discharged 14 workers in its first two years of operations, the China Hotel in Guangzhou dismissed an average of four employees a day in its early years, and the Beijing Jeep Corporation has discharged three senior and 30 middle-level Chinese employees since it was established over three years ago. Chinese workers are even less accustomed to being fired than their Western counterparts and naturally resist dismissal. While relatives, the trade union, and local officials may all bring pressure to bear on the joint venture to reconsider such an action, some are clearly being allowed to exercise the right to fire.

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LABOR DISPUTES

Labor disputes in China have traditionally been arbitrated. Under 1987 domestic regulations issued by the State Council, all labor disputes—other than dismissals and related issues—may first be taken before an enterprise labor mediation committee. These committees include representatives of staff and workers, management, and the trade union. Parties to a labor dispute also have the option of applying directly to a similarly constituted labor dispute arbitration committee or may appeal to this group after an unsuccessful mediation.

Labor disputes that arise in joint ventures are to be resolved internally if possible. In the case of a disputed dismissal, the labor union may intervene to discuss the problem with the board of directors. If the matter cannot be resolved, it goes to arbitration before the local labor department, with the right of appeal to the local people's courts.

The Chinese press has reported cases of labor disputes in foreign-invested enterprises, although they do not appear to be common. Disputes usually involve excessive requests for overtime work and questions over welfare benefits. In one case, a two-day sitdown strike occurred because workers were unhappy about differences in bonuses. Shenzhen reports more than 50 labor disputes in foreign-invested enterprises in the 14 months ending December 1987, including many complaints from female workers concerning labor protection and dismissals due to pregnancy.

The role of labor unions

To protect workers' rights, all Chinese workers—including those employed by foreign-invested enterprises—have the right to organize and join a labor union. According to the All-China Federation of Trade Unions, roughly 30 percent of the foreign-invested enterprises approved as of April 1987 had already established labor unions, with the number rising to 92 percent in Shenzhen. (For details on union activity and representation, *see The CBR*, May–June 1984, p. 22.)

Labor unions in joint ventures are to safeguard the rights and interests of the employees (including contract negotiations and dismissal), assist the joint venture in the use of its welfare and benefits funds, organize employees to study political and professional subjects, sponsor cultural and sports activities, and educate employees to observe labor discipline and fulfill the goals of the venture. Moreover, labor unions are to express employee opinion regarding production, operation, and labor issues and have the right to send an unspecified number of nonvoting representatives to participate in board of directors meetings or hold meetings with the top-level managers. In some cases, foreign companies have been able to contractually limit the number of labor union representatives entitled to participate in board meetings, or to provide that the board can meet in executive session without union members after having listened to the union's views.

Labor unions in foreign-invested enterprises also serve as the *de facto* Communist Party organ. Enterprise-level or "primary" Party organizations may be formed when three or more Party members are employed by an enterprise, including a foreign-invested enterprise. According to a late 1987 article in *The Beijing Review*, 13 percent of joint venture employees were Party members and 14 of the 35 joint ventures operating in Tianjin had primary Party organizations. Although some Party officials attempted to interfere in early joint venture operations, very few problems with Party organizations are reported now.

In sum, although the rights of labor unions to represent the interest of workers are wide-ranging, labor unions have had little significant impact on enterprise operation. Most foreign investors have found that labor unions function more as social clubs than as antagonists.

WAGES AND BONUSES

Although many investors are attracted to China for the low labor costs, project negotiations often stall over the issue of how much workers and management should be paid. While basic wages on average are low, additional payments for bonuses, subsidies, labor insurance, and pensions can double or even triple the total wage bill. The ¥300–¥400 ($86–$108) average total wage per worker each month, however, is still low by international standards.

Setting wage levels

The most recent attempt to set basic wage rate guidelines for foreign-invested enterprises (FIEs) is contained in the Labor Autonomy Provisions published in late 1986. These regulations specify that wages at all FIEs must not be lower than 120 percent of the "average wage" of workers in Chinese State enterprises in the same locality and line of business. This rule eliminates an earlier cap on salaries set at 150 percent to allow more flexibility for enterprises that want to encourage productivity through higher wages. Wage increases or cutbacks are also permitted during times of prosperity or difficulty. The salaries of senior Chinese management, such as the deputy general manager in a joint venture, remain subject to negotiation and are problematic (*see The CBR*, Jan–Feb 1986, p. 10).

The national labor regulations fail to define "average wage," forcing localities to come up with their own definitions as part of legislation to encourage foreign investment in their area. In Shanghai, for example, FIEs must pay at least 120 percent of the "real wage," defined as the basic wage, plus bonus and subsidies (presumably direct subsidies). In Beijing, where the "average wage" is used as the base, local rules explain that the amount is determined by the local labor bureau and the department in charge of the venture, with reference to the total wage information provided by the State Statistical Bureau. That figure in 1987 consisted of the basic wage, various bonuses and subsidies, plus overtime.

Computing the wage in comparable Chinese enterprises is also problematic since wage scales vary greatly. According to China's State Statistical Bureau, the lowest average wage at Chinese State enterprises in 1985 was ¥60 per month and the highest reached ¥500. Wages vary by industry and location, with higher rates in large coastal cities where the cost of living tends to be greater.

In contrast, the basic monthly wage at FIEs in 1986 ranges from approximately ¥80–¥200, with the State Statistical Bureau reporting a ¥167 national average in 1986. This is 41 percent higher than the comparable average for Chinese State enterprises.

Flexible bonuses

When Chinese enterprises were permitted to retain profits for capital expansion in the early 1980s, bonuses became more lavish. Chinese authorities have passed a series of regulations since 1981 attempting to put a cap on the value of bonuses Chinese enterprises can award. The latest legislation, passed in 1987, slaps a steeply progressive tax on annual bonuses exceeding four months' basic wage. Foreign investment enterprises, however, are not subject to such restraints.

Pursuant to the 1980 joint venture labor management regulations, the joint venture's board of directors determines bonuses and establishes a bonus and welfare fund out of pretax profits. The labor management implementing provisions only add that a joint venture may grant honorary and material rewards to exemplary workers.

This leaves FIEs with plenty of room to maneuver. In one case, a foreign general manager of a joint venture instituted a monthly bonus system that took into account the individual's and venture's performance and assessed bonuses separately for each department in the factory. He also introduced a "chit bonus" system. When he notices someone doing particularly well, he gives the person a chit that can be turned in for a modest sum of money. The manager credits this system for much of the enterprise's increase in productivity. Another joint venture in Shanghai more than doubled production when it switched from hourly wages to a bonus system based on worker output. While new bonus practices may create initial unhappiness among some workers accustomed to receiving fixed bonuses regardless of performance, most foreign investors report satisfactory results after a period of adjustment.

ADDITIONAL LABOR COSTS

Local legislation covers specific issues such as subsidy levels, labor insurance and welfare, and pension payments, so requirements can vary from one locality to another. Foreign companies with a choice of location should carefully compare such costs.

Setting subsidies

Foreign partners find subsidies to be the most confusing element of a Chinese worker's compensation. One *World Economic Herald* writer has estimated direct and indirect welfare subsidies combined with labor insurance amount to about 100 percent of the basic wage (excluding bonuses).

MAJOR LABOR LAWS FOR FOREIGN INVESTMENTS

Provisions of the PRC for Labor Management in Chinese-Foreign Joint Ventures. (1980)

Interim Provisions on Labor and Wage Management in Enterprises in the Special Economic Zones of Guangdong Province. (1981)

Regulations for the Implementation of the Law on Chinese-Foreign Joint Ventures, Chapters XII and XIII (1983).

Implementing Procedures for the Provisions of the PRC for Labor Management in Chinese-Foreign Joint Ventures (1984).

Provisions Concerning the Question of Calculating Total Trade Union Fees for Chinese-Foreign Equity Joint Ventures (1984).

Provisions on Trade Unions in Enterprises in the Special Economic Zones of Guangdong Province (1985).

Provisions Concerning the Right of Autonomy of Enterprises with Foreign Investment in Hiring Personnel and the Wages, Insurance, and Welfare Costs of Staff and Workers (1986).

