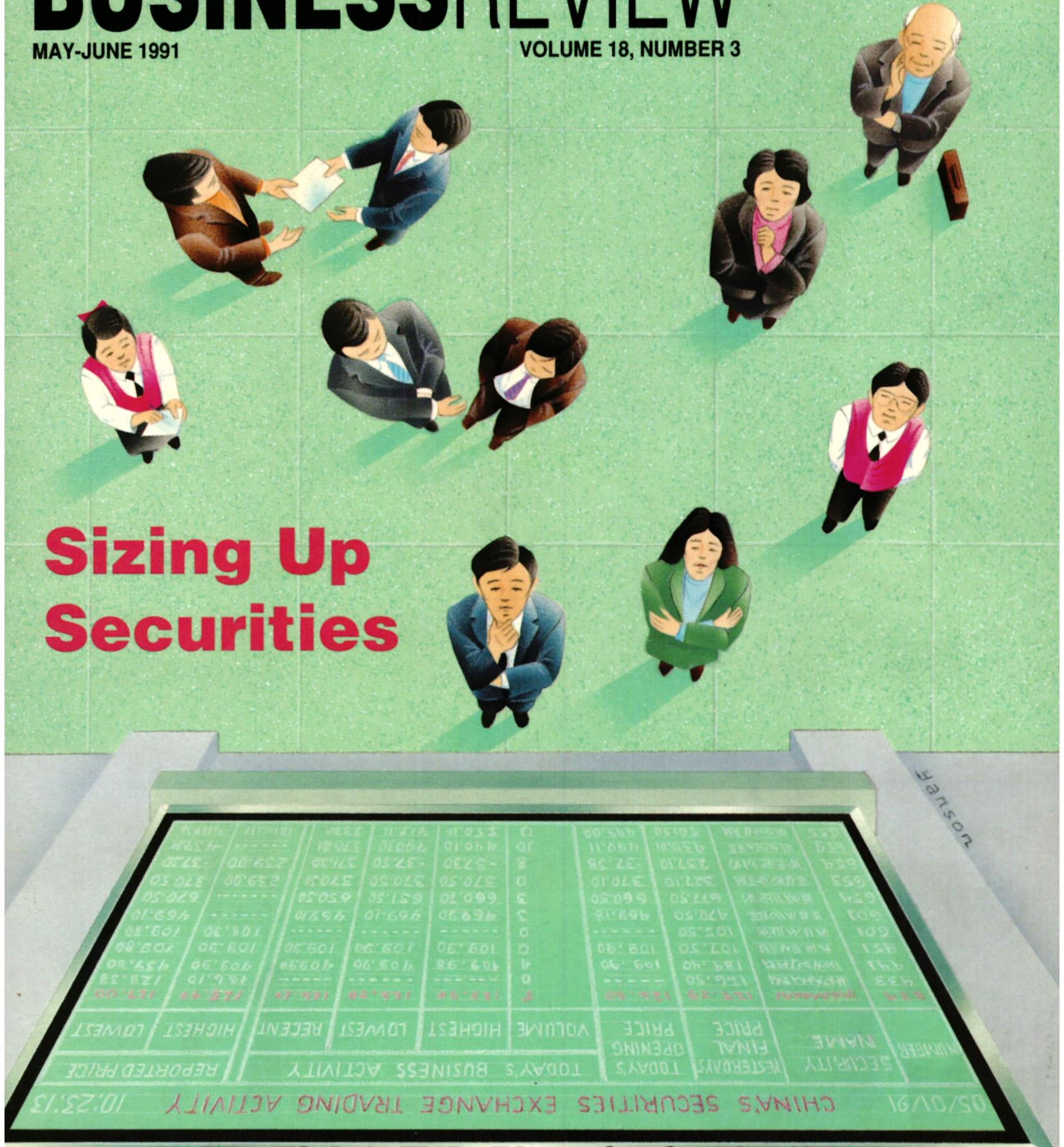
THE CHINA BUSINESS REVIEW

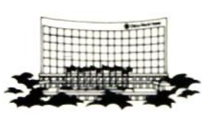
MAY-JUNE 1991 VOLUME 18, NUMBER 3



Sizing Up Securities

• The Eighth FYP: Blueprint for the '90s

• Who will pay for PADS?



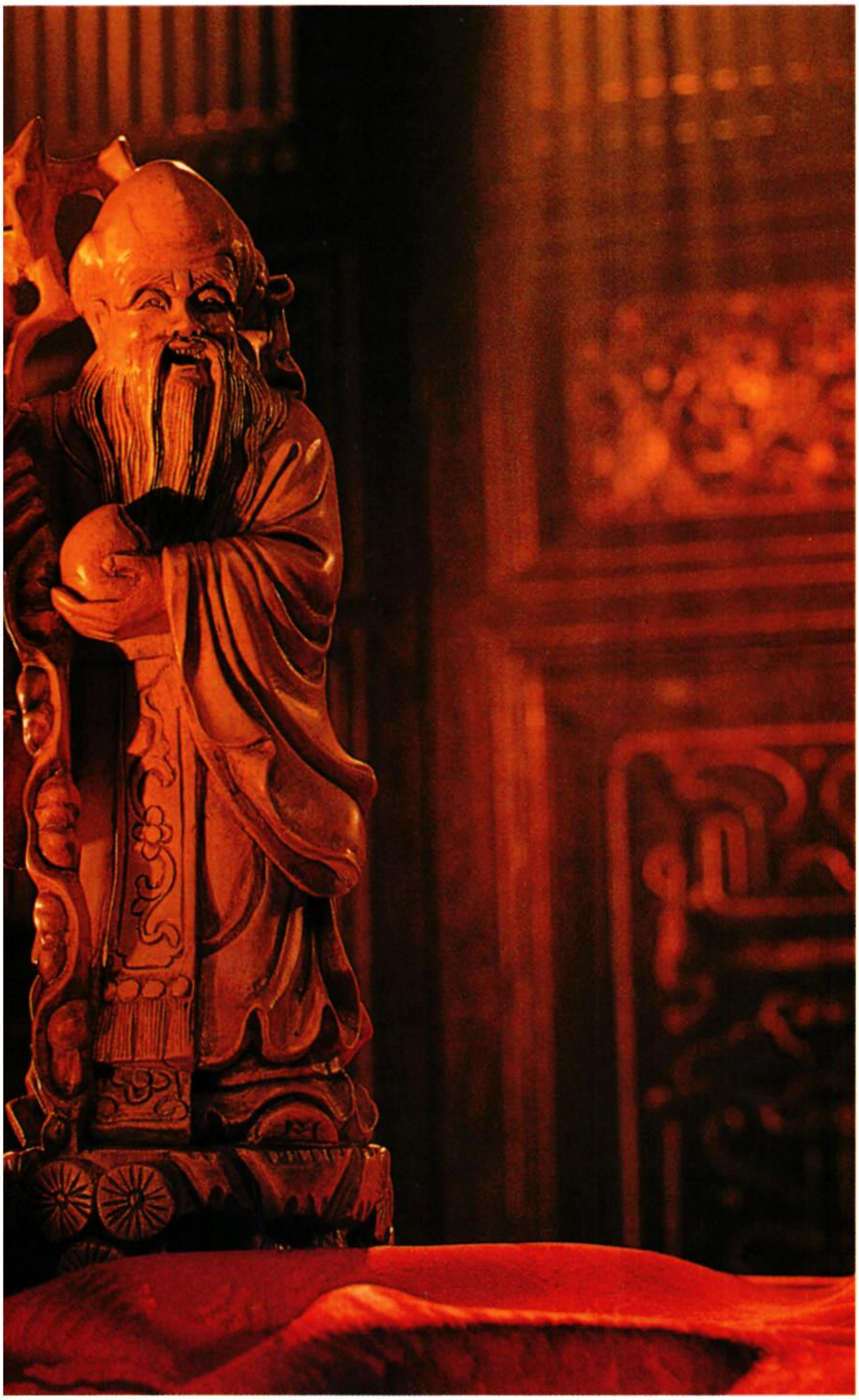
China World Hotel
Beijing

Traders Hotel
Beijing

Shangri-La Hotel
Beijing

USA & CANADA (1-800) 359 5050 • **LOS ANG**

CANADA • CHINA • FIJI • HONG KONG • INDO



Where would three wise men stay in China?

In Shangri-La's three city locations, of course!

In **Beijing**, Prosperity ("Fu") has the choice of **China World Hotel**, **Traders Hotel** or the **Shangri-La**.

In **Hangzhou**, Clever Fortune ("Lu") would choose the **Shangri-La Hotel**.

And in **Shanghai**, Longevity ("Shou") rests his weary brow at **The Portman Hotel**.

But rest assured, whichever hotel the wise men select, the God of wisdom will applaud their choice.

SHANGRI-LA INTERNATIONAL
HOTELS and RESORTS

Shangri-La Hotel
Hangzhou

The Portman Hotel
Shanghai

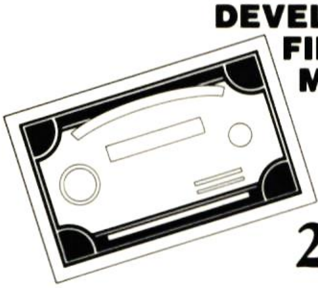
417 3483 • **NEW YORK** (212) 768 3190
LAYSIA • PHILIPPINES • SINGAPORE • THAILAND

Cover art by Jon Yanson

THECHINA BUSINESSREVIEW

MAY-JUNE 1991 VOLUME 18, NUMBER 3

Features



Departments

Letter from the President

After 10 years of service to the US-China Business Council, President Roger W. Sullivan will retire at the annual meeting in June. He will be succeeded by Donald Anderson, former US consul general to Shanghai and Hong Kong, and a longtime China specialist. Present at the Council's founding nearly 20 years ago, Anderson will now lead it into its third decade.

A Welcome Challenge

I am very pleased to have the opportunity to succeed my friend and former foreign service colleague, Roger Sullivan, as president of the US-China Business Council. My association with the Council is a long one, stretching back to its founding in 1973. At that time, I was serving as liaison officer in Paris between the US and Chinese missions following President Nixon's historic 1972 visit to China. In fact, one of the messages I delivered to the Chinese Embassy there was an overall plan for US-China commercial relations in which the Council was named as the recognized organization for US companies. Since that time, throughout all of my assignments—in Beijing, Shanghai, Hong Kong, and on the State Department China desk in Washington, DC—I have always looked on the Council as a valued partner in the promotion of US-China economic and commercial relations.

The coming year will be one of the most challenging in the Council's history. Economic retrenchment in China, recession in the United States, and strained political relations have all affected the business climate. To better serve member company needs during this new stage of US-China relations, the Council will be restructured to ensure that it continues to provide the timely, high-quality service its member companies have come to expect.

Along these lines, we will concentrate on providing targeted business intelligence, communicating to the Congress and the administration the interests and concerns of Council members, and increasing links among member companies. Our new electronic bulletin board, which we are in the process of installing, will provide a rapid and convenient means of sharing such information with Council companies.

I look forward to working closely with all of our members to enhance the Council's effectiveness in furthering US business interests in China.

Looking beyond the Council to the Sino-American bilateral relationship, there are a number of issues that will demand careful Council monitoring and input. Discussion of China's Most Favored Nation (MFN) trading status is already heating up, and the issue may prove more complex this year than last because of the US trade deficit with China, which could reach $15 billion in 1991. The upcoming debate may well focus on the attachment of conditions to MFN, rather than on whether the President's likely decision to renew MFN should be supported. The Council will again play a leading role in the fight to maintain MFN without conditions, by testifying on Capitol Hill, presenting position papers, and keeping the US business community up-to-date on developments.

During this period of heightened political sensitivity and reduced economic resources I believe the Council can enhance its effectiveness through increased networking and cooperation with other organizations whose interests run parallel to ours. Therefore, in the coming year I propose to work closely with the National Committee on US-China Relations, the Hong Kong Trade Development Council, and the American chambers of commerce in China, Hong Kong, and Washington, DC, to promote US business interests with both the Chinese and US governments.

Many people view the next few years as a holding period, both for US business and for the Council, given the current political and economic uncertainties in China. I don't agree. Despite the conflicting rhetoric emanating from Beijing, I am convinced that China is committed to economic reform and to the international trading system. I believe the Council has an important role to play in strengthening that commitment, and I look forward to working closely with all of our members to enhance the Council's effectiveness in furthering US business interests in China.

US Cracks Down on Chinese Textiles

US Customs officials, charging that China illegally exported more than $50 million worth of textiles to the United States last year via third countries, has begun applying these shipments against China's textile quotas. According to the Department of Commerce, the 1991 quota for Chinese cotton sweaters has now been 70 percent utilized, while the 1991 quota for shop towels has already been filled. Other items affected include wool sweaters, cotton pants, and ramie/silk blends.

The US government's clampdown on transshipped textiles does little to soothe growing frictions in US-China trade relations. Though the initial Chinese reaction to the ruling included threats of retaliation, the Ministry of Foreign Economic Relations and Trade (MOFERT) recently ordered Chinese textile exporters to comply with foreign countries' import quotas. According to MOFERT officials, garments and textiles destined for the United States, the European Community, Canada, Norway, Sweden, Finland, and Austria should no longer be sent through third countries. Violators risk losing their export rights and having their products confiscated. —VL

Short Takes

US Rakes in Shenzhen Contracts

US firms obtained 45 percent of the first $9 million in contracts awarded for construction of the Shenzhen airport, scheduled to open later this year. Seven US firms won bids for a total of $4 million for air traffic control, ground support, and passenger terminal equipment. The airport, designed to handle 90,000 planes and 10 million passengers per year, will be only an hour from Guangzhou once the Shenzhen-Guangzhou superhighway is completed in 1993.

More World Bank Projects Approved

The two most recent projects approved by the World Bank's executive board indicate that the Bank's China program is beginning to resume its pre-Tiananmen pace. The Liaoning Urban Infrastructure project, approved in March, is a $78 million soft loan to upgrade water resources management and urban transportation in the cities of Shenyang, Fuxin, and Yingkou. The Jiangsu Provincial Transport project, approved by the board in early April, will provide a $150 million mixed-loan package to improve transportation planning, budgeting, and design work in Jiangsu Province. As this project had twice before been withdrawn from submission to the board due to lack of basic human needs or reform components, its approval may mean that other transport and industrial sector loans will receive support in the future.

Personnel Shuffle

Two vice premiers and one state councillor were added to China's leadership at the March-April meeting of the National People's Congress. The additions are likely to have little short-term impact, though both men could be leading candidates to replace Premier Li Peng should he step down when his term expires in 1993. The new vice premiers are current Shanghai Mayor Zhu Rongji and State Councillor Zou Jiahua, while Minister of Foreign Affairs Qian Qichen was promoted to the rank of state councillor.

In another personnel change announced recently, Guangdong Governor Ye Xuanping was named vice chairman of the Chinese People's Political Consultative Conference. While Ye still retains his position as governor of Guangdong, the new posting suggests he will probably leave the governorship before too long.

There have also been several changes at the ministerial level. Hou Jie has replaced Lin Hanxiong as minister of construction, while Huang Zhendong has assumed the top post in the Ministry of Communications. In addition, Jiang Zhuping, currently vice-governor of Jiangxi Province, is likely to replace current CAAC Director Hu Yizhou. —VL

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
Pamela Baldinger

Associate Editor
Vanessa Lide

Circulation & Advertising Manager
Daniel P. Reardon

Production Manager
Jon Howard

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.

Economic Directions for the '90s

China's Eighth Five-Year Plan endorses continued reforms, but lacks a clear reform strategy

Barry Naughton

After prolonged negotiations, the proposed outline for China's Eighth Five-Year Plan (FYP, 1991-96) was approved by the National People's Congress in March. The outline provides valuable glimpses of the goals and expectations of China's leadership, and sets priorities for economic growth over the next few years. Though this outline contains familiar rhetoric about preserving socialist tenets, foreign businesspeople will find the Plan embodies a more positive attitude toward further economic reform than other official documents of recent years.

The currently available outline, however, should not be mistaken for the complete Eighth FYP; it is more a set of suggestions from the leadership to guide the drafting of the actual Plan. In the last two five-year plans, for example, several volumes—and several hundred pages—were needed to cover hundreds of economic targets. The current outline is far less detailed, and mentions only about 15 specific economic targets.

Assuming the final Plan conforms closely to the outline—as is usually the case—Beijing's clear objective is to create conditions for sustained, balanced growth. Broadly speaking, the Plan outline calls for moderate GNP growth of 6 percent per year. There is no aggregate target given for industry, but the GNP target implies a modest growth rate somewhat above 4 percent annually, which is consistent with the targets given for individual industrial commodities. If realized, a Plan based on this scenario would reverse the situation that prevailed for most of the 1980s—when industry grew much more rapidly than other sectors—and substitute a more even pattern of growth.

The Eighth Five-Year Plan seeks to reverse the situation that prevailed for most of the 1980s—when industry grew much more rapidly than other sectors—and substitute a more even pattern of growth.

Setting the Plan in motion

On the basis of the Plan outline and other documents that have not been released publicly, government ministries are currently drawing up detailed plans for each sector. In making such plans, ministries rely not only on instructions from Beijing, but also on information about investment resources available to them from central planners. The Plan outline reveals little about allocation of investment funds, though the plans drawn up by each ministry in February and March should be published by mid-year, and may provide some further insights. Once the ministries have submitted their proposals, the State Planning Commission and various government think tanks will try to integrate those recommendations into a single coordinated Plan. The detailed and final Eighth FYP should emerge some time in late 1991 or early 1992.

It is already apparent, however, that China's ministries are battling over targets and resources. For example, only two weeks after the Plan outline was published, *People's Daily* reported that Energy Minister Huang Xicheng announced a goal of 12 percent growth over five years in petroleum production, though the Plan outline called for only 5 percent growth; electricity generation was slated to grow by 42 percent for the same period, compared to the 32 percent target in the outline. These ambitious targets reflect the Ministry of Energy's desire to ensure the energy sector receives priority in funding and resource allocation.

As full details of the Eighth FYP unfold in the coming months, the outline will continue to serve as a useful guide to what the central leadership wants to happen, and will undoubtedly help shape the course of the Chinese economy in the 1990s. The Plan should not be considered a precise description of the course of economic growth over the next five years, but a tool used by the central government to guide development in directions more to the regime's liking. Viewed in this light, the Plan

Barry Naughton is assistant professor of economics at the Graduate School of International Relations and Pacific Studies at the University of California, San Diego. He has written extensively on China's macroeconomic problems and industry.

outline provides important insights on Beijing's goals in three areas: aggregate growth, sectoral priorities, and prospects for economic reform.

Seeking balanced growth

Though the outline calls for moderate annual GNP growth, actual growth rates will likely be somewhat higher. In most previous Chinese plans, GNP growth tended to exceed Plan targets, particularly when the economy was emerging from a period of slow growth, as it is today. Moreover, though Chinese planners have traditionally aimed for balanced, sustainable growth, forces in the economy have tended to push growth rates upward during recovery periods. National plans notwithstanding, local governments and enterprises tend to exert pressure to increase investment and output as rapidly as possible, which causes growth to overshoot planned targets.

The outline's focus on stable growth is a clear reminder that Beijing seeks to avoid the economic patterns of the last Plan. Though average annual GNP growth during the Seventh FYP (1986-90) was 7.6 percent—almost dead on target—the economy was far from stable. During the early years of the Seventh Plan, the government's inability to control growth caused the economy to overheat, and serious inflation erupted by 1988. Planners then applied the brakes and slowed the economy to near-zero growth by late 1989. Thus, although overall Plan targets may have been met, the economy overshot targets during the first half of the Plan and underperformed during the last half.

As when the Seventh FYP was drawn up, the initial Eighth FYP draft was created during a slow economic period, so it focuses on guiding the economy toward resumed growth. However, the pronounced cyclical instability China's economy has exhibited for decades is not likely to be tempered by the new Plan. Drafters still face difficulties reconciling the need to promote smooth long-term growth while restraining the economy's tendency to generate unsustainably high rates of growth in the short run.

Foreign businesspeople will find the Plan embodies a more positive attitude toward further economic reform than other official documents of recent years.

