The China Business Review

May–June 1990

SPECIAL REPORT: China Traders Look at Vietnam

Piecing Together a Regional Strategy

Asia Series

You can do business in Japan without shelling out a fortune.

For many companies, the biggest barrier to new markets has been the cost of business trips. Restaurants can be expensive, and even the smallest accommodations may carry oversized bills. Yet those willing to be a little adventurous will find that traveling comfortably in Japan doesn't require packing a suitcase full of yen.

Hop on the bus.

A $20 bus ride from Narita Airport may not strike you as a bargain, but compared to a $150 taxi, it is. The buses marked "Airport Limousine" stop at all the major hotels in Tokyo.

Sleep cheap.

Business hotels are a fairly new phenomenon. Catering primarily to Japanese businessmen, they're clean, functional, and conveniently located. Although vending machines replace amenities like room service, at $40 to $50 a night these hotels are a sound investment. Two major chains are the Tokyu Inn (tel. 03/406-0109) and the Washington (tel. 03/434-5211).

Food for naught.

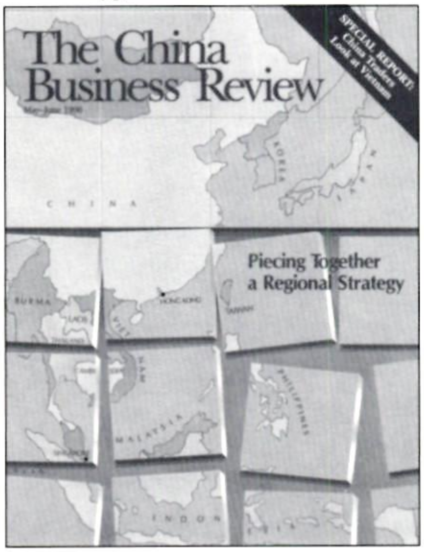
It should come as no surprise that you'll save money eating where the locals eat. Good and reasonably priced restaurants can be found in department stores and the basements of office buildings. At lunch, ask for *teishoku*. It means special of the day, and includes rice, miso soup, salad, meat or fish, and dessert—all for around five dollars. *Ramenya* and *sobaya* (noodle shops) are perfect places for a quick and tasty meal.

Northwest notes.

Since your time is money too, we make it as quick and easy as possible for you to get to Japan, by offering daily nonstops from the most U.S. cities. So you can count on arriving when you want, rested and ready to do business. And we give you something else no other U.S. airline can: the knowledge, understanding and insight that comes from over 40 years of helping people do business in Asia. For international reservations, call your travel agent or Northwest at 1-800-447-4747. To find out more about doing business in Asia, call 1-800-553-2215, ext. 183.

NORTHWEST AIRLINES

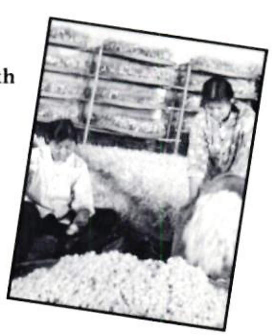
Cover art by Jon Yanson



China is one piece of the regional puzzle.

MFN tariffs	Non-MFN tariffs
6.0%	60.0%
10.5 cts/bbl	21 cts/bbl
6.8%	70.0%
6.0%	35.0%
8.5%	35.0%
12.0%	70.0%

Removal of China's MFN status will be costly for US importers and exporters alike.



Decline in silk quality starts with cocoons.

The China Business Review

The magazine of the US–China Business Council

May–June 1990 Volume 17, Number 3

Departments

摘要 Trends & Issues

Keeping China Calm

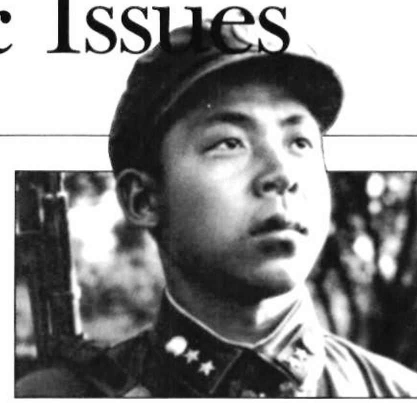
Stability, stability, and stability were the three major priorities outlined by Chinese leaders at the meeting of China's National People's Congress, which ended in April. Modifications to the austerity plan, such as loosening up credit to enterprises and raising purchasing prices for key agricultural products, were adopted in the name of maintaining political, economic, and social order.

Rumors abounded before the meeting that Prime Minister Li Peng might soon be replaced by more popular leaders such as Shanghai Mayor Zhu Rongji or Guangdong Governor Ye Xuanping, but the emphasis on stability seems to indicate that no such change is likely, at least for the time being.

Concerns over stability were also evident in the government's precautions to inhibit any demonstrations reminiscent of last spring's uprising, which began in April on the occasion of Hu Yaobang's death but was fueled throughout the spring by a succession of holidays and anniversaries (such as the mid-April Qing Ming festival commemorating the dead). Armed police stood watch in Tiananmen Square on several occasions in April and cordoned off the area to keep the public out.

Further from Beijing, the surface calm gave way. In mid-April, large parts of Xinjiang Province were sealed off to foreigners because Chinese troops were reportedly restraining anti-Chinese disturbances by Moslem minority groups, who may have been influenced by recent ethnic outbursts in bordering republics of the USSR. Though Chinese leaders have strenuously emphasized the differences between their socialist system and the rapidly-reforming Soviet one—especially since last May's Beijing visit by Mikhail Gorbachev, which helped inspire Tiananmen's student demonstrators—there are clearly more similarities than they would like to admit. —SER

China's Favorite Soldier



Lei Feng serving the government's cause.

In the largest mass political campaign launched in China since the Cultural Revolution, the government has resurrected model soldier Lei Feng in an attempt to rebuild socialist ideals and improve the army's image. Lei Feng, who supposedly died in 1962 at the age of 22, was extolled by Mao for his selfless devotion to the Party and people and for his steadfast resistance against "bourgeois liberalism." The current campaign, which began several months ago when army units were instructed to study Lei's life, is apparently intended to reinforce loyalty to the government—and erase the memory of last year's demonstrations for democracy and the resulting army crackdown. While Lei is credited with such deeds as cheerfully washing and mending his comrades' clothes, today's campaign calls on children to sweep China's streets, and soldiers to act as "barefoot barbers," providing free haircuts around the country.

In a recent speech, Premier Li Peng stated that the campaign was launched to rid the government and Party of corruption, and vowed it would continue until that goal was reached. Much of the population, however, seems apathetic, and reads the government's preoccupation with Lei Feng as an outdated attempt to manipulate and control the masses—and shift attention away from underlying social tensions and economic contradictions. —VL

Crops Top Economic Agenda

In their continued efforts to ensure economic stability, China's leaders are going back to basics, once again emphasizing agriculture as the "key link." In recent speeches officials have announced that developing the agriculture sector will be the State's top priority, and are staking more than just rhetoric: loans to farmers are to increase by 30 percent in 1990, and State purchase prices of cotton, oil-bearing crops, and sugar will all be raised to avoid a repeat of last year, when harvests of these crops fell well short of their targets.

Despite rumors and occasional statements made during the past six months hinting at recollectivizing agricultural production, the government has done little to clarify its position, claiming that the household responsibility system will be "stabilized and improved," but also that "moderate scale farming" will be encouraged. Minister of Agriculture He Kang has also announced that 10-20 percent of the increased funding to agriculture will go to rural enterprises, several million of which reportedly have been closed since the beginning of the austerity campaign. The increased funding likely indicates official concern over rising unemployment and declining production rates in rural enterprises, which generate about one-third of China's total industrial output.

A further "stabilization" scheme has been introduced by Henan Governor Cheng Weigao, called the "double contract system." Under this system, which parallels the "double guarantee system" recently implemented for key State industrial enterprises, the government will guarantee supplies of agricultural materials, electricity, chemical fertilizers, oil, and credit to farmers, who in turn will commit to cultivate required acreage and meet grain quotas. It remains to be seen whether the new system will be implemented in other provinces as well, though it clearly indicates the government's desire to extend its influence in the countryside. —PB

Short Takes

Finance News

The World Bank staff was forced under US pressure to withdraw in April a loan request for funds to build a Shanghai-Jiangsu highway. A week later, however, the United States gave its approval to a $50 million loan for vocational and technical education. It seems that US opposition to non-humanitarian loans to China is unlikely to soften before the Bank's fiscal year ends in June.

The US Export-Import Bank in March approved a loan guarantee of $33.6 million by the Philadelphia National Bank to the Shenzhen Huaneng Economic Development Corp. to purchase a 94 MW gas turbine power plant.

Bridging Hong Kong

As part of the massive infrastructure development program Hong Kong recently began, the territory is now set to build the world's longest bridge, which will connect a new international airport to urban areas. The bridge will be privatized, and bids will be taken in September for its financing, design, construction, and operation.

Taiwan Faces Facts

Taiwan in March authorized businesspeople to make exploratory visits to the PRC, bowing to the reality that many Taiwan companies are already deeply involved in manufacturing on the mainland, especially in the coastal provinces. Shortly after the decision, Taiwan's Evergreen Group, operator of the world's largest containership fleet, announced plans to hold talks on the mainland about establishing shipping links.

Football for China

Last year's broadcast of the Superbowl in China drew over 400 million viewers, but the airing of this year's game, originally slated for March 11, was postponed until May 6 due to lack of advertiser interest.

Letter from the Editor

In Search of a Regional Strategy

Let me make one thing clear up front: In focusing this issue on Southeast Asia, we're not trying to imply that US companies should pack up and get out of China. Rather, we're encouraging executives to take the pioneering, risk-taking spirit that drew them to China on an exploratory journey through the countries of the Association of Southeast Asian Nations (ASEAN). Like China, in the past 10 years these nations have grown economically and matured politically into a potent global business force, but the extent of US involvement in their economies has diminished rather than expanded. As the region continues to grow, US companies should broaden their horizons to place their China operations in a regional context by developing strategies to maximize market opportunities and capitalize on economic trends throughout Southeast Asia.

China certainly recognizes the growing commercial clout of its ASEAN neighbors, and is rapidly expanding business ties even with those countries with which it lacks formal political relations. Each side has much to offer the other in terms of raw materials, technology, and even capital, and smart US companies will try to take advantage of these growing links to source materials more efficiently or reach new markets for their China-made products.

Veteran China hands are among those looking beyond ASEAN to the potential markets of Indochina. This issue's special focus explains how lessons learned the hard way in China may make it easier on US prospectors in Vietnam, should the trade embargo be lifted to allow American companies in.

On a different note, we've received many comments and compliments on our 1990 face-lift. Thank you for your thoughts, and please keep letting us know how we're doing.

Sharon E. Ruwart

Sharon E. Ruwart

The China Business Review

1818 N Street, NW
Suite 500
Washington, DC 20036-5559

202/429-0340
Fax: 202/775-2476
Telex: 64517 NCUSCTUW

Editor
Sharon E. Ruwart

Associate Editors
Pamela Baldinger Vanessa Lide

Advertising Manager
Bart Broome

Circulation Manager
Daniel P. Reardon

Production Manager
Jon Howard

Book Editor
Kathleen E. Syron

The China Business Review welcomes articles from outside contributors. Manuscripts submitted for consideration should be sent to the editor, *The China Business Review*, 1818 N St., NW, Suite 500, Washington, DC 20036-5559. The China Business Forum retains all rights to articles and artwork published in *The China Business Review*. Articles or artwork published in *The China Business Review* may be reprinted in non-Council publications or reproduced only with the written permission of the China Business Forum.

The China Business Review, ISSN No. 0163-7169, is published bimonthly by the China Business Forum, 1818 N St., NW, Washington, DC, 20036-5559, USA (Tel: 202/429-0340), a nonprofit organization incorporated under the laws of Delaware. Second class postage paid at Washington, DC, and additional mailing offices. Postmaster, please send address changes to *The China Business Review*, 1818 N Street, NW, Suite 500, Washington, DC 20036-5559, USA. Articles in *The CBR* do not reflect Forum policy, unless indicated. *The CBR* is grateful to I-Chuan Chen for the calligraphy used for the magazine's departments.

Letter from the President

American companies doing business in China face a serious challenge: persuading Congress to renew China's most favored nation (MFN) status, due to expire in July. The US-China Business Council is making a major effort to educate Congress and the public about the importance of maintaining China's MFN status.

Roger W. Sullivan

American companies doing business in China face a serious challenge this spring: an effort in Congress to remove most favored nation (MFN) treatment for imports from China. MFN status, which must be renewed annually, expires on July 3 unless the president and Congress agree to extend it for another year.

The financial cost of withdrawing MFN to American importers, exporters, and consumers would clearly be heavy, but there are also costs involved if the battle for MFN is won only after a protracted, bitter fight. In that event, the annual renewal process could no longer be taken for granted. This uncertainty would add significantly to the unpredictability of doing business with China.

Changes in the process

Renewal has been a routine matter ever since MFN was first granted to China in 1980 and particularly in the last several years, in part because the section of the law requiring the approval of both houses of Congress was deemed to be an unconstitutional congressional veto of presidential action. With no congressional action required, MFN was renewed automatically after the president's notice of intent to renew had sat before Congress for 60 days.

The MFN renewal process has been changed this year because Congress wanted to regain an active role at a time when the president is considering extending MFN to a number of Eastern European countries—and possibly to the Soviet Union. Legislation has therefore been introduced that restores the role of Congress by requiring congressional approval to extend MFN. The new rules treat a congressional vote of disapproval as a piece of legislation which the president may veto, thereby satisfying the requirements of constitutionality.

The renewal procedure involves preliminary certification by the president, according to the requirements of the Jackson-Vanik amendment, that China allows free emigration. By an unfortunate coincidence of timing, the deadline for Bush to issue this certification is June 3, 1990, the eve of the anniversary of the Tiananmen killings. According to the timing requirements, Congress must thus vote on MFN by September.

Given the deterioration of US-China relations in the past year, there is reason to fear that the congressional vote on MFN for China will be negative. At the same time, administration officials are suggesting that while the president will certainly propose MFN for China, he may not be prepared to veto a congressional vote of disapproval.

Heavy short- and long-term costs

The immediate effect of the loss of MFN would be to raise tariffs to prohibitive levels on most Chinese exports to the United States (*see* table). Later consequences would include:

- **Increased Chinese tariffs on US goods**, many of which could lose their competitive edge and market share to other countries, since the United States is alone in considering withdrawal of MFN. If China retaliates, as can be expected, by transferring US products from the "minimum" tariff category—China's equivalent of most favored nation status, where US goods now fall—to the "general" category, import duties on US goods could increase substantially. US joint ventures that import American raw materials and components could be cut off from needed supplies.
- **An end to all US government programs supporting American companies in China**. Programs of the Export-Import Bank, the Overseas Private Investment Corp. (OPIC), and the Trade Development Program (TDP) are limited by law to countries with MFN status.
- **Economic dislocation in Hong Kong**, whose manufacturing companies depend heavily on factories in China producing for the US market. The social and economic costs to the people of Hong Kong are incalculable. Over \$8 billion—or 70 percent—of China's 1989 exports to the United States were transshipped through Hong Kong. American companies in Hong Kong would also feel the impact of lost business and eroded confidence.
- **Impoverishment of South China**, where support for reform and liberalization is strongest and where more than 60 percent of China's exports to the United States are produced. This area comprises hundreds of private, village, and foreign-managed plants operating on market principles and employing millions of workers (over two million in Hong Kong-operated plants alone). Withdrawal of MFN would thus undercut the very forces the United States

Top 25 Dutiable US Imports from China, 1989

($1,000)

Customs commodity number	Items	Value	MFN tariffs	Non-MFN tariffs	1989 collected duties	Non-MFN equivalent duties
61109000	Sweaters, pullovers, sweatshirts, vests, and similar goods	$514,665	6.0%	60.0%	$30,880	$308,799
27090020	Petroleum, oils, and oils from bituminous minerals	$423,680	10.5 cts/bbl	21 cts/bbl	$2,642	$5,284
95039060	Other toys; without spring mechanisms	$325,912	6.8%	70.0%	$22,162	$228,138
64029915	Footwear not elsewhere indicated; uppers over 90% rubber or plastic	$244,143	6.0%	35.0%	$14,649	$85,450
85171000	Telephone sets	$186,190	8.5%	35.0%	$15,826	$65,167
95021040	Dolls; not stuffed, under 33 cm in height	$181,653	12.0%	70.0%	$21,796	$127,157
67029040	Artificial flowers; man-made fibers	$177,114	9.0%	71.5%	$15,940	$126,637
95034110	Stuffed toys representing animals/non-human creatures	$160,196	6.8%	70.0%	$10,881	$112,137
64039990	Nonwelt footwear; outer soles of rubber/plastic	$130,578	10.0%	20.0%	$13,058	$26,116
85271111	Radio-tape player combinations; non-recording	$120,599	3.7%	35.0%	$4,462	$42,210
42022215	Handbags, with/without shoulder strap	$117,811	20.0%	45.0%	$23,562	$53,015
95034900	Toys; representing animals or non-human creatures	$116,450	6.8%	70.0%	$7,918	$81,515
95049040	Game machines; other than coin or token operated	$114,559	3.9%	35.0%	$4,468	$40,096
85163100	Electrothermic hair dryers	$111,855	3.9%	35.0%	$4,362	$39,149
61103030	Sweaters, pullovers, vests, and similar articles	$108,564	34.2%	90.0%	$37,071	$97,708
62034240	Men's/boys' trousers, overalls and shorts; of cotton, other	$107,453	17.7%	90.0%	$19,019	$96,708
62064030	Women's/girls' blouses and shirts; man-made fiber, other	$106,442	28.6%	90.0%	$30,442	$95,798
62061000	Women's/girls' blouses and shirts; of silk or silk waste	$105,480	7.5%	65.0%	$7,911	$68,562
95038020	Toys incorporating an electric motor	$104,690	6.8%	70.0%	$7,119	$73,283
61102020	Sweaters, pullovers, vests, and similar articles of cotton	$104,425	20.7%	50.0%	$21,616	$52,213
85163200	Electrothermic hairdressing apparatus; other	$103,358	3.9%	35.0%	$4,031	$36,175
84145100	Fans; table, floor, wall, window, ceiling, or roof	$101,985	4.7%	35.0%	$4,793	$35,695
42022160	Handbags, with/without shoulder strap or handle, not over $20	$95,216	10.0%	35.0%	$9,522	$33,326
85271120	Radio-tape recorder combinations; other	$93,139	4.9%	35.0%	$4,564	$32,599
62046240	Women's/girls' trousers, overalls, breeches, and shorts of cotton	$87,377	17.7%	90.0%	$15,466	$78,639
Total		$4,043,534			$354,160	$2,041,573
Tariff as percentage of total value					8.76%	50.49%

SOURCE: US Customs statistics

should seek to support, and play into the hands of those Chinese leaders who view foreign contacts—including trade—as something to be feared rather than encouraged.

- **Erosion of American competitiveness worldwide**. Withdrawal of MFN for China would demonstrate that the United States believes it can use trade as a domestic political pawn and as a weapon to punish countries abroad without paying a price at home.

Political pressures

The growing dissatisfaction in Congress over the failure of President Bush's China policy to win a positive response from Beijing, coupled with continuing repression in China, make it likely that if polled today, a majority of the Congress would oppose renewing MFN for China. Those opposed would include trade protectionists, conservatives ideologically opposed to relations with China, and liberals who believe MFN should be a reward for coun-

tries that respect human rights and withdrawal a punishment for those that do not. A number of other legislators may oppose MFN to strike back at the president for vetoing the Pelosi bill or to shore up support in upcoming elections by witholding support for what looks like a concession to China.

While a negative vote could be vetoed by the president, there is no assurance that he could defeat an effort to override his veto—or that he would even be willing to engage in another bruising battle with Congress over China policy, given the apparent unwillingness of the Chinese leadership to make reciprocal moves to improve relations.

The Council speaks for companies

The US-China Business Council, in cooperation with other business groups, is making a major effort to educate Congress and the public about the critical importance of keeping MFN for China. To spearhead the effort, the Council has formed an MFN working group, which all members are invited to join. At the group's organizational meeting, attended by 20 member company representatives on March 28, the Council was directed to prepare a lobbying paper for use by both the Council and member companies. We are also working to try to bring into the Council non-member companies that would be seriously injured by withdrawal of MFN. Companies and Council staff have been using the Council's MFN paper since April to impress upon members of Congress and their staffs the serious implications of a negative decision on MFN.

Some companies have suggested they would rather the Council take the lead on this issue because more pressing issues affecting them are now before Congress. We understand the constraints companies are under, and their preference that we provide a unified voice for them. To the extent companies feel they can act directly to make their views known to Congress, the stronger the case for MFN will be. If companies prefer to leave action to the Council, we ask that they give us their support in the form of information we need to make a convincing case and, if it comes to that, funding to do the job. We will keep the membership informed of progress on this critical issue.

The Uphill Climb Toward Quality

China's quality control levels are slipping

Khin Green

Over the past decade, China's progress in assimilating foreign technology and standards has been remarkable, but persistent lack of awareness of the importance of quality control and assurance practices (QC/QA) and the scarcity of trained quality control personnel has created a number of problems for foreign manufacturers in China. Exacerbating these problems is the exodus of professionals from Hong Kong, who comprise a significant proportion of quality control inspectors used by foreign firms in China. Since last June, many Hong Kong Chinese managers and quality personnel have refused to travel to China for more than a few days at a time regardless of the incentives offered.

The scarcity of well-trained QC personnel has caused the quality of goods manufactured in China to deteriorate substantially over the past year, resulting in increased costs for foreign companies. If China is to become more competitive as a manufacturing locale, it must strive even harder to educate its workforce, from management levels on down, to integrate the concept of quality at all stages of production. Foreign companies must clarify their expectations and specifications, and be aware of the obstacles in the way of achieving consistent quality.

Unaware and inexperienced

The basic purpose of quality control processes is to ensure that a product performs the function for which it is intended and meets manufacturing and safety requirements. Nearly every factory in China employs some sort of quality control

If China is to become more competitive as a manufacturing locale, it must strive to educate its workforce, from management levels on down, to integrate the concept of quality at all stages of production.

process and staff. Chinese managers, however, have yet to realize that the concept of quality must be adopted as a core belief from top-level managers to workers on the line, causing problems with both quality and reliability in every sector. Their inability to make quality a universal priority results in ineffective management and insufficient supervision. It is not unusual, for example, for QC personnel to have their decision to reject a particular lot overridden by the production staff, or for the engineering department to turn a blind eye to certain defects. More often top management may override everyone if the goods are urgently needed and conform to safety specifications.

In addition to unfamiliarity with the concept of quality, the low educational levels of most employees also hamper effective implementation of QC measures. Workers on the factory floor are usually from the countryside and have little formal education or training. QC staff do receive some training, but it is usually on the job.

High workforce turnover complicates efforts to ensure consistent quality. Chinese factories often lay off much of their workforce during slack seasons, and many workers return to their villages after receiving new year bonuses. The attrition rate can be as high as 10-15 percent per month, and 40 percent at Chinese new year.

Inadequate technology

Other quality control problems stem from China's lack of sophistication in production processes. In one recent representative case, an American manufacturer could not understand why the Chinese supplier could not maintain a uniform color of plastic throughout a production run. Arriving at the injection molding area, he discovered that the dried plastic was stored in buckets and an enamel mug was being used to portion out the color mixture, making measuring an inexact procedure at best. The temperature, moreover, was around 26 degrees Celsius, and the humidity was over 70 percent; as a result, the plastic retained moisture, causing potential shrinkage and molding problems.

The textile industry—in particular the silk sector—provides a useful case study of the types of technical quality control problems inspectors encounter in China. Quality control problems in the silk manufacturing process can begin even before production is underway. In the last few

Khin Green is the owner of McRink Surveyors Co., Ltd., an independent third party inspection agency for OEM manufacturers. She has been a member of the American Society of Quality Control since 1982.

The QC System Evolves

Joe Scerbo, director of engineering and quality assurance for Clairol Inc., has been been conducting quality inspections in China for five years. He shared his thoughts with Associate Editor Pam Baldinger.

CBR: *How would you characterize quality control procedures in China?*

Scerbo: It very much depends on the factory, but in general, the work ethic is relatively undeveloped and skill levels are still low, so most workers need a lot of supervision. Quality control has not yet been built into the production process.

CBR: *About what percentage of the goods you examine pass inspection?*

Scerbo: I'd say that about 10 percent gets reworked. The Chinese are very good at meeting safety and performance requirements; the trouble is usually in more subjective, detail-type problems, such as handling and aesthetics.

CBR: *Since you started working in China, have you seen improvement in quality control processes?*

Scerbo: Yes, but there's still some room to go. Outside inspectors are teaching the Chinese to keep on their toes and not repeat costly mistakes, but there are all kinds of quality control problems that derive from seemingly unrelated areas like infrastructure. For instance, many roads in China aren't very good, and goods get jostled when they're being transported, creating more quality problems. Plus, it's usually cheaper in China to hire additional labor than to buy sophisticated equipment and try to find someone capable of maintaining it.

