The China Business Review

May–June 1989

Facing the Financial Challenge

The China Business Review

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Cover: Both Chinese and foreign banks are facing new financing challenges. *Photograph by Douglas Goralski.*

US Banks: Farewell to easy 'friendship loans.' **Page 24.**

Market Research: How to get the data you need in China. **Page 36.**

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摘要

CITY BOUND

China, which has meticulously controlled the movements of its people since household registration was introduced in 1955, is beginning to experience a problem well known to other Third World countries: labor migration. Shanghai has as many as 1.83 million transients, and in 1988 Beijing officials estimated that 1.15 million transient workers lived in the city. In the south, about 150,000 young people traveled to Hainan last year after the central government designated the tropical island a province. Farmers have moved to Xinjiang in China's far west to till unused land, and about a half million migrant gold-diggers pan streams during slack farm seasons. Chinese sources estimate that nationwide, between 30 and 50 million Chinese—as many as one in 20—are not living at their official places of residence.

Prosperous and cosmopolitan Guangdong Province holds the greatest allure for migrants. In the month following the Spring Festival holiday in February, an estimated 2.5 million *waidi* (people from other areas) flocked to Guangdong seeking work, with the influx peaking at 100,000 new arrivals a day. The migrants lay out bedrolls in the city's train station and along its wharves, while waiting for increasingly elusive work opportunities. Theft has increased, and many of the *waidi* are reduced to combing trash for bits of food and scraps of paper, glass, or metal to sell.

The recent surge in migration to Guangdong comes partly in response to economic austerity measures imposed to reduce the pace of economic growth, which neared 18 percent in 1988. With a diminished flow of funds for new construction and expansion, Beijing has prioritized large enterprises included in the current Five Year Plan, and rural and collective enterprises employing much of the countryside's surplus labor may be bracing for a slack 1989.

While China's rigid system of household registration—which stipulates that a worker's food ration tickets, pension, children's schooling, and other benefits be issued at the place of registration—remains in place, the registration rules contain one key loophole allowing workers temporarily to seek jobs in other areas, even though they may not formally change their registration. This exception gives migrant workers a legal basis for following economic impulses.

More important, though, food, including grain, can now be bought at free markets, and rooms can sometimes be rented at a premium. Several cities have thriving black markets in ration tickets, adding to the authorities' difficulties in controlling migrants.

The implications for China's already severely overcrowded cities are clear: Cities are hard pressed to meet the demand for jobs and services. The central government estimates that 120 million people will compete over the next five years for 30 million urban jobs available nationally.

Officials are doing all they can to curb the current wave of migration to Guangzhou. Train service has been curtailed, and cities and counties are forming teams to persuade the new arrivals to return home. But for many rural Chinese, the east coast cities shimmer with the promise of easy wealth. While that reputation endures, China's government may be hard pressed to discourage the wanderers. —ASY

LICENSED COMPETITION

The challenges and frustrations of doing business with China sometimes start in our own backyard. US companies have long been encumbered, for example, by the complex, time-consuming process necessary to obtain licenses to export products and technology to China. American companies are subject to two military security systems: a domestic one managed by the Department of Defense, and the international Coordinating Committee for Multilateral Export Controls (COCOM), which reviews and regulates exports approved by member countries. For years, American industry has been pressing the US government to reduce costs and delays by implementing a distribution license (DL) system for China. This system allows multiple exports of products to approved distributors or endusers, eliminating the need to get a license for each individual export. Finally, after years of lobbying and months of expectant waiting, companies can expect the US government to implement a DL system for China within the next few months.

New regulations for the China DL, still being drafted by the government, must ultimately meet Chinese approval. COCOM agreed in March to lift its prohibition against bulk licensing for China for goods on the Industrial List of dual-use equipment that falls within the China Green Zone. The zone demarcates the technical levels of goods US companies may export to China with only Department of Commerce (DOC) review. The COCOM agreement leaves many details—including basic procedures and duration—to national discretion.

The DL system envisioned for China by the United States will basically resemble its DLs for other countries, including provisions for an internal control program operated by the foreign consignee and permission for US government officials and the holder of the DL to conduct periodic on-site reviews. The system for China will also have unique elements. For example, the United States will probably continue to require the Ministry of Foreign Economic Relations and Trade (MOFERT) to issue enduser certificates for official assurance that the

Chinese enduser is not diverting the export to a third country.

How provisions of the US-approved DL will compare with those made for China by other countries, however, is a major unknown. In the past, COCOM liberalization measures involving national discretion have worked to the competitive disadvantage of US companies in China, which face a more stringent domestic control system.

Nevertheless, the DL will bring clear benefits. Once implemented, the DL should improve US companies' ability to market in China by allowing exporters to ship goods faster, as well as significantly reduce the paper work at DOC, which is responsible for processing export license applications. Manufacturing joint ventures that import components into China also stand to benefit, as will companies with equipment in China that requires servicing and companies with strong distributor relationships in China.

The DL system will not solve all export control problems for US companies doing business in China, as they still face unduly restrictive controls on exports to China. Nevertheless, the long-awaited implementation of the DL system is a big step toward a truly normal US-China commercial relationship.

—Kelly Ho Shea

KEEPING HAINAN AFLOAT

Although Hainan Governor Liang Xiang has denied that China's current austerity program will slow the new province's development programs, China's economic cool-down clearly is inhibiting the island's growth. The flow of central subsidies to the province appears to have ebbed, and Hainan is having trouble finding foreign funds to pick up the slack, despite recent initiatives to enhance the investment environment (*see The CBR*, Jan-Feb 1989).

Though the province's 1988 economic growth—a 12 percent increase in GNP and 11 percent rise in industrial production—lagged behind the rest of the country, it was nonetheless noteworthy in the wake of 22 consecutive months of drought, locust devastation, and two typhoons. The surge was chiefly the result of a production push in tropical cash crops, aquatics, and livestock. Hainan's exports for 1988 through September jumped 255 percent over the 1987 period to $202.5 million, mainly because of the province's relaxation of export quotas and foreign exchange retention rates, the establishment of a foreign exchange swap center on the island, and other measures enunciated in the September 1988 regulations on foreign investment in Hainan.

To help fuel the government's ambitious annual investment target of $3.5 billion, Hainan authorities have recently been experimenting with reforms designed to speed foreign investment. Additional economic subzones geared toward specific industrial sectors, such as electronics and heavy machinery, have been set up, for example, and anti-corruption campaigns have been launched.

Hainan's appeals will not go unanswered, in the view of American Consul General in Hong Kong Donald Anderson, who predicts that "investment from and through Hong Kong will underwrite the development of Hainan, just as it has that of the Shenzhen Special Economic Zone, the Pearl River Delta, and Guangdong Province as a whole." Although the provincial government's investment growth figures are suspiciously high—600 private enterprises with ¥170 million capital registered since April 1988—domestic and overseas investors are indeed moving in, notably Thai and Japanese companies.

Infrastructure inadequacies will continue to discourage foreign investment, although certain improvements—particularly the mail sorting system and program controlled phone system now being installed in Haikou—will help ease the telecommunications hassles between Hainan and the outside world.

What concerns Anderson most is how quickly Hainan can develop its human infrastructure to provide the necessary skills and experience to implement reform policies. The island's population is not well-educated and last year's influx of fortune-seekers did not include enough trained technical specialists and managers. Hainan officials are addressing this problem by allowing managers from China's frontier areas to migrate to Hainan without the bureaucratic hassles typically faced by Chinese switching from one work organization to another.

—Richard E. Gillespie

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The IBM Case: A Milestone for Intellectual Property Protection?

Effective enforcement is the name of the game

Jerome Alan Cohen and Wing-wah Mary Wong

Had Carla Hills, the US Trade Representative (USTR), attended an unprecedented press conference convened in Beijing on March 11, she might have been impressed by China's determination to enforce its laws for the protection of intellectual property. The deputy director general of the State Administration for Industry and Commerce (SAIC), accompanied by the head of China's Trademark Office, announced penalties against five Chinese enterprises for infringing IBM's registered trademarks in China. The Chinese reporters assembled (no foreign journalists were invited, for that would have required approval from the Ministry of Foreign Affairs) were even shown a videotape describing and reenacting actions taken, and the announcement received nationwide television and newspaper publicity.

The IBM case illuminates specific problems confronting the many foreign companies that have suffered trademark violations in China, at a time when the USTR is considering whether to identify China as one of the countries that "deny adequate and effective protection of intellectual property rights." Such a label would make China a potential target of US sanctions under the 1988 Omnibus Trade Act. Debate over whether or not to target China has largely focused on the adequacy of China's national laws, which thus far contain no specific legislation protecting copyright, software, service marks, or trade secrets.

As China moves closer to filling these legal gaps, the United States will concentrate less on laws yet to be enacted and more on the effectiveness of the laws already on the books, including the 1983 trademark law and the 1985 patent law. Does the Chinese government use them to stem intellectual piracy, or does it merely, in Shakespeare's phrase, "keep the word of promise to our ear, and break it to our hope"? IBM decided to find out.

Initiating the action

IBM claimed six enterprises in and around the Shenzhen Special Economic Zone in Guangdong Province were unlawfully assembling and selling counterfeit IBM products. IBM approached the Shenzhen Bureau of the Administration of Industry and Commerce (AIC), charged with handling trademark infringement cases, through China Patent Agent (H. K.) Ltd. (CPA) in Hong Kong. CPA acted as agent, because Chinese regulations require a foreign party to approach the local AIC through designated organizations, principally CPA in Hong Kong or the China Trademark Agency (TMA) of the China Council for the Promotion of International Trade in Beijing. Because CPA and TMA may use their discretion to decide whether or not to present a foreign party's complaint to the AIC, before consulting CPA, IBM carefully compiled investigative and technical reports documenting the infringements, in order to demonstrate a clear and convincing case.

CPA decided to accept cases against the six Chinese enterprises, and then worked with IBM and its outside counsel to prepare the complaints, which set forth the evidence—including samples of counterfeit computers purchased from the infringers—and summarized the legal basis for the action. Verification of the violations was to come through AIC investigations, including raids on the infringing enterprises, and the complaints requested measures to be taken if AIC investigations confirmed the violations. The measures included an immediate end to the offending activities, removal of false trademarks from the counterfeit articles, a written admission by the infringers of the offenses, an apology, a promise to end the violations permanently, and payment of damages for IBM's economic losses. The complaint also requested that the infringers provide information both for further evidence in these cases and for related investigations. Finally, the complaints asked that the AIC impose a fine, which legally may not exceed either 20 percent of the illegal turnover or twice the profits derived from the infringement, and is payable to the State Treasury.

Spreading a dragnet

After receiving IBM's complaints, the Shenzhen AIC reported the cases to its provincial and central leadership, and the Shenzhen AIC formed a joint investigative group with the Guangdong Province AIC. Over three days in September 1988, the investigative group raided the premises of the companies named in the complaints and confirmed that infringements were taking place in five companies. The AIC group immediately ordered the offending enterprises to stop assembling and selling IBM counterfeits. During the raids, the group also sealed off all the systems and parts bearing counterfeit IBM trademark logos, as well as

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Jerome A. Cohen and Wing-wah Mary Wong, attorneys specializing in China matters in the Hong Kong office of Paul, Weiss, Rifkind, Wharton, & Garrison, assisted in the IBM cases discussed. Their views, however, do not necessarily reflect those of IBM.

related manuals, cartons, and other articles. Because of the technical expertise required to confirm the counterfeits, the group invited IBM personnel to assist in the verification.

The Shenzhen AIC completed its study of the cases early this year, and, following approval by the Guangdong Province AIC, decided that five of the six accused enterprises had violated IBM's registered trademarks by importing from illegal sources in Hong Kong disassembled computer parts, counterfeit IBM logos, manuals, packaging, and other materials and assembling them into counterfeit IBM PC/XT 286 and 089 models. The infringers had already sold at least 223 such machines for ¥3.24 million (about $870,000).

By way of remedy, the Shenzhen AIC ordered the counterfeit logos on the sealed machines and parts removed and the manuals, packaging, and other accessories burned. In addition, the Shenzhen AIC imposed fines of 18-20 percent of the illegal turnover, totaling just over ¥660,000 (about $177,500) on the five enterprises and ordered them to make written self-criticisms and to never again engage in similar infringements.

The Shenzhen AIC sent its decisions to the five infringers and forwarded copies to IBM via CPA in Hong Kong. IBM was notified that under the law it had 15 days—as did the infringers—to seek reconsideration before the Guangdong AIC. Curiously, if there existed a written copy of the Shenzhen AIC decision absolving the sixth enterprise of infringement, none was ever transmitted to IBM, so it could not analyze that decision.

Prompt response, partial relief

Neither IBM nor any of the offenders sought review of the decision. Even though IBM was disappointed that no damages were awarded to it by the Shenzhen AIC, IBM's spokesman at the Beijing press conference said IBM was encouraged by the prompt response of AIC officials to its complaint and impressed by their ability and enthusiasm in pursuing the investigations. The spokesman also said the company would be encouraged to invest in China as a result of the actions taken in IBM's first effort to invoke the protection of China's intellectual property legislation.

Although the AIC's failure to compensate IBM for the harm to its reputation and the financial loss caused by the infringers was disappointing, it was hardly surprising in light of prior practice regarding foreign companies' infringement complaints. Not only did the AIC fail to explain why no damages were awarded, but its decisions did not even note IBM's request for damages. A foreign company that seeks administrative relief against infringement should not have to surrender its claim for damages as the price of obtaining such relief. The AIC's apparent refusal to consider awarding damages makes the statutory authorization, enacted by the National People's Congress, a dead letter.

Giving the laws teeth

As the SAIC ponders how to cope with the wave of trademark violations sweeping China, it might consider other ways to strengthen China's response. For example, the AIC did not order confiscation or destruction of the counterfeit machines, but merely removal of the counterfeit logos that they displayed, leaving the infringer free to sell the machines. Presumably this was because existing trademark legislation does not expressly authorize destruction of articles bearing offending logos. This suggests the need for a legislative amendment, if China wishes to make counterfeiting less attractive.

Most foreign companies strongly prefer administrative action.

Also, the AIC seemed unduly conservative in its factfinding. For example, it refused to identify machines, components, or related materials as counterfeit IBM products—even if they were obviously being assembled as IBM fakes—unless they already bore the IBM logo. Similar conservatism in making inferences from records of infringers' purchases from Hong Kong and sales in China also resulted in understating the duration and magnitude of the infringements, thus limiting the amount of the fines imposed. Moreover, the AIC did not seize or search the infringers' files but relied on the enterprises voluntarily to hand over all relevant documents. This undoubtedly narrowed the evidentiary basis for AIC action. The AIC also appeared reluctant to comply with IBM's request that it turn over leads and evidence from the infringers' documents that would assist IBM in related investigations inside and outside China.

Exploring other options

IBM chose administrative action in these infringement cases, but companies in China have three other options to consider, depending on the nature and scale of the infringement and the type and value of goods involved, among other things. They may choose informal settlement, a civil lawsuit, or criminal prosecution.

As with other disputes, informal settlement is ordinarily preferred in infringement cases. Generally the aggrieved party and its counsel contact the offending party directly, though they may ask the assistance of Chinese counsel, TMA, or CPA. The infringer is generally asked by letter to cease and desist, then a visit to the infringer's factory or office follows, usually leading to negotiation over remedies. Agreement is often reached at this stage, even if the infringement was intentional. The injured party can frequently make a recalcitrant infringer see the light by remonstrating with the government department in charge of the infringer or with higher local or central authorities.

It is preferable, but not always possible, to record the settlement in a formal, written document rather than rely on an oral understanding. The infringer usually admits the violation, agrees to eliminate it, and promises not to repeat it. The infringer may also be asked to publish an apology in the newspaper, pay damages, reveal the sources of counterfeit materials, and turn over or destroy them.

For minor, especially unintentional infringements, the informal method has proved quite effective in China. In IBM's situation, however, the counterfeiting was so serious, widespread, and carefully executed that the informal option was clearly inadequate.

Generally, the choice among the three formal options will turn on two related considerations. First, the injured party must identify its principal goal. To stop the infringement, for example, administrative action is most effective. To recover damages, a civil suit should be pursued, since administrative action will probably not result in damages. If the injured party wants to maximize deterrence by punishing those responsible, a criminal prosecution should be sought, despite the reluctance of the authorities to pursue this method except in cases where the violation has not only been flagrant but has also caused death or at least bodily harm to consumers. The second principal consideration is efficacy—how the three methods compare in terms of speed, expense, convenience, and effectiveness.

Try to keep out of court

Among the three formal options, most foreign companies strongly prefer the administrative option, as did IBM in Shenzhen, for they are most concerned with quickly ending the infringement rather than collecting damages or punishing individuals. Administrative action is generally regarded as faster, cheaper, simpler, and more effective than resorting to either the civil or criminal courts, although this may change as Chinese courts add to their experience and efficiency.

Choosing the administrative option may not preclude a subsequent civil suit, at least if the administrative authorities have refused to consider awarding damages, as is usually the case. Moreover, neither the administrative nor civil options should preclude efforts to invoke the criminal process, if the facts demonstrate a flagrant offense.

If the infringed party wishes to file a civil action, it can do so in the intermediate people's court having jurisdiction over either the infringer or the location of the infringement, but will need the assistance of a Chinese law firm, the CPA, or TMA. When the facts concerning the infringement are in the public domain and are indisputable, a civil lawsuit may be the best weapon. The "Weisen-U" (stomach medicine) case, which was recently heard in Nanning, is a good example. The trademark owner, a Hong Kong company, was awarded ¥60,000 (about $16,130) in damages.

China should consider other innovations, if it is to wage a credible campaign against trademark infringers.

Because intentionally counterfeiting another's registered trademark is a serious offense, Chinese judicial authorities are empowered to determine the criminal liability of the persons directly responsible. However, a complaint must be filed with the procuracy, which, after investigation, will decide whether there is sufficient merit to prosecute the offenders before the court. According to the CPA, as of early 1989, no criminal complaint of this nature has ever been filed by a foreign company. Nevertheless, unofficial sources report that criminal action has been brought against certain individual infringers in connection with counterfeit domestic wine products.

Widening the gates of the system

In addition to eradicating the limitations noted above, China should consider certain other innovations, if it is to wage a credible campaign against trademark infringers. For example, IBM believes 30,000 or more counterfeit personal computers bearing its logo have been sold in various parts of China, and many other companies have also suffered significant infringements. Yet SAIC's resources and those of the CPA and TMA—the gateways to SAIC—are all too limited to meet the challenge. Also, better coordination between the SAIC system and other institutions, such as customs authorities, would result in more efficient use of existing resources.

Furthermore, some provision must be made if both CPA and TMA decline to pursue the case, perhaps for reasons unrelated to the case's merits, such as political sensitivity, personal loyalty, and shortage of staff. SAIC might designate certain Chinese law firms or other organizations to assist under such circumstances. Better yet, SAIC could permit foreign companies to approach an AIC directly.

Despite the need for certain improvements in the system, the Shenzhen AIC's recent IBM decisions represent milestones in China's trek toward effective protection for the intellectual property of foreigners. The caution with which AIC proceeded undoubtedly reflects more than the restraints of legislation and policy. AIC's actions also suggest that it is still not easy to win acceptance for what in an earlier era might have been thought a shocking development—Chinese officials staging raids against Chinese companies following complaints by foreign capitalists. Yet if China is to obtain the technology imports and capital infusion that it seeks in its struggle to modernize—and protect its consumers against fraud—more effective enforcement of intellectual property rights, as well as legislative coverage of areas still neglected such as copyright, will increasingly be seen to be in its national interest. 完

COUNCIL ACTIVITIES

我会活动

Business Information Center: Essential Data for China Business

Once, in the midst of negotiations in Shanghai, I realized that additional telecommunications market data would be very helpful. I knew that the data were available from the Council. One phone call and 24 hours later, the required information had been faxed to me in Shanghai. The Business Information Center was very responsive.—**Gerry Severynse, China Business Development and South Pacific Operations, Xerox Corp.**

The US-China Business Council's Business Information Center (BIC) contains the largest collection of current materials on China's trade and economy outside China and Hong Kong. With more than 750 subject files, 2,300 organizational and biographical files, and 2,400 books, it serves as a one-stop research center for companies just entering the China market or expanding their business activities there. The BIC provides information primarily to Council members, but also makes its resources available to the US government, international organizations, and the faculty of American academic institutions. In 1988, the BIC responded to 4,000 requests for information and hosted 700 researchers.

The BIC gathers its materials from a vast array of sources, subscribing to over 100 periodicals—including China trade and business newsletters, Chinese-language newspapers, numerous statistical journals, and specialized industry reports. Each day incoming periodicals are examined and coded by the BIC staff and added to relevant files. The wide-ranging book collection contains unusual and useful sources, such as annual yearbooks published by China's industrial ministries, and national and provincial statistical yearbooks.

The BIC also maintains a computerized database of foreign company activity in China. Compiled from the "China Business" sections of *The China Business Review*, the database can target, for example, sellers of telecommunications equipment to China or companies producing televisions in joint ventures. This service is especially useful for monitoring competitors.

Member companies seeking Chinese manufacturers of certain products or appropriate investment partners may find such information in the BIC's factory directories, which contain the addresses, names of general managers, and product information for numerous sectors. The BIC also maintains a file of market opportunities and investment projects announced by Chinese organizations.

