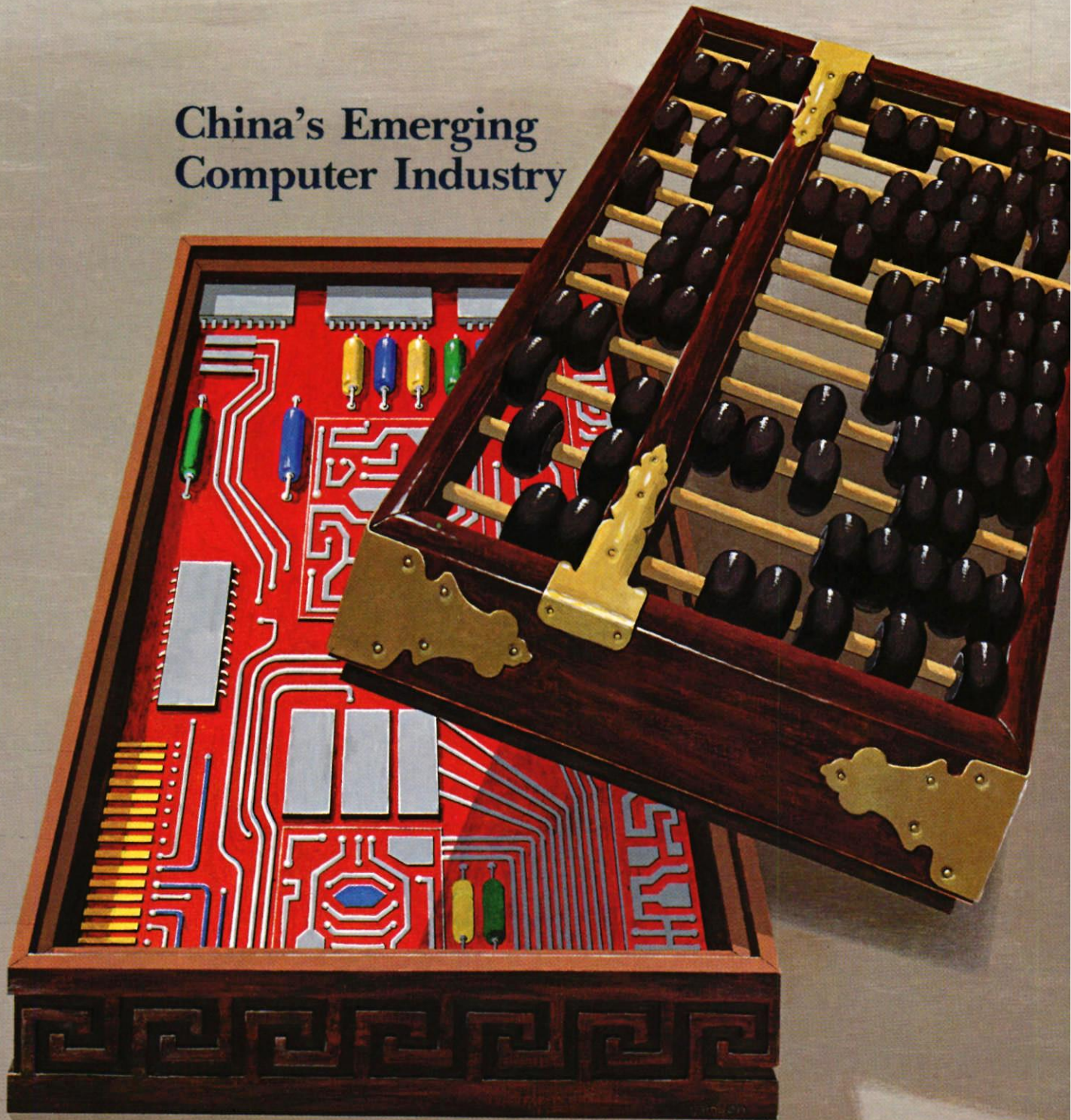


The China Business Review

November-December 1981

China's Emerging Computer Industry



美中貿易

TRADEMARK REGISTRATION IN THE PRC

A newly revised and updated publication, **Trademark Registration in the PRC**, is now available from the National Council for US-China Trade. The 1981 edition is a practical guide to all the procedures, fees, and documents required for filing, authenticating, renewing, changing, reassigning, and cancelling marks in China.

The publication features a special section of answers to the most frequently asked questions about trademark registration in China:

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- Are trademarks renewable in the PRC?
- What is the procedure for application and/or registration of a trademark in China?
- Can fees be paid in US currency?
- Is it necessary to prove use of a foreign trademark in China?

- What words are prohibited in a trademark registered in China?
- How long does it take to process a trademark application in the PRC?

Trademark Registration in the PRC includes copies of all application forms for registration, power of attorney, renewal, assignment, and alteration. These can be used for actual applications.

The book also features the complete list of 78 classes of goods in China; all of China's trademark regulations and implementation rules; and actual correspondence with the CCPIT's Trademark Registration Agency, through May 4, 1981. Updates will be included with every copy.

This how-to book should be on the shelf of every company's legal department and of every lawyer dealing with technology transfer to the People's Republic of China.

Send \$75 (\$40 for Council members) to the National Council for US-China Trade, Department T, 1050 17th Street NW, Suite 350, Washington DC 20036.

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The China Business Review

The Magazine of the National Council for US-China Trade
November–December 1981 Volume 8, Number 6

CONTENTS



New Foreign Trade Minister	11
China Trade Variability	13
China's Computer Revolution	14

Interviews



Fang Yi on Science and Technology	22
Zhang Wenbin on the Oil Industry	24
Tao Zuji on Private Consulting	26

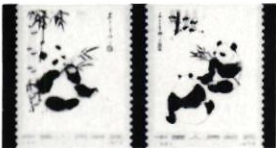
China's Machine Tool Industry	30
-------------------------------------	----



China's Wide-Screen Comeback	36
------------------------------------	----

China Law

Economic Courts	44
Arbitration	48
Doing Business With China: The Developing Legal Framework	52



Business in Telecommunications	58
--------------------------------------	----

Exports: A Few of China's Unusual Products	60
--	----

The New Internal Exchange Rate	64
--------------------------------------	----

Business Facilitation: Its Many Facets and Failures	68
---	----

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DEPARTMENTS

China Wire	4
China Calendar	5
Forecast '82: Business Opportunities in the China Trade	8
China Bookshelf	74
China Business	
Exports to China	78
China's Exports	79
Joint Ventures	80
Other Arrangements	81
RMB:Dollar Rates	82

CHINA DATA

Computer Revolution

Computers Produced by Factories Under the State Administration of Computer Industry	17
Peripheral Equipment Produced by Factories Under the State Administration of Computer Industry	19

Machine Tool Industry

Advanced Machine Tool Designs	31
121 Principal Machine Tool Plants	33

The China Business Review welcomes articles from outside contributors. Manuscripts submitted for consideration should be typed double-space and normally may not exceed 5,000 words. They should be sent to the Editor, *China Business Review*, Suite 350, 1050 17th Street, NW, Washington, DC 20036, USA.

