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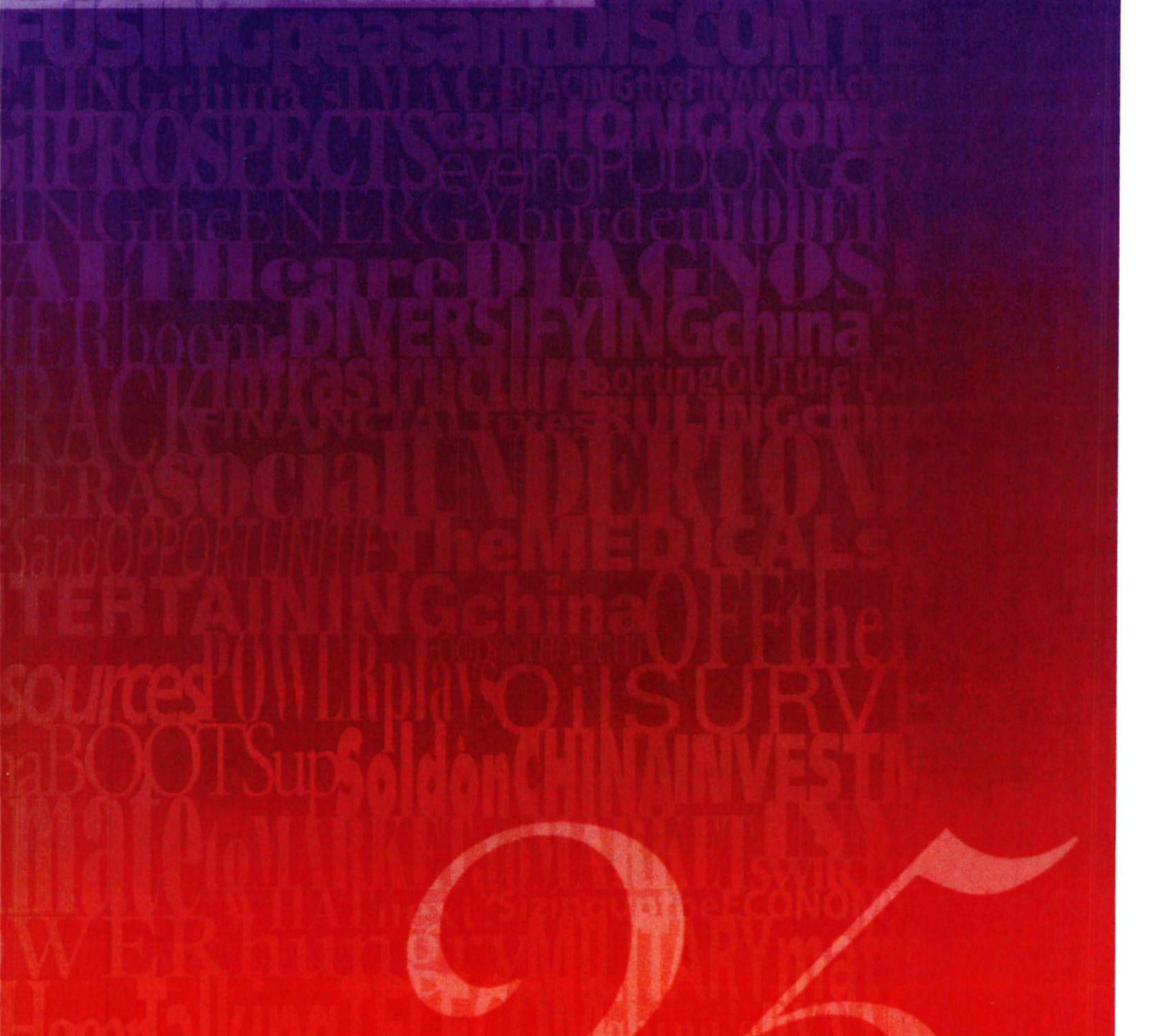

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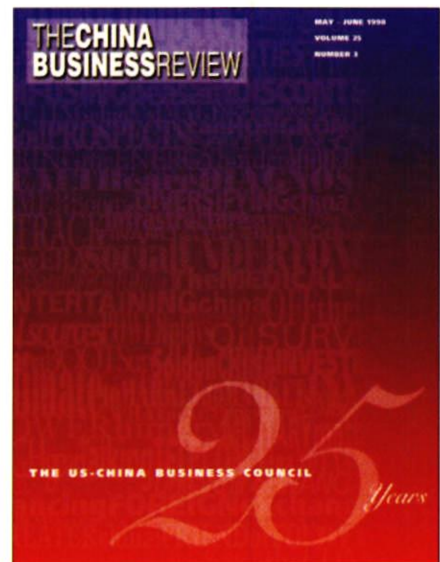

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CONTENTS

美中商贸评论

FOCUS *The US-China Business Council: 25 Years*

10 **The Ties that Bind** Despite 25 years of steadily deepening US-PRC commercial ties, the political relationship still overshadows the economic one.
Kenneth Lieberthal

18 **A Retrospective of Commercial Relations, 1971-98**
A timeline highlights nearly three decades of US commercial relations with the PRC.

20 **Lessons Learned** Newcomers to the China market can learn much from the experiences of veteran foreign investors.
Kimberly A. Silver

28 **Snapshots of China Business, 1974-98**
The China Business Review archives illustrate just how much—and how little—China business has changed.

32 **Toward Improved China-US Relations** The new PRC ambassador to the United States shares his insights on the bilateral relationship.
Li Zhaoxing

FEATURES

36 **Bureaucratic Mergers and Acquisitions** What foreign businesses can expect from China's recent government restructuring.
Julie Reinganum and Thomas Pixley

42 **Word Games** Foreign publishers face uncharted territory in the PRC.
Anne Stevenson-Yang

SPECIAL REPORT *Human Resources*

50 **Frequent Fliers** Stemming turnover among Chinese joint-venture managers requires knowing their priorities.
Keith Goodall and Willem Burgers

54 **Bridging Business Cultures** Misunderstandings arising from cultural differences can undermine even the most promising joint venture.
Linda Beamer

DEPARTMENTS

5 **Trends & Issues**
China's National People's Congress; PRC bureaucrats; and Hong Kong's new airport.

8 **Letter from the President**
Anniversaries and Annual Rituals

34 **CHINA DATA**

59 **Council Activities**
The new PRC ambassador to the United States; China's environment; and export controls.

60 **Company Profile**
RXL Pulitzer brings foreign sponsors and innovative programming to Chinese television.
Ann M. Weeks

64 **China Business**

70 **Classified Ads**

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National People's Congress Initiates Reshuffle

Though the first session of the Ninth National People's Congress (NPC), held from March 5-19, was marked by few surprises, the government reorganization and commitment to State-sector reforms adopted by the NPC delegates have ushered in a period of rapid change for the PRC. The elevation of Zhu Rongji to premier and the naming of a number of Zhu supporters to key economic posts in the new cabinet confirmed expectations that the government is committed to progress on domestic economic reforms. But consensus politics will no doubt persist in Beijing, as several more centrist-minded politicians with close ties to top leaders Jiang Zemin and Li Peng also gained cabinet spots. Liberalization of China's foreign trade and investment regime likely will continue to be constrained by legitimate concerns for social welfare and stability as laid-off government and State-owned enterprise (SOE) workers are forced to search for new employment.

The nearly 3,000 delegates to the Congress, most of whom were newly appointed representatives of their local districts, voted on the Communist Party's choices for the top leadership. The delegates approved Jiang Zemin as president and head of the Central Military Commission; Li Peng as chairman of the NPC, to replace Qiao Shi; and Zhu Rongji as premier. Though only one candidate is nominated for each post, the NPC delegates frequently use their votes to register approval (or disapproval) of both the Party's leadership choices and the central government's recent performance.

Spotlight on New Leaders

Perhaps the most significant outcome of the NPC session was the designation of 55-year-old Hu Jintao as vice president, replacing retiring "red capitalist" Rong Yiren. Hu's confirmation appears to support earlier speculation that he could succeed Jiang, and would represent the "core" of a "fourth generation" of PRC leaders. It is premature to draw firm conclusions, however, as numerous PRC successor-designates have fallen from grace in the past.

Other notable results of the NPC votes included the low returns for Li Peng, a reflection of deputies' dissatisfaction with their new chairman. Despite lobbying by his supporters, only 2,616 of the 2,946 delegates participating in the elections voted to approve Li, while 200 voted against and 126 abstained. NPC delegates evidently fear that Li's expected emphasis on political stability could diminish the NPC's recently enhanced legislative and supervisory powers, generally credited to former head Qiao Shi. Li's appointment to a less prominent post, meanwhile, along with his connection to the 1989 suppression of demonstrators, means that the new NPC chairman is unlikely to pose a threat to Jiang's leadership.

In contrast to Li's lukewarm returns, Zhu Rongji's solid approval by the delegates reflected the popularity of his economic policies. Zhu received 2,890 votes for premier, with only 29 votes against and 31 abstentions. The strong show of NPC support appears to enable Zhu to introduce bold measures to revamp the ailing State bureaucracy and industrial sector. His widely publicized and successful press conference at the close of the NPC session has further solidified his popular support.

The vote on the nomination to the NPC leadership of outgoing Vice Premier Jiang Chunyun, formerly responsible for the nation's agriculture portfolio, returned an unenthusiastic 2,448 votes in favor, 395 votes against, and 99 abstentions. But Qiao Shi's associate Tian Jiyun won overwhelming support for his elevation to the vice-chairman position in the NPC Standing Committee. A total of 2,901 delegates approved Tian's nomination, with only 30 voting against and 11 abstaining. NPC delegates evidently hope that Tian can carry on Qiao's mission to secure greater powers for the legislative body.

Han Zhubin, a protégé of Jiang and former railway minister, received the greatest show of disapproval in the NPC voting. Though NPC delegates approved Han as head of the Supreme People's Procuratorate, 687 delegates dissented and 345 abstained. The results amounted to a criticism of Jiang's less-than-successful efforts to fight corruption.

A Balanced Lineup

Another highlight of the NPC session, and the development with the most immediate impact on foreign businesses, is the massive restructuring of the government ministries (*see* p.36). The new heads of the ministries, in turn, reflect the balance of power among Jiang, Li, and Zhu. Jiang's protégés head the cultural, media, security, and propaganda departments, while Li's associates retain influence in some industrial departments and State Council-affiliated offices. Zhu's allies, meanwhile, are concentrated in economic management and finance, as well as some industrial departments.

Work Report Roundup

In addition to electing leaders, the Congress approved outgoing Premier Li Peng's government work report. The focus of government efforts in 1998 will include the maintenance of State-subsidized grain prices and further streamlining of agricultural production. The government also formally stated that it plans to help SOEs climb out of debt within three years, and deepen reform in ailing sectors such as textiles. These reforms will include "stable" shareholding reform and the provision of funds to help write off the bad debts of the State-owned banks.

The government announced economic targets for 1998 of 8 percent Gross Domestic Product (GDP) growth, 3 percent inflation, and 10 percent fixed-asset investment growth. In late April, however, the State Statistical Bureau reported first quarter GDP at only 7.2 percent, which will make achieving the 8 percent year-end target a feat. Fixed-asset investment will be channeled into energy, telecommunications, transportation, agriculture, and environmental-protection projects. The government also stated that it would encourage foreign investment in export-oriented industries and agriculture, infrastructure, and high-technology projects. In apparent contradiction to its ambitious investment goals, however, Beijing intends to maintain its tight fiscal policy while deepening financial and tax reforms, such as strengthening the People's Bank of China's financial control and supervisory functions.

—Steven Shi

Steven Shi is associate director of the US-China Business Council's Beijing Office.

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LETTER FROM THE EDITOR

Few associations have borne witness to the breadth of change that the US-China Business Council has seen in its quarter century of existence (accommodated along the way by one name change), as China has outgrown its isolationist roots to transform itself into an increasingly important international economic force. Putting this issue together gave all of us at *The CBR* a chance to revisit the Council's own roots. In addition to contributions from renowned China scholar Kenneth Lieberthal (p.10), former Council staffer Kimberly A. Silver (p.20), and PRC Ambassador to the United States Li Zhaoxing (p.32), the Focus traces the evolution of US-China business with excerpts from past *CBR*s and an illustrated chronology. For a more personal perspective on the 25 years, we offer the stories of several veterans of the Council and China business in the "Recollections" that appear on this page and throughout the Focus. We hope you enjoy the highlights of both the monumental as well as the (seemingly) mundane passages in modern US-China commercial history.

In addition to the Focus, you'll find a cache of features on such topics as the ministerial restructuring announced at the March National People's Congress session (p.36); publishing for the China market (p.42); a Special Report on joint-venture human resources issues (p.50); plus a profile of media firm RXL Pulitzer and its path-breaking China activities (p.60).

As always, we welcome your comments and article submissions. We hope to celebrate the past 25 years with many of you in person at the Council's Anniversary Gala on June 2 in Washington, and look forward to another 25 years together in print!

Warm regards,

Kirsten Sylvester

Kirsten Sylvester

Short TAKES

PRC BUREAUCRATS FLOCK TO US

A December 1997 PRC government survey revealed that 83 percent of China's government officials at the vice-minister level and above have spent at least six months in the United States. This figure could rise even higher once the recent government reorganization is completed. The Development and Research Center, a State Council think tank, reported that the PRC government has looked to the US bureaucracy as a potential model for its own reforms.

NEW AIRPORT TAKES WING

Final arrangements are under way to assign office and retail space at Hong Kong's new Chek Lap Kok airport, scheduled to open on July 6. The new four-runway airport will be able to handle up to 10—and eventually 50—million more passengers than the 29 million that currently pass through Hong Kong's aging Kai Tak airport each year. Chek Lap Kok will also reportedly operate around the clock, significantly easing travel and shipping through the territory.

RECOLLECTIONS

"It's absolutely amazing, the transformation that has occurred. In the early days, only trade was considered, no investment. I remember one official saying, 'We will never ask for foreign investment.'"

Ambassador Christopher Phillips, President of the National Council for US-China Trade, 1973-83

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Anniversaries & Annual Rituals

Examining the roots of Chinese reforms, and of US trade policies, sheds light on current affairs in Beijing and Washington

Two anniversaries deserve a word in my letter this month. First, our own. The US-China Business Council (previously called the National Council for US-China Trade) came into being in May 1973, at the instance of a group of far-seeing public servants and private individuals. Some of our Council's terrific young staff today were not born, or were in their infancy, when the Council was established at the dawn of the contemporary US-China era. But for me, for some of our more seasoned Council staffers, and certainly for many veterans in the US business community, it is interesting to think, "Where was I in May 1973, when the Council began?" I was just finishing my first three-year teaching stint, in Houston, and embarking for job number two in Seattle, settling into an academic career. I had just met, with excitement, my first academic visitor from the PRC. Nearly four more years would pass before I would make my first visit to China.

So much water has flowed under the bridge. The US-China Business Council has endured, expanded, and matured with the US-China economic relationship, and we look forward to serving the growing American business engagement with China in the years to come. Council members and guests will have much to celebrate—and to reflect upon—at the 25th Anniversary Gala in Washington in June.

The other anniversary is a Chinese one—and a centenary. Long before America's "Hundred Days" of 1994, or the Roosevelt "Hundred Days" of 1933, China experienced the Hundred-Day Reform of June 11 to September 22, 1898. Briefly, and much too simply, the events were as follows: the young emperor Guangxu threw himself into a rapid-fire series of imperial reform edicts, at the recommendation of a brilliant Confucian reformist scholar-bureaucrat from Guangdong Province named Kang Youwei. Kang was one of a growing number of more outward-looking imperial scholar-officials conscious of China's impending collapse under foreign aggression and internal pressures. He convinced the emperor that only by fundamentally rearranging the institutions of government from the throne down—establishing a constitutional monarchy, revamping the discredited imperial education system, modernizing the army along Western lines, and dismissing legions of corrupt and professionally incompetent officials—could the ruling dynasty save China from destruction. With Kang at his side on a special court appointment, the emperor issued edict after edict through the summer of 1898, bringing elation to the reformist scholar-officials but scandalizing many whose vested interests

were threatened by these structural changes.

After 100 days of bold imperial announcements, the empress dowager Cixi, who had ruled as regent during the emperor's childhood, had the young emperor seized and placed under house arrest, from which he never emerged before his death (a day before the dowager's) in 1908. Those endangered by the emperor's radical reform proposals—powerful eunuchs and courtiers, old-style military chieftains threatened by military modernization, conservative ideologues contemptuous of non-Chinese cultures and fearful of losing their cultural domination over the imperial court—rallied to destroy both the reforms and their authors. Several of the boldest reform advocates were arrested and executed. The Guangdong figures who converted the emperor to the cause of far-reaching institutional reform escaped to British Hong Kong and thence to Japan with their lives.

While the Hundred Days of 1898 program failed, it left an important legacy for future reformers, and important lessons for future revolutionaries. The centenary of the Hundred Days is a reminder not only of the persistence of key themes throughout the history of twentieth century China, but also of the extraordinary depth of change and progress that China has achieved amid political upheaval, invasion, civil war, social transformation, and economic development.

Annual rituals, one more time

As for more immediate annual rituals, we now face the 1998 debate over continuation of normal trade relations between the United States and its fourth-ranked trade partner, China. In an effort to restate the central points in a new way this year, I offer the following menu of terms:

MFN = ET *MFN is Everyday Trade (ET).* It is the trade basis that we adopt for nearly all of our approximately 200 trading partners worldwide, including China. The handful of countries that do not trade with us on this basis include such countries as Afghanistan. MFN is not "Most Favored" anything—it is *Everyday Trade.*

Annual MFN = YET *Annual MFN is Yearly Everyday Trade (YET).* China is the only significant US trade partner over whom the American political system undergoes a season of hyperventilation and virulent domestic political accusation each year. The Jackson-Vanik Amendment to the Trade Act of 1974—a Cold War device aimed at compelling the now-defunct Soviet Union to permit Jewish emigration—set into law a "Not Unless" system of annual reaffirmation of MFN/ET trade for "non-market economies." China has moved on, laboring to deconstruct its decrepit "non-market" institutions without creating social chaos. But Jackson-Vanik, and the mischief that flows from it, remain stubbornly rooted in the truths of the 1970s.

Permanent MFN = SET *Permanent MFN is Sustained Everyday Trade (SET).* The annual battle royal over MFN/ET renewal consumes thousands of hours of time every year on the part of Congress, business, the White House, the media, and a wide array of non-trade interest groups, poisoning the air between the two nations while providing positive benefits only to the cottage industry that makes its living from the predictable yearly mobilization. Establishment of Sustained Everyday Trade is long past due, and with it, the liberation of legions of increasingly exasperated battlers on both sides of this unproductive conflict.

WTO = GET *WTO is Global Everyday Trade (GET).* The World Trade Organization (WTO) is the rule-setting body that brings disparate nations' trade practices into harmony. Nations with largely open economies, like the United States, look to the global trade rules of the WTO to ensure—and compel—market opening in more closed economies. Closed or protectionist economies must commit to opening up, or they don't get in.

The June Clinton-Jiang Summit in Beijing needs to deliver **C-JET**, *Clinton-Jiang Enhancement of Trade.* It is time for the two nations, led by their respective presidents, to close the gap on Chinese accession to the WTO. Time is not on the side of those who would delay.

Let's hope for real **C-JET** at the June summit. It is time to put the two governments' weight behind decisive progress on **GET**—the WTO issue. With definitive gains on **GET**, the US must grant **SET**, permanent MFN, without delay. That would produce **NYET**—No Yearly Everyday Trade—the end of annual MFN at last, removing an anachronistic irritant to a US-China relationship now showing unmistakable signs of wide-ranging improvement.

None of this will happen without controversy in the United States. That controversy demands that we **FRET**—Frequently Reiterate Essential Truths—in Washington and Beijing. The US-China Business Council will do its part. 完

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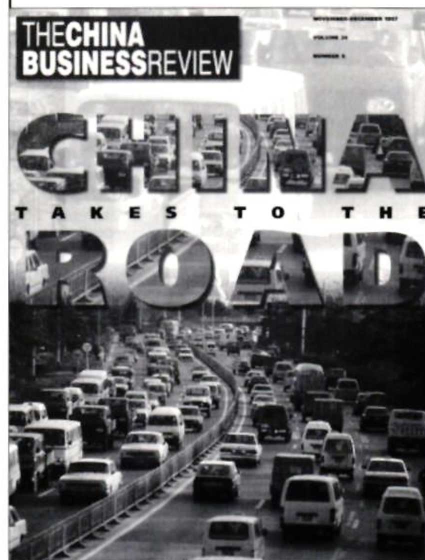

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The Ties That Bind

Kenneth Lieberthal

Since their momentous beginnings in 1972, US-China political relations have continued to affect commercial ties

Business ties have moved from the margins to center stage in Sino-American relations over the past 25 years. But in the history of relations between the world's richest country and the world's largest developing country, the one constant has been that political considerations have limited and shaped actions in the economic realm. That is almost as true in 1998 as it was when President Nixon made his historic visit to Beijing in 1972.

In the immediate aftermath of the 1972 opening, business loomed small in the budding Sino-American relationship. On both sides, strategic concerns dominated calculations. President Nixon's primary objective in early 1972 was to isolate Hanoi to hasten a negotiated "peace with honor" in Vietnam. Over the longer run, President Nixon and his immediate successors nurtured the China tie as an integral part of a global strategy to counter the Soviet Union and its allies. This long-term strategy dovetailed nicely with PRC leader Mao Zedong's motivation to use the PRC opening to the United States as a counterweight to the Soviet military threat to China's north.

Though economic ties were viewed as a useful supplement to the strategic initiative, enormous hurdles blocked the realization of significant business relations in the early years. For decades preceding the opening, the United States had led an international effort to isolate China economically, and in the process constructed an impressive array of laws and regulations to bar business with the PRC. At one point, for example, the US Department of the Treasury, which was responsible for implementing many of these laws, had to rule whether wigs made from the hair of Chinese émigrés into Hong Kong were too "communist" to import into the United States.

PRC-imposed hurdles were equally large. Mao had sought for more than a decade to minimize China's economic ties abroad in the pursuit of national self-reliance. He feared dependence on any single foreign country for supplies of grain and other important goods and wanted to eliminate domestic knowledge of foreign lifestyles. Under Mao, China refused to assume foreign debt and lacked the legal infrastructure necessary to receive foreign investment. Moreover, the PRC educational system failed to develop individuals with knowledge of international economic practices, and China's industry produced few exportable items.

Given such barriers, the early years after 1972 would have seen only limited Sino-US business ties develop even if the leaders of both sides had prioritized commercial relations. Trade levels in the 1970s remained very modest, with the balance tilted in favor of the United States (*see* Table). Because of the overwhelming focus on the strategic importance of the relationship, this attenuated economic development caused little consternation.

Clearing the Way

The psychology of economic relations began changing rapidly, however, as Deng Xiaoping rose to prominence and began in earnest to formulate a reform agenda in 1978. Deng stressed the importance of "opening to the outside world," and business leaders proved keenly attentive to this new message. In 1979, China began to lay the legal and policy groundwork for foreign trade and investment, and many American executives traveled to the PRC, with visions of a huge market in their mind's eye. The Carter Administration worked to clear away the legal underbrush on the US side, winning Most Favored Nation (MFN) trade status for the PRC for the first time in 1980.

Kenneth Lieberthal is the William Davidson Professor of International Business at the University of Michigan Business School. He is also professor of political science at the University of Michigan.

Despite such positive trends and high hopes, the magnitude of reforms required in China, and the need to develop the PRC's human capital, meant that trade and investment grew slowly. Also, the strategic rationale behind the bilateral relationship remained fundamental for both Beijing and Washington. President Ronald Reagan set aside his visceral aversion to all things communist and supported expanded ties with China as a way to complicate matters for Soviet leaders. By the late 1980s, the cumulative effects of improved economic ties, substantial domestic reforms in the PRC, and an easing of Cold War tensions increased the momentum of US-China trade and investment activities.

In 1989, however, the bilateral political relationship, always an important factor in shaping economic ties, sustained serious damage. The events in Tiananmen Square in June severely frayed economic ties; the combination of moral revulsion in the United States and the resurgence of orthodox forces in the PRC quickly dealt a body blow to US trade with and investment in China. Further, the collapse of the Soviet empire during the last six months of 1989 virtually erased the strategic rationale for strong US-China political ties.

The changed political environment produced US sanctions against China, encouraged human rights and other activists to work with Congress to place MFN renewal in jeopardy each year, and made many US firms reticent when it came to defending strong economic ties with China in a hostile public arena. In addition, China's inflation-fighting policies threw the PRC domestic economy into recession, reducing both demand for American products and the ability to absorb US investment.

In sum, despite substantial hype at various points along the way, Sino-American business ties remained modest for two decades after President Nixon's pathbreaking trip to Beijing. Strategic and political factors contoured the economic relationship, and the difficulties inherent in China's protracted effort to evolve toward a market economy limited successful business. During the 1980s, ethnic-Chinese entrepreneurs from Hong Kong and Southeast Asia, who tend to be more comfortable operating in an opaque market where personal ties and special favors count a great deal, proved far more adept than US firms at forging business ties with China. On the positive side, even taking the Tiananmen sanctions into account, the two governments made significant progress during these years in establishing the legal and policy frameworks necessary to develop substantial future business relations.

Full speed ahead

Deng Xiaoping's trip to southern China in early 1992 altered the dynamics of the relationship. The trip, during which Deng memorably urged the country to emulate the commercial success of the Shenzhen Special Economic Zone, jump-started rapid domestic growth and renewed efforts to reform the economic system. The 14th Party Congress in 1993 adopted a series of important measures to shift decisively toward a market economy. Suddenly, China's Gross Domestic Product (GDP) began to expand at annual rates of more than 13 percent, and the country started to attract levels of foreign direct investment (FDI) second only to those of the United States. American businesses took note and stepped up their China activities. Somewhat more slowly, the Clinton Administration, for which US economic growth based on development of the global economy is an article of faith, joined in the effort. The Administration has become increasingly supportive of expanded bilateral business ties since mid-1994, though it has only recently begun to secure a solid political footing for its policy of engagement with China.

US-China business activities have expanded rapidly since 1993, achieving a size and maturity previously unmatched. Bilateral trade mushroomed to $75.3 billion in 1997, albeit with a US trade deficit that has reached politically sensitive dimensions. US direct investment in China has grown apace during 1994-97, totaling over $12 billion in utilized investment (*see* p.34). China has also begun to play a direct role in the US economy. The PRC government now is second only to Japan in holdings of American government debt instruments. And many Chinese firms have invested directly in American operations (*see* p.32).