Seven years ago, the body of Chinese laws affecting foreign business could fit into a small loose-leaf binder. Today, they fill two file drawers. The BIC maintains a current collection of these laws and regulations, which can be quickly copied and passed on to companies.

Keeping abreast of China's ever-changing bureaucracy is essential for any company in China business or trade. The BIC maintains files on every Chinese ministry and national-level corporation to help companies

Jennifer Little (below), head librarian, is always on hand to coordinate member requests.

identify relevant authorities and adds new corporations weekly. Much information is also arranged by economic sector and can be used to create detailed organizational charts.

If members are unable to conduct their own research, they may simply call the BIC staff, who will research and forward information. The BIC can also compile individually tailored briefing books for member company delegations going to China, providing background information on the sites, organizations, and individuals the delegation will visit.

With the vast array of information and resources available in the BIC, member companies may discover that finding the right information may be easier than finding the time to research.

GOLD DELEGATION EXPLORES US TECHNOLOGY

Senior officials from China's gold industry toured the United States in April as part of a month-long trip to major gold-producing nations, including Canada and Australia. The group traveled to several American companies to learn about US mining and processing techniques, expressing particular interest in heap leaching technology used to process low-grade gold ores, a technique which has not yet been perfected in China. Although most of China's gold comes from underground mines, the delegation was also interested in learning about American open-pit mining technology and equipment.

The delegation was headed by Xu Daquan, vice minister of the Ministry of Metallurgical Industry (MMI) and president of the China National Gold Corporation (CNGC), and included Bai Meiqing, first deputy secretary-general of the State Council and senior adviser to CNGC, Jiao Zhi, CNGC vice president, Yang Dali, director of CNGC's business department, and several other representatives of CNGC and MMI. CNGC is repsonsible for China's gold production, and falls under the aegis of MMI.

Council president Roger W. Sullivan presents a copy of the Council's 1988 report **China's Metals and Minerals** *to Bai Meiqing, first deputy secretary-general of the State Council and senior adviser to the China National Gold Corporation, during the gold delegation's US visit.*

MEMBER MEETINGS

Legal Committee

The Legal Committee met on February 17 in New York City to discuss **technology transfer** to China. Tim Gelatt of Paul, Weiss, Rifkind, Wharton & Garrison reviewed pertinent issues and recent developments in the legal aspects of tech transfer, and Larry Evans, director of licensing at BP America, used BP's experiences in China to discuss practical concerns.

Gelatt noted that foreign licensers should consider addressing technology guarantee issues early in negotiations, since saving such a sensitive issue until the last stages can lead to an impasse when timing is most critical. He added that confidentiality agreements are gaining wider acceptance in China, though there still are problems when workers leave the employ of the original licensee, since China has no trade secrets law. Evans then explained BP America's techniques for minimizing the impact of Chinese tech guarantee provisions, and offered advice on tech transfer negotiations. He pointed out that Chinese negotiators normally have a fixed margin by which they may exceed spending limits during negotiations, so recognizing the amount of leeway they have is important for keeping projects on track. Evans also made suggestions on the composition of a US company's negotiating team, and recommended that in dealing with the Chinese they use the "three P's": patience, persistence, and preparation.

Import Committee

The Council's Import Committee met on March 9 in New York to discuss **Chinese inspection services and China's foreign exchange control system.** Andrew Flanders and Brian Brophy of SGS Control Services Inc. described the types of inspection services available in China, and summarized tactics importers can use to improve the quality of Chinese products. Raymond Haley of the Hongkong and Shanghai Banking Corp. explained the effects of China's complex multiple exchange rate system on importers sourcing products in China and fielded questions about letter of credit practices and the possibility of maintaining open accounts with Chinese institutions.

After the two presentations, committee members shared experiences on negotiating directly with factories. Members concluded that success in sourcing directly from factories negotiating in RMB vary greatly according to product line and locale.

The next meeting, on June 8 in Washington, DC, will focus on the potential for cooperation between importers and US companies with countertrade obligations or investors with excess RMB reserves.

Export Controls Working Group

The Council's Export Controls Working Group met on March 15 to discuss expected **technical data revisions in export administration regulations, as well as the new distribution license (DL) for China.** Ken Cutshaw, chief of staff at the Bureau of Export Administration (BXA) in the Department of Commerce (DOC), explained the soon-to-be released technical data changes. An update on the status of the China DL was provided by Iain Baird, director of the Office of Export Licensing at BXA, and Robert Price, director of the Office of COCOM Affairs at the State Department.

According to Baird and Price, two principal steps remain before the DOC can issue the new regulations for a China DL—first, COCOM must approve a bulk licensing arrangement for China, and second, the Chinese must agree to accept the key elements of a DL. No major problems are expected on either front—in fact, since the March 15 meeting, COCOM has formally approved the special licensing procedure. Baird traveled to China earlier this year to explain the key requirements of a distribution license to Ministry of Foreign Economic Relations and Trade (MOFERT) officials. Chinese agreement is expected soon.

Members of the Working Group were also introduced to two MOFERT officials in the United States for training in export controls under a program funded by the US Trade and Development Program (TDP) and coordinated by the Council. Ling Aina and Huang Zhiping discussed what they had learned from the training, which included stints with law firms, private companies, and US Government agencies. Huang discussed MOFERT's administration of the enduser certificate system, noting that about 7,000 certificates are issued each year, almost three-quarters of which are for products exported from the United States.

Export Finance Meeting

Representatives of about 25 member companies attended the Council's export finance meeting on March 23 in Washington, DC to express concern over the huge rise in **mixed credit use in China.** After an introduction by Martin Weil, manager of the Council's Industries Program, Ray Albright, vice president for Asia of the US Export-Import Bank (Eximbank) discussed the status of the bank's study on mixed credit use.

Mixed credit use in China grew from $500 million in 1985 to about $3 billion in 1988, and companies agreed that the US government's strategy to curtail the use of mixed credits through the OECD had failed. Companies concluded that this failure necessitates that the United States implement its own mixed-credit program, lest US companies get shut out of the China market. They decided to draft a Council position paper to promote a US mixed-credit program. That paper was presented in April to Commerce Secretary Robert Mosbacher and Secretary of State James Baker, as well as to other executive and legislative branch officials.

Computer Software Protection Roundtable

Member companies in high technology sectors met for a computer software roundtable on March 31, both to express their concerns over the absence of **intellectual property protection for computer software in China,** and to consider ways of improving the situation by working collectively through the Council.

Company representatives pointed out that they have used contract clauses, technical security measures, and patent and trademark laws to protect some of their software in China, but added that these measures do not afford adequate, effective copyright protection for software. Although China has been considering a copyright law or additional legislation for software protection for several years, companies noted that software piracy has become a widespread problem.

The roundtable concluded that achieving copyright protection for software in China will be a long process, requiring substantial education of relevant Chinese authorities.

The Council used input from the meeting to prepare a recommendation paper for the United States Trade Representative's Office. In addition, the Council will continue to explore ways of cooperating with the Chinese to extend copyright protection for software in China.

Investment Roundtables

The Council's Investment Program sponsored two roundtables in April for 22 member companies currently operating joint ventures (JV) or wholly foreign-owned enterprises (WFOE) in China. The discussions, held in Chicago and New York, focused on **common operational problems**, with particular attention paid to the effects of the **current austerity policies**.

Balancing foreign exchange was the chief concern at both sessions. Problems with increasing localization of inputs and maintaining adequate quality control were also discussed. A representative of a company relatively new to China discussed its successful efforts to form a purchasing consortium with competitors to source key inputs. The group's combined purchasing power secured them price concessions and quality assurances. Similarly, several high technology ventures are pursuing vertical integration of their operations to ensure adequate supply of materials.

Participants explored the question of whether to take on a partner in a JV or to go solo with a WFOE. While many companies with several operational JVs expressed dissatisfaction with their partners and desire to capitalize on the recent official promotion of WFOEs, others countered that the success of their projects was tied to the efforts of the Chinese partner, underscoring that partner selection remains one of the most crucial issues in deciding on an investment vehicle.

Company representatives expressed no alarm over China's austerity policies, belying recent press reports that have depicted panic among American businesses in China. While sales are down, accounts receivable are climbing, and local financing is tight, few companies are considering closing up shop. On the contrary, most are now expanding their existing operations or pursuing new investment opportunities.

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Getting the Goods Back Home

Roberta Helmer Stalberg

Bleary-eyed after a 14-hour trans-Pacific flight, you stumble from the plane, weakly collect your baggage, and head for a steely-eyed US Customs agent, who asks you to open your suitcases and present your declaration form.

Your mind starts to race. Did you list all the silk scarves and paintings you bought at the free market? And where are the receipts for the antique carpet and Ming Dynasty porcelain bowl you bought in Beijing? The customs agent is not impressed with the original painting you fell in love with in Guilin—as far as he's concerned, your beloved work of art is not an original at all, and is thus subject to duty. Even worse, he confiscates your ivory, fur, and horn purchases, and you discover you have no hope of reimbursement.

Plan before you leave

This traumatic situation could easily have been avoided if you had familiarized yourself with US Customs regulations before traveling abroad. The hard truth is that ignorance is no excuse—either in the United States or in China, where export regulations are increasingly catching foreign visitors by surprise.

The rise in independent tourism to China, especially to far-flung regions, has allowed foreign travelers to acquire unusual crafts, antiques, and religious objects which Chinese Customs agents may refuse to approve for export. Visitors to such places as Xinjiang and Tibet can expect to encounter close scrutiny from Chinese Customs.

Cultural relics may be confiscated

Upon arriving in many areas of China, particularly places newly opened to tourism, visitors are likely to be greeted by throngs of local citizens eager to sell personal possessions, crafts, folk arts, and family "antiques." Travelers should realize that purchases from individuals, especially in Tibet, may be subject to special scrutiny by Chinese Customs authorities.

Any crafts made in Tibet before 1959 are classed as protected cultural relics. Depending on the discretion of the Chinese Customs agent, any Tibetan item which appears to date from this period or to be of particular value may be confiscated under this classification. Recent tensions in Lhasa, the Tibetan capital, have increased the vigilance of Chinese inspectors, who in a number of cases have confiscated knives, Buddhist statues, and silver jewelry from foreign tourists.

> *Export regulations increasingly catch foreign visitors by surprise, and ignorance is no excuse.*

Items purchased from street vendors and free markets in Kashgar, Xi'an, and other parts of China may also be scrutinized, even when purchased in good faith by an unsuspecting visitor. On occasion, officials have even been known to track down and confiscate items long after visitors have left the region of purchase. Travelers buying outside State-run stores should thus realize that they run the risk of investigation or even confiscation of purchases, if the objects are considered to be of special cultural value to China.

Travelers intent on buying objects of apparent antiquity or value from a free market or private source might consider taking the items to the Beijing Art Objects Clearance Office, located in the compound behind the Friendship Store on Jianguomenwai Street. Here, private purchases may be approved for export, but if the examiner believes the item is of cultural significance, the request may be denied—and the purchaser will have little recourse.

Items purchased through government outlets and accompanied by proper documentation and/or wax seals are, of course, safe for purchase. The red or brown wax seals do not attest to an object's antiquity or value, however—some contemporary objects and high-quality museum reproductions may also carry such seals, which merely indicate that an object has been approved for export.

How old is 'old'?

Once your purchases have been approved by China for export, you still face a myriad of rules and regulations to get them into the United States. Travelers seeking to bring back Chinese antiques, for example, should be aware that US Customs regulations define antiques as items over 100 years old at the time of importation. Such items are not subject to customs duties. Proper documentation, such as a dealer or store receipt verifying the date of production, is required to establish antique status. The notation "antique" on a receipt is not adequate, nor is "Qing Dynasty," since the

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dynasty ended in 1911—too recent for antique status. Whenever possible, therefore, ask for precise data, such as year and place of production of the object. You should at least find out the exact reign period of the dynasty under which the object was made, and a more precise estimate can then be derived from this information.

Original or mass-produced?

Like antiques, original works of Chinese art are not subject to duty upon arrival in the United States. However, one man's "original" may be another man's mass-produced commodity. Art produced on paper is generally safer than works on cloth, such as batiks or carpets, but strictly speaking, all art objects must be the creation of a "recognized artist" (an artist on record in US Customs files) to be exempt from duty. US Customs agents may expand this definition to include art by "recognizable artists" if the buyer can provide proper documentation of the artist's status, such as a store brochure, exhibition catalogue, or the artist's resume. Don't forget to get a store or dealer receipt as well.

Ivory: illegal, immoral, or just plain risky?

Chinese skill at carving ivory is legendary, and many travelers are struck by the intricate beauty of carved statues, jewelry, fans, and signature seals. The ugly reality, however, is that illegal poaching of elephants for their tusks is rampant in many African countries, where animals are poisoned or strafed and left to die, their tusks hacked off and sold on the black market or smuggled out of the country.

In order to curtail smuggling and illegal stockpiling of ivory tusks, the African Elephant Conservation Act was enacted in 1988. African signatory countries must register their quotas of ivory and submit to close monitoring of these quantities. The act chiefly regulates commercial transactions in ivory, such as tusks, for which US Customs applies stringent importation rules. However, travelers bringing back only a few small pieces of ivory, such as earrings or bracelets, will probably have no trouble, since US Customs currently permits imports of small quantities of African ivory products for personal use.

Nevertheless, as Robert Onda, supervisory inspector for the US Fish and Wildlife Service of the Port of New York City warns, "The bottom line is—there no guarantee." If a US Customs agent judges that the quantities exceed acceptable amounts for personal use, or that the ivory falls into protected categories, any piece of ivory may be confiscated.

While few travelers are able to distinguish among types of ivory, they should be aware, for example, that African ivory may in some cases be imported into the United States, while Indian elephant ivory may not. Whale and walrus ivory are also subject to confiscation at the point of entry to the United States. Travelers expecting reimbursement for items that have been confiscated will find themselves sadly mistaken.

Protecting endangered species

In addition to ivory, any purchase of fur, hide, or by-products of animals classed by the United States as endangered is subject to confiscation by US Customs. Beware, for example, of crocodile (or anything resembling crocodile, even if a seller assures you it is alligator or lizard), any spotted cat fur, sea turtle, or black coral. Equally taboo is rhinoceros horn, whether it is carved into a craft item or processed in pills or powder for medicinal use.

In recent months, travelers to China and elsewhere in the Orient have also begun to return with a medicinal liqueur known as "tiger bone tincture"—a purported cure for everything from hair loss to cancer. Travelers may not have time to find out if these remedies actually work, however, since tigers are classed as an endangered species, and tiger by-products are therefore subject to confiscation.

If all these regulations leave your head spinning, take heart—you are not the first to be bewildered by the complexity of US Customs regulations. The key to a smooth trip through customs is advance preparation. If you are considering a purchase of ivory or any other animal by-product, for example, speak with officials of the US Fish and Wildlife Service *before* you go (*see* box). Don't let a surprise encounter with customs ruin your trip.

Photo courtesy of Michael E. Bruhn

Children sell scarves and embroidery at a market in Kashgar, Xinjiang Province. Exotic products are often available in remote corners of the country, but the buyer must beware. Chinese Customs agents may not approve some items for export.

FOR MORE INFORMATION

US Customs District Directors are located in the following cities:

Washington, DC	202/566-8511
Chicago	312/353-6100
Dallas/Ft. Worth	214/574-2170
Boston	617/223-6598
New York	212/466-5550
Philadelphia	215/597-4605
San Francisco	415/556-4340

For questions concerning ivory, fur, skins, etc.:

US Fish and Wildlife Service, New York	718/917-1705

Managing a Growing Debt

Further improvements must focus on defining sovereign debt

S. Melvin Rines

As China's external debt mushroomed in recent years, concerns about the country's ability to manage it also grew. It was not the amount of debt that was worrisome, but rather the pace at which it grew and the relative lack of institutional control. By the mid-1080s, it was clear that major steps to gain greater control were necessary if the mistakes of other developing countries were to be avoided. China's current economic slowdown provides an opportunity to evaluate the steps taken, the present management of China's external financings, and how China's debt management is likely to evolve in the future.

Uncontrolled borrowing

Before 1978, China was immune from the world's debt problems because it essentially had no debt. But its stringent policy of self-sufficiency, admirable in the abstract, proved inadequate in an increasingly competitive world economy. Today, it is clearly impossible to modernize an economy on internally generated funds alone, without falling behind in economic development.

Since the first external capital market borrowing—the China International Trust and Investment Corp. (CITIC) privately placed a ¥15 billion bond issue in 1982—the international capital markets have accepted China credits at very attractive rates—especially for new borrowers from a country that had been closed for over 30 years. This acceptance has been based largely on perceptions of strong creditworthiness resulting from the small amount of debt outstanding, as well as the desire of bankers and investors to develop early ties with the "awakening giant." Chinese borrowers have amassed a total outstanding external debt estimated at $35-40 billion.

Initially, management of this growing debt was somewhat informal and intermittent, consisting largely of registering and reporting debts rather than planning and coordinating borrowings. As the pace of borrowing accelerated and the number of authorized borrowers increased throughout this decade, the system's inadequacies became apparent. Aided by various external advisers, notably the International Monetary Fund (IMF) and World Bank, who reviewed China's borrowing practices and recommended improvements, Chinese authorities settled long-standing jurisdictional questions and developed new planning and control procedures. Although much remains to be done, in recent years China has made significant progress in establishing a credible and workable borrowing program.

Joint management authority

Today, China's State Administration of Exchange Control (SAEC) within the People's Bank of China (PBOC) appears to hold responsibility for managing China's external debt. SAEC Director Tang Gengrao holds vice minister rank and thus has significant authority to develop and implement borrowing procedures and approvals within the overall guidelines of the State Planning Commission (SPC).

S. Melvin Rines, senior vice president at Kidder, Peabody & Co., is a specialist in the financing of sovereign and supranational credits in international capital markets. He has advised Chinese authorities and taught on these issues at the University of International Business and Economics in Beijing.

The Ministry of Finance (MOF) has the responsibility for central government borrowing from other governments and official lending institutions such as the IMF and World Bank. The organization and assignment of responsibilities for overall management are therefore largely in place.

In its recent report *China: External Trade and Capital*, the World Bank describes the evolution of China's debt management system and details the various steps in the current allocation and approval process. Planned borrowing for projects at both the central and provincial levels is incorporated in the State's five-year and annual economic plans. The State Council, in consultation with the SPC, determines the country's overall debt limits, as well as the split between official (government or government-sponsored lending institutions) and non-official sources based on balance of payments and debt service projections calculated by the PBOC. Thereafter, the SPC develops an approved borrowing program incorporating proposals by the various authorized borrowing entities. The SAEC is responsible for prior approval of each specific borrowing before it is made. China now has 10 authorized borrowing entities in addition to the central government, which together account for the bulk of China's planned borrowings.

Unplanned borrowings (those outside the national economic plans), which are chiefly made by Sino-foreign joint ventures and some Chinese enterprises, must be reported to the SAEC. Joint venture borrowings are generally supervised by The Ministry of Foreign Economic Relations and Trade (MOFERT) but are not subject to its approval. Through the reporting mechanism, the SAEC exerts some control over this type of borrowing, but does not have the power to approve or deny specific loans. Enterprise borrowings, on the other hand, must generally be approved by SAEC.

Better coordination needed

Although the definition of responsibilities and implementation of registration and approval procedures have done much to improve overall debt management, the program's efficiency has not kept up with recent organizational changes in China's bureaucracy. Not surprisingly, bureaucratic delays in document preparation, processing, and decision-making are rife. Reporting procedures, though better defined, are often still imprecise and time-consuming. Debt managment authorities need to strike a better balance between the approval and control process and the need for flexibility and speed. Overall planning must be strengthened to improve the structure of both short- and long-term debt, to smooth year-to-year maturities, and diversify or otherwise protect against currency risks. A disproportionate number of foreign loans will fall due in the early 1990s, for example, which could be bothersome to repay or refinance. Also, China's borrowings to date have been heavily weighted in yen, the appreciation of which has made repayment more expensive.

Nevertheless, as the recently mandated slowdown in borrowing and tightened approval process demonstrate, Chinese authorities have made substantial progress in their overall management of external debt, especially in the context of the rapid economic changes in the past few years. Compared to other countries, particularly in Asia, China's debt ratios are well within acceptable limits (*see* tables).