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Readjustment: Some News is Good News

Nicholas H. Ludlow

Right now, China is rebuilding its economy as a restaurant manager might expand a restaurant. Planners want to serve more and better meals and at the same time rebuild everything—walls, floor, ceiling, plumbing, and power supplies, even as patrons sit eating at the tables. How do you keep customers happy with all that racket going on?

Somehow China's doing it.

Industrial production bottomed out in the first quarter of 1981, inflation is down, capital construction (slashed 45 percent earlier this year) is well under its revised target, foreign trade will end up with a nice dollar surplus (probably \$500 million), and China's budget could be balanced this year, contrary to earlier indications.

Clearly someone is at the controls, the controls are working, and the PRC is gaining more experience in fiscal management.

Three aspects of China's readjustment process point to the future—steadily improving statistics, the reinstitution of advanced academic degrees, and the PRC's increasing stress on profitability.

Statistics. The State Statistical Bureau (SSB), China's economic and demographic recordkeeper, has been gradually improving its data amid a

national campaign to root out some cadres' practice of falsifying statistics. The SSB, which spun off the State Council's Population Census Office (see *The CBR* Sept.–Oct. 1981, p. 49), has done an extraordinarily good job in compiling national data with limited staff. As of the end of 1980, the SSB's Beijing headquarters had a staff of only 193, an extremely small number for a nation China's size. By contrast, the US Commerce Department's statistical section employs about 13,000 people.

Chinese economists propose that a network of economic collection and processing centers at the local and national levels be established. And the Chinese Enterprise Management Association emphasizes that "in making operational decisions, we should attach importance to information." It points out that since the commercial, banking, and finance departments receive data the most quickly, they are the first to discover economic problems.

A commentator in the Beijing paper *Guangming Ribao* lamented the habit of a "few leading comrades" drawing up plans without referring to statistics, or arbitrarily revising figures if they do not suit their needs. The government should consider statistical organizations "the eyes and ears for understanding conditions," the editorial said.

Most heartening is the frankness with which the SSB and the People's Bank of China (publisher of the quarterly *Banking in China*) discuss statistics—particularly the reasons behind inaccuracies. Example: last year's candid revelation by PBOC's President Li Baohua about the reasons behind China's mushrooming deficit.

Advanced degrees. Another positive sign that China's technological development will proceed on a better foundation is that Chinese universities began granting academic degrees this year. A 25-point implementation regulation published in June specifies 10 branches of "science" (including law, education, history, and literature) that may confer BAs, MAs, and PhDs. A 407-member board presided over by Fang Yi will oversee the granting of degrees.

Return on investment. ROI now figures in all foreign business arrangements involving local or foreign credit. While China's artificial pricing system still precludes realistic assessments of profitability, at least the emphasis being given to the concept bodes well for the future.

Ten times as many projects are being financed with bank credits this year as in 1980. In some industries (energy, metallurgy, building materials, and broadcasting) and in at least one city (Shanghai) more projects have been bank-financed than bankrolled by the state.

Total bank credits to various industries through September 1981 came to ¥2.45 billion. The switch from grants to loans is causing a revolution in project financing. Without access to free government funds, enterprises must now worry about paying back their loans. The emphasis on profitability recently forced three projects—a furnace at the Shanghai No. 3 Steel Works, a Hunan power transmission line, and a Shanghai quartz glass factory—to be completely revised.

The average payback period for a Construction Bank loan is now just 16 months, a policy that accords with Vice-Premier Bo Yibo's motto: "Less investment, quicker returns, more profit."

And now the bad news. . . . Following cries of protectionism for many months, China's Customs Administration on September 25 slapped a heavy tax on imported television sets, radios, tape recorders, and computers for private use. The tax is designed to protect domestic production; it is based on the domestic retail price and not on an item's cif import value. ☛

China Calendar

CULTURE AND BUSINESS

- **Washington, DC, December 16.** NCUSCT-sponsored briefing for members only, "China Contracts '82," designed to provide Council members with information on features of successful business arrangements and guidelines for navigating through the levels of approval needed to win contracts. For reservations, members may call the Council's Programs and Government Relations Department, (202) 828-8330.
- **Dallas, December 14-17.** "World Oil and Gas Show," a wide-ranging conference of technological, economic, international, governmental, and political challenges to the oil and gas industries, at the Dallas Convention Hall. For information, contact the Dwyer division of Clapp and Poliak, 400 N. Michigan Ave., Chicago, IL 60611, (312) 687-7730.
- **Dallas, January 11-14, 1982.** Department of Commerce East-West Trade Domestic Seminar, designed to provide traders with information on general market prospects and business practices in communist countries. For information, contact C. Carmon Stiles, (214) 729-0542.
- **Washington, DC, January 28, 1982.** NCUSCT-sponsored briefing for members only, "New Trends in the PRC Bureaucracy: Impact of US Business." For reservations, members may call the Council's Programs and Government Relations Department, (202) 828-8330.
- **Tulsa, January 11-15, 1982.** Department of Commerce East-West Trade Domestic Seminar (see above).
- **New York City, October 23-January 31, 1982.** Exhibition of 13 10th- to 14th-century Chinese hand and hanging scrolls and album leaves, "Masterpieces of Song and Yuan Dynasty Calligraphy from the John M. Crawford, Jr., Collection." For information, contact the China Institute, (212) 744-8181.
- **Washington, DC, September 25-January 28, 1982.** Exhibition of 74 16th- to 17th-century painted manu-

scripts, "The Imperial Image: Painting for the Mughal Court." For information, contact the Freer Gallery of Art (202) 357-1300.

- **Milton, Massachusetts, October 21-February 15, 1982.** Exhibition of about 80 early 18th- to early 20th-century Chinese export ceramics, "Famille Rose: The Bloom on Chinese Export Porcelain." For information, contact the Museum of the American China Trade, 215 Adams St., (617) 696-1815.

EXHIBITIONS IN CHINA

- **Shanghai, December 10-16.** "Marintec China '81," international marine seminar and exhibition. Cosponsored by Shanghai Society of Naval Architecture and the Marine Engineering and Marintec Press (Far East) Ltd. The event's purpose: to facilitate scientific and technical interchange, strengthen commercial cooperation, and advance China's maritime industries. Contact M. Randolph Long, Intec Press, Ltd., (212) 697-4893.
- **Tianjin, February 17-23, 1982.** Exhibition of air-conditioning, refrigeration, and electrical equipment, "CHINA APEX '82." Conducted by Wellfull Technology Promotion Exchange, Ltd. to be held at the Tianjin Industrial Hall. For information, contact Harvard House 18-B, 105-11 Thomson Rd., Wanchai, Hong Kong.
- **PRC, March 1982.** Process Control Technical Sales Seminar, cosponsored by the China Council for the Promotion of International Trade and the US Department of Commerce. For information, contact Reginald Beckham, (202) 377-2801.
- **Beijing, March 16-24, 1982.** International Petroleum Exhibition and Technical Symposium, sponsored by the Society of Petroleum Engineers. For information, contact the society, 6200 N. Central Expressway, Dallas, TX 75206, (214) 361-6601.
- **Beijing, April 1982.** Video/catalogue exhibition on machine tools organized

by the Department of Commerce. For information, contact James Cox, (202) 377-4810.