An assessment of Sino-American business ties over the past 25 years thus must conclude that a strong foundation has been laid. Both trade and investment have reached substantial levels,

RECOLLECTIONS

"My time as director of the Council's Beijing Office was marked by very different phases throughout the five years I held the position. I arrived in September 1988 in the midst of wide-ranging reform, including genuine efforts to improve the environment for foreign investment. This was reflected, for example, by the professionalism and effectiveness of the State Council Leading Group for Foreign Investment, which formed a solid policy development relationship with the Council and helped numerous member companies resolve joint venture-related problems. The aftermath of Tiananmen led to a chillier climate, with a more political focus to the job as the Council worked hard to maintain US-China commercial ties as an underpinning to the broader bilateral relationship then under challenge. This period was in turn followed by the headier times resulting from Deng Xiaoping's sojourn to the South, which touched off an explosion of economic development and member company activity in 1992."

John Frisbie,
Director, Business Development,
GE Plastics Pacific; Director of the
US-China Business Council's
Beijing Office, 1988-93

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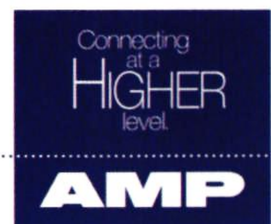


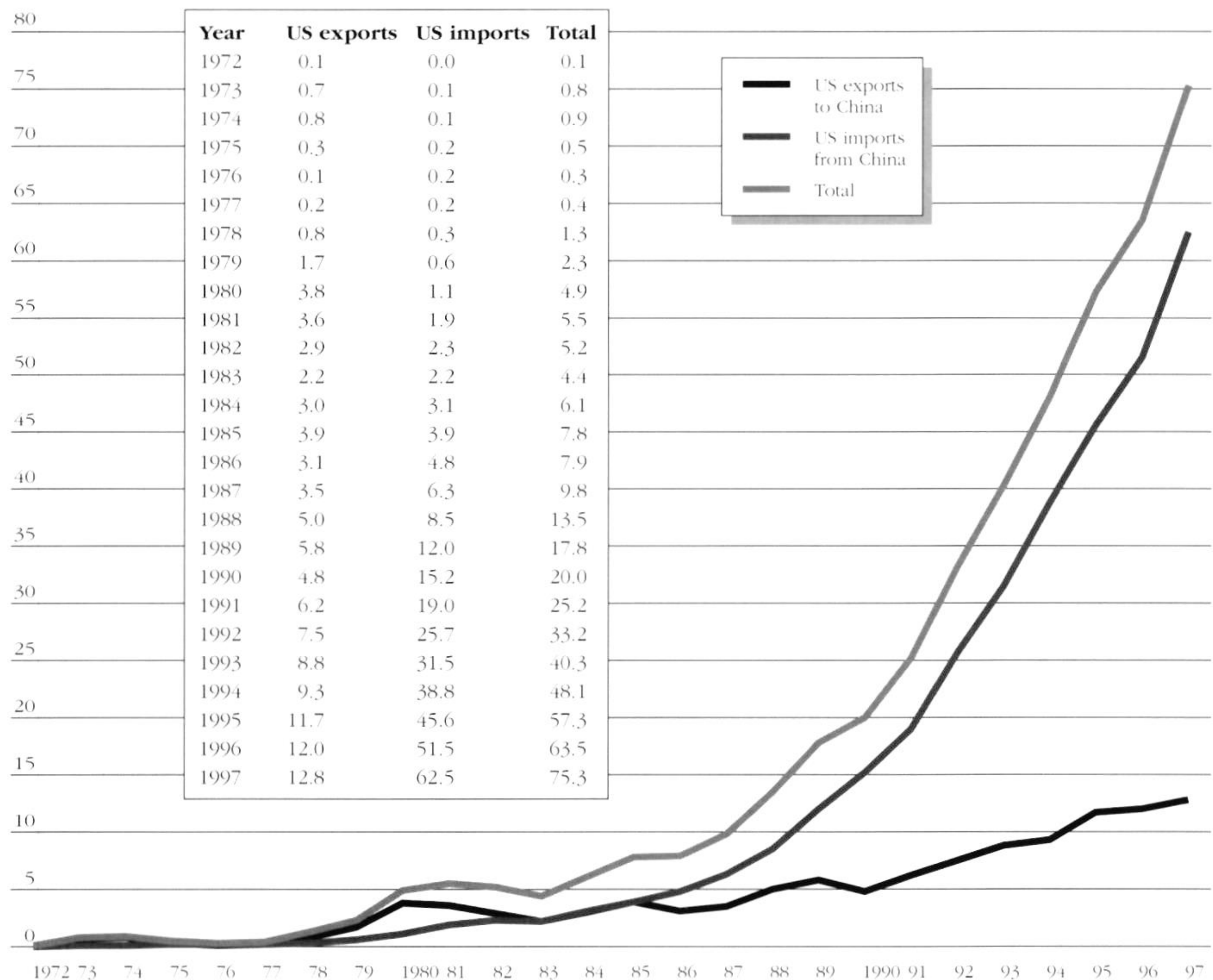
and business relationships have matured. American products in China hold significant market share in sectors ranging from primary foods and consumer goods to information technology and aircraft. And American firms are among the leading foreign players gaining access to China's gradually opening service sector. A substantial share of the products made in China by foreign-invested enterprises are competitive in a broad array of sectors in the United States. In 1997, roughly one-fifth of Chinese exports went to the American market, and 41 percent of PRC exports were produced by foreign-invested enterprises.

Many trends in the Chinese economy provide grounds for optimism about future growth in US business activities in the PRC. Current efforts to restructure the State-owned enterprise (SOE) sector and to put the banking system on a sound footing promise an immediate need for US consulting and investment banking services and, eventually, a more market-driven economy that should foster the type of competition in which US firms thrive. Long-term changes in China have tended toward greater openness, transparency, and predictability, all of which are favorable developments from a US perspective. And China's GDP is reaching a level at which significant consumer dollars are available for the purchase of foreign products.

Not smooth sailing, yet

These strong, positive trends do not exist in a vacuum, however, and significant issues that can cloud the future are not hard to identify. The fact that each of these issues has a political as well as an economic component highlights the important underlying reality that, 26 years after the Nixon visit to China, political issues still heavily shape the Sino-American business relationship. The most prominent issues are the following:

US-China Trade, 1972–1997 (billion $)



Year	US exports	US imports	Total
1972	0.1	0.0	0.1
1973	0.7	0.1	0.8
1974	0.8	0.1	0.9
1975	0.3	0.2	0.5
1976	0.1	0.2	0.3
1977	0.2	0.2	0.4
1978	0.8	0.3	1.3
1979	1.7	0.6	2.3
1980	3.8	1.1	4.9
1981	3.6	1.9	5.5
1982	2.9	2.3	5.2
1983	2.2	2.2	4.4
1984	3.0	3.1	6.1
1985	3.9	3.9	7.8
1986	3.1	4.8	7.9
1987	3.5	6.3	9.8
1988	5.0	8.5	13.5
1989	5.8	12.0	17.8
1990	4.8	15.2	20.0
1991	6.2	19.0	25.2
1992	7.5	25.7	33.2
1993	8.8	31.5	40.3
1994	9.3	38.8	48.1
1995	11.7	45.6	57.3
1996	12.0	51.5	63.5
1997	12.8	62.5	75.3

SOURCE: US Department of Commerce

RECOLLECTIONS

"Here is the story [of the opening of the Beijing Office in 1979]: The Council's first office was a room in the Beijing Hotel (Room 1105). It was a suite with a curtain separating the bedroom area from the 'office.' I think we had one of the few photocopy machines in town, and it was in strong demand (Democracy Wall perhaps would have been covered with paper had photocopy machines been more accessible).... After one year I was able to move from Room 1105 to Room 1136 of the Beijing Hotel. This suite had a door separating the bedroom from the office, and I could see Tiananmen in the distance. This was heaven—and the Council only had to get the assistance of Vice Premier Bo Yibo to make the room switch!"

Richard Glover,
General Manager,
Occidental Chemical China Ltd.;
Director of the National Council for
US-China Trade's Beijing Office, 1979-81

■ **World Trade Organization (WTO) accession** China's accession to the WTO will be important in several respects. While China and the United States both want to reach an agreement on the terms of China's entry, China will not gain membership over US objections. The two sides continue to disagree on the phase-in period for China's entry. The United States, viewing China as a highly successful export economy, is calling for full WTO compliance shortly after PRC accession. China, fearing overwhelming foreign competition in its home market, is arguing for a longer phase-in period. It will take political courage on both sides to hammer out a workable compromise. For the time being, failure to reach an agreement is being blamed squarely on the intransigence of the other side.

But an accession agreement stands to generate enormous benefits for the bilateral relationship. It will provide a quantum leap in the predictability of future Chinese economic reforms, which, in turn, would considerably improve the PRC business climate. In addition, an accession agreement almost certainly will take the MFN renewal issue off the table, stabilizing the relationship.

Yet the financial meltdown throughout much of East Asia, which started in the last half of 1997, may make an accession agreement between the United States and China more difficult to reach. WTO opponents in Beijing may argue that much of the difficulty around Asia stems from the types of market opening that they oppose, including financial sector liberalization. Alternatively, reformers in China may seek to use WTO membership conditions as political cover to make the changes that they feel are necessary for China to become globally competitive over the long term. They may find it convenient to be able to blame the WTO for requiring such changes. Such a strategy already can be seen in economic reform politics in India.

■ **The US-China trade deficit** The US-China trade deficit ballooned to $49.7 billion in 1997, second only to the US deficit with Japan. Though few economists are alarmed about this development—economists generally are reluctant to analyze trade in bilateral terms—politicians are deeply concerned. Devaluations in most of East Asia since the summer of 1997 have tilted trade balances throughout the region against the United States, potentially rubbing raw protectionist sentiment on both the American right (Buchananite Republicans) and the American left (Gephardt Democrats). If, under these circumstances, China should yield to the pressure to devalue the *renminbi* (RMB) to maintain export competitiveness, the political backlash in the United States could prove harmful to bilateral economic relations. Beijing, however, has taken care to maintain the value of the RMB, a stance applauded by the US government.

But the bilateral deficit issue is likely to prove difficult to resolve. China is reluctant to use its hard currency reserves to increase imports for fear it may need to call on these reserves for other reasons, such as helping to support the Hong Kong dollar or straightening out its own banking system. Further, China will need to maintain its export levels, since the PRC is already suffering from excess capacity and high inventories in the production of such items as bicycles, cars, televisions, and washing machines. In addition, China's exports to the United States currently far exceed its imports from the United States. Even if PRC imports were to grow in percentage terms more rapidly than exports, the US trade deficit with China likely would continue to expand.

■ **International agreements** China's inconsistent implementation of international agreements also could remain a problem in US-China relations. The PRC political system has become more corrupt and less responsive to Beijing's dictates on economic and other issues, complicating implementation of such agreements. Beijing is still effective in carrying out policies designated by the top political leaders as high priority and accompanied by a clear understanding that those who fail to toe the line will be held accountable. China's efforts to protect intellectual property rights (IPR), for example, have improved considerably since early 1997. But in reality, the highest political leaders have full dockets. As a result, only a small array of trade and investment issues ever attracts the attention that IPR issues have garnered.

China's failure to live up to international agreements inevitably stiffens the backs of US leaders who must decide

how high to set the bar for China's WTO membership and whether to accept China's promises, such as those to restrict exports of nuclear technology. A poor PRC record in implementing international agreements in the future may risk the imposition of debilitating new US sanctions, which of course would increase political friction.

■ **China's domestic economic performance** As China's economy matures, US producers can expect sharper competition from PRC firms for market share in China. The characteristics of the PRC market will challenge the formulas for success developed by US companies in China to date. Although China's middle class is growing rapidly, it does not resemble the middle classes of the advanced industrial democracies. US firms will have to tailor their products to be both attractive and affordable for consumers whose incomes are low by American standards. The smartest US firms will use what they have learned in China to increase their competitiveness worldwide. Eventually, these companies will find Chinese firms—not just foreign-invested enterprises in China—competing in the US market.

China's domestic economic performance may have other spin-off effects that challenge US-China business ties. Restructuring the State-owned sector and related financial reforms should provide opportunities in both the short and long terms for US firms. But these initiatives also create considerable short-term risks of economic dislocation, high unemployment, slowed growth, and increased corruption. The economic earthquake in much of Asia has also made these initiatives more difficult to pursue. The Asian financial crisis has decreased the foreign invest-

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ment capital available for restructuring SOEs and has increased export competition for the output of China's township and village enterprises and private sector, which in turn has decreased profit margins and job growth. In general, slower growth in China would reduce demand for American products and services.

China is entering a period with considerable potential for more social unrest, especially among workers. If the US trade deficit with China grows in the midst of increasing reports of crackdowns on worker protests in the PRC, US political obstacles to US-China trade will likely multiply. In this connection, the AFL-CIO argues that the US trade deficit with China is largely the result of China's lack of free trade unions. According to the AFL-CIO, if free trade unions were allowed in China, there would be no US-China trade deficit and many jobs would flow back to American workers. In reality, however, most of those jobs would more likely go to Vietnam and other emerging markets.

■ **American politics** American politics could jeopardize the bilateral economic relationship. Ever since the 1989 Tiananmen incident, diverse American advocacy groups—for human rights, nonproliferation, the right to life, and fair trade, among other causes—have sought to link their agendas to alleged abuses in China, arguing that the PRC is the world's most notorious offender in each area. Although Chinese behavior in each of these areas is, to some extent, offensive to American values and/or law, the claim that China stands out among global offenders is generally spurious. China has received this unwelcome attention, rather, because the events in Tiananmen Square created a compellingly horrific set of images of the PRC that provides additional visibility, emotion, and fundraising capacity to any cause that can link its agenda to Chinese conditions.

The potential danger that US politics can inflict on US-China economic relations is illustrated by the case of religion. The evangelical right, by focusing on Chinese treatment of Christians, is trying to wrench the Republican Party away from what it sees as an "amoral big business" agenda to a "morally based conservative values" one. Consequently, China is becoming a wedge issue in the fight for the soul of the Republican Party. The Christian Right's portrayal of this issue lacks sensitivity to changes in either China or overall US-China relations, and their political use of the China issue poses substantial potential danger for US business ties with the PRC.

Politics remains pre-eminent

China-US business relations have traversed a rocky path for a quarter century but have managed to grow substantially. Politics continually has influenced the economic relationship, and stable bilateral ties are just beginning to take root in the post-Cold War era. In this context, it is tempting, but dangerous, to make economic ties the central rationale for the relationship. Economic links, while important, are vulnerable to attack from many angles, from efficacy in producing desired changes in China to morality.

Perhaps the most important accomplishment over the past 25 years is that the overall China-US relationship is now both broad and deep enough to weather trying times in any single area. But healthy US-China business ties will require ongoing attention to the political as well as the economic challenges for a long time to come. 完

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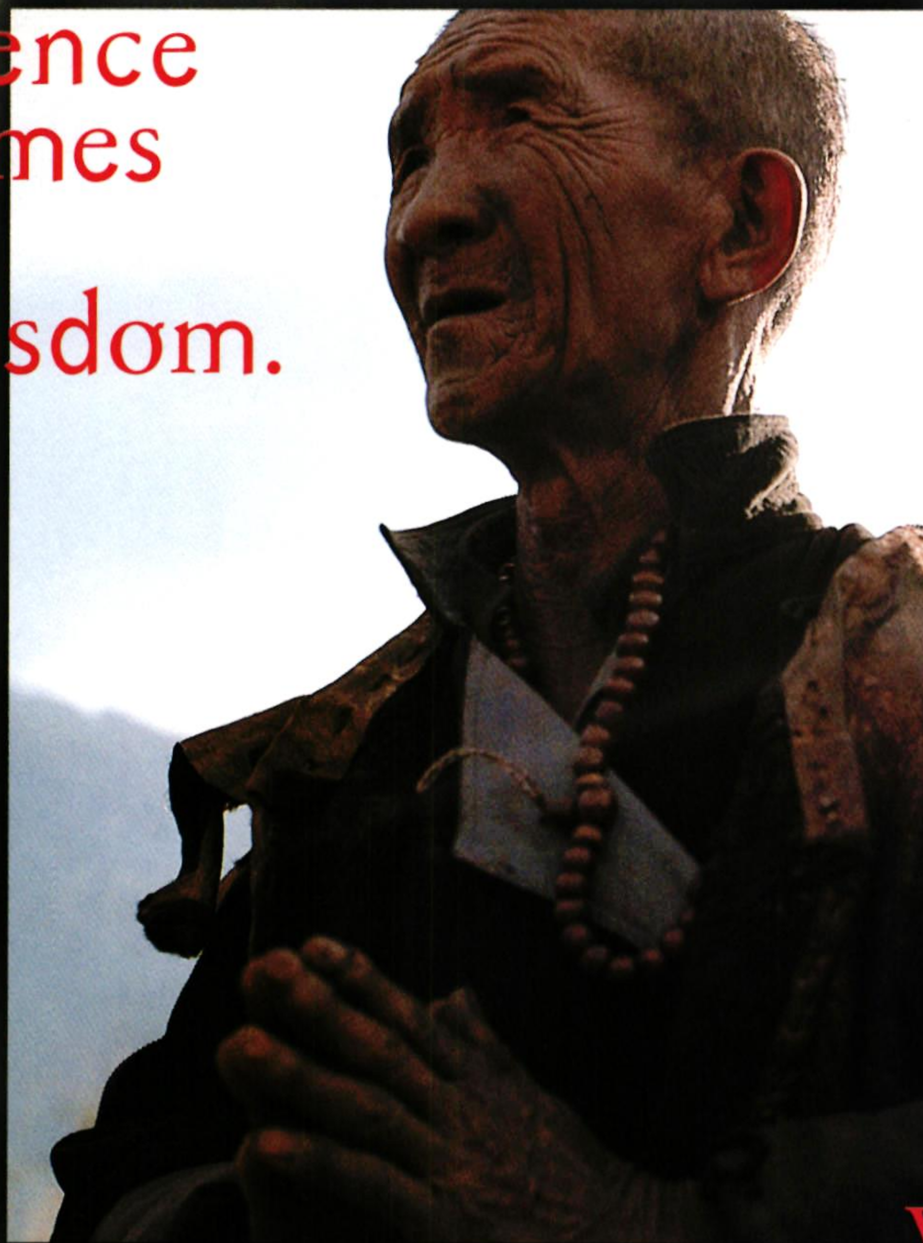
"The attitude of Americans toward China has gone from uncritical fascination to critical scrutiny. Despite improvements in both the economy and in the society as a whole, Americans now are more apt to see China's flaws than they were 25 years ago. I recently went through a box of old souvenirs and documents from my days in China 20 years ago. I happened upon an unsigned letter written by a resident of Shanghai outlining the situation of political prisoners in the city's labor camps. I don't recall doing anything about the letter. Were I to receive such a document today, it would set off a great flurry of activity involving Congress, the Administration, and NGOs."

John Kamm, President of Asia Pacific Resources, Inc., based in San Francisco, and Chairman of Market Access Ltd., based in Hong Kong; the National Council for US-China Trade's Hong Kong Representative, 1976-81

With patience comes wisdom.



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A Retrospective of

1971

Date	Event
June 1971	United States ends 21-year embargo on trade with China

1972

Date	Event
Feb 1972	President Nixon and Premier Zhou Enlai sign Shanghai Communiqué
Feb 1972	The Boeing Co. signs first US aircraft deal with the PRC
Sept 1972	First US grain sale to China
Oct 1972	US firms attend Canton Trade Fair for the first time

1973

Date	Event
May 1973	Chinese Liaison Office opens in Washington, DC; US Liaison Office opens in Beijing
May 1973	Inaugural meeting of the National Council for US-China Trade
Nov 1973	National Council leads 10-member delegation to China for discussions with its PRC counterpart, the China Council for the Promotion of International Trade

1980

Date	Event
Jan 1980	United States awards Most Favored Nation status to China, subject to annual renewal
Jan 1980	China assumes seat in IMF and World Bank

1982

Date	Event
April 1982	First US manufacturing joint venture contract approved between Foxboro Co. and Shanghai Instrument Industry Co.
Sept 1982	Atlantic Richfield Co. becomes the first foreign company awarded a contract to explore and develop oil and gas in PRC waters
Oct 1982	Squibb Corp. sets up Shanghai Squibb Pharmaceuticals Ltd., becoming the first US company to invest in China's health care products sector

1983

Date	Event
June 1983	Former President Richard Nixon speaks at the 10th anniversary of the National Council
Dec 1983	China joins the Multilateral Fiber Agreement

1984

Date	Event
Jan 1984	Premier Zhao Ziyang speaks at National Council luncheon in Washington
Nov 1984	3M sets up first US wholly foreign-owned enterprise in China

1990

Date	Event
Dec 1990	PRC opens stock markets in Shanghai and Shenzhen

1992

Date	Event
Oct 1992	United States, China sign MOU on market access
Oct 1992	AIG, Inc. receives license to operate first foreign-owned insurance business in China
Oct 1992	Brilliance China Automotive Holding Ltd. becomes the first PRC company to list on the New York Stock Exchange

1993

Date	Event
March 1993	Merrill Lynch & Co. opens a representative office in Shanghai, becoming the first US securities firm to operate in China

1994

Date	Event
Jan 1994	China unifies its currency, eliminating Foreign Exchange Certificates
April 1994	United States, China establish Joint Defense Conversion Commission
July 1994	PRC Foreign Trade Law takes effect
Aug 1994	Commerce Secretary Ronald Brown visits China

1995

Date	Event
June 1995	Council opens Hong Kong office

Commercial Relations, 1971-98

1975

- **Feb 1975** National Council hosts a delegation from the China National Textiles Import and Export Corp., the first Chinese delegation to the United States

1978

- **Nov 1978** Coastal States Gas Corp. signs an agreement to become the first US company to import crude oil from China
- **Dec 1978** The Coca-Cola Co. signs first Sino-foreign distribution deal with CEROILS

1979

- **Jan 1979** US-China diplomatic relations established
- **Jan 1979** National Council hosts Vice Premier Deng Xiaoping and President Jimmy Carter at a Kennedy Center gala in honor of Deng's visit to the United States
- **Jan 1979** China promulgates the PRC Joint Venture Law
- **Oct 1979** First PRC-US joint venture contract signed by ES Pacific Development Co. and China International Travel Service to build the Great Wall Hotel in Beijing
- **Nov 1979** National Council opens Beijing office

1979

1985

- **March 1985** Sheraton Corp. takes over management of the Great Wall Hotel, becoming the first foreign hotel chain to operate in China
- **July 1985** PRC President Li Xiannian visits National Council
- **July 1985** PRC Foreign Economic Contract Law promulgated

1985

1986

- **Jan 1986** US-China Bilateral Tax Treaty signed
- **Nov 1986** National Council delegation to China, led by President Roger Sullivan, meets with State Economic Commission Vice Chairman Zhu Rongji

1986

1987

- **Feb 1987** China applies for GATT membership

1988-1989

- **Feb 1988** President George Bush visits China
- **March 1988** 7th NPC promulgates Contractual Joint Venture Law
- **May 1988** Vice Premier Tian Jiyun speaks at Council luncheon in New York
- **June 1988** National Council changes its name to the US-China Business Council
- **June 1989** PRC government suppresses pro-democracy demonstrations; United States imposes sanctions

1996

- **Sept 1996** MOFTEC Minister Wu Yi addresses Council luncheon
- **Dec 1996** Reminbi becomes convertible on the current account

1996

1997

- **Jan 1997** Council opens Shanghai office
- **March 1997** Council Board delegation to China, led by Chairman Donald Staheli, meets with Vice Premier Li Lanqing
- **April 1997** Council co-hosts luncheon for Foreign Minister Qian Qichen
- **July 1997** Hong Kong becomes a PRC Special Administrative Region
- **Oct 1997** At the summit in Washington, DC, President Jiang Zemin and President Clinton agree to take steps to initiate civilian nuclear trade; Jiang speaks at dinner in New York co-hosted by the Council
- **Oct 1997** China announces purchase of 50 planes worth $3 billion from The Boeing Co.

1997

1997

1998

- **Jan 1998** Defense Secretary William Cohen meets with President Jiang Zemin and Defense Minister Chi Haotian in China, signs Military Maritime Consultative Agreement
- **March 1998** US-China Peaceful Nuclear Cooperation Agreement implemented

Lessons Learned

Kimberly A. Silver

The experiences of pioneer and veteran investors show where the opportunities—and dangers—lie for more recent arrivals to the China market

Once an isolated, purely socialist system, China's economy has matured and turned outward to the degree that negotiations over the country's accession to the World Trade Organization (WTO) now may be completed within months or years rather than decades. At the same time, its domestic industry remains in a state of transition. Foreign investors continue to weather policy fluctuations and face uncertainties about Beijing's attitudes toward, and future legislation of, their activities in China.

In such an environment, more recent arrivals to the China market would do well to heed the experiences of a group of foreign investors whose involvement with China began in the early stages of the country's "Open Door" policy. These pioneers of foreign investment, who plunged a mere $18.5 billion in investment into China by 1989, paved the way for later investors to sink another $204.3 billion into China in the 1990s. Total accumulated utilized foreign investment in the PRC reached $223 billion in 1997. The earliest ventures, which by now have been operating in China for over a decade, may provide some reassurance to investors frustrated by the restrictions on foreign investment initiated by Beijing in the mid-1990s. And the lessons they have learned answer, in part, the question of whether dreams of a lucrative China market mirror reality at all.

Interviews in Hong Kong and China in mid-1997 with nearly two dozen companies that had established a presence in the PRC in the 1980s revealed that firms followed a wide range of strategies and made very different choices when entering or expanding their operations in China. Their decisions were guided largely by the level of risk companies wanted to bear in braving the China market. The vast majority of these firms started out by setting up manufacturing operations, while others opted to transfer technology or open sales offices as lower-risk methods of establishing a China presence. Of the 22 companies surveyed, 6 were in the machinery sector, 4 in high technology, 4 in consumer goods, 4 in food and agricultural products, 2 in services industries, and 2 in the medical and pharmaceutical sector. Ten set up their initial offices or ventures in Shanghai, 7 in Beijing, and the remaining 5 chose to locate their first operations in other coastal cities.