However, sorting out what a foreign-invested enterprise owes is not easy since some subsidies are paid directly to the worker, some are kept by the FIE, and others are paid to the local government. In addition, the type and amount of such payments varies from place to place.

Throughout China, most locales compute the basic wage and subsidies independently. Subsidies paid directly to the workers include money for such items as rent, transportation, sanitation, heating, and food allowances. These subsidies can add up to approximately 15 percent of the average monthly wage. In addition, enterprises must pay indirect subsidies to the local government to cover the cost of subsidizing goods and services in the socialist system. These subsidies also vary from region to region.

Shanghai's 1987 labor management provisions, for example, stipulate that joint ventures must pay an unspecified amount (¥30 before the new rules were released) to cover subsidies for grain, oil, nonstaple food, and fuel. The venture must also pay 15–20 percent of the total Chinese employee wage bill per month as a housing subsidy, which is turned over to the Chinese partner to compensate it for providing housing.

Beijing's guidelines are vague. The exact amount of the cost of living and housing subsidies is not specified but must be paid to the municipal finance bureau. Joint ventures that provide housing for their employees need not pay this rental subsidy.

And in Guangdong's special economic zones, joint ventures must make a quarterly payment to the local finance department to cover subsidies. These generally run to at least 10 percent of the total wage bill for Chinese employees (which includes various subsidies, prescribed bonuses, and the salaries of Chinese managerial personnel).

In general the subsidy component of labor costs is now more clearly accounted for in negotiations. Some foreign companies have even negotiated fixed subsidies, avoiding the subsidy "inflation" that accompanies those set as a percentage of wages. FIEs that qualify as technologically advanced or export-oriented are exempt from paying all direct and indirect subsidies other than those for labor insurance, welfare costs, and housing, according to the so-called "22 Articles" of 1986 (*see The CBR*, Mar–Apr 1988, p. 36). This has reportedly cut subsidy payments at some FIEs by 10–20 percent. Some regions, such as Jiangsu Province, have extended this benefit to all FIEs.

Labor insurance and welfare

According to the 1984 joint labor management regulations, joint ventures must follow the same unspecified standards as Chinese State enterprises for labor insurance and welfare—including covering medical costs, living expenses of disabled and retired workers, death benefits, and maternity care. Some local legislation is more specific on FIE requirements, while some requires or advises FIEs to take out insurance from the People's Insurance Company of China.

In Beijing, FIEs are required to set aside money for three welfare funds, with the amount based on a percentage of the monthly total wage bill for Chinese employees. At least 7.5 percent of the monthly total wage bill goes to a medical care fund, and 20 percent is for a "fund for daily labor insurance and welfare" to be used for such direct subsidies as baths and haircuts, travel expenses, single-st child bonuses, death-related benefits, and severance pay. An additional 1.5 percent goes into a continuing education fund. The enterprise labor union supervises the management of these funds.

In general the amount paid for labor insurance and medical expenses ranges from 20–48 percent of the total wage bill at various localities. These payments appear to be on top of contributions required by the Joint Venture Law to set up a welfare and bonus fund for staff and workers. This money, the amount of which is determined by the board of directors, is normally turned over to the venture's labor union, which uses it for collective welfare items such as nurseries, canteens, and dormitories.

A distinction for tax purposes also applies to the two different types of contributions. While expenditures paid into and out of the latter welfare and bonus fund are not deductible, and buildings and other assets purchased or built with such funds may not be depreciated, payments into or out of the other funds are considered tax deductible expenses of the venture.

Photo courtesy of Xinhua News Agency

End of the iron rice bowl. Chinese factories can now terminate the contracts of new Chinese workers hired through a competitive contract system if work performance is unsatisfactory or labor discipline is violated.

Pension payments

Foreign-invested enterprises must contribute 20–30 percent of the monthly total wage bill to a labor insurance or pension fund as specified in local legislation. In most cases the pension fund is also used to pay medical and funeral expenses of retirees as well as death compensation benefits to the families of deceased employees. The type and share of costs covered by foreign-invested enterprises are the same as those of Chinese State enterprises. The enterprise's labor union is responsible for operating the pension fund.

The plans adopted by three different areas depict the general outline of these systems. Shanghai's 1986 pension rules for FIEs require a contribution equivalent to 30 percent of the enterprise's total monthly real wage bill. This pension fund for Chinese employees is administered by the People's Insurance Company of China (PICC) and supervised by the venture's labor union. Under these rules, after the joint venture is dissolved, PICC remains responsible for paying pensions to those already retired, while accrued benefits are transferred to the new employers of all other workers. In Beijing, 20 percent of the total wage bill is to be set aside for this fund, which will reportedly be managed together with funds of State and collective enterprises by the new Retirement Plan Office.

In Shenzhen, detailed rules on social labor insurance for temporary workers in foreign investment enterprises prescribe that enterprises pay the municipal Social Labor Insurance Company premiums equal to 17 percent of the total wages of workers. Workers themselves must also pay the equivalent of 2 percent of their wages to the insurance company, to be used to pay retirement expenses and death benefits. These examples show that the practice in this, as in other labor areas, varies from one locality to another. The practice and the rules are also still evolving.

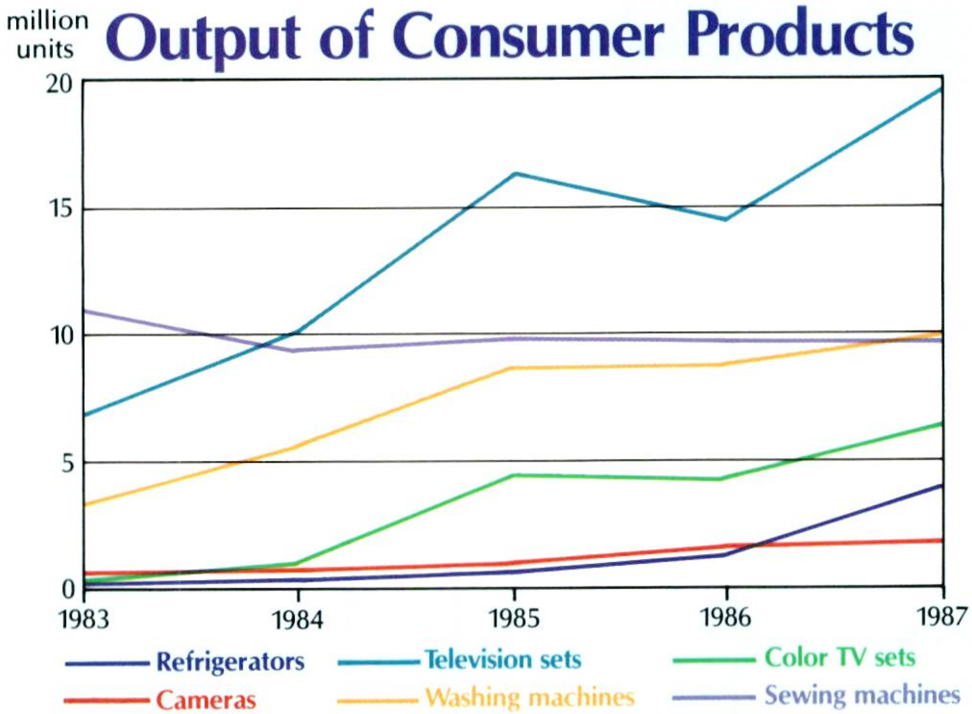
Labor union fees

Chinese enterprises and foreign-invested enterprises must contribute 2 percent of the total employee wage bill to the labor union. Pursuant to regulations issued in 1984, the labor union fee should be computed on the basis of the total wages (including basic wage, bonuses, and subsidies) of both Chinese and foreign employees. The rationale for including the salaries of the general manager and other expatriate personnel in the computation base is that foreign employees are welcome to join and obtain the benefits from the labor union, and therefore their compensation is properly taken into account.

