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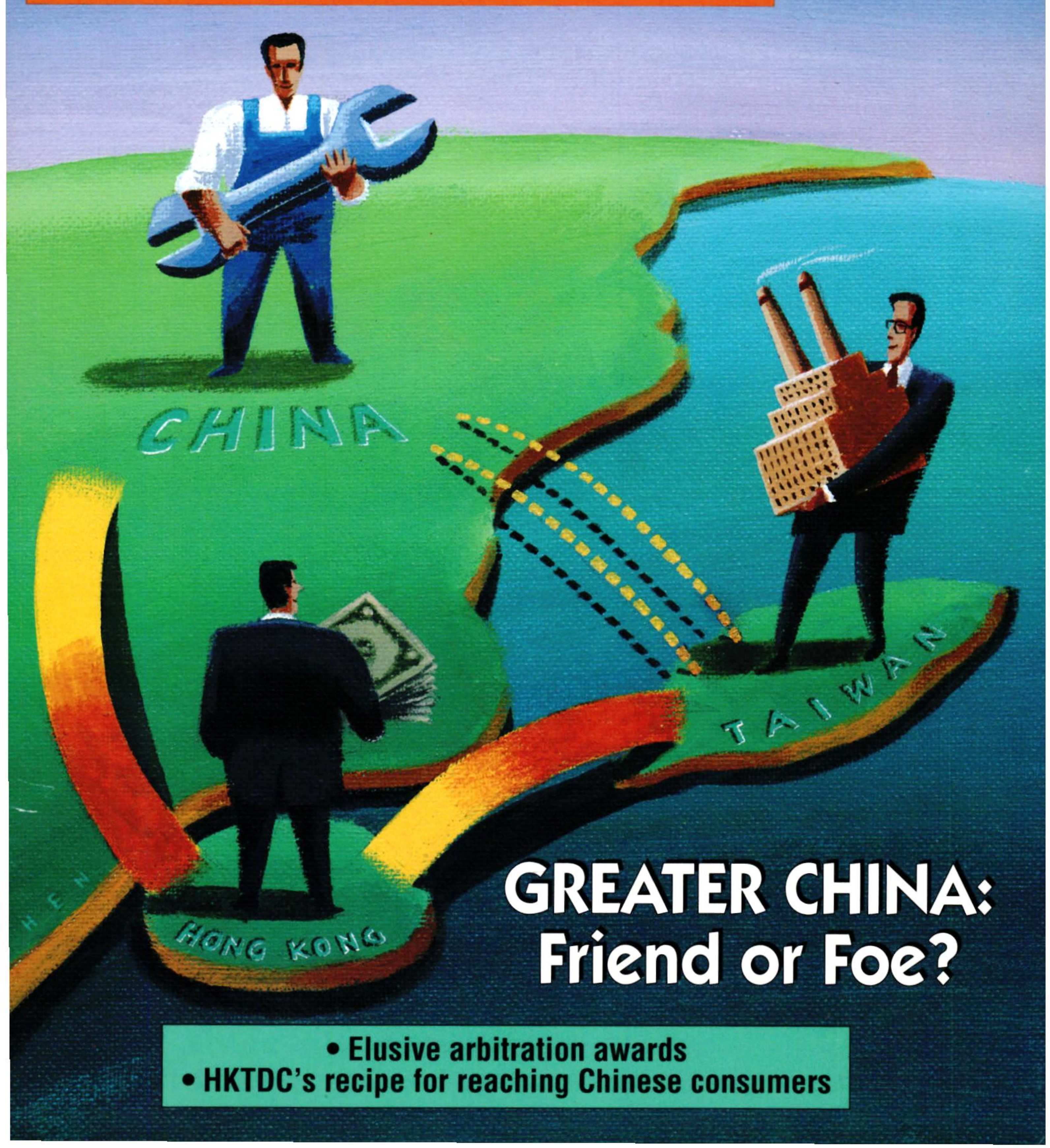

GREATER CHINA: Friend or Foe?

- Elusive arbitration awards
- HKTDC's recipe for reaching Chinese consumers

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Cover illustration by David Chen

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Reformers Make Mark at NPC

The National People's Congress (NPC) meeting of March 20-April 3 produced little in the way of major policy changes, though the clear signs of disagreement on a number of issues could indicate greater political posturing—by both reform- and conservative-minded forces—in the months ahead.

The scope and pace of economic reform dominated much of the meeting, as anticipated. Premier Li Peng reiterated in his keynote address on March 20 that economic development is the government's top priority, echoing Deng Xiaoping's recent calls to downplay ideology and politics. At the same time, however, Li failed to repeat pronouncements by Deng and the Politburo that "leftists" present the greatest threat to reform and economic development. Significantly, Li's initial Government Work Report was approved by the NPC only after nearly 150 alterations, including the insertion of Deng's charge to "watch the right, but mainly guard against the left."

Li also emphasized that "stability" is vital, and his initial remarks reaffirmed Beijing's 6 percent target for GNP growth in 1992. His revised Government Work Report, however, encouraged higher growth in 1993-95. Li also conceded that growth can be higher "where conditions permit," a comment that appears to give latitude to Guangdong and other coastal provinces to continue their rapid development.

The meeting was also noteworthy for the apparent divisiveness over the Three Gorges dam project. Though the project has received renewed attention in recent months and its approval by the NPC was all but certain, loud protests came from one legislator who stormed out of the meeting in protest when he was denied the floor. The final vote in favor of the dam was marred by 664 abstentions and 177 nays—a remarkable show of dissent for the traditionally rubber-stamp congress. While the NPC decided to make the dam project eligible for inclusion in the current ten-year plan (1991-2000), no specific timetable for construction has been announced.

Deng's recent visibility—his January trip to Guangdong continues to be widely publicized—and the revisions to Li Peng's report are clear signs that political maneuvering for the 14th Communist Party Congress has begun in earnest. The congress, to be held in the fourth quarter of this year, will determine key Party and government personnel appointments for the coming years. Li's loss of face at the NPC meeting and his apparent foot-dragging on economic reforms could foreshadow his ouster as premier, though he may well ride out the remainder of his term, which is to end in March 1993. At this stage, it is still too early to write Li—or other hard-liners—out of the picture entirely.

—VLW

Commerce Reverses Tactics on Chinese Dumping Cases

In a surprise move, the Department of Commerce (DOC) has rescinded a landmark dumping determination against Chinese lug nuts. In its final ruling on lug nuts last September, the DOC accepted Chinese costs for crucial inputs, which effectively resulted in a low dumping margin of 4.2 percent (*see The CBR*, January-February 1992, p. 12). This decision was challenged by the US lug-nuts industry, which claimed that DOC had used market-economy methodology for determining a dumping case involving a non-market economy (NME). In January the DOC sought a voluntary remand of the case, saying it could not support its original finding, and in March issued a re-determination based on NME methodology, which requires the use of prices from a surrogate country to determine production costs. The new margin increased dumping duties ten-fold, to 42.2 percent.

At the same time DOC issued the re-determination, it dismissed a countervailing duty (CVD) case against the Chinese lug-nut industry on the basis that China's NME status makes it impossible to distinguish market-distorting subsidies. DOC officials are currently in China investigating the oscillating and ceiling fan industry, against which a CVD case was also filed after DOC issued a similar "mixed methodology" finding in an earlier dumping case.

DOC authorities claim that the lug-nuts reversal was industry-specific, implying that in future cases other Chinese industries could still be found to be market-driven. But trade lawyers note that the criteria used by DOC for determining whether a particular sector is market-driven—no government involvement in pricing or production levels, little or no State ownership, and market-driven input prices—are too narrow; in fact, many market economies would be unable to meet these requirements. This means that transitional economies, like China, will probably find themselves out of luck in the future.

—VLW

More Bourgeois Influences . . .

Move over *tai qi quan*, the Chinese have found a new source of exercise—the hula hoop. The large plastic rings that captivated America in the 1950s and '60s have taken Beijing by storm. Young, old, male, female, everybody's buying them—and doctors have fueled the craze by extolling the healthful benefits of "hooping."

Hula hoops aren't the only Western fad catching on in China. Beijingers looking for a post-workout treat can now head to their local malt shoppe—Dairy Queen. In March, International Dairy Queen, Inc. became the latest in the flood of fast-food firms to open in China. Franchises of the company's Dairy Queen and Golden Skillet outlets were opened in a new 565-seat food court on Wangfujing, the city's most popular shopping street. The food court also features California-based Carl's Jr. hamburgers and some Japanese restaurants.

Franchised to Hop Hing Holdings, Ltd., a Hong Kong-based cooking oil distributor, the Dairy Queen outlets will offer the familiar ice cream and dessert products found in its US stores. Taking a cue from the enormous success of Kentucky Fried Chicken, the Golden Skillet facility will concentrate on fried chicken and side items. Both stores intend to rely on the same formulas and recipes used in their US operations. The initial plan calls for five Dairy Queen stores and four Golden Skillet restaurants in the capital, with options for development of up to 40 Dairy Queens and 30 Golden Skillets throughout China. —PB

Photo courtesy of Dairy Queen, Inc.

Beijing Overhauls Trade Regulations

Foreign companies doing business in China will find a number of changes in China's regulatory environment this spring. As of April 1, the import regulatory tax—a surcharge over and above import duties—was abolished, lowering the final costs of 16 items. Regular duties on video cameras and some automobiles were raised, however, effectively increasing overall import tariffs on these goods.

China is also in the process of instituting new product of origin rules. After May 1, the "Made in China" label will apply only to those products for which at least 25 percent of the value-added is generated by Chinese components and processing, a clear attempt by Beijing to increase the profitability of its outward processing industry and decrease its trade surplus with the United States. Also starting on May 1, Chinese manufacturers of textile products will be required to state their names and addresses on export licenses for products bound for the United States, a move designed to help prevent transgressions against US textile quotas.

Foreign firms active in China might also be helped by the release of previously unpublished foreign trade regulations. In February, the Ministry of Foreign Economic Relations and Trade (MOFERT) published a list of 14 trade regulations covering export and import restrictions on a number of products; a list of 17 other such regulations was previously disclosed in December. —VLW

Short Takes

China Joins International Arms Accords

In March China acceded to the Nuclear Non-Proliferation Treaty (NPT) and formally agreed to abide by the principles of the Missile Technology Control Regime (MTCR) following a US promise to lift sanctions imposed on two Chinese companies last June.

Reducing Doublespeak

China is drafting regulations that will supposedly allow foreign law firms to call their operations—law firms. (Currently, they must refer to themselves as consulting firms.) The regulations are not expected, however, to ease limitations on the types of services foreign lawyers can offer in China. Many standard business activities, such as representing clients before Chinese courts and issuing opinions, will apparently remain restricted to local law firms.

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Enforcement of Arbitration Awards in China

Foreigners find the system sorely lacking

Matthew D. Bersani

In the past few years, there has been explosive growth in the number of disputes between Chinese and foreign parties brought to arbitration. Gone are the days when foreigners did not dare attempt to arbitrate such disagreements for fear of threatening future business relations with China. Moreover, the Chinese themselves have become more willing to accept arbitration as a method to resolve disputes with foreigners.

The increase in arbitration cases has been greatly assisted by the China Council for the Promotion of International Trade's China International Economic and Trade Arbitration Commission (CIETAC) (*see The CBR*, September-October 1990, p.42). CIETAC handles almost all arbitration arising out of disputes between Chinese and foreign parties, and is now the busiest arbitration center in the world, hearing even more cases per year than the Stockholm Chamber of Commerce. CIETAC is widely credited by the foreign business community as a relatively inexpensive, expeditious, and fair forum for resolving disputes with Chinese parties.

Foreigners' honeymoon with arbitration in China may soon come to an abrupt end, however, as they discover the virtual impossibility of enforcing arbitration awards in China. Sadly, the hard-won respect of CIETAC is being squandered by a judicial system unable to make Chinese parties pay up. In short, CIETAC is making promises the courts do not keep.

Theory vs. reality

On paper, at least, Chinese courts are bound by PRC law to recognize arbitration awards issued by CIETAC. In addition, as a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, Beijing has promised to enforce awards against Chinese parties even when such awards are issued by foreign tribunals, such as the Stockholm Chamber of Commerce.

Though Chinese courts have recognized the vast majority of arbitration awards, practical experience has demonstrated that a number of obstacles stand in the way of a foreign party seeking to enforce an arbitration award in China. The most troublesome of these barriers is the refusal of regional courts to enforce awards against local economic interests. Lack of coordination between CIETAC and Chinese courts and insufficient funding of the court departments in charge of enforcing awards and judgments also cause problems for claimants. In addition, the recently promulgated civil procedure law compounds existing procedural difficulties in the enforcement of arbitration awards in China by providing more excuses for the courts to avoid their responsibilities in enforcement cases.

CIETAC is making promises the courts do not keep.

Under CIETAC's rules, arbitration awards should be honored within the time limit set out in the award, or if the award has no time limit, immediately after the award is issued by the tribunal. If the party ordered to perform does not do so within the allotted time, the other party may apply to an intermediate-level court in China for enforcement of the award.

Procedurally, the steps to be taken by foreign companies seeking to enforce an arbitration award are simple, albeit time-consuming. The foreign company must first appoint a local lawyer, since under Chinese law foreign persons or enterprises can be represented in Chinese courts only by Chinese lawyers. Although foreign lawyers are essential in the preparation of documents for submission to the court and for keeping the foreign company fully informed of the progress of the enforcement proceedings, they cannot directly represent the foreign companies in court actions.

Selecting qualified local counsel is an important and often difficult process. Beijing, for example, now has half-a-dozen law firms that specialize in legal matters relating to foreign interests, though the abilities of the individuals within each of these firms vary greatly. It may be wise to consult with foreign lawyers resident in China or with companies that have used local lawyers in order to find the most appropriate local counsel.

Once the foreign company has identified the local lawyer it wants to handle the case, the next step is to prepare a power of attorney to authorize this legal representative to pursue the matter with the intermediate-level court. The power of attor-

Matthew D. Bersani, an attorney with the New York law firm of Paul, Weiss, Rifkind, Wharton & Garrison, was the resident representative in the firm's Beijing office during 1990 and 1991.

ney must be notarized as well as "authenticated" by a Chinese notary in a Chinese consulate in the company's home country.

With the notarized and authenticated power of attorney in hand, the local lawyer, in coordination with the foreign company's own counsel, should prepare an application for enforcement to submit to the court. The application should set forth the basic facts relating to the non-performance of the award, and should also include a copy of the arbitration award as well as any evidence relating to the non-performance. After being signed by the foreign party, this package of documents, including the power of attorney, should be submitted to the court. Until the recent changes to Chinese civil procedure law, almost all such requests were submitted to the Beijing intermediate court.

Within four to six weeks of receiving the documents, the court will issue a notification of acceptance, and in most cases will request a small enforcement fee of less than $100. Once the court has accepted the case, it should promptly assist the foreign party by enforcing the arbitration award. This, however, is usually when the trouble begins.

Protective local courts

Though the procedures for requesting Chinese courts to enforce payment of arbitration awards are relatively straightforward, getting the courts to act is no easy task. This is due to the tendency of Chinese courts to protect local economic interests. Our firm has typically found that Chinese courts protect enterprises located within their jurisdiction by blocking attempts to freeze the non-performer's bank account, the most effective means to secure compliance with an award. Freezing the bank accounts of a non-performing party in China requires the approval of the court with jurisdiction over the bank in question. Since most companies keep accounts in their neighborhood bank branches, this rule in effect means that the non-performer's local court must cooperate in enforcement actions. Therefore, even if the case was brought in Beijing and the Beijing court argues on a foreign company's behalf, the non-performer's local intermediate court can render all

Once the court has accepted the case, it should promptly assist the foreign party by enforcing the arbitration award. This, however, is usually when the trouble begins.

enforcement efforts futile by refusing to cooperate. The lack of cooperation arises not only in cases involving foreigners; a Chinese enterprise located in Shanghai, for instance, would find it very difficult to convince a Guangzhou court to cooperate in enforcing an award against a Guangzhou enterprise.

The increasing parochialism of the country's court system is a predictable result of the growing economic and political independence enjoyed by China's provinces. As a result, the Chinese judicial system suffers from rampant court-to-court hostility, a problem recently acknowledged publicly by Ren Jianxian, president of the Supreme People's Court. In his 1991 address to the National People's Congress, which is normally an opportunity for highlighting the past year's accomplishments, Ren stated that "In recent years, local protectionism has seriously affected the judicial work of the courts. . . . [I]n order to protect local interests, some courts deviated from the principle of basing their judgment on the facts and using the law as the basis of their decision and were partial to local parties."

Ren's observations ring true to many foreign lawyers working on arbitration cases on behalf of clients in China. In one case, for example, our firm represented a UK company seeking settlement over a contract dispute with a Ningxia corporation that had promised to supply high-quality cashmere. Though the company eventually supplied the wool, the product was worthless because of the large amount of impurities contained in the fibers. The CIETAC arbitration tribunal recognized this fact, and issued a substantial award in favor of the UK company. The Ningxia company, however, paid only about two-thirds of the award and refused to pay the remainder, claiming that the CIETAC arbitration tribunal made a mistake in calculating the amount due.

Armed with a favorable arbitration ruling and represented by a Chinese lawyer, the UK company filed for enforcement of the award with the Beijing intermediate court, which promptly accepted the case and promised to get the Ningxia company to pay the outstanding amount. Despite the Beijing court's repeated requests for the intermediate court in Ningxia Province to cooperate in enforcing the award, however, the local court simply refused to do so. After a great deal of persuasion by the UK company, Beijing court personnel agreed to go to Ningxia to meet face-to-face with their Ningxia counterparts, accompanied by the local Beijing legal counsel working on the case.

The trip to the remote province accomplished little, as local court and bank officials in Ningxia essentially assisted the Ningxia company's efforts to disregard the arbitration award. The local bank, for example, claimed that the Ningxia company no longer retained substantial deposits with the bank, a statement we had good reason to suspect was false. The Beijing court personnel could gain no ground with the Ningxia court, which sided with the Chinese company's claim that the arbitration tribunal had miscalculated the damages owed. Even efforts to bring CIETAC officials in to settle the matter proved fruitless. Despite the fact that the Ningxia company's original arbitrator in the dispute, a high-ranking CIETAC official, clearly stated that there had been no error and that the Ningxia company was acting in violation of PRC law, the Ningxia court continued to refuse to cooperate in the enforcement proceedings.

From CIETAC's point of view, difficulties encountered in enforcing the award are a problem for the courts.

The Beijing court personnel could do nothing but return home to register a complaint with the overworked and ineffective enforcement division of the Supreme Court of the PRC. As a result, the question of the remaining settlement owed to the UK company has not been resolved, though the arbitration award was issued more than a year ago.

The short arm of CIETAC

This case pointed out another structural problem plaguing the enforcement of arbitration awards in China—the near-complete lack of coordination between CIETAC and the Chinese courts. From CIETAC's point of view, once the arbitration award is issued, it should have nothing further to do with the dispute; difficulties encountered in enforcing the award are a problem for the courts. The courts, however,

feel little compunction to comply with CIETAC decisions.

Even when the courts do act to enforce arbitration awards, the results may be less than satisfactory to the foreign claimant. A recent enforcement action on behalf of another British importer and exporter of cashmere, for example, ordered the contracting Chinese supplier to provide two tons of high-quality cashmere to replace the original delivery of substandard goods. The Chinese company delayed for many months and twice tendered goods recognized by the court as inferior, leading our client to conclude that the Chinese company would never produce goods in conformance with the contractual specifications. The obvious solution was for the court to demand monetary compensation from the respondent in lieu of conforming goods. However, because the arbitration award did not specifically allow for this, the court was unwilling to pursue the foreign company's request for monetary damages.

Although we then made repeated appeals to CIETAC for an amendment to the arbitration award, these requests were rejected. CIETAC said the entire matter was out of their hands and should be handled by the courts. Eventually, we were able to persuade the court personnel themselves to approach CIETAC to request the necessary amendment. Although we were not permitted to attend this meeting, we were told that the conference ended in a heated exchange, with CIETAC officials accusing the court of incompetence for not being able to enforce the arbitration award as drafted and the court personnel countering by criticizing CIETAC for drafting an unenforceable award! Our clients became so frustrated by the inability of the court and CIETAC to settle the matter that they eventually gave up the fight.

Impoverished courts hinder results

Another serious problem encountered in enforcing arbitration awards in China is the critical underfunding of Chinese courts, especially their enforcement divisions. Enforcement of an arbitration award often requires court personnel from the place where the application for enforcement was filed to travel to the non-performing party's local court to coordinate enforcement efforts. The court officials are particularly loath to go on such excursions because the court provides them with a daily allowance minuscule even by Chinese standards. They must stay in the cheapest hotels and eat at the worst restaurants in order to stay within their allowance, and must travel by train rather than air, which can require up to an extra week in transit.

As a result, court personnel often request the company seeking enforcement of the arbitration award to cover costs for such travel. In both cases outlined above, the court personnel asked the foreign party to pay not only for room and board but also for round-trip airfares in order to avoid the lengthy train rides. Such requests are inappropriate and unprofessional; for US companies, moreover, agreeing to these terms would risk violating US laws relating to corrupt overseas business practices. But to reject such demands can cause considerable delay, or even outright refusal of the Chinese court personnel to make the trip. If this problem is not addressed, foreign companies unwilling to fund these enforcement expeditions will continue to face serious delays in securing the cooperation of court officials.