CHINA'S BALANCE OF PAYMENTS

($ Billions)

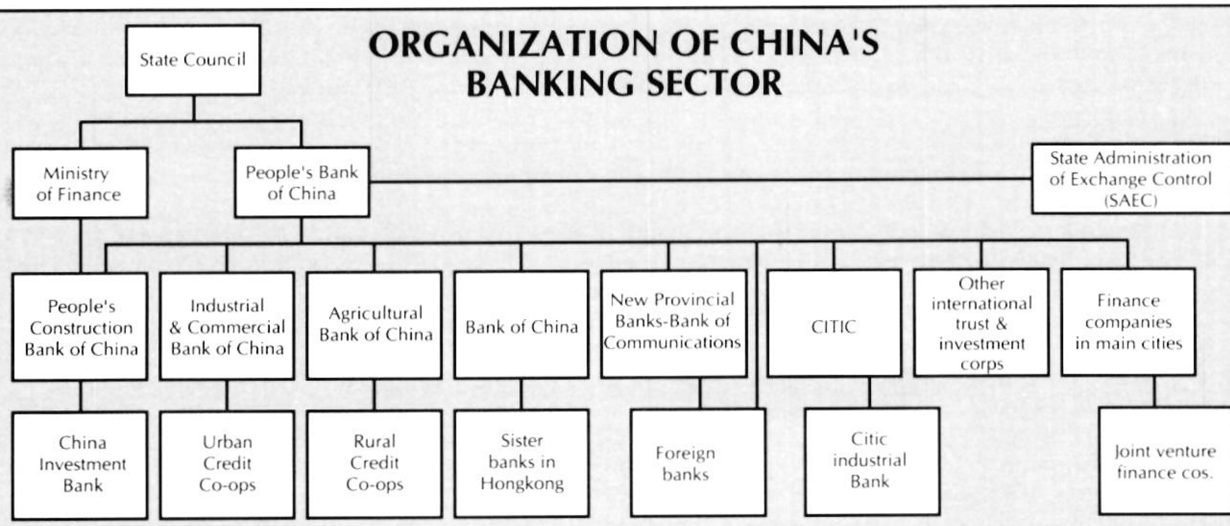
	1982	1983	1984	1985	1986	1987
Exports (FOB)	21.13	20.71	23.91	25.10	25.76	34.74
Imports (FOB)	−16.89	−18.72	−23.90	−38.23	−34.90	−36.41
Trade balance	4.24	1.99	.01	−13.12	−9.14	−1.67
Current account	5.82	4.49	2.51	−11.42	−7.03	−30
Capital account, net	−6.12	−4.14	−1.62	11.38	7.28	1.18
Long-term	.41	1.17	1.62	4.44	7.55	5.81
Short-term	−.20	−.52	−1.37	2.27	−2.29	.21
Errors and omissions	.29	−.35	−.89	.036	−.25	−1.48
Changes in reserves	−6.57	−5.45	−2.94	−6.22	−3.31	−2.75
Memo items						
Assets						
Total reserves minus gold	11.35	14.99	17.37	12.73	11.45	16.31
Foreign exchange	11.14	14.48	16.71	11.91	10.51	15.24
SDRS	.21	.34	.41	.48	.57	.64
Position in fund	—	.12	.26	.33	.37	.43
Gold at natl. valuation	.49	.46	.44	.49	.54	.63
Liabilities						
Total foreign debt	8.36	9.61	12.08	16.72	21.94	30.23
Conversion rate SDR/$US	1.1040	1.0690	1.0250	1.0153	1.1732	1.2931

SOURCES: IMF *Balance of Payments Statistics*, Volume 39 Part 1, 1988; IMF *International Financial Statistics*, Volume XLI, No 11 November 1988. Tables compiled by Catherine Rusconi.

Where does the buck stop?

One significant issue that must be resolved is the blurring of credits between various issuers and the central government. Since everything in China was until recently effectively owned, controlled by, or responsive to the central government, the international financial community has found it easy to assume that all debt issued or guaranteed by provincial and local governments, Sino-foreign joint ventures, and other borrowing entities and institutions are backed by the full faith and credit of the Chinese government. Traditional credit analysis and a careful reading of the charters of these entities, however, indicate that most of them are now responsible for their own solvency and indebtedness. Still, lenders and investors generally assume that the central government would not allow any of these borrowers to default, a presumption further encouraged in

ORGANIZATION OF CHINA'S BANKING SECTOR



Source: Press reports, Council files

some instances by official letters quoting the importance of a specific borrowing to the goals of particular central ministries. Although not legally explicit, such letters implicitly enforce the presumption of sovereign credit.

However reasonable these presumptions may be, the practice of encouraging or relying upon them is fraught with peril over time. If not dispelled, perceptions of credit support soon become realities in the minds of participants in the international financial markets. If bankers, rating agencies, and investors underwrite, rate, and invest in the belief that China's sovereign credit is ultimately engaged in each debt issue then all such debt effectively becomes sovereign. The central government's failure to act in the event of default by any single borrower could place in jeopardy all debt of all borrowing entities, including the Chinese government itself. It is therefore crucial that China set forth, clearly and legally, the extent of its credit support for each borrowing entity. Otherwise the government must be prepared to become, in effect, the guarantor of them all. In the United States, for example, the issuer is required to disclose its specific obligations under any and all circumstances for every issue, and all participants to a financing are legally accountable for providing all information necessary to make informed credit judements.

Although Chinese authorities are aware of the problem of blurred credits and have on occasion stated that only borrowings of the State itself constitute sovereign debt, creditors continue to believe that China would rescue defaulting borrowers to maintain its overall credit standing. As a result the overall credit of China potentially is only as strong as its weakest borrowing entity—a perilous and untenable position for a major sovereign state.

Deciding what is "sovereign"

The first priority for Chinese authorities is to decide precisely which credits are sovereign and which are not. One guideline which could be useful to consider is the US Securities Act of 1933, which determines when sovereign credit is engaged. Section 7 of the act defines who may register under the simplified schedule B disclosure requirements. Traditionally, only central governments and clearly defined political subdivisions, and those entities specifically guaranteed by the central government and political subdivisions, can qualify to file schedule B documentation.

Under this interpretation, only China's central and provincial governments would clearly qualify for schedule B filing. Even the Bank of China and CITIC, both closely connected to the Chinese government, would likely fail this sovereign credit test, since Chinese regulations refer to them as "independent accounting economic entities" responsible for their own solvency and debts. Certainly, joint ventures and Chinese enterprises would fail to qualify as "sovereign" entities.

A sustained effort should then be made to clarify legally each discrete credit arrangment. Lenders must be encouraged through public statements and an established body of law to take seriously the disclaimer of blanket central government credit support, and to focus instead on the creditworthiness of the borrowing entity itself. To dispel further confusion between sovereign and nonsovereign credits, explicit disclosure language should be required in borrowing documents. For example, by including an unequivocal statement to the effect that neither the faith and credit nor the taxing power of the People's Republic of China or any of its political subdivisions is pledged to that particular debt's repayment would surely put lenders on notice—and depending on applicable Chinese law, might legally preclude the assumption of the obligation by the government.

It should be understood, however, that as differentiation between credits takes hold, the weaker independent borrowers will probably have to pay more for their borrowings, and some may not be able to borrow at all. Development planning would be more directly affected by market forces, which would play the determining role in the allocation of credit and its relative cost within the overall borrowing program. However, when borrowing is of sufficient importance to the central government, selective and legally specific sovereign guarantees would be appropriate.

Despite the earlier rapid growth in borrowing and the initial missteps in its management, China's total outstanding debt in relation to its ability to repay is well within comfortable bounds. Moreover, most of this debt was incurred for productive (rather than consumption) purposes that should provide, at least theoretically, for repayment of the debt.

The various organizational and operational steps taken in recent years have significantly improved China's management of external debt. While the composition and maturity schedule of external debt could be improved and the monitoring and control strengthened, China's overall debt management is sound. 完

COMPARATIVE DEBT RATIOS: CHINA AND SELECTED COUNTRIES

Year-end 1987

	DOD/XGS (%)	DOD/GNP (%)	TDS/XGS (%)	RES/DOD (%)
China	58.7	8.1	7.1	94.9
India	191.8	15.1	16.9	30.8
Low income Asia	130.5	15.3	11.5	39.8
Europe & Mediterranean	129.3	39.3	20.7	23.8
Highly indebted Countries	272.2	48.1	24.5	13.5
Africa south of the Sahara	292.2	80.7	14.7	7.4
Middle income oil importers	139.4	40.2	18.7	21.3

DOD/XGS: debt outstanding and disbursed to export of goods and services.
DOD/GNP: debt outstanding and disbursed to gross national product.
TDS/XGS: debt service ratio.
RES/DOD: international reserves to debt outstanding and disbursed

SOURCE: *World Bank World Debt Tables: External Debt of Developing Countries* Volumes I & II, 1988-89

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The New Look of China's Banks

Reorganized financial institutions are broadening the bounds of China's banking system

Valerie Chang

Recognizing that its outdated financial system was insufficient to meet the demands of economic modernization, China began a series of major banking reforms in 1979, with the majority implemented since 1984. Perhaps most significant, the People's Bank of China (PBOC) has been allowed to function more like a genuine central bank, adopting a supervisory role and giving up its retail operations in part to four specialized banks, which have been charged with mobilizing resources for improving the efficiency of investment, as well as providing a wider range of services to promote growth and development. These specialized banks, along with numerous other financial agents set up to handle China's increasing economic and financial relations with the rest of the world, play the key role of supplying the Chinese economy with credit and investment resources.

China's banking system comprises the PBOC, four specialized banks, and a number of State-sponsored financial institutions, including the China International Trust and Investment Corp. (CITIC) Industrial Bank, the China Investment Bank, and the Shanghai-based Bank of Communications, China's first full-service bank. The specialized banks are the Agricultural Bank of China, the People's Construction Bank of China, the Industrial and Commercial Bank of China, and the Bank of China. These banks were established to manage operations within certain sectors, and while they continue to operate in distinct realms, their boundaries and functions are increasingly blurred.

The specialized banks are organized at the bureau level directly under the State Council, and PBOC supervises and regulates them. The branch offices of the specialized banks function under the vertical leadership of their respective head office, but are subject to surveillance and regulation by PBOC. Generally, the head office of each specialized bank establishes a plan to allocate funds and determine credit limits for each provincial bank, which in turn does the same for branch operations at the city and county levels. Funds are not, therefore, usually transferable between branches in different provinces.

The People's Bank of China (PBOC) has been allowed to function more like a genuine central bank, adopting a supervisory role and giving up its retail operations.

The Bank of China, once the only bank empowered to handle foreign exchange transactions, has seen its monopoly erode, as the specialized banks and other financial institutions have also been granted this authority. Increasingly, these banks are establishing correspondent relations with overseas partners, borrowing money abroad, and learning more about Western banking practices in their effort to become more competitive.

Valerie Chang, a former intern for The China Business Review, holds an MA in international relations from the Johns Hopkins School of Advanced International Studies.

People's Bank of China (PBOC)

The PBOC, China's central bank, handles overall financial management of the economy by studying and formulating China's financial policies and rules, setting interest and exchange rates, designing the nation's credit plans, and overseeing and coordinating the activities of China's financial institutions. It manages China's reserves of gold, silver, and foreign exchange, and also represents the government in dealings with international financial institutions, such as the World Bank. It no longer provides direct services to companies or individuals as it did before the 1984 reforms.

PBOC operates directly under the State Council, and its president (currently Li Guixian) has equal political standing to the minister of finance. PBOC has branches in all provinces, municipalities, and autonomous regions, as well as in some prefectures and counties.

Bank of China (BOC)
June 1988 assets: ¥442 billion

Since 1978, the BOC's primary function has been to manage China's foreign currency reserves and international accounting. It issues foreign currencies and bonds in international capital markets, accepts foreign exchange deposits and makes foreign exchange loans, handles transfers of funds between international banks, provides trust and consulting services, and handles remittances of overseas Chinese and foreigners. BOC has branches in most major Chinese cities, as well as in several foreign countries, including Japan and the United States.

BOC provides both import and export credits in foreign exchange and often aids the technical transformation of domestic enterprises by offering short-term loans to export-oriented ventures. Foreign exchange loans extended to Sino-foreign joint ventures are often at preferential terms. By November 1988, BOC had lent ¥5.1 billion ($1.2 billion) to 2,904 Sino-foreign joint ventures.

BOC raises funds by developing deposit services in overseas branches, borrowing funds from foreign commercial banks, utilizing foreign government loans and buyer's credits, offering consultancy services, and issuing bonds abroad. The bank began floating ¥1 billion in fixed-term bonds on the domestic market in April to collect renminbi (RMB) to accommodate a backlog of demand from 1988, and to meet an anticipated increase in demand for loans in 1989.

The Agricultural Bank of China (ABC)

1985 assets: ¥174 billion

The ABC was established in 1979, after three earlier attempts failed during the political turmoil of the Maoist era. With de-collectivization of the agricultural sector in 1978, China recognized the need to establish a financial institution to serve rural areas, and the ABC absorbed the rural branch network of the PBOC.

ABC mobilizes and directs financial resources in rural areas by lending to collectives and farms, collecting deposits from residents, and supervising the operations of rural credit cooperatives, which provide supplementary funding for many of ABC's activities.

The ABC also finances the State's procurement of most crops, including cotton, grain, and oilseeds. Last year, due to tight credit and a slowdown in savings deposits, ABC had difficulty financing all crop purchases. As a result, rural enterprise loans were scaled back, and certificates of deposit were issued in some areas in lieu of cash as payment for crops.

Since 1984, the ABC has become increasingly active mobilizing foreign currency loans to promote agricultural development. The World Bank, for example, has provided three loans to the ABC ($50 million in 1983, $90 million in 1985, and $170 million in 1989), and the International Fund for Agricultural Development (IFAD) has also provided one loan. The most recent World Bank loan of $170 million, approved in January 1989, will finance production and construction projects in rural areas of several provinces. ABC also borrowed $50 million from the ADB in 1988 to make foreign exchange subloans to agro-industrial enterprises in eastern China. The West German government also provided a loan of DM20 million to ABC in 1988, while foreign commercial banks reportedly supplied $15 million.

ABC is also the Chinese partner in a joint venture bank established in Xiamen Special Economic Zone in August 1988. Under the 30-year agreement, ABC will hold 45 percent of the bank's $60 million capital, while the International Finance Corp., which is the investment arm of the World Bank Group, the Development Bank of Singapore, and West German, Dutch and Japanese banks will hold the remaining 55 percent. Once it becomes operational, International Bank for Agricultural Development will grant loans in RMB and foreign currencies, conduct export transactions, accept foreign currency deposits, and possibly deal in securities, giving ABC valuable experience in international banking procedures.

The People's Construction Bank of China (PCBC)

1987 assets: ¥278 billion

The PCBC shares responsibility for financing urban enterprise activity with the Industrial and Commercial Bank of China. The PCBC is subject to PBOC regulation and supervision, but it remains under the Ministry of Finance (MOF) for its public finance

NEW FACES AND FACE VALUES

In 1987, the People's Bank of China (PBOC) issued two new renminbi (RMB) notes with face values of ¥50 and ¥100, adding new higher denominations for the first time since 1955. A PBOC spokeman said that the new denominations would facilitate transactions for ordinary consumers as well as financial institutions. New note with values of ¥10, ¥5, ¥2, ¥1 and 5, 2, and 1 *jiao* (10 *jiao* equal ¥1) were also introduced.

In addition to adding higher denominations, the new issue also sports new designs that contrast with groups of workers shown on old bills. The front of the new ¥100 bill bears the portraits of late Chinese leaders Mao Zedong, Zhou Enlai, Liu Shaoqi, and Zhu De (*see* photo). The black and blue note also features a watermark of Mao's profile. The ¥50 note shows a farmer, a factory worker, and a bespectacled man who presumably represents intellectuals. The smaller bills depict various non-Han Chinese ethnic groups; the ¥2 note depicts representatives of the Uygur and Yi nationalities, for example, and the ¥1 depicts the Yi and Dong peoples. All of the bills show popular scenic areas on the reverse. For the first time, notes of denominations higher than ¥1 will carry Braille markings.

When the notes were first issued, a spokesman for PBOC assured that introducing new currency would not cause inflation, since the notes will gradually replace worn-out existing currency rather than add to the total supply.

—Marie Factora

Photo courtesy of China Pictorial.

operations. In practice, this means that the MOF provides considerable funding and instruction to the PCBC for dispensing budgetary funds.

The PCBC concentrates on allocating funds and granting loans to large-scale technical transformation projects, and managing new capital construction projects. Since 1981, grants for capital construction have gradually been transformed into interest-bearing loans. PCBC also has a supervisory role in monitoring construction progress and expenditures.

In mid-1988 PCBC was approved by the State Council to engage in international transactions, and was granted permission to accept foreign currency deposits and issue foreign currency loans, raise funds in foreign financial markets, onlend funds lent by foreign governments and international financial institutions, extend export credit, and offer consultancy services. As futher expansion of its international activities, PCBC acquired a 9.1 percent stake in the Hong Kong Ka Wah Bank from CITIC in July 1988. The total investment was estimated at $4.6 million.

Industrial and Commercial Bank of China (ICBC)
1987 assets: ¥440 billion

The ICBC was established in January 1984 to share urban operations with the PCBC. While the PCBC focuses on new capital construction and large-scale renovation, the ICBC took over PBOC's urban branch network. Besides accepting private enterprise savings deposits, ICBC provides loans to industrial and commercial enterprises for working capital and technical transformation. ICBC accounts for approximately 60 percent of China's banking business.

In June 1988, ICBC became the third bank in China to offer foreign exchange services, including foreign exchange deposit accounts, foreign currency loans and settlement accounts, and medium- and long-term loans from foreign financial institutions.

China Investment Bank (CIB)
1986 assets: ¥2.3 billion

CIB was established in 1981 to channel funds from foreign sources—primarily multilateral developments banks—into domestic development and investment projects. CIB serves as an intermediary whose principal activities include raising and borrowing money from foreign sources to onlend to domestic enterprises; arranging investment loans or participating as an equity shareholder in joint ventures; and ratifying and supervising loans through introduction of standard project appraisal methods.

By the end of 1987, CIB had borrowed $645 million in four loans from the World Bank, with the largest loan of $300 million approved in 1987 going to finance small and medium-sized industrial enterprises. It secured its first loan from the Asian Development Bank (ADB) in 1987, $100 million to assist various small and medium-sized enterprises import equipment and machinery and modernize their facilities. CIB also borrowed $115 million from foreign commercial banks in 1987. By mid-1988, CIB had reportedly raised over $1 billion in foreign funds, and extended over ¥1.4 billion in loans.

Unlike the specialized banks, targeting specific sectors, BComm offers comprehensive services and may eventually float shares.

CITIC Industrial Bank
1987 capital: ¥800 million

Until 1987, the CITIC Industrial Bank was the financial office of CITIC, which was established in 1979 to attract foreign investment to China. CITIC acts as an intermediary in organizing joint ventures, and it has the authority to raise foreign funds in international capital markets. Creation of the CITIC Industrial Bank was approved by the State Council in 1987 to deepen structural reforms in the financial sector, and the bank broke BOC's monopoly over foreign exchange control.

In 1986 CITIC acquired a 72 percent stake in Hong Kong's Ka Wah Bank, a springboard to CITIC's overseas banking operations. By the end of 1987, the CITIC Industrial Bank had raised $45 million on overseas money markets. It has also floated bonds in London and signed a buyers' credit agreement with France for money to purchase industrial equipment and technology.

Bank of Communications (BComm)
1987 assets: ¥40 billion

The Shanghai-based Bank of Communications was reestablished in April 1987 as a share-holding bank capable of serving all economic sectors. The bank was originally established in 1908, but after 1954 only the Hong Kong branch continued to operate as part of the Bank of China group. Its reestablishment in 1987 was intended to signal that China's leaders are serious about financial sector reform. Initially, BComm encountered difficulty attracting customers, since it was competing for business with the already-established specialized banks. Subsequently, it has grown quickly, establishing 44 branches and subsidiaries by January 1989. The growth may be attributed in part to the variety of BComm's services, and in part to the fact that its lending is not conditioned by State approval, but by the size of its deposits.

Unlike the specialized banks, which are targeted toward certain sectors and organized along government lines, the BComm has branches in major cities and sets up sub-branches in other areas based on demand. In addition to its comprehensive services, which include accepting both RMB and foreign exchange deposits, extending loans to foreign as well as Chinese enterprises, and dealing in foreign exchange, BComm has been authorized to move into stocks and bonds, trusts, and real estate and insurance. The Hong Kong branch has already issued over $202 million in bonds and certificates of deposit overseas, mostly in Hong Kong.

BComm is also the country's first share-holding bank: 50 percent of the bank's shares are held by the PBOC, with the remainder held by the Shanghai government. Plans to float 10 percent of the bank's shares on the market are still being considered.