Improving on a good base

Foreign investors continue to press for greater autonomy to motivate and discipline their Chinese labor force and to seek ways to fully exercise their rights to recruit and fire employees. In terms of practical experience, however, many foreign investors are pleased with the quality and productivity of their Chinese employees—after the inevitable period of weeding out through testing, training, and adjustment to new work rules and systems. 完

Output of Consumer Products



SOURCE: State Statistical Bureau

OUTPUT OF INDUSTRIAL AND CONSUMER PRODUCTS

	1986	1987	% change 87/86
Coal (MMT)	870.0	899.0	+3.3
Crude Oil (MMT)	131.0	134.0	+2.6
Steel (MMT)	52.05	56.0	+7.6
Cement (MMT)	161.6	180.0	+12.2
Timber (MMT)	62.88	68.43	+5.2
Chemical insecticide (MMT)	.223	.260	+16.6
Electricity (bil kwh)	445.0	493.4	+10.7
hydroelectricity	93.2	98.6	+5.8
Motor vehicles (thous. units)	369.0	472.3	+27.9
Locomotives (units)	818.0	909.0	+11.1
Machine tools (thous. units)	158.6	146.0	−10.6
Bicycles (mil. units)	35.7	40.9	+14.6
Refrigerators (mil. units)	2.24	4.0	+77.5
Television sets (mil. units)	14.47	19.4	+33.9
Color TV sets	4.14	6.7	+62.4
Cameras (mil. units)	2.15	2.4	+11.4
Washing machines (mil. units)	8.99	9.9	+10.2
Sewing machines (mil. units)	9.86	9.6	−2.7
Wristwatches (mil. units)	64.65	59.1	−8.2
Cloth (bil. meters)	15.8	16.7	+5.7
Cigarettes (mil. cartons)	25.93	28.8	+11.1
Beer (mil. tonnes)	4.02	5.3	+30.5

SOURCE: State Statistical Bureau

KEY INDICATORS

KEY INDICATORS	1984	1985	1986	1987
Exchange rate (yuan per US $)	2.3200	2.9367	3.4528	3.7221
Currency in circulation (bil ¥)	79.2	98.8	121.8	120.6
Reserves (bil. $)	21.3	15.9	15.2	20.8
Foreign exchange	16.7	11.9	10.5	15.2
Gold (at current market prices)	4.6	4.0	4.7	5.6
GDP* (bil. ¥)	691.5	778.0	938.0	1092.7
State budget revenues (bil. ¥)	146.5	185.4	222.03	234.66
State budget expenditures (bil. ¥)	151.5	182.6	229.11	242.69
Consumer Price Index (1980 = 100)	109.6	118.4	124.4	131.7
Gross value of industrial output (bil. ¥)	704.2	875.9	1115.7	1378.0
of which:				
heavy industry	370.7	467.0	583.3	722.0
light industry	335.5	408.9	532.4	656.0
Gross value of agricultural output (bil. ¥)	375.5	451.0	394.7	444.7
of which:				
grain output (MMT)	407.2	379.0	391.1	402.4
cotton output (MMT)	6.077	4.150	3.540	4.190
Population (millions)	1034.8	1046.4	1060.0	1080.0

SOURCE: *IMF Financial Statistics*, State Statistical Bureau, National Council files.
All values in current prices unless otherwise noted.
Information for 1980–82 in *The CBR* May–June 1986.
*In 1986 China switched to reporting GNP, rather than GDP. Figures for 1983-85 reported in constant prices.

CHINA'S EXTERNAL LOANS

Type	1979–83	1984	1985	1986
Foreign government loans (mil $)				
contracted	3337	505	1021	1444
utilized	2194	723	486	841
International monetary institution loans				
contracted	1958	969	1131	1826
utilized	1008	182	604	1342
Convertible currency loans through Bank of China (primarily commercial) (mil $)				
contracted	7560			1495
utilized	7560	122	526	1495
Purchasing credits (mil $)				
contracted	501			2484
utilized	501	133	126	177
Bonds and shares issued internationally (mil $)				
contracted	679			1158
utilized	679	246	762	1158

SOURCE: MOFERT

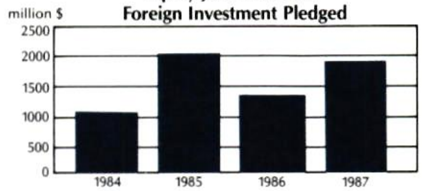
Compiled by Jennifer Koch

ANNUAL FOREIGN INVESTMENT IN CHINA, 1980–87

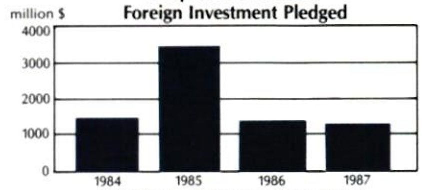
TYPE	1980	1981	1982	1983	1984	1985	1986	1987
EQUITY JOINT VENTURES								
Number of Agreements	20	28	29	107	741	1300	892	1399
Foreign Investment pledged (mil $)	63	28	29	188	1060	2027	1375	1920
COOPERATIVE VENTURES								
Number of Agreements	320	70	402	331	1089	1500	582	786
Foreign Contribution pledged (mil $)	500	1300	926	504		2189	1358	1286
WHOLLY FOREIGN-OWNED VENTURES								
Number of Agreements			33*	15	26	46	18	45
Foreign Investment pledged (mil $)				4	99	32	20	470
JOINT OIL DEVELOPMENT								
Number of Agreements	4	0	1	18	0	4	6	3
Foreign Contribution pledged (mil $)	1112	0	170	1031	0	143	80	4

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

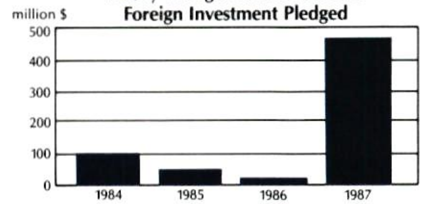
Equity Joint Ventures
Foreign Investment Pledged



Cooperative Ventures
Foreign Investment Pledged



Wholly Foreign Owned Ventures
Foreign Investment Pledged



FOREIGN TRADE WITH SELECTED COUNTRIES, 1983–1987

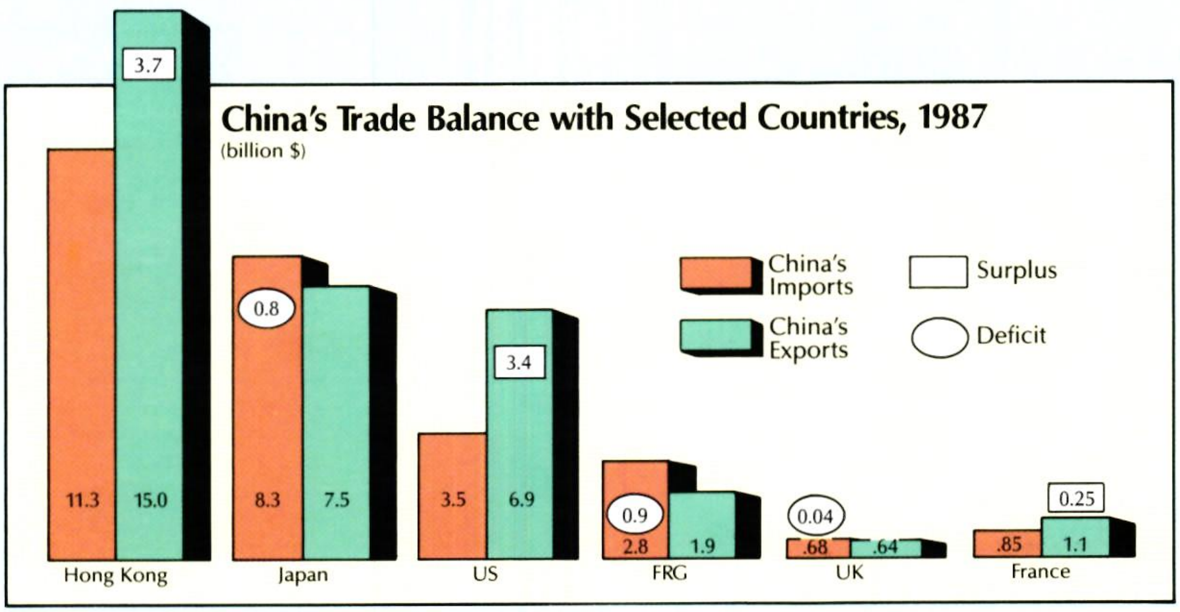
(MILLION $)	1983	1984	1985	1986	1987	% change 1987/86
Hong Kong exports (fob)	2495	5031	7858	7550	11291	+49.5
imports (cif)	5847	7131	7568	10460	15049	+43.9
Total	8342	12162	15426	18010	26340	+46.3
Share of 2-way trade	19.2%	23.5%	22.2%	31.9%	24.4%	
Japan exports (fob)	4912	7216	12477	9850	8337	−15.4
imports (cif)	5087	5957	6482	5670	7478	+31.9
Total	9999	13173	18959	15520	15815	+1.9
Share of 2-way trade	23%	25.4%	27.2%	19.1%	21.0%	
United States exports (fob)	2173	3004	3856	3105	3497	+12.6
imports (cif)	2477	3381	4224	5241	6910	+31.8
Total	4650	6385	8080	8346	10407	+24.7
Share of 2-way trade	10.7%	12.3%	11.6%	12.6%	11.3%	
West Germany exports (fob)	1075	1038	2230	2867	2797	−2.4
imports (cif)	768	851	871	1200	1928	+60.7
Total	1843	1889	3101	4067	4725	+16.2
Share of 2-way trade	4.2%	3.6%	4.4%	5.7%	5.5%	
United Kingdom exports (fob)	244	424	512	783	679	−13.2
imports (cif)	351	372	475	623	643	+3.2
Total	595	796	987	1406	1322	−6.0
Share of 2-way trade	1.4%	1.5%	1.4%	1.6%	1.9%	
France exports (fob)	450	310	781	666	847	+2.7
imports (cif)	433	440	499	583	1099	+88.5
Total	833	750	1280	1249	1946	+55.8
Share of 2-way trade	2.0%	1.4%	1.8%	2.4%	1.7%	