CBR: *Do you foresee further improvement?*

Scerbo: I think there will be natural improvement in the way China implements quality control procedures, just as there was in Japan, Taiwan, and South Korea. The Chinese will have to improve and take more control themselves in order to remain competitive, especially as labor rates increase. That's just the normal evolutionary process.

years, many of the cocoons supplied to manufacturers have contained holes. A silk cocoon is a continuous single filament and holes make for short filaments and knots, which are unacceptable in fine silks like crepe de chine.

Even when quality silk can be manufactured, dyeing can be a nightmare. Most Chinese dyeing factories use outdated machines and have not been exposed to Western quality standards. Even factories that do obtain advanced machinery often do not fully understand how to use it. One factory in South China, for instance, invested in top-of-the-line silk printing machinery, and then used the machines to print thick cotton towels. Managers were surprised to find afterwards that the machines could not print fine silk.

Foreigners fill the gap

Since Chinese manufacturers' own quality control measures are often inadequate, foreign buyers usually hire independent inspectors to assure the quality of their products. The outside agency is hired as an impartial observer to conduct a final audit and ensure that the Chinese factory's own QC operations meet the contract terms (*see* box).

There are about 20 well-known quality inspection companies in Hong Kong, which provides most of the outside inspectors to China. Nearly all inspectors hired by these companies have technical backgrounds and are able to read and understand various sets of specifications in English. Hong Kong inspection agencies work in all manufacturing sectors in China, though some may specialize in products with especially stringent test criteria, such as textiles, electronics, or toys.

Inspection company costs are usually assessed on a time basis. The average inspection takes just over a day and costs between $200-280 per day. Some clients, however, prefer to be charged a certain percentage—usually 1-1.2 percent—of the FOB value of the merchandise to be

Holes in silk cocoons have become increasingly common, making it difficult to produce the long filaments necessary to make high-quality fabric.

checked. This allows the client to avoid paying additional costs caused by external delays such as power outages or traffic jams, and obligates the agency to complete the inspection.

Confusing safety with quality

Most American OEMs (Original Equipment Manufacturers) source products from China to take advantage of cheap labor rates and are confident that their Hong Kong suppliers can assure that products will meet the stringent safety regulations in America and Europe. What OEMs often fail to realize, however, is that meeting safety regulations does not guarantee quality or product performance. A surprising number of foreign companies have found that although their products meet all the required safety standards, they don't necessarily work.

Although they complain of inadequate quality standards in China, few American companies clarify exactly what they require from their Chinese vendors in terms of quality and product performance.

The blame for poor quality does not lie entirely at the Chinese vendor's doorstep. Although they complain of inadequate quality standards in China, few American companies clarify exactly what they require from Chinese manufacturers in terms of quality and product performance. Many fail to outline product specifications in sufficient detail, and when they do, they often discover mistakes in the design process that may require new inputs or procedures than originally called for. This leaves the vendor very little room to maneuver, as the Chinese factory may lack foreign exchange to purchase necessary equipment or materials, and usually has not allotted extra time to accommodate major changes midway through production.

The Quality Control Process

While different industries may have specific quality control procedures, the basic process involves checking the many stages through which a product passes before it is released for sale. The quality of most Chinese goods inspected by outside agencies is judged acceptable. Though the pass rate in smaller factories may be as low as 85 percent, many larger enterprises have pass rates in the high-90 percent range.

Incoming quality control

The simplest and most common system is incoming quality control, which deals with components. The Chinese vendor's incoming quality control inspector examines a certain percentage of a sample lot to ensure that it meets the specifications laid down in the bill of materials. If it does, it is certified as being within acceptable quality levels (AQL, as defined by MIL-STD-105D for military applications or ABC standards for commercial use) and released into stock. If the lot falls short of specifications, the components should be rejected and returned to the supplier. In practice, however, a factory hard-pressed to obtain inputs is likely to accept inferior components rather than risk halting or delaying production.

Pre-production inspection

Pre-production inspection involves checking a small number of produced units to see if they function as intended and conform to the safety requirements of the destination country. Trial testing allows problems to be detected and solved before full production begins. In China, this is often a weak link in the QC chain, as factories do not always thoroughly inspect the test-run products before turning them over to the client or outside inspector. This puts the burden of catching production-line problems on the client rather than the factory, creating the potential for costly misunderstandings.

In-process inspection

During the manufacturing process, the QC department will select a random sample of a certain number of units per production hour to ensure that goods are being manufactured correctly. If the goods are within AQL, that hour's production is released. If not, a decision is made to rework that hour's production or to start production over again, whichever is cheaper. If the goods are borderline, the QC supervisor indicates where production must be improved and releases the sample batch.

In-process inspection also involves ensuring that machines are constantly checked and calibrated and that accurate records are maintained, so that errors can be traced and corrective action taken swiftly.

After a certain number of units are produced and accepted, quality assurance steps in to ensure that the QC process has not approved too many lots of marginal quality, which could result in the entire batch being judged unacceptable. Another sample is selected at random from packaged units and inspected against the complete quality checklist.

Final audit

Accepted lots/batches must comply with all the criteria laid out by the buyer. In nearly all cases, however, the buyer requests an audit by a third party to ensure that the goods meet product performance specifications and safety requirements. The inspection agent conducts essentially the same procedures as the Chinese vendor's own QC staff but on a larger scale, and also verifies that packaging, instructions, and warranties are in the correct language, that no component substitution has taken place, and that the correct components have been used.

The outside agency's findings often differ from the factory inspector's quality assessment. The final audit is more likely, for example, to find inferior goods manufactured during peak production times when the factory's own standards may slip in the face of tight production and shipping schedules.

If the goods meet all standards, the agency issues the vendor an inspection certificate and releases the shipment. If the goods fail, the inspector rejects the shipment and notifies both vendor and buyer.

While inspector and vendor almost always agree on basic problems, there may be gray areas. In these cases the outside inspector contacts the buyer, who then negotiates with the Chinese vendor on the terms under which shipment will be accepted. Until they reach an agreement, neither goods nor money change hands. —KG

More fundamentally, Americans in many corporate boardrooms are unable to comprehend what a typical Chinese factory is like. I remember once being asked by one American chief executive officer how a factory could be on the 13th floor! Despite the many differences between the Western manufacturing ideal and Chinese reality, however, most American companies and Chinese manufacturers genuinely try to overcome them. The difficulties lie in their inability to understand the other's way of thinking, and to agree on what constitutes a contract.

Recent credit cutbacks and shortages of raw materials throughout China have exacerbated misunderstandings. One American OEM, for example, placed an order for cutlery with his Hong Kong agent, who selected a Chinese manufacturer at the Canton Fair. After months of delay and repeated promises that the product would be available soon, the client, in desperation, flew to China to see for himself what the problem was. He discovered a pristine factory with all machines lying idle—and about 10 workers keeping the machinery and grounds immaculate until the factory was allocated sufficient foreign exchange to buy raw materials with which to begin production. This is by no means an unusual problem; in China, certain materials may not be readily available because of price increases or transportation bottlenecks, making it even more difficult to assure consistent quality in finished products.

Staying competitive

Despite these problems, China compares favorably with other Asian manufacturing locales. Although it lags behind Japan, Singapore, and South Korea in the quality of its high-technology goods, China is on a par with Thailand and Malaysia, and in many sectors even with Taiwan. Unlike workers in these countries, however, Chinese workers are accustomed to collective responsibility in the workplace and the "iron rice bowl" guarantee of employment. Until recently, Chinese workers had little incentive to maintain quality throughout the production process, and little willingness to accept responsibility for mistakes.

The need to improve quality control in China is becoming ever more critical as both American and European buyers and their suppliers gear up for the united European market of 1992 and the introduction of International Standardization Organization (ISO) requirements. This new international system of quality standards is more stringent than those that exist today and will eventually be adopted throughout the world. If China is to keep up with the competition, it must ensure that its factories can consistently manufacture at ISO 9000 levels. Foreign advice and technology will be crucial to helping China meet the new standards.

China has begun to recognize its problems, and growing awareness is bound to bring change. Already the Chinese are learning to integrate computers into their production and QC operations, for example. But they must train more personnel—especially in the wake of the decline in Hong Kong inspectors—and vigorously promote the concept of quality in production. If they do this successfully, China's manufacturing future should be bright indeed. 完

The Concept of Quality

Joe Scarry of the Howard Wagman Co. has been importing goods from China for six years. He spoke to Associate Editor Pam Baldinger about his experience with quality control in China.

CBR: *How would you assess China's quality control procedures?*

Scarry: It really depends on the type of good you're importing, but I'd say that generally the Chinese have had superb levels of quality in their traditional exports. We import bristle, for example, and the China National Native Produce and Animal Byproducts Import/Export Corp., the trading company responsible for bristle, always conducted effective quality control. When trade was decentralized, however, there were suddenly terrible problems with certain lots and more marginal products. For the first time it actually became necessary to define acceptable quality levels.

We also import coffee mugs through a Hong Kong supplier that inspects them. Generally there have been few quality problems, but the Chinese are limited technologically, and we have to import more complicated mugs (involving more color) from elsewhere.

CBR: *Do you employ an outside inspection agency to audit the products?*

Scarry: No, it's not necessary for the types of goods we import. However, we do send someone from our Hong Kong office to inspect the leather we buy. We've found that sending the inspector has increased quality significantly, because the Chinese actually bring problems forward early on so that they can be corrected and shipping schedules met.

CBR: *Do Chinese and Western companies have the same understanding of quality control?*

Scarry: In some cases the Chinese have a fairly sophisticated notion of a standard, but generally, they do not have the same concept of quality that US buyers have. The Chinese will usually try to agree on an acceptable sample, but they can't seem to get beyond the physical object to a written standard. They want the norm to be a relationship-based one rather than a paper one.

CBR: *How does China's quality control compare to other countries in the region?*

Scarry: We are just starting to import from Thailand, so I really can't comment on Southeast Asia. But I'd say that Taiwan today is not much less difficult to deal with than China, though they were better a few years ago. The Koreans will constantly test you, but when challenged produce goods of acceptable quality. But the Chinese do this as well—they will test the buyer to determine what the real threshold of quality is, but it is usually possible to find some common ground.

会员动态 Project Notebook

An SGS Tour of Quality Control in China

Pam Baldinger

"Practically everyone in China has a bike, and they're all three-speed models. There are two types: black and blue. One day a Chinese friend of mine asked me if I had a bike. When I replied yes, he asked if it was a three-speeder. I said no, it was a 12-speed bike. He was amazed—he had no idea there was such a thing," says Brian Brophy, international account manager at United States Testing Co., a member of the SGS International Testing and Inspection Corp. "And he worked for the State inspection agency. It just shows that even the inspectors don't fully understand foreign norms, let alone how to enforce them."

Lack of awareness of lifestyles and standards outside China is not the only obstacle to improving China's record on quality control. Infrastructure and logistical problems, unfamiliarity with many products and their end use, and lack of access to quality materials all compound the difficult job of manufacturing quality products in China. Recognizing the need to upgrade China's quality control system, the China National Import/Export Commodities Inspection Corp. (CCIC) entered into a technical exchange agreement with SGS (Societé Générale Surveillance), the world's largest inspection agency, in 1982. Since then, Hong Kong inspectors from SGS have conducted thousands of product inspections all over China. Though many of the problems the inspectors find are also common elsewhere in Asia, some of them have a unique China twist.

Having little exposure to and understanding of the Western concept of quality, the Chinese do not pay attention to details unless they are clearly specified. In some cases they do not even know the end use of the products they are making.

Logistical nightmares

Sometimes the biggest chore for a quality control inspector is simply reaching the inspection site. "Finding the exact location of a factory can be extremely difficult," says Brophy. "Often clients will simply tell us that a factory is located in Guangdong Province. Well, Guangdong Province is pretty big; you can't estimate traveling time and expenses without a more precise location. Moreover, many factories lack telecommunications links to the outside world, making it impossible to fax or telex them." This is where SGS's relationship with CICC is particularly useful. When SGS receives an assignment, it contacts the local branch of CICC, which helps SGS locate factories and figure out the best way to get to them—though that is sometimes easier said than done. Brophy recalls one factory in the northeast that took two plane rides and a train to reach. Transportation to and from the site took five days, while the inspection itself took only one.

CICC benefits from its relationship with SGS by increasing the expertise of its inspectors, who accompany SGS on all inspections and also receive more formal, SGS-sponsored training. For example, SGS has given lectures to CICC employees and Chinese factory workers on US and European market requirements in the toy and textile industries. They hope to hold seminars on toy safety on a yearly basis.

Primitive conditions

Once inspectors reach the factory,

Pam Baldinger is associate editor of The China Business Review.

they often find themselves in the midst of conditions unheard of in the West. Though foreign influence has definitely had a positive impact on the quality performance of many factories, it is not unusual to find factories with dirt floors, no doors or screens, and substandard storage areas—all of which can create quality control problems.

If factories store inputs on dirt floors, or in alleys, for example, refuse such as sand or rodent feces may get mixed into the goods, contaminating the final product. SGS inspectors have found rusty bolts in shipments of coal and stones in soybean meal because they were improperly stored.

Factories sometimes also undertake construction work on the premises during manufacturing operations, and building materials may inadvertently end up in the product. Says Brophy, "We always use a metal detector when we check plush toys, to make sure that there are no needles, bits of wire, or anything extraneous in the stuffing."

Infrastructure headaches

Many of the problems SGS inspectors discover stem from China's underdeveloped infrastructure. Power supplies are often erratic, forcing factories to compensate with long shifts that put extra stress on both employees and equipment. Brophy remembers one factory that worked 24-hour shifts to make up production time lost during power outages. As the factory's lights shone through the night, thousands of insects were drawn to the windows—which had no screens. The bugs got into the packing material in which the products were stored, and the entire contaminated lot—both packaging and products—had to be destroyed and remade from scratch.

Other problems arise from inadequate domestic supplies of quality basic materials. Much of the paint used in China, for example, has lead content exceeding US safety levels. Even those Chinese manufacturers who are aware of this problem have no access to alternative materials. Even when the factory is permitted to import parts, such as electronic components, there is no guarantee they will arrive on time and in sufficient quantities.

You cannot inspect quality into a product—simply hiring an independent examiner to conduct a final audit cannot change what has already happened, though it may prevent similar mistakes from occurring in the future.

Transportation creates other problems, since most roads are bad and trucks are usually not enclosed. SGS inspectors have, for example, rejected men's shirts that mildewed after being rained on in transit.

'Be there'

Few foreign buyers can conceive of such conditions, and therefore are often not specific enough with their manufacturing requirements. Having little exposure to and understanding of the Western concept of quality, the Chinese do not pay attention to details unless they are clearly specified. In some cases they do not even know the use of the products they are making, which obviously prevents them from conducting thorough quality checks. In one factory Brophy inspected, he discovered the Chinese manufacturer had made wrenches that turned in the opposite direction of the American standard. Since it didn't know what the wrench was for, and the buyer had not specified the direction in which it should open and close, the manufacturer was unaware of the problem. In another SGS final audit, a client ordered twirling batons filled with liquid and glitter. The Chinese manufacturer complied by using tap water—technically acceptable, as there were no stipulations in the contract as to the type of liquid to be used. However, the water was contaminated with salmonella bacteria—a situation the buyer clearly never envisioned—and the shipment was rejected. Although the buyer was able to avoid the same mistake in the future by specifically calling for sterilized water in the contract, the first 150,000 batons were unusable.

Such errors could have been caught and corrected if the buyers had hired an inspector to conduct an in-process inspection. Says Brophy, "You cannot inspect quality *into* a product—simply hiring an independent examiner to conduct a final audit cannot change what has already happened, though it may prevent similar mistakes from occurring in the future. Companies looking to buy from Chinese manufacturers should visit the factory first and examine conditions there before they sign a contract, or they should hire an independent inspector to do it for them. Our watchword at SGS is 'be there'—even if it means going to 10 factories because work has been subcontracted out. It's the only way you can really know what's going on and have some control over the situation."

Slow improvement

Despite all the problems, Brophy thinks quality control implementation in China has improved, albeit not as fast as buyers would like, and not as fast as it did in Taiwan and South Korea. Although there was a noticeable slowdown in foreign manufacturing in China following Tiananmen, Brophy notes that the pace has picked up and returned pretty much to pre-Tiananmen levels. Though there is sone risk of future instability, Brophy believes foreigners will continue to source from China because production costs are so attractive. In any case, SGS's business is growing and will probably continue to do so as banks and insurance companies increasingly require companies to hire independent inspectors to reduce the risk of doing business in China. SGS has already expanded its Chinese presence, opening in 1988 a consumer product quality assurance center for toys, apparel, and giftware in Shanghai. Wherever China is making goods for export, SGS inspectors are striving to 'be there.'

Commentary

A former architect of China policy while serving in the State Department and on the National Security Council, US-China Business Council President Roger W. Sullivan challenges conventional wisdom on China and exhorts today's policymakers to rethink their views on Sino-American relations in a speech recently given to government and military officials at the National Defense University.

China and America in a Post-Cold War Environment

Roger W. Sullivan

A year and a half ago I wrote an article on the need for a new China policy. We had run out of road map, I said. The geopolitical importance of the relationship had declined and the goals of the policy of "normalization" had largely been achieved. And yet both sides continued along the well-trod path touting symbolic exchanges of high-level visits and spouting rhetoric about "broadening" and "deepening" that never seemed to occur. The relationship needed to be redefined; both sides needed to address what they wanted from it. But neither country seemed prepared to do so. We should not be surprised, therefore, that US-China relations, based as they have been for the last two or three years on an outmoded policy, should have been so badly damaged by the dramatic and traumatic events of last June and the retreat from reform and liberalization in China that has followed.

On top of the changes in China, of course, we have witnessed truly revolutionary changes in Eastern Europe and the Soviet Union over the past six months as captive peoples have stood up and freed themselves from what Czechoslovakia's President Vaclav Havel calls the totalitarianism that is "a source of nightmares." In the face of these changes we can no longer avoid a fundamental reassessment of our relations with China. The alternative is to allow the relationship to slip into mutual recrimination and hostility, an outcome that would serve neither the interests of the United States nor those of the people of China.

Unfortunately, nearly one year after Tiananmen, we have not even begun such a reassessment. Instead we are offered two policy approaches: one described by its advocates as political realism and the other as advocacy of human rights. That so many Americans seem to believe that these are mutually exclusive approaches, that morality is not practical, and that there is little or no room in "practical politics" for human rights and respect for human dignity tells us more about the moral illiteracy of American culture than about the real world. Both approaches have their merits; each alone, at least as expounded by their defenders, is deeply flawed.

'This is not 1971'

The defenders of political realism are correct in seeing the need to relate actions to policy goals. But the goals they define are those of another time. They complain that if there had been the same level of criticism directed at Kissinger's secret trip to China in 1971 as there was about the Scowcroft-Eagleburger missions of 1989, China and the United States never would have normalized relations. The complaint misses the point. This is not 1971. In 1971 we could—and—did justify holding our nose and dealing with Romania's Nicolai Ceaucescu. Certainly no one suggested we do so again in 1989.

Our overtures to China in 1971 made sense for a number of reasons. Normal relations with the PRC served both our short-term and long-term strategic goals. In the short term, we could reduce outside support for North Vietnam and facilitate termination of direct US support for South Vietnam, which had become politically insupportable in America. It is a little understood fact of history that in the statement in the Shanghai Communique promising withdrawal of American forces on Taiwan, "tension in the area" was understood by the PRC to mean Vietnam, not the Taiwan Strait. It was also so understood by Vietnam.

A long-term goal was to reinforce the split that had already taken place between China and the Soviet Union for the very obvious benefits that split was bringing to Asia and the countries of Western Europe. That policy, for which President Nixon deserves full credit, was an unreserved success and has been rightly applauded and supported by an overwhelming majority of Americans and by every administration since Nixon's. In his testimony before Congress earlier this month, Undersecretary of State Eagleburger observed wryly that "somehow, the political repression of the time received scant attention here." He has a short memory. Strong opposition was voiced by the general public, the Congress, and even within the executive branch to our apparent abandoning of the policy of backing the Chinese on Taiwan to embrace a communist dictatorship. President Carter ran into the same kind of opposition when he recognized the People's Republic of China as the sole legal government of China in 1978.

That opposition was overcome not just by the geopolitical argument but by the general acceptance of the fact that the Chinese communist government was firmly in control and had the support of the majority of the Chinese people. By 1979 only bleeding hearts of the left or right-wing kooks continued to fight against the proposition that the Chinese Communist Party was in charge, and that the only realistic course for the United States was to accept that fact and conduct our foreign policy accordingly. How many believe that today? Instead, we see a regime that even Chinese officials in private concede has lost its credibility, its legitimacy, and the support of its people. No, this is not 1971.

Diverging strategic interests

Given this new reality, what should be our policy toward China in 1990? The advocates of so-called political realism argue there is no need to change our China policy despite Tiananmen, China's retreat into Stalinism, and the momentous changes in the Soviet Union and Eastern Europe. The realists either ignore or do not appreciate the significance of the reality that China is now one of the few remaining communist regimes, along with Cuba, Albania, and North Korea, to pursue what surely will prove a failed effort to hold back the tide of history by repression, intimidation, and control over the flow of information and ideas.

They argue that the strategic value of our relationship with China has not declined, even though, as Eagleburger noted in a marvelous

We should not be surprised that US-China relations, based for the last two or three years on an outmoded policy, should have been so badly damaged by the dramatic and traumatic events of last June and the retreat from reform in China that has followed.

understatement, "The dramatic reforms in Eastern Europe and the Soviet Union have altered the strategic scene." They certainly have. What has also altered the strategic scene is China's decision to retreat into Stalinism and accuse the United States of being at the center of an international conspiracy seeking the overthrow of communism. Where now are the areas of common interest we sought to identify over the past 10 years? Surely if the strategic interests of the United States are at stake here at all, they are different from the ones that made the relationship so important in the 1970s and 1980s. The administration seems to acknowledge this in two ways: by conceding that the Soviet dimension of our relationship with China has declined in importance, and by talking more about our strategic concerns over China's ability to project its power and influence into the Middle East through missile sales and into Asia by its size and military capability. These are valid concerns, but they would seem to call for a very different policy than what we followed when we were seeking cooperation on shared or parallel interests. Our new concerns suggest not the "friendly, non-allied" China of the past 10 years, but a more unstable, potentially threatening China.

Masking economic problems

Even if we no longer share common strategic interests, the realists argue, we still have our economic and commercial ties to draw us together. For the past five years or so, commerce has grown in importance, not only as the glue holding the relationship together but as the engine driving it forward. Trade has gone from zero in 1971 to over $15 billion last year. In 1979 there was no American investment in China; by the end of last year there were over 600 American investment projects with committed investment of over $4 billion. More important than these numbers was that American and other foreign business was being integrated, albeit still on a very small scale, into the Chinese economy. China was looking to foreign enterprises as models and laboratories for its own reform program, as China moved slowly but seemingly inexorably away from the rigidities of the central planning of a Leninist system to decentralization of decision-making and greater reliance on market forces.

A year ago China appeared to be far ahead of the Soviet Union or Eastern Europe in understanding that the Stalinist economic model is a dead end and that an effort to preserve it while opening the economy to the outside, was doomed to fail. Then came Tiananmen and the resurgence of hardline ideologues in China—and the door began to close.

There is not time here to give a detailed analysis of China's economic policy since Tiananmen. But I want to make a least a few general points to counter the false impression that China, by reducing inflation and balancing its foreign trade, has demonstrated that it is not retreating from reform, but simply moving pragmatically and successfully to correct the mistakes made by the reformers. This is wrong on several counts. It applauds the Chinese leadership for succeeding at the only thing communists are good at: squeezing their economy until there is no inflation and no trade imbalance. It ignores *how* the Chinese leadership is bringing down inflation and balancing trade and the long-term costs of dismantling the structure of reform. Finally, it maligns the reformers, whose only major mistake was in failing to make clear up front, as the new governments in Eastern Europe are now doing, that reforming a communist system inevitably involves a lot of short-term pain in terms of unemployment, inflation, and reduced real income.

Only after reform has begun, President Havel observed in his address to the US Congress, do people become aware of the "enormous number of growing problems that slumbered beneath the honeyed, unchanging mask of socialism." Reform makes the problems "manifest themselves in all their enormity." China's hardline leaders are not solving problems, they are simply trying to hide them under that "mask of socialism." Economists argue over whether the appropriate response to problems encountered in reform is to charge ahead or to slow down or even pause for a time to allow the society to adjust to the changes already made. But no responsible analyst suggests that dismantling reform is a viable option. And yet that is what some powerful elements within China's divided leadership seem bent on doing.