The firms were selected for study because of their relatively long operating history in China, and their continued commitment to developing their presence in the market. Indeed, these companies' early histories offer insights into the viability and validity of more recent China investments. The study produced a number of general findings about what foreign companies consider the keys to their ability to sustain their presence, and thrive, in China.

Kimberly A. Silver is former director of the Business Advisory Services department at the US-China Business Council's Washington, DC Office.

Choose your partner and location wisely

Where and with whom a company sets up its initial investment appear to be the most important determinants of a venture's success. A number of companies also attributed their success in China to their ability to zero in on the right market by identifying a segment of consumers or endusers with suffi-

ciently high standards of living or demand growth to support their products. For example, Continental Grain Co.'s entry into Guangzhou's grain-processing market in the early 1980s coincided with local farmers' desire to advance production processes. Economic conditions in Guangzhou at the time also were ripe for sales of the company's feed products. Conversely, one manufacturer of consumer goods encountered overcapacity in the market for its products only five years after establishing a joint venture. The company was forced to downsize the venture by 80 percent, and though the venture still exists, the firm admits the joint venture has outlived its usefulness.

Many companies that set up operations in the key cities of Beijing and Shanghai in the 1980s have witnessed former municipal supporters move up the ranks to positions of power in Beijing. For example, The Coca-Cola Co.'s concentrate plant in Shanghai was approved in 1988 when Zhu Rongji, now PRC premier, was mayor, and President Jiang Zemin was Party head. The company has since expanded and become a national player.

Selection of a suitable partner is just as critical to success as location. While partner selection criteria vary depending on a foreign investor's objectives, a synergy of interests and mutual dedication to achieving similar goals facilitates a venture's progress. Certain foreign investors chose to link up with partners that manufactured complementary products or components. Others noted that they formed ventures with Chinese manufacturers of similar products, both to take advantage of their existing product knowledge as well as to preempt future competition. A number of investors indicated that they sought a partner that was committed to introducing organizational or operational changes, boosting technology levels, and enhancing product quality. Yet overall, a majority of companies believed that the most critical factor in their venture's success was their partner's cooperation in achieving long- and short-term goals.

Companies with strong partners tended to want to sustain their partnership rather than buy out their PRC counterparts. One medical and pharmaceutical equipment manufacturer, for example, has not sought to change the equity ratio of its initial venture (60-40), as both sides recognize the mutual benefits of the current arrangement. Moreover, each side matches the other in profit reinvestment to continue expanding the operation's capacity and developing the market. Another firm, a machinery manufacturer, came to China with a certain set of goals in mind: to establish domestic production facilities, introduce superior technology to China, and gain market share. The firm chose a partner also interested in manufacturing higher technology goods, yet with its own goals of improving its engineering skill base and boosting the joint-venture plant's high-value production. The partners' overlapping interests likely explain the venture's ranking among the top four manufacturers of such machinery in China (the other three competitors are State-owned enterprises). The partners have since extended the joint-venture contract, retaining the same equity split.

But not all companies have had such rosy experiences. Stories of a local partner's misrepresentation of its capabilities and diversion of the foreign partner's funds are not uncommon. One recurring theme in many cases is the inability of State-owned enterprises to reinvest their share of the profits, as many such firms need the funds to support their other businesses that are operating in the red.

Nonetheless, most of the foreign companies encountering difficulties with their partners are tackling the problems and moving ahead. One US high-technology firm, when confronted with its partner's misappropriation of the joint venture's funds, sent in a new general manager, who succeeded in tightening control over the venture's books and cutting costs significantly. The venture has since paid off all of its US dollar loans and most of its *renminbi* loans and the foreign partner has increased its investment to further expand production. Another firm, involved in the processing of food and agricultural products, discovered that its PRC partner had failed to disclose that it had lost contracts with some of its raw materials suppliers. The US firm overcame this setback by buying out the partner and retooling the factory to manufacture a different product.

RECOLLECTIONS

"In 1972-73, there were very few US businesspeople working in China. Most of us congregated at the Tung Fang Hotel (old wing) for the spring and fall Canton Trade Fair. Friendships were built in those first days that have lasted almost three decades. That was easy, since we were all initially forced to share rooms together and also shared long nights on the hotel's public telex machines punching out tapes for transmission of messages and waiting for hours to send them out. The Tung Fang was the location of the first NCUSCT [National Council on US-China Trade] 'office'—a little room where we hung about to commiserate, and share war stories, warm beer, and plates of ice cubes (when available)."

Paul Speltz, President, ATC Inc.

Increase your stake, aim for majority equity

Unless restrictions prohibited foreign majority stakes in a venture, most foreign investors started with at least 50 percent equity in their joint venture. When government regulations paved the way for greater foreign equity participation, or when the opportunity presented itself, nearly two-thirds of the companies interviewed increased their equity stakes. Most firms sought to increase their equity to over 50 percent, as majority equity may translate into greater board and management representation and, consequently, heightened control over the venture's strategic planning.

Before gaining greater influence in decisionmaking, many foreign companies had found it difficult to achieve their goals for the China market. Problems arose from differences with Chinese partners, which tended to have a more static view of market development or else had goals at odds with those of the foreign partner. In some cases, foreign companies acquired additional equity in an effort to inject the capital necessary to expand operations, because their Chinese partner could not match the levels needed to retain the existing equity split. Half of the firms interviewed sought roughly 50-75 percent of the total investment, while another 20 percent acquired complete control over the operation (*see* Table 1).

Lengthen your contract

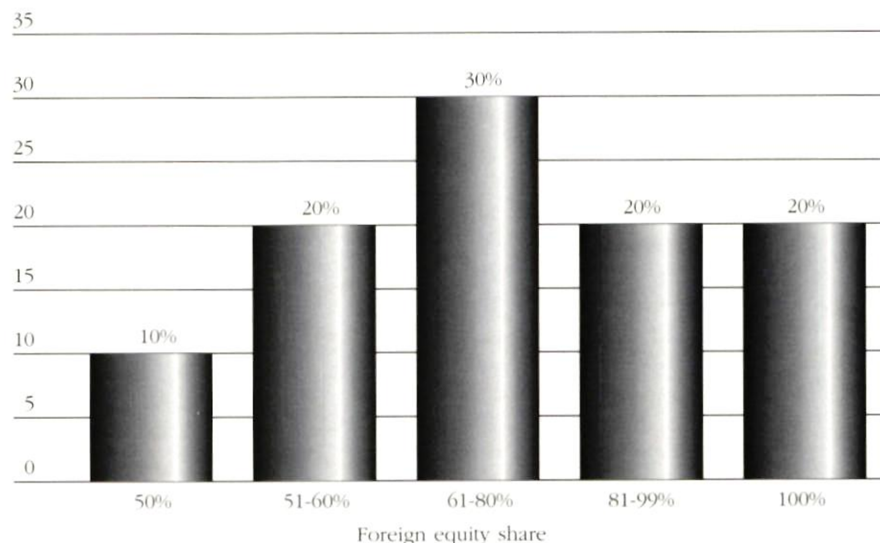
Longer contracts tend to indicate a strong commitment by both parties to the success of the venture and facilitate cooperation. Among companies that invested directly in China, 69 percent entered into 10-year contracts; the remaining 31 percent signed contracts with terms ranging from 15-30 years. More than one-third of the interviewed companies eventually extended their contracts. McCormick & Co.'s initial contract was for 15 years, but the firm decided to lengthen the term to 30 years before the contract even expired. Computer hardware manufacturer Hewlett-Packard Co. (HP) signed a 10-year contract beginning in 1985 and extended it for another three years when it expired. HP officials planned to renew for a longer period when that extension expired. And when Babcock & Wilcox's initial 10-year contract came up for renewal, the company opted to renew for 40 more years.

Build your strategy around a niche

The companies interviewed were models of a pattern probably familiar to many multinationals that invest in emerging markets: enter a segment of the market not yet swamped with competition, and make a mark before the competition does. Half of the firms interviewed entered the market as the only foreign participant in their sector, with Chinese manufacturers in the sector producing goods well below foreign standards. Sino Fluor, Fluor Daniel's joint venture with Beijing Petrochemical Engineering (BPEC), was established in 1985 to carve out a niche in project management, rather than compete directly with local design institutes. Sino Fluor serves as a facilitator between its parent companies, Fluor Daniel and BPEC, and Chinese design institutes, construction contractors, and equipment vendors, by providing engineering and construction services to foreign and PRC clients in China.

When The Foxboro Co. invested in the first US-PRC manufacturing joint venture in Shanghai in April 1982, the venture manufactured control system hardware, a product which, at that time, was available only through import channels. McCormick, to date, has no nationally branded domestic competition, and competes only with PRC regional brands and imports. By finding niches in the market, these and other foreign-invested ventures have profited.

TABLE 1
Foreign Equity Shares of Joint Ventures



SOURCE: Kimberly A. Silver

The early bird reaps the profits—and what he sows

The good news about companies that invested in China in the 1980s is that over 80 percent of their initial ventures turned profitable within 10 years. Almost 63 percent were profitable in under two years, while three-quarters had achieved profitability by the end of the fifth year (*see* Table 2).

An obvious advantage these companies had over firms entering the market today was the benefit of time. The early entrants had a head start on their competitors—both domestic and foreign—before the markets for their products developed. Moreover, by establishing a presence before Beijing imposed austerity measures in the late 1980s to slow inflation, these companies were poised to take advantage of the economy's rebound in 1992-93, when many competitors were just arriving in China. Key drivers of profitability were the ability of

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BE THE FOUNDATION FOR EVEN

GREATER ACHIEVEMENTS

THROUGH THE NEXT CENTURY.

Congratulations to the US-China Business Council on the accomplishments of the first 25 years.

Ford Motor Company

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RECOLLECTIONS

"I remember CCPIT [China Council for the Promotion of International Trade]'s first trip to the United States, in 1974, which I helped to organize. On the Chinese delegation was a Chinese lawyer. We attended a meeting of the American Association of International Law, and 40 American lawyers and businessmen gathered to meet this one Chinese lawyer—that was how hungry we were for information.... One of the reasons I enjoy my China-related work is because the group of people that has worked with China since the 1970s is one of the most collegial groups of lawyers, businesspeople, and academics around."

Benjamin P. Fishburne, III, Partner, Winston & Strawn, and Chairman of the US-China Business Council's Legal Interest Group in Washington; former General Counsel and Assistant General Counsel of the US-China Business Council

companies to set standards in equipment and technology; manufacturing a product in China that previously had been imported; or possessing operational leverage, such as a superior managerial organization or workforce.

Only a few of these companies valued profits over market share. The firms that stressed early profitability—as early as within the first year of operation—generally relied on export sales to reach such goals. After assuring a steady profit stream, the ventures turned their sights to competing on the domestic market. A few companies, notably in the consumer goods sector, indicated that the rate of profitability in China was similar to the rate in their industry in other parts of Asia.

On a more somber note, nearly one-fifth of the ventures, across a range of sectors, were still not profitable after 10 years. However, a number of these companies were quick to emphasize that certain ventures were not set up purely to generate profits. Rather, their early ventures were established to facilitate sales of other products and boost name recognition. In this context, some companies with less-than-stellar returns consider these initial investments to have been successful, and have expanded elsewhere in China.

Some companies, both profitable and not-yet profitable, admit in retrospect that they were not in the right place at the right time, and that this limited their profit margins. These companies in some cases misjudged the market, manufacturing an advanced product unaffordable to many consumers. Others fell victim to unanticipated changes in their target market. Some were stymied by regulatory or policy changes that altered the base upon which their venture was structured. For example, some firms were affected by regulations regarding sourcing or distribution activities of Chinese partners; others had to deal with new policies that favored imported over locally manufactured goods; and still others were faced with "buy local" campaigns that excluded joint venture-manufactured goods. Meanwhile, some firms ran into unforeseen—and expensive—problems in sourcing raw materials, such as insufficient quality or an unexpected shortage, which forced them to use imported rather than domestic inputs.

The vast majority of foreign parties in profitable PRC joint ventures reinvested their profits in the original venture or ventures, or expanded operations and sales forces in other parts of the country. A few companies perceived that their dedication to the growth of the venture exceeded that of their Chinese counterparts, especially if the partner was a State-owned enterprise that needed to use its profits to finance other aspects of its operations. Nearly 20 percent of the foreign companies, however, reported that their PRC partners had matched their contributions—and all of these ventures had reached profitability in less than 5 years, further reflecting the importance of partner selection.

LIFE AFTER TAX BREAKS

All of the joint ventures included in the study enjoyed China's standard tax breaks for foreign-invested enterprises of two years exempt, and three years of reduced taxation following the first year of profitability (*liang mian san jian*). By June 1997, 62 percent of the ventures that enjoyed this and other tax breaks had seen those benefits expire, while nearly all benefits for the remaining 38 percent of the ventures were to run out within the next several years. Only 31 percent of the profitable ventures qualified for extended tax breaks—generally, an additional three years of reduced taxes—by contributing to their venture "preferred" technology, or by relocating to a high-technology zone. In many cases, these additional benefits had expired as well. Overall, the loss of these tax breaks has not adversely affected the ventures' operations or the foreign company's commitment to the market; most have taken it in stride as a cost of doing business in China.

TABLE 2
YEARS TO PROFITABILITY

TIME (YEARS)	PERCENTAGE OF PROFITABLE VENTURES
1-2	62.5%
3-5	12.5%
5-7	0.0%
8-10	6.0%
not profitable after 10 years	19.0%

SOURCE: Kimberly A. Silver

Foreign companies felt differently about China's imposition of new taxes, or removal of other tax benefits. A number of US companies complained about the burden to their operations of the value-added tax (VAT). One equipment-manufacturing firm considered it a double blow in 1994 when Beijing imposed the VAT at the same time that duty-free import exemptions were granted to certain high-profile State projects. Despite the fact that the firm was manufacturing within China, transferring technology, and utilizing domestic materials, the firm's products were rendered more expensive than imports from competitors with the addition of the VAT and loss of tariff barriers for imported goods. On the upside, none of the ventures surveyed suffered from the late-1995 revocation of the longstanding duty exemption on capital equipment imports, since all had long ago completed their imports of capital equipment. The severe drop in total contracted foreign investment at the end of 1997—down 29.3 percent, to $51.8 billion—indicated that new investment was going to slow markedly under this policy. In recognition of the pain that the repeal inflicted on more recent investors, Beijing subsequently eased its policy somewhat (*see The CBR*, March-April 1998, p.4).

Another lesson learned by veteran investors, which Beijing policymakers and less seasoned foreign investors might want to consider, is that China's current tax structure encourages companies to form new investments to take advantage of tax benefits, rather than increase the investment in existing ventures to expand production or improve efficiency. Thus, while the contribution of high technology might generate a few extra years of reduced tax rates, the injection of additional capital does not.

Commitment to the Market Is Key

Of all the companies interviewed, only three decided against expanding their total number of facilities in China. Such companies, including Foxboro and Babcock & Wilcox, believe that their original locations have served their interests well, as they have been permitted to expand existing operations to better access the market.

The other 19 companies, however, followed different expansion paths. Many have established up to 10 manufacturing entities in China. From its initial 1987 investment to produce air compressors, Ingersoll-Rand Co., for example, has increased its total number of equity joint ventures (EJVs) from one to five. The company now has ventures manufacturing rock drills and accessories, bearings, pneumatic tools, compressors, and road machinery. Ingersoll-Rand also set up a holding company in 1996 in Shanghai. Johnson & Johnson has boosted its presence from one EJV (manufacturing adhesive bandages) to 3 EJVs, 2 wholly foreign-owned enterprises (WFOEs), and a representative office. Eastman Kodak Co., which initially transferred technology for color film and paper, has seen its presence grow to one cooperative joint venture, which manufactures optical lenses, 2 EJVs in document management, 2 WFOEs—one for electric flash units and point-and-shoot cameras, and the other to manufacture mini-labs—and 10 representative offices nationwide. In March 1998, Kodak announced it will invest more than $1 billion in the next several years in several PRC companies to produce "Kodak branded world class" products.

The US-China Industrial Exchange, Inc., which established a sales office in Beijing in 1981 for high-technology, scientific, and industrial equipment, now boasts 3 sales offices, a WFOE logistical and management center in Tianjin, formed in 1995, and an EJV hospital in Beijing, formed in 1997. A few other corporations, such as ABB Inc., which manufactures machinery for electric power generation, transmission and distribution, industrial and building systems, and rail transportation; and Coca-Cola, will have nearly two dozen facilities in China by the end of the century.

Perhaps the investment path taken by old-timers in the China market that has the greatest implications for more recent arrivals is their formation of holding companies. Half of the companies interviewed have formed or were in the midst of forming holding companies, implying a confidence in the expansion of their investment interests in China. Many of the companies use their newly formed holding companies to coordinate their current and planned China investments and to manage PRC-based sales offices, sales forces, or marketing activities. Some set up holding companies to take advantage of tax benefits. Remitting profits to the holding company rather than their parent company in the United States enables them to avoid US taxes on the transaction, while at the same time providing funds for future investments in China.

Indirect Investments Can Also Yield Profits

The companies that began their China involvement through technology-transfer agreements, rather than

RECOLLECTIONS

"Communicating from China was always a problem. Cables had been replaced by telexes late in the 1960s but telephone connections were still very difficult and expensive. In the early 1970s, the Tung Fang Hotel [in Guangzhou] only had six telex machines for hundreds of foreigners to use. To send a telex required the preparation of a tape into which the message was embedded. Armed with the tape it was then necessary to book a connection to the home office.... It was always assumed that the Chinese corporations received copies of our inward and outward telexes. To reduce the negotiating advantage that this provided, most traders created elaborate coding systems for their messages. I've often wondered what the Chinese thought of some of my telexes, as they were full of references to antics of wild animals (an animal name referred to a particular code)."

—David Cookson, President, David Cookson & Co.

full-fledged joint ventures, proved that a wide variety of outcomes can emerge from choosing a less direct form of participation in the China market. The interviewed companies' technology-transfer agreements varied in length from 5-15 years. Only one agreement eventually rolled over into a joint venture, although two other foreign firms were considering entering into joint ventures with the recipients of their technology.

Four of the companies chose technology transfer as a way to test the investment environment in China. These companies wanted to gauge their ability to work with a potential PRC partner to utilize, market, and sell the foreign company's technology. Companies that discovered that they were unable to work with the recipient of their technology on a joint-venture basis nonetheless valued the royalties earned. Other companies contemplating future involvement in China transferred only non-core technology out of fear of creating a domestic competitor to their own potential PRC investments that might incorporate core technology. Still others had no interest whatsoever in a future manufacturing venture. Rather, they approached the technology transfer as a one-off business deal to generate revenues through royalties, which they considered a low-risk way to raise cash.

Regardless of the motivation for transferring technology, a majority of technology transferors noted that the Chinese recipients had become dissatisfied after discovering that the technology they had explicitly requested—and received—was outdated. In such cases, Chinese companies dismissed the fact that the technology generally was more suited to China's level of development. These early transferors have largely moved on to form joint ventures, often involving a related or more advanced iteration of the initial technology, but not necessarily with the original recipient of the technology. Indeed, recent technology transferors have found PRC authorities to be taking a harder line on certain issues relating to technology imports, such as a growing antipathy on the part of PRC officials to permit tax "gross-up" clauses in technology-transfer contracts. Such clauses guarantee a foreign transferor a certain fee after the licensee pays PRC withholding taxes (*see The CBR*, January-February 1997, p.25).

The payoff

Companies that entered China in the mid-1980s have the benefit of perspective, which is serving them well in the current climate of stiff competition and retreating tax benefits. While the attitude among some veteran investors might best be described as sobered, firms are hardly withdrawing funds from China. Rather, both old and new investors seem to have adopted a more cautious attitude than they had when they first arrived, tempered by the realization that the market itself is in flux.

Not all of the original ventures have been success stories. But many firms that entered the market in the early days of China's opening to the international economy achieved profitability within a reasonable timeframe. The competitive landscape has certainly become more complex over the years, though, and the same profitability rates for newer ventures might not be as easy to attain as for their predecessors.

If nothing else, the stories of the early investors in China indicate that, for newcomers to the PRC, the question is not, "Is it worth it to be in China?" Rather, the question is, "How can we make it worth our while to be in China?" The interviews make it clear that no two strategies for the China market are alike, especially among companies that are doing well. Moreover, the definition of success is far from uniform. Some companies that have yet to turn a profit, or whose returns have fluctuated over the years, still view their China ventures as successful in the context of their overall strategies.

China's own, sometimes erratic efforts to protect domestic firms are adversely affecting foreign investment levels and some foreign investors in the short term. Yet when viewed through a 10-year periscope, such adversity fades in relation to the potential of the market. All of the early investors indicated that China investments require commitment, patience, and planning. In the long run, the increased competition brought about by Beijing's continued, if gradual, opening to foreign involvement in its economy is healthy. And companies that are able to learn from their own and others' experiences will be better able to take the hard knocks in stride. 完

ON THE OCCASION OF THE 25TH ANNIVERSARY OF THE US-CHINA BUSINESS COUNCIL,

CHAIRMAN OF THE ALL-CHINA FEDERATION OF INDUSTRY AND COMMERCE

JING SHUPING

GRACIOUSLY DELIVERED THE FOLLOWING MESSAGE:

促进中美贸易交往

发展双边友好合作

经叔平

一九九八年三月

"PROMOTING US-CHINA COMMERCIAL ENGAGEMENT,

DEVELOPING FRIENDLY COOPERATION BETWEEN BOTH SIDES."

JING SHUPING

MARCH 1998

Snapshots of China Business, 1974-98

US-China commerce as seen through 24 years of *The CBR*

Perusing the first issues of *The China Business Review*, which started publishing in 1974, is like traveling back in time…until you cover up the date and realize that much about China business remains unchanged. Though *The CBR* no longer runs articles on the question of US and Chinese assets frozen overseas in 1949, a host of issues re-appear almost yearly and are achieving timeless status.

The following are some highlights from *The CBR* archives that show just how far US-China business has come, and how far it has yet to go.

MOST FAVORED NATION (MFN) TARIFFS

THEN

For Americans, many imports from China are out of reach so long as China sticks to international prices, because discriminatory US tariff duties on Chinese goods in many cases make them noncompetitive with similar products from other countries. This was an unhappy revelation to importers new to the [Canton Trade] fair who found "good buys" wiped out after consulting the National Council [now the US-China Business Council]'s copy of the Tariff Schedules. Foodstuffs, manufactured goods and textiles are in this category, though Chinese textiles are of such unusual quality that buyers generally are less deterred by the higher duties.

(May-June 1974)

NOW

The June 24 decision by the US House of Representatives to maintain normal trade relations between the United States and China by refusing to abolish Most Favored Nation (MFN) tariffs on Chinese imports, although the eighth consecutive case of MFN preservation, must not be regarded as "business as usual."

…The extent and the ferocity of this spring's assault on MFN, and on normal US-China relations, deepened the discussion of US-China relations throughout American society. No one can say that the opponents of MFN and those dedicated to downgrading US-China relations did not have their chance to speak this year. They threw everything they had into their attack, including massive media efforts, virulently inflammatory language, shaky numbers, misleading statements, and plenty of bitter assaults on the integrity of MFN's supporters.

(July-August 1997)

JOINT VENTURES

THEN

This is a new issue for us. As long as China's sovereignty remains intact, and the conditions are appropriate, this matter can be considered. (*CBR* interview with PRC Liaison Office Commercial Counsellor Peng Jinbo.)

(January-February 1979)

NOW

In 1997, the number of foreign direct investment (FDI) contracts totaled 21,046; the amount of FDI contracted reached $51.8 billion; and the amount of FDI utilized was $45.3 billion. Total accumulated utilized foreign investment in the PRC reached $223 billion in 1997.

(May-June 1998)

FOREIGN INVESTMENT OBSTACLES

THEN

The thorniest problem facing most foreign companies pursuing investment projects in China can be summed up in two words: foreign exchange.

(May-June 1986)

NOW

By mid 1994, the top three concerns [of foreign investors in China] had become:

- Inflation
- Rising accounts receivable, and
- Bureaucratic interference

(May-June 1995)

FINANCE

THEN

The first direct loan offered China by a Western bank is believed to have been the $5 million short-term rollover facility at 5/8ths over the London Interbank Offer Rate, provided the Bank of China by the Bank of Montreal. This was reported on January 29, 1979.

(January-February 1979)

NOW

The intense financing requirements of China's large infrastructure projects, coupled with the higher cost of borrowing in Hong Kong and Singapore, have already led to a significant increase in the number of loans syndicated in Shanghai. Recent deals included a $37.4 million loan arranged by ABN-AMRO Bank for China Xinhua Airlines, and a $20 million loan arranged by four Japanese banks for the China International Iron and Steel Investment Corp.

(March-April 1997)

THE *RENMINBI*

THEN

At the Spring 1972 Canton Trade Fair rates for the US dollar were first quoted. But *renminbi* quotes were still given vis-à-vis sterling, as a single buying and selling rate. Forward cover was also available, based on a premium established by the BOC. No market forces entered into either spot or forward rates….Total convertibility of the Chinese yuan does not exist, and may never.

(May-June 1974)

NOW

On December 1, 1996 China announced that the country is in compliance with Article 8 of the International Monetary Fund (IMF)'s articles of agreement, formally making the country's currency convertible on the current account…FIEs now have virtually unrestricted access to foreign exchange transactions for trade-related purposes, though controls remain in place on capital account transactions.

(January-February 1997)

THE EXPORT-IMPORT BANK OF THE UNITED STATES (EX-IM BANK)

THEN

The US Ex-Im Bank will not provide enough of a competitive edge for US companies to take up a good share of

THE US-CHINA BUSINESS COUNCIL WAS HONORED

TO RECEIVE THE MESSAGE BELOW FROM THE CHAIRMAN OF

THE CHINA COUNCIL FOR THE PROMOTION OF INTERNATIONAL TRADE YU XIAOSONG:

祝賀美中貿委會成立廿五周年

中美經貿合作之橋

俞曉松

戊寅仲夏于北京

"IN CELEBRATION OF THE 25TH ANNIVERSARY OF THE US-CHINA BUSINESS COUNCIL

BRIDGE FOR CHINA-US ECONOMIC AND TRADE COOPERATION"

YU XIAOSONG

BEIJING

SPRING 1998

Snapshots

the China market. Hopefully, by the time its facilities are available for China's suppliers in the US, our Ex-Im Bank will also have arranged interest support agreements with commercial banks paralleling those in Europe and Japan. These plans are now on the drawing board.