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

CHINA'S FOREIGN TRADE 1986–87

	1986	1987	% change 1987/86
Total Trade (fob and cif) bil $	73.83	82.70	+12.0
Exports (fob) bil $	30.93	39.50	+27.7
Imports (cif) bil $	42.90	43.20	+0.7

SOURCE: State Statistical Bureau



BOOKSHELF

书刊介绍

Almanac of China's Foreign Economic Relations and Trade 1987, edited by the Editorial Board of the Almanac of China's Foreign Economic Relations and Trade (MOFERT). Hong Kong: China Resources Advertising, 1987. 950 pp. Distributed in North America by Transtates Enterprises, 601 S. Palm Ave., Alhambra, CA 91803. English version $108; Chinese version $88.

The Ministry of Foreign Economic Relations and Trade's fourth annual almanac is a comprehensive, authoritative volume packed with useful information on China's 1986 foreign economic and trade events, issues, and statistics.

The hefty *Almanac* contains China's major trade-related speeches and documents from 1986 and articles on relevant foreign trade issues, including foreign loans and investment, customs administration, commodity inspection, and tourism, as well as a separate list of all foreign trade laws and regulations promulgated in 1986. And detailed descriptions of foreign trade, investment, technology imports, and economic cooperation on overseas projects give important insights into the foreign trade strengths of every province, municipality, open port city, and special economic zone.

As usual, the most valuable part of this compendium is its statistics section, which serves as China's authoritative source of information on investment and foreign capital. Although MOFERT's versions of import and export trade statistics are not considered as accurate as Customs Administration figures, they do provide detailed commodity breakdowns unavailable elsewhere. Additional tables list China's overseas projects and most Sino–foreign joint venture agreements signed in 1986.

Other sections cover foreign trade theory and terminology, descriptions of major export commodities, a chronology of major trade-related events of 1986, descriptions of selected foreign trade organizations, and world economic and trade data. —JLL

China: Energy Sector Outlook, by Todd Johnson. London: The Economist Publications Ltd., 1987. (The Economist Intelligence Unit Special Report No. 1080.) 89 pp. $270.

This concise and information-packed sector survey was written by an economist currently with the Committee on Scholarly Communications with the PRC at the National Academy of Sciences, and formerly at the East–West Center in Hawaii. In this report, he reviews China's policies on energy production and consumption and estimates energy demand both during the Seventh Five-Year Plan and through the year 2000.

The introduction summarizes the author's conclusions, including predicted growth rates for energy production and consumption along with scenarios for energy output, oil and coal trade, and foreign investment in the energy sector. Energy consumption patterns and the future strains between supply and demand are discussed in a separate chapter.

Chapters are devoted to each type of energy—coal; oil, natural gas, and refining; and electric power (including hydropower, nuclear, and power transmission). Another chapter deals with energy trade, while the final chapter sums up the energy outlook under the Seventh Five-Year Plan with government production targets and the author's predictions for 1990 and the year 2000.

Beyond the wide-ranging overview, the report includes information of specific interest to the businessperson, including what Western energy technologies China wants to acquire, China's future foreign exchange requirements and potential for direct foreign investment, and demand for soft and commercial loans. The author also points out the promise offered by onshore oil exploration, closed to foreign involvement until recently.

—JLL

Health Care in the People's Republic of China: Moving Toward Modernization, by Marilynn M. Rosenthal. Boulder, CO: Westview Press, 1987. 220 pp. $25 softcover.

Based on two health care system study trips to China in 1979 and 1981, this book reviews several problems facing China's health care system during its initial attempts to modernize.

The author was among the first to hear of Chinese health care officials' plans to professionalize the ranks of the "barefoot doctors," those peasants who—after just one year of training—are the foundation of China's medical structure in the countryside. After interviews at several communes, she concludes that barefoot doctors in remote rural areas far from better equipped county-level hospitals have less training but more responsibility than other barefoot doctors. This inequality is likely to persist despite professionalization plans.

Equally interesting is the discussion of China's efforts to integrate traditional Chinese and Western medicine. The rivalry between doctors trained in each type and the diversity of opinions on the efficacy and best use of traditional medicine complicate the process. Although Western drugs dominate, the author concludes that "political will, economic necessity [traditional medicine is cheaper], and cultural pride are giving traditional medicine the impetus for survival."

In the preface Rosenthal emphasizes that her material is drawn from the early period of change, but that the final chapter will bring the reader up to date. Instead, this chapter only offers a concise summary of the book's major points. Since most of Rosenthal's research focuses on the rural health care system, the book is not particularly useful for the businessperson seeking to sell sophisticated medicines or equipment to China's top-level urban hospitals. But this volume does provide informative background material for those companies participating in research efforts aimed at applying the principles of Chinese medicine to future products. —JSS

China Facts & Figures Annual, Vol. 10, 1987, edited by John L. Scherer. Gulf Breeze, FL: Academic International Press, 1988. 362 pp. Available by subscription at $69.50 each; individual editions $89.50.

This book collects in one place a wide variety of descriptive material covering Chinese events, statistics, and major documents for 1986—and in some cases 1985. The information on China's government structure, economy, industry, agriculture, and foreign trade is primarily taken from the Chinese and foreign press. The volume includes useful synopses of activity in individual sectors such as transportation and foreign investment, and provides a chronology of the major events of 1986. —JLL

Teaching China's Lost Generation, by Tani E. Barlow and Donald M. Lowe. San Francisco, CA: China Books and Periodicals. 1987. 266 pp. $9.95 softcover.

Barlow and Lowe had the good fortune to teach at a teachers' college in Shanghai during the 1981–82 school year, a time when mass memories of suffering during the Cultural Revolution remained strong and few ordinary Chinese had any exposure to foreigners.

In this journal-style compendium, the authors touch on a wide range of topics—from youth and education to law and art—while painting a realistic picture of daily Chinese life and social organization. But what any reader with a keen interest in China will relish is the chance to follow this couple down Shanghai's narrow lanes and into Chinese homes. The authors' range of acquaintances moves far beyond the university walls because Mr. Lowe's relatives, a fairly traditional Chinese family living in Shanghai (Lowe is a Chinese-American), were willing to introduce the Americans to their friends.