New laws compound difficulties

These practical problems encountered in enforcing arbitration awards in China were recently compounded by new legal obstacles. In April 1991, the National People's Congress adopted a substantially revised civil procedure law which further impedes enforcement actions by limiting where such actions can be brought and by providing loopholes with which the enforcing court can review the arbitration award and independently rule on its enforceability.

Under the old civil procedure law, a party seeking enforcement of an arbitration award could bring its case to either the court having jurisdiction over the non-performer (or his/her assets) or the court where the arbitration tribunal was located. Since almost all arbitration takes place in the Beijing office of CIETAC, most enforcement actions were brought to the Beijing intermediate court. Under the new civil procedure law, however, a claimant can only bring suit in the court having jurisdiction over the non-performer or his property. This change will greatly inconvenience claimants, who will now have no choice but to deal with the non-performer's local court. Moreover, the new law also forces claimants to approach local courts directly, rather than through the Beijing court. If the Beijing court has been demonstrated to have little leverage with courts elsewhere in China, one can imagine what chance a foreign company would stand.

China should establish a central judicial authority responsible for enforcing arbitration awards.

The new civil procedure law has also introduced a more ominous problem. Before its promulgation, the main obstacle to enforcement of arbitration awards was the refusal of courts to enforce legally valid awards against local economic interests; there was no provision under the old law justifying this refusal to act, however. Under the new civil procedure law, in contrast, local courts have been granted various excuses to avoid enforcing arbitration awards.

Under the provisions of the new civil procedure law, any court may decide not to enforce an arbitration award involving foreign interests if any of the following circumstances can be proven by the non-performer:

- There was no valid arbitration agreement between the claimant and the non-performer;
- The non-performer was not informed of the arbitration proceedings;
- CIETAC did not obey its own rules;
- The matter arbitrated fell outside the scope of the relevant arbitration agreement or the jurisdiction of CIETAC;
- The arbitration award was contrary to social and public interests.

This vaguely worded list provides regional courts with a wide range of reasons to delay or obstruct enforcement of valid awards. Faced with the task of overcoming all of these possible objections in a court friendly to the non-performer, a claimant could not be blamed for despairing of the prospects of success.

Needed changes

Currently, CIETAC arbitration decisions are paper tigers, given the difficulty involved in enforcing them. To give them some claws, China should establish a central judicial authority responsible for enforcing arbitration awards. The mandate of this court may be limited to cases involving foreign interests, but could certainly also apply to domestic cases. The court should be established in Beijing, the site of most arbitration in China, but should have the authority to enforce awards throughout the country. It should also have the ability to freeze the accounts of non-performers or take possession of a non-performer's assets without the consent of the non-performer's local court.

This central court, however, should have only limited powers to review the arbitration awards handed down by CIETAC or international arbitration bodies. Instead, the court should enforce all awards unless they are defective on their face, e.g., if the award is not issued by a recognized tribunal or court. The enforcement court would be responsible for setting a specific deadline for performance of the arbitration award, after which the non-performer's assets or bank account would be seized. In addition, the enforcement court should work closely with CIETAC to take whatever actions are necessary to enforce the spirit of the arbitration award, even if this requires the court to take actions not directly specified in the arbitration award.

Although adoption of the above suggestions is unlikely in the near term, particularly in light of the fact that the revised civil procedure law was issued only about a year ago, such drastic action is required to ensure that Chinese courts can make the work of CIETAC meaningful. 完

The US Role in Hong Kong's Future

Donald M. Anderson

Editor's note: *Council President Donald M. Anderson recently testified before the Senate Foreign Relations Sub-Committee on East Asian and Pacific Affairs on the issue of Hong Kong's reversion to Chinese sovereignty in 1997 and the implications of this development for the United States. The hearings, sponsored by Senator Alan Cranston (D-CA), also presented a number of views on the United States-Hong Kong Policy Act of 1991 (S.1731), a bill introduced by Senator Mitch McConnell (R-KY) last September. This legislation, which now has 20 co-sponsors, calls for the establishment of stronger US-Hong Kong commercial, cultural, and educational ties in an effort to ensure the territory continues to enjoy a high degree of autonomy after 1997. Specifically, the bill would require the US Secretary of State to issue an annual report on US-Hong Kong relations and the implementation of the Sino-British Joint Declaration, which stipulates that Hong Kong will be allowed to retain its present "capitalist system and lifestyle" for at least 50 years beyond 1997. An excerpt of Anderson's testimony follows.*

Mr. Chairman, thank you for including me among the witnesses today. As president of the US-China Business Council, I am well aware of the vital role Hong Kong plays in the operations of US companies, many of whom are members of our organization. But I speak to you today as a former US consul general in Hong Kong, where I served from 1986-90, and I am pleased to have the opportunity to address the important question of Hong Kong's reversion to China and the implications for US policy. It is my belief that the United States has a major interest in the continued well-being of this center of free enterprise and individual freedom.

The United States has a major interest in the continued well-being of this center of free enterprise and individual freedom.

For many years American companies have found Hong Kong to be one of the Pacific Rim's most attractive business sites. One of the world's finest deep-water ports, first-class telecommunications networks, a highly developed service industry, and an industrious, well-educated population have made Hong Kong an ideal site to locate one's East Asian headquarters.

Today, over 21,000 Americans live and work in Hong Kong, and the American Chamber of Commerce there is the largest in Asia and one of the largest in the world. With over $7 billion in US investment, the territory is the third largest center of US investment in Asia. Hong Kong is also a major US trading partner, with two-way trade totalling over $17 billion last year. It is home to 22 American banks, which find Hong Kong an ideal center for their Asian operations.

The United States is not the only country to find Hong Kong an excellent place to trade and invest. In fact, we are no longer the largest foreign investor in the territory, having been surpassed by Japan and China in recent years. Taiwan has also demonstrated a high degree of confidence in Hong Kong's future, and is becoming a major investor in the territory. While it is true that a number of British firms have relocated their headquarters outside of Hong Kong, their operations in the territory remain undiminished, and many continue to look to Hong Kong as their primary source of profits. Hong Kong has truly become an international crossroads.

Significantly, China is also investing heavily in Hong Kong. With an estimated $12 billion in investment, Beijing is by far the largest outside investor in the territory, with major shares in the energy, transportation, and telecommunications sectors, as well as in retail sales. At the same time, China provides 36 percent of the territory's imports. Thus, along with the United States and other countries, China also has a vested interest in the continued stability and well-being of the territory.

This is particularly true because

Congress must ensure that any US legislation conforms to the Joint Declaration

Hong Kong is now the focal point of China's growing economic links with the rest of the region. Hong Kong has effectively become the economic capital of South China, an area encompassing over 65 million people, and the most dynamic and entrepreneurial region in all of China.

Because of Hong Kong's rapidly rising standard of living—and the accompanying high labor costs—much of Hong Kong's manufacturing sector has moved across the border into South China, and now nearly 40 percent of the territory's manufacturing capacity is located in Guangdong Province. Hong Kong companies employ about four times the number of workers in Guangdong that they employ in Hong Kong itself. Hong Kong has thus returned to its historical role as the entrepot and service center for the region.

Despite this economic synergy between China and Hong Kong, politically, there is some tension. Especially since the tragedy in Tiananmen, Beijing has demonstrated a disconcerting tendency to demand a voice on issues which, under the 1984 Sino-British Joint Declaration, many feel should remain the prerogative of the Hong Kong government—at least until June 30, 1997. In most cases, an acceptable compromise has been worked out, and I remain confident that both Hong Kong and Beijing will refrain from any actions which might upset the current delicate equilibrium between them.

Clearly though, it is in the interest of the United States to take all appropriate steps to encourage Hong Kong's continued vitality, at the same time respecting the Joint Declaration. Many of the sentiments expressed in the McConnell bill (S. 1731) could serve a useful purpose as a gesture of US faith in the future of Hong Kong. In fact, during my tenure as consul general in Hong Kong, I recommended several measures which the executive branch could take to emphasize that the United States places great importance on the continued well-being and prosperity of the territory.

One means of demonstrating American interest in Hong Kong's future would be through visits of senior Administration officials and members of Congress. Congressional visits in particular provide opportunities to demonstrate American interest in the territory, and I would urge those members of Congress who do visit to take the time to travel up to Guangdong Province to witness first-hand the tremendous economic dynamism between Hong Kong and South China.

An example of the type of constructive measure the United States has already taken is the Immigration Act of 1990, which contained several generous provisions applicable specifically to Hong Kong residents. In particular, the law enables recipients of US immigrant visas to remain in Hong Kong for up to 10 years after their visas are issued. This means they need not leave the territory now for fear of what might happen in the future, but can stay on and see what actually transpires.

Finally, while the future of Hong Kong is a matter of concern for the United States and the entire international community, arrangements to ensure a successful future must be the prerogative of the United Kingdom, China, and Hong Kong itself. While I endorse the sentiments in S.1731 and believe that its expression of the sense of Congress could be a useful contribution to maintaining Hong Kong's stability, I would add a note of caution. The Chinese government almost certainly will claim that the bill represents interference in the internal affairs of China. In itself, that is no reason for the Congress not to express its views on a matter of concern to the US national interest. I would suggest, however, that the operative portions of the bill be carefully scrutinized to ensure that they are first, in conformity with the Joint Declaration, and second, carefully designed to achieve their desired objective.

I am not a lawyer nor have I studied the legislative history of this bill, so it would not be appropriate for me to make any specific recommendations on its legal aspects. I would simply urge this committee and the Congress to work closely with the executive branch, including the Department of State, the Immigration and Naturalization Service, and the Justice Department, to ensure that any legislation relating to this sensitive issue does make a real contribution to the interests of both Hong Kong and the United States.

The Birth of Greater China

Growing economic links between China, Hong Kong, and Taiwan may eventually reshape East Asia

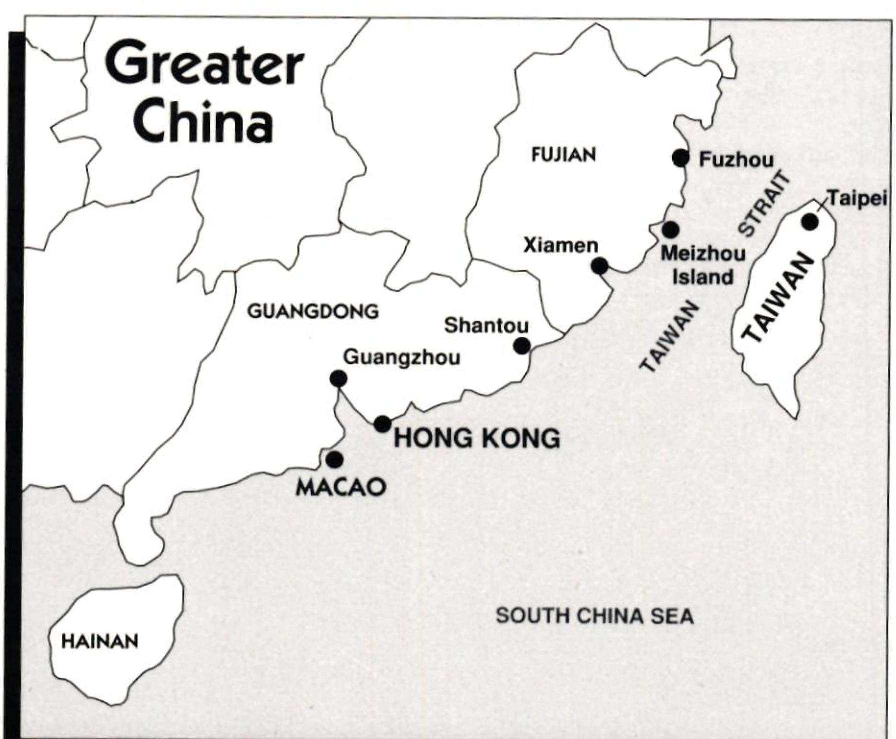
Pamela Baldinger

For the past four decades businesspeople dealing with East Asia have learned to work with three distinct Chinese markets: the vast, centrally planned economy of the People's Republic, the capitalist enclave on the free-trading British colony of Hong Kong, and the Japanese-inspired, newly industrialized economy of Taiwan. The three areas had relatively little commercial contact with each other until China reopened its doors to foreign trade and investment in 1978; by the mid-1980s, Hong Kong had firmly established itself as a bridge between its communist neighbor and Western trading partners. The Nationalist government on Taiwan, in contrast, held steadfast to its policy that Taiwan citizens should have no contact with the enemy regime in China.

About 36 percent of Hong Kong's industry has moved across the border to the Pearl River delta.

By the late 1980s, however, a combination of political and economic considerations—primarily the rising cost of labor and manufacturing in Taiwan—led Taipei to change its tune (*see The CBR*, September-October 1990, p.32). Now, the "state of war" across the Taiwan Strait is officially over, indirect trade is booming, and Taiwan is one of the largest investors in its former enemy. The island has also stepped up its presence in Hong Kong, largely in order to deal more effectively with the mainland.

The economic links among China, Hong Kong, and Taiwan are growing at a stunning pace, and promise to eventually weave the three societies into a single economic entity—"Greater China." Already, officials in Taipei and Beijing are struggling to exert political control over the forces of economic integration, with varying sucess. US businesses and policymakers must also begin to adjust their thinking, as they can now no longer look at any of the three constituent pieces of Greater China without also considering the growing links between them.



Hong Kong and China: rapidly blurring boundaries

Economic relations between China, Hong Kong, and Taiwan are characterized by the transfer of labor-intensive manufacturing operations from Taiwan and Hong Kong to the mainland. The division of labor is well defined: Taiwan and Hong Kong provide technology and management expertise, China supplies cheap, abundant labor, and Hong Kong (and to a lesser extent, Taiwan) provides value-added services such as packaging and transportation.

This combination has led to explosive growth—Hong Kong's total trade leaped from around $69 billion in 1978 to $99 billion in 1991, while China's grew from $21 billion to $136 billion over the same period—and also to significant restructuring

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of Hong Kong's economy. According to a 1991 survey of Hong Kong firms conducted by the Hong Kong Trade Development Council (HKTDC), the number of manufacturing establishments in Hong Kong, as well as the number of people employed in such concerns, dropped by 25 percent from 1980 to 1991. During the same period, however, the number of trading entities grew by almost five times to nearly 70,000—primarily to handle the surge in China's exports. The activities of Hong Kong trading companies extend far beyond the traditional entrepot functions of arranging shipping and insurance; they also include manufacturing-related services such as quality control, packaging, product design, and sample making.

These activities support the production of thousands of Hong Kong investments and outward processing arrangements on the mainland. There are now some 25,000 enterprises in Guangdong—employing 3 million workers—producing goods for Hong Kong companies. About two-thirds of these workers are engaged in outward processing; the rest work for Hong Kong joint ventures or wholly foreign-owned enterprises. About 80 percent of Hong Kong's China investment—which now exceeds $10 billion—is in Guangdong Province. According to Guangdong officials, about 36 percent of Hong Kong's industry has moved across the border to the Pearl River delta.

The shift of Hong Kong manufacturing to China is reflected in the pattern of Hong Kong's trade; over the last several years re-exports have grown at a much faster pace than domestic exports (*see* chart). Re-exports now account for about 70 percent of Hong Kong's total exports, compared to 45 percent in 1986. Of the total export value of the nearly 3,000 companies surveyed by the HKTDC, Chinese-origin products accounted for 58 percent, compared to the 22 percent for Hong Kong-produced products. The ratio was equal in the HKTDC's 1988 survey.

Investment between Hong Kong and China has not been one-sided. China has invested over $12 billion in Hong Kong real estate and other sectors, making it the largest outside investor in the territory. Beijing has also been playing a much more vocal role in the political life of the territory, openly criticizing government spending schemes and various democratic features of the colony. In so doing, Beijing is clearly trying to exert its influence in Hong Kong prior to the territory's 1997 reversion to Chinese sovereignty. While this has caused alarm in some quarters, it has not slowed the pace of economic integration. In fact, Beijing's actions seem calculated to drive home a message that has not been missed by the business community—that the future of Hong Kong lies to the north, not the west.

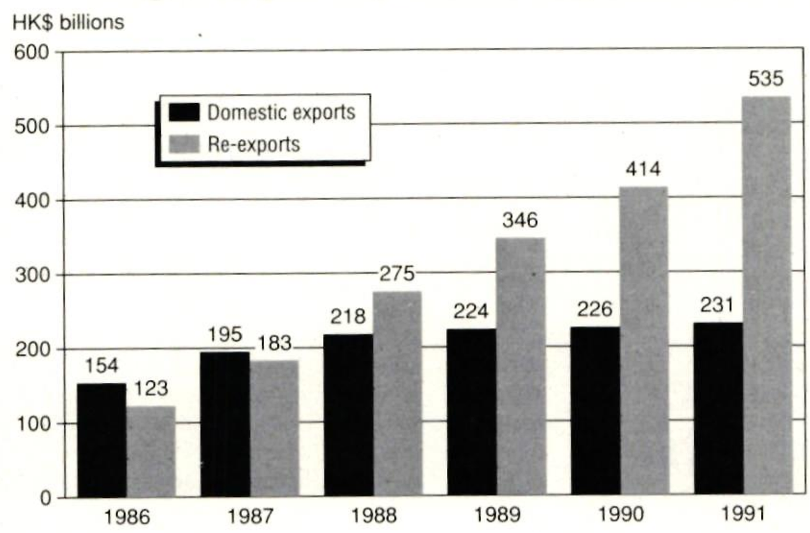
While Beijing is not yet responsible for Hong Kong's foreign relations, the economic integration of Hong Kong and South China means that Hong Kong is increasingly affected by China's political and economic relations with other countries. If the United States—South China's largest export market—were to revoke China's Most Favored Nation status, for example, the Hong Kong government estimates that the territory would lose up to $15.7 billion in overall trade, up to $2 billion in income, and as many as 60,000 jobs. Re-exports from China to the United States would probably fall 35-47 percent ($4.6-6.2 billion). Hong Kong government and business groups have therefore sent numerous delegations to the United States of late to educate US policymakers on the implications of their actions.

Taiwan and China: breaking the ice

While Hong Kong has clearly been the primary mover of capital and light industrial technology to China over the past decade, Taiwan has become a major player in the last few years, thanks to political and economic liberalization at home and a red carpet from China. In 1991, China-Taiwan trade conducted through Hong Kong—there are no direct shipping or air links between the two—hit $5.8 billion, up 43 percent from 1990. Taiwan's imports increased 47 percent to $1.1 billion, while its exports rose 42 percent to 4.7 billion. The real bilateral trade figure is undoubtedly higher, as a significant amount of business is conducted on the sly or passes through other areas such as Singapore. Taiwan's surplus with the mainland is generated by exports of light industrial goods such as man-made filament, yarn, machinery, electical and electronic parts, and plastic materials. Its imports generally consist of natural resources and raw materials.

Analysts predict that Taiwan-China trade will hit $7-8 billion in 1992, which should still place it well below the ceiling of 10 percent of total trade informally imposed by Taipei. The Nationalist government fears anything above this figure would result in excessive dependence on the

Hong Kong's Export Trade, 1986-91



HK$7.8 = $1
Source: *Hong Kong Census & Statistics Department*

mainland market and give Beijing undue leverage in its dealings with the island. Under pressure from business interests, however, Taipei has continuously increased the number of goods it permits to be legally imported from China, and the list now totals some 250 items, up from 50 in 1988. Most are raw materials, though some semi-finished products were added in late 1991. Despite the increase in the number of products that may be imported legally, nearly a quarter of Taiwan's imports are thought to consist of goods not on the list.

For instance, oil trade between China and Taiwan is thriving, though its existence is officially denied. Chinese gasoline is typically shipped to Singapore, where it is refined and shipped to Taiwan. Each month Taiwan imports four-six shiploads of 200,000 barrels each. Fuel oil from Sinochem's processing facility on Okinawa is supposedly also being shipped to Taiwan by a Taiwanese trading company.

This pattern, whereby trade (and investment) precede official recognition and sanction, has been the norm in Taiwan, where the Nationalist government must toe the difficult line of maintaining the island's economic competitiveness and prosperity while not allowing it to become dependent on the mainland market. In most cases the regime has sought a face-saving way to recognize reality without appearing too liberal on issues regarding commercial links with the mainland; in February, for instance, Taiwan's high court recognized the Chinese *yuan* as legal tender, on the grounds that it was circulated and used by citizens in territory claimed by Taiwan. In other examples, such as the decision last December to let Taiwan exporters negotiate letters of credit with local banks for mainland trade, the motivation seems to be to try to maintain some semblance of control over contact with the mainland, as well as to ensure that Taiwan maximizes its profit from the relationship.

For the most part, only privately held companies have received permission to openly trade with the mainland; now, however, it appears that State-owned companies, which want equal access to cheap Chinese imports to stay competitive, will also gradually gain that right. Taiwan

Taipei fears excessive dependence on the mainland market would give Beijing undue leverage in its dealings with Taiwan.