Rhetoric vs. reality

World Bank experts argue that China should be opening up instead of retreating into a pre-reform policy of autarky. China should be exploiting its comparative advantage in the export of a whole range of manufactured goods produced by small enterprises in the south. This would suggest a number of policies: decentralize trading authority from local bureaucracies to enterprises themselves; encourage the more efficient private and collective enterprises in towns and villages and ensure their access to credit, raw materials and energy; and, above all, China should do nothing to upset its special relationships with Hong Kong and Taiwan, which will continue to be China's main source of export growth.

What is China in fact doing? In addition to recentralizing foreign trade authority, it has shut down almost two million private and village enterprises and is imposing government controls over those that remain; announced a policy of preferential access to power, raw materials, and credit for large- and medium-size State enterprises because they are the "backbone" of socialism; and adopted a policy toward Hong Kong that threatens its long-term economic viability. Hong Kong manufacturers who were reassured by reform and liberalization in China and responded by moving manufacturing operations

Our approach should be the mirror-image of China's approach to us. They want the maximum official recognition and the minimum private interchange. We should encourage private contact and restrain our official contact.

into South China are now looking for alternative sites in Southeast Asia, Mexico, and Central America. The examples go on and on, and still experts who ought to know better repeat the Chinese line that the current "retrenchment" is simply a pragmatic response to the mistakes of the reformers.

Human rights: ends and means

Those who advocate making human rights the basis of our policy toward China would agree with much of this analysis. But they make the same mistake the realists do in not thinking through what our interests are in this changed situation and how we should act to protect or advance those interests. Instead, human rights advocates tend to skip that step and leap to prescriptions for action. Important to them is that we express our outrage and opposition to human rights abuses, and in this they are, in my view, correct. Millions of people now emerging from decades of oppression are telling us that we were a beacon of hope and a source of inspiration during those long years when there appeared to be no hope. Political realists may be embarrassed by this and disparage it as naive—but what could be more naive than to believe the changes we have seen in the past year? As it has turned out, Andrei Sakharov was right when he said human dignity is not *an* issue—it is *the* issue.

But I part company with human rights advocates when they advocate retaliating against or punishing the repressive totalitarian regimes they rightly condemn. Asked how they justify sanctions in circumstances when it is not clear whether we would be punishing the right people or simply hurting ourselves, they usually repeat that we must express our outrage and add that the rulers of these repressive regimes must see that their actions in violation of basic human rights are not without cost. The problem here is that there is no connection between means and ends; no clear exposition of goals that are both desirable and attainable.

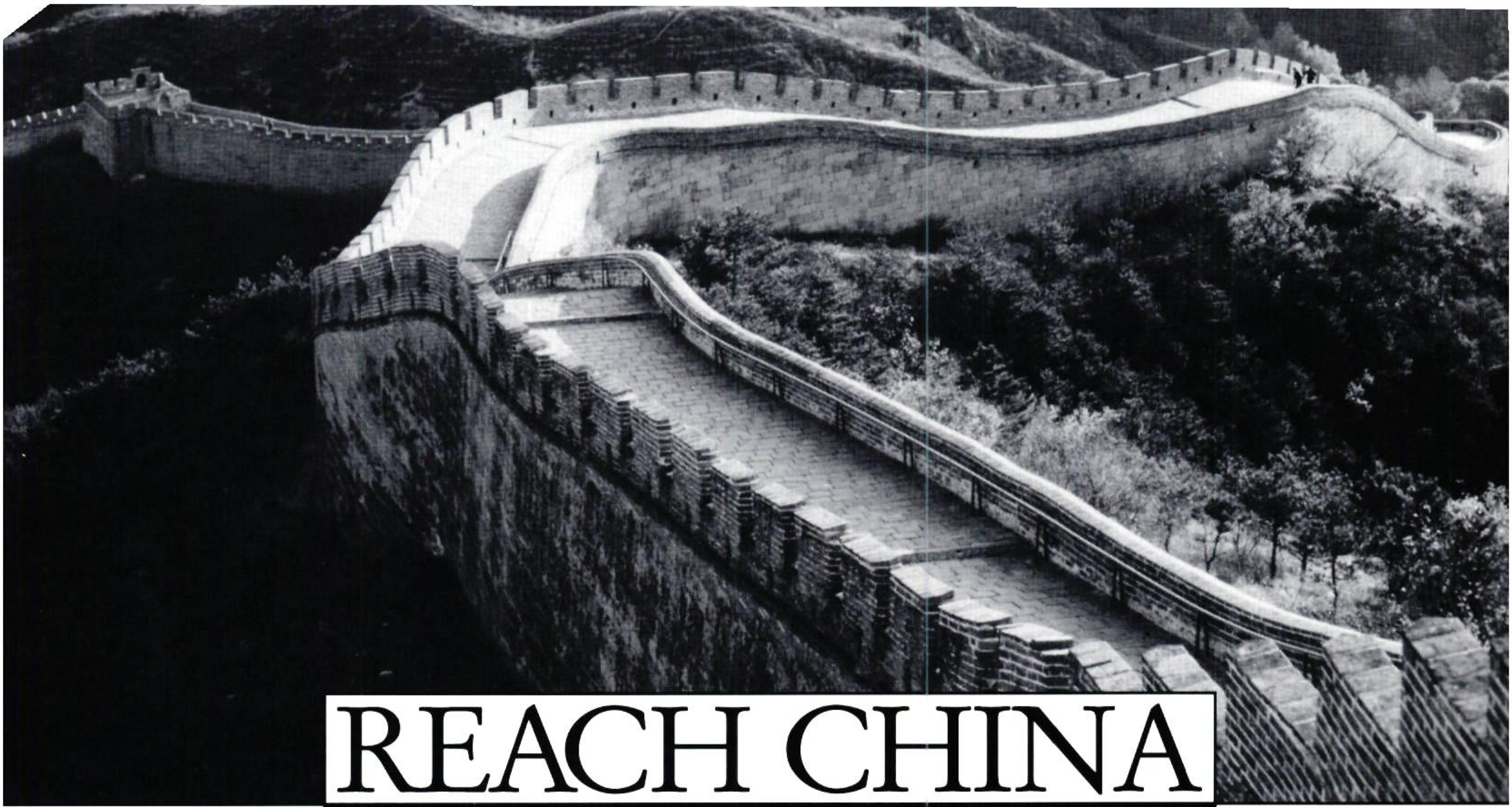
The risk of stability

What should our broad policy goals be and how would they differ from those the administration cites as having guided our China policy for the past 20 years? To paraphrase President Havel's statement on the Soviet Union, we might state the policy as follows: the sooner, the more quickly, and the more peacefully China begins to move along the road toward genuine political pluralism and to a working market economy, the better it will be not only for the Chinese but for the whole world.

This is quite different from the formulations carried over from the 1970s, which emphasize our interest in "a strong, secure, and stable" China. That formulation reflects a time when we wished to reassure the Chinese—and put the Soviet Union on notice—that we would regard any attempt to destabilize or threaten China as contrary to our interests. Is China's stability a national interest of the United States today? Certainly we hope China will evolve peacefully. Nor would we wish or do anything to encourage internal unrest in China. But how can we assert that a stable China is an American national interest when the changes we would like to see take place in China—which will almost certainly occur over the next several years—will inevitably produce some degree of social unrest and instability? When the challenge to the current regime comes, the only forces favoring "stability" will be the forces of repression. For us to identify stability in China as a national interest makes us appear either out of touch with reality, or on the wrong side—intent on conferring on the Chinese government a legitimacy its own people deny it.

Substance, not symbols

President Bush is absolutely correct in emphasizing that we must continue to try to draw the Chinese



REACH CHINA

With the Asian Games from CBS

How do you reach up to 400 million Chinese viewers? You take advantage of their love of sports. You use the incredible power of television. And you capture them while they're watching a world-class sporting event. You advertise on the Asian Games, being played this Fall in Beijing, China.

China Central Television (CCTV) will broadcast the Asian Games exclusively throughout China from September 22 through October 7, 1990. And they're offering advertising time during this broadcast to companies who want to speak directly to millions of Chinese viewers. This time is being made available to advertisers through CBS Broadcast International.

Be part of these Games, which pit the finest athletes from Japan, Singapore, Thailand, South Korea, North Korea and China against one another. The fortnight of exhilarating action features competition in Track and Field, Swimming, Diving, Volleyball and Soccer.

Don't miss this opportunity to reach hundreds of millions of Chinese viewers, tapping into this vast marketplace through the power of television. To take advantage of this unique offer, contact CBS Broadcast International: (212)975-4515 (telephone), (212)975-7452 (fax) or 662101 CBINY (telex).

CBS
CBS BROADCAST INTERNATIONAL

CBS Broadcast International, NY 51 West 52nd Street–24th Floor New York, NY 10019
CBS Broadcast International, UK One Red Place London W1Y 3RE United Kingdom

out of isolation and engage them in efforts to reduce international tension. Cultural and educational exchanges with China have done a lot to promote greater openness and respect for human dignity in China. And increased economic and commercial relations, particularly over the past 10 years, have clearly advanced movement toward a more market-oriented economy. Even the Chinese leaders acknowledge this. But now they fear such contacts, seeking to eliminate those they do not want and control the ones they cannot yet do without. For us to impose sanctions that restrict such contacts further simply plays into the hands of those in China who want their country to retreat into a more easily managed isolation.

This is not to say we should follow a business-as-usual policy toward China. Rather, we should have a policy which makes clear to our own citizens, as well as to China, that we regard the current Chinese government as a transitional one following a doomed policy of pursuing modernization while repressing dissent, shutting out new ideas, and reinstituting a Leninist command economy.

The correct response to such a regime is to make it face the contradictions of such a policy. That means continuing the kinds of ties that will inspire reform and greater pluralism: trade and investment, travel, and cultural and educational exchanges. These contacts helped to bring about the reforms of the past 10 years in China and encouraging them to continue, despite the obstacles China puts in the way, is the most effective way to speed the current regime's passing from the scene.

But it is essential that we keep a certain distance from this regime, to position ourselves to work with the next government and to make our disapproval clear so that we do not demoralize the thousands of Chinese who are now suffering for their commitment to reform and respect for human dignity. We walk that fine line by distinguishing between public and private contacts and between the substantive and the symbolic.

Our approach should be the mirror-image of China's approach to us. They want the maximum official recognition and the minimum private interchange. We should encourage private contact and restrain official contact. There need be no iron-clad "no high-level contact" rule. When there is something to talk about, we should talk. But we must avoid contacts which plainly are, or can be made to appear, symbolic of a closer relationship than is possible at this time, which suggest we want to pick up where we left off or which in any way tend to give the current Chinese regime legitimacy and demoralize the forces of reform and liberalization who will be the next leaders of China.

A principled, pragmatic approach

In international forums we should be guided by the same principled but pragmatic approach. The World Bank has arguably been the most effective force for economic reform in China. We should to the extent possible support its program. The current administration policy of supporting human needs loans but opposing resumption of project loans strikes me as wrong. If the Chinese were to adopt policies which suggested they might misuse or misdirect funds intended for human needs, we would certainly want to oppose even "human needs" lending. The criteria should be what the loan is for and whether it will advance China's progress toward a more pluralistic market economy. Our policy should therefore be to support any loans the Bank can justify on the economic grounds on which it customarily insists. Any such project will by definition encourage reform and sharpen the internal contradictions in China's economic policies. If a proposed agricultural project appears to be assisting an effort at recollectivization of agriculture, we would not support it—and neither would the Bank. In other cases, such as a project to assist development of village industry, we might support a loan forcing the Chinese to resolve the contradiction between the needs of economic development and the leadership's desire to preserve control and a Leninist economic system. To go beyond such a position and oppose sound projects would move us into the unwise position of trying to use withholding of World Bank loans as a sanction. This is not only improper, it is contrary to our own interests.

Recognizing a new reality

I am well aware that the approach I have outlined makes assumptions and judgments that run counter to the conventional foreign policy and China-watching wisdom, which holds that Eastern Europe was occupied territory and is therefore not a model for what may happen in either China or the Soviet Union. The conventional wisdom maintains that China is different; democracy and "Western" economic traditions have no roots there. And finally, Eagleburger tells us, we have to get over the naive idea that governments are "good" or "bad" and join the real world.

The conventional wisdom is out of touch with reality now. James Billington, the librarian of congress and one of America's most distinguished experts on revolution and the Soviet Union, opened a recent and very thoughtful article with this observation: "In the midst of any great historical change, witnesses and participants alike are often unable not only to predict and control events but even to understand the essential nature of what is happening." Instead they "perpetuate the intellectual weakness of the old wisdom: that economic acquisitiveness and manipulative political leadership are all that move history and a skepticism that beliefs and ideas really matter." They conclude, therefore, that the only way to get things done is through *realpolitik* played with leaders who show policy independence—like Deng Xiaoping and Nicolai Ceaucescu.

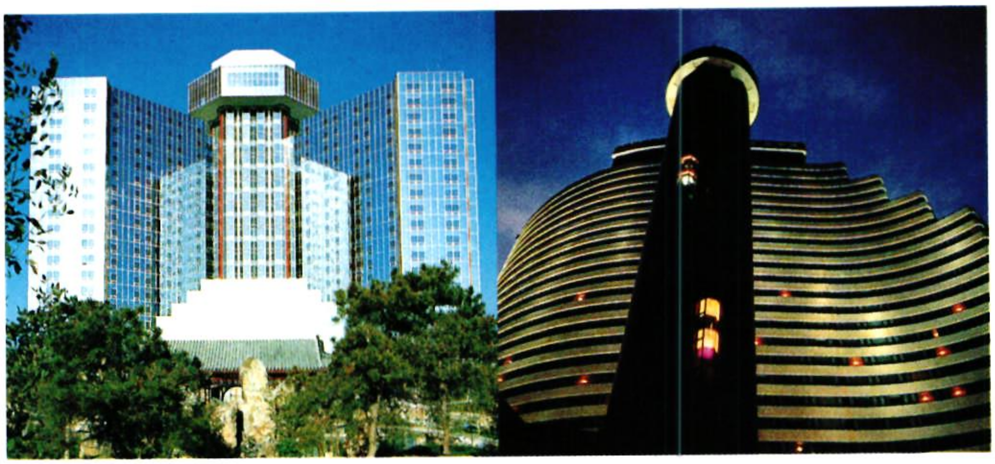
What is going on is not just a liberation of Eastern Europe from the Soviet Union—a development of little relevance to China—but a general crisis of legitimacy affecting the entire communist world. Contrary to the popular wisdom, Billington argues, the crisis of legitimacy may be deeper in the Soviet Union than in Eastern Europe because it deals with the evil inflicted on themselves rather than an evil imposed from without, and because "the criminal party is still in charge." This analysis is very relevant to China, which, like the Soviet Union, imposed the evil on itself and is still under the control of the group that imposed it.

This is the reality we need to understand if we are even to define, let alone protect and advance, our interests in the Pacific in the coming decade. 完

AT SHERATON LITTLE THINGS MEAN A LOT · AT SHERATON LITTLE THINGS MEAN A LOT · AT SHERATON LITTLE THINGS

MEAN A LOT · AT SHERATON LITTLE THINGS MEAN A LOT · AT SHERATON LITTLE THINGS MEAN A LOT · AT SHERATON

TWO PARTNERS IN CHINA WHO SPEAK YOUR LANGUAGE.



In China it's reassuring to know that you can be sure of Sheraton. Whether it's at The Great Wall Sheraton Hotel in Beijing or the Sheraton Hua Ting in Shanghai. All the usual home comforts, with all the business and communications facilities you could wish for. What more could you ask for?

GREAT WALL SHERATON

Situated mere minutes from the Business District and the China International Exhibition Centre.

•

24-hour business centre, room service, and in-room IDD.

•

A choice of seven restaurants and bars.

•

Full meeting and banqueting facilities.

•

Health club facilities tailored to the business traveller.

長城飯店

The Great Wall Sheraton Hotel Beijing

The hospitality people of ITT

NORTH DONGHUAN ROAD, BEIJING 100026 PEOPLE'S REPUBLIC OF CHINA
TELEPHONE 5005566 FAX 5001938, 5003398 TELEX 22002, 20045 GWHBJ CN

SHERATON HUA TING

Possibly the largest standard, single room in town at a reasonable rate.

•

A business centre that never closes, offering round-the-clock help and service.

•

Our unique 24-hour "Problem? — No problem!" hot line.

•

Conference facilities for up to 1,200 people complete with audio-visual and simultaneous translation facilities.

•

Choose from tennis, swimming, bowling, gymnasium, sauna, or billiards.

華亭賓館

Sheraton Hua Ting Hotel Shanghai

The hospitality people of ITT

1200 CAO XI BEI LU, SHANGHAI, PEOPLE'S REPUBLIC OF CHINA
TELEPHONE 4396000, 4391000 FAX 2550830, 2550719 TELEX 33589 SHHTH CN

AT SHERATON LITTLE THINGS MEAN A LOT · AT SHERATON LITTLE THINGS MEAN A LOT · AT SHERATON LITTLE THINGS MEAN A LOT · AT SHERATON LITTLE

FOR RESERVATIONS CALL ANY SHERATON WORLDWIDE OR CALL TOLL-FREE IN THE UNITED STATES AND CANADA 800 325 3535

我会活动 Council Activities

New Investment Study Includes Analysis and Project List

The Council is completing a new, two-part investment study culminating three years of research. ***US Investment in China*** contains information on more than 500 US investment projects in China, along with an analysis of investment trends, case studies of US companies in China, and comparisons between US, Japanese, European, and other foreign investment.

Over 500 ventures listed

At the core of the study is a database of more than 500 US investment projects in China, a considerable expansion of the 194 joint ventures described in the Council's 1987 Study, ***US Joint Ventures in China: A Progress Report***. Each entry includes names of all joint venture contracting parties, year and type of agreement, business sector, purpose, and information on the value of the investment and partners' shares. Profiles of 100 key projects in representative sectors are also included.

Tracking down investors . . .

Guided by Research Director David Denny, database researchers sifted through every available source on investment in China, both in English and Chinese, published in the last five years. Verifying the status of each project was no easy task, as many US investments come from small companies. Other American investors are individual entrepreneurs, often of Chinese descent, who initiate small projects in their ancestral villages. In many cases, the information could only be verified by locating and contacting the companies or individual investors directly. Verification was complicated by the fact that different sources often give conflicting information about investment projects. The researchers had to be language detectives too, since translation problems abound. Realizing, for instance, that the mysterious "Weigeshi Co." is actually Vickers Corp. was among the challenges researchers faced.

. . . and taking their pulse

Although the number of US investors has grown dramatically in the past three years, many are having second thoughts about China since last year's economic retrenchment and political turmoil. To assess how investors are coping with the uncertain environment, the Council's Investment Adviser Rich Brecher sent more than 600 questionnaires to investors this spring, then compared their responses to a similar Council survey conducted one year ago. The new study's report on investment includes the survey results, along with a detailed discussion of China's current investment environment.

The Council's new publication on US investment in China is the culmination of months of research and analysis by Publications Director Madelyn Ross, Investment Adviser Rich Brecher, Research Associate Bryan Batson, and Research Director David Denny.

Diskette allows easy access

US Investment in China marks the first time that the Council has released information on diskette as well as in hard copy form.

While the investment project list will be printed as part of the investment report, companies may also choose to purchase a companion diskette, enabling them to manipulate and customize the information. Purchasers can use the diskette to track competitors, research prospective markets, add their own data, and analyze developments in their sectors. The diskette version of the database also contains addresses for each China project, and can be used to generate multiple mailing labels to all US joint ventures and wholly foreign-owned enterprises in China, or to any chosen market segment.

Council members may purchase the investment report, including the project list printout, for $80 (non-member price: $110). The member price for the entire study, including both the report and diskette (dBase III+ format) is $185 (non-member price: $250).

Legal Committee Discusses Export Controls

The Council's Legal Committee meeting on February 27 focused on export controls issues for US equipment and technology exporters. James M. LeMunyon, deputy assistant secretary for Export Administration at the US Department of Commerce, discussed the current status of US and COCOM export controls policy for China, and the prospects for future revisions.

LeMunyon stressed that US export control policy has remained unchanged following the Tiananmen crackdown last June, though prospects for further liberalization presently look dim. Implementation of a distribution license system for China, for example, is on hold indefinitely.

As for COCOM policies, LeMunyon pointed out that COCOM is considering reducing the number of items included in the control list and further streamlining the approval process. China stands to gain from any relaxation of controls that go beyond the China green line. These issues will be discussed at the next COCOM meeting in May.

Mark Herlach, a partner with Coudert Brothers, also spoke to the group to outline the US export control process and describe the organizations, regulations, and procedures involved. He stressed the importance of knowing about relevant export controls during the formulation of sales contracts to allow enough time to obtain required approvals and to include provisions to cover the possible denial of licenses.

Herlach remarked that although there has been no change in official US policy toward China, companies have experienced greater delays processing some license applications.

Council Companies Convene Meeting on Saving China's MFN Status

On March 28, representatives of 20 Council member companies convened in Washington, DC, to kick off the Council's efforts to lobby Congress on maintaining China's most favored nation (MFN) status, which is due to expire July 3. In the wake of continued repression in China and growing dissatisfaction in the United States with the failure of President Bush's policies to garner a positive reponse from Beijing, the debate over renewing MFN is likely to be fierce, and the inevitable Congressional vote a close one (*see* p. 6).

Though the Council does not believe that Congress could muster the necessary two-thirds vote to override a presidential veto of any attempt by Congress to deny China MFN status, it is clear that the administration believes it cannot afford to expend more political capital to sustain the status quo in US-China relations. Thus it falls primarily to the business community to make Congress and the general public aware of the high stakes involved in revoking MFN, and the Council plans to continue convening the new MFN Working Group to coordinate informational and lobbying activities of member companies.

Council staff have been contacting member companies for weeks to alert them to the issue and how removal of MFN might affect their sectors. Companies in need of further information about the role they can play and the effects of the MFN debate should contact the Council immediately.

Becoming a Region

Southeast Asia's economic integration presents opportunities for US companies active in China

Linda Y. C. Lim and Clyde D. Stoltenberg

Ten years ago, most US companies had little involvement in Asia beyond Japan, Taiwan, and Hong Kong. Countries like Thailand, Malaysia, or even giant Indonesia attracted more attention as exotic tourist destinations than as potential markets for US products and services. Yet since Japan was not the economic powerhouse it is today, the United States was actually the largest trade partner and investor in Southeast Asia—though the volumes weren't much to speak of (*see* map).

Today, the region's economy has been transformed. Japan has now emerged as a world economic superpower, and has replaced the United States as Southeast Asia's leading trader and investor. The NICs—the newly-industrialized countries of Singapore, South Korea, Taiwan, and Hong Kong—are now among the world's top 20 trading nations, with high-tech economies that export capital and technology world-wide. The countries of Southeast Asia, especially Thailand and other members of the Association of Southeast Asian Nations (ASEAN), have been dubbed the "next NICs" as their manufactured exports continue to expand. Market-oriented economic reforms such as privatization, liberalization, and deregulation, along with growing democratization, have begun to have a major impact on many of the region's economies. And most significantly, intraregional trade and capital flows are growing quickly, giving rise to an integrated regional economy.

These developments have enhanced Southeast Asian countries' attractiveness to US companies both as sourcing or manufacturing platforms and as huge potential markets.

Although the regional trends in Southeast Asia present numerous investment opportunities, the share of US investment in local and regional markets has declined.

For US companies, particularly those adventurous enough to have tackled the China market, the next decade presents great opportunities in Southeast Asia to find lower-cost production locales and new markets (*see* charts).

The key to effective regional investment and trade strategies lies in understanding how changes in each country's politics and economics have affected regional development, expecially in terms of increasing ASEAN's commercial links with China (*see* p. 33).