Anticipating future interaction with international financial agents, BComm reportedly has set up a department that will handle loans from foreign governments, multilateral development agencies, and export credits of foreign commercial banks. 完

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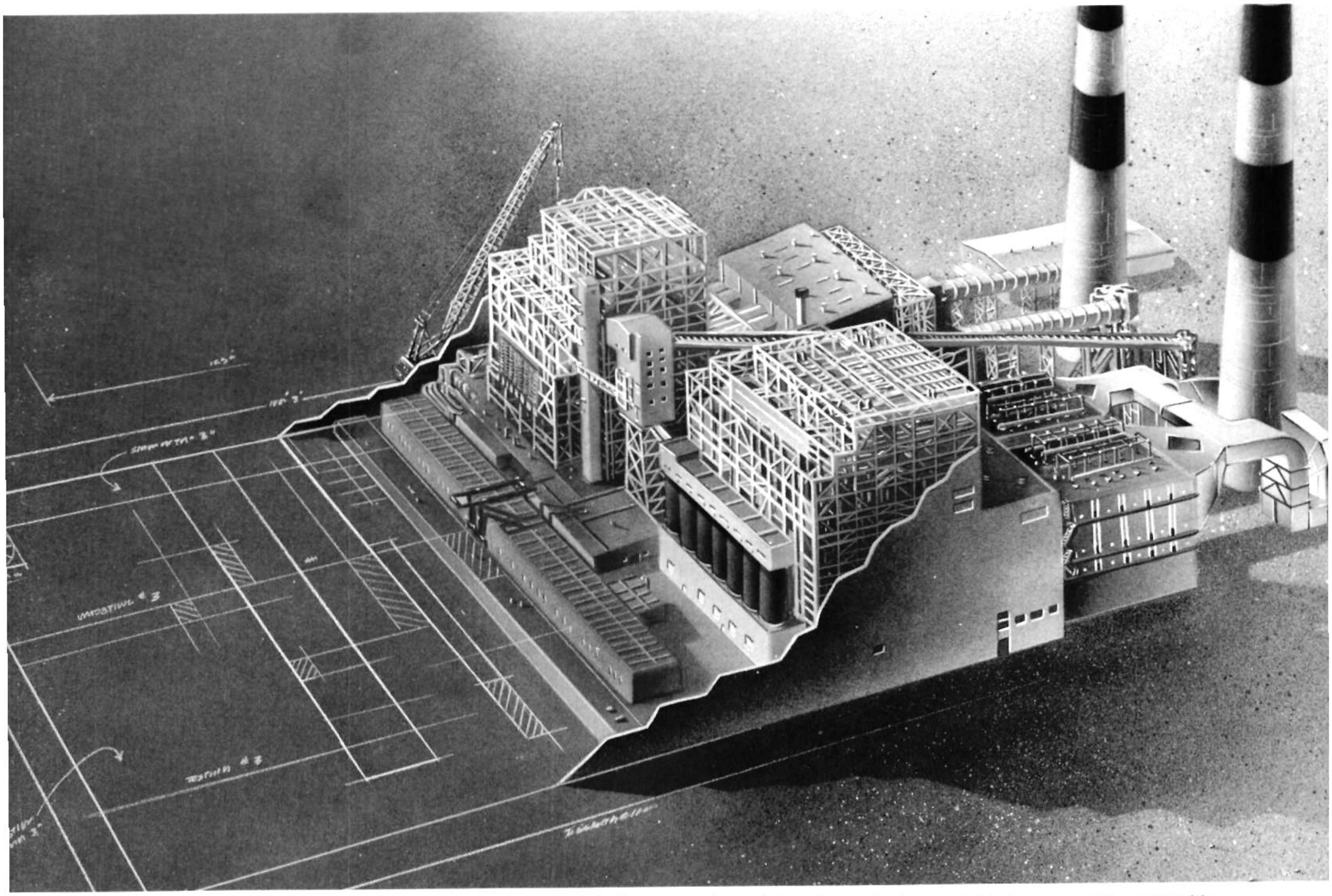

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US Banks' Tougher Approach

Early enthusiasm yields to professional pragmatism in calculating the risks and rewards of China's changing market

Sumner Gerard

Chinese finance officials and bankers often comment that in recent years US banks seem to have become less *jiji*, or "active and eager"—qualities deemed particularly important for success in China. They contrast US banks to gung-ho Asian and European competitors, and wonder if anything is the matter.

US bankers reply that nothing is the matter—that they are, in fact, more active in China today than ever before, handling billions of dollars in letters of credit and funds transfers, maintaining representative offices in major cities, running operating branches in special economic zones (SEZs), and participating in joint ventures in commercial banking and related areas, such as leasing (*see The CBR*, Jan-Feb 1986, p.25).

US banks also act as financial advisers for major projects in China, engage in currency and bond trading with Chinese banks, manage funds for Chinese entities, act as intermediaries in the disbursement of subsidized financing as well as government-to-government loans and grants key to China's development, provide non-subsidized commercial loans, underwrite China's bond issues in international capital markets, and train Chinese personnel through seminars and programs both in China and abroad.

Many of these activities have assumed significant scale only in the past three to four years. And in the hope of expanding their business in China still further, US banks are continuing to lobby for Chinese government permission to open full operating branches in major cities outside the SEZs (currently, offices of US banks outside the SEZs are not permitted to conduct actual business).

Crowds of suitors offered "friendship loans"

Nevertheless, the lower ratings US banks receive on the *jiji* scale are not entirely unmerited. Although active in China, US banks perhaps are less eager—and more wary—than when the door opened a decade ago.

At that time, China had virtually no foreign debt, maintained an iron grip over new foreign borrowings, declared central government support for all external obligations, and launched ambitious development plans which seemed certain to fuel a huge demand for loans and other banking services. US banks figured prominently among the crowd of money-waving suitors offering "friendship" loans and other services at sweetheart prices—without asking sensitive questions that might provoke China to shut the door on a promising new market.

The past 10 years, however, have seen dramatic changes in both China and the US banking industry, and old assumptions are no longer valid. US banks are now asking with increasing persistence the same pragmatic, decidedly un-*jiji* questions that bankers routinely ask everywhere else in the world: What are the risks, and what are the rewards? Will I get my money back, and if so, with enough interest and fees to make the transaction worthwhile in the first place?

When banks ask these questions of China, they must confront the twists and turns of China's policies, trends in international trade and competition, issues of financial disclosure and state secrets, legal and accounting standards (or lack thereof), precedents of international law, Chinese court procedures, and nebulous concepts of sovereign and quasi-sovereign debt. In the end, the questions lead to fewer definitive answers than US bankers are accustomed to receiving elsewhere in the world.

Sumner Gerard represents Manufacturers Hanover in China through the bank's Beijing and Shanghai offices. The views expressed or described in this article do not necessarily reflect those of Manufacturers Hanover or its management.

Parting the shroud of secrecy

Scarcity of reliable information—on both individual borrowers and the country as a whole—is one of the first pitfalls US banks encounter in China. Many major Chinese government-owned corporations, for example, refuse to discuss their business in detail or release financial figures. Their annual reports contain pictures of the company chairman and the governing minister for that industry, accompanied by glowing statements of the company's progress and contributions to society. But they contain few facts and figures. With a few notable exceptions, the concept of financial disclosure, taken for granted in other markets, simply doesn't exist in China.

This has always been the case and does not surprise those who remember that penalties could be meted out not long ago for revealing such "State secrets." But radical changes in China's attitude and policy toward external obligations have made this fixation with secrecy a growing concern for lenders.

In the late 1970s and early 1980s, foreign bankers took comfort from statements in China's official media suggesting the central government considered itself responsible for the repayment of all foreign borrowings. That implicit guarantee was soon swept away, however, in the flood of economic reforms. With the adoption of the "self-responsibility" system, Beijing authorities decentralized the responsibility to repay loans along with the more widely publicized responsibility to make a profit.

Picking the right borrowers

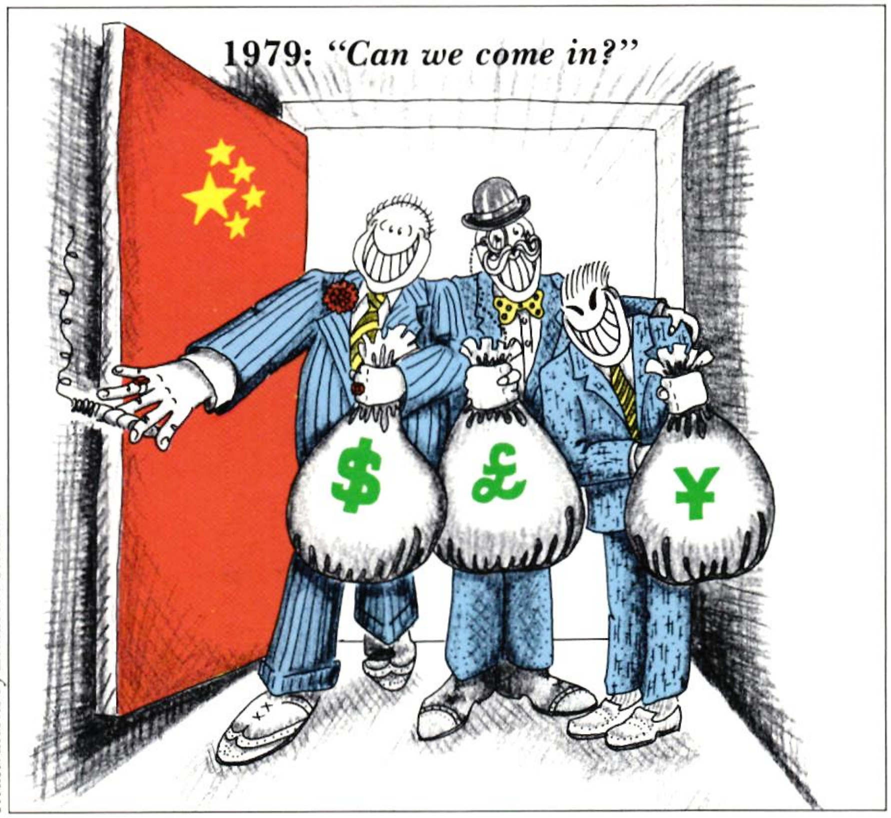
No longer able to assume that the debts of most Chinese borrowers are debts of the State, many foreign bankers and lawyers have turned for comfort to "quasi-sovereign" arguments. These hold that the State, though disclaiming responsibility for some borrowers' debts, might feel obligated to pay them anyway, because failure to do so would cripple China's financial and trade relations with the outside world.

The problem for foreign bankers has thus become identifying the borrowers most likely to receive the full support of the State's resources in a worst-case scenario. For most foreign banks, the choice narrows to a handful of entities which have access to foreign exchange and are willing to release detailed financial information.

Among bankers' most popular borrowers are financial institutions such as Bank of China (BOC), China International Trust and Investment Corp. (CITIC), Bank of Communications (BComm), and several major regional trust and investment companies (ITICs). Also considered "prime" names are a few large State-owned corporations which produce goods for export, or provide services key to China's economic infrastructure.

Some foreign banks have ranged farther afield, dealing with lesser-known entities that were given autonomy to borrow and issue guarantees during decentralization. But in China, the pendulum of economic and financial policy swings in wide arcs, making it tricky to stray too far from the tried and true.

China's latest crackdown on foreign borrowing, for example, reversed the trend toward decentralization that had persisted since the previous crackdown in 1984. In February, the State Council decreed that henceforth only 10 financial institutions would be permitted to act as foreign exchange "windows" and borrow abroad without receiving prior permission from the head office of the People's Bank of China (PBOC), China's central bank. Previously, over 100 institutions had taken advantage of the climate of decentralization and begun borrowing freely without reporting first to Beijing.



Illustrations by Elizabeth Stewart

A week after the new rules took effect, 27 foreign banks found themselves in the ironic situation of signing a previously negotiated syndicated loan agreement totaling over $100 million with People's Construction Bank of China (PCBC), a borrower not included on the new list of 10. When asked for clarification of the new rules, Chinese officials and bankers explain that PCBC and other entities not on the list can still borrow abroad; they simply need prior approval from Beijing.

Restoring the iron grip

Whether Beijing can restore the iron grip it once had on foreign borrowings remains to be seen. Following announcement of the recent restrictions, banking authorities immediately displayed their new power by fining a Chinese leasing company that had borrowed foreign currency without proper approval. But as the old saying observes, "The mountains are high and the emperor is far away." With each swing of the policy pendulum, borrowing entities have become more adept at preserving operating and financial independence from the periodic clutches of central authorities.

One particularly blatant way to circumvent restrictions has been to set up an indirectly owned Hong Kong affiliate, which borrows funds and channels them back to its mainland "parent" in the form of investments. If the parent does not guarantee the loan, then it is not required to report the transaction to central authorities.

Weak coordination between various government organizations involved in managing China's foreign debt has provided a favorable climate for proliferation of such loopholes. PBOC and its subordinate State Administration for Exchange Control (SAEC), as well as the State Planning Commission, the Ministry of Foreign Economic Relations and Trade, the Ministry of Finance, and the BOC all play varying roles in approving foreign loans, but so far none has demonstrated the power to take charge of overall management of foreign debt.

Questions of country risk

Uncontrolled borrowing compounded by the need for massive infusions of funds to fulfill State plans has caused China's foreign debt to balloon to around $40 billion, dwarfing the $10 billion of only five years ago. In both absolute and percentage terms, this growth catches the banker's eye, and raises the larger question of "country risk"—China's ability as a country to honor external obligations, should the central government need to support borrowers unable to repay on their own.

China's country risk never used to be seriously questioned by foreign bankers. Even during the upheavals of the Cultural Revolution, China meticulously honored external obligations. And despite the increase in China's foreign debt, Beijing authorities continue to display aversion to the borrowing binges which first delighted but ultimately dismayed foreign bankers in Latin America.

Senior Chinese officials' public outcry last summer against an evaluation of Bank of China debt by Moody's Investors Service, the prominent US ratings firm, shows the continuing sensitivity of China's leaders to discussion of China's creditworthiness in anything but sterling terms. Moody's assigned China a rating of A3, which is very high on the international scale, but several notches below the top rating some Chinese borrowers had received from Japanese rating agencies in previous years.

Increasing debt levels raise eyebrows

China's $40 billion foreign debt, while by no means just a flea on the elephant's back, does not appear an excessive burden if considered in comparison to China's economy and trade. Standard statistical measures used by country risk analysts support this view. For example, China's 10 percent debt service ratio—principal and interest payments on foreign debt expressed as a percentage of current account receipts—falls well below the average of slightly more than 20 percent for economies in the Asia-Pacific region. As a rule of thumb, experts say that a ratio of up to 20 percent is healthy.

But as with information on many individual borrowers, reliable figures on China's foreign debt can be hard to obtain. Both foreign and Chinese bankers sometimes wonder if the banking authorities really know how much foreign debt China has accumulated. PBOC's surprise request last March that all foreign bank representative offices in Beijing supply—within a week—a list of all loans their banks ever made to China, together with details on principal and interest payments, impressed foreign bankers with the high-level attention being paid to foreign debt management problems but instilled little confidence in the statistical methods of the banking authorities.

Private comments by Chinese bankers that the debt-service ratio could be closer to 16 or 17 percent lessen foreign confidence even more, particularly since China will enter a peak repayment period in the early 1990s, which some say could drive the ratio beyond the 20 percent safety line. Some foreign analysts are beginning to speculate about widespread debt reschedulings.

Do rewards justify risks?

Despite these clouds on the horizon, many US bankers agree with Moody's assessment that although China's creditworthiness is not at the top of the international scale, it remains appropriate to China's current stage of economic development. China recognizes the need to improve statistical reporting and coordination of foreign debt management and already has taken steps to reduce the currency and liquidity risks of external obligations. As long as US banks apply no less stringent credit standards than they would in any other developing market, they should make it home with their wallets intact.

Whether US banks are making enough money in China to justify the risks, however, is another matter. For foreign bankers in China, answers to the question of rewards, like that of risks, can be elusive.

Different foreign banks have scratched out different niches in the market, and, for proprietary reasons, most US bankers in China claim they aren't making a dime. That may or may not be true, depending on the mix of their lending and non-lending activities with Chinese entities.

In the case of lending, though, it is clear that the pricing commanded by most major borrowers in China is too low for US banks to meet profitability targets they routinely require at home, let alone to compensate for the added risks of doing business abroad. Loans involving prime Chinese borrowers (or loans to other entities guaranteed by these prime names) typically carry gross margins well below one-half percent. In order to keep stockholders in and corporate raiders out, most US banks require net returns over 1 percent.

1989: *"Can we afford to stay here?"*

Unexpected costs

Moreover, US bankers have discovered that deals in China can suddenly take on last minute costs, which can turn what was to be a break-even or low profit deal into a loss. Many foreign banks have, for example, faced eleventh-hour demands to cover the living and travel expenses of Chinese trainees sent overseas. And in one celebrated case last year, foreign banks ended up picking up the tab at one of Beijing's priciest hotels for a loan signing ceremony and banquet to which the Chinese parties had invited over 60 guests, many more than expected.

Fortunately for foreign bankers,

cases like these are the exception rather than the rule. But as the Chinese saying goes, "One piece of rat dropping spoils the entire bowl of porridge," and such incidents have contributed to some US bankers' doubts about the mutual benefits and profitability of China deals.

Yet US banks continue to come back to the table with all the appearances of a robust appetite, providing funding for the recent expansions of the Shanghai ethylene plant and the Bohai aluminum smelter. When asked why, US bankers echo the familiar theme of other foreign companies in China: We may not be making much now, but we're building relationships for the future.

But 10 years have elapsed since China's door opened, and that theme is wearing thin for some US banks, whose stockholders don't permit them to take the long-term approach of Japanese and some European competitors. "The gaining of prestige and developing of a close relationship," says one senior US banker, "simply means the opportunity to gain more prestige and a closer relationship by making an equally cheap or cheaper loan the next time around."

Selling the "food of friendship"

To escape the downward spiral of prestige without profits, some US lenders are finding ways to partake of the "food of friendship" while in fact slipping the plate to hungrier cohorts waiting in the wings. If the profit margin on a loan is too thin to justify keeping it on the books, the US bank will do a deal anyway and promptly sell the loan to someone else, probably in Japan or Europe, who wants the business but lacks an established presence in China. As with trading in any other commodity, the profit derives from differences in the buying and selling price.

Such transactions, often called asset sales, have evolved over the past decade to become common practice in international markets. But in China, where bankers are lenders and not traders in debt, asset sales can cause misunderstandings. "It just gives us Chinese an uncomfortable feeling," says an SAEC official, "when we pick a particular lender for relationship reasons, and the lender turns around and sells to someone we don't even know."

The usual soothing arguments—that only good assets can be sold and exposing good assets in international markets does more to enhance China's reputation than not selling them—often fail to convince the Chinese. One US banker had to conduct lengthy discussions followed by a banquet to persuade a Chinese customer that selling a loan did not constitute a literal sell-out of the relationship or a vote of no-confidence in the borrower's creditworthiness.

Limited scope for branches

While introducing special techniques such as asset sales to remain competitive, US banks remain alert for opportunities to enhance profitability in China by expanding into new lines of business. Some bankers believe one such opportunity may come with permission to open operating branches outside the SEZs, although others are skeptical.

Foreign banks are permitted to establish representative offices—sales offices that cannot conduct actual transactions—in major Chinese cities. They can also set up joint ventures and operating branches—which can conduct business—in the SEZs. But unlike the BOC branches in New York and Los Angeles, US banks are not permitted operating branches in major cities outside the SEZs (four non-US foreign banks have branches in Shanghai, which have special legal status dating from their pre-1949 activities).

Some foreign banks—mainly Japanese and European—feel this policy excludes them from tantalizing markets, and they are pounding hard on doors in Shanghai and Guangzhou, the two most likely locations for additional foreign bank branches. According to PBOC and SAEC officials, several major US banks also express strong interest but want to know specifically what branches would be permitted to do before responding to an invitation to open one.

Problems of strategic fit

This difference in approach illustrates major US banks' growing pragmatism in China in particular, and changing strategies toward overseas operations in general. Japanese and some European banks remain eager to expand their global network of branches, sometimes at any cost. But several major US banks have been scaling down or shedding overseas branches—even profitable ones—because they don't fit a global strategy emphasizing on consumer and investment banking services.

At this stage in China's development, with neither consumer nor investment banking appearing poised for a takeoff, it is unclear whether operating a branch there provides a good strategic fit to a US bank's global strategy. Moreover, some bankers point to the slim pickings foreign bank branches have found in the SEZs—where severe restictions limit business scope and prevent foreign banks from engaging in local currency transactions—and wonder whether China will offer a better deal in Shanghai or Guangzhou.

Given the current austerity campaign, many foreign bankers doubt that the banking authorities will make a tempting offer anytime soon. Last year, the SAEC and the PBOC drafted regulations to govern foreign bank branches, should the government decide to issue more licenses in Shanghai. However, these regulations did not receive approval from the State Council, and PBOC never made them public. Only after rules are released will most US banks feel they have enough information to determine if branches will be profitable enough to justify the capital investment.

Seeking the middle ground

However the branch banking, debt management, and other issues are eventually resolved, US banks retain deep financial and emotional ties to China. "I don't blush to say there is little that will affect the course of world developments more than what happens in China and Hong Kong over the next few decades," says one senior US banker. "We are proud to be part of the process."

Most share his sentiments, while reflecting on how much both US banks and China have changed over the past decade. US banks, recognizing the new realities in China, are seeking new ways to meet China's future needs. And China is beginning to understand that US bankers cannot forever justify undefinable risks and meager short-term rewards simply on the basis of faith in a more promising future. Infatuation has yielded to a healthy pragmatism, as both sides adjust to a new stage of the relationship. 完

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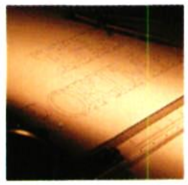

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Changing Lending Practices in China

Foreign banks seek new strategies to package and secure loans

Raymond V. Haley

Foreign bank lending to China has grown rapidly over the past few years, as the country's modernization drive has hit high gear. According to Bank of International Settlements statistics, total commercial bank loans to China nearly doubled, to $20.1 billion, during the 18 months ending June 30, 1988.

Lending has surged, despite the general view that commercial bank loans are the least desirable source of funds available to China. Multilateral development agency loans, government concessionary financing, and export credits are preferred over commercial loans, since they generally have lower interest rates or longer repayment periods. However, multilateral lending institutions move slowly, and their interests are limited to several fairly well-defined sectors of the economy, while government-granted concessionary loans are usually tied to exports from the donor country. Commercial banks have been able to fill the gaps and adapt to the needs of Chinese borrowers. Foreign banks found this flexibility especially valuable as China decentralized and new borrowers entered the market. However, as China undergoes a fresh round of policy shifts favoring recentralization, foreign bankers must adjust to the new environment.