Given previous experience, it would be very surprising if short-term growth spurts could be controlled. China's economy has already rebounded somewhat, growing 14.2 percent in the last quarter of 1990 and even more rapidly in the first quarter of 1991, compared to the depressed levels a year earlier. The 6 percent target growth rate for 1991 will likely be substantially exceeded, though planners may try to keep growth at this level by limiting credit. The actual growth rate for the entire Plan period will likely be around 12 percent, given latent demand and the extensive industrial investment of recent years, while industrial growth is unlikely to fall below 8-10 percent per year.

Output Targets for the Next Decade

	1995	2000
Coal	1.2 billion tonnes	1.4 billion tonnes
Crude oil	145 million tonnes	NA
Electricity	810 billion kwh	1,100 billion kwh
Steel	72 million tonnes	80 million tonnes
Chemical fertilizer	100 million tonnes	120 million tonnes
Ethylene	2.3 million tonnes	3.0 million tonnes
Chemical fiber	2.0 million tonnes	2.6 million tonnes
Sugar	6.7 million tonnes	NA

Narrower scope

The Plan outline provides details on development targets for only a few key sectors. This limited coverage reflects the fact that large areas of the economy are gradually coming under the influence of the market and are no longer under the direct control of planners. Planners are therefore concentrating their attention on a narrower range of sectors and products where government control is still important. How well these targets will be met depends in large part on the extent to which government intervention will be accompanied by economic reforms.

During the past two years of sectoral readjustment, China's official industrial policy called for priority to be given to industries involved in agriculture, energy and transport, and raw and semi-finished materials. Beijing called for across-the-board support for nearly all heavy industries, particularly stressing the importance of large State-run factories. Priority access to subsidized credits and low-priced inputs were to give these factories an advantage not shared by light manufacturing enterprises. This policy, however, was outmoded by the severity of China's macroeconomic austerity program during 1989 and 1990, when restrictions on investment and plummeting consumer demand deeply eroded the market for manufactured goods.

In the Eighth FYP, the general priority on heavy industry has been replaced by a more specific emphasis on energy and transport. Even so, fairly low growth rates are slated for those sectors: electricity production is planned at 5.7 percent annual growth, about the same as GNP; rail freight is to grow by 2.5 percent annually; and coal output is to be increased by only 2.4 percent each year. While the outline clearly stresses the importance of these sectors, it also suggests that basic infrastructure bottlenecks will continue to restrain growth possibilities for the foreseeable future. Though Beijing has hopes that the low targets will be exceeded, more optimistic projections might lead to pressure to accelerate the overall pace of growth.

Shifting industrial priorities

Beijing's more realistic attitude is evident in its changed priorities for the industrial sector. The raw and semi-finished materials industries will no longer be emphasized. Likewise, steel output is slated to grow only 1.8 percent annually, compared to 5.3 percent in the Seventh FYP, and the outline urges improving supplies of high-quality finished steel rather than increasing overall production. Non-ferrous metals, however, particularly aluminum, will continue to be emphasized.

Only one industrial product—ethylene—is targeted to grow faster than GNP. Ethylene has likely been singled out because it is key to producing synthetic fibers and plastic compounds. Boosting ethylene production thus fits in with the general emphasis on producing more synthetic materials as industrial substitutes for cotton and other costly agricultural raw materials. Ethylene output is slated to grow 9 percent annually, while chemical fiber production is to increase by 5.2 percent per year.

No targets are provided in the outline for most final manufactures, and the volatile consumer durables sector is not even mentioned. The electronics industry is designated for priority development, but the emphasis is on upgrading technological capability and the capacity to produce important electronic components, such as large-scale integrated circuits, fiber optic cables, and microwave components. Discussion of machine tools and other manufactured goods is limited to a vague call to improve quality and technological levels and to restructure to meet demand more effectively.

Investing in agriculture and services

Though emphasis on industry has changed, agriculture will continue to be a priority sector in the Eighth FYP. The outline calls for increases in inputs and investment in large-scale irrigation projects. According to a recent announcement by the Ministry of Agriculture, overall agricultural output is expected to grow 3.5 percent per year, while grain output is targeted to grow 1.15 percent annually, to 450 million tonnes by 1995. The outline seems based on the premise that increments to agricultural output will be increasingly costly—but essential. Besides calling for an increase in State-supplied inputs to agriculture, the outline also calls on local governments to encourage peasant households to invest more of their own money and labor in agriculture. It also advocates strengthening local collective institutions that provide services to agriculture.

Perhaps the real "winner" in the Eighth FYP is the service sector, which is projected to increase from just over one-fourth to one-third of GNP by 1995. This would require an average annual growth rate of 11-12 percent, by far the most rapid rate of growth envisioned for any sector. However, no details are provided on which services should grow most rapidly; in fact, no specific service sectors are mentioned at all. The stress on services is probably partly motivated by recognition that China's service sector is relatively underdeveloped, and partly by concern over unemployment; development of the service industry is seen as a relatively cost-effective way to generate additional jobs rapidly.

Reaffirming reforms

The most significant aspect of the Plan outline is not its industrial and economic growth targets, but its shift away from strict hardline policies toward continued reforms. For example, rather than call for the elimination of dual-tier prices by strengthening State price controls, as the government did in late 1989, the outline proposes to phase out dual-track prices by reducing the number of products subject to compulsory planning and price controls.

This mindset should be seen as a move back toward the program of gradual decontrol and reduction of State planning that was a central element of Zhao Ziyang's reform program. It appears that some goods will be marketized under the proposed Plan, but planners still refrain from espousing any rapid movement to a true market price system. Prices for an unspecified number of goods fundamental to the economy and living standards will continue to be set by the State. The outline implies, however, that the worst abuses of the dual price system can be avoided with stricter macroeconomic control and slower growth. Control over demand will prevent market prices from diverging too widely from planned prices, while a number of State-set prices will be raised closer to market prices. Such measures are a far cry from previous efforts to eliminate the dual-track system by increasing controls on the economy across the board.

In a similar fashion, the outline takes a significantly more positive view of rural industries than government statements issued last year. Rural industries are praised, and a recent *People's Daily* cited "an authoritative source" as saying that rural industry would grow at rates above 10 percent per annum throughout the 1990s. This would be substantially higher than the growth rate proposed for State-run industry, and would represent an important gain in the influence of the non-State sector. The outline also calls for the continuance of the coastal development strategy, first proposed by Zhao Ziyang in 1987 as a way to accelerate exchange with the world economy.

Other Zhao reforms also resurface in the outline. For example, the outline endorses continuation of the various enterprise contracting systems, the leasing of small enterprises, and the establishment of joint stock corporations. In fact, all the specific institutions developed during the 1980s to increase the freedom of operation of lower-level government and economic units are reaffirmed in the outline.

It also urges a number of economic rationalization measures, such as revaluation of industrial fixed assets, which will permit better accounting of State and enterprise assets and obligations; a shift to internationally comparable systems of national income accounting; the division of budgetary expenditures into a current and capital account; and establishment of foreign exchange reserve funds as security for repayment of foreign debts. Though limited in scope, such changes bode well for future progress—and future reforms.

Despite endorsement of China's former reform strategy, however, the outline fails to mention any specific far-reaching reform measures to be carried out during the course of the Plan. This may simply reflect the preliminary and general nature of the document as a whole, but it may also signal deeper uncertainty about the proper steps to take in the immediate future. While the outline's reaffirmation of China's reform experience is encouraging, such optimism may be premature without evidence of concrete reform

A Two-in-One Study That Gives You the Facts on US Investment in China

Unique Datafile:

Customize information: Diskette includes more than 500 US investment projects in China, each with over 30 database fields—investment partners, equity, project location, economic sector, contract type, and more.

Know your competition: What type of contract is most prevalent in your sector? Which locales are most popular? You'll also find brief profiles of dozens of key projects in representative sectors.

Generate reports, letters and mailing labels: Use your favorite software to tap the datafile's unique collection of joint venture information—sort and cross reference database fields to create specialized reports, letters, or labels.

Latest Report on Investment:

Understand investment trends: Who has invested in China and why? How do American investors compare to those from other countries? What is the outlook for foreign investment?

Assess Post-Tiananmen conditions: Get the latest analysis of China's investment climate, including case studies and the results of two American investor surveys conducted by the US-China Business Council in 1989 and 1990.

Save research time and costs: The culmination of three years of research, this study presents current and comprehensive business information and analysis.

Hardware/Software Requirements:

The datafile is for use on PC/MS-DOS compatible computers, with a minimum of one 720kb 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.

US $250 ($185 for members of the US-China Business Council)
International airmail orders please add $10.

Send US dollar check to:

US-China Business Council
1818 N St NW, Suite 500-81
Washington, DC 20036 USA
fax 202/775-2476

strategies.

Few details on foreign role

Foreign businesspeople looking to the outline for guidance on China's attitudes and policies toward foreign trade and investment over the next five years will find that although no specific figures or policies are described, the overall guidelines are strongly favorable. Continued export promotion policies, for example, are strongly endorsed. Official policy statements on imports continue to stress limits on consumer goods and simple manufactures, but give increased attention to the need to boost imports of technology and materials for export-oriented industries.

Foreign investment will likely continue to be encouraged to spur industrial development and technology transfer. In some areas in particular—such as the Pudong New Area in Shanghai, development of which is described as a major objective of the Plan—Beijing may find it necessary to invite greater foreign participation in order to meet Plan targets. However, the Plan outline stresses guiding and rationalizing imports and foreign investment, which may mean continued high levels of government interference for foreign business.

The outline's discussion of foreign trade and investment is too general to serve as a short-term guide to foreign businesses. It is clear that China's leaders want to encourage foreign trade and investment, provided China's interests are served first and foremost. It is unclear, though, whether this attitude will lead Beijing to accept a mutually beneficial process of expanding trade, or whether increased attempts to control exchanges will stifle further development of its international commercial relations.

Following through on the Plan

Though the Plan outline is only the first stage of the planning process, there is reason to question how well the economy can be guided by its suggestions. While the previous Plan was drafted through a comprehensive process in which most of the important targets were drawn up simultaneously and then checked for consistency, the current process is quite different. By allowing sectoral targets to be drawn up by the government ministries in charge of those sectors, ministries in essence are given substantial room to bargain over individual targets. Thus, this Plan is likely to be less reliable and consistent than the previous one. Moreover, a final Plan will clearly not be operational until 1992 at the earliest; the full details of the Plan will likely remain unpublished until relatively far into the 1991-95 period it supposedly covers.

In addition, while the Plan outline suggests a more positive central government attitude toward further economic reform, there is little evidence to suggest a clear vision of future reform strategy. By default, the reform strategy for the coming five years seems to be the same as that of the past five years. Though the Plan outline now reaffirms past reform efforts—a marked contrast to post-Tiananmen official statements, which were highly critical of previous reforms—bolder measures may now be needed. There is little in the Plan outline to indicate that the current leadership is willing to tackle problematic issues, such as property rights, pricing, and taxes.

Despite the rhetoric about reform, there is also little evidence in the outline that the leadership is willing to tolerate political change. Beijing's political inflexibility will likely interfere with the objectives of economic growth and reform, for political constraints will limit the success of certain market reforms. The outline attacks excessive income differentials, for example, which is sure to dampen enthusiasm among budding entrepreneurs.

In rural areas, moreover, it is clear that planners envision more obligations on rural households, particularly through increased mandatory participation in irrigation construction and maintenance. The outline also suggests that some local officials will be allowed to experiment with farm consolidation, which could be viewed as a move toward recollectivization. None of the policies outlined will lead to a roll-back of rural reforms, but such actions will slow the process down, particularly with respect to the clarification of household property rights.

Finally, there is reason to doubt the ability of the central government to carry out its macroeconomic objectives. Given the pressures from local governments and enterprises to increase industrial output and investment, it is unlikely that Beijing will be able to moderate the pace of industrial growth to the level indicated in the Plan. Rapid industrial growth will in turn revive consumer demand, which will make it increasingly difficult for Beijing to keep a firm grip on the economy.

In the final analysis, China will find it difficult to avoid economic instability in the coming decade. However, Beijing can choose between instability generated by rapid economic growth and bold economic reforms on the one hand, and instability fueled by slow growth and persistent attempts to regain control over the economy on the other. The current outline represents a reasonable effort to instill a modicum of economic stability, but the Plan is sure to be tested as the economy picks up speed and Beijing must adapt to rapidly changing conditions and serious new challenges. 完

Special Offer! All Pre-1990 Council Publications Now Reduced 40-60%

Guide to China's Trade and Investment Organizations

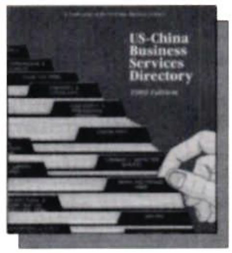
Easy to use, concise reference to seventy of China's key investment and trade organizations. Entries provide contact names, addresses, and functional descriptions. The book also features straightforward summaries of the role of China's various organizations in trade and investment. 100 pages. June 1989.

Council members--~~$65~~ $30
Nonmembers--~~$95~~ $55

US China Business Services Directory

Directory of more than 900 US, Hong Kong, and Chinese companies providing China business services. Includes consultants, agents, architectural and construction engineers, freight forwarders, attorneys and more. This indispensable resource will assist in all aspects of your China business. 104 pages. January 1989.

Council members--~~$45~~ $25
Nonmembers--~~$57~~ $35.



SPECIAL PACKAGE OFFER
Opportunities in China's Major Projects & ICB Report

1) Resource guide to 257 of China's key projects. Organized by sector and includes location, status, and total investment. Analysis of US sales, key factors affecting the competitiveness of American firms. 245 pages. August 1988.

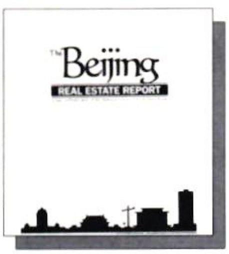
2) International Competitive Bidding Report: Guide for American Companies in China. 98 pages. April 1990.

Council members--~~$145~~ $60
Nonmembers--~~$220~~ $95

The Beijing Real Estate Report

Unique guide to office, apartment, and hotel accommodations, including specifications for all accommodations; detailed profiles of 56 facilities; China's real estate rules and regulations; maps locating all projects and other places of interest to expatriates. 104 pages. January 1988.

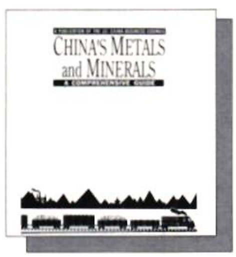
Council members--~~$35~~ $20
Nonmembers--~~$50~~ $30.



China's Metals and Minerals: A Comprehensive Guide

Detailed assessment of China's metals and mineral reserves, production facilities, and development strategies. Includes maps of major deposits, organizational charts, and data on productivity, investment and trade. 125 pages. November 1988.

Council members--~~$140~~ $70
Nonmembers--~~$200~~ $100



Electrical Power Development in China

Comprehensive guide to China's electric power market. This study provides information on buyers of power equipment and related services; analysis of the market for various types of equipment and services;power projects planned for the 1990s. 136 pages. January 1988.

Council members--~~$185~~ $90
Nonmembers--~~$270~~ $125

US-CHINA BUSINESS COUNCIL PUBLICATIONS ORDER FORM

Name ______________________

Title ______________________

Company ______________________

Address ______________________

____

City ______________ State ____ Zip ________

Country ______________ Council Member? __ Yes __ No

___Payment is enclosed ___Charge my __VISA __MASTERCARD

Acct # ______________ Expiration Date ________

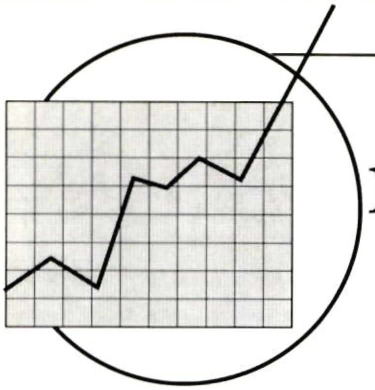
PUBLICATION TITLE	QUANTITY	PRICE

International Airmail : $10 per title $ ____

Total (Including International Airmail Charges if applicable): $ ____

Make checks payable in US$ to:

The US-China Business Council
1818 N Street, NW * Suite 500C80
Washington, DC * 20036 * USA
Tel: (202) 429-0340
Fax: (202) 775-2476



One Billion and Counting

Early figures from the 1990 census reveal some surprising changes in China's demographics

Judith Banister

On July 1, 1990, China conducted the world's largest census to determine how eight eventful years of economic reform, rural transformation, family planning, and increased mobility had affected the Chinese population. The 1990 count was also designed to get China onto a standard 10-year census cycle, so that a census can be conducted in the year 2000 to measure how well turn-of-the-century economic and demographic goals have been achieved.

A major purpose of the 1990 census was to get an accurate population count and determine the number and characteristics of people actually living in each place. In the past, China's population registration system provided figures by locality. In the last decade, however, the registers began to lose track of millions of people, as economic incentives for registering declined. In addition, greater population mobility made it difficult to maintain the registers, and some people avoided registering unauthorized children. As a result, China could no longer depend on the population registers for accurate local or national population counts.

The 1990 census also had other important goals. National leaders wanted to monitor the effects of China's birth control and health policies by improving the accuracy of information on births and deaths in the 1980s. Labor officials wanted to learn the size, location, and age-sex structure of the employed and unemployed populations, and to which industries and occupations workers belong. Better data were desperately needed on the sizes and geographical distribution of China's urban and rural populations, as well as their age structures, fertility levels, and occupational patterns. More information on the 55 ethnic minority groups was also a high priority, for most of China's minorities have been growing rapidly. Finally, it was important to determine whether progress was being made in promoting literacy and education.

In the hope of eliciting honest answers to controversial questions on migration and birth rates, the 1990 census was conducted door-to-door.

Chinese statistical authorities had only one year to prepare for the census. During the last quarter of 1989, changes were still being made regarding such questions as where to count people on the move and how to define the urban population. In the hope of eliciting honest answers to controversial questions on migration and birth rates, the 1990 census sent 7 million enumerators door-to-door to interview each household. In the 1982 census, by contrast, household heads reported to local interviewing stations—where they had less privacy from neighbors and officials—and only 5 million enumerators were needed.

More people than expected . . .

According to preliminary, hand-tabulated results, the 1990 census count—1,133,682,501—was higher than the State Statistical Bureau's (SSB) annual survey of population change had led demographers to expect. Conducted every year in January, the SSB survey interviews over 500,000 people in order to estimate national birth, death, and population growth rates, as well as year-end population size. Based on this series of surveys, China's estimated population was about 13.8 million people fewer than the actual count. Though such a discrepancy—an underestimate of only 1.2 percent—is minor for such a huge population, the unexpectedly high count could indicate that even the best surveys of fertility in China during the 1980s slightly undercounted births. More complete census results may reveal whether fertility was underestimated for each year since 1982, or only for the most recent years.

Regardless, the high census count does not imply that China has lost control of the birth rate. Population growth for the 1982-90 period was only 1.5 percent per year—quite low for a developing country. Of course, in China, this rate translates into an increase of 126 million people—equal to half the population of the United States—in only eight years!

. . . and more boys than girls

When computer tabulations based on a 10 percent census sample are

Judith Banister is chief of the China Branch in the international programs of the US Bureau of the Census. She is the author of China's Changing Population *and numerous articles on Chinese demography.*

released by the SSB this summer, another preliminary population mystery may be solved. The 1990 census counted 6.2 percent fewer females than males. China's 1982 census had already showed 5.9 percent fewer females than males in the total population, likely caused by female infanticide and selective neglect of girls before 1949 and continued neglect of girls compared to boys since 1949. The slight dearth of girls at infant and toddler ages was caused either by undercounting or by the reported revival of female infanticide in about 1979, when strict one-child rules came into effect.

Available mortality statistics for the 1980s indicate that females have slightly lower infant mortality and slightly longer life expectancy than males in China. Using these life tables to project China's population from the 1982 census to 1990 would predict a modest improvement in the male-female imbalance, yet the 1990 census shows deterioration. If the male and female 1990 counts are correct, female mortality has been underreported compared to males, and mortality estimates for females must be raised. Alternatively, the 1990 census may have undercounted females relative to males, in which case the total count would have to be adjusted to include the missing females. This would mean that China's population is even larger than the figure revealed by the census.