(January-February 1979)

NOW

Despite Ex-Im Bank's willingness to match soft loan offers by US competitors, US exporters will continue to be at a disadvantage, as a result of Ex-Im Bank's inability to initiate such loans.

(July-August 1996)

THE US-CHINA PEACEFUL NUCLEAR COOPERATION AGREEMENT

THEN

As *The CBR* goes to press, hope is mounting that the impasse over a US-China Nuclear Cooperation Agreement will soon break.

(July-August 1985)

NOW

...Prior to 1997, no US President had made the certifications necessary to implement the [US-China Peaceful Nuclear Cooperation] agreement....Once the agreement becomes effective, likely this spring, US companies will be able to begin export licensing procedures.

(March-April 1998)

EXPORT CONTROLS

THEN

According to most American sellers of high technology, the cumbersome nature of the licensing regulatory process not only erects obstacles to the development of Chinese markets but also undermines US credibility throughout the world as a reliable supplier....Currently it can take up to 30 months to get a validated US export license for telecommunications, computer and electronic equipment.

(November-December 1979)

NOW

As the cases of nuclear equipment, semiconductors, and supercomputers indicate, the US export control system, as currently structured, has drawbacks for US businesses. Increased availability to China of foreign high-tech goods has limited the effectiveness of US export controls and hindered US competitiveness. The system prevents certain US suppliers from entering the PRC market, while foreign competitors gain footholds.

(March-April 1998)

PRC INSPECTION OF IMPORTED PRODUCTS

THEN

According to the spokesman, the CCIB [China Commodity Inspection Bureau] is authorized to inspect all imported goods. All such goods are inspected after arrival in the port. These inspections are supervised or directly carried out by the CCIB. In addition, some endusers or other corporation officials may be called in to assist with the inspection.

(January-February 1978)

NOW

Manufacturers must pay substantial fees to SACI [State Administration for Import and Export Commodity Inspection, CCIB's successor] for testing the samples, and must pay for onsite inspections at the production facility. The entire application process can take up to six months, though industry sources point out that the time frame may also depend on how strictly the government wants to control imports of the product in question.

(May-June 1997)

CONSUMER GOODS

THEN

Consumption of consumer commodities in the PRC differs from other countries in that many goods are collectively owned. It is common for factories, communes, offices, stores, hospitals, and schools to share television sets, washing machines, and refrigerators. Moreover, consumer goods often act as 'producer goods' in State enterprises.

(March-April 1975)

NOW

Nationwide, 81 percent of households surveyed own at least one bicycle, roughly 60 percent have electric fans and radios, 54 percent own black and white televisions, and 40 percent have color televisions. Over one-third of the households have electric rice cookers but only 9 percent own telephones.

(September-October 1995)

CHINA'S OIL

THEN

...The impact of China's oil development onshore and offshore has political significance, reflecting Peking's enmity toward Moscow, future ties with Taiwan, and leadership of developing nations, that cannot be overemphasized. In the long term, with millions of dollars of equipment and possibly billions of dollars of crude oil supplies at stake, US oil companies—critical to the speed of development of China's oil resources—must decide where their long term interests lie.

(January-February 1974)

NOW

Through October 1993, US companies had spent $1.23 billion for exploration and $300 million for development in these [offshore oil] areas.

(July-August 1994)

ENVIRONMENTAL PROTECTION

THEN

China hopes to take on a modern industrial infrastructure without the noxious side effects: Since May 1978, no new turnkey plants have been imported without pollution-control packages. A new environmental protection code is being drawn up, according to PRC press reports.

(January-February 1979)

NOW

Since Beijing has been reluctant to commit its own resources to encourage imports of foreign environmental goods and services, foreign-funded programs are a primary means for US and other foreign environmental consulting companies and equipment suppliers to enter the China market.

(September-October 1992)

—Compiled by Catherine Gelb

MOST BUSINESS COUNCILS OPEN A FEW DOORS. YOU'VE OPENED 1.2 BILLION.

Over the past 25 years the U.S.-China Business Council has helped develop the world's largest market for U.S. companies. Praxair, a global supplier of industrial gases and a technological leader, salutes your efforts to promote closer ties between our two nations and wishes you continued success as we move into the 21st century.

For more information please call 1-800-PRAXAIR or visit us at www.praxair.com

Toward Improved China-US Relations

Li Zhaoxing

Strong, healthy bilateral ties benefit both China and the United States

On the occasion of the 25th anniversary of the founding of the US-China Business Council, I wish to express my warm congratulations. In particular, I want to thank the Council for its hard and outstanding work in promoting US trade and investment in China, facilitating economic cooperation between the two countries, and providing information and other services to both Chinese and American companies. The Council's role in enhancing mutual understanding and friendship between the two peoples and promoting a sound relationship between our countries is indeed commendable. While recognizing that role, I wish to express my confidence that the Council will make still greater contributions to the continuous development of China-US relations.

LOOKING BACK...

The friendly exchanges between the Chinese and American peoples date back more than two centuries. In 1784, the American merchant ship, *Empress of China*, sailed to China. In 1847, the first group of Chinese students, led by Rong Hong, arrived in the United States. Many Chinese later contributed their share to creating a prosperous United States, and numerous Americans lent helping hands to the Chinese people in their pursuit of national liberation. The Chinese people will never forget those Americans who offered assistance during hard times.

Twenty-six years ago, leaders of China and the United States, in an extraordinary display of vision, wisdom, and political courage, reopened the door of bilateral exchanges. Many public figures and prominent personages of the two countries have since paid visits to each other, making positive contributions to the normalization, improvement, and development of China-US relations. Despite ups and downs over the past quarter century, China-US relations have on the whole moved forward. Our cooperation in various fields has expanded, and contacts at different levels continue to grow. This development not only serves the interests of the two peoples, but also contributes to peace and stability in the Asia-Pacific region and the world at large.

The Honorable Mr. Li Zhaoxing has been PRC ambassador to the United States since March 1998.

...AND MOVING FORWARD

Since the end of the Cold War, some people have argued that the United States no longer needs China, claiming that China's strategic importance has declined. Some have even viewed China as a threat to other countries. Facts, however, have proved this view wrong. The shared interests between China and the United States have increased, rather than decreased, in the post-Cold War world. China and the United States need closer cooperation on such critical issues as maintaining global and regional peace and security, preventing nuclear proliferation, and combating international crimes, including drug trafficking. Moreover, the two countries need each other for their respective economic development. Both China and the United States benefit from mutual understanding and cooperation, while neither gains from friction and confrontation.

The visit to the United States in October 1997 by President Jiang Zemin

at the invitation of President Clinton enhanced mutual understanding, broadened common ground, developed new areas of cooperation, and contributed to a stronger future together. The visit thus brought China-US relations into a new stage of development. The two leaders agreed that China and the United States should strengthen cooperation and endeavor to build a constructive strategic partnership. A mechanism was set up to maintain and strengthen high-level contacts and bilateral exchanges in various fields and at different levels. In addition to exchanging views broadly with President Clinton, President Jiang also made extensive contacts with people from various circles and had a constructive dialogue with members of Congress. Since the summit, bilateral relations have maintained the momentum. President Clinton has decided to pay a return state visit to China in late June, and the two sides are making active preparations for it. I am confident that President Clinton's visit to China will further promote the development of China-US relations.

Mutual commercial benefits

A sound and growing relationship goes a long way toward galvanizing economic and trade exchanges between our countries. Enhanced economic and trade ties, in turn, solidify the foundation of the relationship as a whole. Since the beginning of normalization in the early 1970s, China-US economic relations and trade have grown steadily. According to Chinese Customs statistics, the United States has been China's second largest trade partner, and China, the fourth largest trade partner of the United States, since 1996. The volume of two-way trade reached $42.8 billion in 1996, up 4.9 percent from 1995. In 1996, China's exports to the United States reached $26.7 billion, an increase of 8 percent, and US exports to China totaled $16.1 billion. In 1997, bilateral trade reached $49 billion, representing an average annual increase of 22.6 percent since 1990. China's imports from the United States were comprised mainly of wheat, corn, chemical fertilizer, airplanes, petrochemical products, and medical equipment. China's major exports to the United States included textiles, garments, footwear, and household electrical appliances. According to US statistics, US exports to China between 1990-96 expanded 90 percent, the highest rate of increase among all US trade partners. The $16.1 billion in US exports to China created 200,000 jobs in the United States. China is the sixth-largest market for US agricultural exports and the largest overseas buyer of US airplanes, having purchased a total of 337 planes to date.

American investment in China, which started in 1980, has grown year after year, making the United States the second-largest overseas investor in China. By the end of September 1997, there were 23,800 US-funded projects in China with a total contractual value of over $38.2 billion, and actual investment of $16.1 billion. Meanwhile, investment in the United States by Chinese enterprises began in the late 1970s. By the end of December 1996, there were 489 Chinese-funded enterprises in the United States, with a total contractual value of $400 million. An increasing number of US banks, financial and securities firms, retail, and other service companies have established branches or representative offices in China. By the end of March 1997, 10 US banks had established branches, and over 70 US financial institutions had opened offices in China.

The rapid expansion of China-US economic and trade cooperation has brought tangible benefits to both sides. As the world's largest developing country and the world's largest developed country, China and the United States complement each other with their respective advantages. No organization is better placed to explain that complementarity to the American people than the US-China Business Council, through its many activities and publications.

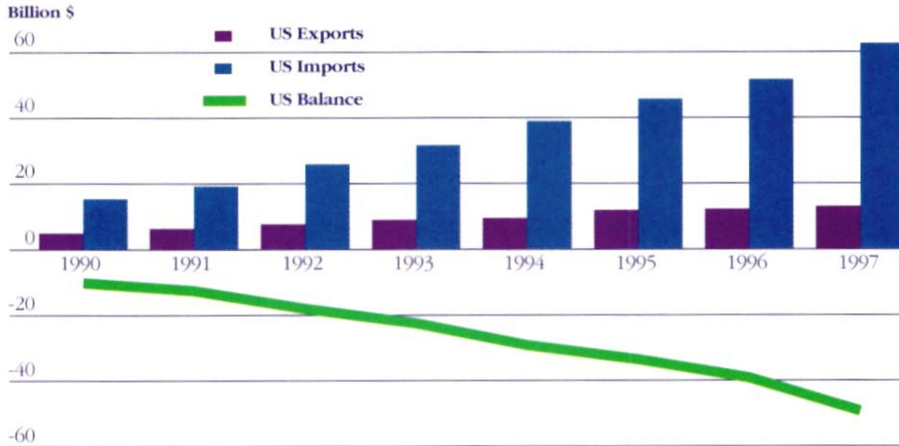
I have begun my tour of duty as China's ambassador to the United States at a very important moment of China-US relations. The job is never easy, and the challenge is enormous. Yet I am confident that with the enthusiastic support of our American friends from all circles, particularly those from the US-China Business Council, I will be able to fulfill my mission successfully. 完

RECOLLECTIONS

"In 1997, I visited a ministry that I had visited in 1991. In 1991, we talked about policy and market potential. In 1997, we discussed markets, economics, and return on investments...The ministries and ministry-level corporations in general are staffed with a growing number of knowledgeable business managers and visionaries. In the past, it wasn't clear where the leaders saw things headed, but today, China's leaders seem to know where they want to go and there is alignment throughout."

Edgar G. Hotard, President and Chief Operating Officer, Praxair Inc., and US-China Business Council Board Member

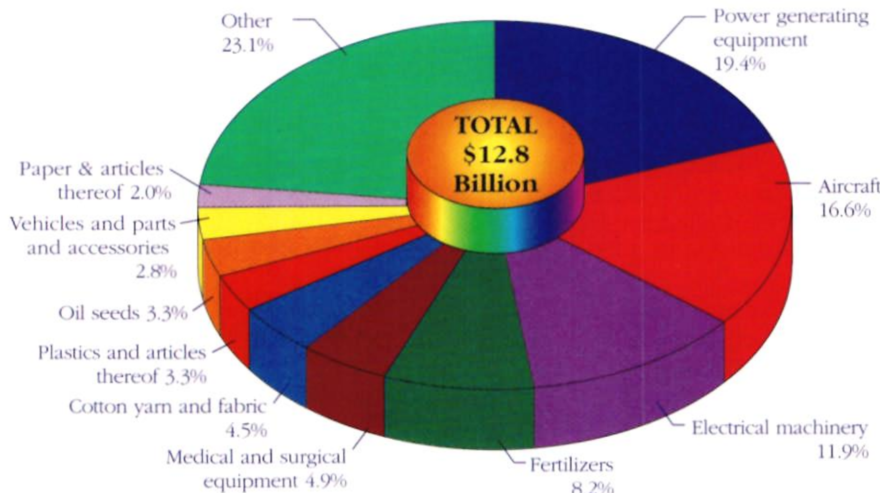
US-China Trade



	US Exports (fas)	US Imports (cv)	US Balance
1990	4.8	15.2	–10.4
1991	6.2	19.0	–12.8
1992	7.5	25.7	–18.3
1993	8.8	31.5	–22.8
1994	9.3	38.8	–29.5
1995	11.7	45.6	–33.9
1996	12.0	51.5	–39.5
1997	12.8	62.5	–49.7

NOTE: Cv, or customs values, are approximately the same as fob or fas values, i.e., no shipping or insurance costs are included. Totals may not add up due to rounding.
SOURCE: US Department of Commerce

Top US Exports to the PRC, 1997



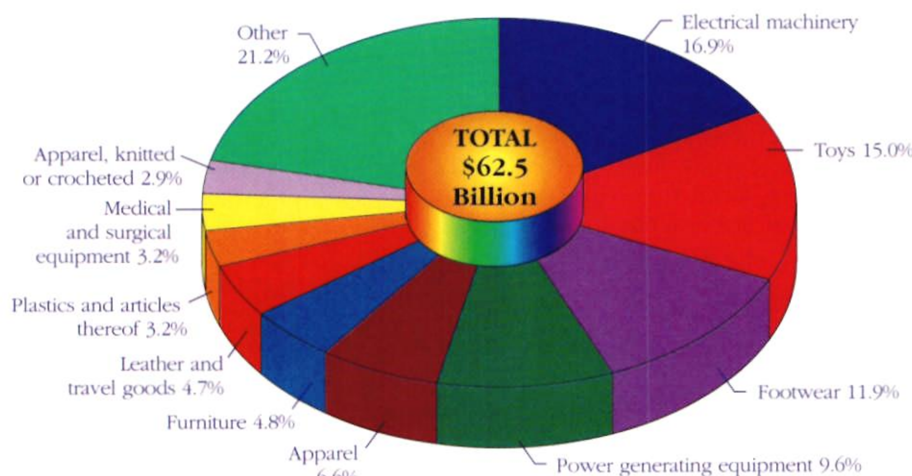
Commodity (HTS#)

- Power generating equipment (84)
- Aircraft (88)
- Electrical machinery (85)
- Fertilizers (31)
- Medical and surgical equipment (90)
- Cotton yarn and fabric (52)
- Plastics and articles thereof (39)
- Oil seeds (12)
- Vehicles and parts and accessories (87)*
- Paper & articles thereof (48)
- Other

SOURCE: US Department of Commerce; percentages calculated by the US-China Business Council

* Excludes railway and tramway rolling stock

Top US Imports from the PRC, 1997

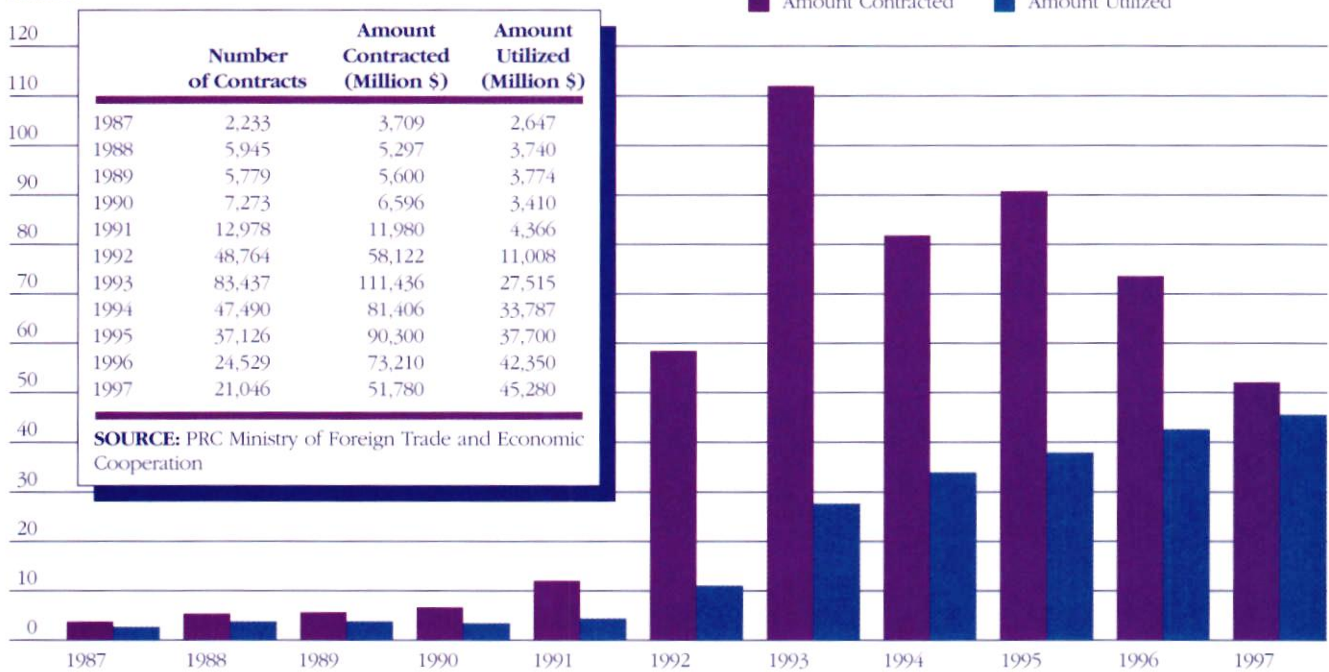


Commodity (HTS#)

- Electrical machinery (85)
- Toys (95)
- Footwear (64)
- Power generating equipment (84)
- Apparel (62)
- Furniture (94)
- Leather and travel goods (42)
- Plastics and articles thereof (39)
- Medical and surgical equipment (90)
- Apparel, knitted or crocheted (61)
- Other

SOURCE: US Department of Commerce; percentages calculated by the US-China Business Council

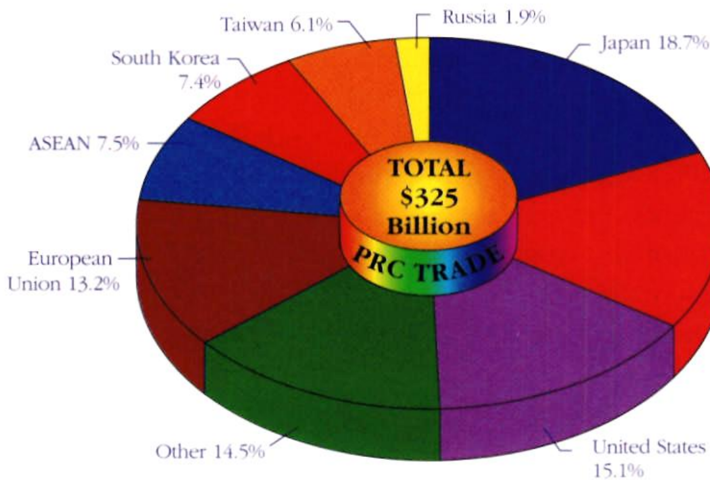
Foreign Direct Investment in China



	Number of Contracts	Amount Contracted (Million $)	Amount Utilized (Million $)
1987	2,233	3,709	2,647
1988	5,945	5,297	3,740
1989	5,779	5,600	3,774
1990	7,273	6,596	3,410
1991	12,978	11,980	4,366
1992	48,764	58,122	11,008
1993	83,437	111,436	27,515
1994	47,490	81,406	33,787
1995	37,126	90,300	37,700
1996	24,529	73,210	42,350
1997	21,046	51,780	45,280

SOURCE: PRC Ministry of Foreign Trade and Economic Cooperation

China's Top Trading Partners, 1997



Country/ Region	Total Trade (Billion $)	% Change over 1996
Japan	60.8	1.2
Hong Kong	50.8	24.6
United States	49.0	14.3
Other	47.1	14.4
European Union*	43.0	8.3
ASEAN**	24.4	19.4
South Korea	24.0	20.3
Taiwan	19.8	4.5
Russia	6.1	–10.6

SOURCE: *China's Customs Statistics*, December 1997

* The European Union includes Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and Sweden

**ASEAN includes Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam

A Snapshot of China in 1997

Around town... (¥8.28=$1)

can of Coca-Cola	¥2.5-¥3
base subway fare	¥2
eggs (1 kg)	¥5
Colgate toothpaste (1 tube)	¥3.9
apples (1 kg)	¥4
scoop of Haagen-Dazs ice cream (in Shanghai)	¥23
large Pizza Hut pizza	¥58-¥76
5 km taxi ride (in Shanghai)	¥14

SOURCE: The US-China Business Council
Unless otherwise noted, prices are for items purchased in Beijing

...in Hong Kong... (HK$7.8=$1)

can of Coca-Cola	HK$2.3
base subway fare	HK$4
eggs (1 kg)	HK$15
Colgate toothpaste (1 tube)	HK$7.4
apples (1 kg)	HK$4.7
scoop of Haagen-Dazs ice cream	HK$24
large Pizza Hut pizza	HK$78-HK$112
5 km taxi ride	HK$30

SOURCE: The US-China Business Council

...in the factory

air conditioners	8.5 million units	(25%)*
bicycles	27.0 million units	(-11%)
cars	485,200 units	(24%)
color TVs	26.4 million units	(15%)
electric fans	72.7 million units	(-17%)
silk	74,570 tons	(-10%)
steel	107.6 million tons	(7%)
stereo equipment	13.4 million units	(48%)

SOURCE: *China Monthly Statistics*
* Figures in parentheses represent percentage change over 1996

Bureaucratic Mergers and Acquisitions

Beijing reshuffles ministries in yet another attempt at crafting a more efficient government

Julie Reinganum and Thomas Pixley

Reports are in on the long-anticipated restructuring of China's ministries and commissions. In March, State Council Secretary General Luo Gan presented, and the Ninth National People's Congress (NPC) adopted, the blueprint for ministerial reforms. Some of the developments, including the preservation of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and the Ministry of Railroads in their present forms, proved wrong the forecasts of China watchers. Other speculations, such as that several industrial ministries would be scrapped, were closer to the mark. A review of previous ministerial restructuring campaigns provides a context in which to analyze the recent changes, including their possible impact on foreign trade and investment. Since the 1980s, ministerial restructurings have reflected China's transition from a planned to a market-oriented economy, sometimes catching up with the process and sometimes anticipating future developments.

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Redefining Beijing's Role

As stated by Luo Gan, the goals of the recent ministerial restructuring, the largest since the PRC's founding, are to separate ministries' administrative functions from their commercial activities; strengthen macroeconomic guidance and reduce the number of specialized economic departments; clearly define the responsibilities of economic bureaucracies and eliminate redundant management; and replace administrative management of economic affairs with a legal system of management. How PRC leaders ultimately implement this latest round of reforms remains unclear, and will determine whether the goals of the restructuring can be achieved. Among the greatest challenges to implementation will be the massive layoffs of government officials and the redefinition of many agencies' authority, which will begin with an in-depth assessment of each ministry's activities and staffing. According to sources at the State Development Planning Commission (SDPC),

formerly the State Planning Commission, the assessment process alone will take at least until the end of 1998.

WHO'S UP, WHO'S DOWN

Among the highlights of the March ministerial changes are the transformations of the ministries of coal, machine-building, metallurgy, and internal trade, and the textile and light industry associations, into State "bureaus" that report to the State Economic and Trade Commission (SETC) (*see* Table). This move significantly strengthens the position of SETC, since these industrial organizations previously reported directly to the State Council. SETC essentially has been transformed into a "super ministry" responsible for supervising all industrial production, except that of industries subsumed under the new Ministry of Information Industry (MII). MII has been formed by the merging of the Ministry of Posts and Telecommunications (MPT), the Ministry of Electronics Industry (MEI), and the data transmission sections of the State Aerospace Bureau, the General Administration of Civil Aviation, and the Ministry of Radio, Film, and Television. Traditional postal services will be relegated to a new State Postal Services Bureau under MII.

Another important reform is the merging of the administrative divisions of China National Petroleum and Gas Corp. (CNPC), the China National Petrochemical Corp. (SINOPEC), and the Ministry of Chemical Industry to form a new State Bureau for Chemical and Oil Industry. On the commercial side, SINOPEC reportedly will control operations in coastal southern China, where downstream activities will be concentrated, and CNPC will control firms, primarily upstream-related, in northeastern China. If this in fact occurs, SINOPEC would be left with a less substantial asset base.

The State Council, for its part, has announced that it will retain authority over 17 bureaus and roughly 20 ad hoc committees and groups. Among the bureaus that will remain intact are customs, religious affairs, statistics, and taxation. The National Environmental Protection Agency, which will also remain under the State Council, has been renamed the State Environmental Protection Administration. In addition to the name change, the bureau has acquired the environmental regulatory functions of several ministries, and thus will assume greater authority over environmental protection issues.

The State Council will run six of its own offices, and will directly administer nine institutions, including Xinhua News Agency, the Chinese academies of sciences and social sciences, and the China Securities Regulatory Commission. Two of the six offices are new—the Legal Affairs Office and the Office for Restructuring the Economy. The Special Economic Zone Office and the ad hoc National Leading Group for Work Concerning Foreign Capital have been abolished.

As a consequence of these various name and organizational changes, as much as half of the government's 8 million civil servants will be laid off by the end of 1998. Reports suggest that 10 times as many local and provincial officials as central government officials will lose their posts. Beijing has justified the layoffs by citing the need for a more pragmatic and technocratic bureaucracy in the face of China's expanding involvement in the global economy.

A HISTORICAL PERSPECTIVE

Over the years, organizational reforms have been driven both by changes in Beijing's approach to the marketplace and by the degree of independence that market players have been able to assert. As far back as the late 1970s, China was taking its first steps to move from a planned economy, run by ideological industrial ministries

SETC essentially has been transformed into a "super ministry" responsible for supervising all industrial production, except that of industries subsumed under the new Ministry of Information Industry.

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Since 1988, Beijing has attempted to separate the commercial functions of the government, as owner of State assets, from its regulatory functions.

focused on economic micromanagement, to a market economy supervised by a development-oriented government engaged more in macromanagement of economic activity.