In exploring the early post-Cultural Revolution attitudes of those they meet, the authors find repeated expressions that nothing good came out of the 10 years of turmoil. This contrasts sharply with the authors' own favorable analysis stemming from their experiences with Marxism in the United States.

In a fascinating 1987 postscript to the current edition, the authors discuss how their many students now studying in the United States are adjusting to the new culture. The authors reveal both how their 1981 assessments of students were distorted and what common misconceptions these highly educated Chinese held about life in America.

Teaching China's Lost Generation will interest anyone who, like the authors, is striving to understand China despite their own preconceptions. But the book offers a limited vision of Chinese life, since Barlow and Lowe traveled to few places outside Shanghai. And while the authors are quick to point out how their experiences, reception among Chinese, and observations are colored by their different cultural backgrounds, in the end this sensitivity confuses rather than clarifies. The fact that individual chapters or sections are not credited to a particular author and that proper names are used rather than the first person pronoun make it difficult to determine which author is making which observations. —JSS

Cooking Western in China: A New Practical Menu Cookbook, by P.T. Freeman, Deng Baorong, and C.W. Freeman, Jr. Hong Kong: South China Press (10 Queen Victoria St.), 1987. 321 pp. HK$140.

This bilingual cookbook is heaven-sent to Chinese chefs or expatriates living in China who want to cook and entertain Western-style. Arranged by menu rather than recipe, *Cooking Western in China* includes meal plans for breakfast through dinner, with special menus for cocktail parties, formal events, and even lunch-box meals and picnics.

A brief introductory chapter on the origins of Western cuisine serves to orient the Chinese reader. A short section on Western-style meat preparation includes diagrams on butchering techniques—the first ever published in Chinese.

Helpful Chinese–English glossaries of cooking terms, equipment, and ingredients are included, along with a list of fruits and vegetables and their dates of availability in Chinese markets. Equivalency charts for Chinese, American, and metric units, a menu list, and an index round out the volume. —JLL

5000 Years of Chinese Costumes, by Zhou Xun and Gao Chunming. San Francisco: China Books and Periodicals, Inc. 1987. 256 pp. $49.95 hardcover.

This handsome, award-winning book on the role of costume in Chinese cultural history is a treat to browse through. Researched by the Chinese Costume Research Group of the Shanghai School of Traditional Opera, the book chronicles the costumes of nine historical periods beginning with the Xia Dynasty (2205–1776 B.C.), when dress in China was first used to convey social status and rank. From that time on, special court occasions came to require distinctive garments laden with ornaments and special motifs that continued for centuries to distinguish emperors from officials, and courtiers from concubines.

Color reproductions of costumes and details of armor, hairstyles, helmets, and shoes are complemented by illustrations of figurines, ceramics, paintings, and clothing samples from various periods. Unfortunately the Mao suit, the sartorial symbol of the modern era, is not included.

The armchair Sinophile will enjoy the brilliantly colored tigers, dragons, phoenixes, and flowers that dance across the richly stitched garments. Serious students of fashion will find the appendices indispensable with their comparison of typical costumes in each period and the detailed illustrations of each garment (including measurements). The extensive bibliography is in itself a fine resource. —PET

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.*

CHINA BUSINESS

中外貿易

Jennifer Koch

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

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

中外贸易

SALES AND INVESTMENT THROUGH MARCH 31

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported
Agricultural Commodities	
China's Imports	
(Pakistan)	Will supply 20,000 tonnes cotton. 11/87.
Pengli Co. (HK)	Will deliver 3,000 tonnes Peruvian fish powder and 5,000 tonnes Brazilian fish powder. $3 million. 12/87.
US Department of Agriculture	Agreed to sell 3,000 head of dairy cattle. 1/88.
US Department of Agriculture	Sold 405,000 tonnes wheat at 1987-88 subsidized prices. 2/88.
Agricultural Technology	
China's Imports	
Charoen Pokphand Group (Thailand)	Signed technology transfer agreement to encourage Thai involvement in China's agriculture. 2/88.
Unitrade International Ltd. (HK)/CNTIC	Will supply stationary feed mixer set. $64,700. 2/88.
Henry Simon Ltd., a Simon Engineering Co. (UK)/Beijing Grain Bureau	Will equip 800 TPD flour-milling complex. 2/88.
Investments in China	
Cherry Valley Farms (UK)/Tianjin Municipal Animal Husbandry Industry Commerce Corp. and Tianjin Eastern Suburbs Economic Development Corp.	Signed agreement to jointly produce duckmeat and duckmeat by-products. 11/87.
Cyrus Eaton World Trade (US)/Industry and Commerce Corporation of Inner Mongolia	Will open 20-year joint venture cattle feedlot and slaughter plant. $30 million. (50-50). 1/88.
Cyrus Eaton World Trade (US)/NA, Xinjiang	Signed agreement to set up beef and lamb production project. $21 million. 1/88.
Ranger International USA (US)/Tianjin Jingjin Medical Instruments Factory, Tianjin Jinxin Machinery Factory, Tianjin Industrial Technology Development Corp., and Tianjin Economic and Technological Development Agency	Established Tianjin Heavenly Dragon Two-Wheel Tractor Co. joint venture to produce tractors for agriculture and transportation. $1.4 million. (RI:42.5%-TJMIF:16.75%-TJMF:16.75%-TITDC:12%-TETDA:12%). 2/88.
Cargill Inc. (US)/CITIC and Shandong Supply and Marketing Cooperative	Formed joint venture cottonseed-crushing plant. $12 million. (CI:60%-CITIC:30%-SSMC:10%). 2/88.
Other	
Professors Leon Rubin and Levente Diosady of the University of Toronto (Canada)	Signed letter of intent to build pilot plant to produce high protein livestock feed utilizing new method developed by the professors. 12/87.
(Canada) and (FRG)/Harbin, Heilongjiang	Signed multilateral agreement in which Canada provides mustard seeds and technology to Harbin, which in turn sends output to the FRG for processing into mustard powder. 12/87.
Chemicals (Agricultural)	
China's Imports	
Sumitomo Corp. (Japan)/ CNTIC	Will supply 15,000 liters of insecticides. 2/88.
Tomlander Ltd. (UK)/ CNCCC	Shipped four sets of carbon steel superheater coils for use in 1,000 TPD ammonia plant producing fertilizers. $731,120 (£400,000). 2/88.
Monsanto Far East Ltd. (HK), subs. of Monsanto Co. (US)/CNTIC	Will supply 20,000 liters of insecticides. $51,000. 2/88.
Chemicals and Chemical and Petrochemical Plants and Equipment	
China's Imports	
KIM-RAN Inc. (US)/ Weifang, Shandong	Will build and ship chemical processing plant to turn agricultural waste into chemicals used for refining and transportation. $146 million. 11/87.

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

Saudi Basic Industries Corp. (Saudi Arabia)	Will provide 340,000 tonnes of petrochemicals, plastic resins, and fertilizers in 1988. $65 million. 12/87.
Didier Engineering GmbH (FRG)/Foshan Chemical Fiber Industrial Co.	Received order for granulated polyester manufacturing plant. 12/87.
Snia Bpd (Italy)/CNCCC	Will assist in building chlorinated polymers plant. $16.3 million (IL20 billion). 12/87.
Occidental Chemical Corp., subs. of Occidental Petroleum Corp., and Bechtel Group Inc. (US)/SITCO	Signed agreement to provide technology to construct 20,000 TPY polyvinyl-chloride paste-resin plant at Shanghai Chloro-alkali Complex in Wujing. $13 million. 1/88.
Technip (France)/CNTIC, and Fushun, Liaoning	Will supply licensing, equipment, engineering, construction supervision, and start-up for 50,000 TPY ethylene oxide and ethylene glycol plant. $53.5 million (FF300 million). 2/88.
Fetfit Co. Ltd. (HK)/CNTIC	Signed contract to supply 5,000 tonnes of diammonium phosphate. $1.3 million. 2/88.