Power, one of the largest publicly held companies in Taiwan, is expected to begin importing coal from China via third parties. The coal probably will have to be purchased on the spot market and must not exceed 30 percent of the company's total spot-market purchases; moreover, the utility's consumption of coal from the mainland must not exceed 20 percent of its total annual purchases. Private companies have been importing Chinese coal since 1988, and in 1991 imported 1.4 million tons (out of 18.6 million total), according to the Energy Commission of the Ministry of Economic Affairs.

No qualms for Taiwan investors

The issue of Taiwan investment in the mainland is more difficult for Taipei to manage. As with trade, the government first turned a blind eye to to a phenomenon that was already becoming commonplace, then announced in 1990 that labor-intensive and sunset industries—which skyrocketing labor rates were making non-competitive—would be allowed to invest indirectly in the mainland with official sanction. It then went a step further and announced that Taiwan firms and business delegations investing in the mainland should register with the government. Since then, Taipei has approved investments totaling $800 million by 2,800 companies; now it is calling for an investment protection treaty with China.

Estimates of total Taiwan investment in the mainland are sketchy, as many of the investments are small and were made secretly. Most China watchers put the figure at around $2-3 billion, $1 billion of which was probably committed in 1991. According to Chung Chin, an economist at the Chung Hwa Institution for Economic Research in Taiwan, the figure should be around the same this year.

Around 80 percent of Taiwan's investment in China is in neighboring Fujian Province, where residents speak the same language and often have ancestral links with Taiwan natives. The pattern of Taiwan's investment in China is basically the same as Hong Kong's, though it has evolved over a much shorter period of time: Taiwanese first tended to lease workshops for processing arrangements, then, increasingly, began to buy the workshops. Now they are more likely to lease land to build their own factories.

Most of the investment has been in light industrial/consumer products, such as footwear and sports equipment. Taipei recently announced it would also approve investment in such service industries as restaurants and entertainment, though such investments have already been taking place for some time. Moreover, Taiwan policymakers have said they will eventually approve investment by banks, insurance companies, and securities firms on the mainland, but no timetable for removing the current ban exists. The Taiwan government has remained steadfast in its refusal to countenance investments by Taiwan companies in strategic or high-technology sectors, though this policy is difficult to enforce and will only grow more so with time.

The mainland has been extremely welcoming of Taiwan investment, with numerous cities and provinces setting up special investment zones for Taiwan investors. Perhaps the most ambitious development along these lines was the recent announcement that a special port for Taiwan trade would be constructed on Fujian's Meizhou Island—the first such port in China. Located north of Xiamen and south of Fuzhou (*see* map), Meizhou is less than 100 nautical miles from Taiwan and is considered the hometown of Mazu (the goddess of the sea), a popular Taoist deity on Taiwan. Beijing has committed about $5.5 million to upgrade the port so that it may receive 3,000-5,000 tonne ships; eventually, it will be expanded to accommodate 10,000 tonne ships.

The island is to be developed in two phases by Hong Kong's Huayang

Co., with additional funds from Taiwan, Singapore, and Hong Kong investors. The entire project is valued at around $130 million. The first phase, which is to take place from 1992-96, will feature construction of a 3 km bridge connecting the island to the mainland, development of the Mazu temple area and a golf course, and installation of the basic infrastructure. Phase 2, which is to end in the year 2000, will complete the infrastructure and further develop real estate, tourist facilities, and commercial and service industries.

The growing economic links between Taiwan and China are both a function of, and contributor to, decreasing hostilities between these two traditional enemies. While there have been no political breakthroughs as yet, it appears to be only a matter of time before official contact is made between the two. In the meantime, it will become increasingly difficult for either regime to contain the development of commerce across the Taiwan Strait; competitive pressures will ensure the increasing internationalization of Taiwan companies and liberalization of Taiwan's financial system, thereby eroding Taipei's ability to rein in Taiwanese investment in the mainland. The mainland, eager for Taiwan investment and technology, will find itself increasingly confronted by the "bourgeouis influences" that have accompanied this investment—prostitution, conspicuous consumption, and smuggling. Even more important, perhaps no other group poses quite the same threat of "peaceful evolution" than the Taiwanese.

Hong Kong and Taiwan: closing the triangle

As relations between Taiwan and China have improved, Taiwan has shown more interest in Hong Kong, both as an entrepot and in its own right. Previously, Taiwan commercial relations with Hong Kong were limited, primarily due to Hong Kong's future reversion to Chinese sovereignty. Now, Taiwan is Hong Kong's fourth largest trading partner and its largest source of overseas visitors, accounting for over 20 percent of all arrivals in 1991. Hong Kong has become Taiwan's second largest export market, though 40 percent of the goods are re-exported to China.

Taiwan is Hong Kong's fourth largest trading partner and its largest source of overseas visitors.

Signs of Hong Kong's newfound importance to Taipei are numerous. Perhaps most notable, last September Taipei sent John Ni, the former director-general of the Industrial Development and Investment Center in the Ministry of Economic Affairs, to Hong Kong as Taiwan's senior representative. Ni, the highest-ranking official ever to represent Taiwan interests in the territory, is the head of the Chong Hwa Travel Agency, Taiwan's de facto representative office in the territory. In his former position, Ni was responsible for foreign investment in Taiwan and Taiwan investment abroad, and he clearly will be keeping a close eye on Taiwan's growing presence on the mainland.

The China External Trade Development Council, Taiwan's trade promotion organization, also set up an office in Hong Kong last year, in part to service Taiwan investments throughout East and Southeast Asia, including China. Taiwan's three largest banks also opened offices in Hong Kong in 1991, and the Chinese National Federation of Industries established the Hong Kong-Taipei Business Cooperation Committee with the Hong Kong General Chamber of Commerce. The function of this group is to promote trade, investment, and other economic cooperation between the two business communities. So far more than 60 Hong Kong companies have expressed interest in joining the committee.

The future of Greater China

Full economic integration of Hong Kong, China, and Taiwan cannot be achieved until some sort of political accommodation is reached between Taiwan and China and restrictions on market access, capital transfer, and communications links between the three areas are lifted. Clearly, not all of these things will happen in the near future, nor will they all happen at once. Progress will be made incrementally, but the momentum of the forces at work and the complementarity of the economies involved should ensure that the process continues.

Already, economists in the three areas are devoting themselves to studying the issue of Greater China, though they don't necessarily agree on how the integration will proceed or how the final entity will function. Disagreement on the respective roles of each of the players was evident at a January conference on the subject in Hong Kong. Hosted by the Democracy Foundation of Taiwan and the Hong Kong Baptist College, the conference invited economists from all three areas to discuss a framework for economic integration. Despite the discord between the attendees from Taiwan and the mainland, the delegates all agreed that they wanted another congress next year; some suggested establishing a permanent coordinating agency to monitor the process of integration.

Economists, businesspeople, and policymakers outside the region would also be wise to study the ramifications of the emergence of Greater China, for though the integration process might not be particularly smooth or coordinated, its impact will be great. According to *Business Week*, the combined economic output of Taiwan, Hong Kong, and South China (southern Guangdong and Fujian provinces) was $275 billion in 1990, and will be on a par with France by the year 2000. Moreover, each of the three areas is already an important trading power in its own right; combined, they undoubtedly would create a new global economic force. In the other articles in this focus, we examine the implications of Greater China on three specific policy areas: the world trading system, particularly the GATT; international export control regimes; and US political and economic relationships with Taiwan, Hong Kong, and China. Leaders in each of these policy areas face special challenges in trying to incorporate the partially formed entity that will eventually transform the economic map of East Asia. Clearly, it is in their interest to start examining the issues now. 完

The US and Greater China

A changing economic order demands a new approach

Harry Harding

The emergence of Greater China is introducing new challenges and complexities into US policy toward its three members—China, Hong Kong, and Taiwan. In some cases, such as US relations with Hong Kong, we need new policies to cope with new issues. In other cases, like US policy toward China, we need to make significant modifications in the ways in which we approach the relationship. With regard to US-Taiwan ties, we need simply stay the course, making only minor adjustments in current policies.

Fortunately, there is a growing awareness in the United States of the advent of Greater China and its broad implications for US policy. Some policies are beginning to change to take these new considerations into account. But there is not yet a comprehensive appreciation of the implications of this historic development for American interests.

Greater China and the global economy

Admittedly, the full integration of Greater China is clearly some time away; administrative restrictions imposed by the governments on both the mainland and Taiwan hamper the flow of capital and commodities along all three sides of the Greater China triangle. But as these barriers gradually diminish and economic interdependence increases, the United States will face a powerful new international trading bloc. This bloc will present the United States with the same concerns as any other newly emerging trading group; namely, will it limit access to its own markets, while becoming a more potent rival for the United States elsewhere in the world?

As barriers gradually diminish and economic interdependence increases, the United States will face a powerful new international trading bloc in Greater China.

These issues are of particular concern given the size of Greater China. In 1991, the foreign trade conducted by Hong Kong, Taiwan, and China totaled around $375 billion; the combined foreign exchange reserves of Taiwan and China approached $125 billion. Much of the world is concerned by the implications of the outward-looking but neo-mercantilist policies that characterized Taiwan's economic strategy in the past, and that still typify China's development policies today. These policies produce efficient export industries, but tend to absorb significantly lower levels of imports.

Such concerns make it imperative that China, Taiwan, and Hong Kong all participate in the key multilateral institutions that govern the global and regional economy, such as the General Agreemént on Tariffs and Trade (GATT), the International Monetary Fund (IMF), and the World Bank. Hong Kong is already a member of the GATT and the Asian Development Bank, and its continued participation in such organizations is provided for under both the Sino-British Joint Declaration of 1984 and the Basic Law of 1991. On this basis, Hong Kong should eventually join other international economic institutions under the name "Hong Kong, China."

The issue of sovereignty remains a major barrier to Taipei's membership in these same institutions, but Taiwan's importance to the international economy makes it imperative that such an obstacle be overcome. The precedents set by Taipei's membership in the Asian Development Bank and the Asia-Pacific Economic Cooperation (APEC) group suggest that it should be able to join other international bodies as a customs territory or an economic entity, rather than as an independent nation-state.

Securing China's acquiescence to such an arrangement for Taiwan will be difficult. But Beijing's own interest in joining the GATT and the ongoing negotiations between China and the United States over issues of market access provide the elements for a creative compromise. To gain membership in the GATT, Beijing will have to grant greater foreign access to the Chinese market, reduce export subsidies, and achieve greater transparency in its trade and investment regulations (*see* p. 24). Those adjustments and concessions, in turn, could also enable Beijing and Washington to successfully conclude the market access negotiations currently being conducted under Section 301 of the Trade Act. At the same time,

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resolving the question of China's membership in GATT would make it possible to expedite Taiwan's application to the same body, as a separate customs territory.

As further progress is made in developing economic and political relations across the Taiwan Strait, Beijing and Taipei should be encouraged to reach an understanding on Taiwan's membership in additional international institutions. Ultimately, it should be possible for Taiwan to join these institutions as a distinct economic territory under the name "Taipei, China."

Reassuring Hong Kong

Just as the emergence of Greater China necessitates a coordinated approach to ensure that the region becomes a responsible player in the international economy, it also requires the United States to reexamine its policies toward each of the three component entities to ensure that these policies conform with rapidly changing circumstances. In some cases, that reassessment has already begun. In others, however, US policy still seems wedded to outdated conceptions.

Hong Kong's return to Chinese sovereignty in 1997 places immediate demands on US policymakers to examine our ties to the territory. In the past, preoccupied with the Taiwan issue, Americans were content to leave the question of Hong Kong to the British, trusting London to keep the territory open to US traders, investors, tourists, and shipping interests. Over the last few years, however, US policymakers have begun to take a greater interest in Hong Kong's future than ever before.

In part, this is due to the growing economic stake that the United States has in Hong Kong. Excluding goods originating in China, bilateral trade between Hong Kong and the United States exceeded $17 billion last year, while American investment in the territory now totals more than $7 billion. Apart from this obvious commercial stake, increasing US interest in Hong Kong reflects considerable uncertainty over the territory's future, both before and after 1997. Beijing's consistent attempts to restrict Hong Kong's autonomy—as evidenced in its insistence on approving the territory's airport development program, its criticism

Hong Kong's return to Chinese sovereignty in 1997 places immediate demands on US policymakers to examine our ties to the territory.

of some of the winners in the legislative elections last September, and its disapproval of the Hong Kong government's latest budget—have caused alarm among some members of the US Congress, as well as among many citizens of Hong Kong itself. Moreover, while many observers see a powerful, elected local government as the key to maximizing Hong Kong's autonomy after 1997, Beijing is clearly uncomfortable with the thought of rapid or extensive democratization, and has consistently rejected proposals to increase the proportion of legislators directly elected by Hong Kong voters.

Though the United States has no standing to challenge the Joint Declaration, the Basic Law, or the return of Hong Kong to Chinese sovereignty, it can help smooth the process by providing a safety valve if there are serious problems in the transition. One useful step already taken is an amendment (sponsored by congressmen Barney Frank [D-MA] and Steven Solarz [D-NY]) to the Immigration Act of 1990. The amendment increased the number of immigration visas granted to Hong Kong residents, but also permitted them to stay in the territory until the year 2002, giving them the security of knowing they can always leave if the situation deteriorates. The amendment therefore helped boost confidence in Hong Kong by creating a safety valve for the future, without requiring residents to leave the territory in the immediate term.

But further steps also need to be taken. Specifically, the United States should:

• point out that, despite Beijing's claim that Hong Kong's future is a purely bilateral issue between China and Britain, the rest of the world has a stake in the future of the territory. US policy statements should also stress to Beijing that only a Hong Kong that is autonomous and democratic will, in the end, be economically prosperous and politically viable. The US government can help make these points through diplomatic exchanges with China and cabinet-level official visits to Hong Kong.

• ensure that Hong Kong's status in American law is not negatively affected by the change in sovereignty. A bill to this effect, introduced by Senator Mitch McConnell (R-KY) and currently pending, is a useful step in this direction (*see* p. 11).

• continue to support cultural, educational, and scientific exchange programs with Hong Kong so that the territory is as fully integrated into the international intellectual community as it is into the world economy.

• help Hong Kong build effective democratic institutions before 1997, perhaps through such private foundations and organizations as the National Endowment for Democracy. These organizations could assist in developing effective political parties, civic organizations, and legislative bodies—all of which are essential to the workings of democratic government, but for which there is little precedent in Hong Kong.

In all these cases, the Washington policymaking community should work with other friendly and concerned countries—including Japan and the members of the European Community—to demonstrate that our concerns with stability, prosperity, and democracy in Hong Kong reflect a broad international consensus, and not simply the unilateral whim of the United States.

Staying the course on Taiwan

While worries over Hong Kong's future seem to be mounting, fears regarding Taiwan's security appear to be decreasing, as the growing linkages across the Taiwan Strait reassure Chinese leaders who are otherwise worried about the appearance of a more vocal Taiwan independence movement on the island.

Moreover, the creation of this third of the Greater Chinese triangle is defusing what has historically been one of the most contentious aspects of Sino-American relations. As the relationship between Taiwan and the

TABLE 1

China-US Trade

($ billion)

	1987	1988	1989	1990	1991
Exports to US	3.0	3.4	4.4	5.2	6.2
Imports from US	4.8	6.6	7.9	6.6	8.0
China's trade balance	–1.8	–3.3	–3.5	–1.4	–1.8

Source: China's Customs Statistics

China's trade balance as seen by Beijing. . .

mainland acquires a life of its own, the two sides can begin to deal with each other directly, without having the United States so centrally involved as an intermediary. The emergence of Greater China therefore helps validate the American conviction, first expressed in the 1972 Shanghai Communique, that the Taiwan question will ultimately be resolved by the Chinese themselves.

In fact, in this era of rapid change, when so many policies need adjustment, Taiwan is one area where US policy has worked well and should be continued. Basically, the United States should encourage and endorse any peaceful outcome that is mutually agreeable to both Taiwan and the mainland. Conversely, the United States should oppose efforts by one side to impose its will on the other, whether through the use of force by the mainland or a unilateral declaration of independence by Taiwan.

The full resolution of Taiwan's status will require time, as well as changes in policy and leadership on both sides of the Taiwan Strait. In the meantime, the United States should encourage the two parties to reach an understanding on their relationship pending final resolution of their differences. Such an agreement would presumably involve an expansion of commercial, cultural, and political ties between Taiwan and the mainland; clarification of the parameters of the relationship (e.g., agreement by each side not to impose its will unilaterally on the other); and provisions for Taiwan to play a more active role in the international community.

The United States should also work, within the rubric of the August 1982 communique, to ensure a stable military equilibrium in the Taiwan Strait. This implies continuing to sell a reasonable amount of defensive arms and production technology to Taiwan, while encouraging other friendly countries to do the same. It also implies that, even if the present military sanctions against Beijing should be lifted, the United States and its allies should refrain from transferring military technology to China that could appear to disrupt the military balance with Taiwan.

Re-evaluating China policy

While the emergence of Greater China clearly has implications for US policy toward Hong Kong and Taiwan, it presents the greatest challenges to China policy. Already, the phenomenon of Greater China is altering trade patterns in ways that complicate our commercial relations with China.

As the United States' trade deficit has soared over the past several years, increasing attention has been paid to its bilateral trade balances with individual countries. Calculating these statistics for trade with China is particularly complicated, as much of the trade is conducted through Hong Kong. To worsen matters, China and the United States do not count these re-exports in the same way. US statistics consider Chinese goods shipped through Hong Kong to be Chinese exports, but count American goods transshipped through Hong Kong as exports to Hong Kong, rather than as exports to China. Chinese statistics, in contrast, include most imports from the United States, but consider Chinese goods transshipped through Hong Kong as exports to Hong Kong, rather than as sales to the United States. As a result, there is a wide discrepancy between the two countries' statistics. Beijing believes that China runs a bilateral trade deficit with the United States, while Washington is convinced that China enjoys a substantial trade surplus (*see tables I & II*).

While China's trade surplus with the United States has soared in recent years (according to US statistics), the surpluses of Taiwan and Hong Kong have narrowed significantly (*see table III*). This is in part because both have transferred low-technology manufacturing and processing enterprises to the mainland, in effect shifting their surpluses—and the political burden that accompanies them—to China.

The movement of production from Hong Kong and Taiwan to the mainland is likely to continue, and therefore to increase Chinese exports to the United States. This, in turn, will provoke ever more strident US criticism. China, for its part, counters that the US figures are inflated. According to Beijing, a substantial portion of China's exports to the United States consist of products made from foreign-made materials, which are assembled in China and re-exported to the United

TABLE 2

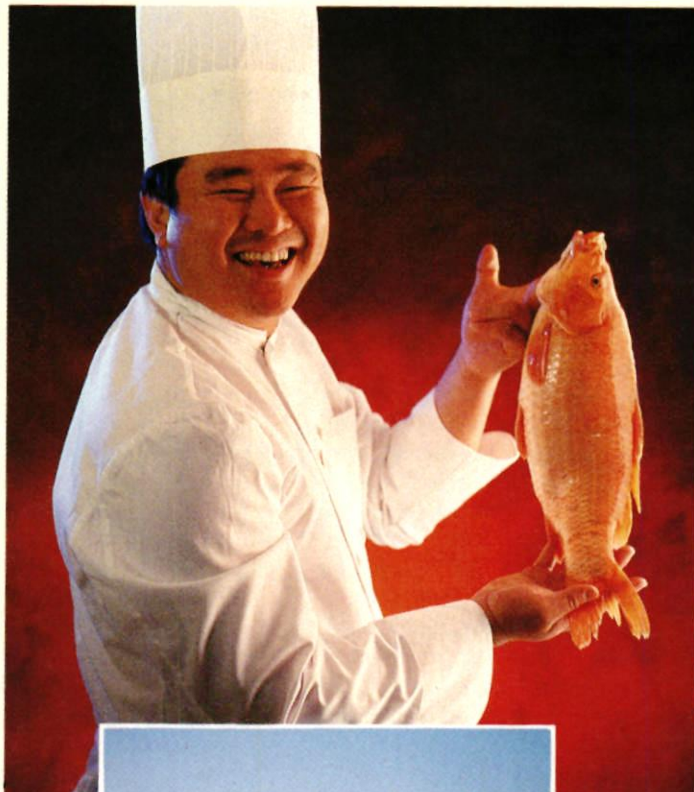
US-China Trade

($ billion)

	1987	1988	1989	1990	1991
Imports from China	6.9	8.5	12.0	15.2	19.0
Exports to China	3.5	5.0	5.8	4.8	6.3
China's trade balance	3.4	3.5	6.2	10.4	12.7

Source: Department of Commerce

. . . and Washington.



States. The Chinese claim they earn only 7-8 percent of the total value of these transactions, yet 100 percent of the goods' value is assigned to China's books by the United States.

This unsatisfactory situation clearly demonstrates that a purely bilateral accounting—even if adjusted to reflect Hong Kong's entrepot role—can disguise the nature of modern commercial relationships. We must learn to take a more comprehensive view of our trading patterns with Greater China, rather than obsessing on our bilateral trade balance with each member.

This is especially true because the growing links among mainland China, Taiwan, and Hong Kong will complicate future US attempts to regulate trade with any one of the three. For instance, textile manufacturers are already shifting final assembly of garments from one economy to another, so as to take advantage of unfilled textile quotas. Of more concern are intra-regional flows of controlled strategic goods; unless adequate export controls are put in place, American technology transferred to Hong Kong or Taiwan could well be re-exported to the mainland, in defiance of US export restrictions (*see* p. 30). Neither of these problems is unique to China, but the emergence of an integrated Greater Chinese economy will bring such problems in its wake.