Redefining urban residents

Throughout the 1980s, counting China's urban residents presented difficulties the 1990 census sought to address. Using a new and narrow definition of the urban population, the 1990 census counted 296.51 million people in urban areas, or 26 percent of China's population.

This figure generally represents the urban nonagricultural population of China. People living in neighborhoods were called urban in the 1990 census, but only if their locality had been formally classified as a city or *zhen* (urban town). The rural population was defined as all people living in villages, plus the population of neighborhood committees in places like *xiang* (townships) that had not been classified as urban. The rural count excluded those villages located inside formal city district boundaries, however.

By the turn of the century, there will likely be 1.3 billion or more people living on the Chinese mainland.

The 1990 census definition for China's urban population may be a conservative one, but it is a vast improvement over the official urban population data of recent years. After the Chinese government decided that urbanization was essential to economic development in the early 1980s, hundreds of new cities and thousands of urban towns were established all over China. These new cities and towns, however, encompassed huge agricultural populations inside their boundaries because former counties were proclaimed cities, and former townships became towns. By the end of 1989, official data showed China's population to be 52 percent urban!

Results from the 1990 census help put the urbanization rate in perspective, though the figures are not totally comparable because of somewhat inconsistent urban definitions. Nevertheless, the data show that China's urban population increased from 21 percent of the total in 1982 to 26 percent in 1990. Urbanization progressed at a strong pace in the northeast, the most highly urbanized region in the last census: Liaoning's urban population grew from 42 percent in 1982 to 51 percent in 1990, while Heilongjiang's rose from 40 to 47 percent. The fastest rate of urbanization during 1982-90, however, occurred in Guangdong Province. Only 19 percent urban in 1982, eight years later the province could report that 37 percent of its population lived in cities and towns. Neighboring Fujian Province, by contrast, recorded no increase in urbanization, nor did Jiangxi, Henan, or Guizhou provinces.

Measuring the floating population

Counting the urban population was complicated in part by the increasingly rapid pace of labor migration in China. During the 1980s, the Chinese government relaxed some of its formerly rigid restrictions on population movement, allowing more people than ever before to go to cities and towns for temporary work. Millions were given permission to move permanently from villages to urban areas. Many workers also began to travel seasonally to other provinces to earn a living.

Special measures were adopted by census takers to count this population group, estimated by some media reports to total around 70 million people in 1990. China's national statistical officials were concerned that they get a complete count of the "floating population" without any double counting. However, it is possible that some people residing where they were not technically allowed to be avoided being counted, thereby contributing to an undercount.

According to one census official in Shandong Province, to ensure that each mobile person was counted only once, local authorities tried to find all people away from their legal residence in the months prior to the census to determine where they expected to be at census time. This information was then compiled at the census office in each provincial capital, and each county and municipality was sent a letter listing by name each "floating" individual and where he or she was to be counted. Local officials were supposed to verify the information.

In both the 1982 and 1990 censuses, anyone who had been in a location different from that of permanent registration for a year or more was to be counted as a resident of the new location. If the individual had been away less than a year, and the registration location had not legally changed, the person was to be counted where he or she was registered. Therefore, both censuses got a count of those who had been in a different place from their registration base for a year or more; in 1990, there were 29.8 million such migrants—or 2.6 percent of the total population. The computer tabulations, when released, should also reveal how many migrants were legally permitted to change their permanent residence locations.

The elaborate census preparations described by the Shandong official, if repeated in all provinces, probably helped greatly to ensure that mobile individuals were counted somewhere. However, the information gathered on mobile people prior to the census does not appear to have been used to count the actual floating population. Rather, the tens of millions of people who had been away from their permanent residences for less than a year were simply counted at their legal homes—the census form had no place to note that they were actually away. If millions of these mobile people had in fact moved permanently from a rural to urban place in the year before the census, then the actual 1990 urban population of China is larger than reported.

Growth in the provinces

The growth of China's floating population is partially reflected in the uneven growth rates of some provinces and cities. During 1982-90, some areas of China grew far more quickly than others. Though natural population increase—more births than deaths—accounts for much of the growth, some provinces gained residents through net migration. Beijing, Tianjin, and Shanghai municipalities, along with Guangdong and Hebei provinces, seem to have gained population through migration. Other provinces, such as Anhui, Hunan, Hubei, and Heilongjiang, showed lower population increases than expected, apparently because they experienced net outmigration. More detailed statistics, when released, will provide a better picture for each province of the effects of natural increase and net migration to their overall population growth. Meanwhile, the provincial census counts have reminded provincial leaders how fast their populations are growing and how crowded their rural and urban areas are. The inexorable population increases have heightened the resolve of some provincial and national officials to further restrict births, increase food production, and expand employment.

> *Chinese officials believe a "birth peak" will result in the 1990s unless they tightly control the number of births per woman.*

The census has also revealed to government leaders a surprisingly sharp increase in population among China's minorities. In the short period from 1982-90, the minority ethnic population of China grew 36 percent, averaging 3.8 percent growth per year. Though a major portion of this "population explosion" resulted from natural population increase, more than 5 million people had reportedly requested to shift their ethnic classification from Han to minority by 1990. Apparently, the benefits of being identified as an ethnic minority have begun to outweigh any drawbacks.

Tracking demographic trends

Based on preliminary census results, China has reason to celebrate some achievements. Most notable, far more Chinese are being educated than ever before. The nine-year compulsory education law passed in 1986 may be one factor in overall educational gains, for 97 percent of primary-age children now reportedly attend school. Government measures to promote adult education to help make up for insufficient opportunities during the Cultural Revolution period also helped boost educational attainment and adult literacy rates. The illiterate and semi-literate population of China fell from 230 million in 1982 to 180 million in 1990, while the numbers attaining junior middle school, senior middle school, and college educations escalated sharply.

The 1990 census also revealed that China's birth and death rates have been stable in recent years. For the year before the census, a birth rate of 20.98 per thousand and a death rate of 6.28 per thousand were derived from the census questionnaires, implying that there were about 23.6 million births and 7.1 million deaths that year. If correct, this means that the total population grew 1.47 percent through natural population increase from mid-1989 to mid-1990. This is the same as the annual population growth rate for the whole 1982-90 period derived from the two census counts. The 1989-90 birth, death, and natural increase rates were also very similar to the rates that had been reported by the SSB from its annual surveys for the years 1988-90.

The information now available from China's 1990 census, along with fertility data from the 1988 nationwide fertility survey, enable population growth models for 1982-90 to be created. The reconstructed population pyramid for mid-1990 (*see* chart) shows that males are more numerous than females in all age groups except for the elderly ages, in which women predominate. As of 1990, the largest groups in the population were ages 15-19 and 20-24, or those born in the high-fertility decade from the mid-1960s to the mid-1970s. It was a great challenge during the 1980s for China to provide entry-level jobs to millions of these young adults. In the 1990s, this task should get easier as the much smaller groups born between the mid-1970s and the mid-1980s (age groups 5-9 and 10-14 in the chart) become young adults. Throughout the 1990s, as successively smaller groups reach working age, the problem of providing entry-level employment should gradually diminish.

On the negative side, the population pyramid also indicates that Beijing's efforts at population control will likely face some obstacles in the next few years. As births in China

‘Can I get a Budweiser in Beijing?’

‘Certainly sir, bottled or canned?’ At the Hotel New Otani Chang Fu Gong, our Social Directors are there to help you get the most out of your stay. From searching out a favourite beer to arranging a personalized sightseeing tour of Beijing. They, as with all our staff are ready to assist you by providing that little extra service that makes such a difference.

Of course with traditional Chinese, Japanese and French restaurants, a well-stocked bar, fitness room, sauna and pool you may not wish to leave the hotel to explore Beijing's other treasures. But isn't it nice to know that you can call upon our friendly advice when you're 6,000 miles from home.

And drink Budweiser in our bar. 

長富宮飯店

HOTEL NEW OTANI CHANG FU GONG

26 JIANGUOMEN WAI DAJIE, BEIJING, CHINA

☎ (BEIJING)512-5555

FOR RESERVATIONS AND INFORMATION
Toll-free (800) 421-8795 (U.S.A. & Canada) (800) 273-2294 (in CA only)
Los Angeles Tel.: (213) 629-1114 New York Tel.: (212) 308-7491
London Tel.: (071) 731-4231-3 Hong Kong Tel.: (852) 529-2723
Tokyo Tel.: (03) 3265-1111
Reservations are also available through Utell International

LOS ANGELES • HONOLULU • SINGAPORE • TOKYO • OSAKA • SOFIA are very highly concentrated to women in their twenties, peak numbers of women will be at their most fertile ages during the early and mid-1990s. Chinese officials believe that a "birth peak" could result from this uneven age structure unless they tightly control the number of births per woman. In recent years, tougher penalties for births in excess of those officially authorized have been written into laws and regulations. Stricter implementation of rules requiring intrauterine device (IUD) use after one child and sterilization after two may have contributed to the jump in numbers of IUD insertions, vasectomies, and tubal ligation operations reported in 1989.

Giving an accurate reading

China's 1990 census, like those in 1953, 1964, and 1982, may be extremely accurate and thorough. The total counts in all three previous censuses have been quite complete, and reporting of age has been particularly good. Because only preliminary results have been released from the 1990 census, all necessary quality checks have not yet been conducted. A post-enumeration survey carried out to estimate completeness did detect a tiny net undercount of the population—well under 0.1 percent—and slight but negligible underreporting of births and deaths. Nevertheless, until more detailed tabulations are released, the reported figures from the census can be used with reasonable confidence, given the unusually high quality of China's three previous censuses.

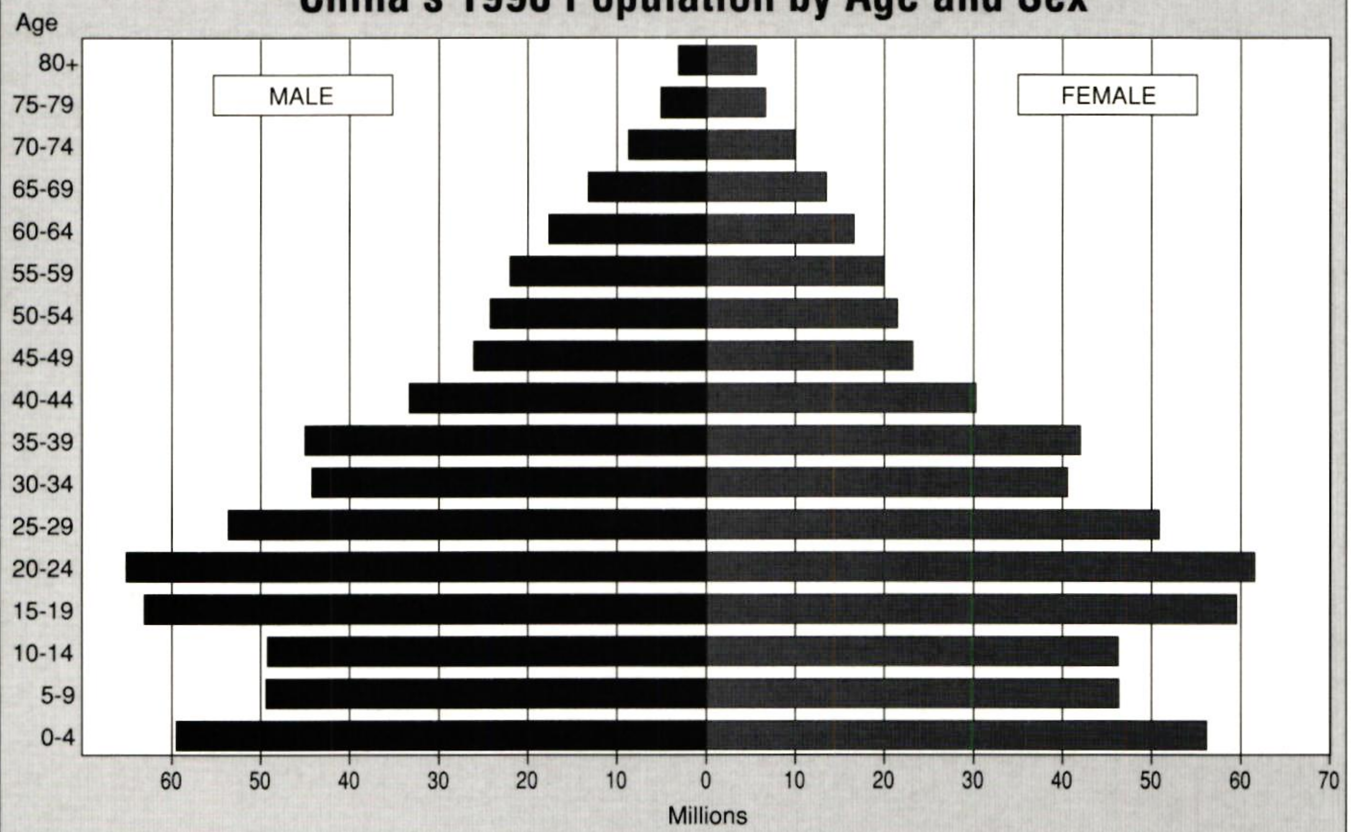
Data of particular usefulness to businesspeople, such as figures on occupation, industry, employment, and unemployment, require coding and will not be fully reported until later. More detailed information on the populations of China's major cities, Special Economic Zones, and other areas targeted for trade and investment will also be released after further tabulation.

A positive forecast

Though China's growth rate is low for a developing country, the country's population will continue growing in the 1990s because of its young age structure and the large percentage of women at peak childbearing ages. Thus, by the turn of the century, there will likely be 1.3 billion or more people living on the Chinese mainland.

For the next several decades, however, China's age structure will be conducive to rapid economic development. The relative number of elderly people should not prove burdensome until after the first quarter of the next century. In the meantime, if low fertility continues, the tasks of raising and educating moderate-sized age groups of children should be easier. The bulk of China's labor force will also soon age beyond entry level and be concentrated in the ages of greatest potential productivity. The bane of a continually increasing total population, therefore, will likely be tempered by the boon of a population structure favorable to modernization. 完

China's 1990 Population by Age and Sex*



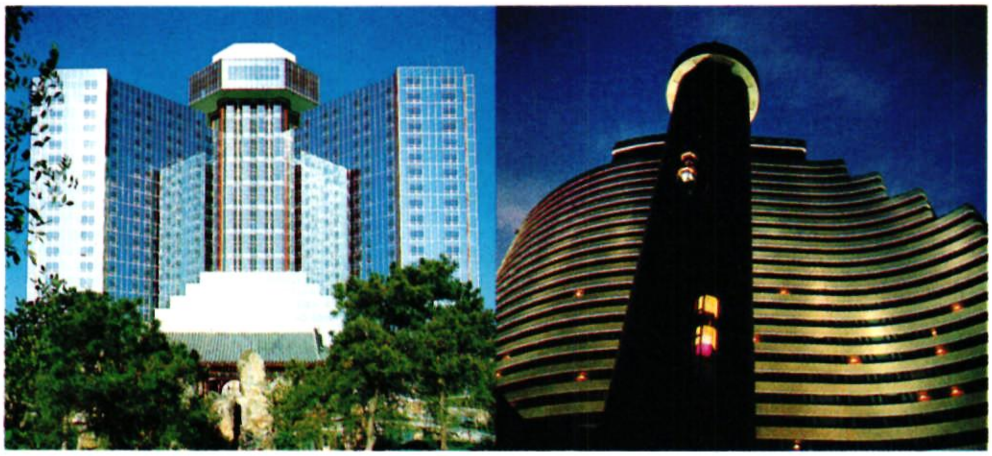
* Data has been modeled on all available information. 1990 census age structure data has not yet been reported.
SOURCE: US Bureau of the Census

AT ITT SHERATON LITTLE THINGS MEAN A LOT • AT ITT SHERATON LITTLE THINGS MEAN A LOT • AT ITT SHERATON LITTLE THINGS MEAN A LOT

AT ITT SHERATON LITTLE THINGS MEAN A LOT • AT ITT SHERATON LITTLE THINGS MEAN A LOT • AT ITT SHERATON LITTLE THINGS MEAN A LOT

AT ITT SHERATON LITTLE THINGS MEAN A LOT • AT ITT SHERATON LITTLE THINGS MEAN A LOT • AT ITT SHERATON LITTLE THINGS MEAN A LOT

Two Partners In China Who Speak Your Language.



In China it's reassuring to know that you can be sure of ITT 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?

THE 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 nine restaurants and bars.
- Full meeting and banqueting facilities.
- Health club facilities tailored to the business traveller.

North Donghuan Road, Beijing 100026,
Tel: 5005566 Fax: 5001919
Tlx: 22002 GWHBJ CN

SHERATON HUA TING

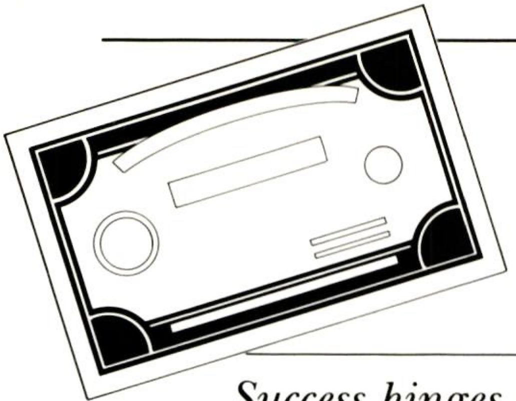
- A business centre that never closes, offering round-the-clock help and service.
- Our unique 24-hour "Problem? — No problem!" hotline.
- Conference facilities for up to 1,200 people complete with audio-visual and simultaneous translation facilities.
- Choose from tennis, swimming, bowling, gymnasium, sauna, or billiards.

1200 Cao Xi Bei Lu, Shanghai,
Tel: 4396000, 4391000 Fax: 2550830, 2550719
Tlx: 33589 SHHTH CN

ITT Sheraton
中國喜來登飯店集團
C H I N A

AT ITT SHERATON LITTLE THINGS MEAN A LOT • AT ITT SHERATON LITTLE THINGS MEAN A LOT • AT ITT SHERATON LITTLE THINGS MEAN A LOT

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



Rebuilding China's Securities Markets

Success hinges on the degree to which the State will allow private ownership

Paul Schroeder

Once the home of the largest stock market in Asia, China essentially eliminated any role for debt and equity securities in its economy after the communist victory in 1949. With the advent of economic reform in the 1980s, however, Beijing changed its tune, not only sanctioning certain kinds of securities, but becoming their biggest issuer. From 1981-88, the government issued around ¥145 billion worth of treasury-type bonds—nearly three-quarters of all securities floated.

The motivation behind these issues was not so much to create an efficient capital market as to finance government activities; in many cases, workers were compelled to purchase bonds or receive them in lieu of cash salaries. Beginning in 1984 select enterprises were given permission to reorganize as joint stock companies and issue securities—by 1988 an estimated 6,000-10,000 companies issued ¥7.5 billion worth. Though this may be a miniscule amount given the huge number of Chinese enterprises, it represents a stunning increase over the negligible level of activity of the previous 30 years.

The rebirth of securities markets in China has presented the communist leadership with numerous ideological difficulties, as such markets raise thorny questions about ownership of the means of production and the legitimacy of profit making. With the December 1990 opening of a national stock market in Shanghai (*see* p. 22), however, economic imperatives—namely, the need to raise investment capital and gradually reduce government subsidies to State-owned enterprises—appear to have gained the upper hand over political worries. Though other benefits of securities markets—which encourage efficiency, product quality, and disclosure of information—are important for economic reform, Beijing's prime motivation in reviving the markets is the need to find new sources of investment capital.

An active securities market would help establish market mechanisms in the economy.