Understanding how banks view China-risk financing helps companies assess proposed business transactions, as well as negotiate more effectively, which can save time and make the difference between success and failure.

New rules create uncertainty

On January 12 the State Council published "The Strengthening of Control over the Borrowing of International Commercial Loans," a circular restricting direct commercial borrowing from abroad to 10 financial organizations called "foreign debt channels" and leaving the role of some of China's other financial institutions in doubt (*see* p. 25). The rules also added teeth to existing regulations by laying out severe punishment for violators. This recentralization of authority is the most visible recent change in China's security arrangements likely to affect foreign investments.

The January regulations tighten February 1987 rules by the People's Bank of China (PBOC) specifying who may issue a foreign loan guarantee. Following the establishment of the 1987 rules, the State Administration of Exchange Control (SAEC), a department of PBOC, periodically issued steadily longer lists of banks and other financial institutions permitted to guarantee foreign loans. Prospective guarantors not on the list had to be approved by SAEC on a case-by-case basis. Although SAEC approval did not mean that the loan was "sovereign," or backed by the Chinese government, it did give bankers a degree of comfort, because SAEC monitors the guarantors' financial health. In the latter part of 1988 SAEC approval for new loans became increasingly difficult to obtain, as China sought to reduce credit growth in order to cool the economy and slow inflation.

Concerned about the higher level of foreign debt, the State Council issued its January circular to bring foreign borrowing directly under the PBOC's control and severely restrict the authority of local financial institutions to issue guarantees. PBOC is also expected soon to issue a set of administrative measures for managing foreign commercial loans, which should clarify some ambiguities.

The circular will undoubtedly affect foreign borrowing, if only because of the uncertainty the new rules have created among bankers; the directive is vague enough to allow different interpretations on several key issues. However, since the recentralization trend had already begun several months before the new regulations appeared, they may not have as abrupt or harsh an impact as some bankers fear.

Do Chinese partners have less to offer?

In China, even more than in many other countries, a foreign banker considers security for a loan to be as critical as a project's fundamental economic viability. In the past, China's lack of dependable mortgage laws forced bankers to rely on guarantees as security for loans. Until a few years ago, the Chinese joint venture partner usually guaranteed all of the venture's debt, but now joint venture partners usually issue guarantees in amounts reflecting their relative equity interests in the project.

Now, however, the Chinese partner or local financial institution will not be able to guarantee the joint venture's foreign loans, unless the borrower first secures approval from SAEC, which has become increasingly difficult to obtain over the past year. Chinese partners have also had difficulty obtaining necessary renminbi (RMB) loans. The new regulations will undoubtedly push many Chinese enterprises to seek foreign partners—exempted from the restrictions on foreign borrowing—in or-

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der to obtain financing, as well as other benefits. However, the question remains: What will Chinese partners bring to the table?

Since Chinese enterprises now often find themselves unable to bear their share of the financial risks of joint ventures, foreign companies increasingly elect to go it alone. In 1988 the number of wholly foreign-owned enterprises (WFOE) increased sixfold, and in Xiamen Special Economic Zone (SEZ) the number of new WFOEs nearly equaled new joint ventures. China is now encouraging the formation of WFOEs to offer greater rewards for the risk implied by diminished financial support from Chinese governmental agencies and banks.

A boost for mortgage lending?

The dwindling availability of guarantees for otherwise attractive projects may stimulate the development of mortgage banking in China. At present Shenzhen SEZ, Guangzhou, and Shanghai have published mortgage laws, with Xiamen and other cities expected to follow suit shortly. Shenzhen is leading the way in promoting a legal and administrative environment conducive to secured lending by clarifying mortgage registration and liquidation procedures. Activity to date has focused on financing commercial and industrial construction, where the mortgage rules are clearest.

If mortgage lending is to grow, the existence of an active secondary market for land-use rights and the abilities to transfer long-term land-use rights and receive payment in foreign exchange are essential. China now permits financing secured by liens on equipment and inventory, but in practice bankers would find it difficult to control and liquidate this collateral should the need arise. Much work remains to be done to secure the lender's rights to take control of collateral and export it, if necessary, in order to liquidate the debt.

Positive projections aren't enough

Banks view most joint ventures as start-ups, even when the loans are sought to upgrade and expand an existing facility. To obtain some degree of certainty about the project's viability, the prospective lender carefully analyzes the cash flow projections, but much doubt remains. Feasibility studies may be outdated by the time of the groundbreaking because of changes in prices, supplies, or markets. Therefore, projected cash flow alone is never enough to support a foreign currency loan.

Interestingly, Chinese banks have adopted similarly conservative lending policies. Gone are the days of easy RMB loans to joint ventures with *guanxi* (connections). Delinquent loans held by many domestic enterprises have convinced Chinese banks of the value of closely scrutinizing new projects for both economic feasibility and adequate security.

With RMB loans no longer automatic, foreign lenders often ask that these loans be committed first to avoid having to "swap" foreign currency into RMB at a Foreign Exchange Adjustment Center, which would meet the joint venture's requirements but also exacerbate its problems balancing foreign exchange. Companies with multiple operations in China will sometimes seek to arrange inter-company RMB loans between the joint ventures in which they invest, but this too is a short-term, interim measure rather that a long-term solution.

Seeking clues to future profits—or losses

While project feasibility studies may not always provide reliable forecasts of economic health, they can offer bankers useful insights into key aspects of the project. They often clarify, for example, the project's business strategy and the division of responsibilities between the partners—points which may be ambiguous in the joint venture contract. For example, a Chinese partner may agree in the contract to "assist" the joint venture in obtaining the low-priced, State-allocated raw materials that it needs, without expressing doubts about his ability to obtain these materials. His uncertainty may reveal itself, however, if he suggests that the feasibility study not include the anticipated State subsidies or materials allocation.

Other clues include the venture's projected export volume, which can reveal whether the project aims primarily at domestic or foreign markets, and the budget for expatriate management expenses, which often indicates whether the foreign partner wants to use the project as a beachhead in a long-term China strategy or simply to make a quick sale of technology and equipment. If the foreign partner's intention is only to sell technology and equipment, how many start-up problems is he prepared to weather? The feasibility study may provide the answer by indicating how much loss the foreign partner expects to sustain before seeing profits and how much he intends to invest in financial and managerial resources.

Objectives of the Chinese partner to a joint venture may be revealed in a feasibility study through such issues as the salary levels expected. Joint ventures must pay a premium over State enterprise wages for the greater dedication to work they demand. However, if the Chinese side seeks a much higher than usual pay scale, that may indicate interest in earning quick benefits rather than competing profitably in the market over the long term. In the Antaibao coal mine joint venture, for example, the Chinese side originally wanted US union scale of $14 per hour (*see The CBR*, Jan-Feb 1988, p.45), which delayed project approval when coal prices fell and drastically lowered profitability projections.

Determining whether the joint venture will have adequate power supplies is also a crucial objective of the feasibility study, since power shortages now idle an estimated 25 percent of China's production capacity. Power fluctuations can also devastate manufacturing projects that require a uniform, controlled environment to produce high-tech products. The approval of a loan can hinge on this apparently minor issue.

Customized financing: when to say when

To close a China deal, bankers usually have to customize financing to take into account Chinese borrowers' particular circumstances, such as projected cash flow, preferred currency (whether the "strong" yen or "weak" dollar), or special security arrangements. The key is to customize while maintaining a sound credit structure. A recent case in point was an export credit for a Chinese buyer of US transportation equipment in which the Hongkong and Shanghai Banking Corp. (HongkongBank) put together a US Export-Import Bank (Eximbank) intermediary loan. The buyer preferred a leasing structure, which the bank was able to accommodate while ensuring that the buyer or enduser would reap the benefit of the comparatively low Eximbank rate. The bank put together a full payout financial lease, allowing title to the equipment to pass to the Chinese buyer at the end of the leasing period. As security for the loan, the HongkongBank obtained a lien on the equipment and an "assignment" or claim on the lease. In addition, an SAEC-approved financial institution provided a guarantee. The SAEC registration document cites the lender, amount, interest rate, and term of the loan being guaranteed. In this case, the loan and security documentation conform closely to international banking standards and clarify the relationships among the bank, borrower/lessor, and buyer/lessee. The result is a well-structured credit at a favorable rate—which undoubtedly will help the US exporter build relationships in the Chinese market.

Negotiations over financing can often go on for months, even years, and bankers should not lose sight of the bottom line in their eagerness to finalize the transaction. Banks establish and observe credit policy to protect depositors and profit shareholders. When an exception to policy is made, the risks must be evaluated and managed to ensure the soundness of the credit.

The financing package for the joint-venture Shajiao Power Plant B Station in Guangdong provides a good example of risk management tailored to China's particular conditions. The Shajiao joint venture loans have no direct guarantee, but the project does have guaranteed coal supplies at a fixed price and a guaranteed purchase agreement for the power, with sufficient foreign currency revenues to repay the debt. The venture resembles a "build-operate-transfer" (BOT) project, in which ownership is transferred from the joint venture to China after a 10-year period. The lenders made extensive use of technical consultants on engineering and insurance issues in order to assess and minimize project risks. Needless to say, close attention was paid to the support provided by the Shenzhen and Guangdong authorities, among other parties to the deal. The many months of negotiation resulted in financing acceptable to the partners in the project and enthusiastically received by the banking market.

In many other cases, however, the structure sought for the project is just not acceptable to the bank, and it is always better to find out sooner than later. Whatever the stage of the negotiation, you have to know when to say when.

Long-term optimism

The recent State Council circular on foreign debt indicates that the number of new deals coming into the pipeline will diminish during 1989. This will undoubtedly cause some banks that are marginal players in the China market to reassess their prospects and drop out. Likewise, the lemming urge of bankers to make one-time "friendship" deals in the vain hope of additional, more profitable business should subside this year. Given that the perceived risks of lending in China remain unchanged, the terms of trade in lending will remain firmly in China's favor, with the somewhat reduced potential supply of commercial credit offset by lower actual demand. However, by virtue of its size and diversity, the China market can still be attractive to foreign banks, and over the medium term, prospects are good for healthy growth of banking business. 完

BOOKSHELF

书刊介绍

Technology Transfer in the People's Republic of China, by Stephen Hood, Will Dennis, and Christopher J. Woods. 2nd ed. Hong Kong: Longman Group (Far East Ltd.), 1988. 135 pp. $145.

At some point in its China business ventures, a foreign company is bound to face the prospect of technology transfer—the Chinese insist on it, and foreign companies are increasingly realizing that tech transfer is the key to a long-term presence in the China market. This work offers a basic introduction to the issues companies must consider, and the Chinese legal framework for tech transfer agreements.

The report is clear, factual, and concise in its coverage of a range of relevant issues, offering a nearly complete picture of tech transfer. After a brief introduction, it tackles a key question: which form of tech transfer to choose—whether outright sales, consultancy agreements, licensing, or tech transfer contributed as equity by a foreign partner to a joint venture.

Significantly, this book also discusses China's laws and priorities regarding technology transfer. Several chapters explain Chinese economic legislation applicable to tech-transfer arrangements, such as types of protection—including patent, trademark, and copyright—available for intellectual property; extraordinary conditions in the special economic zones (SEZs) and open coastal cities; applicable domestic laws; tax rules; and control of foreign exchange. The appendix contains a useful listing of relevant laws and regulations.

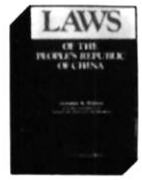
An unusual inclusion is the brief chapter on US and Coordinating Committee for Multilateral Export Controls (COCOM) restrictions on exports to China. Most reports on China business focus on the Chinese side of the trade picture, explaining the complex Chinese bureaucracy and trading environment, rather than discussing the issues confronting companies on the US side. As the significance of export controls grows and the export-control system is liberalized, however, this key area should be included in any discussion of tech transfer, as it is in this work.

Although the Longman report is useful as a basic reference, companies struggling with critical questions are unlikely to find answers here. The book's even-handed treatment provides few hints as to which option to pursue; nowhere does it mention, for example, that licensing is the most popular means of transferring technology to China, nor the reason why. And while the report provides two valid reasons why equity contribution of technology to a joint venture is not common, it glosses over the chief disadvantage to this form of tech transfer—that the technology transferred may be valued at no more than 20 percent of the total project, with few exceptions.

In addition, the issue of how companies receive payment for their technology—one of the most important questions in negotiating a tech-transfer contract—is dealt with far too briefly. That "detailed negotiation" on payment terms will be required is an oft-repeated axiom, but it does not reveal much of practical use. Crucial questions remain: Can payment be made in a lump sum? In installments or royalties? What other means of payment are possible, and what are the advantages and disadvantages of each?

The Longman report provides a factual overview of the tech transfer picture, and it touches on most of the important areas. However, the report's succinct presentation renders in black and white some of the complex gray areas so critical to China trade agreements. Although helpful in conjunction with other information, this report cannot stand alone as a guide to technology transfer to China, because it leaves too many questions unanswered.

—Kelly Ho Shea



Contract Laws of the People's Republic of China, by Jerome A. Cohen, Yvonne Y.F. Chan, and Ho Yuk Ming. Hong Kong: Longman Group (Far East Ltd.), 1988. 364 pp. $95.

Anyone with extensive business dealings in China will find this compilation of Chinese economic contract law a useful reference. It is divided into two broad sections; one includes domestic contract legislation, and the other, laws pertinent to economic contracts with foreign entities. Also included are Chinese civil laws, relevant provincial and municipal legislation, laws governing dispute resolution, and sample Chinese contracts.

The book is comprehensive and well arranged for easy reference, and therefore represents a valuable resource for anyone familiar with China's growing legal system. For those without this background, however, the book does little to interpret or explain the laws compiled within. Despite an interesting introduction by Cohen on the development of China's legal system along with insightful observations based on his years of experience in China, the book provides virtually no analysis of the relevance of these laws to foreign companies. For example, some 100 pages are devoted to domestic contract law, but the book makes no attempt whatsoever to explain how these laws govern contractual arrangements made by the foreign investor or trader.

Nevertheless, the book does not aim to provide an extensive analysis of China's growing body of economic contract law, but rather to serve as a comprehensive collection of these laws. As such it deserves praise.

—Gideon Rosenblatt

Changes and Continuities in Chinese Communism, edited by Yu-ming Shaw. 2 vols. Boulder: Westview Press, 1988. Published in cooperation with the Institute of International Relations, Taipei, Taiwan. 813 pp. $55 softcover.

The essays in this two-volume set by prominent Taiwan and US specialists on China provide a clear and readable overview of the issues and policies that shape China today, from foreign relations to military reform and domestic corruption.

The first volume offers broad analyses of ideology and foreign policy, examining the intricate triangle of Sino-US-Soviet relations, as well as issues related to Hong Kong, Taiwan, and Indochina. It starts slowly, and somewhat overemphasizes comparisons between China and Taiwan, but nevertheless contains some gems. An essay on military reform under Deng Xiaoping is particularly insightful.

The second volume covers China's economy, society, and technology, and compares China's modernization and development strategy to those of other communist nations, including the Soviet Union, Hungary, and other Eastern European countries. China's nuclear power, imports of foreign technology, religion, education, and art policies are also discussed.

This comprehensive set addresses virtually all the important factors shaping China's modernization policies and programs, and will be useful to anyone looking for a broad introduction to Chinese policy.

—Felicia Hwang

Chinese Students in America: Policies, Issues, and Numbers, by Leo A. Orleans. Washington, DC: National Academy Press, 1988. 144 pp. $10 softcover.

Student exchanges have long served as a dual yardstick of China's attitudes toward other countries and its domestic political environment. ***Chinese Students in America***'s cogent evaluation of these factors makes it valuable reading both for China scholars and anyone interested in US-China relations.

The first part of the book concentrates on China's policies toward student exchanges and explores the risks these policies entail. Orleans highlights China's concern over the loss of urgently needed young professionals, but also puts the "brain drain" problem in international perspective, noting that the flight of intellectual capital is a concern of all developing countries.

The book's second part is equally valuable, if slightly less readable, containing the most recent US and Chinese statistics on Chinese students enrolled in US colleges and universities, as well as interesting demographic data on the students' backgrounds and courses of study.

Sponsored by The Committee on Scholarly Communication with the People's Republic of China and supported by the US Information Agency, this work provides an in-depth examination of the evolution of Chinese policy on sending students abroad. It also includes useful insights on the relationships between US government and university policies and the actions of Chinese students and government officials. Orleans' even-handed treatment of such issues helps clarify a complex, sensitive subject. —Eric Kaidanow

BOOKS RECEIVED

China's Establishment Intellectuals, edited by Carol Lee Hamrin and Timothy Cheek. Armonk, NY: M.E. Sharpe, 1986. 266 pp. $35 hardcover, $14.95 softcover.

China's Grain Production and Trade: An Economic Analysis, by Colin A. Carter and Fu-Ning Zhong. Boulder, CO: Westview Press, 1988. 124 pp. $32.50 hardcover.

Energy in China's Modernization: Advances and Limitations, by Vaclav Smil. Armonk, NY: M.E. Sharpe, 1988. 250 pp. $37.50 hardcover.

The Political Economy of Chinese Socialism, by Mark Selden. Armonk, NY: M.E. Sharpe, 1989. 240 pp. $39.95 hardcover, $15.95 softcover.

Transforming China's Economy in the Eighties, edited by Stephen Feuchtwang, Athar Hussain, and Thierry Pairault. Boulder, CO: Westview Press, 1988. 2 vols. 446 pp. $38.50 hardcover.

Demographic Trends in China from 1950-1982, by Kenneth Hill. Washington, DC: World Bank, 1988. 52 pp. $5.95 softcover.

Can You Do Market Research in China?

Sure you can—provided you know what and whom to ask

David L. Denny

Let's say you're the project manager for a large company considering investing in China. Your company has been interested in China for many years and is racking up regular sales—not tremendous, but not insubstantial.

Recently, you have come under pressure from Chinese organizations to transfer technology to China. You are aware that Chinese enterprises are aggressively seeking manufacturing capability to displace foreign imports. You also know that China periodically runs into foreign exchange difficulties, which can make it difficult for customers to pay for your products. As if that weren't enough, you have heard through the grapevine that your competitors are also considering some form of investment, coproduction scheme, and/or technology license.

Chances are you already know a good deal about China's market and capabilities from experience—but you need to know more. For example, what factories make your product? What kind of demand exists for it? What impact do prices have on demand in a planned economy? How will you market your product?

Can market research help?

You may be skeptical about the prospect of doing market research in China to answer these questions. After all, China is not an easy place to obtain good information on business and economics. In fact, it hasn't been long since foreigners were locked up or kicked out of the country for "illegally" obtaining cherished "State economic secrets." Besides, in a communist society, central plans dictate much of the economic activity. So why spend money on finding out about production, pricing, and distribution alternatives if you may not have any?

Decentralization of decisionmaking power is allowing individuals and enterprises more freedom to act in their own interests, rather than according to an official plan. This and other changes have significantly improved foreign companies' ability to conduct solid market research in China.

But China has changed enormously in recent years. For instance, the State now publishes vast quantities of business and economic data that used to be considered official secrets, such as the amount of money invested in the chemical fertilizer industry. Several years ago you could obtain only estimates for investment in industry as a whole—and even that was an improvement over the period prior to the early 1980s, when hardly any economic statistics were provided at all. In addition, Chinese citizens are generally more relaxed, willing, and sometimes even eager to discuss their affairs. And most important, decentralization of decisionmaking power is allowing individuals and enterprises more freedom to act in their own interests, rather than according to an official plan. All of these changes have significantly improved the ability of organizations such as the US-China Business Council to conduct solid market research in China.

David L. Denny, an economist, is director of market research at the US-China Business Council. He has completed market assessments in various sectors including electric power, hospital, and office equipment; building materials; and petrochemical products.

What should I ask?

Let's assume that you decide to commission a market research study to answer three basic questions crucial to your potential investment:

- What enterprises in China should I consider as a partner?
- What is the demand for my product, and what prices would Chinese endusers be willing to pay?
- If I successfully negotiate the joint venture, how would I distribute the product?

Recent market studies conducted by the US-China Business Council have shown that meaningful answers to these questions can be obtained both by researching existing materials and conducting interviews on site in China—in other words, using techniques common to market research in other countries.

The first task of the market study is to identify potential Chinese partners. You know there are literally dozens—maybe even hundreds—of Chinese factories that manufacture your product. After visiting three to five of them, you probably have a pretty good idea of their size and facilities, and of the bureaucracy that controls them. But how can you find out about other producers? Are they better positioned, both regionally and bureaucratically, to take advantage of the target market for your joint venture? Are any of these competitor factories planning to expand? Have any established a relationship with a foreign company?

Answering these questions is one of the key goals in commissioning market research. But you don't expect—and indeed you don't want—a detailed technical evaluation of each plant. Such an assessment would take too long and cost too much to prepare. The market researcher's task is to assemble information on each factory's size, capabilities, and bureaucratic connections, and compile this information into a short list of five to 10 enterprises for your own staff to examine in detail.

Where should I look for information?