The current restructuring has its roots in the government's efforts, beginning in the early 1980s, to initiate specific administrative reforms. The first stage, launched in 1982, was designed to simplify the government organizational structure and eliminate the lifelong employment system to allow for the promotion of younger staff. During this period, the ministerial changes most visible to foreign businesses were those implemented in the foreign trade sector. In 1982, Beijing increased the number of Chinese companies authorized to engage in foreign trade ("foreign trade corporations"), and permitted their local branches to conduct business with foreigners. This period also saw the formation under government ministries of new entities to direct foreign business, and the establishment of large corporations to interact with foreign investors in China, most notably China International Trust and Investment Corp. and China Huayang Trading Corp.

The second stage of administrative reform focused on, among other things, allowing enterprises greater independence. SINOPEC and China State Shipbuilding Corp. were formed in 1983 and 1988, respectively, as the first "Chinese-type" holding companies, accountable to the State Council and characterized by State ownership, management, and regulation of all aspects of the industry. CNPC was formed when the more broadly conceived Ministry of Resources replaced the Ministry of Petroleum Industry. CNPC shared with the Ministry of Resources responsibility for overseeing oil and gas exploration and extraction, and issuing permits for such work—duties previously carried out by the Ministry of Petroleum Industry. State oil companies' autonomy remained limited under CNPC, however, since this corporation shared permit-granting authority over exploration and drilling with the Ministry of Resources.

During the 1980s, these central-level reorganizations were consistent with the devolution of government control from the center to provinces and municipalities (*see The CBR*, January-February 1998, p.16). Though the changes enhanced only marginally the formal autonomy of enterprises in relation to Beijing, in practice they bolstered the independence of the enterprises in the marketplace, which eventually tipped the balance of control over industry away from the government.

Divorcing manufacturers from regulators

Restructuring of government ministries has continued into the 1990s. In essence, Beijing's goal in this third stage has been to allow greater allocation of resources by the market than by the government. Since 1988, Beijing has attempted to separate the commercial functions of the government, as owner of State assets, from its regulatory functions. For example, when the Ministry of Resources was dissolved in 1993, the State Planning Commission took over the oil and gas exploration permit process, while CNPC retained control over the actual projects. The staff and facilities of the permit office formerly operated by CNPC and the Ministry of Resources were transformed into an information clearinghouse under CNPC.

SETC, a product of extensive restructuring, is another prime example of Beijing's ongoing administrative reform. Its predecessor, the State Economic Commission (SEC), was formed as a supraministerial organization in the early 1980s through a merger of several State commissions, ministries, and other economic organizations, to coordinate the ministries' economic planning functions. As China moved away from economic planning, SEC's work was redirected, and the organization was ultimately disbanded in 1989. While some of its functions were folded into the State Planning Commission, others were assumed by a group of six investment corporations. (These corporations directed central government-funded investments until 1995, when they, too, were dismantled and restructured under the new policy-oriented China State Development Bank.) SETC was then established in 1993 to modernize the technology and management of State-owned industrial enterprises.

SETC shares many characteristics with SEC. For instance, SETC appears to have been formed to re-centralize decisionmaking. The body has carried out this mandate, in part, through its role in approving large investments in and technical upgrades of existing State-owned facilities. SETC has worked in tandem with the State Planning Commission, which has had approval power over new large capital investments.

SETC's new role as overseer of industrial production, together with the renaming of the State Planning Commission, have fueled debate over which body wields authority over various sectors. Hong Kong press reports have suggested that SDPC will focus on macroeconomic planning and relinquish some of its project-approval powers. Though SDPC officials deny this, the enlargement of SETC's authority over project recommendation and approval perhaps could come at SDPC's expense. According to sources in the State Council, the smoke surrounding the divisive issue will not clear before June, at the earliest.

This third stage of bureaucratic reform has also seen the transformation of several ministries into industry associations. In 1993, the ministries of textiles and light industry became the General Association of Textiles and the General Association of Light Industry, respectively. The official duties of these general associations, which continued to report to the State Council, were to reduce excessive competition and wasteful investment through "coordination" and "promotion" of firms' activities. The associations were also directed to delegate as many of their functions as possible to industry units or private-sector entities.

Both Chinese and foreign observers note, however, that the 1993 changes in form did not result in significant substantive changes. Though downgraded, the general associations continued to have considerable influence over approval of foreign investment

projects. In the recent restructuring, the associations have been subsumed under SETC. Whether reporting to SETC will alter their authority will become apparent only once SETC's broader role has been defined. Some analysts are skeptical that the change will be substantial.

LOCAL CHANGES DRIVE CENTRAL REFORMS

As Beijing has instituted various types of restructuring at the central level, provinces and municipalities have also introduced reforms aimed at increasing enterprise efficiency. For example, to streamline production, sales, and distribution of raw materials and finished drugs, the manufacturing arms of the Shanghai Pharmaceutical Bureau and the Shanghai Bureau of Chemical Industries have merged over the past two years to form the Huayi Group. All business decisions relating to production issues in Shanghai are now made by the Shanghai Pharmaceutical Group Co., an independent entity under Huayi. The Shanghai Pharmaceutical Bureau still exists, but today performs only administrative functions, including issuing production licenses. Though it is difficult to determine whether the merger has mitigated the effect of the downturn in recent years in Shanghai's pharmaceutical sector, the head of Huayi still tends to defer to the bureau chief on certain matters, likely for political reasons.

Driving many of these lower-level changes has been Beijing's recognition that it can no longer micromanage business entities, though it maintains some control over the project-approval process. Factors undermining effective central control include overstaffed central-level ministries, with bulging payrolls; reduced macroeconomic planning responsibilities of the ministries, as Beijing pays greater attention to market mechanisms; and the diminished role of the ministries in approving foreign investment.

But these facts are pitted against the central government's desire to direct investment funds to avoid "irrational" and inefficient use of resources. And Beijing will have to deal with any social or political instability that results from the imminent rise in unemployment levels caused by the reforms. Beijing thus must balance increasing pressure from local governments and industry to use a lighter hand in regulating competition, with its desire to maintain stability and direct China's economic development.

BUSINESS IMPLICATIONS

As for how the reforms will affect trade and investment, it is safe to expect the central government to continue to exert considerable influence over foreign investment, principally through government approval requirements. And SDPC will still use its Guiding Catalogue on Foreign Investment in Industry as a means of shaping economic trends at the macro level.

It is safe to expect the central government to continue to exert considerable influence over foreign investment.

Indeed, despite the organizational changes of the 1980s and early 1990s, Beijing has continued to dominate key industry sectors by controlling assets. And although some personnel and office titles may have changed, the same individuals tend to remain in positions with control over the investment process. As many foreign investors can no doubt attest, a project backed by an influential official moves more smoothly through the approval process than a project without such a sponsor.

To ensure the attainment of industrial policy goals and to shape the overall direction of Chinese industrial development, planners in Beijing most likely intend to preserve their authority in certain key industries: automotives, energy, steel, and telecommunications. Baoshan Iron and Steel Corp. and the First Automobile Works (Group) Corp. are two large entities in such industries

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that have been targeted for direct control through subsidies and "planning independence," under which an entity reports directly to Beijing and is independent from provincial-level guidance. The government also continues to arrange mergers of firms in such industries. Most recently, in midst of the NPC, Wuhan Iron and Steel Corp. proposed a merger with Baoshan Iron and Steel Corp. Even in non-key sectors such as pharmaceuticals, Beijing retains—and is unlikely to relinquish—a certain amount of authority. Approval of foreign project proposals for manufacturing new drugs, as well as agricultural chemicals, shifted back to Beijing from local bureaus in 1995 and 1997, respectively.

In many sectors, however, Beijing is no longer a major player. For example, the market for molded-case circuit breakers, an indispensable industrial item, has been liberalized. MEI's most recent utterance on these circuit breakers was in 1990, and more recent attempts to license manufacturers have been completely ineffective. Thus, the impact of

Highlights of the 1998 PRC Ministerial Restructuring

Organizations	Comments
General Association of Light Industry	Downgraded to State Bureau for Light Industry under the State Economic and Trade Commission (SETC)
General Association of Textile Industry	Downgraded to State Bureau for Textile Industry under SETC
Ministry of Chemical Industry	Abolished; government functions merged with those of China National Petroleum and Gas Corp. (CNPC) and China National Petrochemical Corp. (SINOPEC) into the State Bureau for Chemical and Petroleum Industry under SETC; two large industrial groups and a number of companies will be formed to incorporate the oil fields, refineries, and enterprises now under the former ministry, CNPC, and SINOPEC
Ministry of Coal Industry	Downgraded to State Bureau for Coal Industry under SETC
Ministry of Electronics Industry (MEI)	Folded into new Ministry of Information Industry
Ministry of Forestry	Downgraded to the State Forestry Bureau under the State Council
Ministry of Geology and Mineral Resources	Folded into new Ministry of Land and Natural Resources
Ministry of Information Industry (MII)	Created from MPT and MEI; will also assume government functions over information and network management of the former Ministry of Radio, Film, and Television, the Aerospace Industrial Corp., and Aviation Industries of China
Ministry of Internal Trade	Downgraded to the State Internal Trade Bureau under SETC
Ministry of Labor (MOL)	Folded into new Ministry of Labor and Social Security
Ministry of Labor and Social Security	Created from MOL; will assume some social insurance and medical care oversight functions that previously were under the agriculture, personnel, and public health ministries
Ministry of Land and Natural Resources	Created from Ministry of Geology and Mineral Resources, State Land Management Bureau, State Marine Bureau, and State Surveying Bureau
Ministry of Machine-Building Industry	Downgraded to the State Bureau for Machine-Building Industry under SETC
Ministry of Metallurgical Industry	Downgraded to the State Bureau for Metallurgical Industry under SETC
Ministry of Post and Telecommunications (MPT)	Folded into new Ministry of Information Industry
Ministry of Electric Power	Abolished; regulatory functions taken over by SETC; commercial functions assumed by the new State Power Corp., under SETC
Ministry of Radio, Film, and Television	Data transmission functions folded into MII; remaining responsibilities borne by new State Radio, Film, and Television Bureau under the State Council
State Commission for Restructuring the Economy	Folded into inter-agency review board, headed by Zhu Rongji, for economic and social welfare reform
State Commission for Science and Technology	Renamed the Ministry of Science and Technology
State Commission for Science, Technology, and Industry for National Defense	No name change, but will oversee new military technology and weapons production; will assume control over the former State Planning Commission's Defense Department, the State Aerospace Bureau, and State nuclear agencies; and will take over administrative functions of many defense-related State companies
State Economic and Trade Commission	Will absorb functions of former coal, metallurgical industry, machine-building industry, internal trade, and chemical industry ministries, and General Association of Light Industry and General Association of Textile Industry; also will oversee SOE management reform and technical renovation in specific industrial sectors
State Education Commission	Renamed the Ministry of Education
State Physical Culture and Sports Commission	Renamed State Sports Administration
State Planning Commission	Renamed the State Development Planning Commission

SOURCE: The US-China Business Council

the restructuring of ministries and the shift of authority to the local level will depend on the degree of central government control over each industry.

If the outcome of the recent restructuring in fact matches Beijing's articulated goals—to extricate itself from enterprise functions and relinquish control of assets—regulators and planners may take a more market-based view of foreign involvement in such highly regulated industries as telecommunications and automotives. This would no doubt stimulate new business opportunities. And some foreign press reports since the March NPC suggest that foreign investors will be able to take stakes in newly corporatized entities, including the State Power Corp. Such investment would presumably take the form of share purchases in China or Hong Kong. Mergers of ministries and State corporations into new organizations, including those in aviation and petrochemicals, also may force these entities to put their financial houses in order and meet lagging financial obligations to foreign parties.

Bureaucratic efficiency thus may improve, as approval authority is consolidated into fewer agencies. In other cases, competition among ministries for control over certain types of foreign investment may diminish, as ministries with competing interests are conflated into a single large umbrella organization. In the cellular phone market, for example, the transfer of authority over Unicom and China Telecom, which were competitors under MEI and MPT, respectively, to the new MII may quash bureaucratic competition.

Some analysts believe the ministerial changes could also be a way for Beijing to re-assert its control over the direction of foreign investment. But indications so far from authoritative PRC sources suggest that central-level leaders, concerned about declining inflows, are intent on attracting more foreign investment. These leaders recognize that heavy-handedness is not the way to accomplish this goal. Only after Zhu Rongji has settled into his new position as premier, and implementation of government restructuring is well under way, will Beijing's intentions become clear.

Though sources at many foreign companies with longstanding China operations believe that the announced changes mean little, external events may yet force substantive administrative change. Recent events in South Korea have sparked a debate within the leadership over the applicability of the South Korean *chaebol* model to China. PRC leaders such as Zhu Rongji had begun to view the South Korean *chaebol*—large, diversified industrial conglomerates such as Samsung Group and Daewoo Group that are funded by government loans and pushed to develop exports—as a model for restructuring and developing China's industries. But South Korea's financial downturn may encourage Beijing to implement a true restructuring, not just in form, but also in substance. This would include reforming the banking sector, allowing banks to lend on the basis of economic viability as opposed to policy goals, and not resorting to *chaebol*-style conglomerates.

While the rhetoric of the reforms points to praiseworthy goals, severe impediments remain. The vested interests of many bureaucrats, both central and local, will work against plans that cut into their turf. The State Physical Culture and Sports Commission, upon being marked for elimination, protested so strenuously that the government actually reversed plans for dismantling the organization and simply renamed it the State Sports Administration. Whether the government will bow to an industrial ministry's resistance to restructuring is another question, but the threat of resistance remains.

The ambitious goals of the recent ministerial reforms—to aid China's market-style economic development, relax the government's grip on business, reduce bureaucratic bloat, and promote central macro-guidance—echo past themes. Because a simple change in name does not always entail a change in function, foreign businesses should carefully monitor the central-level administrative reshuffling and attempt to gauge how the changes will affect the local bureaus with which they interact. In the past, many local industrial bureaus continued to exert authority over foreign investments in their jurisdictions, despite the transformations of parent organizations at the center. If history is any guide, true administrative reform in China does not happen overnight. To work within this fluid and often politically charged environment, it remains important for foreign firms to keep a hand on the pulse of the ministries in Beijing, and rely on local-level entities to help execute business plans. 完

South Korea's financial downturn may encourage Beijing to implement a true restructuring, not just in form, but also in substance.

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Word Games

Foreign publishers are like giants breathing through a pinhole—the opening is tiny, but the appetite is huge

Anne Stevenson-Yang

When the Chinese government relaxed its controls over the economy, it had to permit social organizations to form as well: trade associations, professional associations, and consumers groups, followed by a sudden florescence of *qigong* clubs, tenant associations, dating groups, wildcat unions, and, finally, religious and political organizations.

If these groups are the skeleton of the body politic, publications are its circulatory system. But China's leaders remain deeply ambivalent about uncontrolled, voluntary association, especially when it takes place in the public and durable medium of print. Outmoded controls at the top have led to a universe of commercial publications that are neither fully sanctioned nor completely frowned upon. They are *biantong* ventures, deals of expedience that may follow the letter of the law but violate its spirit. Sinologist Orville Schell has reported that some Chinese term this galaxy of publications "white," as they are neither "red" (directly State-subsidized and fully sanctioned propaganda organs) nor "black" (illegal).

Inevitably, China's print media will open to foreign involvement. The central-government bureaucracies are already considering various forms through which to permit foreign cooperation. The government has suggested that the print media could open to foreign minority shareholding within three years of China joining the World Trade Organization. But until China resolves deep ideological concerns over the free flow of ideas, it is likely that most foreign publishers will continue to access the market indirectly.

The Great Frontier

China is virtually the last virgin market for publishing, one of the more difficult businesses anywhere in which to make a profit. In the United States, both books and conventional periodicals see low margins. To make money, publishers must realize a level of efficiency that may come into conflict with literary standards, and even many of the oldest publications remain unprofitable. *The New Yorker* magazine, which has been published for more than 70 years, is struggling to break even. In most of the developed world, profits are found in niche-market trade publications and the few mass-market magazines that have managed to capture the popular imagination, such as *People* and *Cosmopolitan*.

Surrounded by the enervated, bloodless markets of the West, publishers can hardly contain their enthusiasm when beholding a

Anne Stevenson-Yang is co-founder of Twin Poplars Ltd., a publishing, graphic design, translation, and media consulting firm. The company launched City Edition, *an arts and leisure biweekly, in Beijing on May 1.*

market like China's, where despite a profusion of publications, virtually none can boast nationwide recognition and consistently high quality. Only a handful of magazines and newspapers that originated abroad and use mostly foreign content have received approval from Beijing to start publishing in China. Direct publishing by foreign organizations for the general market is never sanctioned. Hachette Filippachi Presse's *Elle*, Ziff-Davis Inc.'s *PC Magazine*, published under license by the IDG Group, and Disney's *Mickey Mouse* comic book, are some of the better-known foreign publications that operate in China.

Few publications are profitable, at least according to PRC government statistics. Government regulations force foreign investors to resort to profit-draining arrangements to edit, sell advertising in, print, and distribute their publications. All foreign-run publications rely to some extent on Chinese partners, contractors, or distributors. The Chinese publishing system lacks any sort of circulation auditing, muffles "sensitive" content, makes distribution slow and unreliable, and imposes heavy taxes on advertising.

Certain types of publishing ventures have proven more profitable, however. Translating an existing title into Chinese, "repackaging" old Chinese titles, or creating new publications from scratch can be efficient means of generating new income at little cost. Money can also be made in trade titles and educational, reference, and children's books, provided they are cannily managed. But no matter what line of publishing a foreign company is in, it must operate in China with the utmost care, because the distribution channels are unreliable, payment is unsure, and piracy is rampant. A publisher can get closed down overnight unless it manages the process carefully.

Straight-laced regulations

After foreign publishers first read China's regulations and meet with the international cooperation sections of the relevant ministries, they are likely to be thoroughly discouraged. Beijing has yet to craft a law on publishing, but apparently plans to have one in place by 2010. In the absence of such a law, the sector is guided by PRC regulations that state that no private organization or individual is permitted to own or operate a periodical or book publishing house. The chief rules governing the industry, the 1997 Regulations on Publication Management, the 1997 Regulations on Management of the Printing Industry, and the 1998 Regulations on Electronic Publishing, stipulate that only government-designated publishing organizations may engage in publishing. Thus no private individuals or foreign entities may engage directly in publishing in China. The 1995 and 1998 guiding catalogues for foreign investment in industry indicate that publishing is off-limits to foreign investment. In addition, 1991 and 1995 notices stipulate that foreign organizations engaging in media activities in principle may not establish offices in China. In reality, such organizations may receive approval to set up an office, but only to promote other, related products.

Foreign firms are also prohibited from owning distribution companies or taking the majority share in advertising joint ventures, unless the Chinese partner is a private advertising company. Publications that are permitted to accept advertising must have an advertising agent that is registered and licensed in China.

All foreign-run publications rely to some extent on Chinese partners, contractors, or distributors.

Tread lightly

Perhaps the most notorious publishing controls in China are those dealing with editorial content. In a partnership between a foreign and Chinese firm that engages in publishing, no foreign individual or company may control editorial content. At least one-third of the content of any publication with foreign involvement must be locally generated. All publications' content must conform to a vague and shifting set of political litmus tests. According to the January 25, 1996, State Council Notice on Resolutely Banning Illegal Publishing Activ-

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Three mutually antagonistic bureaucracies control publications and limit one another's flexibility.

ity, considered illegal is any content that is "counter to China's laws and regulations, reveals State secrets, threatens State security, harms the national advantage, violates the Party's policies or national minorities' religious principles, destroys national unity, advocates obscenity, promotes violence or illegal activity...[or]...other activities." And as if this regulation is not alarming enough, several government organizations have offices in charge of conducting search-and-destroy missions for non-conforming material.

Coveted publication numbers

Publishing in or for the China market also requires navigating the national circulation system. Each periodical in China is tracked through a "periodical number" (*kanbao*)—one for domestic circulation and, if necessary, one for circulation overseas. Books, meanwhile, are tracked through *shubao*, or book numbers.

A periodical number is issued by China's Press and Publications Administration (PPA) for a specified frequency of publication, number of pages, and circulation. A publisher may not change any of these elements, in principle at least, without applying to PPA for approval. Though simpler than applying for a *kanbao*, these additional applications further bog down the publishing process. A *kanbao*, moreover, is granted for one particular magazine, and is withdrawn if the magazine is never published.

Obtaining a *kanbao* has become increasingly difficult for both foreign and domestic periodicals because of a nationwide "rectification" campaign. Scheduled to continue until May 1998, the campaign is designed to reduce the number of active publication permits. The central government has declared that during this period, no new permits will be issued, but a couple of exceptions reportedly have been made. The great majority of "internal" publications, those circulated by ministries and private associations, will also be eliminated.

The only way a wholly foreign publication may receive a periodical or book number is if it is produced overseas and imported through the China Books and Periodicals Import and Export (I/E) Corp. and/or the China Educational Publications I/E Corp. Imported publications also avoid PRC requirements regarding minimum local content of publications that have foreign involvement. Foreign periodicals are divided into three categories for purposes of import control. The first category includes business, science, and technical publications, which may be imported with relative ease. The second category consists of general-interest publications "with some reference value." Meanwhile, publications in the third category, which are "reactionary" publications and those with "seriously dangerous" content, are prohibited.

PPA distributes book numbers (*shubao*) through an annual quota system to the roughly 550 State-run publishing houses around the country. In contrast to the assignment of *kanbao*, book publishers do not have to use all of their *shubao* allotment in a given year. Private organizations and individuals may not apply for any type of publication number, but can sell their content to State-sanctioned publisher.

With book numbers so limited, most State book publishing houses have become, in effect, sellers of publishing rights. There are an estimated 5,000 private publishers operating parallel to the sclerotic State system. PPA and the State Council each issued regulations in 1996 outlawing the practice of selling book numbers to companies and individuals willing to design and finance a publishing project, and handle their own sales and distribution. But contracting with independent editors, writers, illustrators, and distributors is not illegal. In practice, it is difficult to tell the difference between an outright sale of a *shubao*, in which the publisher merely reviews the material to avoid political risk and puts its imprint on the book, and the contracting out by a PRC publishing house of the writing, editing, and distribution (once known as "packaging") of a publication. *Shubao* sales had become so widespread that many publishing houses reportedly assigned salesmen annual quotas on the number of sales, with the price for a single book number ranging from ¥10,000-¥80,000 ($1,208-$9,992).

The only material for which publication numbers are not required are "internal" publications, such as an association newsletter or a ministerial daily brief. Such publications must still register as an internally circulating newsletter, and must not accept advertising or be sold to anyone outside of the defined group of readers. In practice, however, many internal publications accept advertising and are sold openly. Many are published by powerful government organizations that the regulators do not care to challenge and that stay within acceptable ideological boundaries. Unable to find any legitimate publishing channel, many domestic and foreign publishers have taken over internal publications and gutted the content and design, leaving only the name (usually in small type) as evidence of the legal publication.

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Some foreign periodicals are translated in Hong Kong and imported with a permit from the China Books and Periodicals I/E Corp.

Overlapping bureaucracies

Three mutually antagonistic bureaucracies—PPA, the State Council Office of Information, and the Ministry of Propaganda—control publications and limit one another's flexibility. The source of all publication permits is PPA. The international cooperation section of PPA usually is the first contact foreign media organizations have with China's publishing bureaucracy. It tends also to be the last, because official PPA approval is impossible to obtain for a foreign publisher working alone. Thus, after discussions with PPA, foreign publishers generally set out to find a Chinese publisher willing to accept the foreign firm's content. The Chinese publisher may formally apply to PPA on the central level for a publication number for the new publication that includes foreign content, though local PPAs can approve certain types of permits. For example, a local PPA may approve a spin-off edition of an existing magazine or newspaper, whether it be a weekend edition, a special or commemorative edition, an overseas edition (in complex characters), or a foreign-language edition. Foreign-language editions, however, also require the approval of the Office of Information, whose responsibility is to control the image that China projects overseas.

The Office of Information, which also oversees foreign journalists, is a deeply conservative organization that views its role as protector of China's ideological purity rather than simply as a troubleshooter exposing illegal activity hiding under the cover of legitimate publishing. The Office of Information has approval authority over all free-standing foreign-language publications except imports (which fall under the purview of the Ministry of Propaganda and PPA) but including those applying for a *kanbao*. The Office of Information polices the publishing industry to counter illegal and pornographic publishing activities. Staffed out of PPA, the office reports to a leading group with representatives from nearly a dozen other ministries.

Even more conservative than the Office of Information is the Ministry of Propaganda (*Xuanchuan Bu*). "Ministry" is actually a mistranslation of the Chinese word *bu*, which can mean either department or ministry; in reality, the Ministry of Propaganda is a department of the Chinese Communist Party. The ministry, charged with setting and maintaining cultural standards in the media, issues lists of topics that may not be discussed in the media (at one time the list included soccer, since it was considered inflammatory) without an explicit approval by the publication's editorial board, whose members are assigned by the Party apparatus. The ministry watches out for dissident and seditious materials, and is often the source of government objections to the tone or content of a publication.

Other government agencies involved in publication regulation are the new Ministry of Information Industry; Xinhua News Agency, the State information agency that manages news services and electronic publications; the new State Radio, Film, and Television Bureau; and the Ministry of Culture, which has played a minor role in the past but appears to have become more important in the 1998 cabinet with the elevation of Sun Jiazheng, a close colleague of Jiang Zemin. The Ministry of Culture publishes propaganda materials in foreign languages, including the non-Chinese languages used in China, but the ministry's role in theater and other arts is more prominent.

From principle to practice

Like many business sectors in China, in practice, publishing is much different from what the regulators envisioned when they crafted the initial legal framework (*see The CBR*, January-February 1998, p.43). Regulators lack the resources and energy to strictly enforce all publishing-related statutes; they tend to respond most rapidly either to instructions from the political leadership or to competitive threats to profitable government publications. Even banned books such as *The Wrath of Heaven*, the thinly fictionalized account of the corruption scandal surrounding former Beijing mayor Chen Xitong and the Beijing city government, are sold openly in the outskirts of Beijing.