Creating a national system

Although China had a number of operating exchanges before the national center was created, they were strictly regional, listing only local companies. Located in Shanghai, Beijing, Shenyang, Wuhan, Tianjin, Chongqing, Guangzhou, Harbin, and Shenzhen, the local exchanges dealt almost exclusively in bonds with fixed interest rates and no ownership rights. This system was introduced piecemeal throughout the 1980s, reflecting lack of consensus on such basic questions as ownership, treatment of State-run versus collective enterprises, the types of securities that could be issued, and whether they could be freely traded. Rules were generally issued at the local level and changed often, creating uncertainty and dampening investor enthusiasm. Public awareness of the potential value of securities was also limited—forced by their workplaces or the government to buy bonds, many people leapt at the opportunity to sell. Price differences between various exchanges provided ample room for speculation.

To help eliminate speculation, China began operating a computerized quotation system linking securities firms in six cities last December, though it is still too early to tell what impact it has had on trading. By giving people around the country access to non-local markets, the computerized system should help pave the way for a national securities system. Developing such a system will not be easy, however. Aside from logistical problems, such as the dearth of trained brokers, trading centers, and companies permitted to sell stock, critical systemic problems—including questions over ownership, disclosure, use of investment capital, and prices and production—will have to be addressed.

Reconciling Marx and the market

Common stocks are relatively rare in China because they carry an implicit share of ownership and thereby clash with socialist tenets

Paul Schroeder is program associate at the National Committee on US-China Relations, and was formerly the state of Ohio's trade representative in China. The views expressed in this article are his own and not those of the National Committee.

mandating the State's ownership of production. However, as the need to reduce growing State subsidies and make enterprises more efficient grew apparent in the mid- to late 1980s, Chinese economists, with the support of such leaders as former Communist Party General Secretary Zhao Ziyang, prepared plans for a shareholding system that would transfer portions of State-owned enterprises to individuals or organizations below the central level. Though implementation of a national securities market was put on hold after June 1989, planning continued and eventually led to the December 1990 opening.

The differences between the plans centered on the depth and speed of development of a stock-issuing system; three viewpoints predominated. The most radical, espoused in late 1988 by economists Hua Sheng, Zhang Xuejun, and Luo Xiaopeng, called for the end of State ownership and the transfer of all State-owned assets to individuals and organizations through the sale of stock. At the other end of the spectrum was a plan backed by more conservative elements. It maintained that the State should hold 75 percent of all issued shares to ensure public ownership of the means of production. This is currently the case for the few enterprises that issue stock—only about 7 percent of the shares publicly traded are held by individuals.

Support within the Chinese Communist Party and the government for these plans has shifted with the changes in political winds since Zhao's ouster two years ago. But the overwhelming need to raise capital dictates that some plan be adopted, and efforts have thus focused on a middle view, backed by such economists as Beijing University's Li Yining. This plan sees the government retaining 25-30 percent ownership of State enterprises, with the remainder sold off in common stock. For the moment, China seems to have settled on a variation of Li's plan, with full implementation to occur slowly, from 1991-2001. Reportedly, some small State-owned enterprises are to be sold off, though key enterprises are to continue under State ownership. The specific percentage of stock to be held by the State has not yet been announced.

Nor has it been decided if the government will actually have to buy the stock it holds, though current practices indicate this is unlikely. According to officials of the Shanghai Vacuum Electron Device Co. Ltd., for example, the Shanghai municipal government owns 75 percent of its stock, but has never paid the company anything for the shares. Nevertheless, the government receives dividends on them. If such practices continue, Chinese enterprises will have limited ability to raise investment capital and insufficient decisionmaking freedom to create a flourishing securities market.

Even if authorities are prepared to allow some degree of private ownership, it is unclear to what extent they are prepared to let individuals participate and prosper on the market. Will buying stock at ¥100 and selling it at ¥120 be considered a legitimate transaction or profiteering? Given China's current crackdown on corruption, this issue must be clearly addressed.

The need for rational prices

The other major obstacles confronting China's fledgling securities markets stem from lack of rational pricing and production. If securities markets in China are to mature, potential buyers of stocks and bonds must have information upon which to make purchasing decisions. However, as yet there is no legal obligation for enterprises to disclose the state of their finances, and even if there was, there is no accounting system capable of providing the relevant information. China's current accounting methods were designed to monitor enterprise performance vis-a-vis State plans, not to determine market value of assets. As China's partially reformed economy lacks the market mechanism necessary to derive rational prices, assets tend to be undervalued and enterprises undercapitalized.

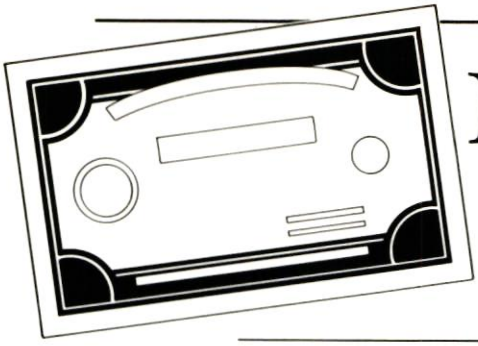
The lack of a rational market will also inhibit growth of the securities market in other ways. If production is centered on fulfilling State targets rather than on earning profits, there is no real incentive for potential stockholders to invest—since there is no guarantee of a real rate of return—or for enterprises to invest their capital efficiently. As long as the State continues to bail out inefficient enterprises, many of them may use the capital raised through sales of stocks or bonds to improve welfare benefits or increase dividends instead of investing it in production. This will aggravate inflation, put more strain on the government budget, and undermine the proper role of a securities market.

Facing the issues

Though Western-style securities markets are clearly not foreseeable in China's near future, the establishment of the national exchange marks a significant step forward in China's attempts to reform its economy. Further developing—and unifying—China's securities system could help expand the populace's understanding of market forces and allow the government to tap some of the billions of *renminbi* it estimates is currently out of circulation in the hands of citizens.

A capital market could also assist further experiments in price reform by easing inflationary pressures, as money would be steered toward investment rather than consumer spending. Perhaps most important, an active securities market would help establish market mechanisms in the economy. It would encourage the absorption of inefficient enterprises by healthy ones and enable the government to more easily get out of the enterprise bail-out business.

Herein, however, lies China's chief dilemma: the country cannot have a viable securities system without market-set prices, yet cannot move to a market system without securities markets to replace the government subsidies that shield enterprises and workers from the higher prices a market will bring. Thus, even though the current imperfect market may help reduce the government's severe financial strain in the short term, its value over the longer term will be limited unless Chinese authorities come to grips with the political questions that have been raised by the past decade of economic reforms and accentuated by the nascent securities markets. Until such issues as income and wealth distribution, bankruptcy, and ownership of the means of production are addressed directly, China's securities markets will be forced to play a secondary role in the economy, and the State will likely continue to face a shortage of capital. 完



New Business on the Bund

Can Shanghai once again become a regional financial powerhouse?

Fred Burke

The year 1990 was a pivotal one for Shanghai. After a decade of watching its southern rivals introduce bold new economic reforms—and reap the financial rewards that followed—Shanghai suddenly found itself thrust into the limelight of the nation's revised development strategy. Local authorities are trying to capitalize on this newfound central support to restore Shanghai's position as a regional financial center. The city's most recent coup was the December opening of the Shanghai Securities Exchange (SSE), China's first national securities market. Though only a handful of stocks and bonds are actually traded on the exchange, its creation marks a potential boon to Shanghai's economic development.

While other reforms in China have been put on hold in the past two years, leaders in both Beijing and Shanghai have undertaken a number of steps to open the city's financial sector to greater market-driven activity—and more foreign involvement. In preparation for the opening of the SSE, last November Shanghai's municipal government promulgated a comprehensive set of regulations on the issuance and trading of all types of securities—the Administrative Measures of Shanghai Municipality on the Trading of Securities—commonly referred to as the Shanghai Securities Regulations. Several sets of regulations governing the establishment and operation of foreign bank branches, joint-venture banks, and foreign-invested financial institutions were also issued in the fall of 1990. According to local financial officials, regulations on the securitization of foreign-invested enterprises (FIEs) and foreign currency-denominated securities will be promulgated before the end of the year. This new legal regime will allow foreign investors to begin participating in China's fledgling capital markets.

Although Shanghai still boasts a thriving over-the-counter market, the SSE has already become the most important venue for the issue and exchange of securities.

Selling Shanghai's securities

The SSE is organized along the same lines as the New York Stock Exchange—it is a not-for-profit, independent legal entity. Located in the Pujiang Hotel on the north end of Shanghai's Bund, the SSE boasts a modern trading floor, a computerized trading system, and a large electronic quotation screen. Its 25 member companies appoint directors to the board, which then nominates management and supervisory personnel for the exchange. Although Shanghai still boasts a thriving over-the-counter market, the SSE has already become the most important venue for the issue and exchange of securities. Securities firms and banks may act as brokers for major stock and bond trades, but all such trades must be conducted through the SSE. The Shanghai branch of the People's Bank of China (PBOC) has regulatory authority over the securities industry in Shanghai, including the SSE.

At present, 30 securities are listed on the SSE, including 5 government bonds, 8 enterprise bonds, 9 financial bonds, and 8 stocks. As a national exchange, the Shanghai Exchange is open to all companies, traders, and individuals in China, though there is some evidence that local officials are discouraging full participation by players from other parts of the country. Reportedly, the Shanghai Exchange was reluctant to admit brokers and dealers from outside the city, though a few non-locals were eventually admitted after strenuous lobbying and negotiation efforts. Though all the companies now listed on the exchange are Shanghai enterprises, companies from other parts of China may apply to issue shares through the exchange. The fact that none have yet done so may indicate, however, that Shanghai does not welcome companies who could divert investment funds away from the city.

Regulating stocks and bonds

The Shanghai Securities Regulations impose registration and disclosure requirements on issuers that are comparable to those in the United States and other countries. Relatively speaking, these requirements are not onerous, but it remains to be seen

Fred Burke is the chief representative of the Shanghai office of the international law firm Baker & McKenzie. He is also a member of the board of directors of the not-for-profit Committee for the Development of Securities Markets in China.

how impartially they will be administered. In particular, government concerns regarding the allocation of investment capital may influence the approval of specific securities. If the PBOC, for example, gives inefficient State enterprises preference in the examination and approval process, the purpose of developing a capital market in China—to channel funds to the most efficient users—will be frustrated.

The Shanghai Securities Regulations stipulate a detailed list of requirements for floating bonds and issuing stocks (*see* box). In both cases, a preliminary proposal must be submitted to Shanghai PBOC. At the same time, in the case of a bond issue, an application must be made to an asset and credit appraisal organization to commence procedures for rating the bond issue. PBOC support for the proposal is required, but details of the flotation may be adjusted until final approval from Shanghai PBOC is obtained. Once a flotation is approved, details regarding price, quantity, and other terms for the issue may not be changed or the entire procedure must be reinitiated.

Thus far, government debt securities—State bonds and treasury bills—are by far the most significant form of security traded in Shanghai, accounting for nearly 90 percent of the ¥2 billion traded in 1990. Though stock transactions now account for nearly 20 percent of total trading on the SSE, PBOC officials and Chinese securities-industry experts say that stocks will play a subsidiary role to debt securities for at least the next few years. These officials also point out that this scenario parallels the development of capital markets in Japan and Taiwan, where mature equity markets emerged only after systems were in place for the trading of government debt securities.

Only 8 companies so far have met the rules for listing on the SSE, though another 12 applications are currently under consideration by the PBOC. All of the issuers are Shanghai companies involved in light industrial manufacturing and the retail and service trades. They include a cosmetics firm (the Feng Huang Chemicals Co.), a technological consulting services company (the Ace Co.), and a chain of food stores and tourist shops (the Yu Garden Co.).

Fully 80 percent of the value of the SSE's listed shares, however, are for one company, the Shanghai Vacuum Electron Device Co. Shanghai Vacuum mainly produces television picture tubes and fluorescent lamps, but also has a 75 percent stake in a joint venture with a Hong Kong company, the Novel Technical Development Corp. The venture is scheduled to begin production of color televisions for the domestic market this year. Shanghai Vacuum's huge presence on the exchange is likely a result of the company's economic success and political backing—municipal planners support a number of the compa-

How Stocks and Bonds are Issued

The Shanghai Securities Regulations outline a number of specific steps that must be taken in order to issue stocks or bonds. All issuers must submit to the Shanghai PBOC a prospectus or official statement, which should include the following details:

- Name, address, and legal representative of the issuer;
- Issuer's capital structure and scope of business;
- Issuer's three-year statement of assets and liabilities, statement of business conditions, and plans for future development;
- Statement of the purpose for issuing the stock or bond and a profits and losses forecast;
- Details of the classes of stocks or bonds to be issued, the total money value of the issue, and the method of distribution and pricing;
- Name and address of the underwriter;
- Target market for the distribution and the rights and duties of the purchasers;
- Date of issue for stocks, and the initial and final dates of distribution for bonds;
- Other matters deemed by the PBOC to require explanation.

The prospectus or statement must also be published in a newspaper or magazine designated by the Shanghai PBOC seven days in advance of the distribution.

Beyond this basic requirement, there are several additional steps specific to stock or bond distributions that must be undertaken by the issuer.

Stocks

To complete a stock flotation, a company must also submit the following documents to the Shanghai PBOC:

- Completed application form;
- Copy of the underwriting agreement with an approved securities underwriter;
- Approval documents from the relative administrative departments;
- Approvals from municipal or national planning authorities for investment in fixed assets, depending on the size and nature of the asset;
- Articles of association of the company.

In addition, the company must submit approval documents from the relevant supervisory departments citing proof that it is a company limited by shares; an asset appraisal; and a certificate of proof of investment for a subscription of no less than 30 percent of the shares by the organizers if the company is new.

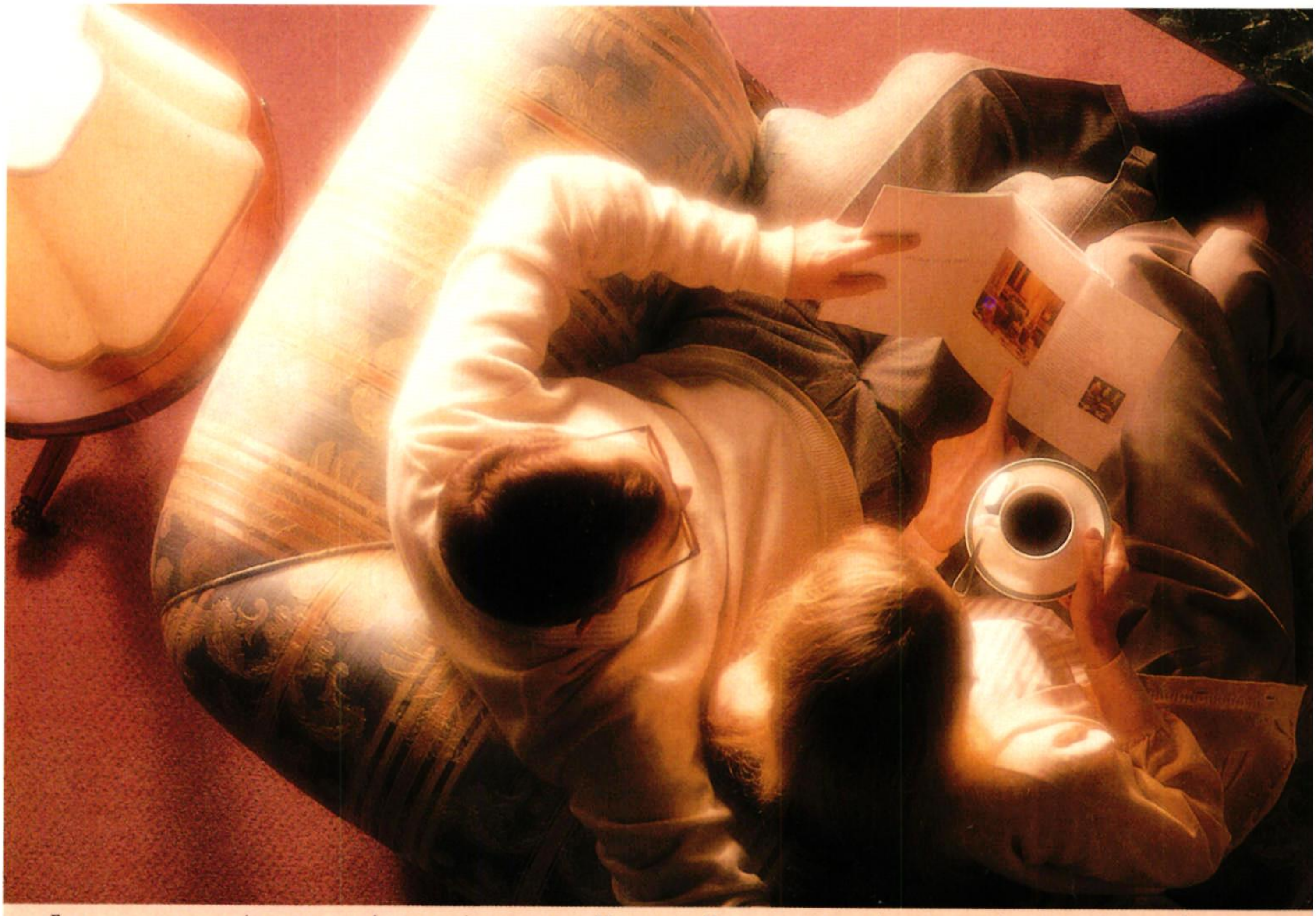
Bonds

To complete a bond flotation, the company must submit a prospectus to the Shanghai PBOC, along with the following documents:

- Completed application form;
- Corporate resolutions of the board of directors of the issuer or its equivalent authorizing the flotation;
- "Statement of continuous profits" (for the two years prior to flotation and for the current year up to the previous quarter) signed and certified by a registered Chinese accountant;
- Evidence of the anticipated bond rating by an asset and credit appraisal organization designated by Shanghai PBOC;
- Copy of the signed underwriting agreement; and
- Approval documents from the relevant administrative department for any proposed fixed asset investment.

For a new manufacturing facility in a light industrial enterprise, for example, the Bureau of Light Industry must give its approval. Finally, the SSE requires issuers and their securities to meet exchange standards.

—Fred Burke



For executives relocating to Hong Kong, a thorough study of our n

ny's projects, such as its export electronics production.

According to Hong Kong-based securities analysts, all of the listed companies—except perhaps the Yu Garden Co.—are "fully valued," a polite expression for stocks unrealistically priced well above the issuing company's underlying value. Local PBOC officials also acknowledge that stock prices for the eight listings are too high. Both foreign analysts and PBOC officials agree that the overvaluation is largely a result of too few stocks in a city with substantial capital to invest.

Nevertheless, local officials are loath to introduce at the same time all of the 12 new stocks under consideration, for fear of causing a sharp drop in the market that might damage investor confidence. Though the SSE imposes a price fluctuation limit of 0.5 percent per day to limit market volatility, PBOC officials are concerned that flooding the market with the additional securities could cause a sharp downward trend, possibly ruining the market's reputation. A sudden downturn in the Shenzhen market this winter appears to have strengthened Shanghai's resolve to keep its market stable. Thus, new listings in Shanghai are likely to be approved over many months.

PBOC officials claim that regulations will be passed within the year to allow local entities—both domestic firms and FIEs—to issue foreign exchange-denominated stocks and bonds and list them on the SSE.

Photo courtesy of Fred Burke

SSE employees monitor trading activity during the exchange's morning session.

Understanding underwriting

To issue most types of securities, an agreement must be made with an underwriter to distribute the securities to the public, though small offerings may be conducted without an underwriter. Large offerings of ¥30 million or more must be conducted through an underwriting syndicate led by a securities firm. As in other countries, the underwriter takes on some or all of the risks of completing the distribution.

The underwriting period, defined as the time between the date the offering begins and the date the distribution is to conclude, may not exceed 90 days without special PBOC approval. The underwriter must also submit a written report on the distribution to PBOC within 14 days after the close of the underwriting period. The Shanghai Securities Regulations also stipulate that only one distribution is allowed per issuer per year. Therefore, all securities issues must be carefully structured to ensure generation of funds sufficient for the relevant year.

According to the Shanghai Securities Regulations, the underwriting agreement must contain several pieces of information:

• Name, address, and legal representative of each of the parties to the contract;
• Method of underwriting (e.g., "firm commitment" or "best efforts");
• Name, amount, money value, and issuing price of the securities;
• Date of commencement of the securities issue;
• Initial and final dates of the underwriting;
• Date of payment, method of payment, and calculation of the underwriting fee;
• Terms for the return of any unsold securities;
• Liability for breach of contract; and
• Other matters deemed by PBOC to require stipulation.