As a first step, the research team should thoroughly examine any information you and your staff have already collected in the course of your China business ventures. If you have commissioned the study to obtain an independent evaluation to contrast with opinions you have formed already, there will clearly be some information you will not want to share with the team for fear of biasing their conclusions. But in general, you should be as forthcoming as possible with the information you have.

The team should next conduct a thorough review of secondary literature. Books and trade magazines published outside China often report on primary economic sectors and may even include detailed lists of the most important enterprises in a given sector. For example, trade magazines, trip reports of US government officials, and visits by delegations sponsored by the US-China Business Council, the American Chamber of Commerce, and professional associations often yield useful, basic information.

Increasingly, however, the most up-to-date, systematic, and comprehensive information can be found in the massive compendia published by Chinese organizations. Many Chinese ministries now publish yearbooks containing detailed lists of enterprises in their sectors. China also publishes a large number of technical journals for professionals in many specialized fields. Such journals often contain technical descriptions of significant enterprises.

Who are the key players?

After compiling a list of enterprises that manufacture your product, the research team should narrow it to 10-20 key enterprises. At this point, the research effort should shift to China, where interviews can be conducted with Chinese specialists. These include officials from the central bureau that manages production activities in the relevant sector, research insititutes, and professional associations. Such specialists generally keep on top of the latest developments in their fields and are usually willing to review the research team's preliminary list to distinguish small and unimportant factories from those that should receive primary attention. Invariably, Chinese specialists identify at least one significant new player undetected in the primary research phase.

HANGZHOU PLASTICS FACTORY
Address: Tianmushan Rd., Hangzhou, Zhejiang

杭州塑料厂
浙江杭州天目山路
李荣根　厂长

PEOPLE'S REPUBLIC OF CHINA

Director: Li Ronggen
Telephone: 26605
Cable: 3945
Employees: 728

PRODUCTS:
PVC gramophone record sheets won a national silver medal in 1981
PVC non-toxic rigid sheets, suitable for packing medicine and food

Detailed contact information can be found in Chinese commercial directories.

Council researchers for studies made on behalf of member companies have found that it is almost always necessary to interview both the government official that has control over the relevant enterprise, and research institutes or trade association specialists that follow general trends in the industry. Although in theory officials who monitor the enterprise's daily activities and control its investment funds can authoritatively discuss State plans for the sector, they often are unable or unwilling to comment on plans that are under preparation. By contrast, scientists and analysts in research associations are generally not as knowledgeable about the details of current or future plans, but they tend to have greater objectivity and independence and are usually more willing than government officials to provide their own assessments of enterprises or future projects.

How do I get technical details?

Both academic and institutional specialists may be somewhat removed, however, from the day-to-day activities of enterprises in their fields of expertise. It is therefore essential for the research team to interview people with more hands-on experience. This requires direct contact with the enterprise by mail, phone, or personal visit.

To get answers to a small number of simple questions, we sometimes find it useful to mail a short questionnaire to each enterprise. Although the response rate tends to be low, the initial mailing can break the ice and increase the organization's responsiveness to follow-up telephone calls. We have also found that one can collect a considerable amount of relatively simple, factual information by phone.

For large amounts of qualitative information, however, there is no substitute for personal interviews at the factory site. Senior factory engineers are generally willing to answer questions, especially if the research team approaches them through known intermediaries, or ones they can easily check with authorities.

How influential is the State bureaucracy?

In addition to providing a comprehensive overview of the size and state of the art of key factories, a market study can also elicit information on policies and bureaucratic relationships that guide decisionmaking at the enterprise level. For example, in one market study the Council was asked to develop a picture of the most important factories that produce a certain petrochemical product. The client already had a potential partner in mind, but wanted to consider some alternatives.

Our research revealed a much more complex bureaucratic picture than the client was aware of. The potential partner was the clear choice of the ministry in charge of the sector. Although this factory had a number of advantages, it was less technically advanced and somewhat further removed from important markets than other factories, which were being aggressively promoted by local governments offering various inducements to foreign investors. We discovered that all of these factories were competing for a major expansion project stipulated in the State plan, and they were eager to build a relationship with the US firm in order to get a leg up on the project.

The Council advised the company that although the ministry's favored enterprise in Jilin Province would probably have first shot at the State project, factories in Shanghai and Guangdong should not be ignored, due to their superior location and advanced technical status. In addition, the study pinpointed potential competitors in Sichuan and Anhui provinces, where local governments with their own foreign exchange had indicated that they would move ahead with their own expansion plans regardless of the State's decision.

Will people buy my product?

You have now decided on a Chinese partner and are committed to forming a joint venture to manufacture your product—but a few crucial issues must still be resolved before you sign the deal. A critical piece of market research remains: assessing the demand for your product, and figuring out how price changes will influence demand.

Experience has proved that there is some demand for your product in China—after all, endusers are paying high prices in foreign exchange for the imported product. Although current demand hardly justifies establishing a production facility in China, you know that if the product could be produced more cheaply and sold for local currency, demand would increase. The question is, by how much?

Recent Chinese policies have gone far toward phasing out the traditional planned distribution system under which consumers were happy to get anything planners made available, and consumers now have a substantial amount of discretionary purchasing power. In response, Chinese factories and planners have begun to devote substantial resources to figuring out what consumers want. Much of this information is available in published sources and can help you take the first steps toward understanding the demand for your product in China.

In a recent Council study of the market for television sets in China, for example, the company wanted to go beyond national aggregate purchasing figures and find out who bought color and black-and-white TVs in both rural and urban areas, and whether demand was booming or leveling off. The State Statistical Bureau's annual nationwide sample of household consumption patterns proved a useful source of answers to this question, revealing that compared to other developing countries, China already has a large number of TVs, and that household ownership of all TVs is growing but is still concentrated in the urban areas. Interestingly, the survey found that the demand for black-and-white TVs in urban areas has already peaked; in fact, households with high per capita income purchase *fewer* black-and-white sets than less affluent households.

But what if your company needs to assess demand for a product about which consumer survey data is unavailable? Or you want more detailed information than available sources provide? You may want to know, for example, if Chinese consumers would buy even more TV sets than they do, were it not for limitations on imports and domestically made products. Such "latent demand" information is necessary, if you are considering a joint venture that will begin producing two to five years down the road.

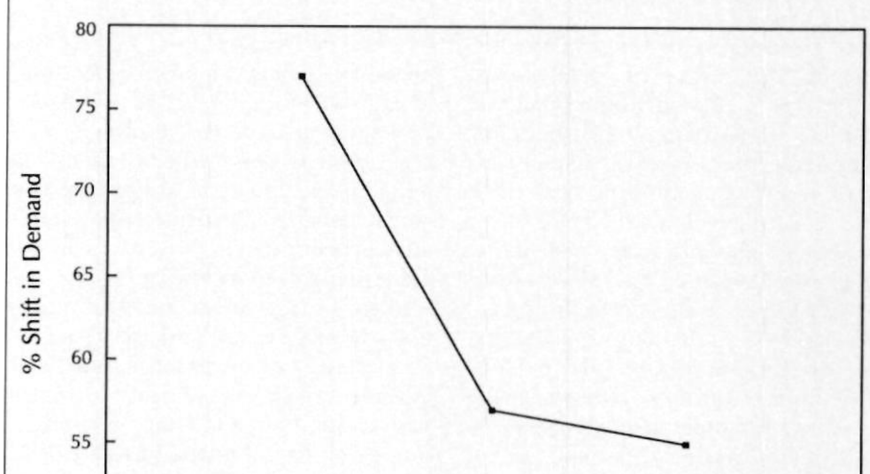
Another Council study provides an illustration of how these questions might be approached. In this case, a pharmaceutical company was considering a joint venture to manufacture a product dispensed by Chinese hospitals. The existing domestically made product is adequate and effective, but more difficult and time-consuming to use. It is also less reliable than newer US products—which, however, cost more to produce. The Chinese partner was concerned that the price the US company wanted to charge would stifle demand. The study, then, focused on one simple question: At what price would Chinese hospitals purchase the product?

For this study, the US company commissioned the Council to perform two hospital surveys. In the first survey, 20 hospitals (10 each in Beijing and Shanghai) were asked to rate product attributes of importance to them. For example, is it important to be able to order the product in small quantities? Are regular service calls desirable?

After examining the ratings the hospitals assigned to the various attributes, the US company drew up a description of their product. In addition to technical information, the description emphasized the product's ability to fulfill the hospitals' needs.

Armed with the technical description, a team of researchers visited 120 hospitals in four cities to gauge reactions to different prices for the product. The sample was divided into three groups in each city. The hospi-

RELATIONSHIP BETWEEN PRICE AND INTENT TO BUY



tals in group 1 were quoted a high selling price for the product. Group 2 hospitals received a medium price, and group 3 hospitals received the lowest price.

Responses showed a clear tendency for the level of demand to increase as the price declined (*see* graph)—reinforcing the notion that economic consumption patterns in China can be explored using methods similar to those used elsewhere in the world.

How do I market my product?

Now that you've located a satisfactory partner and assessed the demand for your product, you must determine how to market it. Should you go through the hassle of setting up an internal distribution system? After all, your previous sales to China have all gone through the China National XYZ Import-Export Co., which has taken delivery to endusers off your hands. Can't you just deliver the product to some national distributor and be done with it?

The answer, of course, is no. Nowadays, you generally will not have the luxury of a captive market served by a well-coordinated distribution system. Today, even China's State-owned factories resort to aggressive advertising and marketing strategies to distribute their products. Therefore, you must learn your way around China's complex internal distribution and marketing system. Despite the extra work this requires, your company will probably benefit from more direct contact with retailers and consumers.

The first step is to determine whether any national unified distribution system for your product still exists. Even though China's retail system is now composed of a complex mix of State-owned department stores, factory outlets, cooperative stores run by local governments, and private companies, the traditional system of State wholesale stations continues to play a major role for some goods. If this is the case for your product, will your joint venture have access to these wholesalers? And if you decide to go through traditional channels, must you do so exclusively? Would this mean being cut off from the rapidly growing number of "new breed" enterprises whose sourcing and funding operate outside the traditional system?

A recent Council study of China's distribution system for office equipment sheds some light on such questions. Our researchers interviewed organizations at all levels of the distribution chain, including factories, State-owned commercial wholesale stations and department stores, collectively owned retail stores, repair and parts stations, and, of course, product endusers. At each level, we asked questions about product sourcing and sales, such as "How many units of this type of equipment do you handle each year? Where do you obtain your supplies? Whom do you sell to? What do you pay for the equipment, and how much do you sell it for?"

You have now decided on a partner and are committed to forming a joint venture—but a critical piece of market research remains: assessing the demand for your product and figuring out how price changes will influence demand.

The survey concluded that for this type of equipment, the company faced the challenge of dealing with a variety of distribution channels. By late 1987, only one-third of the nation's total sales of this product were distributed through the traditional State commercial network. Even State-owned department stores obtained more of their supplies directly from factories than from the Ministry of Commerce's network of warehouses.

Nearly half of the product's sales came from large "new breed" entrepreneurial retail outlets, which are much more specialized than the huge department stores. For this particular product, the specialized retail outlets were set up by factories, by district governments in major metropolitan areas such as Beijing and Shanghai, and by individual entrepreneurs. These outlets compete aggressively among themselves—as well as with the State network—to provide repair and service contracts in addition to retail sales.

Finally, a small but significant part of the market for this product is held by small retail outlets that specialize in spare parts and repairs. Their sideline equipment sales are very profitable, and they aggressively fight for market share. In fact, many of the larger "new breed" stores started out only a few years ago as small repair and service centers.

In addition to detailing the distribution system for the product, the study also estimated the profit margin for each link in the distribution chain. Such information can greatly assist a company developing a marketing strategy for a product to be sold in China.

How much will it cost?

You are now convinced you should commission a market study before proceeding with your project. Some basic questions remain; chiefly, how much it will cost, and who does this type of work.

As for most things, the old rule

"you get what you pay for" applies to market research in China. But another important rule applies as well: if there is a new business opportunity in China, there will be a good number of companies offering the product or service. Therefore, you should carefully check your market researcher's qualifications, experience, and facilities in China.

At the least costly level, market research projects can involve simple requests for routine—but unpublished—information, clarification of official government policies on specific issues, or status reports on approval or financing for proposed projects. To undertake this kind of research, the market researcher needs an established Beijing office; good relations with working level Chinese organizations in the ministries, foreign trade companies, and planning bureaus; and good communication facilities to both report to and obtain feedback from the client. This kind of information gathering is generally accomplished in a week or two, and the price may range from several hundred dollars for a very simple survey, to $1,000-3,000 if many meetings are required.

The second level of market research generally involves an intensive search of existing literature, from which detailed questionnaires are compiled for a large number of Chinese central government organizations. Such an assessment yields a formal report complete with the market researcher's conclusions, supplemented by enterprise lists, quantitative data, and Chinese endusers' observations on both the client's and competition's products.

Such a study will probably cost from $7,000-20,000, depending on its complexity. The researcher must have access to statistical yearbooks, yearbooks published by each ministry, detailed lists of Chinese organizations, and books and periodicals on various Chinese economic sectors.

The most complicated and sophisticated market study generally requires numerous field trips to conduct extensive interviews with Chinese endusers, and good *guanxi* (connections) to arrange meetings with the appropriate Chinese officials. The research organization must be well established in China so the Chinese feel comfortable providing information. Depending on the number of field trips and interviews, a company commissioning a large survey can expect to spend $25,000-50,000 or more.

Where can I find a market researcher?

In addition to the US-China Business Council's own market research program, international banks, major law firms, and accounting firms have offices in China that do market research to complement and supplement their normal professional activities, as do specialized consulting firms in Japan and Hong Kong. Chinese organizations, such as Consultec and the Economic and Information Service, also perform market assessments for foreign clients. And a growing number of Chinese universities are offering technical consulting services to foreign companies assessing commercial opportunities in China.

In the final analysis, you should make your decision only after detailed discussions with the researchers and evaluation of the proposal, research methodology, and the track record and experience of the research staff. Don't hesitate to contact the researcher's previous clients—they are your best guide to the quality you can expect in the completed study. 完

Managing Your Boss's Trip to China

A once-in-a-lifetime opportunity—or a career blackball

T.K. Chang

Illustrations by Elizabeth Stewart

A visit to China by a company's chief executive officer (CEO) can be of pivotal importance to the career of the executive in charge of the company's China operations. The success or failure of a CEO trip can also have a decisive effect on the level of funding and corporate support the company's China department receives in subsequent years.

Because of its glamour and visibility, a trip to China is practically *de rigeur* for CEOs, and it is likely to occur during the tenure of most China executives. But in the course of advising many multinationals in China, I have discovered that China executives often fail to appreciate the opportunities and hazards of a visit to China by a CEO—or, for that matter, by any important client, senior partner, or corporate superior.

A picture with the vice premier

A CEO visit is a powerful tool for gaining influence and accelerating action within the Chinese bureaucracy. With their fastidious adherence to protocol, the Chinese will always try to match a visiting CEO with a government official of a rank that reflects the size and importance of the foreign company. For many large multinationals, that means a vice premier, a minister, or at least a vice minister.

While China hands used to joke that so many vice premiers were appointed precisely to greet and massage the egos of visiting CEOs, it remains true that the visit will probably be a unique chance to meet such a high official, not only for the China executive, but also for subordinates in the Chinese corporation negotiating with or hosting the foreign company. A foreign CEO unacquainted with the Chinese bureaucracy may find the high-level meeting boring and insubstantial, but it is a very important occasion for cadres on the Chinese side—who are trying to appear competent and worthy of promotion in front of *their* bosses.

An impending CEO visit can also serve as an effective negotiating deadline. Nothing better promotes the fortunes of both the China executive and his Chinese counterpart than a signing ceremony and banquet coinciding with the visit of a foreign CEO. But the Chinese are equally aware of this and will try to use the deadline to squeeze last-minute concessions from the foreign company.

The one thing that a China executive must not forget is to get a picture taken of himself shaking hands with the vice premier or minister. Casually placed in the guest reception room of the company's China office, that single picture is worth more than countless negotiation sessions and banquets.

Don't sit next to the door

Preparation for the CEO's visit is critical. To begin with, the China executive should make sure the CEO knows how to pronounce the names of the Chinese officials on the meeting schedule. Though they often resist coaching from subordinates, CEOs are notoriously shy about mispronouncing a name and possibly appearing foolish.

It is essential that the CEO mention the China executive in comments to the Chinese officials, saying, for instance, how important the China executive is to the foreign company's efforts in China. The Chinese side will be listening carefully to the CEO's every word to gauge the relative status and authority of the China executive within the company, so the CEO should give the China executive as much "face" as possible.

The China executive should take full advantage of the Chinese rules of protocol. The executive should make sure, for example, not to enter the meeting room last, or to sit in the last chair on the foreign company side, as these actions denote low status. If possible, the China executive should sit right next to the CEO.

'Talk to my deputy'

A meeting between a foreign CEO and senior Chinese leaders is also important, because it is often the occasion for delegating bureaucratic responsibility. Most China executives have had the frustrating experience of trying for weeks to meet or speak on the phone with mid-level Chinese

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government or corporation cadres, and getting the run-around. This is quite natural in the Chinese bureaucracy, because when no one is specifically assigned to deal with a foreign company on a particular matter, everyone will pass the buck. The China executive should take advantage of the CEO's meeting with senior Chinese officials to find out where the buck stops.

Most senior Chinese leaders are very busy with ceremonial and other duties, so they usually delegate actual work responsibilities to deputies, who by and large are very competent. The person in charge of the day-to-day work in a Chinese bureaucracy is often the vice minister, the deputy bureau chief *(fu ju zhang)*, or the deputy section chief *(fu chu zhang)*.

During the meeting, the China executive should pay special attention when the senior Chinese leader says to the foreign CEO, "If your company has any problems, talk to the deputy here on my right." The executive should make sure to exchange business cards with the deputy, and share a few pleasantries on leaving the meeting. After the CEO has left China, the China executive should waste no time inviting the deputy to dinner to establish a channel of communication for the inevitable future emergency.

Never too busy to be a tour guide

A CEO visit is probably the only opportunity for a China executive—a faceless name in the corporate hierarchy—to spend many hours with the company's top executives. Granted, the China executive may act only as tour guide, interpreter, or appointment secretary. But however menial the task, this may be the single chance to shine before those who can make or break a career. Yet many China executives seem to share the sentiments of one Beijing representative of a major US aircraft equipment manufacturer: "I'm much too busy with my negotiations to waste time being a tour guide for the boss's family."

Obviously, doing business is the reason to come to China, but postponing one negotiating session will not in the end make that much difference—there are always plenty more sessions to come. A mismanaged CEO trip, however, can damage the future of the China executive—or worse, of the whole China operation.

Self-fulfilling prophecies

Deng Xiaoping once visited the No. 2 Automobile Factory in Hubei Province, and was so impressed with the manager that he immediately promoted him to a series of high-ranking posts. (He is now Governor Wang Zhaoguo of Fujian Province.) While meteoric rises of that sort may seem possible only in China, in fact, CEOs of US companies enjoy comparable power over their employees' careers.

CEOs usually have overwhelming confidence in their own judgment and believe they can size up a person on first meeting. In practice, the CEO is likely to generalize about a person's abilities after observing only a few details and incidents, such as the thoroughness—or carelessness—with which an employee has planned the CEO's banquet speech and toasts, or the thoughtfulness of having medicine on hand for insomnia, diarrhea, and hangovers. Whether the CEO really can judge character is very much beside the point. Absolute power to promote and demote makes the CEO's judgements about subordinates into self-fulfilling prophecies.

Granted, companies must maintain a semblance of meritocracy, and there are objective criteria for promotion, such as success in making a profit. But in the China business, where easy profits are uncertain at best, scaling the corporate ladder requires extra effort and the aid of circumstance. For instance, the head of China operations for a major oil company that had failed miserably in its costly efforts to drill for oil was promoted to an important position soon after a successful visit to China he arranged for the company's president. Of course, obvious toadying is never advisable. On the other hand, superhuman effort to serve one's CEO has rarely been discouraged.

Bosses are people, too

Arranging a truly successful CEO visit means going beyond the call of duty to provide that extra edge in service. It also means remembering that the CEO has human needs. To prepare clients for a CEO visit, I tell them about the dean of a prestigious Ivy League university who spent weeks helping the head of a large Japanese trading company find a private school for his daughter. When asked why he wasted his time on such matters, he replied, "This is the most important part of my job." And sure enough, the university received a major endowed professorship from the Japanese company shortly thereafter. I have often used this anecdote to indirectly and effectively convey to clients that the CEO is just another human being, with family concerns, worries, and pet peeves like everyone else. In service of CEOs and their families, we have

scoured the shops of Beijing for traditional masks for one top executive's son and tried to arrange a motorcycle trip across the Tibetan border to Nepal for the son of another. We even tried to help one top executive and his wife adopt a Chinese baby.

The power behind the throne

It is an unspoken truth in business and politics that a chief executive's spouse often has tremendous influence, particularly on the executive's judgments about people. Accordingly, a great deal of effort should go into planning a memorable program for visiting corporate spouses, who will have a lot of free time during business meetings.

The spouse of the China executive (if outgoing and knowledgeable about China) should be enlisted in the effort, since the personal relationship that develops between the two couples will tend to be more enduring than the hierarchical relationship between the CEO and China executive. The China executive should designate one or more employees (some companies have even hired expensive consultants or lawyers) specifically to accompany spouses during the CEO visit.