Investments in China

Petro Oil & Gas (US)	Signed letters of intept to form petrochemical manufacturing joint ventures. 1/88.
Bechtel Group Inc. and The Procter & Gamble Co.(US)/Guangdong Foreign Trade Development Corp.	Will build fatty alcohol plant joint venture in Guangdong. 3/88.

Construction Materials and Equipment

China's Imports

Cerberus, subs. of Electrowatt (Switzerland)/World Trade Center, Beijing	Will supply fire protection systems for World Trade Center. 12/87.
Sunds Defibrator and Karlstads Mekaniska Verkstad (Sweden)	Offered to construct pulp and board mill in eastern China. 12/87.
K. Strieder (FRG)/CNTIC	Will supply welding equipment. $285,000 (DM465,000). 2/88.
Piamnti (Italy)/Anshan Iron and Steel Complex, Liaoning	Will help construct seamless steel pipe mill. $300 million. 2/88.

Other

Dyckerhoff Engineering GmbH (FRG)/State Administration of Building Materials	Conducting feasibility study for possible expansion of dry process kiln line for cement plant. 12/87.

Consumer Goods

China's Imports

NA (Czechoslovakia) and NA (FRG)/Tongsheng Shoemaking Factory	Sold Czech shoe production line and related German equipment. $669,000 (¥2.49 million). 1/88.
Allimand (France)/Yunnan Provincial Import and Export Corp. and Red Star Paper Mill, Yunnan	Signed contract to supply 5,000 TPY cigarette paper plant. $10 million. 1/88.
Lehel (Hungary)/NA, Ningbo	Supervising construction of 300,000 units per year refrigerator factory. $7.5 million (SwF10 million). 2/88.

Investments in China

Liebherr GmbH (FRG)/Qingdao General Refrigerator Factory, Shandong	Signed cooperative agreement to double production of refrigerators to 200,000 units per year. 12/87.
NA (France)/Anshan Engineering Plastic Factory, Hebei	Formed Anshu Decoration Material Co. Ltd. joint venture to produce 6 million square meters plastic carpet per year. $8 million (¥30 million). 1/88.
NA (HK)/MEI and Zhoukou Radio Factory, Henan	Began operation at Yusheng Video Tape Co. joint venture producing video tape. $3 million. (HK:45.45%-PRC:54.55%). 1/88.
International Finance Corp., affiliate of the World Bank/Shenzhen China Bicycle Plant, (joint venture between Schwinn Bicycle Co. (US), Hong Kong (Link) Bicycle Co., and Shenzhen Light Industrial Co.)	Invested $5 million in bicycle manufacturing joint venture to help expand production. 2/88.

Electronics and Electrical Equipment

China's Imports

Lamberton Robotics (UK)/An engine plant in Beijing	Will supply one telemanipulator. 11/87.
Honeywell Bull, subs. of Compagnie des Machines Bull (France)	Signed three contracts to supply multiuser computer systems to Guangdong Physical Culture Commission, Shaanxi Finance School in Xi'an, and Long Xiang Hotel in Beijing. $382,000 (HK$2.98 million). 12/87.
Onflo (HK)/BOC	Will supply 1,500 AX-2400C modems. 12/87.
Digital Graphics (HK)/Beijing Design Institute branch of LIGHTINDUSTRY	Will supply computerized system to design factories. 1/88.
Compagnie des Machines Bull (France)/PBOC	Will supply three DPS 7000 midframe computers for interbank clearing operations. 1/88.
Fujitsu Ltd. (Japan)/People's Insurance Company of China	Will supply six computers and 308 terminals. 2/88.
Digitran Inc. (US)/CNTIC	Will supply simulator and spare parts for World Bank-financed project. $370,000. 2/88.
China Business Associates (US)/CNTIC	Will provide two mini-computers for World Bank-financed project. $15,842. 2/88.
Lucas Niille (FRG)/CNTIC	Will supply electrical equipment. $282,000 (DM461,000). 2/88.
Altos Computer Systems (Far East) (HK)/Beijing Olympic Hotel	Will supply and install two Altos 3068 systems for office management. $128,000 (HK$1 million). 2/88.

Investments in China

Hewlett-Packard Co. (US)/MACHIMPEX	Jointly formed technical service center for Hewlett-Packard products. 2/88.

Other

ROI Computer Co. (US)/North China Institute of Computer Engineering	Established program to teach Chinese engineers how to maintain and repair IBM hardware. 11/87.
United Nations Industrial Development Organization/Research Institute of Electric Light Source Materials, Jiangsu	Will provide grant and assistance to develop tungsten wire technology for the production of lamps. $660,300. 2/88.

Electronics (Consumer)

China's Imports

Video Display Corp. (US)	Will build color television electron gun mount manufacturing plant. $1.5 million. 11/87.
Hitachi Ltd. (Japan)/Chengdu and Nanjing factories	Signed agreement to provide technology for video cassette recorder production. 1/88.
SEL Co. (FRG)/Shenzhen Universal Digital Industry Co.	Will transfer technology for digital television production. 1/88.
TDK Corp. (US)/CNEIC	Will provide technology and equipment to produce television thermistors. 2/88.

Investments in China

Philips Corp. (Netherlands)/Dalian Hualu Electronic Industry Corp., Liaoning	Signed agreement to jointly produce VHS video cassette recorders for domestic use and export. $64 million. 12/87.

Engineering and Construction

(France)/Ministry of Urban and Rural Construction and Environmental Protection	Signed cooperation agreement in city planning, architectural design, construction, and urban services. 1/88.

Finance and Banking

China's Imports

Olivetti Co. (US)/Guangzhou branch of ICBC	Will supply three sets of distributed banking systems for monetary transfers. 12/87.
Gilman Office Machines, an Inchcape Pacific company (HK)/ICBC	Will supply 1,300 banknote counting machines. $1.24 million (HK$9.7 million). 1/88.

Other

Generale Bank (Belgium)/ICBC	Signed cooperation agreement. 11/87.
Haight, Gardner, Poor & Havens (US)	Coordinating US financing for industrial development projects in China. Over $2 billion. 1/88.
Westpac Banking Corp. (Australia)/CNTIC and Beijing Investment and Trust Corp.	Signed cooperative banking agreements. 1/88.
International Development Association, affiliate of the World Bank/Agricultural Bank of China	Will provide $170 million loan for production and construction projects in Yunnan, Guizhou, Sichuan, Hubei, Henan, and Anhui. 1/88.
Swedish Agency for International Technical and Economic Cooperation (Sweden)/Shangzhi County, Heilongjiang	Will provide loans to finance 470 TPY currant juice processing line. $2.6 million (SK15.74 million). 3/88.
(Australia)	Agreed to provide 3-year, low interest $145 million loan for trade related projects. 3/88.

Food Service and Food Processing

China's Imports

Dorr-Oliver BV (Netherlands)/CNTIC, Liaoning	Will supply 250 TPD corn starch processing plant. $8 million (DG15 million). 2/88.

Investments in China

Tate and Lyle (Singapore)/Three PRC partners	Established tea packaging and export joint venture using Italian tea bagging equipment. $1 million (S$2 million). (50-50). 12/87.
HK-based consortium led by CMI International (UK)	Will assist in developing China's canned vegetable industry, beginning with the supply of vegetable seeds. 1/88.
Emkay Inc. (US)	Will set up 20,000 TPY tomato and pineapple joint venture canning facility. 2/88.
North American Development Co. (Canada)/Qingdao Brewing Co., Shandong	Established Qingdao North America Food Product Co. joint venture to produce garlic powder, pepper products, and vermicelli. 2/88.
Cheil Sugar Co. (South Korea)/Zhanjiang, Guangdong	Plan to set up monosodium glutamate production plant. $20 million. 2/88.

Leasing and Insurance

Other

Yasuda Fire and Marine Insurance Co. (Japan)/Shanghai branch of Bank of Communications of China	Signed agreement to cooperate on mutual insurance interests. 2/88.