China's growing links with Hong Kong and Taiwan are also complicating US attempts to apply punitive sanctions against Beijing. Frustrated by China's behavior with regard to human rights, missile proliferation, and trading practices since

The growing links among mainland China, Taiwan, and Hong Kong will complicate US attempts to regulate trade with any one of the three.

Tiananmen, Congress has sought to link the annual renewal of China's Most Favored Nation (MFN) trading status to fulfillment of various demands in these three areas. Obviously, the wisdom of using MFN in this way can be challenged on a number of grounds, but one thing has become very clear: Hong Kong (and Taiwan to a lesser degree) would suffer significant losses if China's MFN status were conditioned or removed (*see* p. 14). Both societies have therefore urged the United States to maintain China's MFN status, and their concerns have received a sympathetic hearing in the United States.

While the growing integration of Hong Kong, Taiwan, and China may discourage the use of MFN as a tool for disciplining Beijing, some analysts believe it presents other opportunities for leveling sanctions. An article by Leslie Gelb in the *New York Times* at the end of 1991 suggested that some US officials believe that if Beijing's behavior on human rights and other issues does not improve, the United States should somehow encourage the fragmentation of the country, urging South China to form a political and economic unit with Taiwan and Hong Kong separate from the rest of China.

This strategy would be a grievous mistake. To threaten the dismemberment of any country is a hostile act, and the United States, at a time of shrinking defense budgets and domestic preoccupations, cannot afford a confrontational relationship with China. Moreover, threatening the physical disintegration of China arouses basic issues of nationalism, and therefore risks eroding the favorable opinion most urban Chinese still hold toward the United States.

It is therefore clear that extreme approaches to our differences with Beijing are unwise. Instead, a tough but precisely targeted strategy is more appropriate, such as that advocated by Senator Max Baucus during last year's debate over China's MFN status (*see The CBR*, March-April 1992, p. 12). Fortunately, the Bush Administration has adopted such a strategy over the last several months and has begun to achieve some preliminary results.

Sharing business insights

In short, the emergence of Greater China is producing new challenges and opportunities for the United States, and requires us to change the way we think about our policy toward China. Especially in an election year, US business can play a useful role in making the American public and policy community more aware of the new calculations required by the appearance of Greater China. In particular, the business community can document the harm that would be done to Hong Kong, Taiwan, and South China by the revocation of China's MFN status. It should also explain how the increasing US trade deficit with China reflects the transfer of manufacturing from Hong Kong and Taiwan to South China. Finally, business can play an active and constructive role in the growing national discussion of American policy toward Hong Kong. The American business community's insight into the emergence of Greater China—an insight born of direct involvement in the process—needs to be shared with a wider audience. 完

TABLE 3

Greater China-US Trade

($ billion)

	1987	1988	1989	1990	1991	% change from 1987-91
US trade deficit with China	3.4	3.5	6.2	10.4	12.7	272.1
US trade deficit with Hong Kong	6.5	4.6	3.5	2.7	1.1	–82.3
US trade deficit with Taiwan	18.9	12.6	13.0	11.1	9.9	–48.0
US trade deficit with Greater China	28.9	20.6	22.7	24.3	23.7	–18.1
Total US trade deficit	152.1	118.5	109.4	101.7	66.2	–56.5

Source: Department of Commerce

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"Building the Integrated Global Economy"

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The Quest for GATT Membership

Will Taiwan be allowed to enter before China?

James V. Feinerman

China's centrally planned—albeit reforming—economy is fundamentally incompatible with the GATT's market economy principles.

In recent months, China has stepped up the scope and visibility of its efforts to join the General Agreement on Tariffs and Trade (GATT). Last October, in anticipation of the 10th meeting of the GATT working party on China's membership—the first since the crackdown in Tiananmen Square—Beijing delivered a report to the GATT on developments in China's foreign trade system and overall economic reform since 1989. In February, the two-day meeting of the working party welcomed China's efforts, but noted the need for further economic and legislative reforms and additional information on China's economic system, trade statistics, and integration with multilateral trade regimes. The working party closed the meeting by agreeing to meet again in the "near future" to continue the discussion of China's GATT application.

This vague promise reflects the ambivalent attitude of GATT member nations toward China's admission. On the one hand, if allowed to join the GATT, China, already a significant player in world trade markets, would find itself subject to rules of the GATT. Other GATT signatories would thus benefit from the lower tariffs and increased transparency of China's regulatory regime that would be required under GATT rules. At the current time, however, China's centrally planned—albeit reforming—economy is fundamentally incompatible with the GATT's market-economy principles. While collective efforts through the GATT might bring China more in line with international trade norms, some countries may find that their bilateral demands on China will be less effective if China is accorded full GATT status. The United States, in particular, would probably be unable to exert the same degree of economic pressure on China it currently can once China accedes to the GATT.

Membership perks

The GATT's 108 full members enjoy many benefits by virtue of their participation in the organization. Principally, they are guaranteed minimal tariff restraints in each other's markets, a feature of major interest to Beijing since an estimated 85 percent of China's foreign trade is conducted with GATT member nations. As a contracting party to the GATT (China currently has observer status), China would be able to eliminate the more than 90 bilateral trade arrangements it now has with its trading partners. Although these bilateral treaties provide benefits similar to those promised by the GATT, such arrangements must be periodically re-negotiated and may be unilaterally terminated.

In China's case, however, the promise of automatic Most Favored Nation (MFN) status—which China would enjoy in its trade relations with each GATT member as stipulated in the organization's guiding principles—is clearly the most significant motivation for Beijing's efforts to rejoin the trade body. As a contracting party to the GATT, China would be less susceptible to the now-annual US threats to condition or revoke China's MFN status.

Yet GATT membership alone would not necessarily guarantee China's unconditional MFN status from the United States, as the experiences of both Poland and Romania attest. Both of these GATT-member countries had their MFN status withdrawn by the United States in the 1980s. In Poland's case, MFN was revoked in reaction to the communist government's bloody suppression of the Solidarity movement; the status only was restored years later once the process of reform had resumed. Romania's MFN was withdrawn in the waning years of the Ceaucesceu regime, in response to its increasingly bizarre and repressive behavior. It thus seems clear that as long as the Jackson-Vanik Amendment—which requires communist nations to have their MFN status renewed either annually or semi-annually—remains in force, not even accession to the GATT can ensure that China's MFN status will not subsequently be revoked or conditioned by the US (or any other) government.

China's application to the GATT for admission as a developing country might entitle it to privileges beyond MFN and low tariffs. For example, China would become eligi-

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ble for Generalized System of Preference (GSP) tariff benefits, which are available only to GATT members. The GSP privileges of the United States, which currently are not extended to China, provide a wide range of special tariff rates for classes of goods from countries recognized as "developing." China already enjoys some GSP benefits under the laws of other GATT member countries, including most European Community countries.

Again, however, many of the industrialized nations party to the GATT might be hesitant to grant China any preferential terms, for fear of a flood of even cheaper, tariff-free Chinese goods in their domestic markets. In the United States, this concern might result in limitations on GSP, particularly in certain industries already at risk from foreign imports, such as textiles, apparel, footwear, and small electrical appliances. Nevertheless, many developed countries are willing to bargain with China, and will offer concessions in return for improved access to China's own markets. China, for instance, might be granted access on footwear, in return for reciprocal access and lower barriers on high-technology imports.

Membership in the GATT would also provide China with other, more intangible benefits. For example, the GATT serves as an important forum for coordination of international economic policy and resolution of trade disputes. In addition, the GATT Secretariat compiles detailed information about the economic policies and activities of member nations; such material would assist China in formulating its foreign economic and trade policy. Moreover, the GATT's requirements and market orientation would be conducive to deepening reform in China's domestic economy, a goal espoused by the Chinese leadership at the March session of the National People's Congress.

Knocking on GATT's door

Chinese diplomats have been lobbying the GATT intensively since the early 1980s to gain admission. China became an observer to the GATT in 1982, and joined the Multilateral Fiber Agreement (MFA) in 1983 as a kind of dress rehearsal for full GATT membership. It was thought by the international trade community that participation in the MFA would

As long as the Jackson-Vanik amendment remains in force, not even accession to the GATT can ensure that China's MFN status will not subsequently be revoked.

equip Beijing with the knowledge needed to prepare a formal application for GATT membership.

China submitted its application to the GATT Secretariat in 1986, and requested that a working party be established to consider China's trading system and to determine the conditions for its membership in the free market-oriented body. During the late 1980s, there was considerable optimism—both in China and among its trading partners and other GATT members—about prospects for China's GATT membership, though everyone realized that the process would not necessarily be smooth or rapid. A combination of international revulsion at the treatment of student protesters and other Chinese citizens in June 1989 and Chinese reluctance to enact domestic economic reforms, however, set back China's application for GATT membership at least several years.

In the last nine months, though, China has taken a number of steps that have again made its application a live issue. For instance, earlier this year a new research institute opened in Beijing to "study international trade rules and help the country rejoin the GATT." GATT Director-General Arthur Dunkel attended the opening ceremonies and promised the full cooperation of the GATT Secretariat to help the institute sponsor seminars and other studies. The new institute has been working to provide ammunition for China's application, assembling data to establish the admissibility to GATT of countries with non-market economies and citing the admission of socialist Poland, Hungary, Czechoslovakia, Romania, and Yugoslavia as precedents. Researchers are also working to document China's commitment to open-door foreign economic policies and the introduction of market mechanisms.

Moves in the right direction

In Beijing's eyes, China has already bowed to GATT policies on a number of issues. The abolishment in 1991 of subsidies for Chinese trading firms, for example, and the reduction in the margin between the official and quasi-market foreign exchange rates are steps Beijing claims to be in line with GATT compatibility. The adoption of a new harmonized tariff computation method in 1992 is another step China's trade officials proclaim as evidence that China is ready for full membership in the GATT.

Aware that transparency in trade regulations is a bedrock principle of the GATT and that centrally planned economies must report State trading activities, China has also been touting that its basic trade legislation now complies with GATT's mandate. For instance, a draft foreign trade law, geared to GATT provisions but still in embryonic form, has been circulated within China and abroad. Formerly *neibu* (internal) documents describing China's foreign trade regime were made public to the GATT Secretariat in February; English and other foreign language translations have been promised.

According to Western GATT signatories, however, China still has a long way to go. In addition to the trade liberalization and other economic reforms already undertaken, China will almost certainly need to improve market access for existing GATT members by lowering tariffs, publishing trade rules, and removing non-tariff barriers to trade. Other formerly socialist nations were required, as a condition for admission to the GATT, to make specific promises: Poland, for instance, committed itself to a 7 percent annual expansion of imports from GATT contracting parties, while Romania promised to increase imports from GATT member countries at the same rate at which it calculated total Romanian imports would grow in its Five-Year Plan.

For its part, China may be required to provide detailed information about its purchasing plans—including plan documents and procurement policies—to exporters in GATT member nations. If China can furnish sufficient evidence that it is willing to buy more from GATT member countries and make its own buying practices more transparent, it is unlikely to be asked to follow the Polish model and commit to specific levels of import growth. As none of the other socialist nations were forced to adopt convertible currencies before joining the GATT, the fact that the *renminbi* is not convertible should not prove a problem in the short term. Over the longer term, however, other currency issues in China, such as access to foreign exchange and repatriation of profits, may be of greater concern to GATT members.

Such long-term concerns are integral to China's GATT bid. The ongoing Section 301 investigation by the US Trade Representative (USTR) into China's market practices can be viewed as a kind of "stalking horse" for the GATT, as many of the issues being pursued by USTR are precisely those of concern to the GATT China working party. On the other hand, US worries on such issues as intellectual property protection go beyond the current realm of the GATT, and may set the stage for further bilateral negotiations between China and other countries once China accedes to the GATT.

"Greater China" and the GATT

Aside from the concerns of GATT member nations over China's trade practices, China's GATT application has been complicated by the concurrent application of Taiwan. Beijing, which insists that Taiwan is an inalienable part of Chinese territory, has repeatedly opposed Taiwan's separate admission to the GATT, even though the island has applied as the autonomous customs territory of "Taiwan, the Pescadores, Kinmen, and Matsu." Taipei had high hopes that its 1990 bid for membership would be approved since it had not applied as the "Republic of China," which certainly would have drawn objections from Beijing.

Ironically, the Nationalist government was one of the GATT's 23 founding member nations in 1948, but quit the organization in 1950 after the communists came to power on the mainland and the Nationalists

In Beijing's eyes, China has already bowed to GATT policies on a number of issues.

fled to Taiwan. Currently the world's thirteenth largest trading nation, Taiwan has good reason to seek membership in the world's primary international legal and trading regime.

In contrast, the issue of Hong Kong's GATT status has been much less problematic. At the time it applied for membership, Beijing made clear its willingness for Hong Kong to join the GATT as a separate customs territory, so that Hong Kong could continue to enjoy the benefits of GATT membership it had always received as a colony of the United Kingdom. Hong Kong's long-standing commitment to principles of free trade and the familiarity of other GATT members with its economy made agreement on the territory's accession in April 1986 a relatively easy process.

Lobbying against Taiwan

As a matter of principle, Beijing has insisted that China, as a founding member of the GATT, need only "resume" its seat, which it claims was illegally occupied, and then abandoned, by the Nationalist regime. This position has made little practical difference to China's negotiations for GATT membership, despite its symbolic significance to the Chinese leadership. The United States and European member nations of the GATT have determined to conduct the process for Chinese membership as though it were a new accession. Thus, China will have to reach agreement with the other GATT members on substantive trade issues before it can enjoy GATT membership.

Indeed, one of Beijing's great frustrations with the process of gaining GATT membership is the consensual nature of the GATT and its decision-making processes. Essentially, all important issues, including membership, are decided on the basis of consensus among the hundred or so GATT member nations. Thus, haggling is inevitable, and delays result. Any nation can stall China's bid, just as China has pressured its developing country allies to block Taiwan's admission. The United States and Europe have sought the middle road by suggesting a compromise to let both China and Taiwan join the GATT at the same time, though Taiwan could join sooner if Beijing were to soften its stance.

For the moment, though, it appears that Beijing has been successful in ensuring Taiwan does not get into GATT first. China's objections and its lobbying of certain European nations seem to have curbed Taiwan's bid. Despite President Bush's assurances to Senator Max Baucus (D-MT) last year that the United States would press for Taiwan's prompt admission to the GATT, the United States has done nothing to counteract Beijing's objections.

Ultimately, though, it may prove difficult to stall much longer on the Taiwan issue. Taiwan's status as a major trading power and its adherence to the free market policies embodied in the GATT qualify Taiwan for membership now. It is thus up to the GATT's members to determine whether they will decide questions about Taiwan's admission on the basis of economic fundamentals or on political considerations.

The waiting continues

Predicting when China will finally enter the GATT is difficult; Hungary waited four years, Romania three years, and Poland eight to be officially admitted into the GATT. As a technical matter, the protocol for China's accession to the GATT could be drafted and endorsed by the end of this year, if the situation allowed. But the twists and turns of Chinese economic reform over the last decade have caused considerable unease among China's trading partners, with the result that few are eager to proceed with haste to consider China's bid for GATT membership.

The demise of other centrally planned economies, many of which had joined GATT under special conditions, may also increase the hesitancy of GATT contracting parties to make special concessions for China, whose political stability has been shaky in recent years. Some GATT members may also be eager to defer a decision on China in order to avoid dealing with the requests of Russia and other former states of the Soviet Union; should China join the GATT, it is likely that such countries will demand GATT membership as well, though China clearly is much further along the road to economic reform.

In the long run, however, it may be in the GATT's best interest to consider China's application—and Taiwan's along with it. The GATT's pretensions to universality are hollow as long as these major traders remain outside. Despite peculiar features of China's "planned market economy," China is perhaps more like the rest of the GATT membership—most of whom retain some degree of central planning in their economies—than are the Western industrial democracies. Moreover, the Chinese economy may prove an even more disruptive force outside of the GATT than within it, as its $12 billion surplus with the Unites States last year attests. If China were a member of the GATT, the United States and other trade partners could demand reciprocal treatment from China to help narrow the gap; as a part of the GATT decision-making process, China perhaps could be "tamed" by the rules it would have a hand in deciding.

Most important, the international community's desire to foster political and economic liberalization in China arguably necessitates China's admission to GATT; China's meaningful participation in the world trading order would require it to embrace market principles and economic rationality. Moreover, an accommodation which brings China into the GATT may portend the eventual normalization of East-West commercial relations, whereby trade is conducted according to true market principles. And for the largest economies in particular, GATT membership for all three members of Greater China could mean greater market access to this dynamic region. 完

我会活动 Council Activities

301 Clock Ticks On

The deadline for resolution of the investigation remains October 10; the next round of talks will likely take place in Beijing at the end of May

On April 7, Assistant United States Trade Representative Joseph Massey addressed a joint meeting of the Import and Legal committees on the ongoing Section 301 market access talks. The tough-talking trade negotiator reiterated the four goals of the government's investigation: transparency of China's trade-related laws and regulations; reduction of tariffs and the elimination of all quantitative barriers; dismantling of the import licensing system; and removal of technical barriers such as unfair or unnecessary testing and standards requirements. Massey refused to comment on the April talks held in Washington, claiming the only thing that matters is the final outcome of the negotiations. The deadline for resolution of the investigation remains October 10; the next round of talks will likely take place in Beijing at the end of May.

If the US government decides that insufficient progress has been made by late August or early September (about 45 days prior to the deadline), the office of the US Trade Representative will publish a retaliatory "hit-list" of Chinese products that may be subject to prohibitive tariffs if no agreement is reached by the deadline. Companies learned that the same 12 criteria used for creating the Special 301 list—which focused on State enterprise-produced goods for which there are alternative sources of supply—will be used for the new list. However, since the market access talks involve trade worth billions of dollars, Massey said the new list would be "substantially larger than the one issued for the Special 301 investigation, by multiples."

Following Massey's talk, members of the Import Committee traveled to Capitol Hill to lobby for China's Most Favored Nation status. Senator Alfonse D'Amato (R-NY) advised the importers to expand their contacts with the Senate to voice their concerns.

Assistant US Trade Representative Joseph Massey warned Council importers that the potential 301 hit-list would be massive.


BEIJING
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An Export Controls Clash

Western export control policies for Hong Kong and China are on a collision course

Erik C. Wemple

While the growing economic interdependence of Taiwan, China, and Hong Kong may be a boon to US companies seeking a foothold in the dynamic Greater China region, it will probably prove a bane to US officials in charge of export control policy. Confronted by an evolving world order in which economic competition is fierce and military alliances are no longer rigid, these officials will undoubtedly find it increasingly difficult to develop any coherent approach to export controls. The blurring boundaries between Hong Kong, China, and Taiwan—which are afforded very different treatment under the current US and international export control regimes—will only make their task more challenging.

A changing picture

Limits on the transfer of US technology abroad are essentially established by the US Export Administration Act and the Coordinating Committee for Multilateral Export Controls (COCOM), an over-arching international body consisting of Japan, Australia, and all NATO countries except Iceland. The logic behind export controls is to limit the transfer of technology with potential military applications to countries perceived as unfriendly or unreliable. Export controls are also used—especially by the United States—as "carrots" or "sticks" with which to achieve foreign policy objectives. To be effective, export controls must be clearly defined, multilaterally implemented, and carefully monitored. To maintain such a policy for China will prove daunting, as US and foreign perceptions of the country—and of Hong Kong and Taiwan—are undergoing profound change.

One of the chief methods employed by Washington to encourage changes in Beijing's behavior has been the imposition of sanctions on the sale of various high-tech items to China.

As Western concern over the former Soviet Union and its influence has eased, China's usefulness to the United States as a strategic ally has diminished. More attention, therefore, is being paid to other facets of the Sino-US relationship, such as human rights, trade, and arms proliferation issues, especially since the Tiananmen crackdown of 1989. Increasingly, the United States seems to view China as a rogue element in the international arena and is striving to make it conform to international norms in each of these three areas. One of the chief methods employed by Washington to encourage changes in Beijing's behavior has been the imposition of sanctions on the sale of various high-tech items to China.

The same forces that have increased tension between the United States and China, however, have worked to decrease it between the United States and Hong Kong and Taiwan. Taiwan has significantly liberalized its political and economic systems and has reduced its trade surplus with the United States by about $6 billion over the past five years. Hong Kong-US trade has also become more balanced, and US officials have taken a number of steps to help safeguard the territory's democratic and capitalist base in the years preceding and following its reversion to Chinese sovereignty in 1997 (*see* p. 11). In contrast to China, for which the United States has sought to limit access to advanced technology and weaponry over the last few years, Taiwan and Hong Kong have seen restrictions on technology transfer eased, either intentionally or through general relaxations in their country groupings.

While political differences between Taipei and Beijing remain acute enough to prevent significant transfers of advanced technology from Taiwan to the mainland in the near term, the same cannot be said about Hong Kong. Impending Chinese control over the territory calls into question whether current US and COCOM policy to delineate between the two is realistic. And should China use its future power as administrator of Hong Kong to circumvent the territory's export control regulations, the risks are high: China could

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channel such technology to the production of missile delivery systems, which it might then sell to such unstable regions as the Indian subcontinent and Middle East.