- **Beijing, May 10-28, 1982.** Technical sales seminar on coal handling and beneficiation organized by the Department of Commerce. For information, contact Kerry Gumas, (202) 377-4810.

- **Beijing, July 1982.** Video/catalogue exhibition on textile equipment organized by the Department of Commerce. For information, contact Kerry Gumas, (202) 377-4810.

- **Beijing, August 23-September 10, 1982.** Technical sales seminar on food refrigeration and freezing organized by the Department of Commerce. For information, contact James Cox, (202) 377-4810.

- **Beidaihe, Hebei Province, September 10-14, 1982.** International technical symposium and exhibition on grain, milling, and baking. Cosponsored by Sosland Publishing Co. and the Bureau of Foreign Affairs in the Chinese Ministry of Food. Event to provide a review and discussion of the latest technology in grain handling and processing, baked foods production, and international grain market trend analysis. For information, contact Sosland Publishing Co., 4800 Main St., Rm. 650, Kansas City, MO 64115; (816) 756-1000.

- **Beijing, September 7-18, 1982.** International trade fair, "Environmental Protection, New Sources of Energy and Related Products." Sponsored by May Lee International, to be held in the Beijing Exhibition Center. For information, contact Joanna Ball of May Lee International, 11 Broadway, Suite 1061, New York, NY 10004; (212) 425-4347.

- **PRC, September 26-October 9, 1982.** Technical sales seminar on process controls organized by the Department of Commerce. For information, contact Juergen Tooren, (202) 377-5186.

- **Guangzhou, December 8-13, 1982.** Electrical and mechanical materials handling equipment and technology exhibition, organized by Industrial and Trade Fairs International Ltd. For information, contact ITF, Radcliffe House, Blenheim Court, Solihull, West Midlands B 91 2BG; tel., 021-705-6707; telex, 337073.

CHINA'S EXHIBITIONS ABROAD

- **Munich, Germany, March, 1982.** Light industry and handicrafts.
- **Basel, Switzerland, April, 1982.** "Spring Samples International Fair," for light industry and handicrafts. 光



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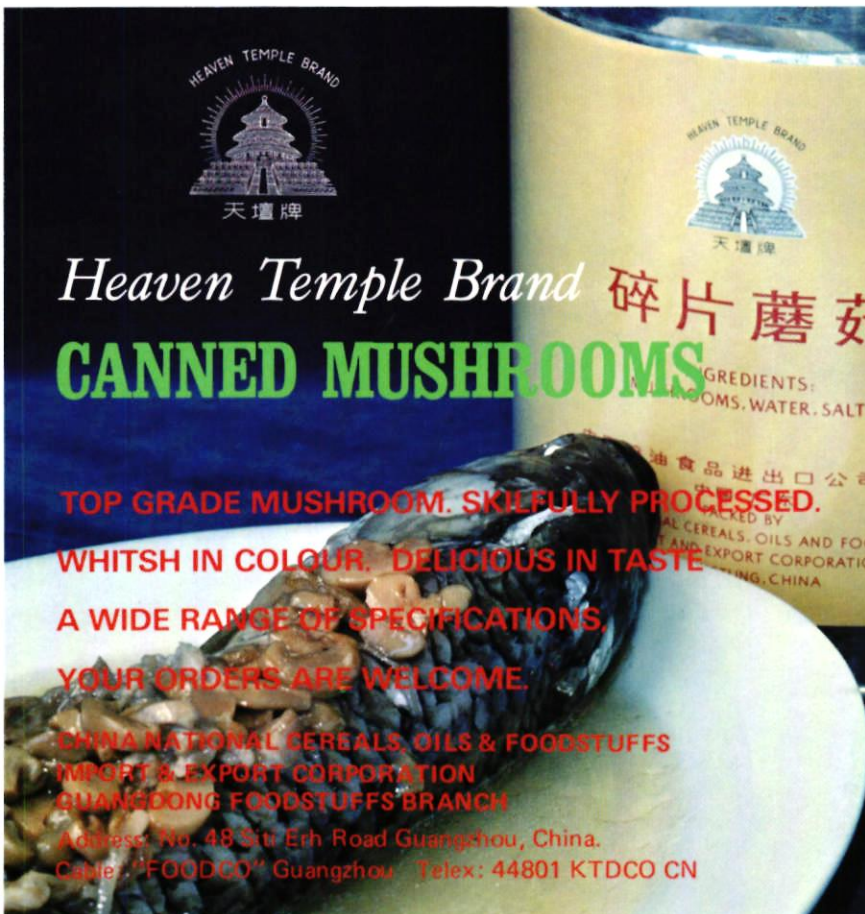


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The topic of next year's outlook for the China trade brought nearly 200 representatives of member firms to the National Council for US-China Trade's two fall briefings in Washington, DC and Los Angeles.

Highlighted on the following pages are some of the broad-ranging topics discussed by six Council speakers.

Forecast '82: Business Opportunities in the China Trade



Martin Weil, staff writer, *The China Business Review*

"There has been an apparent decision to move ahead with the Pingshuo open-pit coal mine in Shanxi jointly with a US firm. This project will probably be worth tens of millions of dollars to US equipment suppliers."

The Way Ahead: China just experienced three years of economic expansion, with growth rates of 12.4 percent in real terms in 1978, and of 7 percent in each of the past two years. We anticipate that China's real economic growth will be between 4 and 5 percent in 1981, and between 5 and 6 percent in 1982. Foreign trade will probably continue to expand rapidly at a rate of 25-30 percent in both 1982 and 1983.

Prospects for Stability: Chinese leadership shake-ups since 1976 have been carried out with very little social disruption. Despite substantial dissatisfaction in certain circles with current policies and leadership, and despite a very small but vocal dissident movement, the system is pretty firmly entrenched.



Nicholas H. Ludlow, executive director, Publications, Research, and Planning.

"The prospects are for a healthy foreign trade sector, but slow growth of China's domestic economy and continued tight budget restraints in 1982."

Changes at the Top: Since rival groups are pretty evenly balanced, China's upcoming Twelfth Party Congress is not likely to bring about dramatic changes in leadership.

More Decentralization: Expect the continuation of decentralization. Companies will have to deal with more Chinese corporations in 1982—more foreign trading corporation branches, more ministerial corporations, and more provincial corporations. It will be important to cultivate new contacts on the provincial and local levels while maintaining ties with old friends in Beijing.