The Regulations further specify that four forms of underwriting are possible. Guaranteed underwriting commitments, in which the underwriter assumes full responsibility for selling the entire securities issue to the public, is one option. The underwriter may also agree to purchase only part of the total issue for subsequent sale to the public, or choose to make a remainder commitment, in which the underwriter agrees to purchase any unsold securities after the close of the distribution. Another alternative is for an "agency" underwriter to assume responsibility for distributing the securities and return any unsold shares to either the issuer or a guaranteed underwriter. In providing a broad range of underwriting scenarios, the Regulations encourage the development of a sophisticated underwriting industry, which may mean greater demand for foreign expertise.

Limited room for foreign investors . . .

Under Shanghai's recently promulgated regulations on foreign banking, foreign-invested banks, bank branches, and financial institutions are allowed to invest in foreign exchange-denominated securities. No such securities have yet been

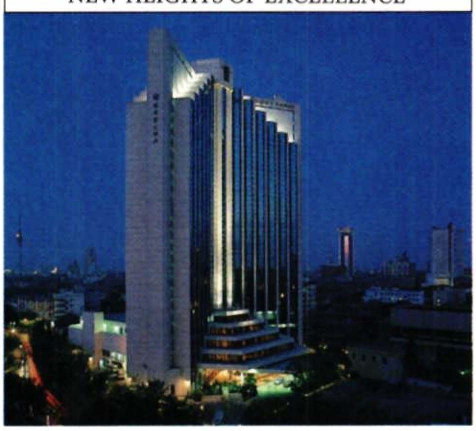
EXPERIENCE GRACIOUS HOSPITALITY AT SHANGHAI JC MANDARIN

In the heart of Shanghai's business district stands the Shanghai JC Mandarin. Chosen one of the top three hotels in Shanghai by Nikkei Trendy, a men's magazine for the upwardly mobile, in a 1990 survey. Business and shopping are both convenient.

You can expect these essential facilities and services at the Shanghai JC Mandarin:-

- Meet and greet at airport on arrival
- Free transfer from airport by hotel coach
- Sophisticated disco with KTV rooms

NEW HEIGHTS OF EXCELLENCE



- Excellent restaurants and bars
- Fluent English-speaking staff
- Same day laundry
- Meeting and exhibition facilities
- Fitness Centre with squash and tennis courts
- All-weather swimming pool

You'll experience traditional Asian hospitality in an old-world city. With international standards of excellence.

INTRODUCTORY DISCOUNT
30% off published room rates until December 31, 1991.

Shanghai JC Mandarin
上海錦滄文華大酒店

Shanghai JC Mandarin, 1225 Nan Jing Xi Lu, Shanghai 200040, People's Republic of China. Tel: (21) 279 1888. Fax: (21) 279 1822. Tlx: 33939 SJCMH CN
Regional Sales & Reservations Offices:- Hong Kong 524 1717 • Kuala Lumpur (03) 261 3306 • Singapore 235 3525

Represented by Utell International

Managed by SINGAPORE MANDARIN INTERNATIONAL listed on the SSE; all existing securities are *renminbi*-denominated. PBOC officials claim that regulations will be passed within the year to allow local entities—both domestic firms and FIEs—to issue foreign exchange-denominated stocks and bonds and list them on the SSE. According to the PBOC, enterprises may be able to issue two classes of stocks—one denominated in *renminbi* and the other in foreign exchange. However, this would limit the markets for each type of share to those with access to the requisite currency.

Alternatively, the PBOC is reportedly considering another method, in which foreign companies would be permitted to trade a "B Class" security denominated in *renminbi* but purchased and sold in foreign exchange. Foreign companies would probably be required to buy such securities according to the official rate of exchange, but local PBOC officials say investors might be able to use the swap price posted daily at Shanghai's swap center. Using the swap price would help overcome the problem of the *yuan*'s overvaluation.

. . . less for foreign financial services

While foreign companies probably will be allowed to invest and raise capital in Shanghai's securities market, they will likely not be allowed to become traders, underwriters, or brokers. Privately, foreign financial institutions express their frustration with the limited access they are to have to the local securities market. It appears they will be barred from engaging in any underwriting activities and will probably be unable to purchase any of the remaining 21 seats on the SSE that would enable them to act as brokers.

> *Before issuing and listing stocks on the SSE can become a viable and convenient way for FIEs to raise capital, the PBOC will have to clarify exactly how much of the FIE's stock can be sold to the public, and what currency can be used to trade the security.*

Local PBOC officials are candid about the lack of foreigners' access to the securities market, explaining that China intends to protect its securities companies until the domestic industry is fully developed. Officials cite the case of Japan as an example of a country that pursued a similar course, pointing out that only recently did Japan open its securities industry to foreign participation, when the domestic securities industry was sufficiently developed to hold its own. It thus appears that for the time being, foreign securities firms will be given minimal access to the Chinese market.

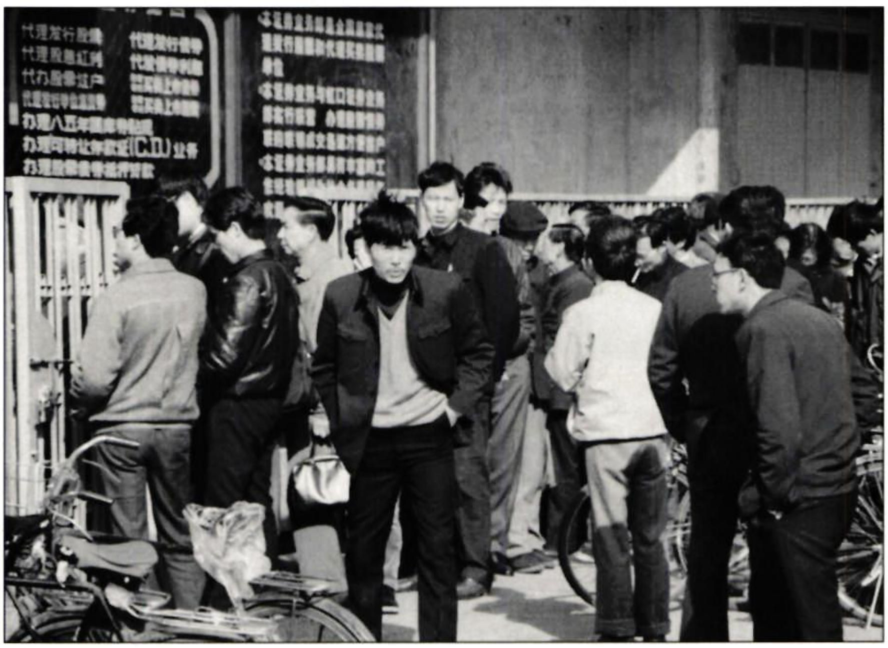


Photo courtesy of Fred Burke

Prospective traders line up outside the Shenyin Securities Co., home of one of Shanghai's over-the-counter securities markets.

Leeway for foreign issuers

Prospects are more promising for foreign-invested enterprises (FIEs) wishing to raise funds through the SSE. A few FIEs, such as Shanghai Volkswagen, which raised nearly ¥30 million in 1989 from the sale of bonds with a three-year maturity date, have already been allowed to issue bonds in Shanghai. These bonds have not been listed on the SSE, though SSE officials say FIEs are welcome to apply to list bonds.

As for stocks, current laws and regulations governing joint ventures and wholly foreign-owned enterprises do not permit FIEs to issue equity shares. PBOC officials, however, indicate that FIEs will eventually be allowed to organize subsidiaries to issue shares or to reorganize as stock companies—companies "limited by shares"—in order to issue securities. Though neither method has been realized in Shanghai, PBOC officials indicate that regulations will soon be promulgated to spell out how FIEs can reorganize themselves as stock companies.

Two Hong Kong-PRC joint ventures have already applied to issue stocks through the SSE, but both applications were recently rejected. SSE officials claim the applications were turned down because the accounting standards of the two companies were inadequate, and because neither company had sufficient fixed assets to enable an adequate valuation. In both cases, PBOC officials ruled that the applicants' bank accounts were insufficient for purposes of valuation because the funds could be transferred out quite easily. Based on the experiences of these ventures, it would appear that existing companies with established investments in plant and equipment may find it easier to issue shares than new companies established expressly for that purpose. Before issuing and listing stocks on the SSE can become a viable and convenient way for FIEs to raise capital, however, the PBOC will have to clarify exactly how much of the FIE's stock can be sold to the public, and what currency or currencies can be used to trade the security.

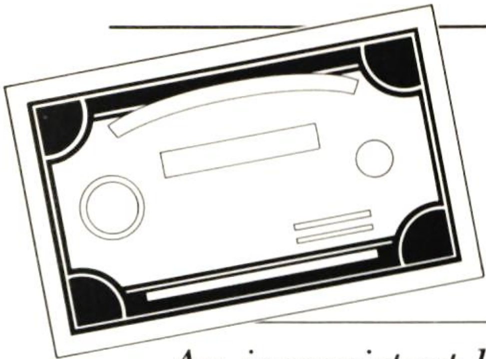
Barriers to overcome

Aside from questions over foreign participation, several fundamental obstacles confront the SSE's backers. One key structural problem is the role of the PBOC. Serving as both a central bank and a financial regulatory authority, PBOC suffers from conflicts of interest that may limit the extent to which China's securities markets are allowed to develop. According to Chinese securities-industry experts, the PBOC's history of involvement in—and continued links with—the banking sector lead it to view its primary mission as attracting capital to the banking system in the form of savings deposits for use under the State Plan. Since PBOC has ultimate control over interest rates for bonds and terms of stock flotations, it will not allow such rates and terms to become attractive enough to siphon off more than a marginal amount of capital from the banking system.

There is thus debate about whether the PBOC should retain authority over the securities market or whether the job should be given to the Ministry of Finance or an independent agency. Those who promote these alternatives argue that the PBOC monopoly over capital markets will mean greater risk of economic inefficiency and less latitude for organizations such as the SSE to help provide a true market for capital.

Serious gaps in the legal system also pose challenges to both regulators and investors, particularly where equity securities are concerned. China still has no company law that defines the rights and obligations of shareholders, directors, and management. The absence of a working bankruptcy law and the inconsistency of Chinese courts in enforcing creditor's rights likewise undermine the confidence of bond holders with respect to issues such as priorities among creditors and rights on liquidation.

Whether Shanghai and its supporters in Beijing are able to meet these and other challenges will have a tremendous impact on the city's ambitious development plans. So far, the Shanghai experiment is working well. Only a month after the exchange opened, the volume of trading reached ¥350 million, more than twice Shanghai's 1990 average monthly volume. Whether the SSE will be allowed to develop into a real secondary market for capital, both domestic and foreign, however, remains to be seen. Though the Shanghai Securities Regulations and the SSE create the legal and infrastuctural foundation for a genuine national securities market, other steps must be taken at the national level to link the rationalization of capital markets with the rationalization of the markets for labor, raw materials, and the means of production. In the absence of such reforms, the Shanghai Exchange will be little more than just another means of propping up inefficient industries. 完



Seeking a Regulatory Middleground

An inconsistent legal regime strictly controls exchange activity in Shanghai and encourages abuse in Shenzhen

Mary Riley

Though China's securities markets are subject to serious regulatory and logistical restrictions, they are popular with local investors. Indeed, the Shenzhen market in particular is absorbing larger amounts of spare cash than anyone imagined existed in China. Even at this early stage of securities market activity in China, there are many possibilities for raising capital, trading and speculating, and even for hedging other investments. Although the rules governing market activity differ from place to place—most notably between Shanghai and Shenzhen—these differences should not be overemphasized. A unified system of securities regulation and practice will be installed once the central government can decide between the various regulatory options available to it.

The Shanghai and Shenzhen exchanges are not competing models, but reflections of market development under unevenly regulated conditions. In Shenzhen, development of a regulatory framework has lagged behind market activity, while in Shanghai it has largely preceded wider market participation. Central authorities are currently studying both exchanges in their effort to draw up a national regulatory regime. Examining the Shanghai and Shenzhen markets with regard to a few key issues gives an indication of some market-related problems Beijing is now considering.

In Shenzhen, development of a regulatory framework has lagged behind market activity, while in Shanghai it has largely preceded wider market participation.

• *Trading*

In the trading area Shanghai has some regulations that have not yet been thoroughly tested, while Shenzhen has developed practices that are not reflected in any regulations. Many of the trading prohibitions listed in the Shanghai regulations are designed to inhibit professional speculation. They are mostly drawn from foreign legislation and are surprisingly sophisticated given the current comparatively moderate level of market activity in Shanghai. Though there does appear to be some evidence that price manipulation has taken place in Shanghai, it has occurred on a fairly limited scale. The more common abuses tend to occur on the extensive black market that thrives on the sidewalk outside the Shenzhen exchange. Uncontrolled pricing, touting, and failure to register ownership of securities are common problems on the black market, where there is no protection against outright fraud. Nevertheless, this market is arguably the most active in China.

The black market has arisen as a result of restricted access to the official market, compounded by too much cash chasing too few securities. Newspaper accounts indicate that at one point as much as ¥10,000 per day was making its way to the Shenzhen black market from other parts of the country. In two years the five stocks listed on the Shenzhen market jumped from a face value of ¥210 million to ¥2.8 billion. Cumbersome bureaucratic procedures also inhibit legal participation on the Shenzhen exchange. Current regulations require buyers and sellers to go through complex application procedures, which involve filling in numerous forms and depositing ¥10,000-50,000 into a bank with a computer link to the exchange. Registration of a newly purchased security takes 20 days.

Though the Shanghai market is too new, too closely watched, and not liquid enough to allow much black market activity, rapid appreciation of securities listed on the exchange could allow a flourishing black market to take off there, too. If that happens, Shanghai black marketeers would face the same disadvantages as their counterparts in Shenzhen—securities purchased on the black market cannot be registered, so new owners cannot receive dividends. Purchases are therefore made on the hope of price appreciation alone.

Mary Riley is a consultant for business and legal matters and currently resides in Hong Kong. She previously worked as a compliance officer for broker-dealers in the United States, and also worked with American law firms advising on Chinese law.

In addition, since purchases on the black market are not officially recorded, lost or stolen certificates cannot be replaced and company notices cannot be delivered to purchasers. Though the current small number of listings in both Shanghai and Shenzhen makes it possible for investors to follow the news on every listed security, this will become more difficult as listings increase. Thus, as China's securities markets develop, the importance of better records of share ownership will become more evident, and should act as a disincentive to trading on the black market. For the time being, however, the Shenzhen market's limited scope tends to blind investors to rules that would protect their interests were the market more complex, encouraging them instead to circumvent such regulations.

• *Share pricing*

Another disincentive to increasing legal participation on the Shenzhen exchange is its extraordinarily complex system of share pricing. Internal regulations forbid issuers from allowing securities to become a more attractive form of investment than a bank account. Therefore, just as bank accounts in China pay different rates of interest depending on the depositor, securities payments vary in similar fashion. Stock prices and dividends thus vary with the status of the buyer (work units and individuals pay different prices and receive different rates of interest); type of work unit (administrative agencies, State-owned enterprises, and collective enterprises are charged different prices); quantity of shares held; original or secondary purchase; and place of purchase (black market prices are significantly higher than floor prices). In Shanghai, by contrast, prices are uniform and do not differ according to the identity of the buyer.

• *Foreign participation*

Though neither the Shanghai nor Shenzhen exchange has thorough, clearly defined rules regulating foreign participation, local experimentation has been limited given the sensitivity of central authorities on this topic. Both exchanges permit foreign-invested enterprises (FIEs) to list bonds provided they obtain permission from the appropriate authorities, but stock flotation by FIEs has thus far been approved only on the Shenzhen exchange. As there are no official Shenzhen regulations regarding this activity, however, approvals are highly subject to political vagaries.

The black market in Shenzhen has arisen as a result of restricted access to the official market, compounded by too much cash chasing too few securities.

In order for a joint venture to issue stock in Shenzhen, it must first be reorganized as a joint stock company. Re-organization of existing ventures is easily accomplished once the requisite approvals are obtained. Foreign parties obtain a special class of stocks that cannot be publicly sold. Only one Sino-Hong Kong joint stock company has been permitted to issue shares on the Shenzhen exchange so far, although several other applications are under consideration.

Ownership of *renminbi*-denominated securities by foreign parties has not yet been permitted on any Chinese exchange, but many organizations both inside and outside China are seeking to change this practice. In particular, Indosuez Asia Investment Services has raised money for investment in a "China Fund" which originally was intended to consist primarily of securities listed on the Shanghai exchange. Despite the mayor of Shanghai's promise in late 1990 that new regulations opening the market to foreign investment would be issued shortly thereafter, they have yet to materialize. Even if the fund acted on its informal approvals and purchased securities on the Shanghai Exchange, it apparently would be permitted to convert the *renminbi* earned through their sale only at the official—rather than the swap market—rate. Given the poor prospects of realizing a profit under such an arrangement, the fund has limited its "China" investments to securities issued in Taiwan, Hong Kong, and Macao for the time being.

Flotation of foreign exchange-denominated securities would help eliminate such convertibility problems. The Shenzhen branch of the China National Non-ferrous Metals Industry Corp. floated such a security on an experimental basis in January. The success of the float indicates that foreign exchange reserves in private hands are quite significant. However, central government concerns over how to maintain control over the approval process for foreign exchange-denominated securities—as well as the purse strings of Chinese companies that obtain the foreign exchange—has delayed them from issuing instructions or promulgating regulations on this issue.

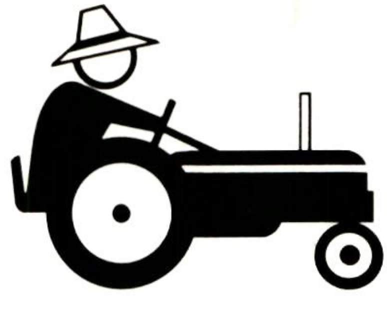
Looking ahead

Securities markets in China will eventually be subject to a unified regulatory system, though it is not possible to predict when this system will be instituted. Regulators are currently trying to ascertain what securities regulations would be best for China. Though the Shanghai regulations will be used as the basis for the national rules, there will likely be some changes in the provisions before agreement can be reached.

Chinese citizens clearly have the interest and means to participate in securities markets—the question is to what degree the government will allow them to participate. Authorities must create a legal regime flexible enough to both expand the size and scope of China's securities markets yet discourage abuse and unauthorized trading.

Similarly, foreign participation in China's markets will depend on how much access foreign companies and individuals are given, and whether they will be allowed to convert and repatriate proceeds. Foreign-invested enterprises have already begun to issue securities—albeit on a very limited scale—to raise funds in the Chinese market. Though issuing securities is unlikely in the near future to be used as a primary method of capitalizing an enterprise, it can be a cost-effective way to raise extra funds after the enterprise is up and running. Such opportunities will probably increase in the future, as new regulations are issued and the desire to attract foreign resources overcomes xenophobia over foreign participation in Chinese capital markets. 完

Stabilizing Agriculture Prices



Zhengzhou's experimental grain wholesale market is blazing a trail for future commodities exchanges

Hang Chang

The Zhengzhou Grain Wholesale Market, China's first commodity exchange since 1949, got off to a quick start, selling 20,000 tonnes of wheat on its opening day last October. Since then, some 15,000 people have visited the market, including delegations from the World Bank and the Soviet Union, which is experimenting with its own commodity exchange in Moscow.

Described in many press reports as a futures market, the Zhengzhou market is actually operated as a national cash forward market by the Ministry of Commerce and the Henan provincial government. Distinguished from futures markets by their nonstandardized contracts, which require negotiation over each contract term and are therefore more difficult to trade, cash forward markets are generally not very liquid. Futures markets, in contrast, tend to be highly liquid, as their standardized contracts make transfers between parties routine. The Zhengzhou market, however, does utilize a performance bond (or margin), a common mechanism of futures markets to prevent default on agreements.