Easing sales to Hong Kong

According to the 1984 Sino-British Joint Declaration on Hong Kong, when the territory becomes a "special administrative region" of China in 1997, it will retain its status as a separate customs territory. As such, it will be able to negotiate and implement its own trade arrangements with the rest of the world. Since management of export controls is a routine function of a customs territory, the declaration implicitly recognizes Hong Kong's right to develop and maintain regulations on shipments of high-technology items to other areas, including China.

As a colony of the United Kingdom, Hong Kong has long maintained a strict export controls system that conforms with the standards established by the British government and the multilateral trade control regimes in which it participates. Hong Kong's export control bureaucracy is a reflection of the UK model, for it features separate offices for key export control functions such as commodity classification, license review, and export ennforcement.

To ensure that its controls match those of COCOM member countries, Hong Kong has adopted and implemented the three official COCOM commodity control schedules: the Industrial List, the International Munitions List, and the International Atomic Energy List. Of these, the COCOM Industrial List has the greatest impact on Hong Kong's trade because it covers a wide universe of high technology dual-use items—those with both commercial and military applications—that pass in high volume through the territory. The Industrial List outlines controls on the following categories of advanced dual-use goods: materials, materials processing (machine tools), electronics, computers, telecommunications and cryptography, sensors, avionics and navigation, marine technology, propulsion systems, and transportation equipment.

In accordance with COCOM policy, Hong Kong must control all Industrial List items to countries traditionally viewed by COCOM members as potential threats to Western security: the former republics of the Soviet Union, Czechoslovakia, Hungary, Poland, Albania, Bulgaria, Romania, Mongolia, and China. The controls vary from basic application procedures for easily obtained licenses to thorough investigations of potential endusers. Through the UK COCOM delegation, Hong Kong submits license applications for exports of the most advanced COCOM-controlled goods to these destinations to the committee for review.

The drastic US reduction in burdensome export control licensing requirements will undoubtedly act as a strong incentive for companies to develop stronger trade ties with Hong Kong.

Furthermore, Hong Kong has implemented controls on items useful in the production of missile delivery systems, as well as chemical, biological, and nuclear weapons. These controls, which cover low- to medium-technology goods and apply to countries of proliferation concern in the developing world, extend beyond the purview of COCOM export regulations and are instead modeled after the regulations of three international proliferation control regimes: the Missile Technology Control Regime (MTCR, for missile delivery systems), the Australia Group (AG, for chemical and biological weapons) and the Nuclear Non-Proliferation Treaty/Zangger Committee (NPT, for nuclear weapons).

Each of these regimes, like COCOM, has developed a standard control list to which member countries are obligated to adhere. Although Hong Kong is not an official member of these proliferation control regimes, it has adopted their control lists in its domestic export control regulations. To observe the guidelines of these regimes, Hong Kong must place strict controls on exports of all MTCR, AG, and NPT commodities to China. Such commodities include:

- MTCR: rockets, air vehicles and subsystems, propulsion components, missile structural composites, launch and ground support equipment and facilities, and dual-use items helpful in missile design and production;
- AG: 50 chemicals with applications in the production of chemical and biological warfare agents;
- NPT: uranium enrichment equipment and technology, nuclear-grade graphite, and other materials and technology designed for nuclear applications.

In recognition of Hong Kong's progress in establishing a domestic export control system, the United States and other COCOM countries are preparing to accord the territory "associate" COCOM member status. According to US Department of Commerce (DOC) officials, a regulatory amendment instituting licensing relaxations for Hong Kong commensurate with associate status will become effective as *The CBR* goes to press in mid-April. Under this arrangement, Hong Kong will enjoy the same US export licensing privileges as such countries as Ireland, Switzerland, Sweden, Austria, and Finland. Basically, the implementation of associate status will result in the elimination of validated licensing requirements for exports of nearly all US-origin COCOM-controlled dual-use commodities to Hong Kong.

In practical terms, the regulatory change expands the range of high-technology goods that US exporters and foreign re-exporters may send to Hong Kong without filing license applications with the DOC. The relaxation will apply to all integrated circuits, most advanced telecommunications equipment and machine tools, and all computers except supercomputers. The list of items excluded from this treatment is short and covers products of little commercial importance such as surreptitious listening devices, encryption technology, and certain state-of-the-art cameras. The UK has already implemented a set of similar licensing benefits, and other COCOM countries may soon follow the leads of Britain and the United States in this regard.

Receiving asssociate COCOM-member treatment should stimulate

Hong Kong's trade in high-technology goods. The drastic reduction in the United States' burdensome licensing requirements will undoubtedly act as a strong incentive for companies in COCOM countries to develop stronger trade ties with Hong Kong, both in the form of exports and direct investment. According to Eric L. Hirschhorn, an expert on overseas investment and trade with the Washington law firm of Winston & Strawn, "Dramatic reductions in export licensing requirements—such as the one in store for Hong Kong—often have a direct and tangible impact on business decisions by internationally integrated high-technology companies." Hirschhorn notes that computer companies, which are tightly regulated by COCOM export curbs and often source components from facilities in Asian countries, would be most likely to take full advantage of the changes.

Clamping down on China

While the United States and other COCOM members are moving to liberalize export controls for Hong Kong, they remain hesitant to ease current restrictions on high-technology shipments to China. Virtually all developed countries imposed sanctions forbidding the sale of weapons and military goods after Tiananmen, and the United States added further sanctions against the transfer of certain high-technology items in June 1991. These later sanctions were imposed to punish Chinese firms thought to be violating international arrangements governing sales of missile- and nuclear-related technology. China has since agreed to adhere to both the NPT and the MTCR, prompting the United States in March to rescind its June 1991 sanctions.

Despite China's recent swing toward cooperation with multilateral arms-control efforts, controls on exports to China under COCOM and MTCR continue to reflect serious concerns about China's military capabilities and proliferation activities. COCOM member countries still require individual validated export licenses for all shipments to China of items on the three COCOM lists. This policy allows licensing authorities in each member country to conduct a thorough review of the Chinese customer and the proposed end use of every proposed shipment of COCOM-controlled items.

Despite China's recent cooperation with multilateral arms control efforts, COCOM countries still have serious concerns about China's military capabilities and proliferation activities.

A detailed set of commonly agreed-upon guidelines governs the standard of scrutiny that member countries apply to any given shipment of a COCOM-controlled commodity to China. For example, member countries have implemented a policy of "extended review or denial" for license applications involving goods and technology related to nuclear weapons, electronic and antisubmarine warfare, intelligence gathering, power projection, and air superiority.

On the other hand, low-level COCOM commodities are treated to a "presumption of approval" policy, under which member-country governments expedite the processing of license applications and block shipments only under extraordinary circumstances. Examples of commodities qualifying for this licensing treatment include computers with a Composite Theoretical Performance (CTP) not exceeding 20 million theoretical operations per second (Mtops) and international fiber-optic telecommunications systems with transfer rates not exceeding 156 megabits (Mbits)/second. The DOC often processes presumption of approval cases in less than two weeks; there is no COCOM plenary review for these cases.

COCOM regulations stipulate a policy of "favorable consideration" for the intermediate tier of COCOM-controlled technology outlined in the Industrial List. All export license applications in this category receive thorough scrutiny by member countries—in the United States, the DOC refers all such cases to the Defense Department for review—and an often protracted COCOM plenary review. COCOM exporters may have to endure a wait of two months for approval of sales of goods in this category.

Export applications for items that exceed the parameters for presumption of approval and favorable consideration are reviewed on a case-by-case basis. As might be expected, individual country and COCOM review of these cases is more thorough than for special category cases.

Since COCOM vamped its Industrial List in 1991, it has displayed an unwillingness to consider further liberalization of restrictions on trade with China. For instance, in March several key COCOM countries—the United States, United Kingdom, Germany, France, Japan, and Italy—negotiated a new telecommunications agreement, but decided to explicitly exclude China from eligibility for any control relaxations. Similar future reviews of controls on computers and other Industrial List categories may also differentiate between China and other COCOM-proscribed destinations.

The licensing policies of MTCR member countries for exports to China are straightforward and do not provide for varying scrutiny standards on the basis of technology levels. All MTCR countries—and particularly the United States—perform a separate, extensive license review for exports of missile-related items to China. Since all such export applications are viewed suspiciously by licensing authorities, exporters in MTCR countries bear the burden of proving that the export commodity is destined for an exclusively civilian application.

The widening technology gap

The strict COCOM and MTCR licensing policies for China contrast sharply with the corresponding treatment that Hong Kong receives under the guidelines of these regimes. After the United States formally implements associate COCOM status for Hong Kong, for instance, US companies may export computers with CTPs under 196 Mtops to Hong Kong without filing for an individual

US Export Controls for Greater China

Commodity	Taiwan	Hong Kong*	China
Dual-use Non-MTCR Items — computers	≤20 Mtops: No individual validated license (IVL) required >20 Mtops: IVL required. Presumption of approval applies	≤195 Mtops: No IVL required >195 Mtops: IVL required. Presumption of approval applies	≤12.5 Mtops: No IVL required >12.5 ≤ 20 Mtops: IVL required. Presumption of approval applies >20 ≤23 Mtops: IVL required. Favorable consideration applies >23 Mtops: IVL required. Considered on a case-by-case basis
— telecommunications transmission equipment	≤156 Mbits/sec: No IVL required >156 Mbits/sec: IVL required. Presumption of approval applies	No limits No IVL requirements	≤45 Mbits/sec: No IVL required >45 ≤ 156 Mbits/sec: IVL required. Presumption of approval applies >156 ≤ 565 Mbits/sec: IVL required. Favorable consideration applies >565 Mbits/sec: IVL required. Considered on a case-by-case basis
— machine tools	>4 interpolating axes: IVL required. Presumption of approval applies	No limits No IVL requirements	>4 interpolating axes: IVL required. Considered on a case-by-case basis
Munitions Control List Items — launch vehicles — firearms — military vehicles — military aircraft engines — military & space electronics — military-related technical data	Munitions license required. Considered on a case-by-case basis	Munitions license required. Considered on a case-by-case basis	Prohibited
MTCR Items** — propulsion components — composites — flight instruments — launch/ground support facilities — inertial navigation systems	IVL required. Presumption of approval applies	IVL required. Presumption of approval applies	IVL required. Considered on a case-by-case basis

* All entries for Hong Kong reflect associate COCOM-member status.

** MTCR items also on the Munitions Control List (MCL) are subject to the controls listed under the MCL.

Compiled by Erik C. Wemple

validated license with the DOC. These exporters will be able to take advantage of the DOC's General License for COCOM Trade (GCT) authorization, which enables US exporters to ship nearly all COCOM-controlled commodities to COCOM and associate COCOM countries without submitting license applications.

However, no such general license authorization exists for shipments of US-origin commodities to China. Current COCOM-based US control policies for China—which are unlikely to change in the near future—dictate that any computer with a CTP exceeding 12.5 Mtops requires an individual validated export authorization. Although the special treatment provisions of the COCOM regulations allow for expedited and favorable review at certain levels above the 12.5 Mtops mark, the United States and COCOM member countries have the opportunity to review—and thus deny—shipments to China that will proceed without any license review whatsoever to Hong Kong.

Although the MTCR control guidelines require licenses for shipments of missile-related commmodities to any destination, the license review process for such exports from member countries to Hong Kong is perfunctory. For example, when reviewing an application from a US aerospace company to export an airborne radar system (an MTCR-controlled item) to a Hong Kong entity, the DOC would make a routine check to ensure that the proposed end use was legitimate and that the Hong Kong buyer had not been previously involved in illicit missile technology diversions. If this review produces no red flags, the exporter could expect approval in

A Decade of Export Control Policy for China

Under the legislative authority of the Export Administration Act of 1979, the Commerce Department's Bureau of Export Administration (BXA) administers controls on exports of a wide range of dual-use goods and technologies to China. These controls are outlined in the Export Administration Regulations (EAR), which codify licensing requirements according to the export's technological sophistication and country of destination. These regulations are based in large part upon agreements that the United States reaches with its partners in the Coordinating Committee on Multilateral Export Controls (COCOM). Over the past decade, the United States and COCOM have implemented numerous significant changes in export control policy for China, as described below:

1983: The Department of Commerce implements two measures to upgrade China's export licensing status. First, it places China in country group V, which includes friendly, non-aligned countries in Africa, Asia, and Europe. Second, it issues a list of seven technology categories eligible for expedited and favorable review for shipment to China.

1985: COCOM implements a similar set of licensing preferences for exports from member countries to China. Specifically, the new policy allows authorities in member countries to process license applications for 27 commodity areas with a presumption of approval. In addition, plenary COCOM reviews of export license applications that qualify for this policy are eliminated. COCOM refers to the new favorable treatment policy as the China "green zone."

1986: COCOM adds three commodity areas to the list of goods and technologies eligible for green zone treatment.

1987: COCOM significantly liberalizes the export licensing parameters for products that qualify for green zone policy and adds two additional commodity areas to the green zone list. Applications that receive green zone treatment account for over 70 percent of China applications received by BXA.

1988: The Omnibus Trade and Competitiveness Act, passed by Congress in August 1988, mandates the establishment of distribution licenses for China. The distribution license allows US exporters to make bulk shipments to pre-approved customers in a pre-approved sales territory.

COCOM further liberalizes the technical parameters outlining eligibility for green zone treatment.

1989: China's brutal repression of the Tiananmen Square protests results in the imposition of a munitions embargo by most Western governments and a moratorium on further liberalization initiatives by COCOM. The United States suspends efforts to complete the implementation of distribution license benefits for China.

1990: COCOM countries eliminate licensing requirements for certain dual-use commodities with diminishing military applications to all controlled countries, including China. However, the liberalization does not affect China green zone commodities.

1991: COCOM approves the most dramatic deregulation of dual-use goods and technologies in its 42-year history and introduces a streamlined control list format. As in 1990, the decontrol eliminates licensing requirements for low-level items for export to China as well as to other COCOM-proscribed destinations, but does not extend the number of goods qualifying for green zone treatment for China.

To signal its disapproval of China's missile proliferation activities, the Bush Administration announces on June 16 a set of special export controls on satellites and high-performance computers and sanctions on two Chinese entities—the China Precision Machinery Import-Export Corp. and the China Great Wall Industry Corp.—involved in sensitive overseas missile projects.

1992: After receiving assurances from Chinese Foreign Minister Qian Qichen on China's intentions to adhere to the Missile Technology Control Regime (MTCR), the US drops the June 1991 controls and sanctions.

In March, several key COCOM member countries decide to exclude China from eligibility for a landmark liberalization of international telecommunications export controls.

—Erik C. Wemple

less than two weeks.

An export application for the same item to a Chinese entity would likely be subject to scrutiny by an array of offices and inter-agency committees throughout the vast US foreign trade and national security bureaucracy. In such a case, the US exporter should expect a lengthy processing period and, at the end of it, possible denial of the license.

In fact, the routine US licensing guidelines for exports of missile-related items to China are so strict that the special missile control sanctions imposed by the Bush Administration in 1991 had little practical effect on US technology transfers to China. These sanctions imposed new controls on high-level computers and satellites and a policy of denial for sales of missile-related items to two Chinese companies notorious for their involvement in overseas missile projects (*see* box). Under current MTCR and COCOM regulations, all items to which the sanctions applied already required a validated license for export to China; the United States thus would likely have denied license authorization for these exports even in the absence of the sanctions.

The incentive for China to subvert Hong Kong's export control regime post-1997 and use the territory as a high-tech shopping mart is considerable. US export control officials, however, appear reluctant to consider this possibility. When asked how the United States would respond if such a situation develops, a State Department official involved in Hong Kong trade issues responded, "Since I can't recognize the existence of a problem, I can't offer a possible solution." A policy-level official in the DOC's Bureau of Export Administration, the agency that handles the licensing of US dual-use exports, conceded that Chinese interference with Hong Kong's Customs administration would pose a serious export control problem for the United States, but indicated that no one has yet formally addressed the issue.

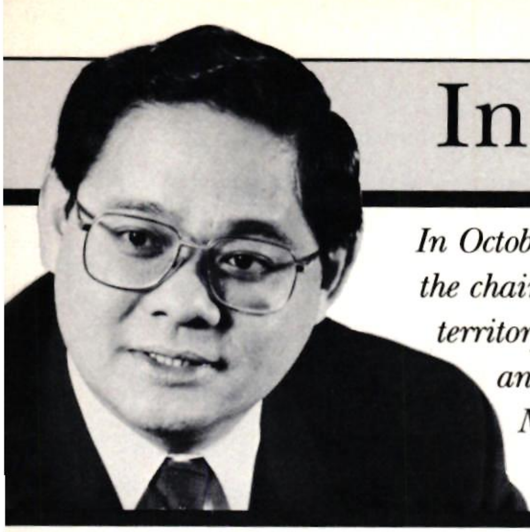
Instead of waiting for the problem to occur, the United States and other COCOM countries should explore ways to discourage Chinese meddling in Hong Kong's system of export controls in order to prevent a crisis from developing. Otherwise, the responses that might be adopted to reduce Chinese infringement—such as the imposition of trade and ecônomic sanctions against China or the downgrading of Hong Kong's (and therefore China's) access to COCOM technology—could have dire consequences for China, Hong Kong, and US companies alike.

The best way to prevent this scenario from occurring involves nurturing a responsible Chinese approach to international technology transfer. China's leaders recently took significant steps in this direction by acceding to the NPT and declaring in principle their willingness to adhere to the MTCR. As previous Chinese commitments along these lines have not led to the implementation of concrete measures to halt illicit shipments of missile- and nuclear-related items, however, most Western governments are still somewhat skeptical of China's intentions.

Therefore, the United States and other developed countries must carefully monitor China's progress in establishing the domestic mechanisms that are essential for compliance with its new obligations under these control regimes. China must create the necessary administrative framework—based largely upon the models of COCOM- and MTCR-member countries—to educate exporters about the new controls, review export license applications, and punish firms that violate the controls. Clearly, implementing these regulatory steps will be difficult for the current Chinese leadership, which has historically promoted exports of weapons technology in order to earn desperately needed hard currency.

Nevertheless, if China successfully adopts such measures, the payoff could be great. The dramatic change in China's export control policies would enable COCOM- and MTCR-member countries to narrow—and perhaps eventually close—the current gap in technology access between China and Hong Kong. Thus, China, Hong Kong, and Western exporters all stand to benefit substantially from China's compliance with its recent non-proliferation commitments—a fact that foreign governments and companies should emphasize in their dealings with the Chinese to ensure that Beijing clearly understands the potential costs and benefits of its actions. 完


China International Trust & Investment Corporation (CITIC)
Your Partner in China



Interview

In October 1991, Victor Fung, chairman and CEO of Prudential Asia, assumed the chairmanship of the Hong Kong Trade Development Council (HKTDC), the territory's official trade promotion body. A few months later he traveled to North and South America to meet with key trade contacts and lobby for renewal of MFN status. While in Washington he met with Editor Pamela Baldinger to discuss HKTDC's activities in the United States and China.

Selling Hong Kong

Q *What are your goals for your tenure as chairman of the HKTDC?*

A The greatest challenge for the head of any trade development body is to respond strategically to change and, where possible, to anticipate economic trends. That is my personal aim. In the HKTDC I'm lucky to have inherited a structure built on excellent foundations and which also has the flexibility to respond quickly to change.

Right now we're witnessing monumental upheavals and realignments in the world economy. The rise of Asia as a market and the formation of continental trade pacts present both challenges and opportunities for trade. Old distinctions between trading and manufacturing are dissolving as borderless production, sourcing, and marketing are on the rise. My role at the HKTDC is to help create and maintain an overall environment in which trade can flourish in Hong Kong. This involves developing new markets, helping manufacturers to diversify and upgrade their products, encouraging the development of Hong Kong-brand labels, improving the image of Hong Kong and its products overseas, and building Hong Kong into the trade fair capital of Asia. I think the ultimate destiny of Hong Kong is to become the regional business center for South China and Southeast Asia. This is reflected in our promotional strategy both in Hong Kong and overseas. We spend about 60 percent of our $100 million annual budget on operational and promotional activities.

I think the ultimate destiny of Hong Kong is to become the regional business center for South China and Southeast Asia.

Q *The HKTDC has become increasingly involved in the mainland, especially in the consumer retail sector. What are your impressions of the consumer market in China?*

A While we currently spend more in the United States than in China, the percentage allotted to China projects is growing as the consumer market there develops. The consumer market in China is really booming at present. The "one billion consumers" are starting to look less like myth and more like reality. In part, this is because China, which is keen to re-enter the General Agreement on Tariffs and Trade (GATT), is allowing market forces to operate. With this commitment to economic reform, attitudes toward consumerism have softened—especially in big cities—and restrictions on imports have been eased.

Individual spending power has also risen dramatically in recent years, particularly in the south, where average per capita income is more than double the national average. These are all encouraging signs for foreign companies looking to enter China's consumer market. As it's a relatively new frontier, all kinds of consumer goods are in demand. Foreign competition is warming up, but it will still take time and much patience and research to establish a bridgehead in China's retail market.