Machine Tools and Machinery

China's Imports

McNeil Akron Inc. (US)	Will supply rotational rolling machinery. 12/87.
Trade Interface Inc. and Wire Rope Corp. of America (US)	Trade Interface will sell secondhand wire mill which will be reconditioned and installed in China by Wire Rope Corp. 1/88.
Friedrich Deckel (FRG)/CNTIC	Will supply universal millers and training equipment. $2.45 million (DM4 million). 2/88.
Mertz Inc. (US)/CNTIC	Contracted to supply 20 sets of vibrators and spare parts financed by World Bank loans. $6 million. 2/88.
Belliss & Morcom (UK)/Liuzhou Compressor Works, Guangxi	Agreed to transfer compressor production technology including working drawings, designs, and manufacturing know-how. 2/88.

Investments in China

NEI Thompson Ltd. (UK)/Tianjin Heavy Machinery Corp.	Signed agreement to jointly manufacture friction welding machines. 11/87.

Other

Onan Corp. (US)/CNTIC	Opened 3-year cooperative service center for repairs and spare parts for Onan generators. 3/88.

Medical Equipment and Devices

China's Imports

Wakeling Medical (UK)/Tianjin Medical Instrument Factory	Signed letter of intent to transfer technology for electronic fetal-monitoring equipment. 11/87.
Taiyo Koeki Co. Ltd. (Japan)/CNTIC	Will supply medical equipment for World Bank-financed project. $17,000 (J¥2.2 million). 2/88.

Investments in China

Bayer AG (FRG)/Shanghai Dental Materials Factory	Began production of artificial teeth at the Bayer-Shanghai Dental Ltd. joint venture. $6.4 million (FRG:55%-PRC:45%). 12/87.
Danavox, subs. of Store Nord Group (Denmark)/Xiamen United Development Co., Fujian	Opened joint venture to manufacture hearing aids. (50-50). 12/87.
A-dec (US)/Beijing Medical University	Supplied dental equipment and technical training seminar on maintenance and repair. 12/87.
Dentsply International (US)/China National Medical Equipment and Supplies Import and Export Corp.	Signed agreement to jointly produce dental products. 12/87.
Thailand LP Standard Medicine Co. (Thailand)/Harbin Medical Administration	Signed letter of intent to jointly establish natural tonics development company using ginseng and animal antlers. $3.5 million. (TL:60%-PRC:40%). 1/88.

Other

Uppsala University (Sweden)/Ministry of Public Health	Signed agreement to train Chinese doctors in child nutrition and healthcare using a Swedish grant. $363,000 (SK2.2 million). 3/88.

Metals, Minerals, and Processing Technology

China's Imports

Larox Oy (Finland)	Will supply pressure filters for nonferrous metal enrichment plant to filter nickel. 10/87.
Krupp Koppers GmbH (FRG)	Signed contract for design, construction, installation, and startup of two coke oven gas processing plants. 11/87.
General Electric Co. (FRG)/Ministry of Metallurgical Industry, Ministry of Coal Industry, and China National Nonferrous Metals Industry Corp.	Signed agreement to set up three automated training centers, providing equipment free of charge. 2/88.
Midland Rollmakers, of the Sheffield Forgemasters Group (UK)	Delivered steel rolls. 2/88.
Ishikawajima-Harima Heavy Industries Co. Ltd. and Mitsubishi Electric Co. (Japan)/Southwest Aluminum Fabrication Plant, Sichuan	Will supply machinery and electrical components to renovate hot rolling aluminum mill. $10 million. 2/88.

Investments in China

Davy McKee Ltd. (UK)/Tianjin Copper Project Corp.	Signed memorandum of understanding for joint copper smelter project. 11/87.
Murphy Group (Australia)/China Geology Import and Export Corp.	Established joint venture to prospect and mine diamonds in Hunan Province. 1/88.
Reliance Group (HK)/China Geology Import and Export Corp.	Established joint venture to mine graphite in Heilongjiang Province. $14 million. 1/88.

Other

Montana College of Mineral Science & Technology (US)/Changchun College of Geology and Daqing Petroleum Institute	Signed accord to exchange faculty, students, and research information on geology and mineral technology. 11/87.

Military Equipment

Other

Westinghouse Electric Co. (US)	Awarded subcontract from Grumman Corp. (US) to provide complete fire control system for the PRC's F-8 fighter aircraft. $41.4 million. 1/88.

Mining Equipment

China's Imports

Atlas Copco (US)	Will provide ten rigs equipped with rock drills for nickel-copper mine in Gansu Province. 11/87.

Packaging Materials and Equipment

China's Imports

Black Clawson (UK)	Supplied three Chemi-Washer horizontal belt washers for use in pulp mills. 10/87.

Investments in China

London Export Corp. (UK)/Tianjin Glass Industrial Corp.	Signed letter of intent to form glass container factory joint venture. 11/87.

Petroleum, Natural Gas, and Related Equipment

China's Imports

Bristol Babcock Ltd. (UK)	Signed three contracts to supply data acquisition, monitoring, and control equipment for use in oilfields. 12/87.
UOP Inc., unit of Allied-Signal Inc. (US)/SINOPEC	Licensed Demex processing unit to upgrade heavy metal-contaminated crude oil residues. 12/87.
Japan Petroleum Exploration Co. (Japan)/CNOOC	Signed contract to explore area of Bohai Gulf. 1/88.
Statoil (Norway)/CNOOC	Signed contract to drill wildcat well in South China Sea with option to continue exploration. 1/88.

Other

Darco USA Inc. (US)	Signed agreement to market PRC-made oilfield equipment. 1/88.

Ports

China's Imports

Pharos Marine (UK)/Ministry of Communications	Will provide navigational aids to ports in Shanghai, Tianjin, and Guangzhou. $731,120 (£400,000). 12/87.

Investments in China

Royal Nedlloyd Group (Netherlands)/Port of Tianjin	Established 20-year joint venture for construction and operation of bonded warehouse, storage, and distribution center. 1/88.

Power Plants and Equipment

China's Imports

John Brown Engineering Ltd. (Scotland)/MACHIMPEX	Supplied two gas turbines for power station on Hainan Island. 12/87.
CAE Electronics Ltd. (Canada)/Huaneng International Power Corp.	Will design and manufacture energy management system for Hebei Province. $2.1 million (C$2.7 million). 12/87.
W.H. Allen, subs. of Northern Engineering Industries (UK)/Daya Bay Nuclear Power Plant, Guangdong	Will supply pumping system for circulating cooling water. $7.3 million (£4 million). 1/88.
Digital Telephone Systems, division of Harris Corp. (US)	Will supply nine integrated network switches to three power plants. 1/88.
Framatome and Spie Batignolles (France)/Daya Bay Nuclear Power Plant, Guangdong	Signed contract to erect nuclear island equipment at Daya Bay. 1/88.
Alsthom Corp. (France)/Huaneng International Power Development Corp. and Luohuang Power Plant, Sichuan	Will supply two 350,000 kilowatt generators. 2/88.
Weir Pumps and Mather & Platt Machinery (UK)/Daya Bay Nuclear Power Plant, Guangdong	Weir will supply six tandem steam generator feed pumpsets and Mather will supply six condensate extraction pumps. $7.85 million (£4.3 million). 2/88.
Mitsubishi Heavy Industries and Mitsubishi Corporation Consortium (Japan)/Huaneng International Power Development Corp. and Luohuang Power Plant, Sichuan	Will supply desulphurizing equipment. 2/88.

Investments in China

China Light and Power (HK)/CITIC	Began feasibility study for coal-fired power station joint venture. 12/87.
Sierra Power Systems (US)/Shenzhen	Will begin production of DC-to-DC converters, delay lines, and pulse transformers at Shenzhen plant. 1/88.

Printing, Publishing, Broadcasting, and Media

China's Imports

AT&T International Inc. (US)/Xinhua News Agency	Will supply comprehensive information processing and distribution system. $2.8 million. 1/88.
OCE Nederland B.V. (Netherlands)/CNTIC	Will provide plan printer for World Bank-financed project. $130,000 (DF235,700). 2/88.