Decentralization Pitfalls: Remember that the decisionmaking authority of provincial and local corporations is still not clear. Many of the newer corporations lack personnel trained in international marketing and foreign



James B. Stepanek, editor, *The China Business Review*

"US banks with the closest institutional ties with the Bank of China are usually the first ones to be asked to participate in Chinese projects."

trade. You may be negotiating with a trade official who does not understand fundamental shipping terminology or how to fill out the standard form contract.

Light Industrial Raw Material Exports: The biggest growth area in US exports to China is in light industrial raw materials, and the trend seems likely to continue into the future. China's drive to expand light industrial output has created shortages of certain key raw materials, notably synthetic textile fibers. Imports are likely to increase of textile fibers, leather, and wood products—all areas in which the US shows great strength compared with our competition.

Technology Sales: High technology equipment is another area in which US sales are increasing. Exports of sophisticated instrumentation, such as



Roger W. Sullivan, National Council vice-president

“A key element in the Chinese decision to go ahead with normalization despite the inability to resolve this sensitive issue—arms sales to Taiwan—was the various assurances the Chinese were given that the United States would be ‘prudent’ in what it sold. It has always been clear that a high performance aircraft for Taiwan would go well beyond the Chinese level of tolerance.”

chemical and physical analysis equipment, navigational aids, geophysical and geotechnical equipment may top the \$60 million mark this year.

Agricultural Exports to China: Wheat, corn, cotton, soybeans, and soybean oil have led the surge in our exports to China, accounting for over 50 percent of total US sales, worth more than \$2 billion in 1980. Grain purchases in 1981 also are expected to reach 8 million tons.



Christopher M. Clarke, research associate

“Disagreements in the Chinese leadership over economic policy are, by and large, over emphasis, timing, and relative priorities, not over basic direction.”

Agricultural Chemical Sales: The US now supplies about 15 percent of total phosphate fertilizer used in China. Overall, US agricultural chemical sales totaled almost \$200 million in 1980, and sales could well continue their rapid increase.

Financial Outlook: Not only does our Exim Bank face competition from other Exim banks, but it also faces growing competition from within China. It is often forgotten that the Bank of China operates in a manner similar to Exim banks, except that instead of giving subsidized loans to exporters, which is what other Exim banks do, it gives subsidized loans to Chinese importers. Through the practice of borrowing funds from different sources—some at high, market interest rates and some loans at concessionary terms—the Bank of China blends credits and



Carolyn L. Brehm, director, Importer Services

“Companies should be aware of the alarming increase in US detentions of Chinese foodstuffs, pharmaceuticals, and herbal medicines due to noncompliance with US Food and Drug Administration regulations. Member firms should call the National Council to check on the many problems peculiar to Chinese products.”

lends money to domestic ministries and state enterprises at very competitive rates. Hence, the competition the Bank of China represents—and will increasingly pose in years ahead—is potentially greater than that represented by Exim banks in Europe and Japan.

Consulting Services: Companies are learning that the deals which succeed must be tailor-made to very strict requirements. Joint ventures and compensation trade deals, for example, usually must be designed so that they produce exports, require limited credit, and carry low nominal interest rates.

Given these tight constraints, companies need financial advice on how to package their ventures.

Countertrade: Some larger corporations are solving the problem of "what to do with the 12,000 cloisonné vases" by establishing trading divisions to import and sell a range of diverse products taken in countertrade.

Evidence Accounts: As an aid to countertrade, China has agreed to set up evidence accounts with foreign companies. The evidence account is an agreement between a foreign company and a Chinese entity to keep track of all transactions between the two parties, and to balance sales with purchases over a period of time. One US corporation has concluded evidence account agreements with two Chinese ministries, and is presently negotiating a third with a province.

Feasibility Studies: As the Chinese become better equipped to carry out feasibility studies, they may more readily accept the idea of independent studies by foreign companies. In carrying out these studies, the Chinese now consider good statistics essential in formulating policies and making economic decisions. In 1982 and beyond, this will provide continuing opportunities for sales of computers, microprocessors, and software.

Exclusive Contracts: There is no such thing as a nationwide exclusive anymore, due to the lack of central control over exports. Companies can still arrange for an exclusive on a branch basis, but with the risk that another corporation or branch will sell the same product to a competitor. China is attempting to enforce the honoring of exclusive contracts through their export visa system, but with little success.

Delivery Problems: Be prepared for continued delays in the delivery of goods. China's trains, roads, warehouses, container facilities, and ports are strained to the breaking point under the increased volume of trade. China's leaders are aware of this problem and have opened new ports to foreign trade and begun to modernize existing facilities.

Imports From China: Chinese imports are not conspicuous in the US marketplace, but the volume is growing. Examples: the Green Giant canned mushrooms you ate in spaghetti the other night were mushrooms grown and canned in China; if the allergy pill

you took this morning was Schering-Plough's Chloratrimeton, you ingested Chinese ephedrine; utility companies from the states of California, Alaska, and Colorado will soon produce electricity for their citizens using Chinese-manufactured hydroturbine generators; the peanut butter on your sandwich probably came from Chinese-grown peanuts; the flannel shirt you bought from K mart was made in the PRC; and soon, Nike running shoes and AMF-VOIT volley- and soccer balls will be available in the US market—all made in the PRC.

PRC Mineral and Metal Exports: Imports are increasing in the areas of Chinese minerals and metals used in fiber-optics, infrared, electronics, and high technology information retrieval and storage. The recently initiated acquisition program for the US strategic materials stockpile may offer new opportunities for Chinese exports of tantalum, titanium sponge, vanadium pentoxide, and bauxite.

GSP: Do not expect lower, GSP duties to be extended to Chinese goods in 1982. GSP, or the Generalized System of Preferences, is a US program of allowing certain nonsensitive imports to enter the US duty free. Under US law, China must join the General Agreement on Tariffs and Trade before the president can consider GSP extension. Although the Chinese are

actively studying GATT membership, it is doubtful that a decision will be made before late 1982.

New Laws. China will continue to modernize its legal system in 1982. Off to a good start with a joint venture law, income tax laws, foreign exchange regulations, regulations on foreign resident offices, and other statutes, the Chinese will be looking to complete the law on natural resources taxation so crucial to foreign involvement in oil development, and will probably promulgate laws on patents and copyrights.

Continuation of Guangzhou Trade Fair: The trade fair will not die as has been rumored for several years. Instead it will serve as a valuable barometer of the changes that are taking place in China's trade structure. The fair is the only place where American companies can conveniently make contact with old Chinese friends and new corporations from the four corners of China—all under one roof.

The Business Future: Business opportunities are multiplying, and organizations in China are becoming more flexible. Provided you can live with the frustrations as China continues with its economic transformation, it should not be too hard to develop plenty of business in 1982. 光

New Beijing Representative

Jeanne T. Chiang will become the National Council's Beijing representative starting January 1, 1982. Chiang replaces Scott Seligman, who will have held the position a year.