Plenty of unapproved foreign and domestic periodicals continue to be published as well, but periodicals are a somewhat more perilous enterprise than books, since their regular appearance on newsstands is harder to overlook. Most magazine publishers look for some kind of legal fig leaf, the most common of which are import permits and book numbers. Because imported periodicals face considerably less scrutiny than domestically published ones with foreign content, some foreign periodicals are translated in Hong Kong and imported with a permit from the China Books and Periodicals I/E Corp. A few domestically produced magazines with foreign content obtain an import permit to keep a low profile, as their publications then appear to be edited and produced overseas. But this arrangement is risky and tends to be used only as a short-term solution.

Prior to regulations issued in late 1997, many periodicals would purchase book numbers, which were easier to obtain than periodical numbers. The publisher would issue "series" of "books." For example, this strategy might have been used to publish a magazine on automobiles, featuring a different type of car each issue and labeled "Autos Today, Volume I." PPA explicitly began to forbid this practice through a special notice in late 1997.

Another plausible option for foreign firms seeking to publish in China is to obtain approval for a "special edition." In this scenario, foreign publishers find a partner willing to publish, on a regular basis, a special, foreign-language, or weekend edition of an existing, approved magazine. In principle, these editions must bear the same name, in the same typeface, as the original publication, and they must circulate together with the original publication. In at least one case, a foreign publisher produced the special edition for several years as an outside contractor until the publication finally received approval to become a freestanding magazine.

Some of the most successful magazines in China are published under "permit rental" agreements, whereby a publisher takes over a registered, and often failing, publication. Because publishing permits are coveted, even bankrupt organizations seldom formally re-

linquish their numbers until required to do so by a declaration of bankruptcy or an inability to muster the capital to publish even a small number of magazines. But because PRC regulations, specifically the 1995 Propaganda Bureau and PPA Notice Forbidding the Purchase and Sale of Publication Numbers, prohibit the payment of fees for use of these licenses, foreign partners must find some other form of revenue-sharing with the publisher. Most foreign publishers can classify themselves in their contracts as service providers or "foreign experts" who simply supply content for the discretionary use of a Chinese publisher and for which they receive royalties.

Though printing overseas and importing foreign publications is the most common way of publishing for the China market, the most popular mainland-based publishing arrangement is one under which a Chinese government entity uses its own publishing arm to produce content provided by a foreign technical publisher. Foreign trade publishers covet the high-profile demographics that they believe China's central-government ministries can deliver. They believe that a readership made up of the decisionmakers in industrial ministries can be worth advertising dollars to multinational equipment suppliers trying to sell to the PRC market. Thus, foreign publishers have struck a variety of deals with ministries to publish "internal" titles on, for example, the coal industry or construction equipment. The foreign side generally also takes responsibility for delivering advertisers. Though a variety of structures exist for these types of arrangements, most deals call for the foreign side to sell advertising overseas to foreign companies interested in attracting the attention of the policymakers in a given ministry. In such cases, the foreign side takes in the ad revenue and pays a fee to the Chinese side.

Because internal publications are supposed to be sold only to a defined group, those that are sold more widely tend to be sold only through the back door—in small quantities at the request of readers. One resulting drawback of this arrangement is that publications are unable to provide accurate information on readership. Without such information, the foreign content-provider has few specifics to provide potential advertisers. Despite the recent ministerial restructuring, these arrangements between foreign technical publishers and ministry publishers are likely to remain in place.

Getting the Word Out

Distribution of books and periodicals has its own set of obstacles. Wholesale distribution is permitted only through State-authorized markets that are established by Xinhua or the Ministry of Culture's Foreign Languages Press, or are authorized by one of the other national agencies in charge of the industry. Formerly, Xinhua monopolized distribution of books and periodicals, and the post office handled all subscriptions. The post office continues to dictate its own terms for subscriptions, charging publishers up to 40 percent of the periodical's cover price as a distribution charge, and setting requirements for delivery and payment that are highly disadvantageous to the publisher. Moreover, the post office collects subscription income and hands it over to the publisher only after the copies are actually delivered to the subscribers. The post office thus is the only entity involved that is able to realize all of the advantages of receiving subscription capital up front—one of the distinct financial strengths of the publishing industry. And because the post office treats subscription lists as national secrets, publishers know little about their readers beyond their total number. Such a restriction prevents publishers from selling ads based on demographic data or realizing income-generating potential of renting subscriber lists, which is a flourishing business in Western countries.

Under the Xinhua retail distribution system, book retailers order books from Xinhua, which publishes two monthly brochures that include a summary paragraph for each new book or periodical. Delivery of the books takes about six weeks. Because pre-purchase information is scant and items are not returnable, capital-short retailers order conservatively. Retailers also often miss the chance to profit from second orders, as the lengthy ordering process means that by the time a second shipment arrives, the publication's popularity has already faded, or counterfeiters have taken over.

For periodicals, most foreign media firms have not set up their own distribution agencies, but rather have chosen to manage contractors.

But much of the monopoly power once enjoyed by Xinhua and sanctioned retailers has been usurped by a growing private or quasi-private sector. In the book market, legions of streetside stall vendors buy books directly from printing plants at a steep discount. They also accept books on consignment from independent distribution companies that sometimes are little more than "briefcase" companies.

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Publishers suffer from a range of difficulties in supplying information on their publication to potential advertisers.

lishers have started to experiment with new systems, however, either establishing their own distributing arms or forming alliances with other organizations. *Beijing Youth Daily*, for example, which is nominally under the central Party apparatus but in reality is both independent and entrepreneurial, in 1996 established the Little Red Cap Co. to distribute the newspaper. Little Red Cap set up a system of drop points and hired laid-off factory workers, giving them each shoes, bicycles, and a three-hour route, so that the company could guarantee distribution within two hours of publication. The Industrial and Commercial Bank of China also signed an agreement with Little Red Cap to take its subscriptions. In return, the bank receives the subscription deposits, while *Beijing Youth Daily* readers have a broad network of bank branches at which to subscribe. Subscribers have access to a subscription hotline for complaints, and receive bonuses in return for filling out a personal data form giving their gender, income, occupation, and other demographic information.

Caveat advertiser

Though advertising revenue can be crucial to a publication's bottom line, publishers suffer from a range of difficulties in supplying information on their publication to potential advertisers. China lacks a circulation-auditing organization like the US Audit Bureau of Circulations, and publishers take advantage of the situation to inflate actual circulation figures. Publishers tend to claim that they circulate the maximum quantity allowed by their publication licenses.

One Beijing publication that offers advertisers a sophisticated media kit showing a regional breakdown of 90,000 readers admitted that it only prints 8,000 copies of the magazine. A technical publication that reported a circulation of 5,000 to the foreign company that had licensed the original publication actually prints only 800 copies. For new commercial publications, it is impossible to predict accurate circulation figures prior to publication, and the publishers have an incentive to overestimate in order to win PPA approval for a project. The result of such twisted incentives is that advertisers can seldom be certain of the impact of their dollars.

The playing field

Most of the foreign periodicals that have braved the regulatory obstacles to set up publishing operations in China have done so under some type of contractual agreement with a Chinese entity. The McGraw-Hill Companies, Inc. has published a monthly Chinese-language edition of *BusinessWeek* in cooperation with the Ministry of Foreign Trade and Economic Cooperation for a number of years. Among the earliest major multinationals to plunge into the China market with Chinese-language editions was the French publisher Hachette Filippachi Presse, which started publishing a Chinese version of *Elle* magazine in 1988 in cooperation with Shanghai Publishing House. Hachette now also publishes a Chinese version of *l'Eventement Sportif*, titled *Bo*; *Car and Driver*; *Women's Day*; and *Air China*. The US technical publisher IDG has an equity joint venture in publishing, approved in 1980, through which it publishes several computer titles, including *PC Magazine*. The Swiss company Ringier made a foray into the market with its magazine *Cash*, but ultimately withdrew from the project and now represents the magazine for advertising sales only. Ringier also represents about two dozen Chinese publications for which it sells advertising to overseas customers, and is developing new projects on the mainland. Times-Mirror's *Popular Science* is being published under license, as are *PC Magazine*, *PC Computing*, *PC Week*, and special editions of *Sports Illustrated*. Walt Disney's *Mickey Mouse* comic books, also published in China, apparently have a large circulation. And there is a profusion of foreign trade titles published in cooperation with Chinese government institutions.

Media mammoth Hearst Corp. announced early in 1998 that it would soon begin publishing a Chinese version of *Cosmopolitan*. Under the agreement, Hearst will reportedly acquire from the private group Trends its *Trends Lady* fashion magazine to revamp as *Cosmopolitan*. *Trends Lady* itself has long been a licensing deal under the National Tourism Administration.

One of the smartest publishing companies selling to the China market is CCI, founded in Hong Kong in 1975 by Thomas Gorman and several partners. CCI recently launched Times-Mirror's *Fortune* in Chinese, and imports the publication into the mainland from Hong Kong. By translating, editing, and printing the magazine offshore, the publisher avoids designating a third of the content to local producers, and avoids the necessity of applying for the ever-elusive *kanhao*. CCI also publishes roughly a dozen other magazines and has some television projects as well. A significant downside to publishing outside the mainland and importing the magazine, however, is the regulation requiring imports to be distributed through the State system of foreign-language bookstores, which makes realizing circulation income difficult.

Publishers' prospects

Though publishing may be the hardest of all businesses in China for foreign investors to tackle, given the convoluted laws and political concerns, it is also among the least developed and therefore most promising. There are some indications that the more stringent ideological controls may ease within 3-5 years, though nothing is certain.

But foreign publishers that venture into China will need to stay on their toes to avoid following the path that confounded foreign makers of beer, pharmaceuticals, and many other products. Investors in such sectors found that they developed expertise in navigating rough regulatory waters that enabled them to launch their products. After only a brief spell of success, however, many found that the virgin market of yesterday became a brutally competitive market virtually overnight. Today, the publishing market presents a raw, unformed opportunity to foreign professionals with the knowledge and luck to win a chance to start shaping it. Before they stop to congratulate themselves, the lucky few who gain a foothold in the market must make sure to build the distribution, management, and financial structures that will allow the business to keep growing. 完

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Frequent Fliers

Strong retention programs are the key to curbing Chinese manager turnover

Keith Goodall and Willem Burgers

Among the factors determining the success of a foreign venture in China, human resources issues consistently rank high. Indeed, human resources expenditures are one of the most common causes of foreign-invested enterprise (FIE) cost overruns. Specifically, poor retention of local staff tends to rank among the top three problems that foreign companies face in China.

A study by the Hong Kong office of KPMG Peat Marwick found that the average tenure for Chinese mid- to senior-level executives in the PRC is 8-12 months. A 1997 survey of 49 FIEs by Watson Wyatt Worldwide reported an average annual turnover rate of roughly 12 percent in Shanghai and Beijing, and 17 percent in Guangdong Province. Executive-search firm Korn/Ferry International, moreover, has predicted that the need for local executives will increase 400 percent during the next decade. According to some experts, 10 management positions already exist for every qualified Chinese applicant.

This high demand for qualified PRC nationals to assume management posts in FIEs makes it crucial to uncover the reasons why Chinese staff change jobs so frequently. A survey of the career decisions and job attitudes of 80 Chinese managers who earned MBA degrees from the China Europe Management Institute in Beijing (the predecessor of China Europe International Business School [CEIBS]) explored the factors underlying FIEs' high turnover rates.

Catalysts of Change

The shortage of managers can be partially attributed to the sharp rise in foreign direct investment (FDI) inflows that began in the mid-1980s. During 1986-93, the period in which the surveyed graduates entered China's job market, the country's annual inflows of FDI grew from $1.7 billion to $27.7 billion. Such large inflows provoked intense economic activity in China. The number of FIEs in Shanghai alone, for example, rose from 269 in 1990 to nearly 16,000 by the end of 1996, a nearly 6,000 percent increase. The rapid proliferation of foreign enterprises sparked a surge in demand for skilled Chinese workers, which contributed to a supply shortage and, eventually, to rampant job hopping among Chinese FIE employees.

As English-speaking, Chinese MBA graduates, the survey respondents represent an elite group of candidates qualified to fill managerial positions in FIEs. In an atmosphere of such high demand, they also were prime candidates for poaching. With an average age of 38 at the time of the survey, the 72 male and 8 female respondents had

Keith Goodall is a lecturer in human resource management and Willem Burgers a professor of strategic management and marketing at the China Europe International Business School (CEIBS) in Shanghai.

spent, on average, 5 years in the workforce since receiving their MBA degrees. Together, they had worked for 173 different companies since graduating from CEIBS, with an average tenure at each firm of 2.4 years. During their five years in the workforce, roughly two-thirds of the respondents had held 1-2 jobs, and one-third had held three or more jobs. The bulk of respondents worked for wholly foreign-owned enterprises (46 percent), followed by State-owned enterprises (20 percent), private companies (16 percent), Sino-foreign joint ventures (14 percent), and the PRC government (4 percent).

Roughly one-third of the surveyed graduates were responsible for nearly two-thirds of the reported job changes. Not surprisingly, the more recent graduates, who had been in the job market for a shorter period of time, had changed jobs less frequently.

In similar studies conducted in the 1980s indicated that the prospect of higher salaries and benefits topped the list of reasons Chinese managers gave for switching jobs. In contrast to their counterparts in the 1980s, the managers participating in the CEIBS survey based their decisions to change jobs not only on salaries, but also on dissatisfaction with their present position, the attractions of the new position, and factors unrelated to the job, such as the desire to be closer to their families or live in a more modern city. The "frequent fliers" in the CEIBS survey—those who had held three or more jobs since receiving their MBA degrees—on average enjoyed neither higher salaries nor greater job satisfaction than former classmates who had remained with the same employer. Frequent fliers earned an average of ¥14,374 ($1,736) per month, while the survey respondents who had remained with one employer earned ¥17,122 ($2,068).

Though more attractive job opportunities and changes in family circumstances lured some otherwise satisfied managers away, dissatisfaction with different aspects of their positions clearly motivated a number of managers to move to other firms (*see* Table 1). In nearly half of the cases, managers left because of low salaries, a difficult or unfair boss, or unchallenging responsibilities. Roughly half of the respondents said they were influenced by attractions of the new position, including employment with an internationally recognized company, higher salaries, or personal ties with other employees. A greater number of respondents cited "soft" factors, such as job-development opportunities and interpersonal relationships, than "hard" factors, including higher salaries, as key to their employment decisions.

Table 1
Why Chinese Managers Leave Their Jobs

Reason	Percentage of Respondents*
Inadequate career development opportunities	37.5
Dissatisfaction with interpersonal relationships	20.0
Inadequate salary	18.8
Antipathy toward the industry or company	17.5
Family matters	11.2
Plan to set up own company	7.5
Other	10.0

SOURCE: Keith Goodall and Willem Burgers
* Respondents could choose more than one reason

Gauging Satisfaction

Identifying the keys to manager retention is only part of the battle against turnover, however. Predicting if managers are contemplating a move elsewhere can be just as crucial. To determine the main factors contributing to job satisfaction, the survey also asked about various aspects of the managers' current positions, and their plans one year out. Responses to these questions revealed a strong link between low job satisfaction and plans to leave a current job. A manager's promotion prospects and responsibilities were the top factors in determining job satisfaction, followed by supervisory methods and interpersonal relations, the nature of their work, and their salary and workload. The survey responses reveal that Chinese managers attach great significance to the quality of interpersonal relationships at work. Although higher salaries were also an important factor in the decision to stay or leave, Chinese managers consistently ranked this element lower in importance than interpersonal relations.

A competitive salary is necessary to attract staff, but is clearly an insufficient retention tool on its own.

The examination of respondents' job characteristics and corresponding levels of job satisfaction provided further indication of which managers were likely to remain with their current employer, and which were considering moving elsewhere. Managers intending to stay with their present employer had worked for the same company over a year longer than those who planned to leave their jobs (*see* Table 2). Managers with an inclination to leave had consistently received fewer of the perks associated with higher status and promotion within the company. For example, among those planning to change jobs, more than half stated that they had not made work-related trips outside China, 90 percent had received no car allowance, and 40 percent had received no housing allowance from their employers. They also were significantly less satisfied with their level of responsibility than respondents who had no plans to leave.

Tuning in to Managers' Concerns

New faces can occasionally offer companies innovative ideas and processes. In developed economies, such industries as advertising and consulting, which depend heavily on creativity, actually welcome turnover if it means fresh talent. High turnover, however, undermines the daily operation of FIEs in China, and has a direct impact on profitability. Most foregin firms consider current turnover levels in China to be too high. For these firms, the importance of a comprehensive approach to employee retention cannot be overstated.

A competitive salary is necessary to attract staff, but is clearly an insufficient retention tool on its own. Overall job

Mapping out opportunities for promotion, in particular, may help nurture loyalty.

satisfaction rests partly on an FIE's sensitivity to its own supervisory methods and ability to reward managers with greater responsibilities. For example, in an ongoing CEIBS survey of senior PRC managers in FIEs, roughly one-third of the 36 respondents interviewed to date perceive foreign managers to be skeptical of PRC managers' understanding of Western business concepts and practices. Such foreign managers thus appear unwilling to consider PRC managers' ideas, or tend to dismiss alternative opinions quickly.

Communication of a clear promotion path and attention to the quality of interpersonal relations at work are also critical retention tools. Implementing a management system that clearly conveys job expectations and performance standards, and that provides employees with opportunities to assume greater responsibilities and participate in company decisionmaking, seems to aid significantly in retention of local employees. Mapping out opportunities for promotion, in particular, may help nurture loyalty.

Despite China-based foreign managers' awareness of the importance of providing opportunities for growth and development in the workplace, the survey revealed that many companies fall short in meeting such needs. Some companies have not developed long-term plans, but this alone cannot explain the low levels of career planning for managers. In fact, many companies have development plans for their Chinese staff that aim to build up sufficient talent to continue localization—especially localization at higher levels of management. But the survey suggests that many of these companies have failed to communicate such career plans to their Chinese managers. Only one-quarter of the Chinese managers intending to leave their jobs were aware of a company career plan for them. Among managers planning to stay with their current employer, more than half knew of a specific career plan. One senior foreign manager in a consulting company that had hired several MBA graduates explained that his firm had an implicit, rather than explicit, policy of reserving more important, sensitive, or confidential projects for managers who spent at least two years with the company. Making such a policy explicit could go a long way toward retaining this firm's Chinese managers.

Case studies from the Hong Kong and Shanghai Banking Corp. (HSBC), a company with a reputation for low levels of staff turnover, offer examples of how close attention to career planning can be a successful means of employee retention. According to a January 1997 *Economist Intelligence Unit* report on multinationals in China, HSBC has a 10-week training program in Britain for its newly hired trainees, and provides further training in Hong Kong over a 3-year period. Given the investment in each trainee, employee retention is of considerable concern. Wisely, HSBC makes explicit from the outset its fast-track promotion prospects. In particular, the bank emphasizes that it intends to replace the 25-30 Hong Kong general managers in China with trained local staff. In addition, HSBC offers its trainees the opportunity to borrow money for housing at below-market interest rates. The bank keeps salaries competitive, awards a bonus—a percentage of the first-year salary—upon the trainees' return to China, and gives an additional bonus at the end of the first year. This combination of training, clear communication of career prospects, and monetary rewards is likely driving HSBC's low turnover.

Table 2
Profile of Chinese Managers and Their Job Satisfaction

	Plan to leave	Plan to stay	Are undecided
Number of respondents	10	34	19
Average tenure at current company	2.4 years	4.0 years	3.8 years
Percent of respondents who:			
Have traveled overseas for work	30%	60%	58%
Receive housing allowances	40%	56%	53%
Are aware of their company's career plans for them	25%	56%	42%
Receive car allowances	10%	35%	21%
Average level of satisfaction with:*			
Interpersonal relations	3.0	4.0	3.2
Responsibilities	2.5	3.9	3.2
Promotion prospects	1.9	3.5	2.8
Supervision	2.8	3.5	3.0
Salary	2.9	3.4	2.5

SOURCE: Keith Goodall and Willem Burgers
* The level of satisfaction is based on a scale of 1 (low satisfaction) to 5 (high satisfaction)

Winning ways

Though the survey included only CEIBS graduates, the results suggest that any successful FIE retention program in China must incorporate training opportunities, regular salary reviews, and a clearly defined career path. These elements, together with an awareness of Chinese cultural values, will go a long way toward discouraging local professionals from accepting an offer from another employer (*see* p.56). Moreover, subsequent research supports this survey's finding that job satisfaction of local managers improves when companies put greater effort into incorporating their local managers' knowledge and talents. Future studies that could prove useful would examine company recruiting practices, including the tendency of companies to oversell their positive features, causing incoming managers to have unrealistic expectations.

The recent slowdowns in China's FDI inflows and economic growth may reduce, to some degree, the problem of turnover. But the effect, if any, will be temporary, since the gap between the supply and demand of human talent is so great. Utilized FDI in 1997 reached a record high of $45.3 billion. Even a 50 percent decline in that amount in 1998 would fail to ease the present shortage of local managerial talent. 完

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Bridging Business Cultures

Understanding the different communication styles of foreign and PRC employees can be crucial to a joint venture's success

Linda Beamer

Cross-cultural management and communication conflicts appear to be the norm rather than the exception in international joint ventures throughout the world. In fact, the successful joint venture may be one that manages cross-cultural communication effectively. Improving communication within an enterprise, moreover, can help stem the high turnover rates among Chinese employed in foreign-invested enterprises (FIEs) (*see* p.50).

In a survey to identify the effects of cultural background on communication between FIEs' foreign and PRC employees, PRC and foreign managers from five Sino-foreign joint ventures based in Shanghai participated in in-depth interviews in the summer of 1997.

The results of the interviews revealed that communication differences can indeed stand in the way of a venture's success. According to one Chinese manager, during the startup of his firm's joint venture, "conflicts occurred every day" between himself and the foreign general manager because of differences in communication styles. Another joint-venture manager acknowledged that ineffective communication contributed to the joint venture's failure before it had actually begun operations. Taken together with other recent studies on cross-cultural communication in China, the Shanghai study offers a glimpse of the difficulties Western and PRC employees encounter as they try to implement a joint venture's mission, and suggests some ways to avoid misunderstandings.

Addressing problems

The interviews uncovered culture-based sources for a number of the communication problems that can plague an FIE. One source of confusion for both PRC and Western managers in a joint venture is that what constitutes a problem in one culture may not be perceived as a problem in another. For example, according to one of the managers interviewed, from the foreign partner's point of view, a series of obstacles may appear to stand in the way of obtaining information from PRC government agencies. But the Chinese partner, which can often obtain such information by means of a relationship with government officials, may not perceive any problem. Similarly, a study by professors at Nankai University in Tianjin reported that the Chinese management of one US-PRC manufacturing joint venture viewed the renovation of employee restrooms, at a cost of ¥200,000 ($24,096), as a misplaced priority. The Chinese managers "unanimously" agreed that the joint venture's funds would best be spent first on

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l differences also become ap- the way problems are ex- inese employees may be re- o inform a manager of a until it is impossible to pre- nanager from learning of the When Chinese employees problem to a manager, more- are likely to minimize its se- . In China, the messenger be associated with the prob- e the manager alone is re- for, and credited with, find- ition. In contrast, in Western an employee who identifies a s often regarded as more per- nd far-sighted than his or her s. And because early identifi- a problem often facilitates nd less expensive solutions, nanagers appear more willing the solution to the individual orts the problem. A related isunderstanding arises in joint because of Westerners' ten- speak directly about a prob- h Chinese may view as rude.

ACE-VALUE TRAP

ners can appear naive when rpret Chinese responses or ally. For example, managers interviewed joint venture re- a debacle that arose because pean partner misinterpreted a made by a Chinese official. formal dinner in Europe with a delegation whose leader was ntract-letting organization, the ure's European partner asked bidding rights for a construc- act in Shanghai. The Chinese iled and made a pleasant re- European partner mistakenly Urgent directions to resume work on the bid were relayed to the joint venture's Shanghai office. Later, when it became apparent that the Chinese leader had not given his approval but was simply behaving politely—in the manner of a Chinese guest—the Europeans believed they had been deceived. The Chinese contract-letting organization, as an uninvolved third party, found the situation richly humorous at the expense of the Chinese partners of the joint venture, whom they considered to be on a fool's errand, and the European partners, whom they viewed as naive.

RESULTS AND RULES

While Western culture focuses on cause and effect, with an emphasis on results, Chinese place great importance on relationships among the people who generate results. As Roderick Macleod states in his book *China Inc.: How to Do Business with the Chinese*, Americans tend to ask why a particular event has occurred more frequently than their Chinese counterparts, and expect reasons in reply. Chinese, however, may answer by describing the event and others like it.

Managers from Western cultures tend to break problems down into the reasons for and the factors contributing to their existence. Working backward from a problem to its causes, Westerners then make changes to eliminate it. Chinese, on the other hand, tend to approach a problem as a network of interrelated items in a nonlinear web. They look for patterns that match ones previously identified. Chinese also generally consider the effect of a solution on the people and relationships involved before they take action. Offering such explanations, instead of specific, linear, causes can make Westerners impatient. At the same time, because PRC managers tend to focus on the possible, rather than the theoretical, several Western managers interviewed praised the Chinese for their pragmatism.

Western cultures, which emphasize individual responsibility and results, also tend to value close adherence to rules and regulations. Chinese, who generally stress cooperation among members of a group, may appear comfortable going around regulations to achieve a work objective. The different attitudes toward rules caused problems in several of the joint ventures inter- enough that the joint venture an exercise in its training prog The exercise involves teams o ees putting together a puzzle, person holding some of the p rules dictate that no one talk piece from someone else. Acc a Chinese manager interviewe eral, the Germans follow the the exercise much more strictl Chinese, but the Chinese, thro eration, are much more ef putting the puzzle together.

A stress on context and rel could explain why Chinese c to discuss alternative proced plans long after their foreign parts have finished, accordin joint-venture manager. Nor long-range plans developed b ganizations tend to be less than those developed by Ge American firms. For example firms interviewed had often extensive long-range planni ments. PRC participants in on program commented that Chi ning could benefit from the n prehensive Western model same time, some Western ma pressed admiration for their P terparts' willingness to be fl the sake of results, and abilit slavish adherence to planning

PRECEDENT VERSUS INNOVATION

Problem-solving in Chines tends to involve reference to ity or a precedent—a reflecti Chinese preference for sharin sibility for tasks or problems. example, central-level PRC o ten urge regional counterpar to "the Beijing model" of imp certain policies. In a work env this mindset translates into Ch ployees preferring to solve pr reference to a model based o periences. The approach offe vantage of consensus about a lution, which minimi consequences of failure. If fails, no one can be blamed f ing an example that has pro tive in the past.