Fiscal reforms are key

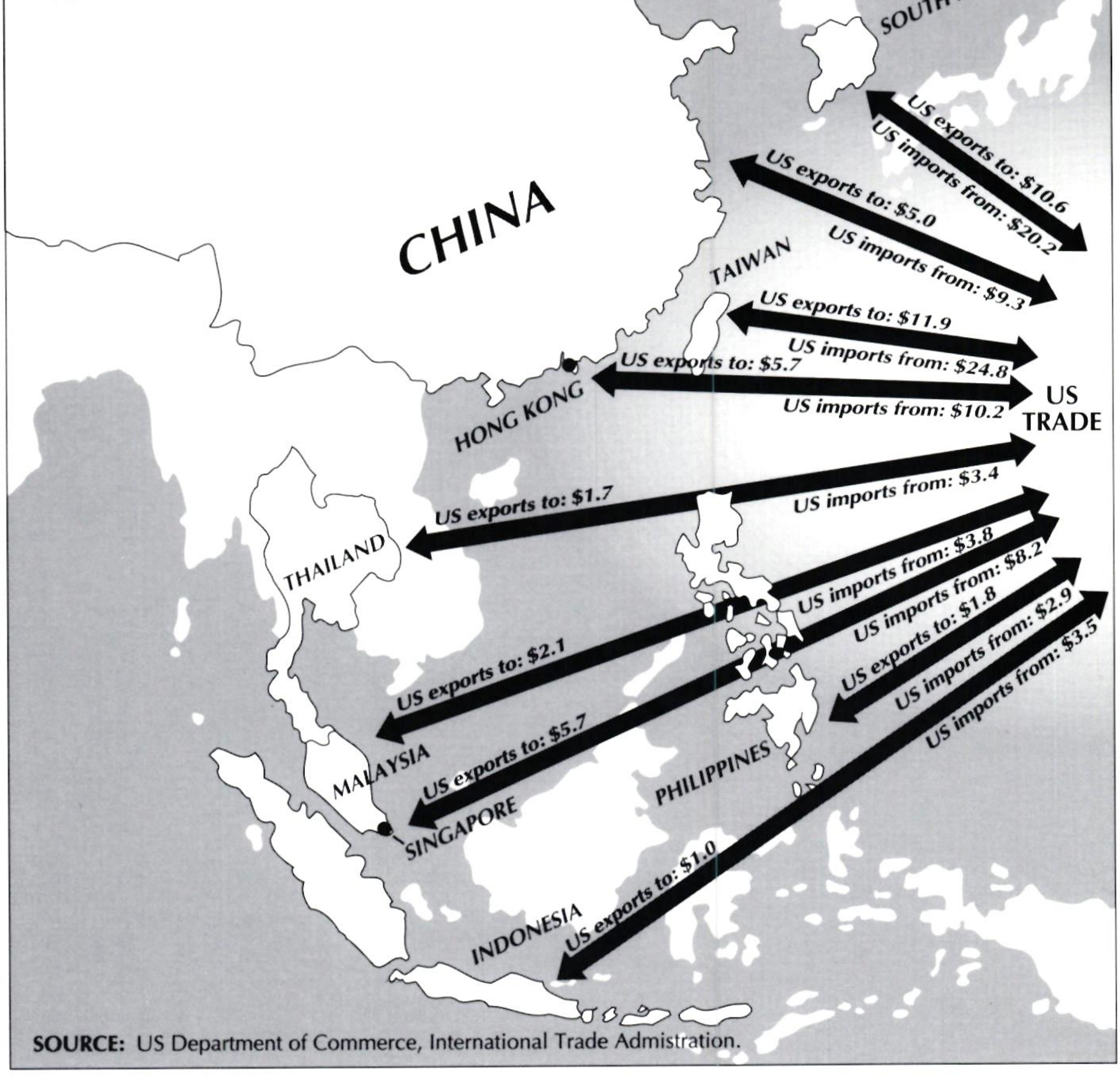
Today's intraregional links resulted chiefly from the many trade, investment, and financial liberalization measures most Asian countries have adopted in the past 10 years or so. Particularly swift actions were prompted by the global recession early in the 1980s, when global demand for commodity exports decreased sharply. Disillusionment with economic growth strategies dependent on commodity export earnings led Southeast Asian countries to try to diversify their exports and find new markets beyond developed countries such as the United States. The adoption of investment incentives such as tax holidays, subsidized industrial estates and utilities, and preferential tariff treatment of imported inputs were also key to greater industrial diversification, for these measures have helped attract investment from other Asian countries (*see The CBR*, March-April 1988, p. 49).

The trade policies of the developed countries, especially the United States, also encouraged greater economic integration within the region. US actions included the removal in 1988 of General System of Preferences (GSP) tariff rates for the NICs, mounting pressures for currency appreciation, and stepped-up investigations of dumping and countervailing duty complaints, all of which helped turn Japan and the NICs toward Southeast Asian countries as a base for economic activities. Regional trade now has a pronounced triangular pattern: Southeast Asian countries import capital goods and manufactured inputs from Japan and the NICs for local processing, with the final products exported to the United States, or, increasingly, within Asia.

Similarly, wage reforms have been a large factor in increasing regional interdependence. Taiwan and Korea

Linda Y. C. Lim is research director of the Southeast Asia Business Educational Resources Program at the University of Michigan. Clyde D. Stoltenberg is executive director of the East Asia Business Program at the University of Michigan. This article was based on an executive education seminar offered at the University of Michigan on "Strategies for Doing Business in Newly-Industrialized and Less-Developed Countries of East and Southeast Asia."

US Trade with Southeast Asian Countries: 1988
($ billions)



SOURCE: US Department of Commerce, International Trade Admistration.

in particular experienced rapid wage increases in the past decade; in Taiwan, for example, wages increased by 35 percent in 1987, and an additional 12 percent in 1988, making Taiwan's wage rate about three times greater than comparable rates in Indonesia, and five times more than those in Thailand and Malaysia. The rapid rise in labor costs has encouraged Northeast Asian investors to relocate their labor-intensive industries to Southeast Asia.

Major adjustments of individual currency rates is another key factor in the growing regional economy. The currencies of Korea and Taiwan, for example, appreciated significantly during the past few years. Since 1985, the Korean *won* has risen almost 30 percent against the dollar, while the New Taiwan dollar has risen by over 40 percent. The currencies of Malaysia, Thailand, Indonesia, and the Philippines did not appreciate significantly, however, enabling these countries to attract new foreign investors eager to capitalize on the cheaper currency rates.

The higher labor costs and currency appreciation of the Northeast Asian countries have in turn led to a decline in their competitiveness in the area's traditional exports. Japan and the NICs are responding to this adversity by shifting their focus from traditional labor-intensive manufactures to higher value-added products using more advanced technologies. Moreover, by relocating their labor-intensive industries to Southeast Asian countries, Japan and the NICs have eased their own labor shortage problems, and have helped finance infrastructure growth in Asia's lesser-developed nations.

While sweeping fiscal reforms have affected much of the region, political and economic factors within each country have given each a unique climate for foreign trade and investment. Recognizing these factors is essential to American businesses seeking to implement successful regional investment and trade strategies.

Thailand: Investment and growth

The government of Thailand, despite some instability within the coalition that elected Prime Minister Chatichai Choonhavan in 1988, has been able to facilitate continued economic prosperity—industrial output rose 10 percent in 1988—while minimizing the social unrest that often accompanies rapid industrialization. The Thai economy appears primed for continued growth, as government spending and investment remain healthy. The Thai government's fiscal 1989 budget, for example, called for an increase in investment spending of over 50 percent. Foreigners, led by Japan and Taiwan, continue to invest heavily in new manufacturing capacity. However, the number of applications filed with the Board of Investment dropped between 1988 and 1989, reflecting new restrictions on promotional incentives and increased emphasis on a few key industries, particularly in areas outside of Bangkok.

Thailand's rapid growth has put pressure on the existing infrastructure, plagued by major bottlenecks. Ground transportation, port, and utility projects now underway will ease the crunch as they are completed over the next several years. Also, within a few years the current building boom is likely to ease the shortage of commercial buildings.

For US companies, particularly those adventurous enough to have tackled the China market, the next decade presents great opportunities in Southeast Asia to find lower-cost production locales and new markets.

Low skill levels—although the literacy rate is higher than in China—also constrain growth. Significant increases in the 1989 education budget reflect efforts to upgrade skill levels, but the payoff is some years away. In the meantime, higher wages commanded by engineers and managers in technical fields will continue to force producer prices upward.

Among the ASEAN countries, Thailand is probably the most vulnerable to US trade policy actions, although its export markets are well diversified, with less than a fifth of total exports destined for the United States. Thailand's GSP eligibility has been challenged recently for inadequate intellectual property protection, and labor rights are also under increased scrutiny. Anti-dumping proceedings have been filed by the United States concerning Thai exports of steel, ball-bearings, and other products. With increased manufactured exports to the US market Thailand is likely to become the target of more US trade actions.

Malaysia: Benefiting from economic liberalization

In Malaysia, Prime Minister Mahathir Mohamad has successfully overcome factional conflicts to maintain political stability, while gradually encouraging greater private enterprise. Local private investment has also been encouraged, along with efforts to lure investors from Japan, the United States, and the NICs. Commodities account for almost half of Malaysia's exports, and continued commodity price increases since the 1985-86 recession helped drive economic growth to well over 7 percent in 1989. At the same time, traditional exports of rubber, palm oil, tin, and wood have been augmented by new exports of cocoa, meat, fish, and fruit. In addition, manufacturing production for 1989 was strong across a broad range of sectors and rose nearly 14 percent over 1988 levels, while exports of industrial manufactured goods have also risen steadily. Despite efforts to diversify commodity exports, however, manufactured exports remain highly concentrated in electrical machinery, textiles, and electronics. Recent attempts to encourage foreign investment in other sectors of the economy have had little effect, and Malaysia continues as one of the world's leading exporters of semiconductors. Volatility in the markets for these manufactured goods makes Malaysia vulnerable to fluctuations in the global marketplace. The end of the 1983-84 boom in semiconductor consumption was particularly hard on Malaysia, for new ouput from Japanese producers flooded the market, sending world prices down sharply.

Although the government has traditionally emphasized public sector investment to achieve growth, a more liberal regulatory structure adopted in 1986 has greatly encouraged both domestic and foreign investment growth. Combined investment in the manufacturing sector, for example, more than doubled between 1987 and 1988, with Japan and the NICs alone accounting for roughly half.

Malaysia's infrastructure is better-developed than Thailand's, and higher public and private sector investment levels in infrastructure will help maintain this lead. Unlike the case in China or Thailand, Malaysian workers have a long historical association with Western work ideals, and can more easily adapt to foreign workplace expectations. While the available labor pool currently exceeds demand, accelerated growth in the manufacturing and service sectors could quickly soak up available labor.

Among the ASEAN countries, Malaysia is second only to Singapore in terms of the openness of its trade and investment policies. Tariffs are generally low, and few nontariff barriers exist. Although Malaysia had enjoyed a rising trade surplus, its growth declined last year despite renewed strength in commodity prices, chiefly because of a rise in machinery

New China investment study saves you time, money...and more!

One-of-a-kind Computerized Investment Datafile Lets You:

Customize the latest investment data: Records on 500 US investment projects in China, each packed with over 30 database fields: investment partners, address, contract types and equity, projects' locations, industrial sector, and much more. Select and view data relevant to your individual needs!

Track investment trends: What type of contract is most prevalent in your sector? Which locale is most popular? Analyze patterns of investment in China to plot your own investment strategy. You'll also find a special field for dozens of key projects with remarkable histories or unique circumstances.

Contact investors in China: With addresses for each project, you can generate mailing labels and send tailored letters to investment projects in a chosen region, industry or other market segment.

Latest Report on the Trends in Investment Lets You:

Assess post-June 1989 conditions: Results of Council surveys on US investors--in '89 and in '90--provide a wealth of insight into recent changes in China's investment climate and the ways in which investors are now responding to new challenges. In-depth case studies highlight the successes and mistakes that other investors have made.

Save endless hours: This report distills the Council's three years of research, trend-watching, and canvassing investors for you. It answers the questions that so many are asking: Where is US investment in China heading? How do US company strategies compare with those of other foreign investors?

Know the competition: A printed listing of the 500 projects detailled on diskette reveals at a glance what other investors are doing--who their partners are, what type of investment they have made, and more.

To reserve your copy of this special study (including both investment data diskette and report), please send this announcement with$185 (Council member companies) or $250 (nonmembers) to US-China Business Council, 1818 N St NW, #500C75, Washington DC 20036 USA. The report may be purchased alone, without diskette, for $80 ($110 for nonmembers). Add $10 for international airmail orders.

PLEASE INDICATE WITH ORDER:
5 1/4" OR 3 1/2" DISKETTE

HARDWARE/SOFTWARE REQUIREMENTS: The datafile is for use on PC/MS-DOS compatible computers, with a minimum of one 720k 3.5" or 1.2 mb 5.25" disk drive (a hard disk drive is recommended). RAM memory required will depend on the software program used to access the datafile. The file is approximately 700k and was created using dBASE III+. It may be used by any software program that works with files in the DBF format.

imports. The Malaysian *ringgit*, though widely acknowledged to be undervalued, has not yet come under US pressure for appreciation. GSP privileges were in jeopardy for a time during 1988-89 due to criticism of restrictions on unionization in the electronics industry (which is dominated by US multinationals), but a recent investigation by the office of the US Trade Representative found that some progress in Malaysian labor rights had been made, and GSP status was maintained.

Indonesia: Diversified exports, growing market

In Indonesia, President Suharto has taken positive steps to improve the business climate, although there is some uncertainty about future stability when his term ends in 1993. Indonesia stands out among the ASEAN countries for its large population, which is more than three times the size of either Thailand's or the Philippines's, and therefore has the potential to become an enormous consumer market. Although income distribution is uneven, the sheer size of Indonesia's domestic market makes the country somewhat less dependent on foreign trade and less vulnerable to external pressures than other ASEAN countries. As a major petroleum exporter, Indonesia's economic growth was hit hard when world oil prices collapsed in the early 1980s. The end of the oil boom led Indonesia to diversify its production base; while oil exports comprised more than 80 percent of total exports in 1981, by 1989 oil exports were but 40% of total exports.

All too often US businesses see Southeast Asia only as a potential "dumping ground" for exports from their China plants, particularly if these products are not of suitable quality for the US market.

Indonesian export competitiveness was enhanced by currency devaluations in 1983 and 1986. The predominance of low-tech products (such as processed food, plywood, and certain electrical components) among manufactured exports, however, still leaves Indonesia vulnerable to demand slowdowns. Although the size of Indonesia's domestic market may make it harder to regionalize its economy compared to other ASEAN countries, recent deregulation efforts, relaxed investment and tariff regulations, and low labor and operating costs have attracted high volumes of investment in the past few years. Approved foreign investment in 1988 was more than five times that two years earlier, and 1989 saw an increase of almost 35 percent, to $5.9 billion. Japan, Korea, and Hong Kong, the three largest foreign investors last year, committed a total of almost $1.8 billion. Financial liberalization in Indonesia has also made it possible for foreigners to buy Indonesian stocks. Foreign portfolio capital has spawned phenomenal growth in the Indonesian stock market, which recently surpassed even Taiwan's stock market growth.

While these events are encouraging, hurdles remain to be overcome. Indonesia's $50 billion external debt is the largest among Asian developing countries, and eats up a full third of the government's total annual budget for debt service. So far, the government's effective management of the debt has helped inspire confidence in the international financial community. Although interest rates have fallen, high prime rates of 18 to 20 percent persist. Official unemployment rates remain fairly low, in part because chronic underemployment provides for unproductive jobs—while hampering productivity. While economic growth during the past few

China, Japan, and Southeast Asia: Comparative Profiles

	Population (in millions, 1988)	Population growth rate (%/year, 1987–2000)	GDP ($ million, 1987)	GDP growth rate (%/year, 1980–87)	Manufactures as % of GDP (1987)	Unemployment rate (1988)	Average hourly wage rate for production workers (1988)	Literacy rate (% of population, 1988)
China	1,087.3	1.3%	293,380	10.4	20%	2.0%	**$0.41	73%
Hong Kong	5.7	1.0%	36,530	5.8	22%	1.4%	$2.43	88%
Indonesia	177.4	1.7%	69,670	3.6	14%	2.2%	$1.30	74%
Malaysia	17.0	2.2%	31,230	4.5	25%	8.1%	*$0.46	76%
Philippines	63.2	1.9%	34,580	−0.7	25%	8.5%	*$0.40	86%
Singapore	2.6	0.8%	19,900	5.4	29%	3.4%	$2.67	87%
South Korea	42.6	1.0%	121,310	8.6	30%	2.5%	$2.46	96%
Taiwan	19.8	1.0%	91,330	8.3	44%	1.7%	$2.71	92%
Thailand	54.7	1.5%	48,200	5.6	24%	3.5%	*$1.10	91%
Japan	122.2	.5%	2,374,000	3.8	†32%	2.6%	$13.14	99%

NOTES: *1986 figures; ** based on preliminary 1990 estimates; † includes mining;

SOURCES: World Bank, *World Development Report 1989*; *Far Eastern Economic Review*; *Asia Yearbook 1989*; Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, July 1989; *Asian Development Outlook 1989*; US Bureau of Labor Statistics; Royal Thai Embassy; US-China Business Council; and Malaysian Development Authority years has risen to the 5-6 percent range, infrastructure and skills deficiencies may inhibit future gains, and rising production costs caused by wage increases could further erode Indonesia's competitive position.

Singapore: Gateway to Asia

The political situation in Singapore appears fairly stable, with First Deputy Prime Minister Goh Chok Tong the heir-apparent to Lee Kuan Yew. Singapore's unique position among the ASEAN countries as a transshipment point between ASEAN and China has enabled it to profit from the large growth in intraregional trade. With no debt to speak of, Singapore is well-positioned to enhance its role as a financial center and net capital exporter to other ASEAN countries. A highly developed physical infrastructure and exceptionally skilled human resource base have helped the high-technology and service sectors develop effectively. Of the ASEAN countries, Singapore has long had the most open trade and investment policies, so it has not run afoul of developed country trade policy to the extent of Korea and Taiwan. Also, despite some appreciation against the US dollar, the Singapore dollar has not undergone the rapid appreciation of the currencies of Korea and Taiwan.

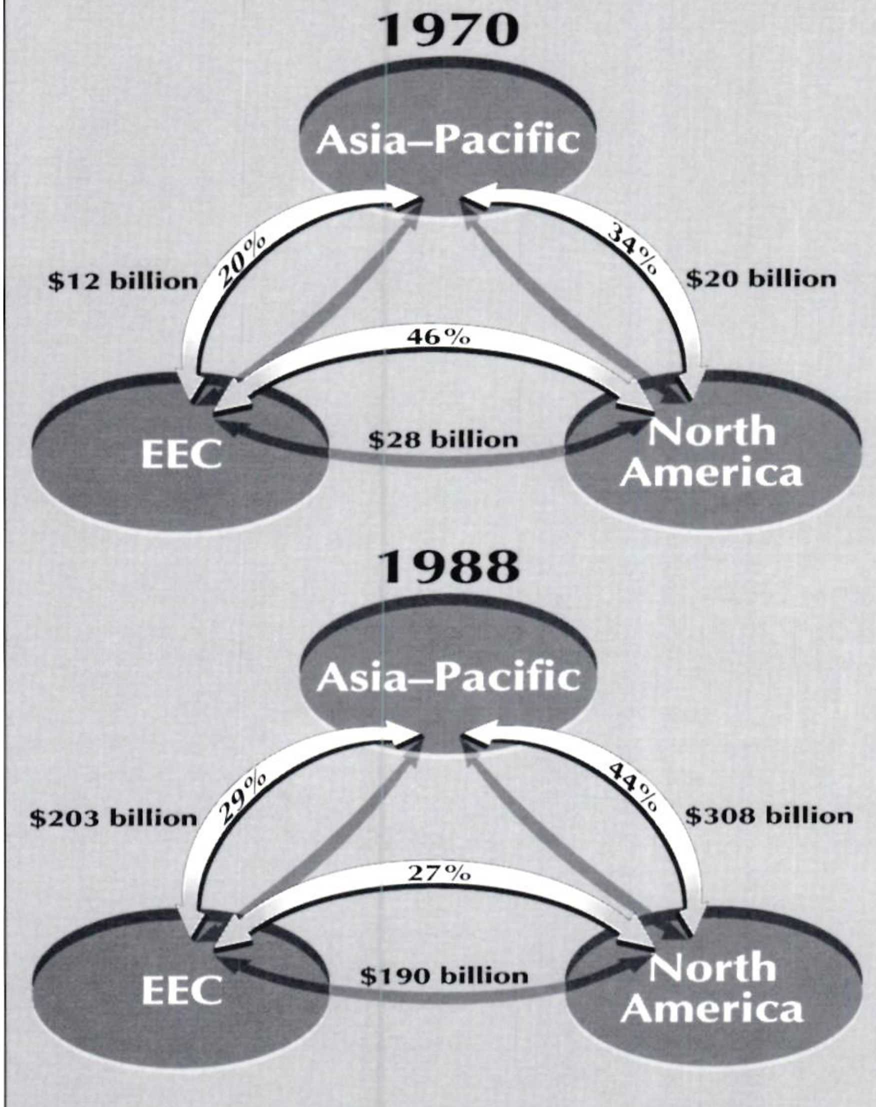
The main constraint on Singapore's future growth is the tight labor market, which is putting increasing pressure on wages. Though the highest among ASEAN countries, wages in Singapore are still less than two-thirds the rates of Taiwan and Korea, which are at a comparable level of technological development. Another limiting factor on growth is the small size of the domestic market, which forces greater interaction with outside economies. As neighboring countries such as Indonesia and Malaysia develop, their need for inputs from Singapore's highly developed service sector may diminish, but that appears to be some time off. Given its increasing reliance on the regional and world economies for continued growth, Singapore remains particularly vulnerable to potential global recession.

The Philippines: Instability persists

The economy of the Philippines remains the most problematic in ASEAN, primarily because of continued political instability. Although progress has been slow, the post-Marcos era has brought some favorable developments. Infrastructure investment and privatization of State-owned enterprises have improved the investment climate in the Philippines, though potential foreign investors continue to cite a number of drawbacks to setting up there. Obstacles include the requirement of a local partner in many areas open to foreign investment, along with minority ownership limitations. As in China, US companies active in the Philippines also complain of bureaucratic delays and lack of governmental responsiveness.

Inflation, which had hampered stability and economic growth, was brought temporarily under control through an International Monetary Fund-mandated contraction of the money supply. By mid-1989, how-

Inter–Regional Trade Flows



SOURCE: National trade statistics and Arthur D. Little, Inc.

BEAUTIFUL DEAL.

ever, inflation had gone back up to double digits. As with other ASEAN countries, there has been a shift from dependence on traditional commodity exports to manufactures, with semiconductors and garments now accounting for more than a third of total exports. Export levels have generally increased, as has investment, which nearly doubled between 1988-89. Foreign investment also increased significantly in 1988, to well over four times the 1987 amount. Stable exchange rates and a relatively low-cost and highly-trainable labor force help encourage investment. Unlike China, the Philippines is able to emphasize to US investors its long association with the Western industrialized nations and familiarity with foreign business expectations.

Despite these positive indicators, deficits in both foreign trade and the government budget pose serious obstacles to economic growth. Last year's most recent failed coup attempt, moreover, dampened investment enthusiasm; further significant decline in business expansion in the Philippines is likely to exacerbate the trade deficit and drive up inflation rates. In spite of austerity measures, the debt level remains high, while domestic savings levels remain low. Although the large labor pool will no doubt moderate pressures for higher wages, perpetuating low wage rates will also thwart a rise in the standard of living and inhibit narrowing of income disparities within the population, further weakening the domestic market.

Regional opportunities for US business

With these political and economic developments in mind, now is the time for US companies to become more informed on the intraregional forces in Southeast Asia, and to take full advantage of new trade and investment opportunities. Knowledge of each country's political and economic trends and future prospects—along with their growing links with China (*see* p. 31)—will help companies with footholds in China extend their reach throughout this dynamic region.

This task will not necessarily be an easy one. Although the regional trends in Southeast Asia present numerous investment opportunities, the share of US investment in local and regional markets has declined. Japan, Korea, and Taiwan have now become the leading foreign investors in Thailand and Indonesia, and have an increasing presence in other countries as well. The United States, on the other hand, continues to invest more than Japan or the NICs in China, but has maintained its role as the leading foreign investor in the Philippines.

Singapore has become the transshipment center for intra-ASEAN trade.

The rise of Asia as a strong regional economy has also made it an increasingly important trading partner. The volume of trade between North America and the countries of Asia has skyrocketed in the past two decades (*see* diagram), making it even more crucial for US businesses to adapt to the changing economic environment. By all accounts, however, it is likely that trade between the Asian countries will surpasss the volume of trade between North America and the Asian countries this year, which should give US industry even more incentive to tap into the opportunities presented by the new regionalism. Furthermore, by ensuring trade surpluses with developing countries—which in 1980 already accounted for 40% of all US exports—the United States can help reduce its global trade deficit.

For US multinationals, the opportunities are many. Increased intraregional trade and investment and multinational activity are beginning to integrate the industrial sectors of individual Southeast Asian economies beyond the plans of official ASEAN regional integration schemes. For historical reasons, many Asian countries would welcome US corporations far more warmly than those from Japan, which has not completely shed its negative historical image as a builder of empires in Asia. And, the Asian countries are eager for more US business participation—including cheaper dollar imports that can substitute for Japanese parts and products made more expensive by the strong *yen*.

All too often, though, US businesses see Southeast Asia only as a potential "dumping ground" for exports from their China plants, particularly if these products are not of suitable quality for the US market. Yet, these countries are increasingly likely to themselves produce the same items at a cheaper cost, or to import them from Japan or the NICs. For US business, failure to see the NIC and ASEAN countries as important markets in their own right is a costly mistake, particularly as consumer demand for more Western goods continues to increase.