Chiang is currently assistant director of the Council's Programs and Government Relations Department, formed in May of this year. Since joining the Council, she has organized and escorted delegations from China, coordinated briefings on China trade, and kept members abreast of legislative issues affecting trade with China.

Chiang was born in Hong Kong and is fluent in Mandarin, Cantonese, and Shanghaiese. She holds two masters degrees from Columbia and a certificate from the NYU Graduate School of Business Administration. Her professional experience includes work in advertising at the *New York Times* and in neuroanatomy at Harvard Medical School. 光





New Foreign Trade Minister

Christopher M. Clarke

Zheng Tuobin takes over a ministry and a sector beset by problems. The "great leap to the West" of 1978–79, for which his predecessor, Li Qiang, apparently has been held partly responsible, left China with an accumulated trade deficit between 1978 and 1980 of \$3.5 billion in China's total world trade, and of \$4.3 billion in its trade with the US. Zheng's appointment as minister of foreign trade on September 10, 1981 gives him responsibility for finding ways to cope with this trade deficit. Zheng must also find methods of curtailing certain types of imports and postponing projects, in line with the government's policy of readjustment, without further alienating China's trading partners.

Domestically, Zheng has apparently been given something of a mandate to reorganize the foreign trade sector. Decentralization has spawned a whole new generation of trading agencies, many of which vie with the Ministry of Foreign Trade for control over profitable export items. Better coordination between the new and old trading entities is badly needed to reduce the prevailing confusion in the marketing of minerals, metals, machinery, and other scarce exports.

Zheng's ministry will need new blood with new ideas and approaches. One significant step in this direction was the recent promotion of Lu Xuzhang, former director of the State Council's General Administration for Travel and Tourism, to the position of vice-chairman of the Foreign Investment Control and Import-Export commissions, and executive vice-minister of

Zheng Tuobin faces the task of correcting the country's trade imbalance with the West—and especially with the US.

the Foreign Trade Ministry. This step is designed to incorporate more closely travel and tourism activities in the foreign trade policymaking process.

Zheng succeeds Li Qiang, who was made an "advisor to the State Council" in September 1980, an honor presumably designed to ease Li into retirement. But 80-year-old Li did not retire at that time, as many observers expected. Finally the problems confronting the Ministry of Foreign Trade forced the Chinese leadership to name a successor.

A Career Spanning East to West

Despite his relatively youthful age of 57, Zheng Tuobin has accumulated more than 30 years of international trade experience. He has continuously been positioned in those areas of greatest importance to China's foreign trade. From 1953 to 1958, Zheng served as deputy chief of the export section of the Ministry of Foreign Trade's First Bureau (handling trade with socialist countries). In this position he was responsible for promoting and facilitating exports to the Soviet bloc in order to pay for the massive imports of plant and equipment from the Soviet Union and Eastern Europe during China's First Five Year Plan (1953–57).

In 1958, as China's relations with the

Soviet Union deteriorated, Zheng was sent to the Moscow embassy as commercial counselor. Remaining until 1964, Zheng had the unenviable tasks of trying to find commodities the Soviets were willing to accept in payment for China's huge debt, and of trying to cushion the effects of these payments on China's catastrophic grain situation from 1960–62.

Apparently Zheng's efforts pleased his superiors. By 1966, he was acting director of the ministry's First Bureau.

Zheng disappeared in late 1966 soon after the start of the Cultural Revolution. First reappearing in 1971 in an unspecified capacity, he was identified the next year as director of the Foreign Trade Ministry's Third Bureau (dealing with Western Europe, Oceania, and the Americas). Thus, as China's trade interest shifted, Zheng's responsibilities took a corresponding turn.

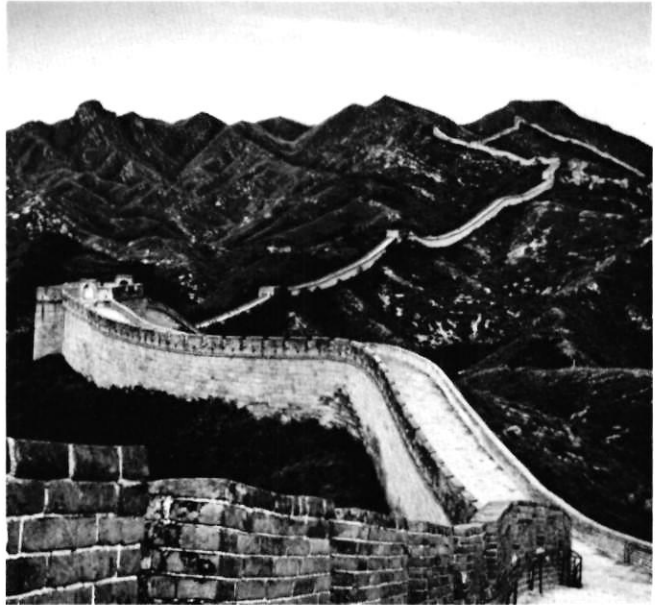
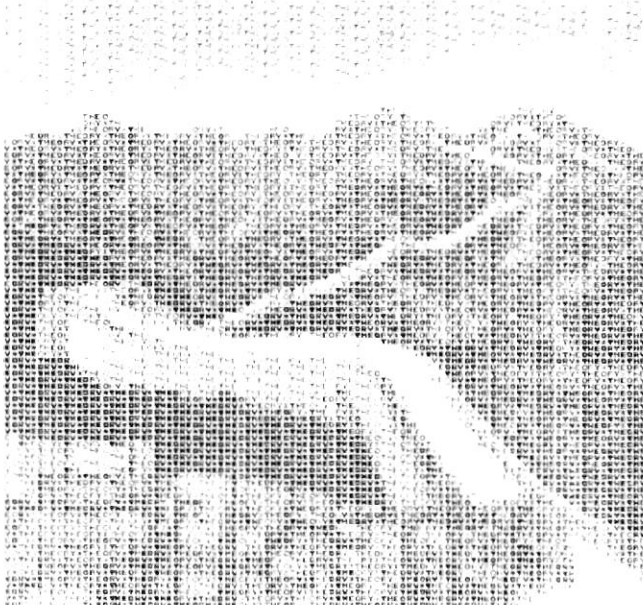
Ties to Europe

Between 1975 and 1978, Zheng Tuobin headed trade delegations to Canada, Denmark, Norway, Italy, Sweden, the Benelux nations, Australia, New Zealand, and North Korea. He accompanied Deng Xiaoping to France in 1975 as a member of a trade delegation. By 1977, Zheng was promoted to vice-minister.

Although he has not visited the United States, Zheng is reported to speak and understand a little English. He is probably fluent in Russian. In June 1977, he cohosted a banquet for National Council for US-China Trade officials including Christopher H. Phillips and William Hewett. 光

THEORY:

A top international bank should have the capability to finance new business opportunities wherever they exist.