Western managers tend to v proach that relies exclusively c perience as a barrier to crafting solutions. One Chinese intervie Westerners' distinct preference mentation and creativity in

Responsibility and Motivation

The issue of individual accountability also rises to the fore in the daily operation of joint ventures. In American culture, individuals traditionally are rewarded for good performance to a far greater degree than in Chinese culture. Thus, an American employee typically is willing to take responsibility for tasks, projects, or an entire joint venture's operations, since a positive outcome is likely to help his or her career.

What many expatriate joint-venture managers may not realize, however, is that such a reward system differs from that of many Chinese organizations, in which individuals may have disincentives for assuming full responsibility. As one manager said, "In the old-style Chinese State-enterprise culture, you were never given credit for success, only blame for failure." In such an environment, few were motivated to excel. In many cases, job performance by a Chinese employee of a PRC enterprise can affect everything from his or her promotion prospects to apartment assignments. While individual employees in Chinese work environments are sometimes singled out for good performance, often as "model workers," Chinese employees may not actively pursue this distinction. Every Chinese joint-venture manager interviewed indicated that tangible rewards for jobs well done, such as salary raises or opportunities for professional development, were essential to motivating Chinese employees.

Higher pay may motivate Chinese employees, but asking for raises is another area in which cultural differences come into play. According to an employee of a PRC-German manufacturing joint venture, German employees seeking a pay increase ask managers directly for a raise, citing reasons justifying an increase. In contrast, Chinese employees tend to be reluctant to be so direct, since in a Chinese enterprise, those who ask their manager for a pay increase are likely to be told or asked to resign, according to one government official. In collectivist cultures such as China's, groups take responsibility for the success or failure of an endeavor and groups are given recognition. Thus, raises tend to be awarded to groups of employees rather than to individuals.

An organization that nurtures friendship also ranks high among Chinese managers. As one manager said, "Relationships facilitate results." Several local and expatriate managers mentioned that many Chinese employees want to become friends with foreign joint-venture managers. This is somewhat at odds with Western business culture, which recommends keeping relationships with colleagues strictly business. One Chinese manager also suggested that in the initial stages of the joint venture, the absence of time-tested relationships, professional or otherwise, between foreign and PRC managers can make it difficult for Chinese to be completely candid about the overall operation of the business, from management methods to job satisfaction.

All interviewees concurred that generating pride in the joint venture's product is crucial to spurring cooperation between Chinese and foreign employees, since focusing on this overarching goal integrates everyone's efforts. To boost enthusiasm for the product and the company as a whole, some companies set up deferred bonus schemes, while others simply give out company logo-bearing items such as mugs, caps, and neckties. Interviews revealed that one unprofitable joint venture, which manufactured a product considered to be of high quality, had so far failed to convince employees that they were part of a "team." In another joint venture, the Chinese partner was discouraged because the foreign partner seemed less committed to the venture's success in the PRC. In fact, officials of the foreign party made it clear that if sales in China ever slowed, the company would set up operations elsewhere. This attitude likely contributed to the low morale among Chinese employees, which, in turn, probably harmed sales.

A Look at Leadership

The Shanghai interviews also revealed that Chinese employees may be loyal to specific managers rather than to the company as a whole, perhaps because authority in China historically has resided in people, not laws or positions. Prior to the Communist era, Chinese custom dictated that a manager would *ti ba*, or mentor, an employee who, in return, would owe the manager loyalty throughout his professional life. To earn loyalty from Chinese employees in the current post-collective culture, however, foreign managers should be aware of the importance of demonstrating genuine concern for employees. For example, workers who were relocated to a new venture's housing facilities would view favorably a manager who took time to visit families

All interviewees concurred that generating pride in the joint venture's product is crucial to spurring cooperation between Chinese and foreign employees.

and confirm their satisfaction with the domestic arrangements. When a German firm opened a new plant outside of Shanghai, Chinese employees applauded the efforts of a German manager to arrange buses to transport employees the 90 minutes to and from Shanghai daily, and guarantee every rider a seat. A Japanese manager at another firm was particularly esteemed because he initiated weekend activities for employees and their families.

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Partners in a joint venture in China can start off on the right foot by selecting personnel who are sensitive to and knowledgeable about cultural differences.

Despite employee expectations of individual managers, leadership in Chinese firms tends to be exercised by a group. One interviewee explained that in traditional Chinese practice, a director or a general manager of an organization is a member of a decisionmaking group that includes outside associates, such as municipal officials. Another PRC employee explained that Chinese have been taught from childhood to devote their life to the Party, and that each individual is only a part of the Party, which in turn represents the whole of society.

But recently, according to the Chinese interviewees, attitudes toward individual responsibility have been changing. According to officials at China Europe International Business School (CEIBS), individual entrepreneurs such as Microsoft Corp.'s Bill Gates are discussed in business training programs as successful business leaders. The Chinese MBA students appear to accept this new idea of leadership, and seem much more open to risk-taking than the previous generation, for whom the desire to belong to a team and to please higher-ups is still strong. Another Western manager of a joint venture pointed out a difference in risk-taking by former employees of State-owned enterprises, who were likely to play it safe, versus employees of more fiscally accountable companies, who recognized the need to take on risk in business situations.

Performance Assessment

Related to the model of group leadership is Chinese organizations' emphasis on group, rather than individual, performance. When individual work evaluations are necessary, Chinese managers judge performance with concern for the person *in context*. How the assessment will affect the employee's future, the work group, and the employee's family, as well as the difficulty of the assignment and the worker's effort, are all considered. Thus, when Chinese managers must measure an employee's performance, they tend not to be extreme. At one joint venture's training center, which uses an assessment point scale of 0-150, with 100 as the average, employee assessments by Western managers often range from 60-150. The assessments by Chinese managers usually only span 10 points, between 96-106. Chinese may also distinguish between the assessment of superiors and subordinates. One interviewee quoted a Confucian proverb: "Higher-ups govern; lower ranks obey." Senior Chinese managers in PRC firms generally are not subject to performance evaluations to the same degree as their counterparts in Western companies.

These different approaches toward evaluations can cause problems for a joint venture. When an employee's performance is poor, managers from different backgrounds may favor different solutions. For example, one case told by an interviewee involved a joint-venture staff member who was recognized as capable but also unreliable. The employee would probably have been fired in a Western organization, according to the Chinese interviewee. In a Western business setting, management would seek to eliminate the poor performer for the sake of the success of the group as a whole. But in China, an entire group shares responsibility for the failure of an employee to perform satisfactorily. As a result, the employee's Chinese manager allowed her to stay on, though consistent with his leadership responsibilities, he took time both to discipline and encourage the employee.

Nonetheless, many Chinese employees of joint ventures have seized the opportunity to prove their skills and rise to the top ranks based on merit evaluations. One Chinese interviewee spoke ruefully about a competitor firm, a joint venture with a US company, in which the top manager was Chinese. He said a Chinese manager would never rise to the top of the joint venture for which he worked, which was with a non-American partner, because of a cultural bias against naming a Chinese citizen as the general manager of a joint venture.

Tips for Successful Communication

Managers of joint-venture enterprises may not necessarily be chosen because of their cultural sensitivity or skills, receive training or assistance in developing these skills, or even have had any previous experience in China. As a result, joint ventures' recognition of cultural differences in communication styles between Chinese and Western businesspeople is critical to prevent small misunderstandings from developing into large problems. Not surprisingly, the interviewees unhesitatingly agreed that joint-venture companies should make improving intercultural communication skills a priority.

Just as language interpreters are necessary to ensure accurate linguistic communication, "culture interpreters" can be essential when people from different cultures are attempting to resolve a problem. Culture interpreters—individuals with considerable experience, for example, in both PRC and US cultures—can explain the meaning of each side's communication behavior. Many firms have unofficial culture interpreters, such as the foreign general manager of one joint venture interviewed, who had spent 20 years in China. Other companies employ full-time training specialists to address cultural interpretation issues.

Attempting to change either the Chinese or Western partners' thinking about how to achieve a solution may not be realistic, but at least the two sides can try to understand each other. Partners in a joint venture in China can start off on the right foot by selecting personnel who are sensitive to and knowledgeable about cultural differences. Partners also should include not only initial, but continued, cross-cultural communication training on their list of management priorities. Ongoing education programs would consist of several days of intensive awareness training and many hours of discussion about specific situations that can spark conflicts and problems. Other topics to cover might include attitudes toward communication styles, time management, conflict resolution, productivity, and cooperation. And a firm might consider employing a culture interpreter who can mediate when conflicts require negotiation and to whom employees can look for explanation of misunderstandings. Though these measures will not close all cultural gaps in joint ventures, they should help make joint-venture managers more sensitive to the role such differences play in the day-to-day operation of their companies. 完

Council Welcomes New PRC Ambassador to the United States

Photo by Bill Fitz-Patrick

PRC Ambassador Li Zhaoxing speaks to Council members at a dinner welcoming him to Washington.

The Council hosted a reception and dinner in Washington, DC, on April 7 for new PRC Ambassador to the United States Li Zhaoxing. Less than one month after assuming his new post, Li made his first Council address to 200 members and guests. Ambassador Li praised the Council's efforts in facilitating economic cooperation between China and the United States. Li also commented that "the shared interests between China and the United States have increased in the post-Cold War world," to include preventing nuclear proliferation and maintaining global and regional stability. Moreover, Li asserted that the October 1997 presidential summit raised US-China relations to a new level of cooperation that will benefit both countries.

Also in Washington, Council staff and member company representatives met with a five-person delegation from the PRC on April 7 to discuss China's progress in the area of export controls. Sun Guangxiang, assistant minister of the Ministry of Foreign Trade and Economic Cooperation, highlighted China's recent adoption of export control measures and reiterated his country's commitment to controlling exports of sensitive technology. Sun also encouraged the United States to further liberalize its export-control regime, and urged a "pragmatic" attitude toward high-technology trade. Pre-license certifications and post-shipment verifications of supercomputer exports, required by the US National Defense Authorization Act, are chief areas of concern, according to Sun.

Environment, IPR, and Brand-building Updates

At a breakfast meeting in Shanghai on March 31, Evironomics's head of international operations Robin Bidwell and Beijing office director Husayn Anwar highlighted recent developments in China's environmental regulatory regime. Though leaders recognize that pollution problems discourage potential investors, they said, implementation of environmentally friendly production processes is not yet widespread. In reality, a project's environmental effects generally are considered only after completion.

China's State Environmental Protection Administration (SEPA), according to Anwar, is likely to emerge a stronger regulator as a result of the Ninth National People's Congress government reorganization. But because local environmental protection bureaus answer to local governments rather than SEPA, a stronger SEPA may not necessarily spell greater enforcement of environmental regulations. On the positive side, Anwar remarked that Shanghai's new air pollution and emissions regulations are quite strict, and that urban residents are increasingly voicing dissatisfaction with pollution levels. From a social perspective, Anwar said that air- and water-pollution control top the environmental priority list, though treatment of wastewater and solid hazardous waste are top priorities from a liability standpoint.

Meanwhile, Council members in Hong Kong heard from Chuanjie Zhou of Shearman & Sterling, and Alexandra Ip of PPG Industries, Inc. on March 16. Both speakers discussed intellectual property theft by joint-venture employees. Ogilvy & Mather Worldwide Inc.'s Matthew Anderson spoke on March 20, providing his insights on brand-building in China.

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A US company is helping usher in a new era of television programming in China

Ann M. Weeks

Though television arrived in China in the late 1950s, 20 years later fewer than 5 million people owned a set. Today, however, roughly 90 percent of the urban Chinese population has access to a television, and the country boasts about one set per household. More than 250 million families watch television on a daily basis in China. And among those aged 12-20, Nielsen SRG reported last fall that 90 percent are daily television watchers. One of the aims of China's Ninth Five-Year Plan (1996-2000) is to increase the national television penetration rate to 90 percent, or roughly 1.1 billion viewers.

The millions of Chinese already tuning in have a relatively limited selection of programs from which to choose. News broadcasts and historical melodramas dominate the PRC airwaves. But viewers have had another option since 1994, when RXL Pulitzer, a Seattle-based production company, initiated corporate-sponsored educational programs together with Beijing Television (BTV).

Slim Pickings

About 70 percent of all households with televisions tune into news broadcasts. Historical costume dramas, most of which have subtle or not-so-subtle political themes, and documentaries that discuss current developments in China, are among the other available selections. Also routinely aired are short, daily prime-time features, such as "Song of Beijing," a program in which singers perform patriotic songs. Variety shows are increasingly popular among Chinese audiences, and several sitcoms and modern dramas are gaining followings as well.

China's relatively limited program selection is a result, in part, of the country's history of government control over information dissemination. China Central Television (CCTV), the only television force in the PRC prior to the 1970s, originally was created as an outlet for government propaganda. Beijing introduced a three-tier structure for local television services at the provincial, city, and county levels in the early reform years to expand television's reach. Nonetheless, the central government continues to guide broadcast content through the Ministry of Propaganda and requires local stations to register with the State Council's Radio, Film,

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and Television Bureau. So although the number of television stations in China grew from 35 in 1978 to more than 3,100 in 1997, the stations' lack of independence has tended to stifle new programming.

PRC regulations that curtail foreign ownership have also inhibited the diversification of television programs in China. Beijing prohibits foreign equity investments in Chinese television stations, and foreign television programming must receive approval from the State Council's radio and television administrative departments.

Seizing an Opportunity

RXL—a partnership of US media companies that includes Pulitzer Publishing Co., Morgan Murphy (Television) Stations, and the Rockey Co.—made its foray into the China market after RXL President Dennis Bracy participated in several trade missions to Asia. Through those missions, and consultations with the Washington State-China Relations Council and the Washington Council for International Trade, the opportunities to extend RXL's activities to Asia became clear.

Director Wen Xingyu (left) oversees the set of the RXL-BTV co-production "My Computer Family."

RXL initiated discussions with BTV in February 1994 about co-producing corporate-sponsored educational television programs for satellite broadcast throughout China. The two companies signed a letter of agreement in May 1994, and a formal contract in November 1994 (which the partners have since renewed each year) to co-produce television programs grounded in Chinese culture that would educate as well as entertain. The programs have since attracted the sponsorship of some of the world's leading companies.

Bracy explains that RXL was drawn to BTV, in part, because the station is entrepreneurial, and grasps such Western programming concepts as viewer choice, prime-time advertising, and ratings competition. BTV, for example, leveraged its revenues to create three new television channels, while Shanghai Television (STV) has only one full-time and one part-time channel. (BTV also owns a paging company, a driving school, the country's leading home-shopping network, and multiple real-estate properties.)

CCTV remains the only true national television network, with programs now on eight channels nationwide transmitted by 50,000 relay stations, 1,100 satellite ground stations, and hundreds of cable systems. But BTV is the second-largest television program producer and broadcast station in the country and is working to expand its national coverage. With a staff of 1,800, BTV currently operates four channels that reach more than 20 million viewers in Beijing and Tianjin. BTV began broadcasting nationwide via satellite in January, and now is negotiating with local cable systems to carry its programs. With such an aggressive expansion schedule, BTV is poised to become a competitive nationwide network.

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Appealing to Viewers

The RXL-BTV agreement was the first of its kind, as China's ideological stalwarts historically have kept a tight rein on foreign participation in PRC media activities (*see* p.42). Western media firms, as a result, have tended to export existing programs to China rather than co-produce new programs designed specifically for Chinese television viewers. But since roughly 1994, the climate has warmed to new arrangements for television programming and advertising in China. Marketization of the economy has increased demand for advertising outlets—and popular programs with which advertisers can associate their products.

The challenge for television-based marketers in China has been how to craft a memorable message that would stand out from a long line of consecutively aired ads that are often only five seconds long. Traditionally, television advertising in China has not been designed with viewer preferences or demographics in mind. Because commercials tend to air in 5-10 minute blocks between programs, television advertisements are generally not cost-effective. Lack of control over when a particular ad will air also makes reaching target audiences difficult. For instance, a number of RXL's foreign sponsors with interest in television advertising targeting children found few appealing options among the PRC's existing programs. As a result, the companies simply purchased advertising space tied to a general-interest program, in essence paying for an audience outside of their target group.

Thus, while the contract with BTV established a framework under which RXL has been able to operate in China, cor-

Having established itself in the Beijing television market with the success of "My Computer Family," RXL was able to gain support for new programs.

porate sponsors have formed the core of the Seattle company's PRC business plan. At the same time that it was building its relationship with BTV, RXL met with executives of multinational corporations. These discussions helped carve out RXL's niche as a "go-between" for multinationals and PRC television stations. Through RXL-produced programs, corporate sponsors could fill the void in programming on issues of importance to them. To date, RXL has co-produced 4 programs for the Chinese market for 6 sponsors, including American Express Co., The Boeing Co., British Airways, Compaq Computer Corp., Microsoft Corp., and The Procter & Gamble Co.

ENTERTAINMENT PLUS EDUCATION

RXL's conception and implementation of program ideas for the China market have evolved since 1994. Initially, RXL would recommend marketing ideas to sponsors, but now tends to ask a sponsor to outline the company's marketing goals. RXL then assembles a creative team consisting of representatives from RXL, BTV, the sponsor, and the sponsor's advertising agency, to generate program ideas built around the sponsor's goals. Corporate sponsorships start at $500,000 for a season of half-hour programs tailored to the companies' needs and target markets.

For example, in the spring of 1995 RXL first pitched to Microsoft and Compaq a "magazine-style" television campaign that would highlight the latest developments in and provide general education about computer hardware and software. But Compaq's own market analysis indicated that PRC citizens knew relatively little about computers and software. Thus, the creative team, under the leadership of Mike DeCesare, RXL executive vice president in charge of operations, developed a sitcom in which computers are featured in a familiar environment—the Chinese multigenerational home. The 26-episode program, entitled "My Computer Family" ("*Diannao Zhi Jia*") incorporates into the script issues related to intellectual property rights and educates viewers about computer use. Production of the sitcom began in June 1995, and the first 30-minute episode aired in January 1996. After three weeks, the program drew a weekly audience of more than 1 million in Beijing alone. The show has since been syndicated and currently airs in 20 major markets around China. In 1997, the State Education Commission (now the Ministry of Education) ranked the show as one of China's top three educational programs.

Having established itself in the Beijing television market with the success of "My Computer Family," RXL was able to gain support for new programs. American Express, Boeing, and British Airways signed with RXL in 1997 to co-sponsor "Wide World of Travel," ("*Huan Qiu Lüxing*") a weekly prime-time travel program. The show features travel destinations inside and outside China, and provides travel tips—from how to purchase tickets and check luggage to ways of taking safety precautions. The program's two hosts also interview guests, including airline pilots, government aviation officials, and representatives from airlines and travel agencies. Like "My Computer Family," the travel program is broadcast in Beijing, and RXL currently is negotiating agreements with television stations to syndicate it nationwide.

Procter & Gamble commissioned RXL in 1997 to develop a weekly talent contest program called "Reach for the Stars" ("*Xin Kong Ren Ni Fei*"), which the sponsor hopes to syndicate in China's top 40 markets. The program, the first "branded" variety show in the PRC, is a subtle showcase for the company's Rejoice product. The variety show resembles the hit program "Star Search," broadcast for years in the United States, and includes clips about the participants' lives. Another first in China, an audience applause meter selects winners in singing and dancing categories. Winners receive prizes that increase in value as they advance to subsequent rounds of competition.

RXL estimates that by the end of 1998 it will have 10 hours of weekly programming in China. One program currently in the pilot phase, "Road to Success," ("*Cheng Gong Zhi Lu*") is being co-produced with New York-based Pacific Century Associates. The program will feature Chinese and foreign businesspeople offering insights into their companies' paths to success. With the economic reforms under way in China and the tremendous individual interest in getting ahead, "Road to Success" will help educate viewers about succeeding in business.

BEHIND THE SCENES

The cooperative partnership between RXL and BTV has proven an effective way to tap China's television production market. RXL and BTV negotiate budget responsibilities for programs on a case-by-case basis. Programs are produced primarily in China, though RXL often uses its US facilities and staff to produce special effects and graphics.

To keep revenues above expenses, RXL has kept the structure of its partnership with BTV fairly simple. Dennis Bracy focuses on RXL's overall strategy and building relationships with sponsors. Michael DeCesare oversees the creative writing and production teams. And Kevin Corbett, director of China relations, manages RXL's relationship with BTV. This US-based trio, along with a dozen US-based RXL professional staff who travel frequently to China for specific assignments, supplement RXL's five-person staff in Beijing and one Hong Kong-based representative. But as the company grows, Bracy expects that finding individuals with both technical production skills and the perseverance to help move China through the dramatic changes in the country's television production industry could become increasingly difficult.

WORKING WITH THE SYSTEM

Meanwhile, RXL will have to keep an eye on the evolving PRC media regulatory environment. In September 1997, the State Council issued the Regulations for the Administration of Radio and Television. Aimed, in part, at curbing the establishment of unauthorized television channels, the regulations lay out a comprehensive set of provisions for an industry long governed by piecemeal legislation. The regulations reiterate that the content of foreign television programs must continue to receive approval from the State Council's radio and television administrative departments. Moreover, the revised Guiding Catalogue for Foreign Investment in Industry, which Beijing recently released, maintains a broad ban on foreign participation in media and entertainment (*see The CBR*, March-April 1998, p.4).

But because RXL chose to co-produce programs with BTV rather than seek a di-

rect equity stake in a PRC television station, its participation in China's television production industry has not been prohibited. RXL also has been able to operate with minimal government interference in program content despite China's daunting regulatory structure. RXL avoids such politically sensitive issues as Taiwan and concentrates on producing educational and entertainment programs designed for a Chinese audience. And co-production of the shows means that BTV's in-house censors screen the scripts for potentially sensitive content, reducing the probability of interference from municipal or central-level propaganda authorities. In fact, RXL has more of a problem incorporating the rapidly changing television preferences of Chinese viewers than addressing the concerns of propaganda chiefs, according to Bracy.

In the Works

Though China's media industries are in the early stages of development, competition in the co-production of educational programming is heating up. US-based Children's Television Workshop has been cooperating with STV on a Chinese version of "Sesame Street" ("*Zhima Jie*"). The program debuted in February and is scheduled to be syndicated across China later this year. General Electric Co., the program's sole sponsor, has pledged $3 million over three years to finance the project.

Other foreign companies are cooperating with Chinese partners to air educational and entertainment programs in China. Toshiba Corp., for instance, is working with BTV to produce "Animal World," a wildlife educational program. In addition to sponsoring the show, Toshiba provides the unedited video footage to BTV, which then produces the show. Meanwhile, the US-based National Broadcasting Corp. has begun providing STV with program tapes to edit and dub into an English-language news program. And materials from US-syndicated "Entertainment Tonight" are used to create a Chinese-language entertainment program.

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Room for Growth

Although it is difficult to predict Beijing's policy moves for any given sector, particularly a high-profile and sensitive industry like television, Bracy is confident that RXL's China operations will flourish. With its China activities profitable since the first quarter of 1998, the company is moving to expand its China-based staff. Bracy is optimistic that the demand for higher-quality programming will rise dramatically as more Chinese citizens tune in. So far, RXL has reported no major missteps, though the company has tended to underestimate the time it takes to complete projects, as have many companies that do business in China. But RXL intends to stick to aggressive timetables since, as Bracy observes, television has quickly become China's national pastime. 完

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China BUSINESS

Julie Walton

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 rate quoted in the International Monetary Fund's *International Financial Statistics*.

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 editor.

SALES AND INVESTMENT *January 16 – March 15, 1998*

Foreign or Hong Kong party/Chinese party — **Arrangement, value, and date reported**

Accounting and Insurance

OTHER

Reliance Group Holdings, Ltd. (US)/Huatai Insurance Co. (Beijing)
Entered into technology and management systems support agreement. 3/98.

HIH Winterthur Insurance (Switzerland)
Will open a representative office in Beijing. 2/98.

Advertising and Public Relations

INVESTMENTS IN CHINA

Dentsu Inc. (Japan)/Shanghai Rihai Advertising Co.
Established advertising joint venture in Shanghai. (Japan:50%-PRC:50%). $500,000. 3/98.

Agricultural Commodities and Technology

CHINA'S IMPORTS

Monsanto Co. (US)/NA
Will sell insect-resistant crop varieties. 2/98.

Government of the United States
Sold 50,000 metric tons of corn to the Government of the PRC. 1/98.

INVESTMENTS IN CHINA

Chateau Rouge Investissement SA (France)/Sichuan Panxi Green Industrial Base Co. Ltd.
Signed contract for grape cultivation farm in Sichuan Province. $36 million. 2/98.

Abbreviations used throughout text: ADB: Asian Development Bank; BOC: Bank of China; CAAC: Civil Aviation Administration of China; CNAIEC: China National Automotive Import-Export Corp.; CATIC: China National Aero-Technology Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNOOC: China National Offshore Oil Corp.; ETDZ: Economic and Technological Development Zone; ICBC: Industrial and Commercial Bank of China; MPT: Ministry of Posts and Telecommunications; NA: Not Available; NORINCO: China North Industries Corp.; P&T: Posts and Telecommunications; PBOC: People's Bank of China; 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; UNICOM: China United Telecommunications Corp.

Nippon Paper Industries Co. (Japan), Itochu Corp. (Japan)
Established forestry joint venture in Guangdong Province to plant 2,000 eucalyptus trees. 2/98.

Perdue Farms Inc. (US)/NA
Will establish joint-venture poultry-processing complex near Shanghai. 2/98.

American Rice Technique Co./Yuan Longping Rice Breeding Co. (Hunan)
Will cooperate to develop and market hybrid rice seeds in China. 1/98.

OTHER

ADB
Approved loan for the Soil Conservation and Rural Development Project in Fujian Province. 2/98.

The World Bank
Approved loan for an irrigation program in Anhui, Hebei, Henan, Jiangsu, and Shandong provinces. $300 million. 2/98.

The World Bank
Approved loan for agriculture infrastructure development and irrigation management programs in Guangdong Province. $100 million. 2/98.

World Food Program, International Fund for Agricultural Development
Will provide loans for agricultural commodities development and vaccinations for children in Anhui, Gansu, and Qinghai provinces. $4.7 million. 2/98.

Banking and Finance

CHINA'S INVESTMENTS ABROAD

Générale Banque (Belgium)/Guangdong Development Bank
Opened asset-management joint venture in Hong Kong. 2/98.

ICEA Finance Holdings, Ltd., a joint venture between the Bank of East Asia Ltd. (Hong Kong) and the Industrial and Commercial Bank of China
Purchased the equities and corporate finance businesses of National Westminster PLC's NatWest Markets. 1/98.