Like Japan and the NICs, US multinationals should consider locating related operations in neighboring countries to minimize costs and maximize output quality. For example, capital-intensive, high-tech, and service-oriented activities can be located in Singapore, while medium-technology and semi-skilled activities of the same multinational can be in Malaysia, and low-cost, labor-intensive activities in Thailand or Indonesia.

At present, US companies have a window of opportunity in Southeast Asia to re-emerge as a presence in the region and as powerful economic players. The Asian NICs and the "next NICs" offer many opportunities for US business, particularly if US firms can become fully integrated into the region's triangular pattern of trade. 完

China's Links to Southeast Asia

Building regional bridges will increase China's global competitiveness

Clyde D. Stoltenberg

China's links with Southeast Asian economies have increased enormously in two decades—in 1985, total trade between China and the ASEAN (Association of Southeast Asian Nations) countries was more than 20 times the 1970 total—but are still nowhere near their potential in volume or diversity. The 1990s should continue to see rapid expansion of both trade and investment between China and its neighbors, however, since those economies—among the world's fastest growing—have much to offer: raw materials, industrial technology, and financial resources, as well as growing markets for China's light industrial and consumer goods.

The region's complex and kaleidescopic politics have had as much to do with helping—or hindering—trade with China as the abundance or lack of viable commercial opportunities, and it's no accident that the progress of economic links has closely paralleled political rapprochements between China and its ASEAN neighbors. The pace of pragmatism has also been a factor: Singapore, for example, has held a hard line against communism for years, but has become China's largest ASEAN trading partner though the two lack official political relations.

Personal connections have also helped build commercial bridges between China and ASEAN. The large overseas Chinese communities in Singapore, Thailand, Malaysia, and Indonesia in particular have been among the most active proponents of trade and investment, especially in South China's export-oriented manufacturing sector.

For US companies operating there, China's growing links with Southeast Asia present countless opportunities for regionalizing operations, such as sourcing from one country for processing in another, or transferring personnel and know-how between countries.

For US companies operating there, China's growing links with Southeast Asia present countless opportunities for regionalizing operations, such as sourcing from one country for processing in another, or transferring personnel and know-how between countries. Understanding the nature and extent of economic and political interaction between China and its Asian neighbors is the first step toward capitalizing on those connections.

Singapore: Pragmatic principal partner

Singapore, ASEAN's largest China trader, also plays a distinctive role as a center for transshipment of Chinese goods to countries like Malaysia and Indonesia. Total trade with China increased from $45.9 million in 1970 to $2.85 billion in 1988. Singapore's exports to China in 1988 came to $1.25 billion, while imports from China totalled $1.5 billion (much of Singapore's deficit represents transshipped goods). Likewise, Singapore's exports to China have long included significant reexports of rubber and other primary commodities. The past 10 years have, however, seen a substantial increase in Singapore's domestic exports to China, including industrial machinery, transport equipment and components, rubber products, processed wood, chemicals, pharmaceuticals, and medical and scientific equipment.

Singapore's imports from China consist largely of petroleum (crude oil is imported and refined, much of it for reexport to China) and foodstuffs. Manufactured imports include chemicals, machinery, textiles, iron and steel, and metal manufactures.

Singapore's commercial links with China also include exports of services, technology transfer, and direct investment. Singaporean investment in China has primarily focused on infrastructure projects such as ports, airports, and hotels, along with light industry and oil-based services. The following examples of 1989 Sino-Singaporean joint-venture deals illustrate the range of activity:

- Singapore Intraco Trading Firm and the China National Packaging Import/Export Corp. signed a $2.5 million deal for export and reexport of packaging materials to China;
- Singapore's Hong Lemng Co. and the Xiamen Tourism Corp. agreed to

Clyde D. Stoltenberg is executive director of the East Asia Business Program at the University of Michigan.

China's Commercial Ties To Southeast Asian Countries

	Political relations established	Bilateral trade volume	China's export volume	China's import volume	China's major imports	China's major exports	Commercial agreements
Singapore	—	*$2.7 billion	$1.5 billion	$1.2 billion	Industrial machinery, transport & electrical equipment, rubber products, processed wood	Petroleum, foodstuffs, chemicals, textiles, iron, steel	1981: Trade representatives exchanged 1979 & 1980: Trade agreements signed 1986: Tourism promotion treaty 1986: Investment protection treaty 1989: Double taxation treaty
Thailand	1975	†$1.2 billion	$500 million	$750 million	Rice, corn, sugar, rubber, tobacco, steel, synthetic fiber	Crude & diesel oil, chemicals, produce, pharma-ceuticals, machinery	1985: Investment protection treaty 1986: Double taxation treaty 1986-present: Annual trade protocols
Malaysia	1975	†$1 billion	$350 million	$690 million	Rubber, palm oil, timber, logs, cocoa beans	Textiles, cereals, oils, produce, light industrial goods and machinery	1985: Memorandum of Understanding on direct trade; double taxation treaty 1989: Trade agreement; investment protection treaty; joint economic and trade committee established
Indonesia	1953-1967 (suspended)	*$920 million	$240 million	$680 million	Plywood, rubber, rattan, cement, pepper, coffee	Coal, cotton, machinery, electrical appliances, light industrial and agri-cultural equipment	1985: Direct trade agreement
Philippines	1975	†$340 million	$257 million	$83 million	Fertilizers, coconut oil, bananas, copper concen-trates and cathodes	Crude oil, machinery, electrical goods, coal, textiles, foodstuffs	1975: Long-term trade agreement 1986: Long-term trade agreement 1989: Long-term trade agreement
Brunei	—	*$9 million	$3.1 million	$5.9 million	Crude oil	Light industrial products, steel, machinery, foodstuffs	Discussions underway to establish direct trade relations

*1988
†1989

NOTE: Chinese statistics commonly show trade surpluses where China's trading partners report the opposite (see text). Discrepancies are caused by differences of definition of valuation and also by transshipment of much of China's trade through Hong Kong.

SOURCE: Clyde D. Stoltenberg and *China's Customs Statistics* 1990 establish the $25.7 million Xiamen Haijing Hotel;

- The Chinese Academy of Sciences' Satellite Communications Technology Corp. and Singapore's New Technology PTE Ltd. agreed to jointly produce satellite TV receivers;
- The Huanmei Furniture Co. Ltd. of Singapore and the CITIC Industrial Development Co. signed a deal to produce floorboard and veneer in Tianjin;
- Joint venture trading corporations were established in Singapore by the Beijing Arts and Crafts Import/Export Corp. in partnership with Tai Heng Pri Ltd. of Singapore, and by the China State Construction Engineering Corp. and Tung Guan Co. in partnership with the Nism Trade subsidiary of Singapore's National Iron and Steel Mill.

Economic ties suffice

In spite of the absence of formal diplomatic ties, commercial ties between the two countries have been institutionalized, starting with trade agreements in 1979 and 1980, followed by an exchange of trade representatives in 1981. Additional agreements on other aspects of economic relations have also been signed (*see* table). Although last summer's political turmoil in China drew a strongly negative reaction from Singapore's Prime Minister Lee Kuan Yew, in mid-June First Deputy Prime Minister Goh Chok Tong said during a trip to Japan that Singapore would continue to promote private-sector economic exchanges with China, and urged Japan to do the same. In July, Minister of State for Trade and Industry Mah Bow Tan stated that as long as China's open trade policy continued, Singapore's investments in China's export-oriented industries would likely continue. Subsequent months have indeed proved that Singapore's interest in strengthening economic ties to China supersede—at least for now—political differences between the two.

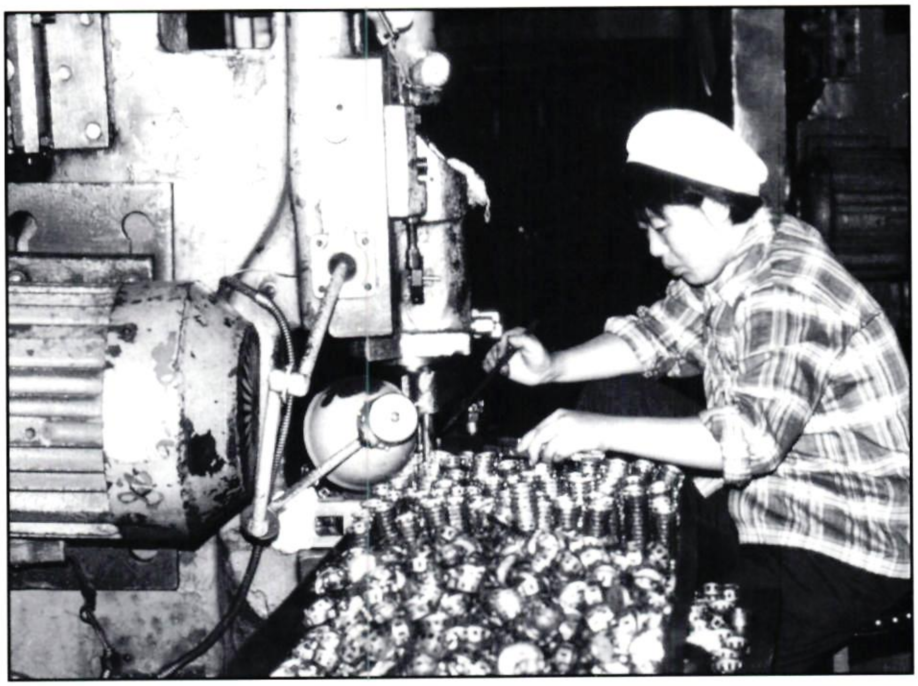
Thailand trade gains

Thailand's trade with China jumped dramatically in 1989, posting a gain of 9.5 percent over 1988 to nearly $1.2 billion. Trade has diversified as well as expanded: While in 1980 almost half of Thailand's imports from China consisted of oil products, that share has dropped to about 15 percent. In addition to crude and diesel oils, China's principal exports to Thailand include chemicals, pharmaceuticals, native produce (especially cotton, raw silk, medicinal plants, and soybean cake), and industrial and agricultural machinery. Thailand's exports are dominated by food and industrial raw materials. China, for example, is the largest purchaser of Thai rice, and has also traditionally purchased corn, sugar, green beans, and tapioca. China has also regularly imported natural rubber, tobacco, building materials (such as glass and steel tubes), and synthetic fibers. Recent trade protocols have provided for Chinese purchases of coconut oil, gemstones, fruit, fish powder, leather, and pulp.

Thailand has suffered from trade deficits with China almost every year since normalization of relations in 1974, and Thai leaders would like to reduce the gap. China notes in response that it now buys from Thailand foodstuffs for which markets could not be found elsewhere. As its economy grows technologically more sophisticated, Thailand could perhaps follow Singapore's example of attacking its deficit in merchandise trade by increasing service exports to China.

Two-way investment

As with trade, Thailand ranks second, after Singapore, among ASEAN countries in investment in China. By mid-1989, Thai companies had established nearly 50 enterprises in China. Although Thai investment is not as technologically sophisticated or diverse as Singapore's, it encompasses a wide variety of goods and services, including fodder, aquaculture, and livestock production; manufacture of products such as glass, motorcycles, carpet, synthetic fabric, plastic products, building and packing materials, air conditioners, paint, and beverages; printing facilities; and hotels and guesthouses.



Light industrial goods are some of China's key exports to ASEAN.

The Chia Tai group, Thailand's largest transnational corporation and one of the world's biggest agricultural business groups, has invested in about 30 joint ventures in 20 different Chinese locations. Chia Tai has been exploring possibilities for investing in China's petrochemical and auto industries; during 1989, for example, it agreed to establish the largest foreign-funded enterprise in the Shantou Special Economic Zone—a petrochemical plant to produce synthetic resin and organic chemicals such as ethylene.

Chinese investment in Thailand has also grown rapidly, with some 40 enterprises established since 1984 producing fasteners, pharmaceuticals, dye, salt, rubber, iron and steel, textiles, soy sauce, tin, antimony, paper, polypropylene fiber, brushes, and furniture. China also operates auto assembly and casting plants in Thailand, and the China General Building Construction Co., which has been heavily involved in building projects there, had in 1989 completed more than half of 80 ongoing projects.

The regulatory framework established by Thailand and China to facilitate economic interaction includes a series of trade agreements similiar to Singapore's (*see* table). In addition, since 1986 a joint committee on economic cooperation has developed annual protocols stipulating what is to be imported and exported and fixing trade volumes—targets that have been constantly overfulfilled since 1985.

Though economic interaction has and would clearly continue to benefit both countries, it should not be forgotten that the present close relationship between Thailand and China initially grew out of their common opposition to Vietnam's invasion of Cambodia. If that common threat is reduced as a result of Vietnam's withdrawal from Cambodia, it remains to be seen whether existing economic links will be strong enough to support the relationship.

Malaysia's imports of Chinese agricultural products have grown significantly over the past few years.

Malaysia: Partner of necessity

Malaysia was the first ASEAN country to establish diplomatic relations with China in May 1974. Although the two countries had maintained direct trade relations since the 1950s, Malaysia's fears of Chinese interference in domestic ethnic politics prevented trade volumes from increasing rapidly until the 1980s, when Malaysia expanded commercial ties with China as part of an effort to overcome its own economic slowdown. As a result, total trade between the two countries has nearly doubled since the mid-1980s, from $560 million in 1987 to about $1 billion in 1989. The fact that China has traditionally run a surplus, however, has been a source of continuing friction between the two countries.

The composition of Malaysia's exports to China has remained stable, with emphasis on raw materials, including rubber, palm oil, timber, logs, and more recently, cocoa beans. Manufactured goods are a relatively small proportion of total exports but should increase. China's major exports to Malaysia include textiles, light industrial products and machines, cereals, vegetable oil, produce (such as vegetables, tubers and roots, soybeans, and fruit preparations), and animal by-products.

Investment levels between Malaysia and China have not approached those of Singapore or Thailand. The first Sino-Malaysian joint venture was established in Tianjin in 1986 to produce mattresses. During a visit to the factory last summer, Malaysian Minister of Trade and Industry Datin Paduka Rafidah Aziz noted that the joint venture's mattresses were gaining popularity in China and called for more Sino-Malaysian enterprises. China has also displayed interest in investing in Malaysia. Last fall, for example, the Dalian Hydraulic Pressure Machinery Plant signed a deal with a Malaysian holding company to build a facility in Kuala Lumpur to manufacture hydraulic pressure equipment, including hydraulic driving machines for both heavy-duty and light industrial use. The joint venture's entire production is slated for Malaysian and Southeast Asian markets.

Politics hinder more ties

The regulatory infrastructure for trade and investment between Malaysia and China has been longer taking shape than for Singapore or Thailand. Prime Minister Mahathir's November 1985 visit to China did result in a memorandum of understanding on direct trade as well as agreements on double taxation avoidance and a processing joint venture. However, a number of factors, including Malaysian concerns about China's ties to communist activity in Malaysia and the social costs of favoring more prosperous ethnic Chinese businesspeople over the majority indigenous Malay population, have constrained more rapid progress. 1989 finally saw some breakthroughs: A trade agreement, an investment protection agreement, and an agreement for establishing a joint economic and trade committee. These agreements, combined with the recent large increase in two-way trade, may herald a new era in Sino-Malaysian trade cooperation.

Indonesia: Fluctuation and expansion

The history of recent trade relations between Indonesia and China can be regarded as two periods divided by the 1965 coup attempt. From 1953, when Indonesia first established ties with China, trade continued to expand on a fairly balanced basis. Communist involvement in an attempted coup in Indonesia in September 1965, however, eventually led to suspension of formal relations in 1967, followed by a period of indirect trade at substantially lower levels. The Indonesian government did not respond to pressure from the business community to resume direct trade until the economic contraction and fall-off of oil exports in the early 1980s. Even then, the 1985 agreement leading to resumption of direct trade was "unofficial," negotiated by the Indonesian Chamber of Industry and Commerce and the China Council for the Promotion of International Trade, and endorsed by Presidential Instruction.

Sino-Indonesian trade volumes have since expanded significantly, with 1988 trade totalling $920 million—nine times 1985 totals. Unlike its trade patterns with other ASEAN countries, however, China suffers a significant deficit with Indonesia; in 1988, for example, exports from Indonesia to China totalled $680 million, while Indonesia's imports from China came to $240 million. Total trade volume—and the deficit—moderated in 1989, with trade for the first three quarters totalling $448 million (Indonesian exports to China of $312 million against imports from China of $135 million).

China's chief imports from Indonesia are plywood, rubber, rattan, cement, pepper, coffee, and some raw materials, though the composition varies from year to year. In 1989, for example, China reduced its imports of Indonesian plywood because of high prices but imported certain new goods, including $43 million worth of crude oil and $4 million worth of paper pulp. China's main exports to Indonesia are coal, cotton, light industrial products, soybeans, traditional Chinese medicines, hardware, machinery, small electrical appliances, and agricultural equipment. By mid-1989, there had been no direct Indonesian investment in China, though exploratory activity is underway.


Among China's principal exports to Thailand are pharmaceuticals.

Hopeful political signs

Chinese business interests have complained of restrictive Indonesian import practices and poor reception of Chinese products. For example, Indonesia's commodity inspection rules require that all Chinese export goods be licensed by SGS, a Swiss commodity inspection company. Until SGS began operating in China, this effectively forced China to export the bulk of its goods to Indonesia via Hong Kong. Another barrier to marketing Chinese goods is that Chinese-language advertisements cannot pass through Indonesian customs because of government policies to discourage the use of the language.

Trade barriers between China and Indonesia may be lowered as political relations gradually warm. The first high-ranking contact between the two nations since termination of diplomatic relations in 1967 occurred in February 1989, with a meeting in Tokyo between President Suharto and Chinese Foreign Minister Qian Qichen. They agreed upon future efforts to normalize bilateral relations and to make regular contact through their respective envoys to the United Nations.

Philippines: Oil imports cause deficit

Before 1971, the Philippines and China did not conduct direct trade, and Chinese goods were imported via Hong Kong and Singapore. In 1972, the Philippines formally legalized trade with socialist countries, and the following year established diplomatic relations with China. By 1976, two-way trade totaled $96 million. The two countries executed a long-term trade agreement in 1979 forecasting a total of $2 billion in trade through 1985, with China supplying crude oil and some refined petroleum products and the Philippines supplying sugar, copper concentrates, and coconut oil. By 1985, total trade volume had increased over five times 1975 levels, and a trade protocol signed in January 1986 provided for annual balanced exchange of products of $180 million each way.

A new trade protocol executed in 1989 set a bilateral trade target of $400-450 million annually. Under the protocol, China will import fertilizers, coconut oil, bananas, copper concentrates, and copper cathodes. The Philippines will import crude oil, machinery, electrical products, coal, textiles, and foodstuffs.

The Philippines runs a chronic trade deficit with China—among other socialist trading partners—largely because of the volume of its oil imports. Problems balancing its trade have led the Philippines to promote countertrade with socialist countries, especially involving garments and construction materials.

Brunei: Tiny but steady

Until recently, trade between China and Brunei was rather inconsequential, though it is on the rise. Average annual trade volume before 1988 was $2.7 million, but total trade in 1988 increased to $9 million, following a rise in China's imports of Brunei's oil. The first nine months of 1989 saw another big jump, to $13.5 million.

China's chief import from Brunei is crude oil; it exports light industrial products, steel, agricultural machinery, and food. The two countries do not have diplomatic relations, so trade is conducted via Hong Kong and Singapore. However, China responded to an invitation from Brunei's Ministry of Industry and Primary Resources by sending a delegation led by MOFERT Assistant Minister Gu Yongjiang for consultations last fall. Through this visit, views were exchanged on establishing direct trade relations and other possible forms of cooperation.

Increasing regional and global competitiveness

China's recognition of the need to build stronger commercial ties with its Southeast Asian neighbors was symbolized by a symposium held in Beijing last November on economic and trade cooperation between China and the Asia-Pacific region. In order to integrate itself more fully into the regional economy, China would do well to follow the advice offered at the meeting by a representative of Japan's Industrial Bank, who characterized China's enterprises as producing goods for a seller's market, even though the world economy has become a buyer's market in which the most important asset is the customer's trust. For China, manufacturing high-quality products will be essential to compete in Asian markets, for there will be no shortage of alternative products.

China was further advised not only to consider the overall conditions of markets, but to make case-by-case studies of different commodities and different ways of entering markets in order to establish a network to facilitate after-sales service and satisfy customer demands. In particular, China would do well to encourage greater investment by its Asian neighbors. When wages increased in Korea and Taiwan, for example, China was able to attract from them labor-intensive manufacturing, and should be on the lookout for other such market opportunities. Developing an effective Southeast Asian strategy will enhance China's overall competitive position in an increasingly competitive global environment. 完

Looking South

China hands see promise in Vietnam

Laurence J. Brahm

Recently more and more China investors, seeking diversification and alternative manufacturing bases, have found themselves turning to Southeast Asia. While Thailand, Malaysia, and the Philippines have long been favorite locales, growing attention is now being focused on Vietnam. While a US government trade embargo prevents American companies—and discourages those of allied countries—from doing business in Vietnam, many Hong Kong companies with a historic presence in China have already begun to send some of their China teams on exploratory fact-finding trips to Vietnam. One of Hong Kong's biggest and oldest *hongs*, a pioneer trading house, has already set up a representative office in Ho Chi Minh City, the operations of which are spearheaded by its China team.

Interest in Vietnam is not limited to Hong Kong, however. Seats on all flights from Bangkok to Ho Chi Minh City are sold out weeks in advance, often to overseas Vietnamese, Thais, Japanese, Koreans, French, and the occasional American. Many Western—including American—companies are making exploratory trips to Vietnam, and the Japanese have already begun to trade motorcycles and consumer electronics, albeit with caution.

Despite the surge of enthusiasm and curiosity, so far the number of completed business deals involving foreign firms in Vietnam is small—the major investments could probably be counted on one hand. Many potential Vietnam investors are cautious, looking for clear indications that Vietnam's economic reforms will remain on track. As one Hong Kong merchant banker explained, "It seems that everyone is waiting for someone else to make the first move." Nevertheless, in time, more deals are sure to come.

Though many potential investors with experience in Asia look at the list of failed joint ventures in China and shake their heads cynically when the topic of Vietnam comes up, China traders also comprise one of the biggest groups visiting Vietnam in search of opportunities, drumming up corporate interest or actually spearheading new operations in Vietnam. As one experienced China trader commented, "Ten years of dealing with China has given me the state of mind to deal with this place."

Cashing in on China experience

Among traders seeking to apply their experiences in China to Vietnam, one commonly held view is that like China, Vietnam will require significant capital construction at the outset to create an environment conducive to foreign investors establishing processing and assembly operations. The economy might then take off, and foreign investors and traders could reap the benefits of economic acceleration in Vietnam as they did in China in the mid-1980s. Development of the hotel industry in China serves as a useful example for what might happen in Vietnam.

Photo courtesy of Laurence J. Brahm

The Saigon Floating Hotel, one of the few major foreign investments in Vietnam, has changed the expatriate landscape in Ho Chi Minh City.

In 1980, all hotels in China were State-run. Both booking and service were erratic at best. The Beijing Hotel was the best hotel in Beijing, and tour operators fought for the privilege of booking their groups there. Then came the joint-venture hotel boom, and businesspeople and tourists flocked to the new foreign-run hotels. The Beijing Hotel soon fell in status.

The same process seems to have begun in Vietnam. Virtually all hotels are run by the State. Advance bookings are difficult to come by, as hotels count the number of guests leaving each day before accepting new reservations. Now, however, there is an exception. The recently opened Saigon Floating Hotel, a completely modern, Australian-managed hotel complex constructed on a barge and berthed on the Saigon River, is attracting significant numbers of foreigners visiting Ho Chi Minh City—despite charging nearly four times the room rates of State-run hotels. Just as the 1982 opening of

---

Laurence J. Brahm, a lawyer in the international law firm Denton, Hall, Burgin and Warrens, is based in Hong Kong and divides his time between China and Vietnam.

The Vietnam Embargo

The US trade embargo against Vietnam was initially imposed by President Johnson against North Vietnam in 1964 under the Trading with the Enemy Act. It was extended to the rest of Vietnam in 1975 after the fall of Saigon.

Enforced by the Office of Foreign Assets Control at the Treasury Department, the embargo prohibits US citizens and companies (including foreign subsidiaries) from engaging in transactions that will provide economic benefit to Vietnamese citizens, companies, or subsidiaries. Violators of the embargo may be fined up to $50,000 and imprisoned for up to 10 years for each offense.

Embargo regulations do permit US citizens to travel to Vietnam to explore possible future business, and in certain limited cases, Treasury may give special permission for commercial transactions. Only travel-related business transactions are permitted during exploratory visits, however, although US businesspeople may be accompanied by outside counsel.