REALITY:

Continental Bank is helping customers do business in the developing Chinese market.

Through our correspondent relationship with the Bank of China, Continental Bank offers letters of credit, foreign currency, and trade financing. We also have the technical expertise to arrange financing in the key areas of mining, oil and gas. It's what you expect from a top international bank. At Continental Bank, it's reality.



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Continental Illinois National Bank and Trust Company of Chicago

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China Trade Variability

China's trade with the US is about four times more erratic than its trade with the rest of the world.

James B. Stepanek

China traders understandably get upset when contracts fall through. As retrenchment deepened in late 1980 and early 1981 businessmen moaned more than usual. Some frustrated traders even expressed the opinion that China's foreign trade is *always* subject to wild swings.

A test using linear regression analysis provides a mixed answer. On the one hand, swings in China's foreign trade

in recent years appear to have been about the same magnitude as fluctuations in the foreign trade of Hong Kong, Taiwan, and South Korea (*see chart*). But while China's world trade may be relatively stable, China's trade with the US has been anything but stable.

Of course, the erratic behavior of US-China trade simply reflects the big ups and downs in grain sales to China, a situation that is expected to improve

under the new four-year grain agreement the countries signed last October 22. That agreement calls for annual grain sales to the PRC of between 6 and 9 million tons.

The puzzling result, however, is that China's foreign trade should bear greater similarity to the smaller, export-oriented economies in East Asia, and have less in common with the stable trade behavior of the USSR, India, and other large continental economies.

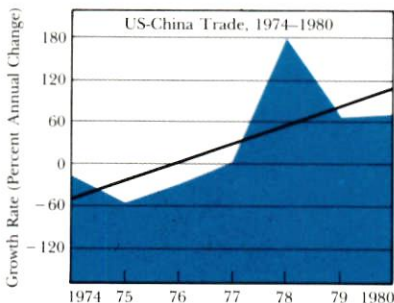
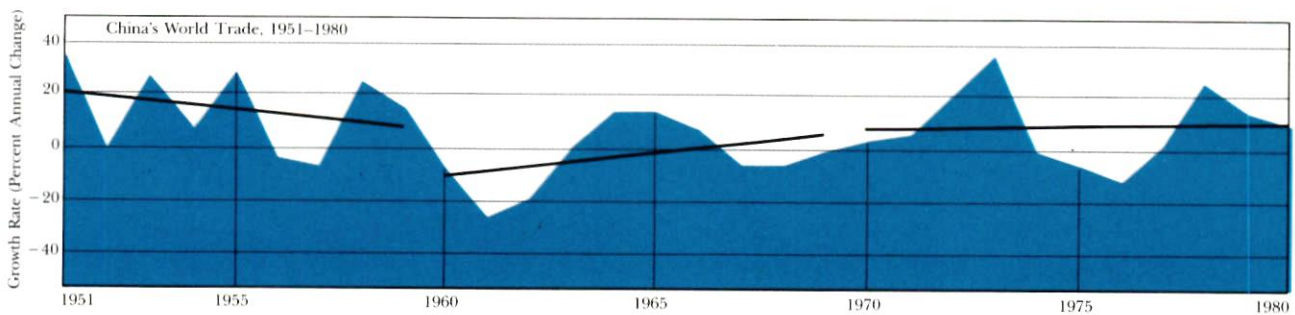
Variability in US Foreign Trade

	1971-80
US trade with the world	± 5.4
US trade with:	
Japan	± 11.3
Taiwan	± 15.3
Hong Kong	± 19.0
India	± 29.2
S. Korea	± 37.0
China	± 64.2
USSR	± 66.2

Variability* in China's World Trade Compared With Other Countries and Regions

1951-59		1960-69		1970-80	
USSR	± 6.2 ¹	World	± 2.9	World	± 4.6
World	± 6.5	India	± 3.5	India	± 5.6
Taiwan	± 16.0	USSR	± 3.8	Japan	± 7.7
India	± 16.1	Japan	± 4.6	USSR	± 8.9
China	± 16.2	Taiwan	± 4.7	Hong Kong	± 12.8
Japan	± 20.1	Hong Kong	± 5.5	Taiwan	± 14.1
Hong Kong	± 23.9	China	± 11.9	China	± 14.7
S. Korea	± 64.6 ²	S. Korea	± 20.1	S. Korea	± 17.4

¹1956-59 only.
²1953-59 only.



*Variability is defined as the probable range within which a country's foreign trade is likely to fluctuate. The numbers above indicate the outer bounds of that range. For example, a figure of plus or minus 10 (± 10) means that the historic fluctuations in the foreign trade of a country or region were within 10 percent of its trend line 67 percent of the time. The results were obtained using least squares linear regression analysis based on IMF, World Bank, and US Commerce Department data adjusted for inflation.

Graphs by John Isaacs

China's Computer Revolution

Karen Berney



China's computer industry is now shifting emphasis from large mainframes to small computers that are "versatile, convenient, and cheap." The announcement by Li Rui, vice-minister of the Fourth Ministry of Machine Building (4th MMB) comes at a time when Beijing has decided to "go small" to better meet domestic needs.

The change in focus is partly a result of the worldwide revolution in integrated circuit technology that has driven down the size and cost of computers. Minicomputers possess the same power and performance attributes that were previously the hallmark of the large mainframes. And today's microcomputers, which are about the size of a typewriter, are even challenging the performance of the mini-computer.

Since Chinese enterprises do not yet have use for many large computers, this shift undoubtedly will speed up China's current campaign to popularize the use of computers.

Spearheading this drive is the State Administration of Computer Industry (SACI) headed by Vice-Minister Li Rui that spun off from the 4th MMB and reports directly to the State Council. According to Chinese sources, SACI is

The new emphasis on rapid computerization means more business for the West—and eventual competition from within China itself.

still in the process of obtaining additional resources to make its independent status a reality. For the present it is still operating under the leadership of the 4th MMB and importing computers and components through the ministry's trading arm, the China Electronics Import and Export Corporation (CEIEC).

Speaking for SACI, Li Rui recently revealed four areas where the use of computers will be increased:

► **Factory production.** More mini- and microcomputers will be used to automatically position machine tools and control production processes, especially in textiles and light industries.

► **Research and teaching.** The need is particularly great in educational research and medical institutions.

► **Economic management.** Computers will be used to automate ac-

counting, inventory, and scheduling operations in state transportation and communications enterprises, and government offices.

► **Designing.** Computers will be adapted to design electronic equipment and capital construction projects such as hydroelectric dams.