Q *Is the market for consumer goods primarily in South China, or is demand strong throughout the country?*

A While the south obviously has the best immediate potential for individual consumer spending, the volume of sales further north is considerable. In terms of turnover, three of the four busiest department stores in China are in Beijing and Shanghai. However, there are distinctive differences in buying habits between regions. For example, in the north people are much more concerned about appearance and clothing than in the south, where consumer electronics, watches, toys, electrical appliances, and other household products are enjoying a boom. But there is one unifying element in consumer markets throughout China: shoppers are very brand-name conscious. They are often prepared to pay three to four times as much for items carrying foreign or joint-venture labels then what they'd pay for goods made by State enterprises.

Q *Last autumn HKTDC renovated the Nanfang Department Store in Guangzhou. When and why did HKTDC decide to become involved in this project?*

A We got involved when top managers from the Nanfang store asked us for design input for the renovation of their nine floors. They also wanted advice on how to modernize merchandising, retailing, and sales techniques. In effect, they wanted to be the first Hong Kong-style department store in China. Support came from the highest levels; the governor of Guangdong and the mayor of Guangzhou both attended the opening ceremony last November.

Our strategy reflects a number of first-hand observations about mainland department stores. These stores offer a range of choice that Chinese consumers cannot find elsewhere, and they have access to much more sophisticated merchandise than other outlets. Department stores are thus a major drawing card, whether for family outings or domestic tourists—it is not uncommon for traffic to reach 200,000 people a day in large-city department stores. Moreover, there is a lot of internal competition among them to become showcases of modernization and to boost turnover and profits.

The consumer market in China is really booming. The "one billion consumers" are starting to look less like myth and more like reality.

It makes a lot of sense for Hong Kong to pioneer the penetration of China's consumer market through established department stores. Because of the nature of merchandising in China, imports involving foreign exchange transactions are subject to high tariffs and require special permits for distribution. It is much easier to market the products of Sino-foreign joint ventures; these products in effect promote China's modern manufacturing sector and therefore are in line with overall policy. Hong Kong, of course, is deeply involved in joint-venture manufacturing in the Pearl River delta, where there are around three million workers employed in some 25,000 Sino-Hong Kong joint ventures.

Part of our agreement with the Nanfang Department Store authorities was that we could have prime space in the store to promote sales of Hong Kong brand-name products on a long-term basis. Eighteen Hong Kong companies now have sales counters there, with products ranging from fashion and accessories to watches and costume jewelry. All the companies have manufacturing activities in China and rights to establish a direct sales presence there.

Because of the commercial success of the Nanfang promotion, HKTDC has been approached by representatives from 19 other department stores wanting similar facelifts. We have some more projects in the pipeline for this year, including Beijing's Xidan Department Store, the Dalian Department Store, and the Wuhan Department Store.

Q *I understand that HKTDC will also organize trade shows in China. What is your strategy for this activity? Do you believe these shows will be as lucrative for HKTDC as those you organize in Hong Kong?*

A We've signed an agreement with authorities in the Shenzhen Special Economic Zone to organize international trade fairs there as part of our strategy of helping Hong Kong joint ventures promote their products. As many Hong Kong companies have shifted their production plants to the Pearl River delta, there is a need to introduce their products to overseas buyers as well as to buyers from other parts of China. Shenzhen is close to Hong Kong and many Chinese provinces have set up offices there, making it a natural location for us to undertake promotional activities. We also hope to catch the buyer traffic passing through Shenzhen each spring and autumn after the Guangzhou Trade Fair. Any funds we generate from the Shenzhen fairs will be ploughed back into future activities there.

Our first cross-border show will be the Shenzhen International Machinery & Industrial Supplies Fair in October. Over 30 percent of the $8.7 billion worth of machinery and parts imported last year by Hong Kong was re-exported to China. We believe there is tremendous potential for machinery exports to China, especially since duties were cut by 50 percent last year.

For the spring of 1993, HKTDC is planning a fair to project a high-end image for joint-venture products made in Shenzhen.

Photo courtesy of HKTDC

Companies displayed on the Hong Kong Showcase floor in the newly renovated Nanfang Department Store in Guangzhou are enjoying brisk business.

Q *Is HKTDC active in Taiwan? Can Taiwan companies work with HKTDC to get into the mainland?*

A We have a consultant's office in Taiwan to handle the growing number of trade inquiries originating there and to coordinate our trade promotion projects. This year we're leading commercial delegations from Hong Kong to two trade fairs in Taiwan and have plans for department store promotions in two cities. We believe that trade between Taiwan and China will intensify and that Hong Kong will be a direct beneficiary, especially now that Taiwan may gradually ease barriers against imports from China.

Q *In what activities is HKTDC involved in the United States? Are your activities limited to helping US companies do business with Hong Kong?*

A The United States is a long-standing and stable trading partner for Hong Kong. HKTDC's main goals in the United States are to maintain and improve Hong Kong's market share and to raise the image of Hong Kong products in the eyes of American consumers. At the same time, we work closely with both the private and public sectors in the United States to promote American exports to Hong Kong. We also help US companies explore business opportunities in China through Hong Kong.

We have a very active trade promotion program in the States, where we arrange some 30 events per year. We organize the participation of Hong Kong companies in major trade shows across the country, coordinate trade groups to and from Hong Kong, and stage consumer promotions with prominent retailers. Each year these events help generate about 33,000 trade inquiries, most of which involve sourcing products from Hong Kong.

Q *How concerned are you about the state of US-China political relations, including the Most Favored Nation (MFN) debate and 301 investigation?*

A HKTDC's US offices monitor these issues closely, especially for their potential effects on Hong Kong's trade. China is now Hong Kong's number-one trading partner and, because of cross-border manufacturing, Hong Kong is the largest foreign investor in China (*see* p. tk). Hong Kong's re-exports are now more than twice the value of the territory's domestic exorts, so any trade friction between the United States and China causes concern in Hong Kong. Punitive trade measures taken by either party against the other would have a direct impact on Hong Kong's overall economic well-being.

HKTDC works closely with both the private and public sectors in the United States to promote American exports to Hong Kong.

As you know, I led one Hong Kong mission to Washington in January to lobby about Hong Kong's concerns over the possible loss of MFN for China in 1992. More missions will be led by both the Hong Kong government and the private sector on this subject. While we were pleased that President Bush's veto of a bill seeking to attach conditions to renewal of China's MFN status was upheld by the Senate in March, it was by a reduced margin compared with previous votes on this issue. We therefore are by no means complacent about the final outcome on MFN, especially not in the highly charged political environment of a US election year. Hong Kong will continue efforts to make its voice heard on Capitol Hill and the HKTDC is part of that effort.

Q *In addition to your position as chairman of the HKTDC, you are the CEO of a major investment house. What is your opinion of China's fledgling securities markets?*

A Judging from the degree of over-subscription, the issuing of "B" shares on the Shanghai and Shenzhen exchanges has certainly aroused a lot of interest and brought an enthusiastic response. However, there is still a need to establish standards for accounting and to develop laws to protect shareholders' interests and clarify the duties and standards of behavior of company officers. Still, the new stock markets in China provide the possibility of an exit route for direct private equity investments in China and hence will encourage the further flow of investments.

Hong Kong is taking a leading role in placing mainland shares with foreign companies. The territory's stock exchange is also looking at the possibility of listing mainland firms on the local market through holding companies incorporated in Hong Kong. This approach could provide a solution to many concerns regarding the lack of national company law in China.

Q *What thoughts do you have on the growing economic links between Hong Kong, China, and Taiwan? What challenges and opportunities does the emergence of "Greater China" present to US companies?*

A There is a great deal of synergy between the three. Both Taiwan and Hong Kong need access to the labor-rich hinterland to beat soaring wages and land shortages. China, meanwhile, needs to modernize its industries, improve living standards for its people, and have access to a sophisticated service and transshipment center. While the Xiamen Special Economic Zone in Fujian is likely to become for Taiwan what Shenzhen is now for Hong Kong, in the foreseeable future there will still be a need for Taiwan to access the mainland through Hong Kong.

If there are challenges for US companies, they include getting to grips with the natural geographical and other advantages enjoyed by Hong Kong and Taiwan. Because of ethnic, historical, and cultural links, there is already an established network of highly effective business connections among Chinese throughout Greater China and Asia. US companies would be wise to factor this into their Asian business strategies from the outset and to make business connections that will enable them to function well within this milieu. Another challenge, of course, is for the United States and China to maintain a relationship favorable to trade.

书刊介绍 **Bookshelf**

The New Emperors: China in the Era of Mao and Deng

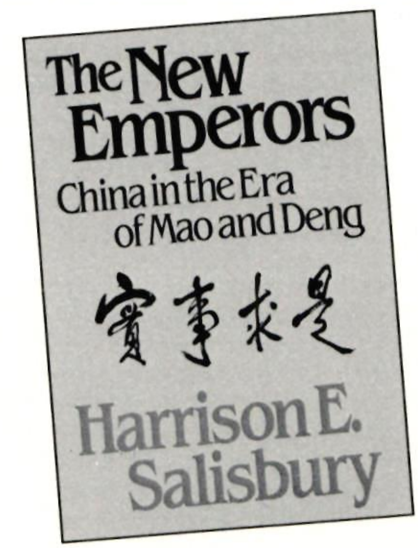
by Harrison E. Salisbury. New York, NY: Little, Brown and Co., 1992. 544 pp. $24.95 hardcover.

Harrison Salisbury begins this splendid new book with a seeming irrelevance: " . . . near the southeast corner of the Forbidden City long ago stood the Tower of Yearning, where in the 18th century the Fragrant Concubine, Ke Fei, spent many long hours. She would climb two flights to a window and gaze for hours on the Moslem bazaar and mosque that Emperor Qianlong had built to ease her heartache for Kashgar, where she was born."

Qianlong, writes Salisbury, had built a dream landscape, a living picture album of Ke Fei's beloved home. No matter that the bazaar was probably constructed for the convenience (and control) of a considerable number of Moslem traders who passed through 18th century Peking. The scene depicts a deeper reality in China: that the wills, imaginations, and whims of the nation's top leaders are daily translated into mortar-and-brick reality.

Consider, for example, Mao Zedong's Third Line, about which Salisbury writes succinctly. This 1950s strategy of defense against nuclear attack called for China's military complexes to abandon the cities of the coastal area and retreat to the vast, undeveloped interior. Thus, in Sichuan's mountainous redoubts, in Gansu's dry hills, and in Qinghai's uninhabitable plains were built coal mines, aeronautics plants, steel mills, and hydropower facilities—all the infrastructure necessary to run a war. China's army, meanwhile, was to "swim among the people," supported by the peasants. Ironically, Mao entrusted his most energetic deputy, Deng Xiaoping, to implement the Third Line; decades later, Deng would devote equal energy to dismantling the bloated and isolated factories.

The joy of this book lies in such details. Half history of post-revolutionary China and half dual biography of Deng and Mao, *The New Emperors* represents the fruit of exhaustive interviews with almost everyone of political significance alive in China—with the notable exception of Deng. Most poignant is the careful recounting of the deaths of Mao's enemies, real and, mostly, imagined. Salisbury dwells at greater length than have most historians of modern China on the political violence that stained Mao's reign.



Salisbury finds the Cultural Revolution best explained by focusing on individual cases; the attacks so lacked coherent philosophical motivation that they seemed personalized. Though Liu Shaoqi's final torments have been described in earlier works, the details provided here are particularly moving—Liu's farewell to his wife, for example, and his children's search for his ashes, which were eventually found in an unmarked wooden box that had been used to stub out cigarettes. Gruesome tales are recounted of the great writer Lao She's final hours of torture and his (apparent) suicide; and of Deng's son Pufang, beaten by Red Guards and confined to a closet painted with human blood. Lin Biao's last, and fatal, flight is also described, but those hoping for the definitive explanation of his "plot" against Mao will be disappointed.

Like many journalists, Salisbury excels in scrupulously detailed and telling description, but his book lacks binding analysis. With a brief preamble, he declares that he intends to place Mao and Deng within a culturally rooted tradition of imperial tyranny, and makes frequent references throughout the text to the two leaders' interest in the ancient classic *The General Mirror for the Aid of Government*, a primer of imperial government. But if Mao was less interested in Western Marxism than in China's reformist dynasties, Salisbury has not proven it in this volume. Similarly, his interesting speculation that Mao may have been addicted to opium is never validated with any hard evidence. Finally, Salisbury fails to illuminate the great mystery of Mao Zedong: how such imagination and empathy could coexist with such willful ignorance and cruelty.

Yet, readers can find plenty else in Salisbury's book, which should be read for the dense texture it adds to the weave of a story that is known only in outline. Salisbury writes superbly, and his story would be gripping even in the hands of an uninspired writer. Nothing could be sadder or more fascinating than the spectacle of individual heroism, moral collapse, collective delusion, and complicity in evil presented by Mao's China.

—Anne Stevenson-Yang

Anne Stevenson-Yang was formerly associate editor of The China Business Review *and is currently editor of* The Foreign Service Journal.

Foreign Trade and Economic Reform in China 1978-1990

by Nicholas R. Lardy. Cambridge, UK: Cambridge University Press, 1992. 197 pp. $44.95 hardcover.

This study of China's foreign trade system contains interesting information for economists and China specialists alike. Author Nicholas Lardy, a professor at the University of Washington, explores the links between China's opening to international trade and its domestic economic reform program, going back to the economic and trade policies of the 1950s to examine their implications for the reform and opening policies begun in 1978.

While Lardy feels that China's recent foreign trade performance has been "nothing short of spectacular," he concludes that the legacy of China's centralized foreign trade system is not easily overcome. He states that future progress in the foreign trade area is contingent on domestic reforms that will be difficult to achieve, as the entrenched pricing, housing, labor, and capital systems will likely resist change.

Foreign Trade and Reform in China is clearly written and thoroughly researched, relying heavily on Chinese sources as well as Western scholarship. It is also very timely given recent discussions on China's application to rejoin the General Agreement on Tariffs and Trade (GATT) and the ongoing US-China negotiations over access to the China market. While he does not address GATT in detail, Lardy points out that some current aspects of China's foreign trade regime, such as export promotion programs, may have to be modified to conform with GATT rules. The book does contain a very detailed analysis and history of China's foreign exchange policies, which will play a critical role in its GATT application and future interaction with the foreign business community. Although the book avoids discussion of political issues such as Tiananmen, Lardy notes that price adjustments of key goods have continued despite an overall slowdown in the pace of reforms since 1989.

The book's fifth and last chapter will be the most useful to those interested in the current state of foreign trade reform and implications for the future. An interesting discussion of regional foreign trade performance points out that structural differences between local economies, as well as preferential trade policies, have played an important role in the relative success or failure of various regions. In short, Lardy is impressed with China's foreign trade performance from 1978-90, but warns that the country cannot afford to rest on its laurels. Without tackling more difficult structural reforms, China's external economy will not reach its full potential; without liberalization of the domestic market, reforms can have only limited effect.

—Madelyn Ross

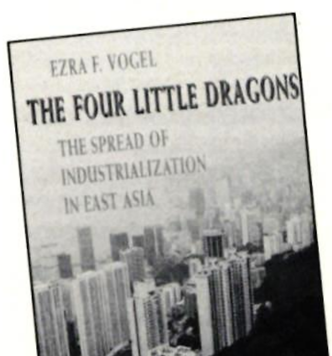
Madelyn Ross is director of the US-China Business Council's China Business Forum.

The Four Little Dragons: The Spread of Industrialization in East Asia

by Ezra F. Vogel. Cambridge, MA: Harvard University Press, 1991. 138 pp. $16.95 hardcover.

Ezra Vogel, noted scholar of East Asia, provides a fascinating look at the economies of Taiwan, South Korea, Hong Kong, and Singapore in his latest book. *The Four Dragons: The Spread of Industrialization in East Asia* examines the metamorphosis of these areas from relatively obscure, undeveloped backwaters into economic powerhouses—an outcome few would have predicted in the immediate post-war years. Ravaged by World War II and seemingly bereft of technology and natural resources, the little dragons have nevertheless emerged as Asia's new industrial dynamos.

Vogel's book looks at each of the four areas, tracing the difficulties each faced in transforming itself into a modern, prosperous economy. In all four cases, Vogel finds that a



helpful and creative—if mostly nondemocratic—government led a hardworking labor force through rapid stages of economic growth. He notes that many of the governmental organizations within the dragons closely resemble Japan's official industrial organizations and have adopted the Japanese approach of using export earnings from labor-intensive industries to upgrade technology and worker-training levels to increase productivity. Like Japan, these areas now also face such problems as overcrowding, aging populations, pollution, and lack of cheap labor. Such concerns, Vogel warns, seriously threaten the future success of the little dragons.

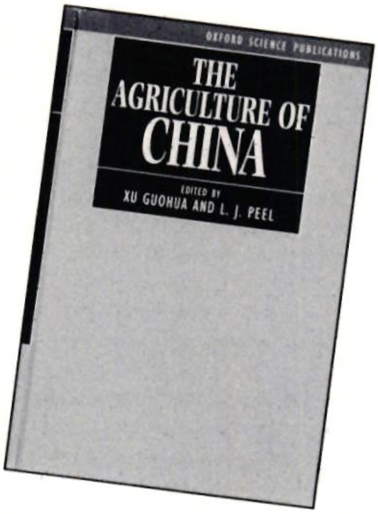
This well-documented analysis is recommended as good background reading for those doing business in East Asia and anyone looking for general information about the explosive economic growth in these countries. Though short and therefore limited in its coverage, the volume provides a good introduction to the economies of Hong Kong, Taiwan, Singapore, and South Korea, and contributes much to a greater understanding of East Asia by a wider Western audience. —Greg Jones

Greg Jones is a San Francisco-based freelance writer focusing on Pacific Rim issues.

The Agriculture of China

by Xu Guohua and L.J. Peel. Oxford, UK: Oxford University Press, 1991. 300 pp. $90 hardcover.

Designed to provide basic information about China's farm sector for agricultural specialists and general readers eager to learn more about conditions in rural China, this volume consists of works by 15 scholars in China. The project was led by Professor Xu Guohua of the Beijing Agricultural Engineering University and L.J. Peel of University of Reading, both prominent agricultural specialists in their respective countries.



The primary strength of the book lies in the editors' selection of authors capable of providing the reader with a uniquely Chinese perspective on China's agriculture. Visitors to China and those who study from afar can learn much from these scholars and their perceptions of the strengths and weaknesses of China's agricultural sector. For example, nearly a quarter of the book is occupied by two chapters dealing with the natural environment (geography, weather, soil, and water resources) and the historical and social background of China's agricultural sector. Western scholars, in contrast, would likely focus on current problems and place far less emphasis on geography and history when called upon to introduce their own agricultural sectors.

Many of the contributors have had experience in China's administrative system, which makes them uniquely qualified to write about their respective topics. Professors Chen, Xie, and Yao, the authors of the chapter on "The Rural Economy," for example, had access to archives on China's urban and peasant incomes in order to measure inequalities in income distribution—data not generally available outside of China. In another chapter, Li Xiaochun, an advisor in the Ministry of Agriculture's Bureau of Education, concisely describes the functioning of China's agricultural education, research, and extension systems—a topic I have always found somewhat of a mystery, even after 25 years in the field. The four remaining chapters in the book cover "The Components of Agriculture," "The Ten Agricultural Regions of China," "Infrastructure and Agricultural Inputs," and a summary discussing both current problems and future prospects facing China's agricultural sector.

The Agriculture of China is recommended for first-time visitors to China's rural areas, as its comprehensive view of the agricultural sector and three appendices of important geographical terms and economic concepts peculiar to China provide invaluable background material. It will also be appreciated by specialists outside China because it identifies key scholars there and contains interesting tidbits of hard-to-find information.

Happily, these strengths far outweigh the book's weaknesses, which include a paucity of references. For example, the author of the "Historical and Social Background" chapter noted that "some" scholars had one opinion, while others came to a different conclusion. A source note in each sentence would allow the curious to find greater details on the debate. Another area where improvements could be made is in the acknowledgement of the vast body of research being conducted both inside and outside of China. Where appropriate, comments on work done by other scholars could be noted in the text and added to the reference sections to give readers confidence that the authors were at least aware of the writings of other researchers. —Frederick Crook

Frederick Crook is an agricultural economist specializing on China at the US Department of Agriculture.

Coping with China

by Richard King and Sandra Schatzky. Cambridge, MA: Basil Blackwell Inc., 1991. 174 pp. $29.95 hardcover, $12.95 softcover.

Drawing from the experiences of expatriate students, teachers, and businesspeople, *Coping with China* provides a quick and easy introduction to living and traveling in China. Though short in length, this book sketches an accurate picture of contemporary China, offering helpful advice on everything from what to pack to how to negotiate with Chinese officials. Although the travel tips are useful, the book's most valuable advice is contained in brief chapters outlining the bare essentials of Chinese history and culture.

The authors maintain an even-handed tone throughout the book, balancing an appreciation for popular fiction, theater, and philosophy in China with the less tasteful territory of spitting, public toilets, and staring. "Respect, charm, and extreme persistence" are recommended for dealing with difficult bureaucrats, while direct confrontation is dismissed as ineffective. These pearls of advice are frequently followed by short anecdotes reflecting the experiences of seasoned expatriates.