The government's current quid pro quo for lifting the embargo hinges on Vietnamese cooperation in resolving the Cambodian conflict. However, some businesspeople seem to be growing impatient with the official US stance, citing Vietnam's economic reforms and growing Asian investment in the country as reasons to lift or moderate the embargo. A delegation representing the US Chamber of Commerce in Hong Kong, for example, will visit Washington in late May to urge the president to permit US investment in Vietnam. —PB

the joint-venture Jianguo Hotel redrew the expatriate landscape in Beijing, so now the scene is quickly changing in Vietnam.

1979 vs 1990

The trend for China traders and investors is to compare today's Vietnam to China in 1979, when the country opened the door to foreign trade and investment. Since Vietnam's traditional and modern political structures were modeled after China's, certain similarities are obvious. Vietnam, like China, is a socialist state with a centrally-planned economy, embarking on—or maybe simply experimenting with—market-oriented economic reforms. Both countries were closed to the West for a period of time after the current regimes came to power, and then opened their doors to foreign investment. In order to nurture that investment, Vietnam has drawn on China's experience to create an effective legal regime (*see* p. 43).

In several areas, however, such as infrastructure, Vietnam today looks somewhat better than China did in 1979. For instance, when foreign investors began to return to China in the late 1970s, they found a severely outdated infrastructure of either pre-1949 vintage or 1950s Soviet make. Although much of Vietnam's infrastructure will also make foreign investors feel they are in a time warp, the key difference is that Vietnam's infrastructure is outdated by little more than 15 years. The Ho Chi Minh City airport, for example, was the most heavily trafficked airport in the world in the 1970s.

Likewise, Vietnam has more experience in dealing with Westerners and Western notions of doing business than China had 10 years ago. Concepts of Western and international law, which have painstakingly been introduced into China, are readily understood by many Vietnamese who previously had direct experience with the French and Americans. Also, a surprising number of Vietnamese officials speak excellent French, English, and Mandarin Chinese.

A new Guangdong?

Though Vietnam may appear to compare favorably with China in 1979, the question in the minds of potential investors—especially those from Hong Kong and Taiwan, the largest groups visiting Vietnam these days—is whether Vietnam can provide a manufacturing base that will draw production away from southern China.

They are finding some encouraging signs. Vietnam's average labor wages, for instance, are said by State officials (and accepted as legitimate by most foreigners) to begin at $50 per month, less than the $63 offered in China's Special Economic Zones, but higher than the rest of China, where the average is around $31 per month. Quality control problems are said to be similar.

Potential Taiwan and Hong Kong investors are also attracted by the large Cantonese and Mandarin-speaking populations in Ho Chi Minh City. Improving transportation links between Vietnam and the rest of Asia will only strengthen this interest. Cathay Pacific Airlines and Air Hongkong, for example, have just been granted direct routes from Hong Kong to Ho Chi Minh City and Hanoi, which will bring Vietnam as close to Hong Kong in flying time as either Hainan or Fujian provinces. Perhaps the most important lure for foreign business, however, is the lack of foreign exchange restrictions in Vietnam that complicate investment in China.

Free remittance of profits

Difficulty balancing foreign exchange remains to this day the most frequently cited obstacle to foreign investment in China. Because foreign investors in China may remit only foreign exchange profits, they often find themselves with piles of inconvertible *renminbi*. In Vietnam, by contrast, profits in *dong*, Vietnam's national currency, may be converted to foreign exchange through the Bank of Foreign Trade of Vietnam at the official rate and freely remitted.

Vietnam has also avoided instituting China's two-tiered currency system. The *dong* is freely traded with the US dollar, and the difference between the official and black market rate is now only 4 cents per dollar, compared with the 25-80 cent spread in China. The *dong* today officially trades at a rate of 4,100:$1, with the black market rate hovering around 4,300:$1.

Contacts and communications

Despite such attractive features, there are still some shadows hanging over Vietnam's investment and trade environment. No investment project in Vietnam can be approved entirely at the local or provincial level—all must be referred to Hanoi for final approval. This fact instantly conjures up images in investors' minds of the arduous process of submitting investment applications to Beijing. Looking at the actual distances between central and local government in

Vietnam, however, the whole approval process may not be any more onerous then obtaining approval for a project at the Guangdong provincial level. There is less distance from top to bottom in Vietnam, and perhaps better accessibility to high-level officials than in China.

Communications are also a serious problem, and will remind China traders of the days before international direct-dial service came to China, when one was often left screaming "*Wei!*" into a seemingly bottomless telephone receiver. In Vietnam it is not always possible to know how long it will take to book an overseas telephone call—it could take anywhere from 15 minutes to half a day. In addition, telexes are very expensive, running from $60-100 for a 10-minute telex.

Vietnamese authorities recognize this problem, however, and have already enlisted foreign help to improve their communications network. About a year ago, an Australian group called OTC installed a satellite communications system in Ho Chi Minh City in exchange for a percent of the charges for all telephone calls placed through the system—and are already turning a profit.

Beware hasty conclusions

Despite the striking similarities, one must be careful about coming to the conclusion spouted by many China hands, that "Vietnam is China all over again." Although the parallels between Vietnam today and China of a decade ago are real, conditions are not identical. Economic reform in Vietnam is moving at a startling pace, at least in the south, where most economic activity is concentrated. The market orientation of the economy and society in Ho Chi Minh City, for example, is already stronger than in Shanghai, or even Shenzhen. The Vietnamese have taken the time to study China's experience, and are trying to avoid the problems that have made it difficult for foreigners to invest there. In their foreign investment law, for instance, the Vietnamese adopted all three forms of investment utilized in China in a single piece of legislation, thereby capitalizing on almost 10 years of Chinese experience.

Potential investors in Vietnam should also avoid making too many comparisons with China when discussing business with Vietnamese. Vietnam, dominated by China throughout much of its history, has always struggled against that domination. And despite having adopted many aspects of Chinese traditional and modern culture, the Vietnamese remain a very independent and individualistic people.

Nevertheless, the comparisons between Vietnam and China will remain obvious in the eyes of China traders and investors looking for alternative markets and manufacturing bases in the region. Some of Southeast Asia's long-time favorites for such forms of investment may not be looking so good these days, as the Philippines faces political problems and Thailand struggles with its overburdened and somewhat clogged infrastructure. With Indochina opening up, Vietnam may present a new and viable option for companies with China investments looking to diversify in Southeast Asia. 完

A China Hand Looks at Vietnam

Belvin Friedson is chairman of the Windmere Corp., a manufacturer of electrical appliances in China, and co-chairman of the US-Vietnam Trade Council. He recently shared his impressions of Vietnam and China with Associate Editor Pam Baldinger.

CBR: *How would you compare Vietnam today with China in 1979, when Windmere first became active there?*

Friedson: I'd say Vietnam is a bit further ahead in terms of economic reform, but the Chinese government had more resources and strength. Vietnam just doesn't have the resources to undertake the vast investment China poured into the Special Economic Zones (SEZs) and to upgrade its infrastructure.

CBR: *How would you compare the labor forces of the two countries?*

Friedson: Conditions in Vietnam are primitive, but the industry and energy they showed during the war should be able to be applied to business. Vietnam has been exposed to more extensive foreign influence than China has, and many officials speak good English as well as French. Therefore, I think Vietnam will be easier to enter than China was. Our first venture in China was a failure—the educational levels of the Chinese were just too low. It seems better in Vietnam—their strong points are low labor costs and a relatively educated workforce.

CBR: *What are the significant differences between the two countries as investment locales?*

Friedson: In China, many US companies work through their Hong Kong partners. The closest equivalent to a Hong Kong for Vietnam is Thailand, which has been very aggressive in pursuing opportunities there and in trying to put together a common market with Indochina. I think it would be very difficult, however, for US companies to work through Thai companies. Also, although Vietnam has many ports, many goods would still have to be transported through Thailand, which already has an overburdened infrastructure.

The direction China currently appears to be moving in—that is, recentralization—is a problem. Although decisions must also be passed up in Vietnam, it is a smaller country, and therefore probably easier to control corruption. Also, as a smaller country, an infusion of foreign business will probably be more influential in Vietnam than in China.

CBR: *Is there a lot of US business interest in Vietnam?*

Friedson: Well, the US-Vietnam Trade Council has gotten a very good response. I'd say there's a lot of interest in exploring Vietnam once ties have been resumed.

China's Influence on Vietnam's Foreign Business Laws

Veterans of China business will find familiar territory

Jerome Alan Cohen

1990 may well be the year that the United States government finally dismantles its long-standing embargo against doing business with Vietnam, first instituted against North Vietnam in 1964. This step may come when a political settlement emerges from the current complex diplomatic situation in Cambodia, which could happen as early as next autumn, when voting takes place for that country's United Nations seat. An important part of that settlement would undoubtedly be elimination of the official US prohibitions against trade and investment in Vietnam by American nationals and companies, including foreign subsidiaries.

These prohibitions have had a punishing impact on Vietnam's economic development far beyond their direct legal applicability. The US government has used their existence to justify bringing strong political and economic pressure to bear against allied governments to prevent their major companies from engaging in significant transactions with Vietnam, even when those companies are not technically subject to the embargo.

Yet despite these obstacles, interest in Vietnam is strong among US as well as other foreign companies, as shown by the frequent exploratory missions now being conducted by American firms. Once the embargo is lifted, we can expect a sudden spurt of international business activity in Vietnam.

In the front ranks of foreign companies eager to explore Vietnam's commercial potential are many that have long been active in China. They hope to capitalize on the experience gained in dealing with one centrally planned, bureaucratic system to ease their way into another. Foreign companies will indeed find many similarities, since Vietnam has based much of its foreign-trade legal system on relevant Chinese law. Yet differences abound, and while China veterans will certainly find their experience stands them in good stead, they should also beware of taking too much for granted.

Through Vietnam's new foreign business legislation is far from perfect, it nevertheless represents remarkable progress—from virtually nothing several years ago to the underpinnings of a plausible system.

Mutual expectations

Foreign commercial interest in Vietnam is matched by Hanoi's keen desire for foreign help in developing a viable economy that will lift Vietnam out of the ranks of the world's poorest countries. Although Vietnam hopes to benefit from the assistance of multilateral organizations such as the United Nations and the World Bank, as well as foreign governments' bilateral aid programs, planners have allocated a major development role to business cooperation with private companies and financial institutions. As with China since 1979, Vietnam hopes private sources will provide not only capital, but also technology and management skills that can be successfully combined with local labor and natural resources to establish an impressive industrial base. As a result, Hanoi has given high priority to creating a legal environment attractive to foreign investors and bankers.

Although Vietnam had enacted regulations on foreign investment as early as 1977, these initial efforts reportedly led to approval of only a small number of foreign investment projects. Political events then resulted in postponement of plans to develop a legal system congenial to foreigners until the mid-1980s.

Legal deja vu

What kind of legal environment do foreign companies find in Vietnam? In short, one that will seem quite familiar to veterans of the China trade. Despite their perpetual—and not always successful—resistance to Chinese domination over the centuries, the Vietnamese, in their quest for instant modernization, have recently imported and adapted much

Jerome Alan Cohen, a partner in the international law firm of Paul, Weiss, Rifkind, Wharton & Garrison, has made six exploratory visits to Vietnam with US companies. His latest book, Investment Law and Practice in Vietnam, *was published by the Longman Group, Hong Kong, in April.*

Vietnam Trade Council Established

Just as the US-China Business Council was established well before US-China political relations were normalized, the International Center for Development Policy in Washington, DC is establishing a US-Vietnam Trade Council in anticipation of normalization of US-Vietnam relations.

The new council came about when Nguyen Co Thach, Vietnam's foreign minister, invited former Ambassador William Sullivan, the chairman of the Asian Commission at the International Center, to visit Hanoi in May 1989. Thach asked Sullivan if he thought there would be US business interest in a US-Vietnam trade council. When Sullivan and his associate, businessman Belvin Friedson, replied positively, Thach asked them to form such a council.

Though Friedson and Sullivan, who serve as co-chairmen of the council, are still in the process of formally establishing it, the council has already started offering some services. Through its Vietnamese counterpart, the Vietnam-US Trade Promotion Board, the council helps members who want to visit Vietnam set up itineraries and answers specific business queries. The council also holds monthly briefings with guest speakers.

Currently the US-Vietnam Trade Council has about 60 members, including about 25 companies and law firms. But according to Friedson, "Response to the council has been very good—it offers a valuable service for people interested in Vietnam."

For more information contact:
International Center of Development Policy
US-Vietnam Trade Council
731 8 Street, SE
Washington, DC 20003
tel: 202/547-3800
fax: 202/546-4784

of China's foreign business law.

For example, the Foreign Investment Law of Vietnam and its detailed implementing decree, which both came into effect in 1988, are based largely on the Chinese model. This legislation offers potential investors a choice among essentially the same three investment structures available in China—equity joint ventures, cooperative/contractual joint ventures (known in Vietnam as "contractual business cooperation"), and wholly foreign-owned enterprises.

Similarly, the 1988 Decree-Law on Transfer of Foreign Technology into Vietnam also resembles its Chinese counterpart in many respects. It is implemented by Rules on the Purchase/Sale of the Right to Use Inventions, Useful Methods, Industrial Designs, and Trademarks on Goods and Technical Secrets (otherwise known as the Licensing Rules). Though the Rules, unlike their Chinese analogues, apply to both domestic and international licensing, they are quite similar in substance and procedure.

The 1988 Decree for the Establishment and Operation of Resident Representative Offices of Foreign Economic Organizations in Vietnam will also look familiar to companies that have set up shop in China. Moreover, even local regulations sometimes follow Chinese practice. For example, in Ho Chi Minh City representative offices of foreign companies that wish to employ Vietnamese must go through the local equivalent of the Foreign Enterprise Service Co. (FESCO).

Building support for the law

In Vietnam, as in China, the evolution of legal institutions has lagged behind the rapid promulgation of substantive legislation. Nevertheless, both countries have recognized that failure to develop their legal institutions would diminish the importance of many new laws by reducing the likelihood of credible and consistent implementation. Therefore Vietnam, like China before it, has begun to train more lawyers for international transactions, to prepare the courts to handle foreign-related disputes, and to strengthen the Foreign Trade Arbitration Council, which until now has been largely confined to settling disputes with the trade organizations of other socialist states. In the past year, Vietnam has also introduced 300 lawyers from the *ancien regime*, the defunct Republic of (South) Vietnam, to the basic principles of socialist law so that they can be deemed politically reliable enough to staff the refurbished legal institutions and serve as socialist international lawyers. This pool of talent, originally trained in Western law, represents a potentially useful resource for foreign companies seeking help in building bridges between Vietnamese and international business practices.

Improving on the model

Vietnam has not imported China's laws uncritically. In the case of investment legislation, Vietnamese drafters studied the laws of many countries and reviewed drafts prepared by foreign experts, including American legal experts sent by the United Nations. These contacts undoubtedly influenced the extent of Vietnam's departure from the Chinese model.

Some of these departures seem commendable. For example, the Vietnamese form of contractual business cooperation is more clearly defined than China's confusing counterpart, the cooperative joint venture. Vietnam makes clear that no new corporate entity can be created under this form, avoiding the uncertainty that China fosters by allowing corporate and non-corporate entities to fall under the same provisions, thereby blurring distinctions between equity and cooperative joint ventures.

Fortunately, the Vietnamese drafters did not import into their investment law one of the more confusing aspects of China's counterpart legislation, which distinguishes between two types of binding documents—an "agreement" and a "contract." In China, an "agreement," although binding, is not the final expression of the investors' will, but rather a record of their understanding on the basic points of the transaction—a kind of halfway house en route to the final, binding document—the "contract." This legislated distinction has caused much confusion, and it has not been consistently observed, especially since most foreign investors

Now Ho Chi Minh City Has One Of Asia's Top Hotels.

With the facilities & luxury business travellers are accustomed to throughout Asia, the deluxe Saigon Floating Hotel is quayside at Hero Square, right in the heart of the city.

It offers 200 fully appointed deluxe air conditioned rooms, which even include hotel purified drinking water.

There is the most comprehensive Business & Meeting Centre of any hotel in the city, operating 15 hours every day with secretarial services, interpreters, international telephone, fax & telex and use of personal computers.

Guest facilities include two international standard restaurants ... The Oriental Court and The Verandah... the Down Under discotheque, two bars, 24-hour room service, saunas & gym, swimming pool & tennis court.

As the staff are graduates of Southern Pacific Hotels' own hotel training school, the level of service is assured.

Southern Pacific Hotels is the South Pacific's leading hotel group which operates over 40 hotels in Australia, New Zealand, the South Pacific, Malaysia and Thailand.

Reservations may be made direct with the hotel, Southern Pacific Hotels, your nearest THF or Utell office, Delton Reservations in Asia, Apollo SP or Sahara SP.

THE SAIGON FLOATING HOTEL
HO CHI MINH CITY
QUAYSIDE AT HERO SQUARE

THE SAIGON FLOATING HOTEL: QUAYSIDE AT HERO SQUARE. 1A ME LINH SQUARE, HO CHI MINH CITY, VIETNAM.
TEL: 84.8.90783 FAX: 84.8.90784 TELEX: VT812614 HOTL. MAIL: P.O. BOX 752, HO CHI MINH CITY.

The Parkroyal Collection features fine hotels . . . In Australia: Sydney (3) · Manly · Parramatta · Melbourne · Launceston · Adelaide · Canberra · Perth · Brisbane · Gold Coast. In New Zealand: Auckland · Christchurch · Wellington · Queenstown. In the South Pacific: Tahiti · Moorea. Malaysia: Kuala Lumpur · Penang (opens 1990). Vietnam: Ho Chi Minh City.

come from countries that do not distinguish between agreements and contracts. Vietnam's investment legislation only acknowledges the contract, which contains the investors' binding agreements and forms the principal basis on which government approval of the project is granted.

Streamlining the bureaucracy

Vietnam has also made institutional modifications to the Chinese model. For example, the State Commission on Cooperation and Investment (SCCI), which has statutory authority to approve all investment contracts in Vietnam on the government's behalf, has been placed apart from the various ministries that have an interest in investment projects in order to more effectively coordinate their views. In China, by contrast, what was originally an independent Foreign Investment Control Commission when it was established in 1979, was in 1982 incorporated into the Ministry of Foreign Economic Relations and Trade (MOFERT), shifting government approval power for investment contracts to an institution that operates at the same level as other interested ministries, and thus lacks sufficient coordinating authority over them. This has created problems for some foreign companies, which have found that even after receiving MOFERT approval their contracts have not received the full cooperation of other government organizations in the absence of specific agreements with them.

Vietnam has avoided another Chinese administrative pitfall by authorizing SCCI not only to approve the investment contract but also *simultaneously* to issue the investment license required to initiate business operations. By contrast, China requires the parties to obtain MOFERT approval and then to apply to the State Administration for Industry and Commerce (SAIC) for the investment license. This additional bureaucratic hurdle occasionally proves troublesome when SAIC exercises its discretion independently to review—and in some cases, to insist on changes in—aspects of the contract despite MOFERT's approval.

Troublesome changes

Yet not all of Vietnam's changes to Chinese laws represent improvements from the foreign investor's viewpoint, especially in the vital areas of corporate taxation and foreign exchange. The provisions concerning the taxation of foreign enterprises that appear in Vietnam's foreign investment law and implementing decree are rather vague, and give SCCI great discretion in determining the tax treatment of each enterprise. While a 1989 circular issued by the Ministry of Finance clarifies somewhat the bases on which most enterprises will be taxed, the arrangement remains confusing and potentially arbitrary even compared to Chinese legislation, which has been criticized for imprecision.

Photo courtesy of Laurence J. Brahm

Many Vietnamese, like this Ho Chi Minh City shoe salesman, are quite familiar with Western business practices.

Foreign exchange rules, by contrast, are not so vague. The problem with them is that they insist not only that joint ventures balance their foreign exchange earnings and expenses, but also that the enterprise earn enough foreign currency to cover wages paid to Vietnamese employees—even though the wages will be paid in Vietnamese currency. This effort to maximize the country's foreign-exchange earnings will be a substantial disincentive to foreign investors seeking to take advantage of Vietnam's low labor costs.

Furthermore, the rules applying to the dissolution of joint ventures also contain restrictions designed to enhance Vietnam's foreign currency holdings, by requiring that, for example, in ordinary cases the transfer of the foreign investor's share of the capital remaining after payment of debts must be spread out over three years in equal amounts rather than paid in a lump sum, as China provides. Though this requirement is not in itself a significant deterrent to investors, unexpected events in China over the past year that have precipitated the dissolution of a number of joint ventures will lead potential Vietnam investors to look more carefully at dissolution provisions than they might otherwise have done.

Making progress

Though Vietnam's new foreign business legislation is far from perfect, it nevertheless represents remarkable progress—from virtually nothing several years ago to the underpinnings of a plausible system. Thanks to the legislation, and despite the US trade embargo, over 100 foreign investment projects representing companies from some 15 countries have already been approved, involving authorized capital of over $800 million, most of it Western equity in offshore oil projects. Other sectors that have attracted significant foreign interest are hotels and tourism; light industrial projects, including assembly of electrical components and manufacture of textiles; and aquaculture and fisheries.

Hanoi officials are quick to acknowledge their inexperience with both the new legislation and with foreigners, as well as the incompleteness of the legal system. The Vietnamese—especially in the South—are also sometimes willing to learn from foreign companies about how to cooperate to achieve goals of certain industries and to be very flexible in applying legislation to meet the needs of the transaction. In the hotel industry in particular, some deals have benefitted from very flexible interpretation of tax provisions to accommodate the industry's unique needs.

Handicapped by inadequate infrastructure, lack of capital, scarcity of trained workers, and frequent changes in policy—not to mention the general rigidity of socialist ideology and a central planning regime—Vietnam really needs an attractive legal system to lure foreign investors with vital cash and expertise. Vietnamese officials know this, and are doing their best to build one, borrowing from—and improving upon—Chinese models. 完

书刊介绍 Bookshelf

Beijing Jeep: The Short, Unhappy Romance of American Business in China

Jim Mann. New York, NY: Simon & Schuster, 1989. 333 pp. $19.95 hardcover.

As the title implies, Jim Mann's book attempts to illustrate the general disappointment of American companies in China during the 1980s through a detailed case study of the most notorious American joint venture in China, the Beijing Jeep Corp. Though well written and thoughtful, this book by the former *Los Angeles Times* Beijing correspondent is a better case study of one company than a definitive assessment of the overall experience of American business in China.

The vicissitudes of the jeep joint venture, from the start of negotiations with American Motors Corp. (AMC) in 1978 to the temporary evacuation of Chrysler expatriates from Beijing during June 1989, are described in compelling detail. Mann brings to life important features of AMC/Chrysler's experience which will seem archetypal to China veterans: problems with identifying and influencing Chinese decision-makers, pervasive bureaucratic interference in factory management, conflicts between Chinese bureaucracies and the American company, the boom and bust cycles of the Chinese economy, and so on.

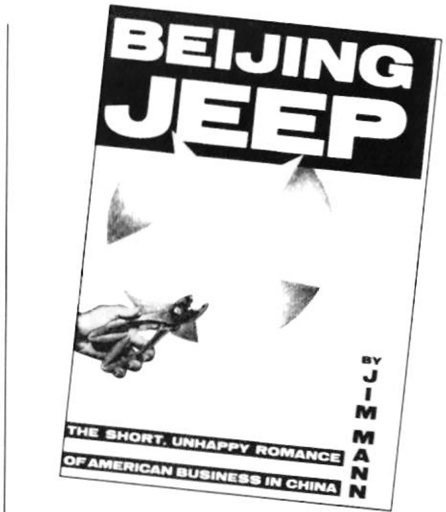
The story of Beijing Jeep's much-publicized foreign-exchange crisis in 1985-86, which threatened to close down the project but ended up transforming it into a "model" joint venture, is told here with more clarity and detail than in any other account. This melodrama not only makes fascinating reading, but also highlights the fact that much of China "business" is really about politics.

Unlike other books about the US business experience in China, *Beijing Jeep* makes a commendable effort to give the Chinese perspective. Although the author's access to Chinese personnel was clearly limited, he nonetheless convincingly depicts the Chinese reaction to American extravagance and high-handedness. Using vignettes about seemingly trivial phenomena, such as the posture of Chinese negotiators, he shows how unfairly critical Americans often are of unfamiliar Chinese actions. Overall, his effort to apportion responsibility for Beijing Jeep's troubles to the American and Chinese partners is objective and even-handed.

One problem with the case study of the Beijing Jeep venture is that Mann relies too much on the perspectives of former AMC International Vice President Tod Clare and former Beijing Jeep President Donald St. Pierre. Despite the lack of sufficient alternative sources, the reader will find that the illumination of the venture's inner workings more than makes up for the potential distortions drawn from the testimony of these far-from-disinterested observers.

Interspersed throughout the book are general chapters on China's economy and trade and information on US-China business relations over the past decade. Although these sections lend some broader perspective to Beijing Jeep's experience, they are not of the same quality as the case-study section of the book.