Better Hardware Utilization

Computer exporters already are feeling the effects of China's new policies. This year's business activity has seen a few orders for mainframes but more sales of mini- and microcomputers by a broad range of vendors, including Honeywell, which signed its first China contract in June for eight mini systems worth \$2 million. The most notable mainframe deal was announced by Burroughs in early November. Valued at \$5.5 million, it calls for a B-7830 mainframe to serve as the host computer in a network with minicomputers and remote communications terminals. Numerous Chinese ministries brought together by the Huafung Industry Corporation will participate in the time-sharing arrangement. As it is the most sophisticated computer configuration ever sold by a US company, obtaining ex-

port approval from Washington will not be easy.

Sales of large computers probably will pick up only when the World Bank disburses its \$200 million to Chinese research universities. About \$38 million has been earmarked for the procurement of six large-scale systems and eight miniconfigurations for 14 different universities. Interested companies should watch for the announcement of technical specifications and the invitation to bid in mid-February.

Improving Technical Services

According to Li Rui, what China does need to do on the hardware front is to make more efficient use of its installed capacity. Due to poor management and planning, only one third of the country's computers are used more than eight hours a day, another third are used less than eight hours a day, and the rest are not used at all. To alleviate this problem, Li has proposed that the PRC's 26 computer research institutes and 99 main equipment and accessory plants devote about 30 percent of their skilled manpower (30,000 to 40,000 people, of which 6,000 are programmers) to technical services.

Herein lies the main business opportunity for computer vendors in China. Said a spokesman for SACI's Beijing-based China Technical Services Corporation, which contracts with Chinese users to repair, supply parts, and develop software for both imported and domestic machines, "Computers imported in the past were a motley collection of diverse models, and the training, maintenance, and supply of spare parts were all handled separately by the users, causing a great deal of waste in labor, materials, and financial resources."

The problem has prompted SACI to set up service organizations jointly with foreign firms to maintain and supply foreign-built computers.

In April, the China Technical Services Corporation signed an agreement with Nippon Electric to establish a jointly managed service center in Beijing. The Japanese firm is equipping the center, free of charge, with a medium-size computer, spare parts, testing instruments, and a power source. China is providing the facilities, operating personnel, and interpreters. In addition, Nippon Electric will conduct a four-month training course twice annually for 30 to 40 Chinese software programmers. Five of the best students from each class will continue studying in Japan.

The China Technical Services Corporation also has an agreement with Sperry Univac and is in the process of negotiating two others with Honeywell and Wang Laboratories. It plans to establish branch offices in Shanghai, Tianjin, and Sichuan next year, and in the rest of China's provinces in the future.

Hewlett-Packard Opens Distributorship

This November, Hewlett-Packard Company became the first computer firm to open a jointly run distributorship in China. Located in Beijing, the distributorship will be operated in cooperation with the CEIEC.

"The move," says HP Vice-President William Doolittle, "is consistent with our philosophy of bringing sales and support closer to our customer." Unlike the service centers, which only offer spare parts and maintenance, Hewlett-Packard's distributorship was set up to aggressively market its products. This will require considerable diplomacy and business acumen since the distributorship will be encroaching on the market territory of other Chinese importing agencies.

Importers

The bulk of China's computer purchases are made by INSTRIMPEX, the foreign trade corporation set up under the Ministry of Foreign Trade in February 1979 to handle electronic equipment. Each of China's seven machine building ministries also has set up trading companies to handle its equipment needs. New on the scene is the Oriental Scientific Instruments Import and Export Corporation, serving the needs of the Chinese Academy of Sciences and its affiliated branches and research institutes. Another heavy buyer of computers, the Ministry of Education, soon may establish its own trading concern. For Hewlett-Packard the implication is clear: Its distributorship will have to hustle to win business away from such state-run trading giants as these.

In most cases US exporters can expect to deal with either CEIEC or INSTRIMPEX, but there are no clear guidelines on who buys what for whom. Besides importing for the 4th MMB and SACI, CEIEC is doing business on the behalf of universities, previously thought to be in INSTRIMPEX's domain. Because equipment involved in joint ventures of licensing would involve SACI factories, this business is

handled exclusively by CEIEC. In any event, purchases of all minicomputers and up need authorization from both the State Scientific and Technological Commission's Computer Commission and Bo Yibo's State Machine Building Industry Commission. Microcomputers costing over ¥7,500 (\$5,000) require Bo Yibo's approval; if the total is under this amount, approval from the relevant ministry is sufficient.

"We Do Everything for our Customer"

Competition for a piece of the computer action extends beyond the trading corporations. Increasingly, Chinese computer manufacturers themselves are vying for potential customers. This follows on the heels of a decision taken in early 1979 to remove computers from the list of centrally allocated goods and to consider them market commodities instead, in order to push quality up and prices down.

Advertising and customer service have become the main weapons in this new offensive. "We do everything for our customer," reads the motto of China's biggest computer producer, the Shanghai Computer Factory. Going further, the Weifang Computer Factory, which specializes in the popular DJS-130 series, makes the tantalizing offer in its brochure, "We offer discounts to universities and accept installment payments with no interest."

Presently, Chinese computer users regard foreign products as superior to domestic models, but the day is coming when competition for the China computer market will emanate from China itself.

The Micro Market

US microcomputer exporters are just beginning to reap the rewards of China's demand for low-cost, high-performance computers. Among them are Cromemco, Zilog, and Intel Corporation, whose combined sales in the last two years were \$10-\$15 million. Typical of the microcomputer configuration being sold to China is Zilog's MCZ-1/50 system, based on an eight-bit processor with 64k bytes of RAM (random access memory). It is connected to a CRT, a printer, and integral dual floppy disks to supply the system with 600k bytes of external storage capacity.

Most US microcomputer firms anticipate excellent opportunities. Beijing's commitment to accelerated computerization will force it to buy international equipment for the next few

years. Chinese specialists who attended the November US-China Computer Conference in Palo Alto report that Beijing purchased 500 to 600 microcomputers last year, bringing China's total micro inventory to 3,000 machines. Its goal is to have 2,000 to 3,000 new microcomputers installed by the end of the year of which about 80 percent will be imported models.

Export Licensing: A Bit Easier for Micro Vendors

Additional good news for the burgeoning micro industry: From a technical standpoint, there should be little trouble obtaining a US export license. In accordance with export control policies announced by the Commerce Department in July, items with technical levels twice those previously allowed for the USSR are now in the presumption-of-approval category. The processing-data rate (pdr) of microcomputers and most minicomputers is well below the new pdr standard of less than or equal to 68 set for China.

Commerce originally promised that its new technical parameters would be published in the *Federal Register* by August and recently set a deadline for late December. These reportedly call for at least a twofold increase for more than 40 commodities. Certain officials in Commerce and the Pentagon who feel these guidelines go too far are delaying dissemination. In interagency discussions, for example, the officials are pressing for an interpretation that would make 68 pdr the maximum level that could be approved, rather than a threshold at which cases would require more careful examination. These same officials also have been successful in reversing in practice the policy that cases not subject to COCOM clearance would be unilaterally processed by Commerce.

Despite these problems, microcomputers are still the easiest class of computers to license. Both Intel and Zilog experienced some delays but easily won approvals.