The text features a good amount of supplemental information, including a recommended reading list, maps, translations of Chinese poetry, and a dynastic timeline covering 5,000 years of civilization. On the lighter side are cartoons and a recipe for spicy peanut (*gongbao*) chicken. Subject titles are noted in the margins of each section and a detailed index makes this recipe—and other topics—readily accessible.

Easily read in one sitting, this China primer is one of a 12-part series offering advice on cultural adjustment in various countries. The China volume can help a newcomer learn from the mistakes of others, and even includes a crash course in survival Chinese. —Bart Broome

Bart Broome was formerly business manager of The China Business Review *and currently works for Kingman Products, Inc. in San Francisco.*

Project Notebook

Pumping Profits Out of China

Nanjing Goulds took just one year to start showing a return for its investors

Steve Barru

New York-based Goulds Pumps Inc. came to China with a modest proposition; it wanted to invest in a joint venture that would use basic equipment to manufacture a standard product. With a limited transfer of technology and equity, Goulds established a venture that relies solely upon domestic inputs to manufacture a low-cost product competitive in international markets. The company now has a profitable venture and a growing presence in China.

Goulds uses its influence as an investor in China to win contracts to supply big-ticket, high-tech products it manufactures in the United States.

Meeting mutual needs

The 20-year Nanjing Goulds joint venture was established in 1986 with capitalization of $3 million. Goulds Pumps Inc. and Nanjing Deepwell, one of China's largest pump producers, each hold 45 percent of the project; the remaining 10 percent is held by the Bank of China. Goulds contributed $750,000 in equity—much of which went toward building the venture's foundry—and design technology valued at $600,000. Nanjing Deepwell, located approximately 35 km from Nanjing, provided the venture's labor force as well as land and buildings next to its own facility in Jiangsu Province's Luhe County. Nanjing Deepwell has also provided the venture with a network of domestic suppliers and sales outlets.

Nanjing Goulds produces submersible and vertical line-shaft turbine pumps and components. Intended primarily to draw underground water for irrigation, the pumps, which come in 4-14 inch sizes, also have industrial applications in electric power and chemical plants, cooling systems, and hotel water-pumping stations. Goulds' proprietary closed-end pump design expends less energy to direct the upward flow of water than the older, open-end designs typically used in China—hence Nanjing Deepwell's interest in the joint venture. Although the finished product is fairly basic, the venture has been classified high-tech by nature of the transferred design technology.

Goulds has used its China venture to accomplish three goals. First, it has reduced manufacturing costs in the United States by importing low-cost components from the joint venture for a Texas facility manufacturing the same product line. The company also buys finished pumps from the venture and sells them in the United States and other foreign markets to keep its retail prices down. Finally, the venture has allowed Goulds to carve a niche in China's lucrative pump market.

Cashing in

The joint-venture contract specifies that all of Nanjing Goulds' exports are to go exclusively to the US parent, which pays for them in hard currency at a 25 percent premium over cost. Goulds then markets the products through its own international distribution network and retains all of the sales income. Earnings from sales of these components and pumps—which now account for more than 30 percent of the venture's total sales—represent the Nanjing venture's largest and most important contribution to Goulds' balance sheet.

Goulds also uses physical product in lieu of hard cash to repatriate profits. When the venture issues dividends from profits, the US company's share is used as a credit against future purchases. Because Goulds' purchases have consistently exceeded its share of profits, the venture has generated significant foreign exchange earnings. The foreign exchange is converted into *renminbi* to help cover operating costs.

Steve Barru is an English teacher who frequently writes on the experiences of foreign companies and personnel in China. Currently based in Nanjing, he has studied in Beijing and at the Johns Hopkins-Nanjing University Center for Chinese and American Studies.

The remaining 70 percent of Nanjing Goulds' output is marketed in China, where the pumps are sold for *renminbi* though they have been designated import substitutes. The venture's well-established reputation for quality has aided domestic sales, as have Chinese energy conservation measures, which encourage industrial users to turn to more energy-efficient pumps. Initially, domestic pump sales were handled by Nanjing Deepwell, but steady sales growth prompted the venture to begin creating its own sales force and distribution network in 1988. The company currently has 22 sales teams working throughout China, in addition to warehousing facilities in Guangzhou and Shenyang.

The venture's domestic sales, however, are not at the heart of Goulds' strategy to penetrate the China market. Rather, Goulds uses its influence as an investor in China to win contracts to supply big ticket, high-tech products it manufactures in the United States. Goulds' ability to provide easily accessible information about its products and in-country customer service through the joint venture have given it an advantage over many foreign competitors. To date, the company has won contracts to supply chemical and petrochemical producers with stainless steel and horizontal line-shaft pumps the Chinese currently are not able to manufacture up to international standards.

Since opening in December 1986, Nanjing Goulds has been profitable in all but its first year of operation and has issued $540,000 in cash dividends. In 1990 the joint venture generated $1.87 million in profits from $13 million in total sales. Last year's sales, however, were far below the venture's expectations, and profits dropped to $750,000, largely as a result of the summer floods and the Gulf War. The floods, which inundated Jiangsu and neighboring provinces, crippled sales to the venture's primary domestic customers. International sales to key buyers in Kuwait and elsewhere in the Saudi peninsula were curtailed by the Gulf war. In 1992, however, the venture expects not only to recover the ground lost last year, but to surpass its 1990 sales record.

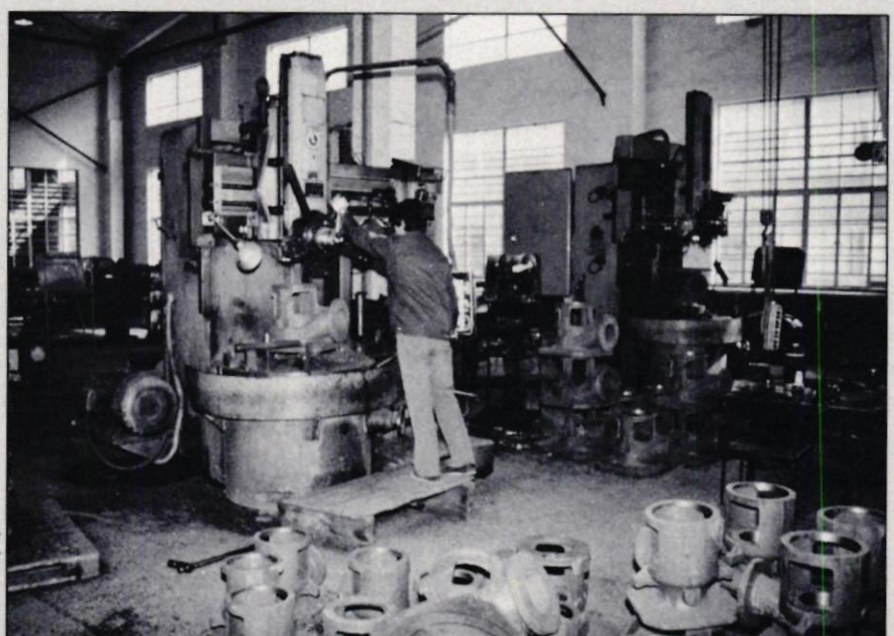
Developing a partnership

Nanjing Goulds' financial success has not come easily, given occasional friction between the foreign and Chinese partners. For instance, different priorities regarding exports troubled relations between the American and Chinese investors from the outset. With an established reputation to maintain, Goulds was willing to purchase only quality products from the venture. Nanjing Deepwell, on the other hand, was eager to earn foreign exchange and wanted its US partner to buy the venture's products in large quantities regardless of quality.

These conflicting views were not resolved during the early negotiations; in fact, the English and Chinese versions of the final contract contained different language regarding exports. Specific information from the venture's feasibility study regarding potential export volume and foreign exchange earnings were incorporated into the Chinese-language contract as actual quotas for the US partner's purchases. Though Goulds knew the two contract versions were different, it ignored the potential for trouble.

The venture began exporting in small quantities soon after opening, but quality problems plagued these first efforts. Several orders were returned because of poor quality and the replacement shipments were not sent in time, with the result that the venture was fined for late delivery. This experience eventually convinced Nanjing Goulds' Chinese partners that rushing into international markets with less than top-quality products did not make good business sense. By 1988, quality improvements enabled Goulds to purchase the export amounts requested by its Chinese partners, and the export requirements became a non-issue. The English and Chinese versions of the joint-venture contract, however, have never been reconciled.

Other tensions have also troubled the partnership. The most serious conflict surfaced in 1989, when Goulds discovered that Nanjing Deepwell was manufacturing its own line of pumps using a design almost identical to the proprietary one Goulds had brought to the joint venture. Though the joint-venture contract contained a clause stating that the Goulds technology was for the sole use of the joint venture, it did not have more specific language protecting the US partner's intellectual property rights. Because the new pump was slightly modified, Nanjing Deepwell claimed it had not violated the contract; Goulds disagreed and threatened to pull out of the venture. At this point, the venture's chairman of the board, a member of the Luhe County Industrial Bureau, per-



Photos courtesy of Steve Barru

Nanjing Goulds currently exports around 30 percent of total output.

suaded Nanjing Deepwell to discontinue producing the new pump. The support of the chairman was key; without his help the general manager would probably not have been able to arrive at any solution, much less one that avoided public loss of face and further damage to the already strained relationship between the partners.

Adapting to the countryside

Goulds has also seen conflicts arise as a result of the venture's location. Initially, Goulds had negotiated with a Shanghai manufacturer to set up the project, but signed on with Nanjing Deepwell after these talks dissolved. According to Nanjing Goulds' General Manager Ebb Hinchcliffe, Goulds had little idea of the problems the Luhe location would create.

Ironically, the difficulties that might be expected in a rural locale—transportation, supplies, and power—have not proved especially troublesome. The regional transportation grid and Nanjing's deepwater port on the Yangtze River keep the venture adequately supplied with raw materials and enable it to get its products to market. Power shortages and supply bottlenecks have been sporadic and short term, with little impact on the venture's production. Furthermore, as the venture's inputs do not require a high degree of technical sophistication, local suppliers have generally been able to meet quality requirements.

Instead, dealing with local personnel has been the most formidable challenge for Goulds. Nanjing Deepwell initially had little notion of international business norms, and was content to tell Goulds' negotiators what they wanted to hear; the Chinese assumed the US company's expertise would solve any problems that might arise later. Goulds, for its part, had little comprehension of local conditions. For example, Goulds took at face value the claim that Nanjing's ample pool of well-educated talent could satisfy the venture's needs for skilled labor. Unaware of China's residence permit (*hukou*) system, Goulds did not know how difficult it would prove to attract workers from Nanjing, as the move to Luhe entailed the loss of the prized urban *hukou*.

Dealing with local personnel has been the most formidable challenge for Goulds.

In addition, the venture found little initial support from the Luhe bureaucracy. County officials, lacking previous experience with foreigners, were determined to protect narrowly defined local interests. For example, when the discovery of Nanjing Deepwell's competing product line first came to light, local officials sided with the Chinese partner, informing Goulds and the US commercial consul from Shanghai that competition was healthy! Since then, local attitudes have improved measurably, albeit slowly. The venture's ability to provide tangible financial benefits for all participants is winning it increasing support from Chinese partners and officials.

Moreover, since Nanjing Goulds is now Luhe's largest enterprise, the company has developed significant clout. The venture has easy access to key officials, and management has strived to cultivate relationships with government officials at all levels. Hinchcliffe, for example, serves on a committee to encourage foreign investment in Jiangsu Province.

Upgrading the workforce

Finding the right personnel has been an ongoing struggle for the Nanjing Goulds joint venture. Its initial labor force was poorly trained and educated in comparison to urban Chinese workers. Steeped in a traditional rural value system which strongly resisted change, these workers found it difficult to innovate or adapt to new methods. Goulds therefore sought to upgrade skill and performance levels step-by-step, starting with the managers and working down.

In order to form a team of Chinese managers capable of defining and implementing corporate goals, Hinchcliffe, the only expatriate among the venture's 485 employees, works closely with his top staff. Brief, regular stand-up meetings—a departure from the hours-long seated meetings most Chinese managers are accustomed to—provide an on-going forum for managers to share experiences and needs. In particular, Hinchcliffe helps managers to isolate trouble spots and develop specific means to remedy them. He stresses that goals must be stated in a way that allows achievement to be measured with objective criteria; "working harder," for instance, must be defined as increasing output by a specified amount within a certain time period.

To undercut the role of patronage and emphasize the importance of competence, Hinchcliffe demands that managers post job vacancies and consider any qualified, interested employee who applies for the position. To encourage this philosophy, Hinchcliffe recently began instructing managers and floor supervisors in personnel evaluation procedures to be used to assess each employee's performance.

Managers who fail to abide by such criteria may find their tenures cut short. Hinchcliffe tells of one manager who insisted that the venture hire one of his relatives, suggesting that such consideration was his due as top-level staff. When Hinchcliffe refused to budge, the manager threatened to resign. Hinchcliffe shocked him by promptly accepting his resignation, setting an important example to the rest of the staff. Hinchcliffe has also sought to minimize the impact of favoritism by insisting that individuals recognized at the annual "outstanding employee" ceremony be selected solely on the basis of their contributions to the workplace, rather than their connections to senior Chinese management.

Introducing financial incentives

To further motivate managers and workers, Nanjing Goulds has instituted a number of financial incentives. In 1987, the company introduced an annual 10 percent profit-sharing plan which distributes profits according to a complex formula determined by each employee's position and seniority. In 1990, Hinchcliffe expanded the profit-sharing scheme in lieu of increasing basic wages. Now, while the 10 percent distribution remains in place for profits equal to the previous year's total, any additional increase in profits is distributed at the rate of 30 percent. Managers who fail to meet the targets they have developed, however, receive a reduced share of the profits.

In addition to the profit-sharing plan, employees may qualify for monthly bonuses based on achievement of measurable productivity standards. The total salary and bonus package of Nanjing Goulds staff thus averages some 40 percent more than that paid by the Nanjing Deepwell, although the venture's basic wage rates are only marginally higher than those of the Chinese enterprise.

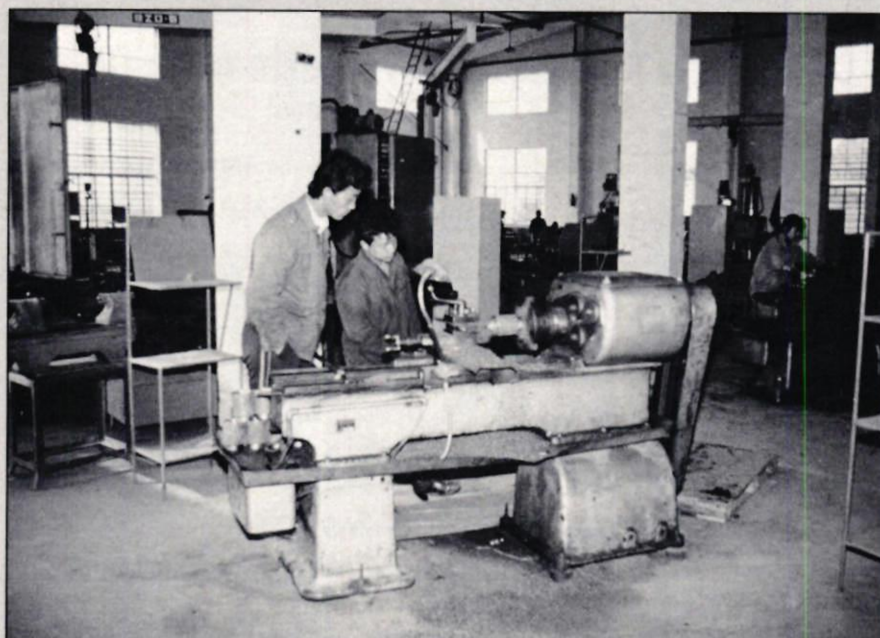
Aside from increasing productivity, Nanjing Goulds' financial incentives have also helped the venture minimize expenses. For example, the linkage between the purchasing manager's bonus and his mandate to reduce costs led him to investigate a cheaper—and lead-free—alternative to the paint used by the venture. While this manager had previously ignored Hinchcliffe's requests to switch to lead-free paint in order to meet US health and safety standards, he made the change when it was clear his bonus was at stake.

Workers have begun to act as watchdogs for the venture's overall quality control program, and are empowered to halt production when they see quality problems arising.

The financial incentives have also helped ensure quality levels. Bonuses to the venture's quality control manager are directly linked to his performance, while productivity bonuses for the rest of the workforce are tied to overall production. Workers have therefore begun to act as watchdogs for the venture's overall quality control program, and are empowered to halt production when they see quality problems arising.

While financial incentives have clearly improved performance at Nanjing Goulds, the need to monitor and implement both the bonus and profit-sharing schemes has become increasingly unwieldy. Hinchcliffe has therefore formed a task force to study ways of restructuring the venture's compensation package, in the hope of finding a formula that unifies the various incentives in a simpler, more comprehensive package.

In the meantime, he has taken other steps to improve the quality of the work environment. Educational meetings are held on a regular basis to ensure employees understand the venture's strict safety regulations. And in 1989, the work week was shortened to five days (45 hours), a reduction from the six-day standard in most Chinese enterprises. The result, according to Hinchcliffe, was an immediate and dramatic improvement in morale and productivity.



Nanjing Goulds' workforce had a hard time adjusting to Western management techniques, but responded enthusiastically to a shortened work week.

Stepping up operations

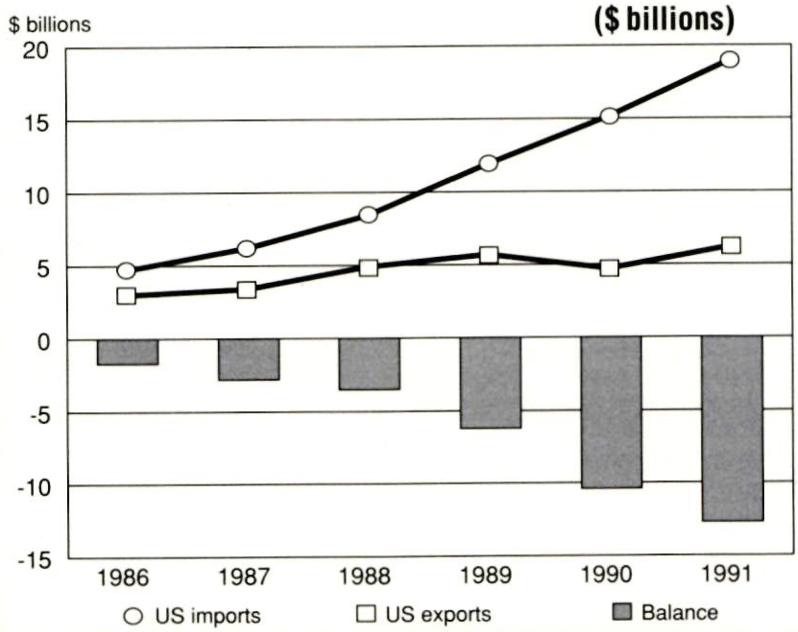
Nanjing Goulds' success convinced the partners to earmark ¥2.5 million from retained earnings to build a new machine shop and purchase computer-driven lathing machinery for the venture. The machine shop, which came on line last November, is located adjacent to the foundry and allows for more efficient handling of materials than the previous facilities. By reducing the number of operations needed to turn rough castings into finished components, the shop's new lathing machinery has increased capacity five-fold with no change in the number of employees.

The next challenge facing Nanjing Goulds is to identify new domestic markets. Plans to manufacture pumps made of materials other than cast iron are already being discussed, but no final decision has been made on the new product lines or markets the venture intends to target. Goulds is also considering expanding its China operations beyond the joint venture, perhaps by opening a representative office in Beijing. Moreover, the company is investigating the possibility of warehousing replacement parts in China in order to provide better service to its Chinese customers. Whether Goulds embarks on one or more of these projects, the company will continue to rely on Nanjing Goulds to provide the entree to new markets in China.