Mann's chief failing is his tendency to cast the entire US business experience in China in terms of deceptive public relations (Chinese as well as American) and disappointed expectations. Most of the vignettes about companies other than AMC/Chrysler (including Orlando Helicopter, Westinghouse, Beatrice Foods, Hill & Knowlton, and others) depict executives or politicians ignorant (often willfully so) of the gap between the rhetoric of a modernizing, westernizing China and the reality of a bureaucratic, suspicious, tradition-bound China. Without exception, their bubble eventually bursts as the real China emerges, most shockingly



with the Tiananmen massacre.

While it's true that the heady hopes of American companies in the early days of the Deng Xiaoping reform era have been disappointed, Mann overlooks the fact that not all US companies have failed in China. Barely mentioned are the profits earned by US bulk chemical, lumber, and aircraft manufacturing companies, as well as toy, shoe, and luggage makers in China, not to mention the successes of petroleum exploration and high-technology companies.

The fact is that many American executives had even before the Tiananmen incident become considerably more realistic about China than they were in the early days of Deng Xiaoping. Many had reached the same conclusion that could be drawn from a careful reading of *Beijing Jeep*—that business in China tends to be uneven, cyclical, and difficult, suitable for some companies and not for others, but by no means uniformly unrewarding or unchanging.

This point is most powerfully and ironically illustrated by the fact that even Beijing Jeep's bottom line has been favorable. As former AMC Chairman W. Paul Tippett once described the venture: "Pretty it wasn't—profitable it was."

—Martin Weil

China Hand:
Investing, Licensing, and Trading Conditions in the People's Republic of China

This enormous set of information is a valuable aid to anyone doing business in China. Virtually all aspects of business and trade are addressed within this two-volume reference. The biggest challenge is to figure out where to look—but fortunately the systematic table of contents, tabs, and numerous indexes make this an easy task.

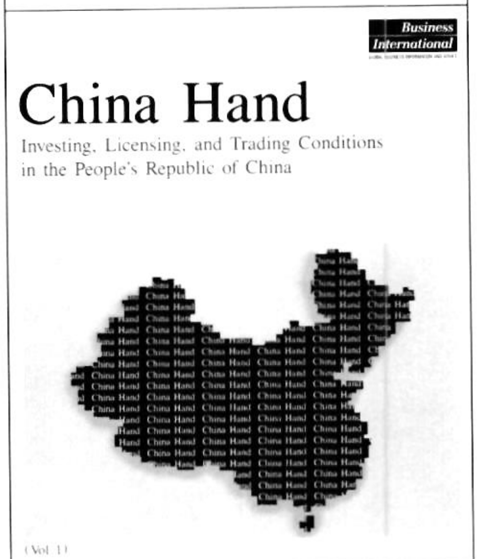
Business International, which produces among other publications the *Business China* newsletter, has in *China Hand* placed business trends and developments in their historical context and provided essential reference materials, such as relevant Chinese laws and regulations and general information about China.

A significant disappointment is the lack of case histories—an important and popular component of the *Business China* newsletter. *China Hand* should have them, too, in order to illustrate how regulations are implemented and how companies have adapted their operations to real-life practices and problems. For instance, the discussion of foreign representative offices in China raises the issue of what constitutes taxable revenue, but provides little information on how companies have minimized their tax exposure.

Overall, *China Hand* scores high marks both in quality of information and ease of access. The two volumes are logically divided into 15 chapters. The first three present basic data about China, ranging from population and geography to political and economic systems. The next two chapters list foreign trade organizations and their representative offices abroad. The remaining sections cover foreign trade systems and practices in areas such as licensing and intellectual property protection; taxes; tariffs; marketing; financing; representative offices in China; countertrade; foreign investment; and regulations and conditions in the Special Economic Zones and open cities.

Hong Kong: Business International Asia/Pacific Ltd., 1990. Two-volume binder set with one-year subscription to supplements: $1,400 plus shipping charge.

The information in each chapter is thorough, well-organized, and clearly presented. For example, the section on countertrade and cooperation agreements first introduces the forms of countertrade and the various incentives and/or benefits of each. Then follows a succinct but comprehensive discussion of how these agreements work in practice, which is right on the money in its analysis of the difficulties involved in crossing ministerial lines, the additional complexities introduced by trade decentralization, and the overriding importance of the importing organization's clout in concluding a deal. The discussion also includes practical tips, suggesting, for example, that countertraders write separate buy and sell contracts. A list of actual deals concluded is helpful, but tantalizingly brief. This section, like all the others, ends with an index and appendix which provides the text of key relevant laws and regulations. It would be difficult to find a more concise, practical guide to doing business.



The very breadth of information poses the biggest obstacle to making this book easy to use; for instance, the spines of the binders span more than two inches, and it's difficult to turn pages. More significantly, the sections were written at different times (the dates of publication are noted in each section), and thus some are out of date or at least questionable. For example, the chapter on investment was written in May 1988, the money and banking section in June 1987, and the list of Chinese trade and commercial offices abroad is dated as early as March 1986! The subscription service providing new pages will have to work hard to keep all the chapters equally trustworthy and useful. Also, it would be more convenient to be able to receive the updates in both printed form and on computer disks—the latter would not only be easier to work with than the binders, but would cut back substantially on hefty shipping costs.

China Hand is an excellent reference for businesspeople, corporate counsel, and consultants. Less expensive alternatives are available, but none approaches the scope of these two volumes. Though the price would seem to confine its appeal to those seriously committed to China business, for a company still contemplating involvement it may be a more cost-effective resource than hiring a consultant.

—Richard Brecher

One Year After: Accounts of Tiananmen

One year after the June 4 massacre near Tiananmen Square, an abundance of books has appeared as eyewitnesses and China-watchers strive to shed light on the events and to commemorate them.

One of the earliest to publish an account of Tiananmen was Harrison Salisbury, a career *New York Times* journalist who happened to be in Beijing last June to complete a television documentary. ***Tiananmen Diary*** reprints his actual journal, giving a vivid record that is unfortunately quite limited in scope. Salisbury arrived in Beijing on June 2 and departed June 7, spending most of those five days in his seventh-floor room at the Beijing Hotel. Though this afforded him a bird's-eye view of events in the square, he provides little background or analysis into the dynamics of the students' demands and the leaders' internal struggles that dictated the action. Everything hidden from Salisbury's physical view was apparently beyond his mind's eye as well.

A more comprehensive diary account comes from a scholar also on the scene in June. Michael S. Duke arrived in Beijing May 18 intending to interview several Chinese authors, but ended up writing an account of the demonstrations called ***The Iron House***. Biking around the city and interviewing students gave Duke a much broader scope than Salisbury, yet he relies to a surprising degree on second-hand reportage. Duke's sympathetic view of the students' protests is reflected in the appendix, which lists relief organizations worldwide involved in documenting Tiananmen events and assisting Chinese students abroad.

Going beyond graphic eyewitness reports, Canadians Scott Simmie and Bob Nixon add historical background to their account of the demonstrations, ***Tiananmen Square***. The narrative is woven from chronologies of events, lessons from Chinese history, and personal interviews with ordinary Chinese. This blend will help readers without extensive knowledge of China understand how the demonstrations fit into the contemporary Chinese scene. However, the account occasionally veers far off the main narrative track, which is cluttered by details about the Great Leap Forward, Gorbachev's reforms, and the life of hunger-striking Taiwanese singer Hou Dejian, among other things, leaving the reader searching for the focus promised by the title.

In ***Crisis at Tiananmen***, Chinese journalist Yi Mu and Mark Thompson also strive to provide context for understanding the events of last spring. In addition to giving a broad chronicle of the protest movement, the authors analyze the causes and effects of each development to give a cohesive, multifaceted picture of the uprising and its aftermath. Particularly helpful are reprints of key articles and speeches, such as the April 26 article in *People's Daily* condemning the students, Premier Li Peng's declaration of martial law, and a transcript of the testy, televised exchange between student leader Wu'erkaixi and Li Peng.

Prominent Chinese investigative reporter Liu Binyan offers succinct coverage of the events, along with profound insights from his career, in his book, ***Tell the World***. The book's three parts discuss the demonstrations, why they took place, and what they mean for China's future. Liu paints a picture of a China disintegrating in recent years, of which the

Tiananmen Diary: Thirteen Days in June
Harrison E. Salisbury. London: Unwin Paperbacks, 1989. 176 pp. $9.50 softcover.

The Iron House
Michael S. Duke. Layton, UT: Gibbs Smith, 1990. 160 pp. $7.95 softcover.

Tiananmen Square
Scott Simmie and Bob Nixon. Seattle, WA: University of Washington Press, 1989. 224 pp. $14.95 softcover

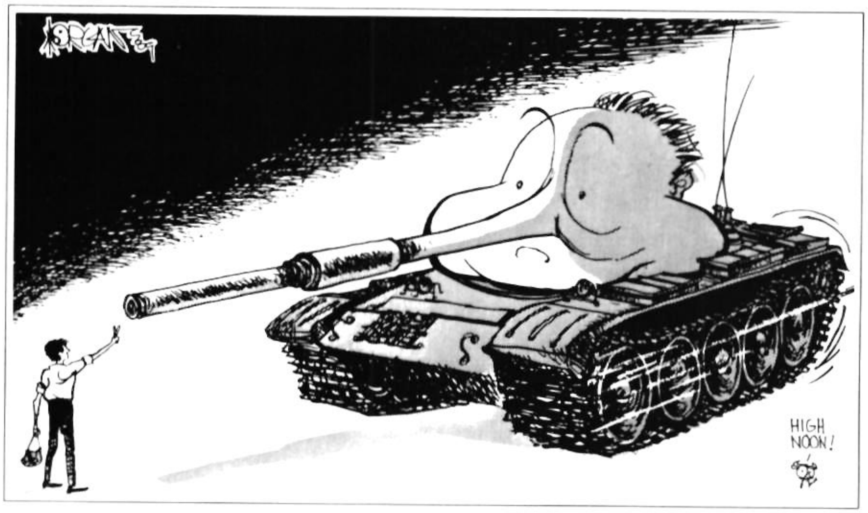
Tell the World
Liu Binyan. New York, NY: Pantheon Books, 1989. 195 pp. $18.95 hardcover.

Crisis at Tiananmen: Reform and Reality in Modern China
Yi Mu and Mark V. Thompson. San Francisco, CA: China Books & Periodicals, 1989. 283 pp. $14.95 softcover.

Ying Xiong Shi Ye
Hong Kong: Zheng Ming Publishing Co., 1989. 64 pp. Price N/A softcover.

Beijing Spring
Photographs by David and Peter Turnley. Hong Kong: Asia 2000, 1989. 176 pp. $24 softcover.

Tiananmen: A Cartoon Series
Morgan Chua. Hong Kong: Chinatown Publications, 1989. 112 pp. $25 softcover.



MAN AND MACHINE
NEWS ITEM: A LONE MAN STOPPED A COLUMN OF TANKS

Morgan Chua, Asia's leading political cartoonist, draws scathing sketches to commemorate last spring's events in *Tiananmen: A Cartoon Series*.

Photographs in *Heroic History* and *Beijing Spring* powerfully capture the story and spirit of the movement.

1989 demonstrations are but one manifestation. He describes actual incidents—such as peasants angrily and violently resisting tax collectors—to show how dissatisfaction with the system has been building throughout China. His anecdotes from the countryside—where most foreign journalists never go—give this book more meat and meaning than most other accounts of Tiananmen.

Photojournalists have also mined their experiences in Beijing to produce collections of photographs of the demonstrations and their tragic aftermath. From Hong Kong, the Zheng Ming Publishing House's book of photos, ***Ying Xiong Shi Ye***, (*Heroic History*) covers 50 climactic days of the movement. Though the quality of the photos (with captions in Chinese) reveal the haste with which the book was slapped together, even the fuzziest shots remain powerful and painful. A much more professional rendition also comes from Hong Kong: Asia 2000 has released a collection of photos by two American photographers, the Turnley brothers, called ***Beijing Spring.*** The book's large, sharp images and the short accompanying captions focus on both the triumph and tragedy of the movement. It's impossible to flip through quickly—the photos demand attention.

Asia's most famous political cartoonist, Morgan Chua of Singapore, uses his unique talents to document events—and to satirically sting some of the players in ***Tiananmen: A Cartoon Series.*** While most of his drawings don't require captions—it's hard to miss the meaning behind his caricature of Deng Xiaoping's head as the body of a tank, for example—many of his images presuppose familiarity with Chinese history, politics, and customs. He refers several times, for instance to early 20th century poet Lu Xun, to Jiang Qing, the former Madame Mao, and even to the hungry ghost festival, which is not commonly known outside China. As the triumph of the demonstrations turned into tragedy last spring, Chua's tone correspondingly darkens; joking visual and verbal references to Deng's diminutive stature give way to scenes of mayhem with the leader, now drawn huge and terrifying, at the center of destruction and blame.

—Dan Reardon

Interview

Born in Hainan in 1922, David S. Tappan, Jr. has helped oversee nearly two decades of Fluor Corp.'s involvement in China. On the occasion of his retirement this year as chairman and CEO of Fluor and as a long-time member of the US-China Business Council's board of directors, Tappan reflected with CBR Editor Sharon E. Ruwart on how China has changed in his lifetime—and what the changes have meant for business.

A Long-Term Look at China

CBR: *Tell me about your background in China.*

Tappan: I have a standard reply to "Oh, you were born in China!" It has two parts. One is: My parents dominated that issue—I didn't have much say about it. Second, one-fourth of the people born in this world were born in China, so anybody who *wasn't* born there has kind of defied the law of averages!

But being born in Hainan Island is unusual—maybe even weird. My parents were educational missionaries in the Presbyterian church and my father was involved in organizing middle schools, which he did for a number of years in Hainan.

I spent 12 of my first 18 years living in the Far East. I lived on Hainan, in Hong Kong, Canton, Shanghai, Peking . . . schooling was catch as catch can. For two years I went to British schools. First grade I went to the Peak School in Hong Kong . . . later I spent seven years in Shanghai's American school.

CBR: *You came to the United States for college in the late 1930s. When did you next return to China?*

Tappan: I was not back in China until the late 1970s. As soon as Nixon made his [1972] trip to China, we in Fluor got interested in China, and started getting involved in China in about 1973, a year after the Shanghai Communique. We took a long-term view that China was eventually going to open up and we had to be involved. I share Richard Nixon's philosophy on this absolutely—it's a matter of when, not whether, China will be major player on the world stage. So Fluor got involved with what was then called the National Council for US-China Trade [now the US-China Business Council] . . . and played an active role in what the Council was trying to accomplish, which was basically to promote US-China trade relations.

CBR: *Has your China background given you an edge in doing business there?*

Tappan: If there was any real relevance it would be in understanding the Chinese mentality and their culture. To the degree I could help interpret for the people that didn't have that background, it was helpful. But it's more a psychological plus than a practical commercial plus. We don't get jobs in China because I was born in China—that's ridiculous. But it doesn't hurt. The Chinese know that you probably understand them better than somebody who doesn't have that background, so they feel more comfortable . . . it's an advantage—but a small one, not a big one.

CBR: *How did Fluor's China strategy evolve?*

Tappan: We have a very consistent philosophy on doing business around the world, and it makes no difference whether it's China or Czechoslovakia. First of all, you have to have a long-term view. Every time I've ever been asked this in China I've said 'We're interested in doing business with you for a minimum of 25 years.' We're not going in for one project, in and out, fast bucks—that is the opposite of our philosophy.

Second, we go in there to really transfer technology—take what's there and build a business enterprise that can be successful by supplementing what's there. The Chinese have a whole array of strengths—and they have needs, too. So you try to structure your penetration of that market based on what's there and what can be added to it.

A third point is being a good corporate citizen. We don't necessarily believe that when in Rome you must do as all Romans do, but we certainly think that a corporation to be successful in a foreign country has to be a good corporate citizen. We work hard at respecting cultures and customs—the opposite of being an ugly American.

CBR: *How have China's austerity measures and the spring 1989 unrest changed prospects for Fluor?*

Tappan: We don't go in and invest, we work with others, but in June

1989 we had about 10 active contracts on-going in China. None of them was interrupted by the turmoil in Beijing. Since then we've signed three new contracts, and we've finished one. Since our first contract was signed in 1978 we've done about 55 contracts in China, of which two-thirds to three-fourths have been in the last three or four years.

The business environment for our company is probably better today than it was two years ago, because the Chinese are so much more flexible and eager to show they haven't turned back the clock. There's been a slowdown, but if you have a viable project today you can strike a better deal than you could two years ago.

CBR: *Are there viable projects around?*

Tappan: The most critical disadvantage is funding, foreign loans. To the degree that those were shut off and financial ties were cut temporarily, there was a serious deferral of projects. The Chinese went back to reestablishing specific priorities, which they had to do to scale [the economy] back, but as far as the individual business deal, you can make a better one today—if you've got the courage to go in there and you want to put the money in—than you could have before the Tiananmen turmoil.

CBR: *Has there been a fall-off in contracts since June or are things up to pace?*

Tappan: I'd say up to pace. Now there are significant large projects that we thought were going to happen in 1990 that are being delayed. Those projects are going to come back. The good news in recent weeks is that the World Bank has reactivated their loans.

CBR: *But those are humanitarian loans only. What if the World Bank doesn't reactivate non-humanitarian loans in the near future?*

Tappan: Even humanitarian loans are progress. But the World Bank is only one institution, though they do have a big program in China . . . it would be very helpful if we could get the TDP [US Government's Trade and Development Program] to reactivate some of the seed money that they were putting into projects, but that hasn't happened yet. Hopefully it will happen.

Right now, I think that the [Bush] administration is a little frustrated at the lack of response to some of the olive branches they've been waving, and they need some positive indications from the Chinese side that they're going to curb repression and do some other things. Until that happens, it's going to be hard politically for the administration to restore financing and trade relations at a governmental level to the position they were prior to last June.

CBR: *But even before last June the US government export finance and concessional loan programs weren't as ample as those of some other countries, and that has affected Fluor in China. Do you find the prospect of getting back to a point that wasn't ideal to begin with frustrating?*

Tappan: We've learned to live with those disadvantages. The United States is not a big supporter of US business outside its borders in any country, so its policy is not discriminatory against China . . .

I agree with US policy that we don't subsidize business but if everybody else does, it's a problem. But it's a general problem, not particularly generic to US-China trade...If you're going to operate in an international business, you learn to live with the realities that exist. And there are ways around it, so it's not fatal. You learn to cope with the Japanese. They've got their own set of idiosyncracies and there are big problems being competitive. But it's not the end-all.

The long-term perspective of a China trying to get where it wants to go—to becoming a modern nation—hasn't changed. You have a few embattled older leaders who earned their stripes on the Long March. Give them credit for it, they bought it with their blood, they're entitled to that revolution, and as long as they hang around they're fighting for their survival. After their departure from the scene, things are really going to change . . . I'd like to see the old men come to the contemporary scene a little bit more, but it's probably unrealistic to think that they will. They have a mindset that I don't think can adjust to the kinds of things that are going on in this world. With Tiananmen, they created a problem that won't die. Beneath the surface, in my judgement, things are seething.

As businesses you have to be patient and hang in there. I don't agree at all with sanctions, I don't agree with withdrawing from China—that's an arrogant US attitude that's a holdover from the days of our presumed military and economic supremacy. It accomplishes nothing, unless it makes certain people feel good that they're doing something moral and righteous at no price to themselves. But in terms of the ultimate benefit to either US business, US jobs, and the US economy, or to China's development, sanctions are counterproductive. The path to educating China to modernize, to reform, and to become more open is to stay involved.

CBR: *What's your final word on prospects for US-China relations?*

Tappan: I've been privileged to meet a lot of Chinese leaders, and one of the individuals under house arrest at the moment, [former premier] Zhao Ziyang, is one of the most far-sighted and progressive. I met with him a number of times when he visited the United States, and just before he left I asked him what had impressed him the most. He said he could not have ever possibly imagined, though people had told him it existed, the depth and the breadth of feeling for the Chinese people that exists across the United States...I can't explain it, but [it] exists in the United States more than in many other parts of the world. The Chinese are hated in some parts of the world because they're commercial hustlers. They come into town and open a laundry, and five years later, they own a square city block. People don't like that! But in the United States there's a reservoir of good will for China—and Zhao said that was the most significant thing he noticed.

I think that that's the most significant thing—the reservoir of good will and rapport that exists between the two peoples. It's troubled, and set back a little bit at the moment, but it will take more than the Tiananmen turmoil to permanently change that. We just have to be patient, stay involved, and hope that the next convulsion will be as peaceful as possible.

中外貿易 China Business

David Stifel

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
March 15, 1990

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

Agricultural Commodities

China's Imports

Dekalb Swine Breeders (US)/China National Animal Breeding Stock Import/Export Corp.
Negotiating to import 500 porkers. $900,000. 2/90.

Investments in China

Edmonton (Canada)/China National Native Produce and Animal Byproduct Import/Export Corp. and Harbin International Technology and Economic Cooperation Corp.
Will jointly produce sanitation chopsticks from white poplar. $2.9 million (C$3.4 million). (CN:70%-PRC:30%). 1/90.

China's Investments Abroad

NA (North Korea)
Yanjin Joint Marine Product Co. joint venture will annually produce 4,500 tonnes marine products in Ch'ongjin. $1 million. (NK:51%-PRC:49%). 10/89.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Import-Export Corp.; CATIC: China National Aero-Technology Import-Export Corp.; CCTV: China Central Television; CEIEC: China Electronic Import-Export Corp.; CEROILFOODS: China National Cereals, Oil, and Foodstuffs Import-Export Corp.; CHINALIGHT: China National Light Industrial Products Import-Export Corp.; CHINAPACK: China National Packaging Import-Export Corp.; CHINATEX: China National Textiles Import-Export Corp.; CHINATUHSU: China National Native Produce and Byproducts Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CMC: China National Machinery Import-Export Corp.; CNCCC: China National Chemical Construction Co.; CNOOC: China National Offshore Oil Corp.; CTIEC: China National Technical Import-Export Corp.; ETDZ: Economic Technological Development Zone; ICBC: Industrial and Commercial Bank of China; INSTRIMPEX: China National Instruments Import-Export Corp.; MLI: Ministry of Light Industry; MMEI: Ministry of Machinery and Electronics Industry; MOE: Ministry of Energy; MOTI: Ministry of Textile Industry; MPT: Ministry of Posts and Telecommunications; NA: Not Available; NDSTIC: National Defense, Science, Technology, and Industry Commission; NORINCO: China North Industries Corp.; SEZ: Special Economic Zone; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SITCO: Shanghai Investment and Trust Corp.; SPC: State Planning Commission.

Agricultural Technology

China's Imports

Danish Turnkey Dairies Ltd. (Denmark)/Harbin No.1 Dairy Products Factory, Heilongjiang
Sold processing equipment for production of sterilized milk, yogurt, and ice cream. $3.1 million (DKr20 million). 2/90.

Granitec A/S-Jesma (Denmark)/Jiashan Feed Factory, Zhejiang
Sold feed processing equipment. $2.58 million (DKr16.64 million). 2/90.

Maskinfabrikken Derby A/S (Denmark)/Guangzhou Refrigeration Industrial Corp., Guangdong
Sold production line and related equipment to produce 45,000 commercial freezers annually. $7 million (DKr45.5 million). 2/90.

Banking and Finance

China's Imports

Philips (HK) Ltd., subsidiary of N.V. Philips (Netherlands)/Industrial and Commercial Bank of China, Shanghai branch
Sold 20 automated teller machines. $620,000. 1/90.

Investments in China

Mastercard International Inc (US)/ICBC
Will issue RMB-denominated credit cards. 1/90.

Other

Industrial Bank of Japan Ltd. (Japan), Dai-Ichi Kangyo Bank Ltd. (Japan), Sumitomo Bank Ltd. (Japan), and Sanwa Bank Ltd. (Japan)/China International Iron and Steel Investment Corp., Beijing
Will extend loan to finance import of second-hand equipment from Nippon Steel Corp. for Meishan Steel Works, Jiangsu. $20 million. 3/90.

Five foreign banks/Shanghai Investment and Trust Corp.
Will extend commercial loans to upgrade equipment of industrial enterprises. $20 million. 2/90.

International Development Association (IDA), World Bank Group/Planning Commission of Jiangxi, Nanchang, Jiangxi
Approved resumption of loan for Jiangxi Agricultural Development Project. $60 million. 2/90.

Japan
Will extend government loan to develop export-oriented industrial and agricultural products. $700 million. 2/90.

Bank of Tokyo (Japan)/BOC
67 Japanese banks activated credit line to China. $2 billion. 1/90.

France
Planning financial assistance package for Citroen automobile joint venture, Wuhan. $500,000. 1/90.