The unforgettable China experience

What distinguish the unforgettable China experience from the usual blur of sightseeing and shopping sprees are a little imagination and extra legwork. One of the most effective ways to ensure a memorable experience is to arrange a visit associated with the spouse's profession. For example, we planned a visit to the maternity ward of a local hospital for a client's spouse who was a pediatrician. Visits can also be arranged to art studios, opera schools, and kindergartens.

For the sex counselor Dr. Ruth Westheimer, who was in China filming a TV program, we arranged visits to a dating agency and a class for newlyweds at a local hospital, and we also had her meet informally with several young married women to talk about their concerns and problems (the biggest gripe was China's one-child policy). We awoke at 6 a.m. to participate in *tai qi quan* exercises in a park, bought souvenirs at the local bird market, and went bowling in the evenings.

Getting around in style

If the foreign company is important enough to China, its executives may fly in on a corporate jet. In Beijing, jets land at the quaint, private airport where Nixon and Kissinger first stepped onto Chinese soil. Customs officers come especially to process the passengers. Corporate jets are particularly useful when hauling away purchases of antique furniture—one of the few bargains left in China. Private jets are not allowed to fly passengers between Chinese cities. That is usually not a setback, however, because no China experience would be complete without a story about the Chinese airlines—the subject of innumerable jokes among China hands.

Russian-style Red Flag limousines are available for rent, but be forewarned that in summer, the air-conditioning does not work well. On one trip I accompanied, a Red Flag carrying the CEO broke down on the way to the Great Wall and was stranded for hours under the scorching sun. Stretch Cadillacs can also be rented—for not much more than a Toyota—though most CEOs still seem to prefer the wood-paneled charm of Red Flags.

For more athletic executives, renting bicycles for an afternoon of riding through the *hutongs* and lanes of Chinese cities is still the best way to see China.

Queen Elizabeth slept here

Renting an entire villa at the famed Diaoyutai State Guesthouse still seems to make the strongest impression on foreign visitors, although the rooms are almost seedy compared to Beijing's modern joint venture hotels, and the location and the guards at the gate make it inconvenient for shopping and other casual trips. Diaoyutai's gigantic bathrooms, the cachet of staying where presidents and queens have been before—although the villas they stayed in are not for rent—and the atmosphere of a bygone era still make it a choice location for an unforgettable China experience.

The perils of perfection

Ironically, a China trip that is too perfectly arranged and executed can sometimes have counterproductive effects. The CEO may leave China thinking that all Chinese cadres are jolly, easygoing, and reasonable people, and may be puzzled by all the problems the China executive seems to have in dealing with them. The CEO may even suspect there is something wrong with the China executive.

The China executive must therefore perform a difficult balancing act. On one hand, exposing the CEO to too many China business horror stories might jeopardize corporate support for the company's China department. On the other hand, the CEO must be made aware of the frustrations of living, working, and doing business in China. Moreover, revealing such difficulties in an offhand way can highlight by contrast the China executive's superb job of choreographing the CEO visit.

This is a complicated message to get across. I have found that as a rule, one or two incidents can effectively symbolize for the visitor the frustrations of working within the Chinese system. Buying a train ticket or making a domestic long-distance call are traditional favorites. The China executive may not want to subject the CEO to the ordeals directly but merely let the CEO observe from the sidelines or hear about them from expatriates at the hotel coffee shop. However, anything that appears staged will inevitably backfire. Managing your boss's trip to China requires consummate skill, finesse, and corporate gamesmanship. 完

CHINA DATA

中国数据

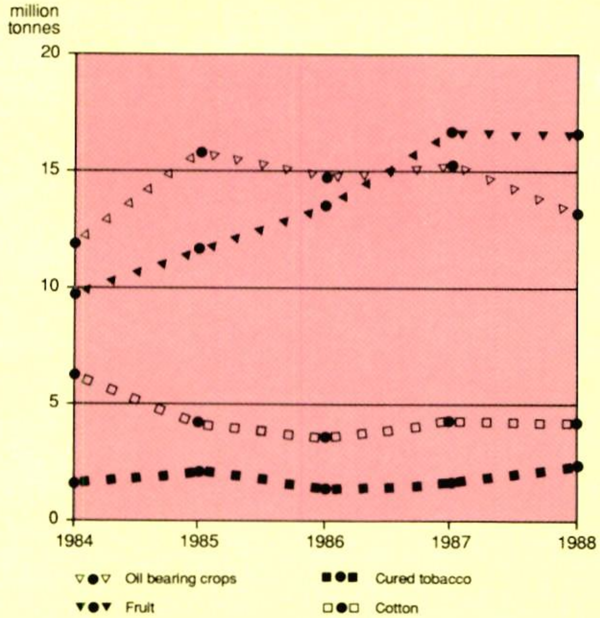
OUTPUT OF MAJOR INDUSTRIAL, CONSUMER, & AGRICULTURAL PRODUCTS

	1987	1988	% Change
INDUSTRIAL PRODUCTS			
Crude coal (MMT)	928.0	970.0	+ 4.5
Crude oil (MMT)	134.0	137.0	+ 2.2
Steel (MMT)	56.0	59.2	+ 5.2
Timber (10 thousand m^3)	64.1	63.0	- 1.7
Sugar (MMT)	5.1	4.6	- 10.0
Chemical fertilizers (MMT)	16.7	17.7	+ 5.7
Motor vehicles (thousand units)	472.0	646.7	+ 37.1
Locomotives	909.0	843.0	- 7.3
CONSUMER PRODUCTS			
Cigarettes (mil crates)	28.8	31.0	+ 7.4
Bicycles (millions)	41.2	41.2	+ 0.1
Televisions (millions)	19.4	24.9	+ 28.5
Color TV sets (millions)	6.7	10.3	+ 52.8
Refrigerators (millions)	4.0	7.4	+ 84.4
Cloth (bil meters)	17.3	17.6	+ 1.7
Washing machines (millions)	9.9	10.5	+ 5.6
AGRICULTURAL PRODUCTS			
Oil bearing crops (MMT)	15.3	13.2	- 13.6
Cured tobacco (MMT)	1.6	2.3	+ 42.4
Fruit (MMT)	16.7	16.6	- 0.4
Cotton (MMT)	4.3	4.2	- 1.2
Sugar bearing crops (MMT)	55.8	62.4	+ 11.8
Grain (MMT)	404.7	394.0	- 2.6

MMT = million metric tonnes

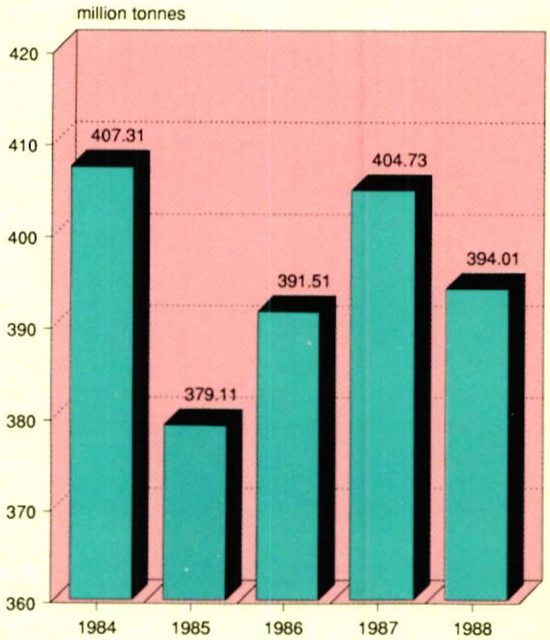
SOURCE: State Statistical Bureau

OUTPUT OF AGRICULTURAL COMMODITIES



SOURCE: State Statistical Bureau

GRAIN OUTPUT, 1984-88



SOURCE: State Statistical Bureau

FOREIGN INVESTMENT IN CHINA, 1988

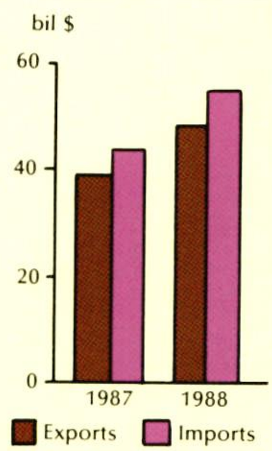
	Total	EJVs	CJVs	WFOEs	JODs
Number of contracts	5890	3900	1580	410	7
Increase from 1987 (%)	+164	+180	+100	+800	na
Contract value (mil $)	5200	3100	1600	480	58
Increase from 1987 (%)	+42.4	+60	+29	+0.2	na

EJV = Equity joint venture
CJV = Contractual joint venture
WFOE = Wholly foreign-owned enterprise
JOD = Joint oil development

SOURCE: MOFERT

CHINA'S FOREIGN TRADE, 1987-88

(billion $)	1987	1988	% Change
Total trade	82.7	102.8	+ 24.4
Exports (fob)	39.5	47.6	+ 20.5
Imports (cif)	43.2	55.3	+ 28.0



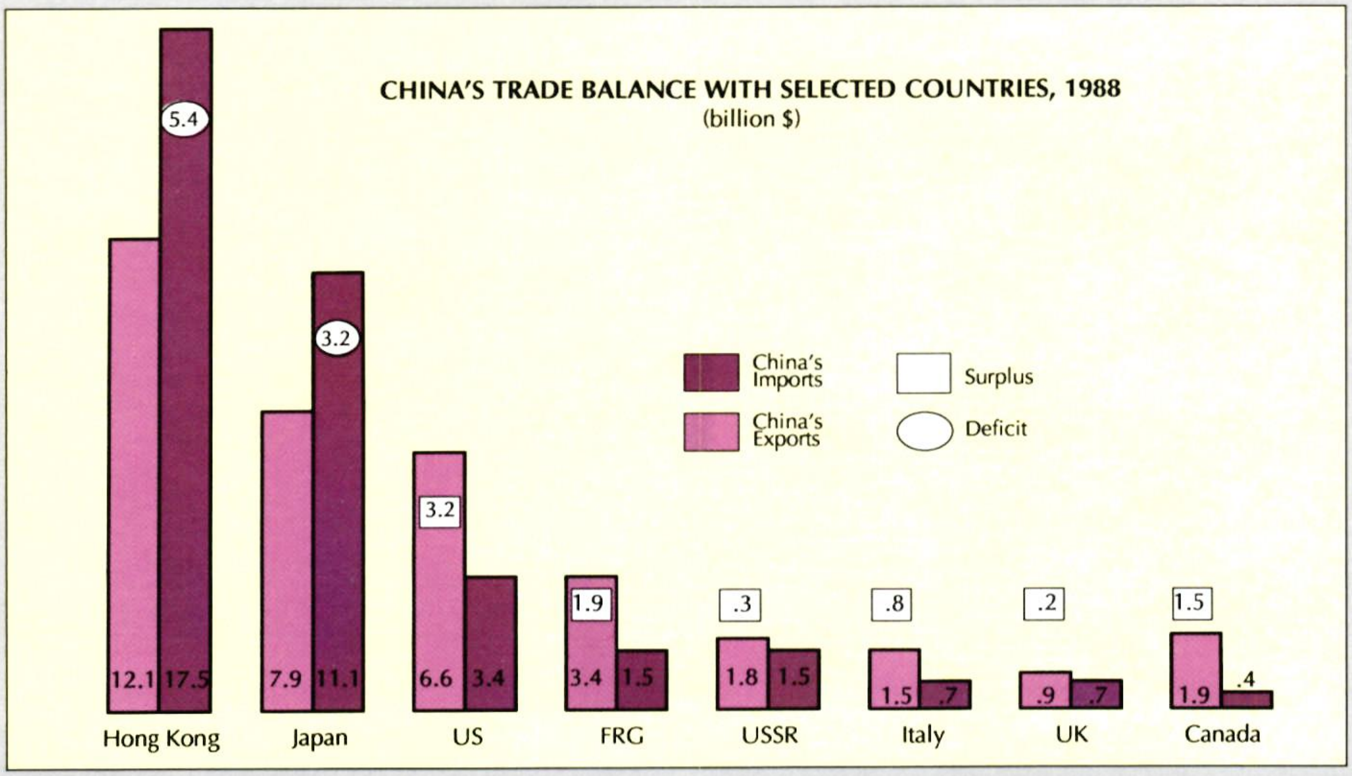
SOURCE: State Statistical Bureau

SELECTED COUNTRIES' FOREIGN TRADE WITH CHINA, 1984-88

(million $)	1984	1985	1986	1987	1988	%change 1988/87
Hong Kong/Macao						
imports (cif)	2987	4851	5690	8546	12131	+ 41.90
exports (fob)	7232	7455	10100	14205	17501	+ 23.20
Total	10219	12306	15790	22751	29632	+ 30.20
% of total China trade	19.7	17.7	31.9	24.4	28.8	
Japan						
imports (cif)	5957	6482	5670	7478	7928	+ 6.12
exports (fob)	7216	12477	9850	8337	11058	+ 32.64
Total	13173	18959	15520	15815	18986	+ 20.00
% of total China trade	25.4	17.2	19.1	21.0	18.4	
United States						
imports (cif)	3381	4224	5241	4831	6629	+ 37.20
exports (fob)	3004	3856	3105	3037	3377	+ 11.2
Total	6385	8080	8346	7868	10006	+ 27.20
% of total China trade	12.3	11.6	12.6	11.3	9.7	
West Germany						
imports (cif)	1331	2407	3556	3131	3434	+ 9.66
exports (fob)	811	734	1004	1224	1485	+21.27
Total	2142	3141	4560	4355	4919	+13.00
% of total China trade	4.1	4.5	6.2	4.2	4.8	
USSR						
imports (cif)	711	982	1440	1272	1782	+40.17
exports (fob)	616	996	1200	1247	1476	+18.35
Total	1327	1979	2640	2519	3258	+29.30
% of total China trade	2.6	2.8	3.6	3.0	3.1	
Canada						
imports (cif)	1127	1159	1011	1398	1860	+33.04
exports (fob)	270	235	307	409	389	- 4.70
Total	1397	1394	1318	1807	2249	+24.50
% of total China trade	2.7	2.0	1.8	1.8	2.2	
Italy						
imports (cif)	464	910	1138	1238	1547	+24.98
exports (fob)	320	294	363	556	746	+34.19
Total	784	1204	1501	1795	2293	+27.70
% of total China trade	1.5	1.7	2.0	2.1	2.1	
United Kingdom						
imports (cif)	533	746	1011	900	898	- 0.17
exports (fob)	349	354	1433	532	659	+23.90
Total	1082	1100	2444	1432	1557	+ 8.70
% of total China trade	2.1	1.6	1.7	1.7	1.5	

SOURCE: *China Economic News*; *China Economic Information*; State Statistical Bureau

CHINA'S TRADE BALANCE WITH SELECTED COUNTRIES, 1988
(billion $)



CHINA BUSINESS

中外貿易

Jennifer Koch-Brick

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 *International Financial Statistics (IMF)*.

US-China Business Council member firms can contact the library 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 US-China Business Council.

中外贸易

SALES AND INVESTMENT THROUGH JANUARY 15, 1989

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

Agricultural Commodities

China's Imports

U.S.
Sold 750,000 tonnes wheat at $152.50 per tonne. 2/89.

U.S.
Sold 400,000 bales cotton. 2/89.

Colombia
Will exchange 1,500 tonnes coffee for 1,000 jeeps. 1/89.

Cargill Inc. (US)
Sold 115,000 tonnes wheat. 1/89.

Louis Dreyfus Corp.
Sold 85,000 tonnes wheat. 1/89.

Other

Norbest Inc. (US)
Signed agreement to market turkeys grown and processed in China. 12/88.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Import-Export Corp.; CCTV: China Central Television; CEIEC: China Electronic 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.; CPIC: China National Corporation of Pharmaceutical Economic and Technical International Cooperation; ICBC: Industrial and Commercial Bank of China; INSTRIMPEX: China National Instruments Import-Export Corp.; MLI: Ministry of Light Industry; MOCI: Ministry of Coal Industry; MOPI: Ministry of Petroleum Industry; MPT: Ministry of Posts and Telecommunications; MWREP: Ministry of Water Resources and Electric Power; NA: Not Available; NDSTIC: National Defense, Science, Technology, and Industry Commission; NORINCO: China North Industries Corp.; 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.

Agricultural Technology

China's Imports

UNFAO/Zhejiang
Will provide $150,000 for construction of Shaoxing Model Fish Feed Factory. 1/89.

Ocrim Co. (Italy)
Sold computerized flour mill equipment. 11/88.

Namhae Chemical Corp. (S. Korea)/SINOCHEM
Sold 150,000 tonnes fertilizer. 10/88.

Investments in China

Yongli Enterprises Private Co. Ltd. (Singapore)/Heilongjiang Provincial Yingchun Forestry Bureau
Established 10-year, Huaxin Timber Co. to process timber for furniture production. $1.3 million (¥5 million). (SP:30%-PRC:70%). 2/89.

NA (Singapore)/Heilongjiang Provincial Suiyang Forestry Bureau
Established 13-year, Heilongjiang Xinyang Timber Co. Ltd. to process timber into construction materials. $3.4 million (¥12.6 million). (SP:63%-PRC:37%). 2/89.

Toyo Suisan Ltd. (Japan)
Established subsidiary in Hainan to cultivate prawns, lobsters, and shrimp. Registered capital: $806,000 (¥3 million). 1/89.

Chia Tai (Thailand)/Fodder Co., Henan
Established 25-year, Yu Tai Animal Husbandry and Feedmill Co. Ltd. to include feed processing plant, soy bean oil refinery, and chicken breeding plant. $5 million. (50-50). 1/89.

Peter Hand, part of Hillsdown Holdings (UK)/Nanning, Guangxi
Joint venture to manufacture and sell animal health products. 1/89.

Far East Diesel Oil Plant (USSR)/Fujin Tractor Plant, Heilongjiang
Will jointly manufacture 3-horsepower walking tractors. 1/89.

Chemicals, Petrochemicals and Related Equipment

China's Imports

Stamicarbon, licensing subs. of DSM (Netherlands)/Yueyang General Petrochemical Works, Hunan
Signed licensing agreement for caprolactum manufacturing technology. 2/89.

Acqua Marcia (Italy)
Will build petrochemical plant. $180 million (IL240 billion). 1/89.

Consortium led by Didier Engineering GmbH (FRG) and Voest Alpine GmbH (Austria)/Nanjing Oriental Industry Co.
Will supply 50,000 tpy caprolactum plant. $103 million (DM180 million). 1/89.

Mitsubishi Petrochemical Corp. (Japan)/CTIEC
Sold higher alcohols technology for use in detergent making. $202 million (J¥2.5 billion). 1/89.

Mitsubishi Petrochemical Corp. (Japan)/Jilin Provincial Petrochemical Industry Import/Export Corp.
Will provide technology and guidance for construction of acrylic acid and acrylic ester plant. $243 million (J¥3 billion). 1/89.

Rosenlew Engineering (Finland)/CITIC
Sold furfuryl alcohol plant. $6 million. 1/89.

Zimmer AG (FRG)/Xinhui Synthetic Fiber Factory
Will plan and build 4,000 tpy polyester spinning mill. $11.4 million (DM20 million). 12/88.

Smelt (Yugoslavia)
Will build titanium dioxide plant in Gansu. $22.8 million (DM40 million). 12/88.

Himont (US)/Panjin Natural Gas Chemical Plant
Signed letter of intent for feasibility study of vertically integrated polypropylene plant construction. 12/88.

Investments in China

Du Pont Co. (US)/Bengbu, Anhui
Negotiating joint venture to produce polypropylene carpet fibers. 2/89.

Zhongwan Co. Ltd. (HK)/Beijing Chemical Industry Science and Technology Development Center
Established Beijing Fanwei Engineering Plastics Co. to produce plastics. $9.7 million (¥36 million). 2/89.

NA (Italy)/Zhongyuan Petrochemical Corp., Henan
Will cooperate in petrochemical production. 1/89.

British Dutch Shell Oil Group (HK branch)/Liaoning
Signed letter of intent to build 450,000 tpy ethylene facility. 1/89.

Other

The Michigan Trade Exchange International (US)/Wuxi Municipal Hardware and Tool Co.
Will assist in purchasing equipment and negotiating joint ventures in temper treatment and injection molding. 12/88.

Construction Materials and Equipment

China's Imports

Holvrieka (Netherlands)/CTIEC
Will supply 150 rustproof tanks. $56 million (DFl11.3 million). 2/89.

Microtect (UK)/MOE, Pipeline Scientific Research Institute
Hired as distributor of Institute's pipeline protection products. 2/89.

Pedershaab Maskinfabrik (Denmark)
Will supply concrete pipe turnkey plant. $1.5 million (DKr10.5 million). 12/88.

Consumer Goods

Investments in China

Bogart Co. Ltd. (France)/Nantong Light Industrial Bureau
Established Jacques Bogart Jiangsu Co. Ltd. to produce perfume. $600,000. (50-50). 2/89.

NA (HK)/Ningxia and Shenzhen SEZ
Established Guangxia Video Materials Co. Ltd. to manufacture video tape. $1.4 million. 2/89.

NA (HK)/Shanghai Leather Shoe Factory
Established Shanghai Liangguang Leather Products Co. Ltd. to produce 12,000 pairs of shoes monthly. 1/89.