Investments in China

Rothwells Ltd. (Australia)/China International Service Corp.	Will jointly set up media center in Beijing for 1990 Asian Games. $44 million. 1/88.
Hachette Inc. (US), subs. of Marlis S.A. (France)/Shanghai Translation Publishing House	Will publish two Chinese-language issues of "Elle" magazine. 3/88.

Other

(Iran)	Signed agreement to cooperate in radio, television, and satellite broadcasting. 1/88.
Journal of Commerce (US)/MOFERT	Agreed to jointly publish monthly Chinese-language edition of the *Journal of Commerce* beginning August 1, 1988. 1/88.
(FRG)	Signed cooperative broadcast agreement. 2/88.
Bretagne regional branch of No. 3 Television Station (France)/Shandong	Signed cooperative agreement on television broadcasting. 2/88.

Property Development and Property Management

China's Imports

Swiss-Belhotel Management Ltd. (HK)/Jianguo Hotel, Beijing	Will serve as consultants in marketing and management. 1/88.
URS International Inc., subs. of Thortec International Inc. (US)/Huaqiao Mansion Hotel, Beijing	Signed agreement to provide architectural and interior design. 1/88.
Holiday Inns Inc. (US)/Beijing Grand View Garden Park	Signed contract to manage hotel currently under construction. 1/88.

Investments in China

Scan Dev A/S (Norway)/Huayuan Economic Development Corp., Beijing	Established joint venture to construct the Beijing Huawei Center commercial building. $105 million. (50-50). 1/88.

Scientific Instruments

China's Imports

Electronic Concepts Corp. (US)	Signed two-year contract to produce hermetically sealed and nonhermetic polycarbonate capacitors for use in avionics, medical instrumentation, and geophysical equipment. 11/87.

Investments in China

Yokogawa Electric Machinery Co. (Japan)/ Suzhou Chips Plant and Xi'an Instruments and Meters Plant	Established Suzhou-Yokogawa Electric Meter Co. Ltd. joint venture to manufacture industrial measuring instruments. (Registered capital: $2.4 million). 1/88.
Baird Co. (US)/Xintian Precision Optical Instrument Corp., Beijing	Established the Beijing Spectrum Instrument Service Center to maintain, repair, and install Baird-made instruments, and to provide technical training. 1/88.

Ships and Shipping

China's Imports

Chenco Co. (US)/China National Ship Breaking Co. (CNSBC)	Signed contract to procure salvage ships for China, as well as to represent CNSBC's interests in the US. 11/87.
Semco Marine, subs. of Delmec Group (Denmark)/China National Shipbuilding Industry	Began licensed production of shipbuilding components. 12/87.

Investments in China

Ansett Transport Industries/SINOTRANS	Will form joint venture for international courier service. 12/87.

Telecommunications

China's Imports

Les Cables de Lyon, subs. of Alcatel NV Group (France)/CNTIC	Will supply 370 kilometers of single mode optic fiber cable and 500,000 kilometers plastic cable. $17 million. 1/88.
Philips Corp. (Netherlands)/Suzhou No. 1 Wire Communications Factory	Will transfer digital switchboard technology. 2/88.
E.B. Nera (Norway)/ Guangdong General Power Co.	Will supply digital microwave equipment to be installed at power stations. 2/88.
Standard Electrick Lorenz (FRG)/Tianjin Optical and Electrical Communications Corp. and Tianjin Electronic Instruments and Meters Import and Export Corp.	Will build optical fibers transmission equipment production line. $2.5 million. 2/88.

Investments in China

(FRG)	Will build joint research satellite to be launched in China. $20 million. (50-50). 12/87.
Cable and Wireless (UK) and Hutchison Whampoa Ltd. (HK)/CITIC	Will jointly provide satellite and telecommunications services in Asia including satellite launching. $140-$150 million. (CW:33.3-HW:33.3-PRC:33.3). 2/88.
Brazilian Commission on Space Activity (Brazil)	Will jointly construct satellite to search for natural resources. 3/88.
Philips Corp. (Netherlands)	Established Yangtze Optical Fiber and Cable Co. Ltd. joint venture to manufacture optical cable and optical fiber. 3/88.

Textiles and Textile Equipment

China's Imports

Konrad Hornschuch AG (FRG) and NA (Italy)/ Hangzhou Artificial Fiber Factory	Began producing artificial suede using German and Italian technology. $5.5 million (DM8.9 million). 2/88.

Investments in China

Adler, subs. of Asko Deutsche Kaufhaus AG (FRG)	Established Beijing Adler Comco joint venture to manufacture and market clothing. 11/87.
Pierre Cardin (France) and Gruppo GFT (Italy)/ Tianjin	Signed joint venture agreement to produce Pierre Cardin clothing for China's domestic market. 2/88.
Marco Polo 2000 Corp. (Italy)/Dalian Sportswear Factory, Liaoning	Signed Dalian Sino-Italian Knitwear Corp. Ltd. joint venture contract to produce knitwear. $1.5 million (¥5.7 million). 2/88.

Transportation and Transportation Equipment

China's Imports

Pomagalski Co. (France)	Will install two cable cars for access to the Great Wall. $9 million (FF50 million). 12/87.
Boeing Co. (US)/Xiamen Airlines	Will supply one 737-200 passenger aircraft. $19 million. 1/88.
South Wales Switchgear Ltd., subs. of Hawker Siddeley (UK)/CNTIC	Will supply three trackside switching stations for the Datong-Beijijng-Qinhuangdao railway electrification project. $913,900 (£500,000). 2/88.
Firestone Tire Rubber Co. (US)/Da Zhonghua Rubber Factory, Shanghai	Signed licensing agreement for steelcord radial tire manufacturing technology. 2/88.
De Havilland (Canada)/ CAAC and Zhejiang Airlines	Will supply two Dash 8 Series 300 aircraft. 2/88.
General Motors Corp. (US)/Beijing General Internal Combustion Engine Factory	Will supply secondhand gasoline engine assembly line. $16.5 million. 1/88.
Boeing Co. (US)/ Guangzhou branch of CAAC	Will deliver four 757 jetliners. $180 million. 3/88.

Investments in China

Terex Equipment Ltd., subs. of Northwest Engineering Co. (US)/Inner Mongolia Second Machinery Co.	Established 20-year joint venture to manufacture trucks for heavy industries. 12/87.
Haeco Co. (HK)	Jointly producing Yun-7 passenger aircraft. 1/88.
Chrysler Corp. (US)/First Auto Works, Changchun, Jilin	Conducting feasibility studies for complete automobile production in China. 2/88.

Other

Finnair (Finland)/CAAC	Will begin weekly direct flight service from Helsinki to Beijing beginning in June. 10/87.
MVA Consultancy and Plessey Controls (UK)/ Tianjin Urban Transport Overall Research Group	Agreed to conduct study on the Tianjin Urban Transport and Traffic Control Project. 11/87.
Skadden, Arps, Slate, Meagher & Flom (US)/ China National Automotive Industry Import and Export Corp.	Signed retainer to act as general counsel for US and international legal matters. 11/87.

Miscellaneous

China's Imports

Glaverbel (Belgium)	Will provide mirror production line, and glass microsphere factory to produce reflective road markings. $4 million (BF150 million). 11/87.
Festo (FRG)/CNTIC	Will supply teaching equipment. $265,000 (DM432,000). 2/88.

Investments in China

Nederlandsche Middenstandsbank N.V. (Netherlands), K.K. Yeung Management Consultants Ltd. (HK), and Scriven Trading Ltd. (HK)/Beijing International Trust and Investment Corp.	Formed joint venture management consulting firm. (Registered capital: $250,000). 1/88.

Other

Luxottica S.P.A. (Italy)/ Beijing Timepieces and Spectacles Co.	Signed 2-year agreement to rent display window in Beijing shopping district. $10,000. 12/87.

China's Investments Abroad

(HK)/CITIC	Plan to invest over $20 million in Hong Kong in 1988, mainly in chemical, electronic, and paper manufacturing industries. 1/88.
World Chinese Trust Group (Japan)/CITIC	Formed CITIC-Mingyu Co. Ltd. joint venture to engage in trade, investment, tourism, and services in Japan and other countries. (Registered capital: $626,000). (50-50). 3/88.

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