Chase Manhattan Bank (US), Banque Nationale de Paris (France), Bank of East Asia (HK), Banque Indosuez, and KEB (Asia) Finance Co. (South Korea)/China Resources Holdings Ltd.
Signed loan to finance recent investments, including land development and joint ventures. $50 million. 12/89.

Chemicals and Petrochemicals

China's Imports

Pet Nitrogen Works (Hungary)/NA, Mudanjiang, Heilongjiang
Will provide training and technology for use in sorbite plant. 11/89.

Investments in China

Asia Pacific Industries (China) Ltd., a subsidiary of Asia Pacific Industries Group (US) and Alcan Aluminum (Canada)/Zhongshan Fine Chemical Industrial Company of China
Established United Aerosol and Home Products Company (Unisol) joint venture to produce industrial, household, and consumer sprays. $47 million. 1/90.

NA (France)/Xi'an
Meihekou Ethyl Alcohol Factory, funded by French company in form of compensatory trade, will annually produce edible ethyl alcohol and distillers' grain. $10.02 million (¥47.32 million). 1/90.

USSR/Shenzhen
Established building materials joint venture. 11/89.

Construction Materials and Equipment

China's Imports

Pan Asian Oasis Inc. (HK)/Shanxi Province Planning Commission
Will supply cement through Asian Development Bank's Shaanxi-Xiaoliu Railway project. $2 million. 10/89.

Investments in China

Mitsubishi Mining and Cement Co. (Japan)/Yantai, Shandong
Will establish joint-venture factory to produce 1.5 million tonnes cement annually. $131 million (J¥20 billion). 3/90.

NA (France)/Heilongjiang Forestry Administration, Jiamusi City
Sino-French Comprehensive Furniture-Processing Co. joint venture began batch production of furniture components. FR:$17.5 million (FFr100 million) PRC: $21.2 million (¥100 million). 2/90.

Hong Kong Longson Scientific Equipment Co. Ltd. (HK)/China National Light Industrial Products I/E Corp., Chongqing branch and a company in Zhuhai
Established Chongqing Kelike Glassware Co. Ltd. joint venture to produce and export $300,000 worth of glass goods in 1990. $169,000 (¥800,000). 1/90.

PPG (US)/Dalian Glass Factory
Planning to establish joint venture to produce 136.5 million kilograms of glass annually. $100 million. 12/89.

Consumer Goods

Investments in China

Tokuyama Soda Co. (Japan), Shinsho Corp. (Japan), and Figaro Engineering Inc. (Japan)/NA, Tianjin
Planning to establish joint venture to produce home-use gas sensors and alarms. Production to begin 1991. $4.12 million (J¥630 million). (JP:40%-PRC:60%). 3/90.

Edmin Corp. (US)/Lugouqiao Agricultural, Industrial, and Commercial Corp. and CITIC
Operations begun at Beijing Xinmen Spectacle Co. joint venture producing sunglasses, lenses, and videotapes for export to the US. $2.48 million (US:25%-PRC:75%). 2/90.

NA (US)
Started operation of Jinling Jewelry and Ornament Company Ltd. joint venture. $1.5 million. (US:70%-PRC:30%). 2/90.

Seiko Instruments Inc. (Japan)/Dalian Watch Industry Co.
Established Dalian Jingmi Industry Co. Ltd. joint venture to produce watch components for export to Japan. $22 million. (JP:65%-PRC:35%). 1/90.

Triple Y Co. Ltd. (HK)/Panyu Real Estate Development Co.
Work begun by Lok Kai New Town Development Co. joint venture on three-year development project on Shajiao Island, Guangdong. 1/90.

Japan Gourmet Powder Co. (Japan)/Tianjin Non-Staple Food and Flavourings Co. and affiliate Tianjin Guangrong Soy Sauce Factory, Tianjin
Tianjin Tianwei Gourmet Powder Co. Ltd. joint venture has begun operations, processing vegetable protein hydrolysate liquid in Tianjin Economic-Technological Development Area. $450,000 (¥2.1 million). (50-50). 12/89.

Electronics and Computer Software

China's Imports

Compagnie des Machines Bull (France)/Science and Technology Information Institute of the China Nuclear Industry General Corp.
Sold DPS7000-260 mid-range mainframe computer system including MISTRA and TEMPUS-LINK software. 2/90.

MAG Co. (Austria)/Fuzhou Electric Wire Plant, Fujian
Will sell wire production lines and test equipment. $5.74 million (AS68.32 million). 2/90.

Hitachi Ltd. (Japan)/Jinjian Electric Factory, Chengdu, Sichuan
Will sell video tape recorder assembly and production technology. 1/90.

Mitsui & Co. (Japan) and Fujisawa Co. Inc. (Japan)
Will sell manufacturing technologies for compound metal parts used in switches and TV tubes. 1/90.

Automated Systems (HK) Ltd./Ministry of Public Security
Sold three DEC MicroVAX computers with Easyway networking control systems for use in Beijing, Shanghai, and Guangzhou airports. $128,200 (HK$1 million). 9/89.

Investments in China

NA (HK)/Foshan No.6 Radio Factory
Donggang Electronic Industrial Co. Ltd. joint venture commissioned to annually produce 15 million volt dependent resistors. 2/90.

NA (Japan)/Shanghai Mould Research Institute
Shanghai Youtaike Software Corp. joint venture approved by Chinese authorities. Expected output in first operation year: $250,000. 2/90.

Canon Inc. (Japan)/Zhuhai
Established wholly owned subsidiary to manufacture 1,250 compact cameras per month. $10 million. 2/90.

Elite Industrial Holdings Ltd. (HK)
Opened Elite Building in Shenzhen to manufacture and assemble answering machines, telephones, cameras, projectors, laser printers, and plastic injection molding machines. $21 million. 2/90.

Kisho Corp. (Japan)/Kaiping, Guangdong
Started operation of factory producing portable audio equipment. $2.49 million (J¥380 million). 2/90.

Other

Arab Bank/Yichang Steel Strip Co. Ltd., Sino-British joint venture
Will extend loan to fund import of steel-making equipment. $10 million. 2/90.

Military Equipment

Investments in China

Pakistan/Nanchang Aircraft Manufacturing Co.
Jointly developed K8 jet trainer to be launched in May 1990.

Packaging, Pulp and Paper

China's Imports

Black Clawson International Ltd. (US)
Will sell $90,000 worth of de-inking equipment and $300,000 worth of screening equipment to a mill in northern China. 12/89.

Investments in China

Hong Kong-Macao International Investment Co. Ltd/Shandong Paper-Making and Printing Joint (Group) Corp. and Jinan High-Grade Thin Paper Mill
Established joint venture to annually produce 10,000 tonnes high-grade processed paper. $21.08 million. Registered capital $12.5 million. 1/90.

Petroleum and Natural Gas

Investments in China

ICF (US) and CMT (US)/China Shenyang Gas Corp.
Established joint venture at Shenyang Nanjiao Coalfield to develop coal seam methane gas. 1/90.

Pharmaceuticals

China's Investments Abroad

NA (Australia)/Guilin Pharmaceutical Factory
Established Xingjiagui Medicine Production Co. Ltd. in Melbourne to annually produce 50 tonnes of levamisol. 1/90.

Power Plants

China's Imports

Stewart and Stevenson Services Inc. (US)/ Shenzhen Huaneng Economic Development Co. (Sino-HK joint venture), Shenzhen
Sold 100,000kw gas turbines and equipment for construction of 200,000kw gas turbine power plant. $39 million. 12/89.

Investments in China

China Light and Power (CLP) (HK)/Guangzhou Pumped Storage Developement Co.
CLP to buy rights to 50% of capacity of Guangzhou Pumped Power Station. 1/90.

Nanhaiyang Co. (HK)/Shenzhen Xi Li Electronics Industry Development Co. and Hua Tien Southern Development (Group) Co., Shenzhen
Nanshan Thermal Power Plant joint venture to begin operation March 1990. Annual production capacity: 3.6 billion watts. $53 million (¥250 million). 1/90.

NA (Japan)/Liaoning
Will build joint-venture dam and hydropower station, Guanyinge Resevoir, Taizi River. Capacity: 70 million kw/h annually. $135,000 (J¥20.67 million). 12/89.

China's Investments Abroad

Bangladesh Power Development Board/CMC
Will set up 210 MW thermal power station at Raozan in Chittagong, Bangladesh. China will provide suppler's credit on deferred payment basis covering 90% cost of equipment and 30% construction cost. 1/90.

Other

Stewart & Stevenson Services (US)/Shenzhen Huaneng Economic Development Corp.
Will provide design and assembly services and procure US sales for 94 mw gas turbine power plant through Export-Import Bank (US) loan. $33.6 million. 3/90.

Ka Wah International Merchant Finance (HK) and four international banks/Guangdong Sanshui County Hekou Power Plant
Extended loan to finance power plant construction. $14 million. 11/89.

Property Management and Development

Investments in China

Dong Jian Real Estate Co. Ltd, a wholly foreign owned venture (HK)
Will construct Yuk Yung Garden on 28 acres comprising 15 luxury residential buildings in Fuzhou, Fujian. $12.7 million (¥60 million) 1/90.

Scientific Instruments

Other

Japanese Scientific Research Instruments Co. Ltd. (Japan) and Shinsei Trading Co. (Japan)/China National Electronics Import/Export Corp. and Beijing Huihua Electronics Engineering Co.
The Scientific Research Instrument Maintenance Service Center joint venture opened in Beijing. 12/89.

Ships and Shipping

China's Imports

HDW Shipyard (FRG)/Shanghai Ocean Shipping Co.
Delivered 48,000 tonne container ship. 12/89.

Telecommunications

Investments in China

N.V. Philips (Netherlands)/Yangtze Optical Fiber and Cable Co. Ltd., Wuhan, Hubei
Established joint venture to produce optical fiber and cables. $38 million (G72.5 million). (50-50). 12/89.

Other

NA (Japan)/Fuzhou, Fujian
20,000 F150 program controlled telephones and 2,000 line program-controlled long-distance exchangers went into operation. 1/90.

Nippon Telegraph and Telephone (NTT) Corp. (Japan)
Resumed helping China establish information systems for economic analysis through Japanese government loan. 1/90.

Textiles

China's Imports

Asahi Chemical Industry Co., Kanebo Ltd., Mitsubishi Rayon Co. Ltd., Toho Rayon Co., Toray Industries Inc., and Toyobo Co. (Japan)
Will resume imports of acrylic fibers. 3/90.

LK-NES (SEA) PTE Ltd., a subsidiary of GN Store Nord A/S (Denmark) and NA (HK)/Shanghai Nankong Military and Machine Factory
Operations begun at Shanghai LK Electrical Co. Ltd. joint venture to produce power distribution equipment. 2/90.

NEC Corp. (Japan)
Will establish two joint ventures to produce integrated circuits and digital switching boards in Beijing and Tainjin. $300 million. 2/90.

Samsung Corp. (South Korea)/Huali Electronics Co. Ltd.
Korean firm acquired 19% stake in Chinese firm. $1.1 million. 2/90.

Philips Co. (Netherlands)/Caohejin New Technology Development Area, Shanghai
Shanghai Philips Semi-Conductor Co. joint venture will begin production of double-diode integrated circuits, TVs, radios, and stereos by end of 1991. Investment: $52 million. (ND:49%-PRC:51%). Registered capital: $17.6 million. 1/90.

Philips Electronics South-East Asia Holding B.V., a subsidiary of N.V. Philips (Netherlands)/Zhu Kuan Investment and Development Co. Ltd., Zhuhai
Established joint venture to produce shavers, hairdryers, and irons. $5 million. 1/90.

3Com Corp. (US)/South Information Enterprise Co. Ltd., Shenzhen
Established 3Com-China Co. joint venture to work on continued establishment of on-line networking application. (50-50). 12/89.

Canon Inc. (Japan)/Dalian
Will establish wholly foreign owned venture to manufacture toner cartridges for photo copier machines. 12/89.

Ion Laser Techology (US)/Shanghai Institute of Laser Technology, Shanghai
Joint venture to manufacture laser equipment. $2.3 million. (US:26%-PRC:74%). 12/89.

NA (Hong Kong) and NA (Japan)/Shenyang Peripheral Equipment Factory
Established Shenyang Tianxing Peripheral Equipment Co. Ltd. joint venture to manufacture printers, word processing systems, monitors, floppy disk drives and other peripherals. $1 million. 11/89.

China's Investments Abroad

NA (US)/Chongqing, Sichuan
TCC Electronics Co. joint venture will begin production of black-and-white and color pickup cameras, liquid crystal television sets, and video liquid crystal displays, in Holliston, MA, in April 1990. $800,000. (50-50). 1/90.

Environmental Technology and Equipment

Other

International Development Bank
Loan extended to improve water and sanitation in rural areas. $100 million. 12/89.

Food and Food Processing

Investments in China

USSR/NA, Shenzhen
Established bean canning factory. 11/89.

Machinery and Machine Tools

China's Imports

Logan Company (US)/Shenzhen Post and Telecommunications Bureau, Shenzhen
Sold automatic parcel- and mailbag-handling system. $2.8 million. 1/90.

Investments in China

Ingersoll Co. (US)/Qingdao Qianshao Machinery Plant, Qingdao, Shandong
Joint venture will produce model 7801 pneumatic drills, valued at $1 million, to be sold in the US. $508,000. 1/90.

NA (Japan)/Yantai Economic Development Zone
Established Yantai-Huchuang Technological Research Co. Ltd. wholly foreign owned venture to annually produce 1.2 million sets of 201EX bearings for sale on the world market. $196,000 (J¥30 milllion). 1/90.

Plantechnik Industrial equipment Co. (FRG)/three Chinese enterprises, Liaoning
Will establish Dalian-Cologne Chain and Sprocket Company Ltd. to annually produce 3.4 million meters of chains. $21 million (¥99.8 million). 12/89.

China's Investments Abroad

Jianlong Industrial Co. (HK) and Guangchang Machinery and Wood Factory (Thailand)/Guangdong Enterprise, Shantou branch
Established Jianlong (Thailand) Industrial Co. joint venture in Thailand to produce sawing machines and wood products. (HK:35%-TH:30%-PRC:35%). 11/89.

Medical Supplies and Equipment

China's Imports

Merck & Co. Inc. (US)
Will supply technology for hepatitis B vaccine and train Chinese technicians and engineers in US. 12/89.

China's Investments Abroad

Gulistan City (USSR)/Dalian Foreign Economic and Trade Corp.
Jointly operated hospital to be established in Gulistan City. Ruble1.5 million. (USSR:50%-PRC:50%). 2/90.

Other

UNICEF
Will extend grants for 20 projects in 1990-94 involving maternal and child care, training of school teachers, immunization, research, and rehabilitation. $80 million. 12/89.

Metals and Minerals

China's Imports

Maschinenfabrik Andritz Co., a subsidiary of Creditanstalt-Bankverein (Austria)/Shanghai Nonferrous Metals Corp.
Will sell 4-roller reversing cold rolling mill and copper plate and strip bright annealing furnace. $8.71 million (AS103.72 million). 2/90.

NA (Japan)/China National Metals and Minerals Import/Export Corp.
Sold 150,000 tonnes of seamless steel pipes. 2/90.

Nippon Steel Corp. (Japan)/Wuhan Iron & Steel Co., Hubei
Will offer technology for production of high-grade silicon steel sheets. 1/90.

Investments in China

Mitsubishi Heavy Industries Ltd. (Japan) and Sumitomo Metal Industries Ltd. (Japan)/Ministry of Metallurgical Industry
Will establish joint venture to design and engineer continuous steel-casting machinery. 1/90.

Nissho Iwai Corp. (Japan) and JGC Corp. (Japan)/Yanzhou Coal Mine Administration, Shandong
Established joint venture to produce coal and water mixture. $24.9 million (J¥3.8 billion). (JP:49%-PRC:51%). Registered capital: $8.3 million (J¥1.27 billion). 1/90.

Investments in China

NA (Indonesia) and NA (Taiwan)/Xiamen SEZ
Began construction on Xianglu Polyester Fiber Co. Ltd. joint venture to annually produce 140,000 tonnes polyester. $200 million. 2/90.

Xielian Machinery Industrial Co. (HK)/Guangzhou Baiyun Area Development Co., Guangzhou, Guangdong
Established Guangzhou Hongfa Chemical Fibers Enterprise joint venture to produce chemical fibers and yarn. $4 million. (50-50). 11/89.

China's Investments Abroad

NA (Mexico)/NA (Shanghai)
Shanghai-Mexico Garment Processing Co. joint venture began operations in Ayutla, Mexico. $1.2 million. (MX:51%-PRC:49%). 9/89.

Transportation

China's Imports

Boeing Co. (US) and McDonnell Douglas Aircraft Corp. (US)/CAAC
Plans to purchase 19 aircraft including Boeing 747s and 757s and McDonnell Douglas MD-82s. 1/90.

Airbus/China Eastern Airlines
A300-600 Airbus delivered. 11/89.

Investments in China

Peugeot Corp. (France)/Guangzhou Peugeot Co.
Opened Beijing service center to repair and provide parts for Peugeot automobiles. 11/89.

China's Investments Abroad

Aerospatiale Company (France) and NA (Singapore)/CATIC
Will manufacture parts in China for use in assembly of model P20 light duty helicopters in France. 2/90.

Chia Tai Group of Companies (Thailand)/Jinan Heavy-Duty Trucks Group, Shandong
Will launch joint venture in Thailand to annually produce and export $150 million worth of Huanghe-162 trucks. 1/90.

Other

Konrad Rosenbauer KG (Autria)/Shanghai Fire-Fighting Equipment Plant
Will sell technology and equipment with annual production capability for 40 heavy-duty fire engines. $5 million (AS60 million). 2/90.

Kuwait
Will extend government loan for Xiamen airport expansion. $20 million. 2/90.

C.A. Litzler Co. Ltd. (US)/Qingdao Number Two Rubber Co., Shandong
Will help construct semi-turnkey factory through Asian Development Bank's Qingdao Tire Development Project. $4.5 million. 12/89.

Zimmer AG (FRG)/Qingdao Carbon Black Co. and Qingdao Number Two Rubber Co., Shandong
Will help construct semi-turnkey factory through Asian Development Bank's Qingdao Tire Development Project. $17.45 million. 12/89.

Miscellaneous

China's Investments Abroad

Hamburg, FRG/Tianjin Foreign Trade Bureau
Opened West Europe Trade Corp., Ltd. joint venture in Hamburg. 2/90.

Other

Baden-Wurttemburg, FRG/Jiangsu
Will jointly finance industrial information and consulting center for promotion of economic and technical cooperation of small businesses from the two regions. 2/90.

THE US–CHINA BUSINESS COUNCIL

OFFICERS
Chairman: Charles E. Hugel
Vice-Chairmen: Jack Murphy, Alexander Brody, Steven G. Rothmeier
Secretary-Treasurer: Charles F. Jacey
Counsel: Lionel H. Olmer, *Paul, Weiss, Rifkind, Wharton & Garrison*
President: Roger W. Sullivan

BOARD OF DIRECTORS
Donald R. Beall, chairman of the board and chief executive officer, *Rockwell International Corp.*
Alexander Brody, president/international *Ogilvy & Mather Worldwide Inc.*
Alan Chien, chairman, *Abacus Group of America Inc.*
Charles B. Coe, president, *BellSouth International Inc.*
R. Derek Finlay, senior vice president, *H.J. Heinz Co.*
John W. Georgas, executive vice president, *The Coca-Cola Co.*
Thomas L. Gossage, president and chief executive officer, *The Aqualon Group;* senior vice president, *Hercules Inc.*
John A. Hinds, president, *AT&T International Inc.*
Charles E. Hugel, chairman, *ABB Inc.*
Charles F. Jacey, Jr., vice chairman International, *Coopers & Lybrand*
Philip H. Knight, president and chairman of the board, *Nike Inc.*
Michael E. Miller, vice president, administration, *Monsanto Chemical Co.*
Jack Murphy, chairman of the board, president, and chief executive officer, *Dresser Industries Inc.*
Christopher A. Sinclair, president, *Pepsi-Cola International*
David S. Tappan, Jr., chairman and chief executive officer, *Fluor Corp.*
David Tendler, chairman, *Tendler Beretz Associates Ltd.*
Paul W. Van Orden, executive vice president and member of the Corporate Executive Office, *General Electric Co.*
Gary K. Willis, president and chief executive officer, *The Foxboro Co.*

Christopher H. Phillips (Honorary), retired president, *US–China Business Council*

WASHINGTON STAFF
President: Roger W. Sullivan
China Business Review: Sharon E. Ruwart
Publications: Madelyn C. Ross
Management and Budget: Richard L. Peterman
Research: David L. Denny

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

BEIJING OFFICE
Director for China Operations: John Frisbie
CITIC Building, Suite 22C
Telephone: 5002255, ext. 2263, 2266
Cable: USCHINTRAD
Telex: 22637 NCPEKCN
Fax: 512-5854

US GOVERNMENT OFFICES IN CHINA

EMBASSY
Ambassador: James R. Lilley
Deputy Chief of Mission: Lynn B. Pascoe
Agricultural Counselor: Edwin A. Bauer
Commercial Counselor: Timothy P. Stratford
Commercial Officers: Dennis Barnes, William Brekke, Alice Davenport, Jeffrey Willis
Economic Counselor: James Larocco
3 Xiushui Bei Jie
Jianguomenwai, Beijing
Telephone: 532–3831
Telex: 22701 AMEMB CN
Fax: 532-3297

CHENGDU CONSULATE GENERAL
Consul General: Jan DeWilde
Deputy Principal Officer: Kenneth Jarrett
Jinjiang Hotel
180 Renmin Road
Chengdu, Sichuan
Telephone: 28–24481
Telex: 60128 ACGCH CN

GUANGZHOU CONSULATE GENERAL
Consul General: Dennis Harter
Deputy Principal Officer/Economic Section Chief: Stephen A. Schlaikjer
Agricultural Officer: Philip A. Shull
Commercial Officers: Todd N. Thurwachter, Jonathan Marks
Economic Officer: Robert W. Dry
Dongfang Hotel
Telephone: 669–900
Telex: 44439 GZDFH CN
Attn: USA Consulate
Fax: 66-6409

SHANGHAI CONSULATE GENERAL
Consul General: Pat Wardlaw
Deputy Principal Officer/Economic Section Chief: Matthew P. Ward
Commercial Officers: Nora Sun, Terry Cooke
1469 Huaihai Zhong Lu
Telephone: 336–880
Telex: 33383 USCG CN
Fax: 433-4122

SHENYANG CONSULATE GENERAL
Consul General: C. Eugene Dorris
Economic Officer: Stephen R. Fox
Commercial Officer: William Center
No. 40, Lane 4, Section 5
Sanjing St, Heping District
Shenyang, Liaoning
Telephone: 290038
Telex: 80011 AMCS CN
Fax: 29-0074

HONG KONG CONSULATE GENERAL
Consul General: Donald M. Anderson
Deputy Principal Officer: David G. Brown
Agricultural Officer: Phillip C. Holloway
Commercial Officers: Ying Price, Ned Quistorff
Economic Section Chief: Gilbert J. Donahue
26 Garden Rd.
Telephone: 5–239011
Telex: 63141 USDOC HX
Fax: 877-2055

PRC GOVERNMENT OFFICES IN THE US

EMBASSY
Ambassador: Zhu Qizhen
Minister Counselor for Commercial Affairs: Huang Wenjun
2300 Connecticut Avenue, N.W.
Washington, DC 20008
Commercial: (202) 328–2520 through 2527
Visas: (202) 328–2517
Telex: 440038 PRC UI
Commercial: 440673 PRCC UI

CHICAGO CONSULATE GENERAL
Consul General: Deng Chaocong
104 S. Michigan Avenue, Suite 1200
Chicago, IL 60603
Administration: (312) 346-0287
Visas and Consular Affairs: (312) 346-0288

HOUSTON CONSULATE GENERAL
Consul General: Ni Yaoli
Commercial Consul: Wang Yixuan
3417 Montrose Blvd.
Houston, TX 77052
Commercial: (713) 524–4064
Visas: (713) 524–4311
Telex: 762173 CHINCONSUL HOU

LOS ANGELES CONSULATE GENERAL
Consul General: Ma Yuzhen
501 Shatto Place, Suite 300
Los Angeles, CA 90020
Administration: (213) 380-3105
Visas: (213) 380-2506 & 2507
Fax: (213) 380-1961

NEW YORK CONSULATE GENERAL
Consul General: Tang Xingbo
Commercial Consul: Shi Jingxin
520 12th Avenue
New York, NY 10036
Commercial: (212) 330–7428 & 7427
Visas: (212) 330–7409
Telex: 429134 CGCNY

SAN FRANCISCO CONSULATE GENERAL
Consul General: Zhao Xixin
Commercial Consul: Lu Zuwen
1450 Laguna Street
San Francisco, CA 94115
Commercial: (415) 563–4858
Visas: (415) 563–4857
Telex: 4970121 CCSF