NA (US)/Zhenye General Rubber Factory, Zhangjiagang, Jiangsu
Established Beibei Shoe Making Co. Ltd to produce shoes and toy footballs. 1/89.

Samick Musical Instrument Co. (S. Korea)
Established joint venture to produce pianos, guitars, and other stringed instruments. $13 million. (SK:55%-PRC:45%). 1/89.

Supercuir (France)/Guilin Leather Wares Factory
Will open watchstrap factory. 1/89.

Yamaha (Japan)/China Business Development Co.
Established Tianjin Yamaha Musical Instruments to manufacture electronic keyboards. Registered capital: $162 million (J¥2 billion). (JP:60%-PRC:40%). 1/89.

Met-Coil Systems Corp. (US)/Far East Refrigerator
Supplied sheet metal fabrication system for refrigerator manufacturing. 12/88.

Saft America Inc. (US)
Established subsidiary in Shekou, Shenzhen SEZ to produce nickel-cadmium batteries. 12/88.

Electronics and Computer Software

China's Imports

NCR Corp. (US)/BOC
Will upgrade BOC's Macao operations, including supply of 9800 mainframe. $2.5 million. 1/89.

Raster Technologies, subs. of Alliant Computer Systems Corp. (US)
Will supply 50 high resolution graphic display stations. 12/88.

Cogitate Computer Software Engineering (HK)/BOC
Will supply computers and peripherals. $5 million. 12/88.

Sony Corp. (Japan)
Will supply broadcasting equipment including cameras, video recorders, and editing machines. $12 million. 12/88.

Texas Instruments (US)
Will supply computer systems with symbolic processing capabilities. 12/88.

Investments in China

THC Products Co. (HK-S. Korean JV)
Will manufacture electronic components and measuring instruments in the PRC. 1/89.

NA (US)/Beijing Astronautic Computer Auxiliary Designing Technology Corp.
Established Tianyou Computer Technology Co. to develop software and hardware for export. 1/89.

Jasmine Digital (HK)
Plans to invest in hard disk drive manufacturing facility in Shenzhen SEZ. $1 million. 12/88.

Pacific InterTrade Corp. (US)/Shenzhen Electronics Group
Will supply electronic components. 12/88.

Aster Corp. (US)
Built optical fiber manufacturing facility in Shanghai. $1 million. 12/88.

Stop-Lok Inc. (US)/MINMETALS
Plans joint venture to refurbish used computer equipment. (50-50). 12/88.

Other

Ashton-Tate Corp. (US)/Ministry of Machinery and Electronics Industry, Sixth Research Institute
Will jointly develop and market database software products. 2/89.

Prime Computer Inc. (US)/China Computer Technical Service Corp.
Signed three-year contract for second service center in Beijing including bonded warehouse and spare parts. 2/89.

China Hewlett Packard Co. Ltd. (US)
Will donate computer system to 11th Asian Games. 1/89.

Electronic Industries Association (US)/Chinese Electronic Standardization Institute
Signed cooperation agreement to exchange standards information. 10/88.

Electronics (Consumer)

Investments in China

Funny Electronics (HK) and Samsung Electronics (S. Korea)
Will jointly produce radio cassette players in Shenzhen SEZ. 1/89.

Hong Kong Enterprise Co. (HK)/Anyang, Henan
Formed joint venture to manufacture glass casings for television tubes. $185 million (¥690 million). 1/89.

Engineering and Construction

Other

Japan Overseas Economic Cooperation Fund
Will assist in financing of Beihekou waterworks in Nanjing. $48.5 million (¥180 million). 1/89.

Environmental Equipment and Technology

China's Imports

Aqua Engineering (Austria), part of the Thyssen Group (FRG)
Will supply waste treatment plant. $12 million (AS150 million). 2/89.

Simmering Graz Pauker (Austria)
Will supply sewage treatment plant and two drinking water plants to Zibo City. $245 million. 12/88.

Simon-Hartley Ltd. (UK)/Ningbo EDTZ
Sold two sludge thickening machines for sewage treatment. $170,000 (£93,000). 10/88.

Investments in China

Tetravalent Inc. (US)/Chinese Academy of Preventive Medicine and Beijing Yonghang Technology Development Co.
Established joint venture to produce low-cost water purification units for use in China and for export. 12/88.

Other

Qsource Engineering Inc. (US)/Tongji University, Shanghai
Signed cooperation agreement to study environmental engineering in both countries. 1/89.

Finance and Banking

Other

Japan-China Investment and Development Consulting Co. (Japan)/China Economic Consulting Co.
Signed cooperation agreement to offer investment consulting and to open offices in Tokyo and Beijing. 2/89.

Nomura Securities Co. Ltd. (Japan)/Shanghai Hai Tong Securities Co.
Signed cooperation agreement to develop securities issues, training, and information exchange. 2/89.

Food and Food Processing

China's Imports

Paul Klinge (Denmark)
Will supply container cooling units. 2/89.

APV Baker Ltd. and United Biscuits (Holdings) Ltd. (UK)
Will supply processing lines and manufacture infant biscuits. $12.7 million (£7 million). 1/89.

Investments in China

New York City Pizza (US)/Yan Hai Development & Trade Corp.
Will establish Beijing New York Friendship City Pizza Co. to open pizzeria in Beijing. $3 million. (US:40%-PRC:60%). 2/89.

Gifu Honey Co. and Maruichi Shoji Co.(Japan)/Gexian County, Henan
Will produce 2,000-5,000 tonnes condensed honey annually. $510,000 (¥1.9 million). 2/89.

Fushanyuan Co. Ltd. (Singapore)/Shandong Qufu Distillery
Will produce liquor. $4.3 million (¥16 million). (S:25%-PRC:75%). 2/89.

Delser (Italy)/Beijing
Signed letter of intent to build biscuit factory. $7 million (IL9.1 billion). 1/89.

Freixenet (US)
Constructing joint venture winery for sparkling wines. 1/89.

Macao/Tianjin
Will jointly produce edible mushrooms and related finished products in Tianjin. $168,000. 1/89.

QAF (Singapore)/Tianjin Tanggu Transport and Warehousing Co. and Tianjin Industrial and Economic Development Co.
Established Tianjin QAF Foodstuffs Co. Ltd. to manufacture, process, and trade spices and foodstuffs. $2 million. 1/89.

Kentucky Fried Chicken, subs. of Pepsico Inc. (US)/Shanghai New Asia Group
Will open Kentucky Fried Chicken restaurant in Shanghai. 12/88.

Perrier Fruit Juice Manufacturer Co. (France)
Will invest in fruit juice processing plants. 12/88.

Ingeco (France)/Shanghai
Will establish 70-hectare vineyard and winery outside Shanghai. $3.3 million (FFr20 million). 12/88.

Paul's Place Inc. and Blinder International (US)/China Foreign Trade Leasing Corp.
Will conduct feasibility study on fast food retail restaurant joint venture. 11/88.

Pacific Foods Co. Ltd. (Canada)/Dalian EDTZ
Established Huamei Seafoods Co. Ltd. 11/88.

Sansui Scoji Co. Ltd. (Japan)/China Ocean Aviation Corp.
Opened Doo San Restaurant in Beijing, serving Korean food. $1.1 million. (JP:80%-PRC:20%). 11/88.

Four Japanese companies/Four Chinese companies
Established Dalian Nisshim Oil Mills Ltd. to process 180,000 tpy of soybeans into 11 edible oil products. $30 million. 10/88.

Other

Parry Pacific Ltd. (HK)
Will distribute La Reve (US) wines. 1/89.

Silver Dragon Co. (Japan)
Will manage Zhuhai Beer Factory. 1/89.

Leasing and Insurance

Investments in China

Nomura Securities and Mitsui & Co. Ltd. (Japan)/MINMETALS and People's Construction Bank of China
Will open 20-year leasing corporation in April 1989. 1/89.

Machinery and Machine Tools

China's Imports

Westinghouse Inc. (US)
Sold machinery used to manufacture electrical generators. 1/89.

General Electric Co. (US)/Shanghai Machine Tool Institute
Sold machine tool digital control system and AC Servo system. 12/88.

Investments in China

ASM Pacific Technology (HK)
Will set up machine-tooling facility. $10 million. 12/88.

Medical Equipment and Devices

China's Imports

NA (FRG)/Yunnan Red Cross Society
Sold optical argon and neodynium laser devices. $145,000. 1/89.

NA (Denmark)/First Teaching Hospital of the Yunnan Medical College
Sold electro-encephalograph. $99,000. 1/89.

NA (US)/Yunnan Provincial People's Hospital
Sold automatic microbiological detection system. $70,000. 1/89.

NA (US)/Yunnan Provincial People's Hospital
Sold color Doppler ultrasound diagnostic unit. $200,000. 1/89.

NA (US)/Jingzhou Pearlite Factory, Liaoning
Sold pearlite fluxing agent manufacturing line. 12/88.

Hospitex (France)
Signed three contracts for the installation of cancer treatment equipment in hospitals in Jilin, Sichuan, and Tianjin. $3.8 million (FFr23 million). 10/88.

J. Morita (Japan)/Guangzhou Municipal No. 1 Hospital
Sold two Dominus dental units. 6/88.

Investments in China

Chinese Resources (Holding) Co. Ltd. (HK)/Chinese Herb Medicine, Hangzhou Second Plant
Established Qingchunbao International Corp. Ltd. to produce traditional Chinese herb medicines. 1/89.

Nojiri Megane Kogyo (Japan)/Shanghai Spectacles Factory
Established Shanghai Nojiri Spectacles to make metal eyeglass frames. Registered capital:$1.3 million. 1/89.

Ocutec (US)
Established joint venture to produce contact lenses. 1/89.

Metals, Minerals, and Related Equipment

China's Imports

Waterbury Farrel (US)
Sold two rolling mills. 12/88.

Investments in China

NA (Japan)/Baoshan Steel Works, Shanghai
Established Baohua Trading Corp. to deal in steel, nonferrous metals, mechanical equipment, etc. Registered capital: $340,000 (J¥ million). (50-50). 1/89.

General Minerals Co. (Malaysia)/Yunnan Geological and Mineral Resources Bureau
Signed letter of intent to exploit titanium-containing ores. 1/89.

Mestek Inc. (US)/Shoudu Iron & Steel
Sold 19% of Mesta Engineering Co. to Shoudu, the majority partner in Mesta. (US:30%-PRC:70%). 1/89.

Mino (Italy)
Negotiating for construction of aluminum plant. $115 million (IL150 billion). 1/89.

Scandiaconsult (Sweden)
Preparing feasibility study for iron mine and iron ore dressing plant. 1/89.

Galactic Resources Ltd. (Canada)
Assisting in gold mining project. 12/88.

China's Investments Abroad

National Mineral Co. (Chile)/Beijing Gold Co.
Signed letter of intent to jointly prospect, operate, and manage gold mine in Chile. 1/89.

Mining Equipment

China's Imports

Geho Pompen (Netherlands)/China National Non-Ferrous Metals Import/Export Corp.
Sold two slurry pumps. $56 million (Dfl11 million). 2/89.

Packaging and Pulp and Paper Equipment

China's Imports

NA (Finland)/Yunfeng Paper Mill, Yunnan
Will supply coating paper production line. $8.3 million. 1/89.

Tampella (Finland)
Sold carton-making machinery. $24.2 million (FM100 million). 10/88.

China's Investments Abroad

Macao Trading Co. (Macao)/Shanghai Paper Co. and Shanghai Import/Export Corp. for Recreation and Sports Goods
Formed Aowen Paper Factory Ltd. to produce crepe paper. $403,000 (¥1.5 million). 2/89.

Petroleum, Natural Gas, and Related Equipment

China's Imports

Wilh Wilhelmsen (Norway)/Nanhai West Oil Corp.
Sold drilling rig. $38 million. 2/89.

GE Fanuc Automation and Petrolite Equipment & Instruments (US)/Daqing oil field
GE Fanuc supplied programmable controllers and computer systems which Petrolite will install. $500,000. 1/89.

Other

USSR
Discussing construction of gas pipeline along China's northeast border. 1/89.

Pharmaceuticals

Investments in China

Fumin Pharmaceutical Chemical Industry Co. Ltd. (HK)/Changzhou Pharmaceutical Factory, Jiangsu
Established Changfu Pharmaceutical Chemical Industry Development Co. in Shenzhen. 6/88.

Ports

Investments in China

Chung Wah Shipbuilding & Engineering Co. (HK)/Shenzhen Marine Co.
Building container handling facility in Shenzhen. (HK:49%-PRC:51%). $140 million (HK$1.1 billion). 1/89.

Power Plants and Equipment

China's Imports

Eskom (S. Africa)
Sold used power stations, including boilers, generators, and turbines. 1/89.

Marubeni Corp. (Japan) and Babcock & Wilcox Industries Ltd. (Canada), subs. of McDermott Inc. (US)
Will supply 600,000 kw coal-fired power plant to Zhejiang. $70 million. 1/89.

NA (Denmark)/Qingdao Rectifier Works
Will sell uninterruptable power system. $2.5 million. 1/89.

CGE-Alsthom consortium (France)
Will construct hydroelectric pumping plant in Guangdong. $200 million (FFr1.2 billion). 1/89.

Balfour Beatty (UK)/Huaneng International Power Development Corp.
Will design and supply equipment for system of transmission lines emanating from Yueyang Power Station in Hunan. $21.4 million (£11.7 million). 12/88.

Messerschmitt-Bolkow-Blohm (FRG)/CATIC
Will sell wind energy converters and cooperate on wind energy development. $57 million (DM100 million). 11/88.

Other

Thirteen Japanese banks
Will provide $60 million loan for development of thermal power plants. 1/89.

Property Development and Management

China's Imports

Bond First Pacific Davies Estate Management, joint venture between Bond Corp. (Australia) and First Pacific Davies (HK)
Will manage East Lake Villas residential and commercial complex outside Beijing. 1/89.

Investments in China

Gotha Bank (Sweden)/Zhangdao Science, Technology, Industry and Trading Co., Hainan
Signed letter of intent for several property development projects in Hainan. 1/89.

YTL Corp. (Malaysia)/China State Construction Engineering Corp.
Signed memorandum of understanding for housing project joint ventures in both countries. 1/89.

Accar Co. (France)
Will build hotel in Hainan. 12/88.

Scientific Instruments

China's Imports

Vaisala (Finland)
Will supply meteorological instruments to airports in Chongqing, Chengdu, Guilin, Shenyang, and Shanghai. $1.5 million (FM6 million). 11/88.

Investments in China

LEM (Switzerland)
Will establish joint venture to manufacture ammeters. $676,000 (SFr1 million). (50-50). 2/89.

Ships and Shipping

China's Imports

FRG
Sold 44-meter search-and-rescue ship with helipad. 1/89.

Investments in China

Century Distribution Systems Inc. (US)
Established Shanghai office to offer import consolidation services to North American importers. 1/89.

Dongnama Shipping Co. (S. Korea)/SINOTRANS
Agreed to establish first direct shipping route between the two countries. 1/89.

Songjiang Group (International) Industrial Co. (HK)/Dalian Shipyard
Established Dalian Anchor Co. Ltd. to produce welded anchors for ships, harbors, mines, and lifting equipment. 1/89.

Hellmann International (HK), subs. of Gebr. Hellmannn GmbH (FRG)/SINOTRANS
Formed joint venture to build distribution terminal in Shenzhen SEZ. 12/88.

Telecommunications

China's Imports

Standard Elektrik Lorenz (FRG)
Sold microwave radio equipment. $7.4 million (DM13 million). 2/89.

Fairfield Technologies (US)/Geophysical Co. of Bohai Oil Corp.
Sold geophysical equipment for gathering shallow water seismic data. $8 million. 1/89.

GEC-Plessey (UK)/Shenda Telephone Co., Shenzhen
Will supply 200 pre-pay card telephones and 500,000 stored-value cards. 1/89.

U.S. Sprint (US)
Sold surplus analog microwave transmission equipment. $15 million. 1/89.

NA (Spain)/Hangzhou, Zhejiang
Will supply 50,000 line, program-controlled exchange equipment. 1/89.

L.M. Ericsson (Sweden)
Will supply Liaoning with AXE lines and associated equipment. $60 million. 12/88.

Nokia Telecommunications (Finland)/Fushun Petrochemical Co.
Sold optical cables. 12/88.

GEC-Plessey Telecommunications (UK)/Ministry of Radio, Film and Television
Will supply ISDX private telephone exchange, data terminals, and trunk connections. 12/88.

Investments in China

Trade Data Co. (US)/Jingmao New-Tech Development Corp., affiliate of MOFERT
Signed joint venture agreement to deal in exchange and transmission of commercial information. 1/89.

Siemens AG (FRG)
Will manufacture digital switches in Beijing factory. $60 million. (FRG:40%-PRC:60%). 12/88.

Other

Siemens AG (FRG)/Dalian Automation Instruments
Signed cooperation contract covering installation, training, and servicing for users of Teleperm M systems in northern China. 12/88.

China's Investments Abroad

Panda Electronics Group
Invested in San Francisco joint venture to manufacture telecommunications products. 1/89.

Textiles

China's Imports

Lithuanian Soviet Socialist Republic (USSR)
Will supply and build textile mill. 2/89.

Rieter Corp. (Switzerland)
Sold four ring-spinning plants. 10/88.

Investments in China

Nitto Boseki Co. Ltd. and Nichimen Corp. (Japan)/China Spun & Woven Fabric Import/Export Corp.
Established Nobel Dyeing & Printing Co. Registered capital: $12 million. 1/89.

Nitto Boseki Co. Ltd. and Nichimen Corp. (Japan)/China Spun & Woven Fabric Import/Export Corp.
Established Shenzhen Yongxin Textile Printing Factory to manufacture cotton cloth. $13 million (J¥1.6 billion). 1/89.

Thies Co. (FRG)/Shaoyang No. 2 Textile Machinery Plant, Hunan
Built two high temperature piece-dyeing machines. 12/88.

BITIC of California Ltd. (US)
Established Golden Land Worsted Co. Ltd. joint venture woolen mill. $9.98 million. (US:49%-PRC:51%). 11/88.

Other

Standard Chartered Bank (HK)/Industrial and Commercial Bank of China, Shanghai branch
Loaned $1.5 million to Shanghai No. 2 Textile Machinery Factory to import advanced management systems. 1/89.

China's Investments Abroad

NA (Bahamas)/China Textile Industrial Corp.
Established knitting mill. 1/89.

Puyallup Reservation (US)/Tianjin TEDZ
Plans to establish joint venture with Puyallup Indian tribe to produce US military uniforms. 12/88.

Transportation

China's Imports

Acustar Inc., subs. of Chrysler Corp. (US)
Will sell up to 80,000 axles annually to Beijing Jeep Co. 2/89.

Airbus Industrie (France)/China Eastern Airlines
Sold three A300-600 airplanes. $240 million. 1/89.

Cascade Corp. (US)
Has joint venture with Xiamen Forklift Co. 1/89.

Chloride Technical and Trading (UK)/Shenyang Battery Factory, Liaoning
Will supply 600,000 units per year automotive battery manufacturing plant. $4.2 million (£2.3 million). 1/89.

GEC General Signal (UK)
Will supply railroad signals. $913,800 (£500,000). 12/88.

Lancer Boss Co. (UK)
Will build forklift truck factory in Hainan. 12/88.

Toyota Aviation, unit of Toyota Motor Sales U.S.A. (US)
Will export, market, and service Cessna turboprop planes, and establish sales support facility in Guangzhou. 12/88.

Collins Corp. (US)/Shanghai Airlines, Air China-Beijing, and Air China-Guangzhou
Will supply Series 700 avionics, including weather radar and passenger address systems. 12/88.

Air-Jeep Plane Manufacturer (Switzerland)
Will produce planes in Hainan. 12/88.

Falor Woodrey Co. (UK)
Plans to build airport in Hainan. 12/88.

Consortium headed by Siemens AG (FRG)
Will supply electro-mechanical equipment to Shanghai subway system. $224 million (DM400 million). 11/88.

Investments in China

Precision Instrument Manufacturing Factory (Japan)/Baoxing Plastics Factory, Hebei
Established Baoxing Precision Motor Fitting Corp. to produce automobile brakes. $4.8 million (¥18 million). 2/89.

Fiat (Italy)/Nanjing Motor Vehicle Plant
Will jointly produce pick-up trucks. 1/89.

Walbro Corp. (US)/CITIC and Vitality Motor Co.
Established CITIC-Walbro Ltd. to manufacture electric automotive fuel pumps in Hong Kong. 1/89.

Other

Switzerland
Signed cooperation agreement to improve China's railway system. 10/88.

Miscellaneous

Investments in China

NA (Japan)/Zhuhai Ocean Optical Research Institute
Opened Zhuhai Optical Industry Co. to produce holographic grating solar film, textile thread, leather, and decorative bricks. $600,000. 2/89.

Getty Conservation Institute (US)
Will join efforts to preserve Mogao and Yungang Grottoes. 1/89.

Chita Oblast (USSR)/Heilongjiang International Trust and Investment Corp.
Signed four economic and technological agreements and barter trade contracts. 1/89.

Mssrs. Ed and David Wardell (US)
Establishing Construction Management Co. to assist small US companies doing business in Hainan. 12/88.

Pierre Cardin (France)
Will open button factory. 12/88.

Edwards & Angell (US)/Law Offices of Guangdong International Commerce
Signed cooperation agreement. 12/88.

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