中國數据 China Data

US-China Trade, 1986-91

($ billions)



	US exports (fob)	US imports (cif)	US balance
1986	3.1	4.8	-1.7
1987	3.5	6.3	-2.8
1988	5.0	8.5	-3.5
1989	5.8	12.0	-6.2
1990	4.8	15.2	-10.4
1991	6.3	19.0	-12.7

Source: *Department of Commerce*

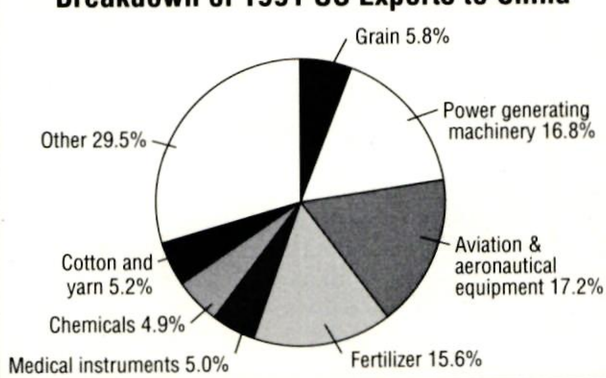
Selected US Exports to China

($ billions)

	1990	1991	% Change
Grain	512.4	363.4	-29.1%
Power generating machinery	859.9	1,058.2	23.1%
Aviation and aeronautical equipment	749.1	1,082.6	44.5%
Fertilizer	543.8	981.7	80.5%
Chemicals	272.5	305.7	12.2%
Cotton yarn and fabric	280.9	326.6	16.3%
Medical instruments	226.8	317.6	40.0%
Iron and steel	44.1	106.0	140.4%
Electric machinery	264.1	277.4	5.0%
Plastics	165.8	297.1	79.2%
Pulp and paper	141.7	218.0	53.8%
Wood	179.9	168.2	-6.5%

Source: *Department of Commerce*

Breakdown of 1991 US Exports to China



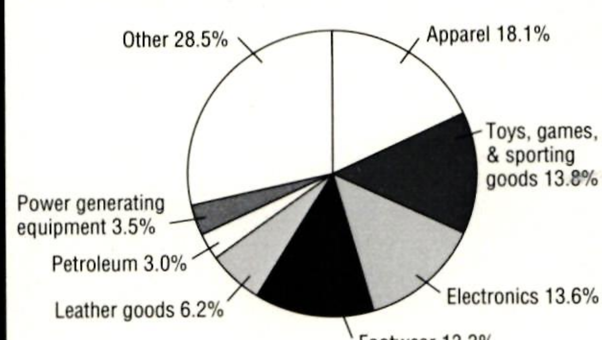
Selected US Imports from China

($ billions)

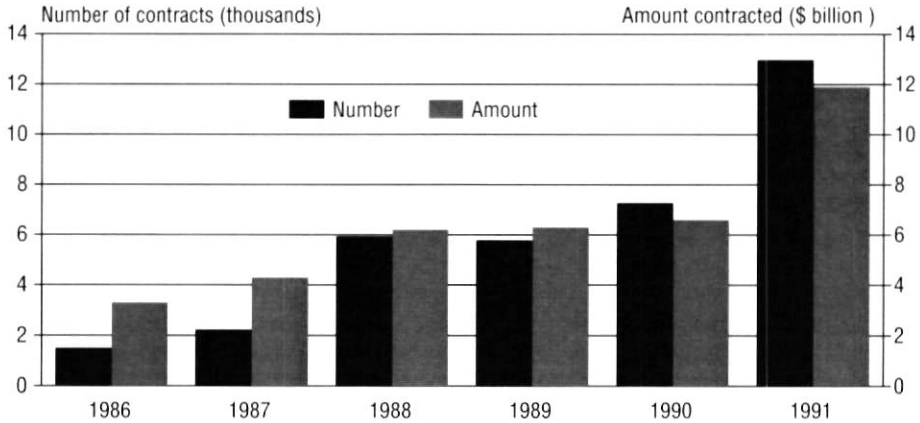
	1990	1991	% Change
Apparel	3,197.1	3,434.8	7.4
Toys, games, and sporting goods	2,138.7	2,612.8	22.2
Electronics	1,926.0	2,583.0	34.1
Footwear	1,477.4	2,532.0	71.4
Leather goods	873.9	1,177.1	34.7
Petroleum	660.9	567.4	-14.1
Power generating machinery	471.8	662.3	40.4
Aquatic products	396.2	279.3	-29.5
Plastics	387.2	500.3	29.2
Down and feathers	233.3	300.7	28.9
Iron and steel	245.9	282.7	15.0
Chemicals	205.2	234.6	14.3

Source: *Department of Commerce*

Breakdown of 1991 US Imports from China



Foreign Investment in China, 1986–91



	Number of contracts	Amount contracted ($ billion)
1986	1,498	3.3
1987	2,233	4.3
1988	5,936	6.2
1989	5,779	6.3
1990	7,273	6.6
1991	12,978	11.9

Source: *Ministry of Foreign Economic Relations and Trade*

China's Output of Major Industrial and Agricultural Products

Industrial Products	**1988**	**1989**	**1990**	**1991**
Bicycles (1,000 units)	41,401.1	36,402.1	31,408.5	36,266.2
Cement (MMT)	210.1	203.9	202.9	243.6
Chemical fertilizer (MMT)	17.4	18.6	19.1	19.9
Chemical fiber (MMT)	13.0	14.7	16.2	18.7
Cloth (1 million meters)	18,790.0	17,615.0	17,355.0	16,645.0
Machine-made paper and paperboard (MMT)	12.7	11.4	11.4	12.6
Plate glass (million standard tons)	72.9	83.3	80.2	85.7
Power generation equipment (1,000 kw)	11,093.0	11,697.0	11,430.0	NA
Steel (MMT)	59.4	61.2	66.0	70.6
Televisions sets (1,000 units)	25,050.7	27,121.0	26,624.3	26,221.0

Agricultural Products	**1988**	**1989**	**1990**	**1991**
Grain (MMT)	394.1	407.5	446.2	435.2
Sugar cane (MMT)	49.0	48.8	57.6	66.3
Oil-bearing crops (MMT)	13.2	13.0	16.1	16.4
Fruit (MMT)	16.6	18.3	18.7	21.6
Cured tobacco (MMT)	2.3	2.4	2.3	2.9

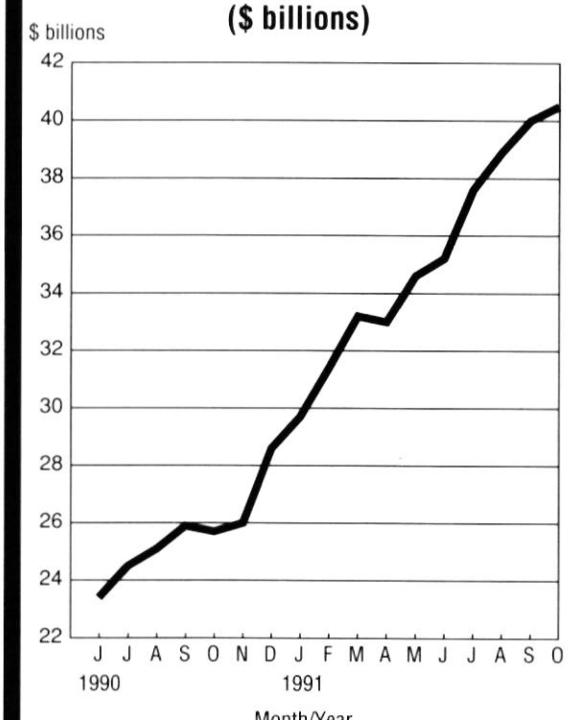
Energy Output	**1988**	**1989**	**1990**	**1991**
Total energy production* 1 million tons of standard coal equivalent (SEC)	958.0	1,016.4	1,020.2	1,028.4

MMT = million metric tons
* excludes solar, geothermal, nuclear, and bio-energy production.

Sources: *State Statistical Bureau, US Department of Agriculture*

China's Foreign Exchange Reserves, 1990–91

($ billions)



Source: *International Monetary Fund*

AMCHAM'S CHINA BOOKS

China Commercial Relations Directory

A bilingual, English-Chinese directory, 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 eight edition. List price: HK$215/US$34 (HK$175/US$29 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$41 (HK$215/US$34 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$34 (HK$175/US$29 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$28 (HK$135/US$24 for AmCham members).

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

A guide to jobs for almost 6,000 graduating Hong Kong students returning from overseas. Distributed free to graduating Hong Kong students at American, Australian, United Kingdom and Canadian universities in cooperation with the Institute of International Education (IIE), British Council and International Development Program in Australia. List Price: HK$195/US$32 (HK$165/US$28 for AmCham members).

AmCham Members Directory 1991/92

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 2,425 members from 1,074 companies. List price: HK$1,220/US$169 (HK$820/US$124 for members).

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The American Chamber of Commerce in Hong Kong
Room 1030, Swire House, Chater Road,
Central, Hong Kong.
Tel: 526 0165 Fax: 810 1289
Tlx: 83664 AMCC HX
Mail Address: GPO Box 355, Hong Kong.

Who's Who in Hong Kong Communications

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$40 (HK$175/US$35 for AmCham members).

Doing Business in Today's Hong Kong

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$245/US$44 (HK$195/US$38 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$34 (HK$175/US$29 for AmCham members).

Establishing an Office in Hong Kong

An annual service book which 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$195/US$32 (HK$165/US$28 for AmCham members).

Hong Kong's Training Services 1991

Extended profiles of 33 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$28 (HK$145/US$25 for AmCham members).

Living in Hong Kong

The 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$215/US$40 (HK$175/US$35 for AmCham members).

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中外貿易 China Business

Val Huston

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, 1992

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

Advertising and Public Relations

Investments in China

Ogilvy & Mather Worldwide Inc. (US), a subsidiary of WPP Group PLC (UK)/Shanghai Advertising Corp.
Opened the Ogilvy & Mather Shanghai joint-venture advertising agency. (US:51% - PRC:49%). 2/92.

McCann-Erickson Worldwide (US)/Guangming Newspaper Group
Opened the McCann-Erickson China advertising joint venture, which is headquartered in Beijing and has an office in Guangzhou. (US:51% - PRC:49%). 2/92.

Agriculture

Investments in China

Chemical Industrial Joint-Stock Co. (ROK)/Heilongjiang Provincial Agricultural Development and Construction Co.
Signed agreement to establish the Heilongjiang Sanjiang Agricultural Development Ltd. Co. joint venture which will reclaim 570,000 mu of wasteland to produce grain and soybeans. ¥227.8 million. (ROK:50% - PRC:50%). 2/92.

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.; SPC: State Planning Commission; UNDP: United Nations Development Program.

Other

Canadian International Development Agency/Ningxia Hui Autonomous Region
Will provide loan for agricultural development. $10.55 million. 2/92.

Banking and Finance

Other

Spain/People's Construction Bank of China
Signed agreement on the borrowing of Spanish government loans through Spain's Instituto de Credito Oficial in Beijing. 1/92.

Dai-Ichi Kangyo Bank Ltd. (Japan)
Will upgrade Shanghai representative office to full branch office. 1/92.

Thai Military Bank and M. Thai Group (Thailand)
Signed an agreement to establish a commercial bank in Shantou. 1/92.

China's Investments Abroad

Industrial and Commercial Bank of China/Singapore
Will open overseas office in Singapore. 1/92.

Chemicals, Petrochemicals, and Related Equipment

China's Imports

UBE Industries Ltd. and Toyo Engineering Corp. (Japan)/CTIEC
Will use government loans to sell synthetic ammonia equipment and urea equipment to the Shaanxi Weihe Chemical Plant. $210 million. 1/92.

Other

Tecnimont, a subsidiary of Ferruzzi-Montedison Group (Italy)/Guangzhou Ethylene Complex, China Petroleum International Corp., and China National Technical Import-Export Corp.
Will build a 130,000 tpy ethylene production plant in Guangdong Province. 1/92.

Italy/BOC
Signed agreement to provide loan for Xinjiang's polyethylene and polypropylene sectors. $45.3 million. 1/92.

Computers and Computer Software

Investments in China

MKC Co. Ltd. (Japan)
Will build a software development center in Beijing to produce custom versions of MKC's existing software, including the Algos distribution management system. 1/92.

Other

3Com Corp. (US)/Qinghua University Science and Technology Development Corp.
Established a service and repair center to support 3Com's networking products. 2/92.

China's Investments Abroad

China National Computer Software and Technology Service Corp. (CS&S)/Sun Prop Institute of Japan
Began operation of the Tokyo-based CSTEC joint venture to develop software for the China market and to organize the import and export of computer hardware between China and Japan. $312,000. (Japan:51% - PRC:49%). 2/92.

Construction Materials

Investments in China

PPG Industries (US) and Asahi Glass (Japan)
Will jointly develop a float glass manufacturing plant in Shekou, Guangdong Province, and are conducting engineering and feasibility studies for a proposed glass plant in Dalian. 1/92.

Consumer Goods

Investments in China

Colgate-Palmolive Co. (US)/Guangzhou Jieyin Daily Use Chemicals Factory
Established the Colgate Guangzhou Co. joint venture to manufacture toothpaste at the local partner's facility. 2/92.

High Technology International Co. (US)/Anshan Meihua Bicycle Corp.
Opened the Anshan Sportsman Bicycle Co. joint venture to produce Sportsman and BMX bicycles. 1/92.

China's Investments Abroad

Shanghai No. 1 TV Factory/North Korea
Established a joint-venture TV production line at the Datongjiang TV Factory in Pyongyang. 2/92.

Food and Food Processing

Investments in China

France Food Industry Co. (HK)/Beijing Cereals Industry Co.
Signed a contract to establish the Beijing Grand Mill Co. Ltd. flour-processing joint venture in Beijing. $7.5 million. (Fra:51% - PRC:49%). 1/92.

Itoman & Co. (Japan)/Shanghai municipal government
Established the Shanghai Shenteng Livestock and Poultry Co. joint venture to process chicken for export to Japan. $8.6 million. (Japan:41% - PRC:59%). 1/92.

Foreign Assistance

Global Environment Facility (World Bank, UNDP, UNEP)
Will provide grants for two environmental protection projects, one to focus on issues and options in greenhouse-gas emission control and the other aimed at protecting biological diversity in China. $3.68 million. 3/92.

World Bank
Will provide loan to support education in 114 remote and poor counties in the six least developed provinces. $130 million. 3/92.

World Bank
Will provide International Development Association credit for the Rural Water Supply and Sanitation Project to develop clean water supplies in Guangxi, Yunnan, Hunan, Gansu, Xinjiang, and Inner Mongolia. $110 million. 2/92.

Asian Development Bank (ADB)
Will provide technical assistance grant for the monitoring and protection of arid and semi-arid areas in Shanxi, Shaanxi, and Inner Mongolia. $500,000. 2/92.

Canada
Will provide concessionary loan and export credits to be used for energy, transport, and telecommunications projects. $380 million. 2/92.

Belgium/ICBC
Will finance up to 85 percent of all contracts signed between Belgian exporters and Chinese buyers. $29.4 million. 2/92.

Machinery and Machine Tools

China's Imports

Spain/Wuhan Iron and Steel Corp.
Will provide mixed loans to sell two 250-tonne converters, a contինous steel rolling line, RH vacuum processing facility, and equipment for a general automatic control system to the No. 3 Steel Making Plant in Hubei Province. $316.5 million. 3/92.

Stein Atkinson Stordy Ltd. (UK)/Southwest Aluminum Fabrication Plant
Will sell thermal, heat recovery, and process-control equipment for an aluminum coating line in Chongqing. $11.2 million. 2/92.

Investments in China

Electric Machinery Co. (Italy)/Haihe Refrigerator Compressor Co.
Will establish a joint venture to produce refrigerator compressors in Tianjin. 3/92.

Hitachi Power Tool Co. (Japan)/Shanghai Power Tool Plant
Will upgrade the Shanghai Hitachi Power Tool Co. Ltd. joint venture by transferring technology for 14 products. $875,000. 1/92.

Other

Sanyo Electric Co. and Toyota Corp. (Japan)/CMC
Signed agreement to transfer rotary-compressor production equipment and technology to an air conditioner manufacturer in Shenyang, Liaoning Province. $24.2 million. 1/92.

China's Investments Abroad

Fushun Economic and Trade Co. Ltd./No. 1 Automobile Repair and Spare Parts Co. (Mongolia)
Began construction of a welding rod joint venture in Ulaanbaatar. 1/92.

Metals, Minerals, and Mining

China's Imports

Bucyrus-Erie Co. (US)/CTIEC
Sold five electric shovels to an opencut coal mine in Inner Monogolia. $40 million. 1/92.

Komatsu Dresser Co. (Japan-US)/CTIEC
Will sell 50 154-tonne trucks to the Jungar opencast coal mine. $50 million. 1/92.

Investments in China

Link Hing Metal Co. (HK)/Nanhai Dali Urban Economic Development Co.
Asian Aluminum Factory joint venture in Guangdong Province began operations. Estimated annual production capacity is 12,000 tonnes. 1/92.

Other

Bank of Tokyo and seven other Japanese banks (Japan)/China International Steel Corp.
Will provide loan to the Meishan Iron and Steel Co. for the construction of a steel rolling mill in Jiangsu Province. $34 million. 1/92.

Japan
Will provide loan for coal-mine and oilfield exploration. $5.69 billion. 1/92.

Packaging, Pulp, and Paper

China's Imports

CIC Co. (Canada)/CTIEC
Will use government loan to sell bleached pulp and offset-paper equipment to the Shaowu Pulp Mill in Fujian Province. $30 million. 1/92.

Petroleum, Natural Gas, and Related Equipment

Investments in China

ARCO (US) and Kuwait Foreign Petroleum Exploration Co./CNOOC
Will jointly develop a natural-gas drilling project to be used for electricity generation. The project will include an underwater pipeline connecting the Yacheng 13-1 gas field south of Hainan and Hong Kong. $1.2 billion. (US:34.3% - Kuwait:14.7% - PRC:51%). 3/92.

Lubricating Specialties Co. (US)/Daqing General Petrochemical Works and Xiangzhou District Petroleum Co.
Began construction of the Puqing Lubricating Specialties Co. joint venture to process crude oil into high-grade lubrication oil products in Zhuhai. $10 million. 2/92.

Pharmaceuticals

Investments in China

Ivax Corp. (US)/Kunming Pharmaceutical Factory
Signed agreement to establish the Kunming Ivax Pharmaceutical Co. Ltd. joint venture to produce six kinds of Ivax-patented medicine. $8 million. (US:51% - PRC:49%). 3/92.

Power Plants

China's Imports

GEC-Alsthom (France)
Will use concessionary loan to sell equipment for the construction of a thermal power plant in Dalate, Inner Mongolia. $31 million. 2/92.

Investments in China

New World Development Co. (HK)/Guangzhou Economic Construction Development Co.
Established the Zhujiang Power Corp. joint venture to construct and manage the Guangzhou Zhujiang Thermal Power Plant. $369 million. (HK:50% - PRC:50%). 2/92.

Other

Asian Development Bank (ADB)
Will provide technical assistance grant for an energy/electricity demand and supply analysis. $600,000. 1/92.

Property Management and Development

Investments in China

V-mark Resources Ltd. (HK)/Real Estate Co. of Tianjin
Began construction on the Tianjin Cris Real Estate Investment Development Co. Ltd. joint venture. $18 million. 3/92.

NA (Japan)/Nantong County, Jiangsu Province
Signed a 70-year land lease for 80,000 sq m near Langshan. $3.64 million. 3/92.

Taikong Finance and Investment Ltd. (Japan)/Putian City
Signed a 10-year land lease for 15 sq km on Meizhou Bay, Fujian Province. $500 million. 1/92.

Pacific Concord Holdings (HK)
Opened the 16,000 sq ft Concord Department Store in Beijing. 1/92.

Ships and Shipping

China's Imports

Mitsui & Co. and Hitachi Zosen Corp. (Japan)/China Ocean Shipping Co.
Will sell three container vessels, each capable of carrying 3,800 20-TEU containers. $350.2 million. 2/92.

Investments in China

Lucky Goldstar Co. and Ace Co. (ROK)/Cangzhou Chemical Machinery plant
Began production of 20-TEU containers at the Hebei Jile Ace International Container Co. joint venture. $25 million. (ROK:25% - PRC:75%). 2/92.

Schierack Beteiligungs KG (Germany)/Zhonghua and Jiangnan Shipyards
Shanghai Edward Shipbuilding Co. joint venture began construction of 15,000 cu m liquefied- petroleum vessels. $12.5 million. 1/92.

Other

Huayang Co. (HK) and Taiwan and Singapore investors/People's Construction Bank
Will develop the port of Meizhou to strengthen Taiwan-PRC trade. $129.8 million. 3/92.

Telecommunications

China's Imports

Ascom Hasler Corp. (Switzerland)
Will use mixed loans to sell 80,000 programme-controlled telephones to Nanchang City, Jiangxi Province. $19.8 million. 2/92.

Hughes Aircraft, a subsidiary of General Motors Corp. (US)/MPT
Will provide advanced telecommunications equipment for a satellite-control ground station in Beijing and a monitoring station in Tibet. 1/92.

Other

AT&T (US) and KDD (Japan)/MPT
Opened the Sino-US-Japanese high-speed digital special satellite network, which will support voice, data, and video applications. 2/92.

Textiles

Investments in China

Shiyuan Co. Ltd. (HK)/Shanghai Baoshan Down Garment Factory and Baoshan Industrial Import-Export Co.
Established the Shanghai Baoyuan Garment Co. Ltd. joint venture to produce down garments. 1/92.

Transportation

China's Imports

N.V. Fokker (Netherlands)/China Eastern Airlines
Will sell seven Fokker 100 aircraft with Rolls-Royce PLC engines. $250 million. 2/92.

Other

Noy Engineering (Italy)/Construction Bank of China
Will use loan and export credits to sell equipment and technology to a tire-cord manufacturing plant in Hainan Province. $10 million loan. $41.6 million export credits. 2/92.

Miscellaneous

Russia/China
Signed economic and trade agreement. 3/92.

C. Itoh Co. (Japan)/Beijing
Received approval to establish a wholly owned trading subsidiary in Shanghai. 2/92.

Cuba/China
Signed a trade agreement for Cuba to exchange nickel, sugar, citrus, and medical products for food, medicines, and spare machinery parts from China. 2/92.

ROK/Shanghai
Shanghai Foreign Economic Relations and Trade Commission will open a trade office in Seoul. 2/92.

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