Establishment of the Zhengzhou market reflects China's need to create more efficient internal markets for agricultural products. Planners hope the market will improve distribution of food grains, thereby helping reduce wheat imports. In addition, the market is expected to increase predictability of grain prices, providing stability to the traditionally volatile free market. While the Zhengzhou market has not yet met all these expectations, it remains an important first step in creating a national grain market.

Establishment of the Zhengzhou market reflects China's need to create more efficient internal markets for agricultural products.

Distribution shortfalls

Grain and grain products are key crops for meeting consumer food needs in China and have long been subsidized by the State to keep prices low in urban areas. After the central government introduced economic reforms in the countryside in 1978-82, grain production increased significantly, but these gains were short-lived. By the second half of the 1980s, production stagnated despite rising national demand for grain. Numerous problems, such as an inefficient land contract system, slow implementation of price reforms, a poor transportation system, inadequate investment in infrastructure, and environmental degradation acted as drags on crop production.

Even when grain is abundant, as during last year's record harvest, distribution and transportation problems prevent it from getting to the places where shortages are most severe. For example, large cities in southern China have difficulty obtaining enough wheat to meet demand, and often turn to imports to fill the gap. China has thus become a net wheat importer, purchasing between 8-15 million tonnes of foreign wheat each year over the last five years, compared to just over 7 million tonnes in 1978.

The State continues to be highly involved in grain production under an agricultural system that has only been partially reformed. Farmers are required to sell a portion of their grain to the government at low, fixed prices. The government in turn distributes it to needy areas of the country, particularly urban areas. The State reportedly spends more than 13 percent of its national budget to subsidize farmers' grain and food-oil output and maintain stable, low grain prices in urban markets.

After meeting the State quota, farmers can sell the remainder of their grain at the best available market price. Free market pricing, however, actually operates within two tiers. Bulk transfers of grain between provinces are conducted at a "negotiated price" that tends to be lower than the free floating prices that operate at local township markets. Although approximately 65 million tonnes of agricultural commodities circulate in the free market each year, only about 3 million tonnes of wheat

Hang Chang is an economist at the Chicago Board of Trade. *The views expressed in this article are his own and do not necessarily reflect those of the Chicago Board of Trade.* *The author would like to thank William Grossman, Frank S. Rose, Eric Schubert, Jeannette Herrmann, and Mark Prout for their help with this article.*

are marketed between provinces, so a considerable amount of wheat and other grains remain in the locality of production—usually in China's northern provinces. Under this system, regional surpluses and shortfalls can result in extreme price volatility. The Zhengzhou Grain Wholesale Market was established to offset some of these problems, but its birth was a long, slow process.

The making of the market

Reportedly, in the mid-1980s former Premier Zhao Ziyang was impressed by a Hong Kong-made videotape on futures markets, so he instructed government officials to study the feasibility of setting up such markets in China. In late 1987, a group of scholars recommended that the State Council form China's first futures market, and in early 1988 then Deputy Premier Li Peng gave a green light to the project.

The project was undertaken jointly by the Ministry of Commerce and two major think tanks for the State Council: the Development Research Center and the State Commission for Restructuring the Economy. Henan Province, which produces almost 75 percent of China's wheat, later joined the consortium and acted as a major promoter of the project.

In early 1989, a detailed proposal was drafted to test markets for different products in four provinces, but the market research was delayed by the June 4 crackdown. When Li Peng unexpectedly gave the think tanks permission to revive the project in mid-1990, the decision was made to establish the first market in Henan Province.

The Chicago Board of Trade, the world's largest futures exchange, has played an advisory role throughout the project. While not directly involved in setting up the market, the board provided educational assistance on futures trading by hosting several Chinese officials and researchers. Over the last three years the Board has sponsored staff exchanges and seminars in both Chicago and Beijing.

Broadening operations

Despite a stellar opening day, trading on the Zhengzhou market soon slowed, with only 50,000 tonnes of wheat traded in the first month. Although the Ministry of Commerce and the Henan provincial government gave permission to 200 organizations to trade, on an average day only 20-30 players got involved. Traders were not enthusiastic as some were still learning the trading procedures, while others remained skeptical of the market mechanism. Some traders were not interested in buying wheat as the record 1990 harvest had left large stockpiles in many major wheat-purchasing cities.

Foreign-invested enterprises are not prohibited from participating in the market, but apparently none have so far.

In early November, top officials from the Ministry of Commerce called a special meeting to discuss the sluggish market. The group recommended that the market be broadened to encompass other food grains—peanuts, peanut oil, and corn—and that traders not be charged sales taxes. The Ministry of Transportation was requested to give priority transportation to grains traded on the market. In addition, all authorized traders were asked to be present on the trading floor one week a month to encourage full participation. The exchange itself also adopted a more active role, both matching traders and serving as an agent for nonmember organizations. After these new policies were implemented, more than 130,000 tonnes of grains and oils were traded during the second month, including 40,000 tonnes of wheat.

While sales of corn, which has many industrial uses, have so far been fairly widely dispersed, wheat and peanut trades have tended to transfer crops from the north to the southern coastal provinces, with most supplies purchased by Guangdong, Guangxi, and Fujian provinces. Some southern cities and provinces also use the market to purchase national grain and oil reserves from the China National Cereals Trade Corp. This new pattern is a signal that grain distribution by the State may be at least partly replaced by the market, since previously grain supplies were purchased directly from the central government.

Some Chinese officials believe that the Zhengzhou market may already

China's inefficient grain distribution system prevents adequate supplies of wheat, which is grown in the north, from reaching demand centers in the south.

have helped stabilize grain prices nationwide. When the market opened in October, the price of wheat was ¥0.85/kg; it rose to only ¥0.86/kg by the end of December, and has hovered around this price ever since. A national survey of wheat prices conducted by the Ministry of Commerce last December found similar price levels throughout the country. Though some sources attribute the minimal price fluctuations to invisible government intervention, they have also been achieved by the high selling price, which is slightly above international levels. Further increases would only motivate buyers to look abroad. Whatever the reason, the Zhengzhou market price is clearly being used to some extent by local markets as a reference price.

Market mechanics

Participants in the Zhengzhou market tend to be State and provincial grain trading corporations, farm cooperatives, and businesses that need grain such as flour mills, hotels, and brewers. Individuals are not allowed to participate. Industrial enterprises are sometimes represented collectively at the market by their parent company in order to save exchange membership costs and facilitate bulk buying. Enterprises that do not join the exchange can trade through brokers, which are all State and provincial grain trading companies. Smaller grain trading companies have utilized brokers most frequently. Foreign-invested enterprises are not prohibited from participating in the market, but apparently none have so far.

The market operates under a fairly strict set of rules and regulations. All participants must pay a one-time membership fee of ¥10,000 ($1,961). The minimum transaction is 50 tonnes, and prices must be quoted at intervals of ¥.001 ($0.0002) per kilogram. The market claims a 1-1.5 percent transaction fee on each deal. Grain trading corporations acting as brokers can charge commissions of up to 4 percent of the trade price.

To trade, sellers must provide information to the market staff before the auction begins, including quantity and quality of the goods for sale; location, time, and method of delivery; required method of payment; packaging arrangements; and minimum acceptable price. Sellers

Administrative agencies that previously had exclusive control over bulk grain transactions between provinces oppose the market's further expansion.

must also provide a sample of their wheat for inspection by potential customers. Currently, only nonstandard contracts are being traded on the market. Market officials originally planned to introduce standard contracts a few months after the market opened, but apparently no agreement on delivery points, the first item to be standardized, has yet been reached. It is still unclear when standardized contracts will actually appear on the market.

The auction is conducted by market staff, but if no buyer meets the seller's minimum acceptable price, no deal is made. Buyers may bid for less than the full quantity of wheat offered only if the seller agrees. If a deal is struck, the buyer and seller negotiate payment and delivery details. The seller is responsible for loading the wheat onto a vehicle for shipment, but the buyer must pay transportation charges. The buyer and seller each pay a performance bond to the market in the amount of 5 percent of the trade price. This margin is intended to guard against defaults and is refunded after delivery and payment have been made. The market staff is allowed to raise the margin in the event of price volatility.

Business is restricted to wholesale cash and forward trading in which agreements are made for 6- or 12-month delivery. Contract transfers to third parties will be permitted when standardized contracts are introduced, but only two months prior to delivery. This precaution was established to limit opportunities for speculation, making the operation of the Zhengzhou market quite different from futures markets in capitalist economies, where contracts may trade hands many times before delivery. Thus far, there has been no evidence of open speculation on the Zhengzhou market.

Problems and pitfalls

Despite these detailed regulations, a number of structural problems could hinder the Zhengzhou market's development and expansion.

- **Planned economy** To a large extent, grain trading remains planned by the State, a fact that influences buying mentality. Even for some organizations participating in the Zhengzhou market, market prices are not the driving force behind transactions; they buy or sell when told to do so by higher-ranking government organizations. Although an open market with competitive prices now exists, many organizations lack the incentive to obtain the best price possible.
- **Administrative mentality** Since China's market is organized and coordinated by central and local officials, no effective independent channel for marketing exists in China. The Zhengzhou market staff tend to target officials rather than endusers in their efforts to expand business since administrators remain the most important decisionmakers in China.
- **Unfamiliarity with market mechanisms** Traders are still learning how to conduct business in a wholesale market. Many prefer to use traditional methods of channeling trade through old business connections or partners. Thus, personal relationships sometimes carry over into the market, creating a nonprice basis for dictating who trades with whom.
- **Risk of default** China's open market is notorious for its high default rate: 70-80 percent of all cash contracts reportedly go into default without settlement. Authorities are uncertain how risk of default will affect the wholesale market, though no defaults have been reported so far.
- **Insufficient credit** Traders may have difficulty coming up with the money for initial payments due to tightened bank credit under the austerity program. Even though the situation has been easing and the Zhengzhou market has called on central and local banks to provide traders with easier access to more credit, significant changes are unlikely considering how slow Chinese banks have been in instituting reforms. It is very difficult to transfer

funds across provincial lines, for example, as banks in different provinces generally lack direct business relationships. The Zhengzhou market is therefore considering letting buyers use government bonds to pay margins.

• **Need for government subsidy** As service charges do not currently cover costs, the Zhengzhou market is granted an annual allowance from the central government to meet its expenses. This leaves little money for purchasing equipment or broadening marketing efforts to attract more traders. The market has therefore approached the World Bank for loans for capital construction and expansion. Though the request is still pending, it is unlikely that the market will receive foreign funds, as it has not been deemed a priority recipient by the central government.

• **Increasing competition** The success of the Zhengzhou market has encouraged local provincial governments to open their own markets. According to an official from the Ministry of Commerce, the Jiujiang Rice Wholesale Market in Jiangxi Province opened on December 8, 1990, and was quickly followed by another rice market in Wuhu, Anhui Province, which opened on January 15, 1991. Wuhan, in Hebei Province, on March 6 also opened a rice market, and Jilin Province opened a corn wholesale market in Changchun March 15. In addition, when the national Zhengzhou market is closed on Tuesdays, Thursdays, and Saturdays, the facility operates as a provincial wholesale market for grains other than wheat. These local wholesale markets may draw potential sellers and customers away from the Zhengzhou market, and administrative agencies that previously had exclusive control over bulk grain transactions between provinces continue to oppose the market's further expansion.

• **Infrastructure bottlenecks** China's inadequate transportation system makes transporting grain difficult. Railroads, the most convenient form of long-distance transport, generally give priority to fuels, metals, and minerals. The Ministry of Commerce's recommendation that Zhengzhou market grains be given priority transportation will likely only be carried out if China's transportation organizations view the policy as beneficial to them.

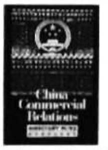
High hopes

Although these problems pose serious obstacles to the Zhengzhou market's success, its future appears promising, as State and provincial officials are becoming more committed to promoting its growth. For example, the central government is now reportedly encouraging provinces to make all bulk transfers through the Zhengzhou market, and several provinces, including Henan, have placed a portion of their above-quota wheat crop onto the wholesale market. As a result, officials are now predicting that all bulk wheat transfers between provinces for the 1991 crop year will be traded through the Zhengzhou market. In addition, the central government has decided to use the Zhengzhou market to purchase and sell the special grain reserves the provinces are required to hold each year.

Perhaps even more significant, the Eighth Five-Year Plan (1991-95) and the 10-year economic program (1991-2000), adopted this spring by the National People's Congress (*see* p. 8), both include recommendations for the development of wholesale and futures markets for grains. It is still too early to predict whether this endorsement will actually give the Zhengzhou market a boost, however, as the government continues to hedge its bets by using both central planning and the national wholesale market to manage grain distribution. But if the Zhengzhou market proves successful in resolving the problems of uneven distribution and erratic pricing in the grain market, there may be a bright future ahead for commodities markets in China. 完

AMCHAM'S CHINA BOOKS

China Commercial Relations Directory 1991/92



A bilingual, English-Chinese, published biennially. This year includes 119 companies. Also includes "statistical anatomy of China" in the form of 18 charts or listings reprinted with permission of leading research publications on China. A "China Travel" chapter which gives information on getting visas, transport connections, American business contacts in the country, and foreign exhibitions calendar. Now in its eighth edition. List price: HK$215/US$32 (HK$175/US$28 for AmCham members).

PRC Business Firms in Hong Kong and Macau

A guide to over 400 firms compiled by a team of US government staff members and business people active in China.

Banking & Finance, Insurance, Oil Companies, Shipping Agents, Travel Services, Publishing and News Media; *Geographic* listings show company connections to national, provincial, urban and Special Economic Zone corporations of China. Also *Parent/Holdings firms* guide. *Products & Services* index and *Chinese-language* company names appendices: essays surveying nature and history of Chinese corporate presence in Hong Kong and Macau; US Commerce Department and Hong Kong Trade Development Council review economic impact and trends of Hong Kong/Macau/China connection. List Price: HK$265/US$38 (HK$215/US$32 for AmCham members).

Hong Kong Connection — Doing Business in Guangdong Province

Comprehensive introduction to how business works and where to get help on the ground in Guangzhou, Special Economic Zones and so-called "Open Areas" like deltas of the three major rivers in the province — the Pearl, Han and Jian. First book in English to offer a simple, straightforward and inexpensive introduction to business conditions in the province based on first-hand research. List price: HK$215/US$32 (HK$175/US$28 for AmCham members).

AMCHAM'S HONG KONG BOOKS

American Foods and Beverages in Hong Kong

American Foods and Beverages in Hong Kong is a directory of over 200 importers, supplemented with chapters describing the American presence in Hong Kong's food business and giving tips on how best to enter this growing market. Published in cooperation with the US Foreign Agricultural Service (FAS) in Hong Kong.

First edition. List price: HK$165/US$27 (HK$135/US$22 for AmCham members).

Returning to Hong Kong — A Home Employment Resource Guide for Graduates of Overseas Universities

A guide to jobs for almost 4,000 graduating Hong Kong students returning from overseas. Distributed free to graduating Hong Kong students at American, Australian and Canadian universities in cooperation with the Institute for International Education (IIE) and International Development Program in Australia. List Price: HK$165/US$27 (HK$135/US$24 for AmCham members).

Doing Business in Today's Hong Kong

Third edition, a compendium of investment analyses covering the key sectors of Hong Kong's export-led economy, authored by active and successful executives in the territory's commercial life. Written by businessmen for businessmen, the authors of which are drawn from the membership of Hong Kong's largest grouping of foreign investors — The American Chamber of Commerce. List price: HK$185/US$29 (HK$165/US$26 to AmCham members).

The American Chamber of Commerce in Hong Kong
Room 1030, Swire House, Chater Road, Central, Hong Kong.
Tel: 5260165 Fax: 8101289 Tlx: 83664 AMCC HX
Mail Address: GPO Box 355, Hong Kong.

Establishing an Office in Hong Kong

1990/91 seventh edition of this annual. Features Hong Kong context reviews of business services as varied as freight forwarding, law and architectural consulting. First-reference book for newcomers. Text material divided into 17 brief chapters intended to raise the right questions and offer the best references supported by six appendices with referrals to key organizations, AmCham business contacts and other sources. Five maps. List price: HK$165/US$27 (HK$135/US$22 for AmCham members).

Who's Who in Hong Kong Communications 1990

312-page book with four major categories: "Who's Who in Hong Kong Communications" carries extended paid listings of 115 companies, providing 65 categories of products & services. "Communications in the Hong Kong Context" includes 11 articles reviewing themes in advertising, public relations, publishing, desktop publishing equipment, and printing. "Professional Support in Hong Kong" includes a miscellany of 10 different lists/key documents. "Quick Contact File" is a telephone finders' guide to about 4,400 companies in Hong Kong, divided into 36 categories. List price: HK$215/US$33 (HK$175/US$29 for AmCham members).

Hong Kong Electronics Handbook/Directory

Hong Kong Electronics Handbook/Directory is divided into three major sections. The first introduces the manufacturing side of the industry with articles from people who know it.

"Sourcing guide" directory of 133 electronics companies describes their products and services, indicates if they do original equipment manufacturing (OEM), describes the nature of their manufacturing in China if any, and names their subsidiaries in Hong Kong, China and the region.

The last section of the book is a guide to Hong Kong's electronics services sector. It includes 10 different articles by authors active in each sector covered. List price: HK$215/US$32 (HK$175/US$28 for AmCham members).

Living in Hong Kong 1989/90

1989 seventh edition guide for newcomers to the region. First published in 1973. Divided into 15 chapters covering topics as Living and Health, Communications Services, Legal Information, Schools, Leisure Activities and even a chapter on the best way to leave. List price: HK$165/US$27 (HK$135/US$24 for AmCham members).

AmCham Members Directory 1990/91

Over 500-page book contains four major sections, including a guide to over 600 American private or government organizations concerned with US business development in Asia-Pacific. Lists 2,570 members from 1,079 companies. List price: HK$1,170/US$162 (HK$770/US$112 for AmCham members)

Hong Kong's Training Services 1991

Extended profiles of 31 major training providers in Hong Kong and nine major types of training surveyed, also described are 17 educational institutions and seven "in-house" programs run by specific companies or organizations. List price: HK$175/US$25 (HK$145/US$22 for AmCham members).

(Quoted prices include local/overseas postage).

To: American Chamber of Commerce in Hong Kong, G P O Box 355, Hong Kong

ORDER FORM

Name: Mr/Ms ____________________
(Please Print)

Title: ____________________

Company: ____________________

____

Address: ____________________

____

Tel: ____________________

Fax: ____________________

Tlx: ____________________

Date: ____________________

Enclosed is my ☐ check/bank draft or

☐ pay by credit card for

________ Copies of ____________________

Total HK$ ____________________

Signature: ____________________
(not valid unless signed)

CHARGE TO MY ☐ American Express ☐ Visa ☐ Master Card ☐ Diners Club

Card Issuing Bank ____________________

Card No. ____________________

Expiry Date: ____________________

MORE INFORMATION

Please send me more information of the following forthcoming title(s):

☐ Hong Kong Information Technology Handbook

☐ Regional Entrepot — HK/PacRim Trade Directory

☐ Hong Kong/Princeton Review Guide

Launching PADS

Hong Kong's ambitious infrastructure program is raising questions about China's intentions toward the territory

David Tong and Garbo Cheung

A master plan for Hong Kong's long-term development, the $16.3 billion (HK$127 billion) Port and Airport Development Strategy (PADS) is designed to enable the territory to meet forecasted growth in air and port traffic and thereby stay competitive in the booming Pacific Rim region. Plans for PADS include the creation of a new international airport to accommodate increased passenger and cargo volume, the expansion of port facilities to add two more container terminals, and construction of bridge, road, and rail links for the massive projects. Beijing's opposition to the scheme, however, has helped fuel controversy over both the technical aspects and economic feasibility of the projects.

The resultant political tension between the Hong Kong government and Beijing has made it difficult for Hong Kong to secure the private backing it needs to finance the projects. Though the government originally announced 40-60 percent of the financing for PADS would come from the private sector, some media reports have projected that the government may be forced to finance as much as 80 percent of the costs. Moreover, the dispute has raised key questions concerning the relationship between Beijing and Hong Kong both before and after the territory reverts to Chinese sovereignty in 1997.