INVESTMENTS IN CHINA

International Finance Corp. (IFC), a unit of the World Bank
IFC will invest in China Minsheng Banking Corp., China's first private bank. $15 million. 2/98.

Bank of East Asia Ltd. (Hong Kong)/Industrial and Commercial Bank of China
Formed ICEA Finance Holdings, Ltd., a joint venture investment holdings firm. (Hong Kong:40%-PRC:60%). 1/98.

OTHER

Commission des Opérations de Bourse (France)/China Securities Regulatory Commission
Agreed to share information and cooperate in staff training. 3/98.

Chemicals, Petrochemicals, and Related Equipment

INVESTMENTS IN CHINA

Amoco Chemical Asia Pacific, a unit of Amoco Corp. (US)/China Chemical Fiber Co. (Guangdong), Fu Hua Holding Co. (Guangdong)
Will construct and operate a joint-venture terephthalic acid plant in Guangdong Province. (US:80%-PRC:20%). $350 million. 2/98.

BASF AG (Germany)/Yangzi Petrochemical Corp. (Jiangsu)
Will build an integrated petrochemical plant in Nanjing, Jiangsu Province. (Germany:50%-PRC:50%). $2.7 billion. 2/98.

Clariant International Inc. (Switzerland)/Tianjin No. 5 Dyestuff Factory
Announced joint venture to manufacture dyes for the textiles and pulp industries. (Switzerland:91%-PRC:9%). $50 million. 2/98.

PI Co. (Italy)/SINOPEC
Will jointly construct a 30,000 ton capacity butyl rubber factory in Beijing. 2/98.

Royal Dutch/Shell Group (Netherlands)/CNOOC, China Merchants Holdings Co. Ltd. (Guangdong), Guangdong Investment and Development Corp.
Signed contract to build a petrochemical complex in Guangdong Province. (Netherlands:50%-PRC:50%). $4.5 billion. 2/98.

Spur Ventures Inc. (Canada)/Golmud Potash Corp. (Qinghai)
Established joint-venture plant in Qinghai Province to produce potassium sulfate and magnesium chloride. (Canada:60%-PRC:40%). $5.5 million. 2/98.

Aramco (Saudi Arabia), Exxon Corp. (US)/Fujian Petrochemical Co. Ltd.
Created joint venture to build a 600,000 ton capacity ethylene cracker in Fujian Province. (Saudi Arabia:25%, US:25%-PRC:50%). 1/98.

Lawter International Inc. (US)/Fujian Minbei Forestry Products Industry Corp.
Formed joint venture to produce synthetic resin intermediates, with an annual capacity of 50,000 tons. (US:90%-PRC:10%). 1/98.

Praxair, Inc. (US)/Baling Yingshan Petrochemical Plant (Hunan)
Will invest in construction of a carbon dioxide recycling facility, with an annual capacity of 30,000 tons. $8 million. 1/98.

OTHER

ADB
Will grant loan for an energy efficiency and environmental improvement project at Hubei Exi chemical plant. 2/98.

Degussa Corp. (Germany)
Increased its stake in Qingdao Degussa Chemical Co. joint venture from 40% to 52%. 2/98.

Shanghai Petrochemical Corp.
Secured loan from a consortium of Belgian, Japanese, and US banks to expand its annual output of ethylene to 400,000 tons. $21.8 million. 2/98.

Consumer Goods

INVESTMENTS IN CHINA

London International Group PLC (UK)/Qingdao Latex Co. (Shandong)
Established joint venture to manufacture, market, and distribute Durex condoms in China. (UK:50%-PRC:50%). $7 million. 3/98.

Matsushita Electric Industrial Co. (Japan)/Hangzhou Chengfeng Electric Appliance Corp. (Zhejiang), Shun Hing China Investment Ltd. (Zhejiang)
Established joint venture to manufacture electric rice cookers. (Japan:55%-PRC:45%). $6 million. 2/98.

Shiseido Co. (Japan)/NA
Established a cosmetics production and marketing joint venture in Shanghai. (Japan:80%-PRC:20%). $18.8 million. 2/98.

Electronics and Computer Software

CHINA'S IMPORTS

Alcatel Telecom, a US unit of GEC Alsthom (France)/Government of Sichuan Province
Signed contract to supply the 9800 digital microwave access system to the Sichuan provincial government. 2/98.

Intel Corp. (US)/Yihai Co. (Beijing)
Formed joint venture to market LDVP5.0 antivirus protection software in China. 2/98.

FaxSav (US)/Ministry of Foreign Trade and Economic Cooperation (MOFTEC)
Will supply MOFTEC with Internet servers to link branch offices with Beijing headquarters. 1/98.

INVESTMENTS IN CHINA

Digital Equipment Co. (US)/Fujian Shida Computer Group Co.
Established joint venture to produce personal computers and servers for the Chinese market with Intel Pentium II chips with MMX technology in Fuzhou, Fujian Province. (US:51%-PRC:49%). $30 million. 3/98.

Dell Computer Corp.
Will build a production, sales, service, and technology center in Xiamen, Fujian Province. 2/98.

IBM Corp. (US)
Will establish wholly owned memory-chip manufacturing subsidiary in Shenzhen, Guangdong Province. 2/98.

Mitsubishi Electric Corp. (Japan)/NA
Set up joint venture in Xi'an, Shaanxi Province, to produce circuit breakers and switches for electric-power companies. (Japan:70%-PRC:30%). $16 million. 2/98.

Motorola Inc. (US)/China Huaxu Golden Card Co. Ltd. (Beijing)
Announced formation of joint-venture company to provide smart card design, network-integration, software-development, and marketing services. (US:49%-PRC:51%). $30 million. 1/98.

Nagano Japan Radio Co. (Japan)/MPT, China Courier Service Corp. (Beijing)
Set up joint venture to make electronic data transmitters and receivers for the postal service. (Japan:52%-PRC:48%). $6 million. 1/98.

OTHER

Trigon Adecotech (US)/Suzhou Master Semiconductor Industry Co. Ltd. (SMSIC) (Jiangsu)
Granted SMSIC exclusive contract for sales and service of Trigon's semiconductor and lead-trimming products in China, including Hong Kong. 2/98.

Integraph Co. (US)/Tsinghua Splendor Group (Beijing)
Agreed to cooperate in marketing large computer scanners in China. 1/98.

Microsoft (China) Co. Ltd., a unit of Microsoft Corp. (US)/Shanghai Municipal Government Infoport Office
Signed letter of cooperation to establish Internet technology lab in the Shanghai Computer Net Center. 1/98.

Microsoft (China) Co. Ltd., a unit of Microsoft Corp. (US)/Shanghai Pudong Development Bank
Entered into a technical support agreement under which Microsoft will computerize, manage, and operate the bank's information systems. 1/98.

Microsoft Corp. (US)
Opened regional support center in Shanghai. $10 million. 1/98.

Packard Bell Co. Ltd. (US)/Hunan Redbud Electronic Technology Co. Ltd.
Signed agreement to jointly develop the multimedia computer market in central and southern China. 1/98.

Engineering and Construction

CHINA'S INVESTMENTS ABROAD

Pakistan Steel Mills (Pakistan)/China Metallurgical Construction Corp. (Beijing)
Signed expansion and investment agreement to increase annual production capacity of Pakistan Steel to 3 million tons. $1.9 billion. 1/98.

INVESTMENTS IN CHINA

INAX Corp. (Japan), Itochu Corp. (Japan)
Established joint venture in Suzhou, Jiangsu Province, to manufacture and market interior ceramic tiles. $9 million. 2/98.

SK Corp. (S. Korea)/NA
Will invest in asphalt tank construction project in Taichang, Jiangsu Province. (S. Korea:20%-PRC:80%). 2/98.

Phillips Petroleum Co. (US)/Shanghai Petrochemical Co.
Signed agreement to produce polyethylene tubes and piping. (US:50%-PRC:50%). 1/98.

OTHER

The World Bank
Will fund the installation of water pumping stations and indoor plumbing in Inner Mongolia. $132 million. 2/98.

Environmental Technology and Equipment

OTHER

The World Bank
Will supply loan for the Hubei Urban Environmental and Water Treatment Project. 3/98.

ADB
Approved loan for an energy efficiency and environmental improvement project at Guiyang Steel Mills in Guizhou Province. 2/98.

The World Bank
Will provide loan for the Beijing Forest Resources Environmental Project. 2/98.

Food and Food Processing

INVESTMENTS IN CHINA

Toyo Menka Co. Ltd. (Japan)/NA
Launched joint venture in Jiangsu Province to manufacture frozen vegetables for export to Japan. 3/98.

Shino Koryo Kaisha (Taiwan), a unit of Shino Koryo Kaisha Ltd. (Japan)
Launched venture in Shanghai to manufacture flavorings and fragrances for the food industry. 2/98.

Sumitomo Corp. (Japan), Union Coffee Roasters Co. (Japan), Takasago Coffee Co. (Japan)/NA
Established a joint venture in Beijing to supply coffee beans to hotels and restaurants. (Japan:61%-PRC:39%). $400,000. 2/98.

CRE Beverage, a unit of South African Breweries/Jilin Brewery Co.
Announced that CRE acquired 90% of Jilin Brewery's assets. $41.7 million. 1/98.

OTHER

Fairchild Investments Ltd. (Canada), C.E. Jamieson & Co. (Canada)
Agreed to distribute Jamieson's herbal products and nutritional supplements in China. 2/98.

Tully's Coffee Corp. (US)
Opened three coffee stores in Beijing. 1/98.

Machinery and Machine Tools

INVESTMENTS IN CHINA

Kato Co., Ltd. (Japan)/Shanghai Longwu Harbor Co., Shanghai Qifan Scientific and Technological Industrial Co.
Established joint venture to produce industrial machinery. (Japan:70%-PRC:30%). $1.4 million. 1/98.

OTHER

Rabobank International (Netherlands)/Export-Import Bank of China
Signed export credit agreement to facilitate China's imports of dredger equipment. $9 million. 2/98.

Medical Equipment and Devices

CHINA'S IMPORTS

Medison (S. Korea)/New Alpine Co.
Will supply ultrasonic scanners and imaging technology to New Alpine. $30 million. 3/98.

Samyang Co. (S. Korea)/NA
Will export biodegradable surgical sutures to China. $1 million. 3/98.

Philips Electronics NV (Netherlands)
Won contract to deliver advanced technical medical equipment to hospitals in Beijing and Shanghai. $6 million. 2/98.

OTHER

NA (Japan)/State Pharmaceutical Association (PRC)
Will form partnership to market Japanese medicines and medical equipment in China. (Japan:75%-PRC:25%). $240,000. 2/98.

Philips Electronics NV (Netherlands)/Government of Jiangsu Province
Signed contracts for the modernization of 80 hospitals in Jiangsu Province. $16.7 million. 2/98.

Metals, Minerals, and Mining

CHINA'S INVESTMENTS ABROAD

Government of Congo/Government of the PRC
Will loan Congo funds for infrastructure and mining development. 2/98.

INVESTMENTS IN CHINA

Daewoo Corp. (S. Korea), Pohang Iron & Steel Co. (S. Korea), SK Corp. (S. Korea)/NA
Will establish joint venture to treat cold-rolled steel coils. (S. Korea:70%-PRC:30%). $9.3 million. 3/98.

China Clipper Gold Mines Ltd. (Canada)/An-ye Engineering & Technology Resources Development Co. (Hebei)
Agreed to explore and develop the Liqingdi silver deposit in Inner Mongolia. 2/98.

Sanyo Electric Co. Ltd. (Japan), Nissho Iwai Corp. (Japan)/Dalian Refrigeration Co. (Liaoning)
Created sheet metal production joint venture in Dalian, Liaoning Province. (Japan:38.5%-PRC:61.5%). $2.1 million. 2/98.

NA (Canada)/Shandong Pingyi Mining Co. Ltd.
Will cooperate on project to assay and mine for gold in Shandong Province. $2 million. 1/98.

Tokyo Tungsten Co. (Japan)/Xiamen Tungsten (Fujian)
Will create joint-venture tungsten processing factory. (Japan:15%-PRC:85%). $9 million. 1/98.

OTHER

Asia Minerals Corp. (Canada)/Zhaoyuan Gold Industrial Group Corp. (Shandong)
Announced termination of gold-mining joint venture in Shandong. 3/98.

Morgan Construction Co. (US)/Baoshan Iron & Steel Corp. (Shanghai)
Won contract to construct wire-rod mill with an annual capacity of 400,000 tons. 1/98.

Packaging, Pulp, and Paper

INVESTMENTS IN CHINA

UPM-Kymmene Oy (Finland)/NA
Will form joint-venture paper mill in China. $235 million. 3/98.

Petroleum, Natural Gas, and Related Equipment

CHINA'S INVESTMENTS ABROAD

Government of Sudan/Government of the PRC
Will jointly construct a 1,600 km oil pipeline from western Sudan to the Red Sea. 2/98.

OTHER

China Petroleum Corp. (Taiwan)/CNOOC
Received approval for joint oil exploration in the Tainan and Chaoshan basins in the South China Sea. 3/98.

Texaco Inc. (US)/China United Coalbed Methane Co. Ltd.
Signed contract to jointly explore coal-bed methane resources in Anhui Province. 2/98.

Pharmaceuticals

INVESTMENTS IN CHINA

Ajinomoto Co. Inc. (Japan)/NA
Established joint venture to produce raw amino acid material used in intravenous injections. (Japan:60%-PRC:40%). $12 million. 2/98.

Narhex Operations (Australia)/North China Pharmaceutical Co.
Established joint venture to manufacture, test, and sell Nar DG-35 anti-HIV drug in China. 2/98.

AntiCancer Inc. (US)/Jiangsu Kingsley Group
Formed joint venture to manufacture anticancer drugs. (US:50%-PRC:50%). 1/98.

Biomodo Inc. (US)/NA
Signed letter of intent to form joint venture to develop and market therapeutic and diagnostic products for lung cancer. 1/98.

OTHER

Novo Nordisk A/S (Denmark)
Established biotechnology development center in Beijing. $10 million. 2/98.

Rhône-Poulenc Rorer, a subsidiary of Rhône-Poulenc SA (France)
Received clearance to market its treatments for certain breast and lung cancers in China. 2/98.

Sinogen Inc. (US)
Acquired controlling interest in Yong Ming Vivogen (Shandong) and the rights to manufacture and market recombinant erythroprotine in China for treatment of anemia. 1/98.

Ports and Shipping

CHINA'S INVESTMENTS ABROAD

Port of Los Angeles/COSCO
Signed agreement to sell COSCO a container terminal. 3/98.

INVESTMENTS IN CHINA

Danzas Holding Ltd. (Switzerland)/Zhong Fu Group (Shanghai)
Formed joint venture to operate international air and ocean freight shipping company. (Switzerland:49%-PRC:51%). $1.5 million. 3/98.

OTHER

China Direct Inc. (US), Golden Cattle International Business Group Inc. (US)/Government of Zhangpu County (Fujian)
Established partnership to build a Grade A industrial port in Gulei, Fujian Province. $200 million. 3/98.

Federal Express Corp. (US)/Shenzhen Airport Group Co. (Guangdong)
Signed letter of intent to provide direct express-cargo service to southern China. 2/98.

Philips Electronics NV (Netherlands), Stork NV (Netherlands)/NA
Signed agreement to modernize Chengdu airport in Sichuan Province. $36.5 million. 2/98.

Target AirFreight Inc., a subsidiary of Amertranz Worldwide Holding Corp. (US)
Received license to operate freight forwarding services in Beijing, Tianjin, and Tangshan, Hebei Province. 2/98.

Power Generation Equipment

CHINA'S INVESTMENTS ABROAD

Yunnan Machinery and Equipment Import-Export Corp.
Signed agreement to help Government of Myanmar build a 280 MW hydroelectric power plant. $250 million. 2/98.

INVESTMENTS IN CHINA

The ERC Co. (US)/NA
Signed joint venture with consortium of companies in Fujian Province to manufacture and market nickle-zinc batteries for use in electric vehicles. 3/98.

Pratt & Whitney (Canada)/China National South Aero-Engine Co. (Hunan)
Formed joint venture to manufacture gas turbine engine parts in Hunan Province. (Canada:51%-PRC:49%). $27 million. 3/98.

AEP Resources, a subsidiary of American Electric Power (US)/Henan Electric Power Co., Henan Provincial Construction Investment Corp.
Announced joint venture to own and operate the Shouyangshan power plant in Luoyang, Henan Province. (US:35%-PRC:65%). $200 million. 2/98.

Nordex Balcke-Durr (Germany)/Xi'an Aero-Engine Corp., China Gas Turbine Power Corp. (Shaanxi)
Signed joint venture contract to build 250 kw wind turbines in Xi'an, Shaanxi Province. 2/98.

OTHER

The World Bank
Granted loan for the Yangzhou thermal power project in Jiangsu Province. $350 million. 3/98.

ABB Inc. (Sweden)/Chongqing Municipal Government
Announced completion of plant construction for manufacturing 500 kv and 100 kv transformers to be used in the Three Gorges Dam project. (Sweden:49%-PRC:51%). $73 million. 2/98.

ADB
Approved loan to finance the construction of a 750 MW coal-fired power plant in Talin, Fujian Province. $200 million. 2/98.

Lippo China resources, a unit of Lippo Ltd. (Indonesia)
Sold 30.3% stake in Fujian Electric to Meizou Wan Generating. $87.1 million. 2/98.

MDS Nordion (Canada)/Beijing Institute of Nuclear Engineering (BINE)
Will design irradiator that BINE will manufacture and sell in China. 2/98.

Property Management and Development

INVESTMENTS IN CHINA

Jusco Co. (Japan)/NA
Opened joint-venture shopping mall in Qingdao, Shandong Province. (Japan:50%-PRC:50%). 3/98.

Singapore Technologies Industrial Corp./Sichuan Exhibition Center
Formed joint venture to build three-star hotel in Chongqing. (Singapore:60%-PRC:40%). $6.6 million. 2/98.

Telecommunications

CHINA'S INVESTMENTS ABROAD

China Telecom
Purchased China Everbright Holdings's 7.6% stake in Hong Kong Telecom. $1.7 billion. 2/98.

CHINA'S IMPORTS

Alcatel GEC Alsthom (France)/Hebei P&T Administration
Will sell digital microwave trunk line and facilities to connect Hebei and Shandong provinces. $7 million. 3/98.

Motorola Inc. (US)
Received contract to build a FLEX-based nationwide paging system in China. $6 million. 3/98.

DSC Communications Corp. (US)/Great Dragon Telecom
Signed cooperation agreement to market GSM systems to low subscriber density markets in China. 2/98.

IDB Systems Inc., a division of WorldCom Inc. (US)
Signed contract with the governments of Inner Mongolia, Hebei, and Heilongjiang provinces to supply transportable, digital telecommunications equipment for use during natural disasters. $6 million. 2/98.

Motorola Asia-Pacific Paging Networks, a division of Motorola Inc. (US)
Will provide five sets of paging infrastructure equipment to Zhejiang P&T Administration. $8 million. 2/98.

Motorola Inc. (US)
Won contract to supply cellular telephone services to Shanxi P&T Administration and to upgrade the system in Taiyuan, Shanxi Province. $13 million. 2/98.

Newbridge Networks (Canada)/Guangdong P&T Administration
Signed agreement to expand and upgrade the digital data network in Guangdong Province. $32 million. 2/98.

Northern Telecom Ltd. (Canada)
Received contract to supply digital switching and radio equipment to the Zhejiang branch of UNICOM. $27 million. 2/98.

LM Ericsson AB (Sweden)/Jiangsu P&T Administration
Signed agreement for the expansion of the GSM mobile network in Jiangsu Province. $182 million. 1/98.

INVESTMENTS IN CHINA

Fujitsu Ltd. (Japan)/Hebei Far East Communications System Engineering Corp.
Launched joint venture to provide telecommunications equipment and services to Hebei Province. (Japan:49%-PRC:51%). $3 million. 2/98.

Koninklijke Ptt Nederland NV (Netherlands)/China Electronic System Engineering Co., a commercial unit of the People's Liberation Army
Formed joint-venture holding company in Nanjing, Jiangsu Province, to invest in satellite, mobile communications, paging, and Internet services. (Netherlands:80%-PRC:20%). $5 million. 2/98.

Rockwell Collins (US)/Shanghai Avionics Corp., Shanghai Broadcast Equipment Factory
Formed joint venture to adapt GPS technology and commercial electronics for automatic vehicle-location systems for use in China. 2/98.

Lion Teck Chiang Ltd. (Singapore)/Chang'an Information Industry Group (Shaanxi)
Entered into joint venture to establish GSM cellular phone network in Shaanxi Province. (Singapore:51%-PRC:49%). $60 million. 1/98.

New World Development Co. (Hong Kong)/UNICOM
Established joint venture to provide GSM mobile telecommunications technology in Jiangxi Province. $39 million. 1/98.

Sumitomo Electric Industries Ltd. (Japan)/Chengdu Telecommunications Cable Co. (Sichuan)
Established joint venture to manufacture fiber optic cables with an annual capacity of 300,000 km. (Japan:25%-PRC:75%). $4.2 million. 1/98.

OTHER

Microsoft Corp. (US)/MPT
Agreed to cooperate on developing China's Internet and intranet capabilities, and on training programs for specialists and managers. 3/98.

CSM Media, a unit of Sofres SA (Spain)
Will set up 300 television meters in Beijing and Guangzhou, Guangdong Province, to monitor viewing habits. 2/98.

Iridium LLC, a unit of Motorola Inc. (US)
Received approval from MPT to build an Iridium ground station for mobile satellite phone systems in China. 2/98.

Singapore Telecom Ltd./China Telecom
Signed memorandum of understanding to provide multimedia services in Hong Kong. 2/98.

NEC Corp. (Japan)
Opened office to oversee operations in China. 1/98.

Textiles and Apparel

INVESTMENTS IN CHINA

BASF AG (Germany), E.I. du Pont de Nemours and Co. (US)
Will establish joint-venture synthetic-fiber manufacturing plant in Hainan Province. $5.5 million. 3/98.

PCI Co. (US)/Xinlong Nonwoven Fabric Industrial Co. Ltd. (Hainan)
Established non-woven fabric manufacturing joint venture in Hainan Province, with annual capacity of 30,000 tons. 3/98.

Rhodia, a subsidiary of Rhône-Poulenc SA (France)/Yingkou Chemical Fibers Factory (Liaoning)
Signed letter of intent to create a joint venture to manufacture polyamide yarn for the PRC market. (France:33.4%-PRC:66.6%). 1/98.

Transportation

CHINA'S IMPORTS

CFM International, a unit of General Electric Co. (US)/China Eastern Airlines Ltd.
Won contract to supply CFM56-5B/P engines for use in commercial aircraft. $140 million. 3/98.

INVESTMENTS IN CHINA

Bell Helicopter (US)/Shantou Tiancheng Co. Ltd. (Guangdong)
Launched helicopter assembly joint venture in Shantou SEZ, with an annual capacity of 100. 3/98.

The Boeing Co. (US), Hexcel Corp. (US)/Aviation Industries of China
Formed joint venture to manufacture composite parts for commercial aircraft. 3/98.

Delphi Automotive Systems, a unit of General Motors Corp. (US)/Shanghai Automotive Air Conditioner Factory
Established joint venture to produce climate control components for the PRC auto market. 2/98.

Deutz AG (Germany)/Weifang Diesel Engine Works (Shandong)
Will establish joint venture to manufacture engines in Shandong Province. (Germany:50%-PRC:50%). 2/98.

GPE Industries (Singapore)/Xuzhou Tianbo (Jiangsu), FAGC Industry General Corp. (Jiangsu)
Announced joint venture to manufacture and supply automotive electronics products for FAGC. (Singapore:32%-PRC:68%). $1.8 million. 2/98.

Denso Co. Ltd. (Japan)/Tianjin Jindong Automotive Air Conditioner Co. Ltd.
Formed joint venture to manufacture and sell automobile air conditioners. (Japan:15%-PRC:85%). $9 million. 1/98.

Okaya & Co. (Japan), Wako Industrial Co. (Japan)/Henan Pingyuan Filter Co.
Established automobile filter joint venture in Xinxiang, Henan Province, with an annual capacity of 7 million units. (Japan:50%-PRC:50%). $7.2 million. 1/98.

OTHER

Cameroon National Investment Corp./Export-Import Bank of China
Signed loan agreements to finance joint-venture tire renovation and tractor assembly plants. 3/98.

Parameter Technology Co. (US)/Qingqi Group (Shandong)
Signed technology transfer contract to design motorcycles. $1 million. 3/98.

Southwest Airlines Co. (US)/Shenzhen CIMC Tianda Aviation Equipment Co.
Will purchase from Shenzhen CIMC four boarding bridges. $1 million. 3/98.

American Airlines, a unit of AMR Corp. (US)/China Eastern Airlines Ltd.
Signed agreement to share flight codes and air routes. 2/98.

Banque de l'Indochine et de Suez (France), Banca Commerciale Italiana (Italy)
Will provide loan to Hainan Airlines. $11 million. 2/98.

Government of Uzbekistan, Government of Kyrgyzstan/Government of the PRC
Signed agreement regarding construction of central Asian highway that will connect Uzbekistan to the Yellow Sea at Lianyungang, Jiangsu Province. 2/98.

Miscellaneous

OTHER

AEP Resources, a subsidiary of American Electric Power
Donated funds to the Xixia County Education Commission of Henan Province. $100,000. 2/98.

COSCO Hong Kong
Signed letters of intent with governments of Beijing, Fujian Province, and Nanjing, Jiangsu Province, to build roads and electric power plants. $483 million. 2/98.

Government of Pakistan/Government of the PRC
Will provide Pakistan with a loan to boost its foreign exchange reserves. $150 million. 2/98.

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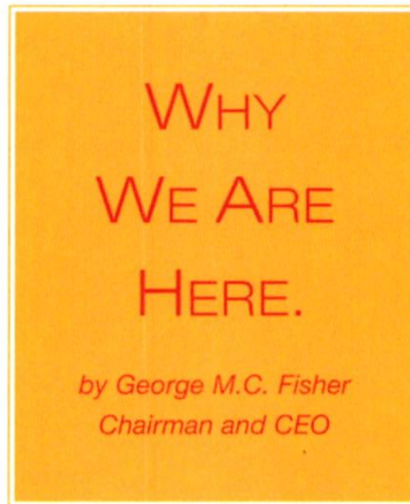

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