The government signs on

The debate between Beijing and Hong Kong is not over the need for new facilities but over the scale, cost, and planning of the projects. The Hong Kong government has been investigating various options since the 1970s, when it listed six potential airport replacement sites from an initial list of 30. Soon after Chek Lap Kok was selected from these six, a feasibility study was undertaken in 1979. A full master plan was then developed from 1981-83. Though an alternate airport site study was carried out in 1989 to reconsider the Lamma Island and Cheung Chau sites, Chek Lap Kok remained the top choice as it offered the most economical and adaptable site.

The Hong Kong government counted on the October 1989 unveiling of PADS to help boost sagging business confidence in the territory.

The Hong Kong government picked up the pace of planning for PADS after Tiananmen, counting on the October 1989 unveiling of the massive undertaking to help boost sagging business confidence in the territory. The project is to encompass:

- a HK$35 billion twin-runway new airport at Chek Lap Kok on Lantau Island, to be built by reclaiming 650 hectares from the seabed between Chek Lap Kok and neighboring Lam Chau Island;
- a HK$50 billion port project, including the construction of Hong Kong's eighth and ninth container terminals at Stonecutters and Tsing Yi islands;
- a new town at Tung Chung next to the new airport as well as major transport links to the airport and new terminals, valued at HK$38 billion;
- new utilities, valued at HK$4 billion.

Landing a deal for expansion

PADS' airport development plans are intended to ease congestion at the present airport, Kai Tak International, and allow for significant growth in the future. In terms of international passenger volume, Kai Tak is the second busiest airport in Asia and the sixth busiest in the world; it ranks fourth in overall volume of international air cargo handled. Kai Tak is now served by over 50 airlines with more than 110 destinations worldwide, and is an important hub for inter-Asian and transpacific travel. In 1990, for example, Kai Tak handled 16.2 million passengers and over 800,000 tonnes of cargo. Hong Kong is expected to receive 50 million passengers and 2.6 million tonnes of cargo by the year 2011—far more than Kai Tak's current capacity. The airport's location, however, precludes expansion because of its proximity to residences; scheduled flights

David Tong is a partner at Deloitte Ross Tohmatsu International in Hong Kong, where he oversees their Asia/Pacific and China operations. Garbo Cheung is a consultant with Deloitte Ross Tohmatsu China.

are not allowed from midnight to 7 am. Moreover, there is not enough room to build additional runways—Kai Tak currently operates with only a single runway, and sometimes handles up to 34 aircraft movements per hour, surpassing its capacity of 30.

Congestion at Kai Tak is also occurring at a time when Hong Kong's regional competitors are emphasizing airport development that could challenge the territory's preeminent position in the near future. Japan, for example, is building its first 24-hour airport, the Kansai International Airport in Osaka Bay, scheduled to open in 1993. Singapore has just doubled its Changi Airport's capacity with the addition of a second air terminal and has plans to add two more passenger terminals and runways. In Seoul, the South Korean government is currently planning a second airport on an even larger scale than Chek Lap Kok, to be completed in the next five years. Posing a more direct threat are two new airports being built in the Pearl River Delta—the Fuyong Airport in Shenzhen, which is scheduled to begin operating later this year, and Macao's international airport, scheduled to open in 1993.

Current work on the new Hong Kong airport, which will operate 24 hours a day on two runways, is in the preliminary stages of design, planning, and financing. Greiner Airport Consortium, a joint venture between Dallas-based Greiner Inc. and the Hong Kong subsidiary of Maunsell Consultants Asia Ltd., has been named the airport's master planner. Greiner is currently working on the master plan and environmental assessments, while Maunsell is providing civil engineering and geotechnical skills. Detailed design work will soon begin and main site formation works are expected in the second half of 1991. Hong Kong-based Wardley Ltd. was appointed last August to complete the financial study and is now working with its subcontractor, Marshall Macklin Monaghan of Canada. Final reports for master planning and financial consultancy are due in November, as are environmental assessments.

Overseeing financing and development plans is the Airport Authority, composed of representatives from both the public and private sectors.

Current work on the new Hong Kong airport, which will operate 24 hours a day on two runways, is in the preliminary stages of design, planning, and financing.

According to current plans, the new airport is scheduled to begin operations with one runway in 1997, and should eventually be able to handle up to 80 million passengers and over four million tonnes of cargo annually when the second runway is completed.

Making Hong Kong shipshape

Congestion at Hong Kong's airport has been rivaled by that of its ports. While Hong Kong's natural deep-water harbors have housed container facilities since the 1970s—making it one of the world's busiest ports—existing container terminals are expected to be stretched to full capacity by the mid-1990s. Hong Kong's port facilities handled 80 million tonnes of cargo in 1989, including 4.5 million containers.

As Hong Kong's shipping sector struggles to accommodate rising demand, regional competition from Singapore, Taiwan, and Thailand could threaten the territory's longstanding role as the region's premier shipping center. Singapore surpassed Hong Kong to become the world's busiest port in 1990, handling 120,000 more containers. To shore up Hong Kong's position, the government has decided to reclaim land at Tsing Chau Tsai, Tsing Yi, and Stonecutters islands in the Western Harbor to build new container terminals. Multi-purpose berths, cargo handling areas and back-up facilities will also be needed. These projects are expected to be complete by 2006, when a breakwater between the islands will double the sheltered harbor area.

The port projects are estimated to cost about HK$55 billion at 1990 prices, and will be overseen by a Port Development Board formed last August. Composed of members from the private sector, the Board is chaired by John Gray, deputy chairman of the Hong Kong and Shanghai Banking Corp. Ltd. Its purpose is to give advice to the government on port planning and development from the private sector point of view.

Footing the bill

Completion of the entire PADS program is anticipated for 2006, though some projects are optional and may be phased out. While peak construction on several PADS projects is forecasted to take place in the mid-1990s, the government recently announced that priority will be given to core airport projects, includ-

Cost Estimates for Hong Kong Airport Core Projects
(HK $billions, 1990 prices)

Project	Estimated Cost	Estimated Financing Mix
Chek Lap Kok Airport	38.0	HK Govt, Private
Western Kowloon Reclamation	9.5	HK Govt.
Western Kowloon Expressway	2.5	HK Govt.
Western Harbor Crossing	4.0	Private (BOT*)
Route 3 Linking Highway	5.0	HK Govt.
North Lantau Expressway	5.0	HK Govt.
Tung Chung Phase 1	3.0	HK Govt.
Lantau Fixed Crossing		
Two bridges	7.0	HK Govt.
Rail portion of bridges/ Route 3 interchange	3.0	HK Govt.
Utilities/other misc.	2.0	HK Govt.
Total	79.0	(US$ 10.1 billion)

* Build-operate-transfer project finance
Source: US Consulate General, Hong Kong

ing Chek Lap Kok's first runway and the infrastructure connecting the airport to the Kowloon peninsula. The total estimated cost for the core projects is HK$79 billion at 1990 prices (*see* table).

The government's move to focus on the core airport project is aimed at convincing the Chinese and general Hong Kong public that Hong Kong is able to foot the bill with its own reserves. By making the airport a top priority, the government is also demonstrating a commitment to complete at least part of the airport project by the time China assumes sovereignty over Hong Kong in 1997.

These latest figures, however, imply that the original PADS estimate of HK$127 billion will be exceeded by at least HK$22 billion if all components of the original scheme are carried out. Given the government's record over the past three years—public works projects reportedly overran cost estimates by an average 25 percent—costs will probably increase even more. Financing the entire project—or even just the airport components—thus remains a topic of much controversy.

Hong Kong's government has several options to raise the necessary money, such as drawing down its fiscal reserves, currently estimated in excess of HK$71 billion. Other options involve loans from the local and international commercial sectors, airport credit financing, and local and international bond issues. Once the first phase of construction is completed, additional revenue will be generated through tolls from new bridges and roads, sale of the Lantau bridge franchise, sales of land at the former airport site and reclaimed area adjacent to the new airport, and indirect public revenue from the government's shares of the Airport Authority and Airport Railway.

It is the Hong Kong government's hope, however, to raise much of the necessary capital from foreign sources. Several senior officials have recently gone on official visits to try to market PADS abroad, emphasizing the airport and Western Harbor crossings projects as prime candidates for foreign financing. Financial Secretary Sir Piers Jacobs promoted the project's merits in Japan, South Korea, and the United States last fall,

Upcoming PADS Contracts

Project Name	Description	Expected Tender Invitation Date	Managing Government Agency
Tsing Sector Highway	Detailed design	May 1991	Highways Department
Route 3 Sector Highway	Construction of highways and elevated structures	May 1991	Highways Department
Siu Lam Development Study	Plan a typhoon shelter and anchorage in Siu Lam	May 1991	Territory Development Department/ Tuen Mun Development Office
Route 16	Feasibility study	June 1991	Highways Department
Central Kowloon Route	Site investigation for feasibility study	July 1991	Highways Department
Deep Waterfront Industry Design	Detailed design of reclamation and associated works	August 1991	Territory Development Department/ Tuen Mun Development Office
Lantau Fixed Crossing: Lantau Approach Road and Toll Plaza	Road construction	August 1991	Highways Department
North Lantau Expressway, Tai Ho Section	Construction of highways, including site formation for twin-track airport railway	August 1991	Highways Department
West Kowloon Expressway	Site investigation for road alignment	August 1991	Highways Department
Airport Main Site	Reclamation, including seawall and drainage works construction	September 1991	Civil Engineering Services Department
North Lantau Expressway, Yam O Section	Construction of highways, including site formation for twin-track airport railway	November 1991	Highways Department
Lantau Fixed Crossing: Route 3 Interchange	Road construction	December 1991	Highways Department
Lantau Fixed Crossing: Traffic Control and Surveillance	Control and surveillance design	December 1991	Highways Department

Source: US Consulate General, Hong Kong while Governor Sir David Wilson headed a four-day delegation to Japan in November to meet with some 60 interested Japanese companies. Efforts to obtain European participation are also underway, as evidenced by the large PADS booth placed at the CeBIT electronics fair in Hanover, Germany, in March.

Despite these efforts, some local and foreign private firms have been hesitant to seek business opportunities with PADS because of China's lack of support for the program. Japanese financial institutions, which have been a major source of capital investment funds in Hong Kong, are especially expected to play a key role in financing PADS. Many Japanese banks, however, are reluctant to participate in the project—which spans 1997—until it receives full backing from Beijing. Precise figures on private participation are expected to be released by the government in the third quarter of this year. According to recent statements by British Foreign Secretary Douglas Hurd, however, the government now expects about 25 percent of PADS' costs to be borne by the private sector.

This means that the Hong Kong government will have to bear a greater share of the financing burden. The finance minister has already announced that Hong Kong will introduce a bond program this fall to help pay for the projects. The government plans to issue bonds with maturities of two to three years, offering HK$500 million-$HK1 billion worth at a time. This program, though, will raise only a relatively small part of the needed financing.

Another important source for generating private revenue is the Airport Authority, which is expected to raise a significant amount of capital from private sources, its own borrowings, and "build-operate-transfer (BOT)" contracts. (Private contractors awarded BOT contracts assume all initial construction costs, collect tolls for a fixed period, and then turn the property over to the government.)

The current Airport Authority, however, is only a provisional body—the permanent body will be established later this year or in early 1992. It will include mainland Chinese representatives, a move recently agreed upon by the Hong Kong government to help pacify Beijing, which last fall claimed the Authority might become an "all-powerful independent empire." The government has also agreed with Beijing's suggestion to set up a non-governmental infrastructural consultative committee to monitor the future activities of the Airport Authority. This committee, to be composed solely of Hong Kong representatives, is supposed to give ordinary Hong Kong people a say over the project.

As a final resort, the government may seek to raise money by introducing a sales tax or increasing corporate and personal income taxes. Hong Kong's finance minister hinted at a March press conference that a sales tax may be introduced in 1993, which should be peak construction time for the projects.

Beijing's hidden hand

The debate over who will sit on the Airport Authority is indicative of the political tension PADS has wrought since Hong Kong and Beijing officials first met in Hong Kong to discuss the projects last October. Chinese concerns stem from a perception that PADS spending is too extravagant and could deplete public reserves, posing a long-term liability to Beijing's post-1997 administration of the territory. Beijing is worried that it will be left to fund any projects unfinished by 1997. Tension eased somewhat after the Hong Kong government agreed in March to let mainland representatives sit on the Airport Authority, however, and recent statements by the governor indicating that the scale of PADS may be trimmed were also designed to win Beijing's blessing for the projects.

Yet financing PADS remains a thorny problem in Hong Kong-Beijing relations. Hong Kong's financial secretary has indicated that PADS will be funded primarily by a partial drawdown of current reserves and reliance on capital revenues, but Beijing has demanded a cushion of at least HK$50 billion in reserve to maintain Hong Kong's sound financial standing when it takes over the territory in 1997. No progress was made on this issue during British Foreign Secretary Hurd's recent trip to Beijing.

Aside from the government's budget reserves, it is technically possible that some funding could come from the accumulated land fund for the future Hong Kong Special Administrative Region (SAR) government.

Beijing is worried that it will be left to foot the bill for any projects unfinished by 1997.

The land fund is made up of premiums from land sales, which are allocated equally to the present government and the post-1997 SAR administration. Though the fund can only be drawn upon with China's approval—and Beijing has strongly voiced its opposition to such a move—the 1984 joint declaration provided that it could be used to finance land development and public works projects. The Hong Kong government claims that the HK$25 billion currently in the fund will more than double by 1997 due to interest earnings alone, though Beijing claims this figure is too optimistic. Currently there is no clear indication that the SAR land fund will be tapped for PADS expenditures.

What next?

While most Hong Kong citizens admit that PADS presents a financial burden, they agree that the projects are necessary to ensure the territory's future prosperity and believe that the Hong Kong government should proceed even without Beijing's support. Without China's approval, however, investors and bankers are unlikely to provide significant funding. In late April Hong Kong's Executive Council decided the territory could not afford the project without private funding, and agreed to study options to upgrade and expand Kai Tak. The councillors are trying to force a compromise from Beijing, where top leaders are reportedly discussing the issue. If they do not cooperate, the project will likely be put on hold, or maybe even abandoned.

Beijing's reaction to the PADS projects has raised a number of questions about its attitude toward Hong Kong and the role it intends to let Hong Kong citizens play in their society. Beijing's insistence on being consulted on all aspects of PADS, coupled with recent intervention in land development issues in the New Territories, sends a strong signal that the road to 1997 will be rocky. Regardless of whether it eventually comes to endorse PADS, the Chinese government will continue to put pressure on Hong Kong to consult it on all major decisions in order to keep Hong Kong both financially sound and under control. 完

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, 1991

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

Agricultural Commodities

Other

Nagasaki, Japan/Shanghai
Established Sino-Japanese Orange Garden on Changxing Island in the Yangtze River. $1.2 million (¥6 million). 12/90.

Agricultural Technology

Other

Friedrich Ebert Foundation (Germany)/Bureau of Forestry, Sichuan Province
Joint afforestation project in Sichuan Province began operations. $190,000 (¥988,000). 12/90.

Banking and Finance

Other

NA (seven Japanese commercial banks)/CITIC
Extended synicated 5-year loan at 0.4% above LIBOR for petrochemical and automobile projects. $50 million. 1/91.

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.

Chemicals and Petrochemicals

China's Imports

Air Liquide International Corp. (France)/Guangzhou Iron and Steel Co.
Sold and installed air separation plant. $11.6 million. 1/91.

Chemetics International Co. Ltd., a subsidiary of C-I-L Inc. (Canada)
Sold equipment and provided services to fertilizer plant in Anhui Province and chemical plant in Hubei Province, under Canadian Export Development Corp. (EDC) loan. $16.32 million. 1/91.

Fenco Lavalin Corp., a subsidiary of Lavalin Inc. (Canada)
Sold equipment and provided services for construction of activated carbon plant in Lixin, Heilongjiang Province, under Canadian Export Development Corp. (EDC) loan. $3.94 million. 1/91.

Investments in China

Hong Kong Oxygen and Acetylene Co. (Hong Kong), a joint venture between Air Liquide International Corp. (France) and BOC Group PLC (UK)/Guangzhou Iron and Steel Co.
Established joint venture to market industrial gases in Guangdong Province. 1/91.

KSC Pic Co. (Kuwait) and Siape Co. (Tunisia)/China National Chemical Construction Corp.
Sino-Arabian Chemical Fertilizer Co. Ltd. joint venture began producing ammonium phosphate and compound fertilizer in Qinhuangdao, Hebei Province. $58 million. 1/91.

Other

Japan/NA
Extended loan to construct chemical fertilizer plant in Inner Mongolia Autonomous Region. $18.7 million (J¥2.5 billion). 1/91.

Construction Materials and Equipment

Investments in China

Mitsubishi Corp. (Japan) and NA (Hong Kong)/Shanghai Machinery & Electronic Industrial Corp. and China Machinery Import-Export Corp.
Expanding production at Shanghai Mitsubishi Elevator Co. Ltd. joint venture. $6.5 million. 2/91.

DSM Resins Benelux BV, a subsidiary of DSM NV (Netherlands)/Red Lion Coating Corp., a subsidiary of Beijing Chemical Industries Corp.
Red Lion-DSM Powder Coatings Corp. joint venture began manufacturing powdered paint products. $4.6 million. 1/91.

Consumer Goods

Investments in China

Reynolds SA (France), a subsidiary of The Reynolds & Reynolds Co. (US), NA (US), and NA (Taiwan)
Opened Tianjin Reno Stationary Co. Ltd. wholly foreign-owned joint venture. 1/91.

NA (Canada)/Beijing Piano Plant and China National Technical Import-Export Corp.
Established Haiziman Piano Co. Ltd. joint venture to produce pianos primarily for export. 12/90.

NA (US)
Established Shanghai International Shoes Co. Ltd. wholly foreign-owned venture. 12/90.

Electronics and Computer Software

China's Imports

Control Data Corp. (US)/State Meteorological Bureau
Sold mainframe computer system with US government approval. 1/91.

NCR Corp. (US)/White Swan Hotel
Sold Unix-based Tower 32/825 multi-user system and 15 NCR 2760 terminals. $513,000. 1/91.

NA/Semiconductor Components Factory
Sold laminated electric resistance production line to factory in Siping, Jilin Province. 1/91

3Com Corp. (US)/Legend Technology Ltd.
Signed agreeement to sell PCs and minicomputers. 11/90.

Investments in China

Ricoh Asia Industry Hong Kong Co. (Hong Kong), a joint venture between Ricoh Co. (Japan) and Crowning-United Co. (Hong Kong)
Established Ricoh Asia Industry Shenzhen Co. wholly foreign-owned venture to produce plain-paper copiers. $26 million. 2/91.

IBM Corp. (US) and Bank of East Asia Ltd. (Hong Kong)/Shenzhen University Software Development Corp.
Established International Software Development Corp. joint venture in Shenzhen SEZ to develop software. 1/91.

China's Investments Abroad

NA (Malaysia)/Shandong Gold Dragon Domestic Appliance Factory
Established Golden Horse Domestic Appliance Co. Ltd. joint venture in Penang to produce small domestic electrical appliances. 2/91.

NA (USSR/Mudanjiang Technological Development Corp., Heilongjiang Province
Established Changcheng Corp. joint venture in Moscow to provide color picture enlargment, typing, and duplicating services. $1.17 million (SFr1.5 million). 1/91.

Other

Exide Inc., a subsidiary of CHC Holding Corp. (US)
Appointed Shenzhen Electronics Group as sales agent of Exide's uninterrupted power supply products. 12/90.

Environmental Technology and Equipment

China's Imports

Thyssen Canada Ltd. (Canada), a subsidiary of Thyssen AG vorm August Thyssen-Hutte (Germany)
Signed contract to upgrade Fuzhou water treatment plant under Canadian Export Development Corp. (EDC) credit. $5.85 million. 2/91.

Aqua Engineering Co. (Austria) and Simmering Graz-Pauker AG, a subsidiary of OIAG (Austria)
Sold water waste treatment equipment to projects in Shandong, Jiangsu, and Hebei provinces under Austrian government loans. $140 million. 11/90.

Other

Asian Development Bank (ADB)
Approved technical assistance grant for environmental impact assessment training. $600,000. 1/91.

Germany
Provided soft loan to finance environmental protection programs. $147.5 million (DM220 million). 1/91.

Japan
Established China-Japan Friendship Environmental Protection Center to provide research services. $74.9 million (J¥10 billion). 1/91.

Food and Food Processing

Investments in China

Hotel Canning Co. (Japan) and Mitsui Co. (Japan)/NA
Established Ningbo Haijing Foodstuffs Co. joint venture to can tangerines, bamboo shoots, and peaches in Zhejiang Province. $500,000.

Top Glory Ltd. (France)/CEROILFOODS and Changli County General Winery
Huaxia Grape Wine Co. Ltd. joint venture in Hebei Province began production of wine primarily for export. $1.35 million (¥7 million) (FR:4%-PRC:96%). 1/91

Aska Japan Co. Ltd. (Japan)/China Edible Mushroom Technology Development Co. Ltd.
Established China Anhui Aska Edible Mushroom Co. Ltd. joint venture. $1.08 million (¥5.64 million). 12/90.

Other

Carlsberg International A/S, a subsidiary of De Forenede Bryggerier A/S (Denmark)/Huizhou Brewery Co. Ltd., a subsidiary of Bond Corp. International Ltd. (Hong Kong)
Signed technical service and trademark license agreement. 2/91.

Foreign Assistance

World Bank
Approved Key Studies Project to support research institutions. $131.2 million. 2/91.

World Bank
Approved Medium-Sized Cities Development Project to improve living conditions in Changzhou, Luoyang, and Shashi. $168.4 million. 1/91.

World Bank
Approved Shanghai Industrial Development Project. $150 million. 1/91.

Germany
Extended four loans to finance a heavy-duty truck venture and to renovate gas purification system of Beijing Coking Factory. $114 million (DM170 million). 1/91.

International Planned Parenthood Federation/China Family Planning Association
Provided grant to promote family planning at grassroots level. $940,000. 1/91.

Japan and Japanese Red Cross (Japan)
Provided grant for construction of China Red Cross Center in Hangzhou, Zhejiang Province. $460,000 (¥2.4 million). 1/91.

Spain
Providing mixed loan to promote bilateral economic and trade cooperation. $450 million. 1/91.

United Nations World Food Programme (WFP)
Providing food aid to Hebei and Hunan provinces. $40.64 million. 1/91.

France/NA
Extended credit to help finance telecommunications and water-treatment projects using French services and equipment. $256.2 million (FFr1.3 billion). 12/90.

World Bank/State Science and Technology Commission
Approved Rural Industrial Technology (Spark) Project to promote use of technology in developing rural enterprises in Jiangsu and Jilin provinces and on Chongming Island, Shanghai. $114.3 million. 12/90.

Machinery and Machine Tools

Investments in China

Altometer BV (Netherlands), a subsidiary of Krohne Messtechnik GmbH & Co. (Germany)/Shanghai Guanghua Instrument Factory
Established Shanghai Guanghua Altometer Instrument Co. joint venture in Minhang ETDZ, to manufacture flow meters. $8.36 million (DM12.47 million). 2/91.

Norton Co. (US)/Shanghai Grinding Wheel Works
Established Shanghai Norton Abrasive Co. Ltd. to produce high-quality grinding wheels. $9.2 million. 12/90.

NA (Japan)/NA
Established Andong Casting Co. Ltd joint venture in Anhui Province to produce counterweights for forklifts for export. $4.8 million (¥25 million) (JP:55%-PRC:45%). 12/90.

Medical Supplies and Equipment

Investments in China

IOL International Inc. (US)/Beijing International Clear Vision IOL Co.
Established joint venture to produce intraocular lenses. 10/90.

Other

General Electric Foundation (US)
Provided grant to Project HOPE to sponsor health education programs. 2/91.

Metals and Minerals

China's Investments Abroad

Hammersley Co. (Australia)/China Metallurgical Import-Export Corp.
Australian Channer Iron Mine joint venture began operations to produce iron for the Chinese market. $100 million. 1/91.

Natsteel Trade International, a subsidiary of Natsteel Group (Singapore)/China National Metals & Minerals Import-Export
Established Minnat Resources metals and minerals distribution joint venture in Singapore. (SP:21%-PRC:79%).

Other

Occidental Petroleum Corp. (US)/Bank of China Trust and Consultancy Co.
Seeking to sell Island Creek Coal Co. joint venture which holds 25% of Antaibao open-pit coal mine joint venture with Chinese partners China National Coal Development Corp. and CITIC. (US:25%-PRC:75%). 1/91.

Petroleum and Natural Gas

Investments in China

Amoco Orient Petroleum Co., a subsidiary of Amoco Corp. (US)/CNOOC
Signed agreement to develop Liuhua 11-1 offshore oilfield in Pearl River Basin. (US:49%-PRC:51%). 1/91.

Santa Fe Energy Corp., a subsidiary of Santa Fe International Corp. (US), Northern Michigan Exploration Co. (US), and Petrocorp Exploration Co. (New Zealand)/China National Oil Development Corp.
Signed agreement to explore for oil in Dongting Basin, Hunan Province. (US:40%-NZ:60%). 1/91.

Other

ACT Operators Group, operator for Agip (Overseas) Ltd., a subsidiary of Ente Nazionale Idrocarburi (Italy); Chevron Overseas Petroleum Ltd., a subsidiary of Chevron Corp. (US); and Texaco Petroleum Maatschappij BV (Netherlands), a subsidiary of Texaco Inc. (US)/Nanhai East Oil Corp., a subsidiary of CNOOC
Discovered oil in South China Sea. 2/91.

Pharmaceuticals

Investments in China

Waterford Pharmaceuticals Ltd. (Ireland), a subsidiary of IVAX Corp. (US)/National Institute of Pharmaceutical Research and Development
Established joint venture in Beijing to develop, manufacture, and market inhalation products. (IR:50%-PRC:50%). 2/91.

Jialing Corp. (Hong Kong)/Sichuan Changzhen Pharmaceutical Plant and China Corporation for the Construction of Export Commodities Base
Established Changzhen Pharmaceutical Industry Co. Ltd. joint venture to manufacture terramycin. $2.5 million (¥13 million). 1/91.

Taisho Pharmaceutical Co. Ltd. (Japan)/Sichuan Industrial Institute of Antibiotics, a branch of State Pharmaceutical Administration
Will jointly develop antibiotics. 1/91.

Power Plants

China's Imports

Asea Brown Boveri & Cie. (Switzerland) and Sulzer Brothers AG (Switzerland)/Guangdong Shajiao A Power Plant
Sold power equipment and technology under Swiss Bank Corp. export credit. $12.67 million (SFr16.22 million). 12/90.

Soviet Tech-Industry Export Corp. (USSR)/Suizhong Power Plant and Huaneng Yingkou Power Plant
Provided high-capacity power generating equipment in barter trade deal. $669 million. 12/90.

Investments in China

Alpha Solarco Inc. (US)/Qinhuangdao Electronics Co.
Established joint venture to manufacture solar modules. 2/91.

Property Management and Development

Investments in China

Nikko Longbai Hotel, a wholly foreign-owned venture of Japan Air Lines (Japan)
Extended land-use contract. $13.8 million. 2/91.

Mitsui & Co. Ltd. (Japan), Kumagai Gumi Co. Ltd. (Japan), and NA (Hong Kong)/China Lingnan Industrial Development Ltd.
Signed 35-year land lease at Yantian port, Shatoujiao, Guangdong Province, for construction of cargo storage and transit facilities. $256 million (HK$2 billion). 1/91.

Pan Pacific Group (Taiwan)
Established Pan Pacific Scientific and Technological Center in Fuzhou ETDZ, Fujian Province. $30 million. 1/91.

NA (Hong Kong)/Jinjiang Group Holding Co.
Established joint venture to build bonded warehouses in Waigaoqiao Free Trade Zone in Pudong. $50 million. 1/91.

NA (Taiwan)/Beihai City, Guangxi Zhuang Autonomous Region
Jointly constructing Taiwan Industrial Park. $385 million (¥2 billion). 11/90.

Other

NA (Singapore)/Guangzhou World Trade Center
Provided mortgage loan. $10 million. 12/90.

Telecommunications

China's Imports

Harris Farinon Canada Inc. (Canada), a subsidiary of Harris Corp. (US), and Newbridge Networks Corp. (Canada)
Sold telecommunications equipment to factories in Guangdong and Shaanxi provinces under Canadian Export Development Corp. (EDC) loans. $10 million. 1/91.

NA (US)/CAAC
Advanced communications system sold to Hongqiao Airport, Shanghai, began operations. $26 million. 1/91.

Alcatel SEL (Germany), a subsidiary of Generale d'Electricite SA, Cie. (France)/Tianjin Optical and Electrical Communications Corp.
Sold optical transmission systems production line. $8.1 million (DM12 million). 11/90.

Investments in China

Siemens SA (Germany)/Beijing Wire Communications Factory, Beijing Comprehensive Investment Co., and Beijing Telecommunications Administration, a branch of MPT
Established Beijing International Switching System Corp. Ltd. joint venture to manufacture telephone switching systems primarily for the domestic market. (G:40%-PRC:60%). 1/91.

Textiles

Investments in China

Far East Trade Co. (US)/Beijing Benchi Group Corp.
Established joint venture to produce garments primarily for export. (US:55%-PRC:45%). 1/91.

Transportation

China's Imports

Dansk Industri Syndikat A/S (DISA) (Denmark)/China National Technical Import-Export Corp.
Sold and installed moulding station under World Bank Fourth Railway Project. $1.7 million. 2/91.

KGT Giessereitechnik GmbH (Germany), a subsidiary of Voest-Alpine AG (Austria)/China National Technical Import-Export Corp.
Sold fettling equipment under World Bank Fourth Railway Project. $1.68 million. 2/91.

Spencer and Halstead Ltd. (UK)/China National Technical Import-Export Corp.
Sold miscellaneous equipment under World Bank Fourth Railway Project. $2.06 million. 2/91.

USSR
Will sell 24 Su27 air-to-ground attack planes. $840 million. 1/91.

Investments in China

NA (Hong Kong)/NA
Established tire-cord joint venture in Hainan Province. $48 million. 2/91.

NA (Japan)/Shanghai Jiushi Corp. and Shanghai Shipping Corp.
Completed construction of Shanghai Huadu International Container Co. Ltd. joint venture to produce 20- and 40-foot standard containers. $13.5 million. 1/91.

Iveco S.p.A., a subsidiary of Fiat S.p.A. (Italy)/China National Automotive Industry Corp.
Nanjing Automobile Factory joint venture in Jiangsu Province expanded production of light trucks. $170 million. 12/90.

China's Investments Abroad

Alhaji Sulemana Industries Ltd. (Ghana)/Shanghai Bicycle Corp.
Established joint venture in Kumasi to produce *Phoenix* bicycles. $4 million. 12/90.

NA (Philippines)/China Passenger Train Export Conglomerate
Established train service center in Philippines. 12/90.

Other

Polaris Aircraft Leasing Corp., a subsidiary of General Electric Co. (US)/Xiamen Airlines
Leased Boeing 737-200 aircraft. 3/91.

Garuda Indonesia Airlines (Indonesia)
Signed agreement to begin four weekly flights from Jakarta and Surabaya to Beijing, with stopovers in Guangzhou and Shanghai. 2/91.

Northwest Airlines (US)
Signed agreement to begin service to Beijing. 1/91.

Miscellaneous

Investments in China

France/University of International Business and Economics
Established business executive training center in Beijing. 2/91.

Other

Asahi Broadcasting Co. (Japan)/Shanghai Radio
Signed cooperation agreement to exchange information and technology. 1/91.

THE US–CHINA BUSINESS COUNCIL

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

BOARD OF DIRECTORS
Ronald J. Anderson, president, Asia-Pacific Divisions, *American International Underwriters*
Donald R. Beall, chairman of the board and chief executive officer, *Rockwell International Corp.*
Theodore H. Black, president, chairman, and chief executive officer, *Ingersoll-Rand Co.*
Alexander Brody, president, *Ogilvy & Mather Worldwide*
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, chairman and chief executive officer, *Hercules Inc.*
John A. Hinds, president, *AT&T International Inc.*
John C. Hunter, III, vice president and general manager, *MCC Asia Pacific, Monsanto Co.*
Charles F. Jacey, Jr., vice chairman International, *Coopers & Lybrand*
Philip H. Knight, president and chairman of the board, *Nike Inc.*
Patrick J. Martin, vice president and general manager, China Business Development, *Xerox Corp.*
Jack Murphy, president, chairman, and chief executive officer, *Dresser Industries Inc.*
Jonathan M. Schofield, president, *United Technologies International Corp.*
Christopher A. Sinclair, president, *Pepsi-Cola International*
Don E. Six, president, *Texaco International*
James R. Spicola (deceased), president and chief executive officer, *Cargill Inc.*
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, former 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: Pamela Baldinger
China Business Forum: Madelyn C. Ross
Management and Budget: Richard L. Peterman

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: (861) 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, Alice Davenport, Jeffrey Willis, John Muehlke, Jr.
Economic Counselor: Steven A. Schlaikjer
3 Xiushui Bei Jie
Jianguomenwai, Beijing
Telephone: (861) 532–3831
Telex: 22701 AMEMB CN
Fax: (861) 532-3297

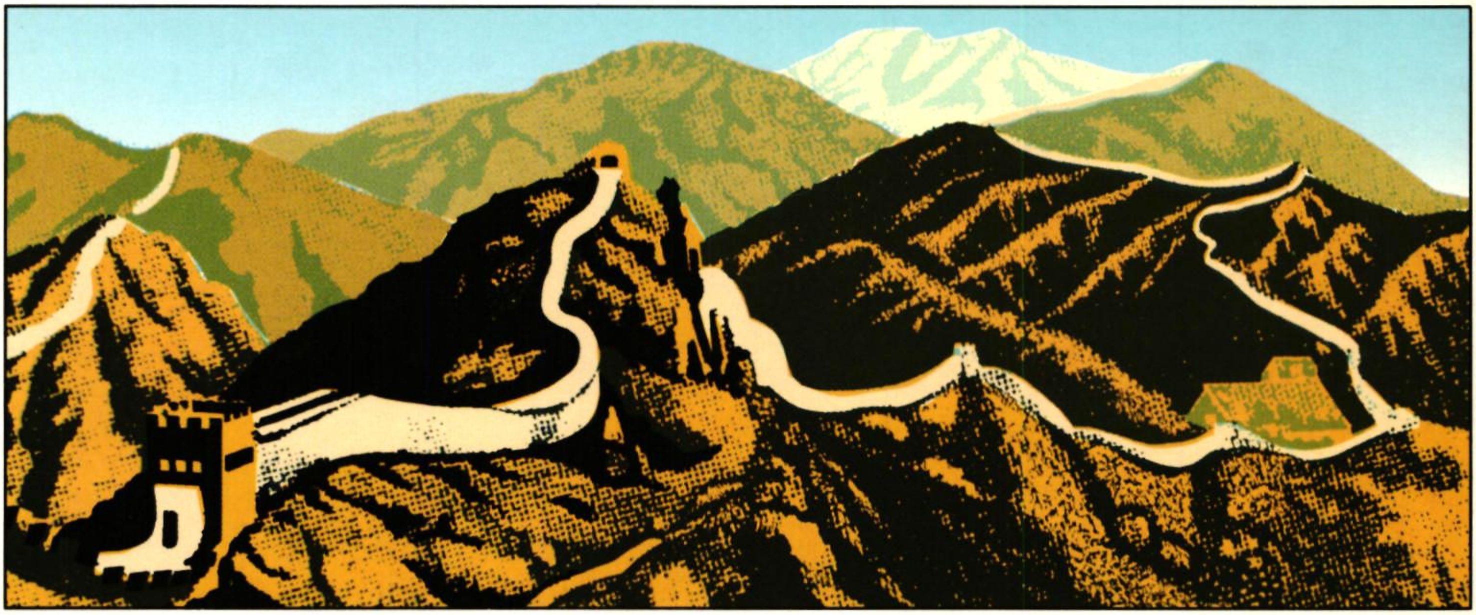
CHENGDU CONSULATE GENERAL
Consul General: Marshall P. Adair
Deputy Principal Officer: Kenneth Jarrett
Jinjiang Hotel
180 Renmin Road
Chengdu, Sichuan
Telephone: (8628) 24481
Telex: 60128 ACGCH CN

GUANGZHOU CONSULATE GENERAL
Consul General: Dennis Harter
Deputy Principal Officer/Economic Section Chief: John J. Tkacik, Jr.
Agricultural Officer: Philip A. Shul
Commercial Officers: Todd N. Thurwachter, Jonathan Marks
Economic Officer: Theodore Mann
Dongfang Hotel
Telephone: (8620) 669–900
Telex: 44439 GZDFH CN
Attn: USA Consulate
Fax: (8620) 66-6409

SHANGHAI CONSULATE GENERAL
Consul General: Frank P. Wardlaw
Political/Economic Section Chief: John J. Norris
Commercial Section Chief: Nora Sun
1469 Huaihai Zhong Lu
Telephone: (8621) 336–880
Telex: 33383 USCG CN
Fax: (8621) 433-4122

SHENYANG CONSULATE GENERAL
Consul General: Morton J. Holbrook, III
Economic/Commercial Officer: Paul Stephenson
No. 40, Lane 4, Section 5
Sanjing St, Heping District
Shenyang, Liaoning
Telephone: (8624) 290038
Telex: 80011 AMCS CN
Fax: (8624) 29-0074

HONG KONG CONSULATE GENERAL
Consul General: Richard Williams
Deputy Principal Officer: David G. Brown
Agricultural Officer: Phillip C. Holloway
Commercial Officers: Ying Price, William Brekke, Henry Richmond
Economic Section Chief: Gilbert J. Donahue
26 Garden Rd.
Telephone: (852) 5–239011
Telex: 63141 USDOC HX
Fax: (852) 877-2055



Some Great Things Come In Small Packages.

We finally did it! XinTianMa is here, without ROM card!

With XinTianMa, the AsiaCom software engineers have created the Chinese text system of the 90's. As a software-only system, it now runs on virtually any PC, including the Microchannel machines of the PS/2 series, and laptops.

NewTianMa, of course, has all the features that have made TianMa so popular worldwide. Professional translators, China-oriented businesses, scholars and teachers at universities—thousands of expert users in the field of Chinese word processing have adopted the AsiaCom software as the standard of the future. NewTianMa has many new features, such as: ability to mix simplified and conventional character text, scalable Chinese and Roman fonts (two chinese font faces included in the basic package: Fangsongti and Kaiti) to be combined in your text in different sizes; Hercules, EGA and VGA display up to 800x600; a built-in character dictionary based on radical/stroke count, etc.—To give the user a tool for a perfect look of mixed Roman/Chinese text, we have even introduced the luxury of "Roman boost": in mixed Roman/Chinese documents: you can adjust the baselines of Roman text and Chinese text relative to each other, on a sliding scale.

"Full-featured program fast becoming the most popular Chinese word processor. Choosing proper characters from context, converts phonetic transliterations, or pinyin, to Chinese characters . . . as fast as you type . . . "

Home Office Computing in its May '90 issue about TianMa

As a system which has been re-designed from scratch, XinTianMa is more user-friendly than ever, with pull-down menus and pop-up windows. Price US $695, FedEx overnight shipping included. Order by fax or phone, credit cards and fax P.O.'s accepted.

Attention existing TianMa users: Send us your original TianMa distribution diskette #1 as proof of TianMa ownership (keep your existing TianMa system with the ROM card), together with your cheque or billing details, and receive XinTianMa for the price of an upgrade, for only US $395—shipping included! This offer is valid for existing TianMa owners only!

Attention manufacturers/exporters: If your company is exporting a product to China that uses a computer control system, or any form of data processing, contact us to receive information on our "Localization Service." Our project engineers are experienced in integrating Chinese/Japanese/Korean language capabilities into existing hardware/software environments. Specify your requirements.

新天馬

NewTianMa from
ASIACOM

Order from AsiaCom Inc.: 1117 Ste-Catherine West, Suite 606, Montreal, Qc, Canada H3B 1H9. Phone (514) 434-9373, **Fax (514) 434-9374**.