Stress Application

US microcomputer firms should develop a selling strategy around China's most important buying criterion—the computer's application. Three of the largest purchase orders placed this year provide a good sampling of the kind of applications to target. Briefly, these call for:

► 14 Intel microcomputer systems to support laboratory work at Qinghua University, the design of automated



This DJS-130 digital computer, produced by the Suzhou Radio Factory, has an average speed of 500,000 operations per second.

fiber-dyeing equipment by the Beijing Textile Research Institute, and process control of drills and cutters in boiling operations in the Beijing High Mountain Machinery Company.

► Zilog MCZ-1/50 systems worth \$5 million for aircraft factories of the 3rd MMB, universities, and research institutes. One of these, the Beijing Automatic Technology Institute, will be developing airline and hotel reservation systems.

► 50 Commodore (HK) microcomputers for universities and research institutes in 15 provinces. Applications include medical diagnosis and research into the properties of silicon.

Other potentially heavy users of microcomputers are Chinese factory managers and financial analysts. Many of these people are middle-aged and probably unaware of the benefits computers offer. Firms are realizing that a familiarization seminar arranged through either INSTRIMPEX or CEIEC is a good way to cultivate this market.

Eventually sales opportunities will take shape in the Chinese countryside, where 53,000 communes and 699,000 production brigades are still laboriously processing agricultural data without electronic aids. Agrarian-minded Beijing is now seeking to buy 2,000 microcomputers for cotton harvesting and is interested in learning how computers can assist with farm chores ranging from crop planning to livestock management.

Beyond Main Hardware Sales: Peripherals and Software

As China's inventory of small-size computers increases, US vendors can expect to sell fewer central-processing units (CPUs comprise a computer's main memory, and control and arithmetic centers) and more of the peripheral connections and software that enrich the performance of the main hardware.

Chinese computer users are already in need of mass storage devices to inter-

face with their CPUs. Domestic producers now turn out punched paper and magnetic tape, magnetic drums, and magnetic disks. But US participants at a recent exhibition of Chinese computers in Beijing report that a new, locally built line of magnetic disks was housed in an air-conditioned room, suggesting much greater sensitivity to the environment than the rest of the computer configuration.

Software is acknowledged as the "weakest link" and the "decisive factor" in China's computer industry. Explained a Chinese programmer to the president of Software AG of North America: "If I write software myself it may take 10 years. If we buy it, we save time, scarce manpower, and improve our data processing."

Protecting Intellectual Property

Although Beijing does not plan to extend patent protection to imported software, China honors it as "intellectual property." The price of software, including revisions and updates for a certain number of years, is covered in a paid-up license fee. In exchange, the Chinese enduser agrees not to copy or transfer the software to a third party. Some firms have negotiated terms under which China pays for software improvements as they come on stream.

Meanwhile, a way to do business without exporting software per se is being explored by Scientific Process and Research Inc. The firm has been approached by a research institute of the Ministry of Light Industry about selling its program for designing plastic components. Since Scientific Process is not in the habit of exporting its painstakingly developed product, it has proposed an arrangement whereby the Chinese would have real-time access to its program via a satellite linkup between computers.

All software sales will have to be licensed by the Office of Export Administration (OEA). Licensing will be done on a case-by-case basis since the

Computers Produced by Factories Under The State Administration of Computer Industry

Major Technical Characteristics				
Model Computers	Word length (bits)	Memory size (words)	Speed (operations/second)	Factory
DJS-101	16	8-32	400,000	East China Normal University Scientific Instrument Factory
DJS-110	16	4-12	90,000	Changzhou (Jiangsu Province) No. 2 Radio Factory
DJS-112	16	4-32 MOS	150,000	Changzhou No. 2 Radio Factory, and Shaoguang (Guangdong Province) Radio Factory
DJS-130	16 (China's highest production volume computer)	32	500,000	Suzhou Computer Factory, Weifang (Shandong Province) Computer Factory, Beijing No. 3 Computer Factory, Tianjin Electronic Instrument Factory and Tianjin No. 2 Radio Factory
DJS-131	16	32	500,000	Shanghai Computer Factory (formerly Shanghai No. 13 Radio Factory)
DJS-132	(Upgraded DJS-131 with cover protection)			Tianjin Radio Technical Institute, Tianjin Electronic Instrument Factory, and Suzhou Computer Factory
DJS-135	(Same as DJS-130, temperature resistant -15°C-45°C)			Tianjin No. 2 Radio Factory, and Yunnan Electric Equipment Factory
DJS-153	16	32-128 MQS	1.0-1.4 million	Tianjin Radio Technical Institute, No. 785 Factory, Suzhou Computer Factory, Weifang Computer Factory, and Tianjin Electronic Instrument Factory
DJS-154	16	32	200,000	No. 738 Factory, and Dalian Radio Factory
DJS-183	16	28	500,000	No. 830 Factory
DJS-183 guided navigation computer	16	(Comparable to the DJS-183)		Hubei Radio Factory
DJS-184	16	32-128	400,000-500,000	No. 1915 Institute
DJS-185	16 (Comparable to the DEC PDP-11/35)	32-124	500,000	Shanghai Computer Factory
DJS-186	16	16-128 MOS	1.0 million	No. 1915 Institute
DJS-210	32	32	50,000-70,000	Changzhou No. 2 Radio Factory
DJS-220	32 (Comparable to the IBM 36/50)	32	100,000-150,000	No. 734 Factory, No. 738 Factory, Shanghai Computer Factory, Harbin No. 3 Radio Factory
DJS-240	64 (Comparable to the IBM 360)	64	400,000-500,000	No. 830 Factory and No. 15 Institute
DJS-260	64	128	1.0-1.5 million	No. 1915 Institute
JD-101	12	4	100,000	Jiamusi (Heilongjiang Province) Electronic Instrument Factory
DJS-6	24	32-128	250,000	No. 738 Factory, Hunan Radio Factory, and Harbin No. 3 Radio Factory
DJS-18	48	64	120,000	Beijing University Electronics Instrument Factory, Jiamusi Electronics Instrument Factory, and Zibo (Shandong Province) No. 4 Radio Factory
DJS-19	12	4-32	200,000	Beijing Computer Factory
DJS-22	16	16	100,000	Xi'an Computer Factory
DJS-24 and DJS-25	(8k-32k RAM, 12k-96k ROM, scientific calculation computer with an analog/digital converter, outputs Chinese characters)			No. 734 Factory
DJS-310	(Simulator, calculates linear equations to the 8th order, can combine equations of the 4th or 12th order)			Beijing No. 1 Computer Factory
CJ-709	48	32	125,000	Shanghai Changjiang Computer Factory
CJ-1001	32	64	500,000	Shanghai Changjiang Computer Factory
TQ-16	48	32-64	150,000	Shanghai Computer Factory
TQ-6 equivalent to model 655	48	128	1.0 million	Shanghai Computer Factory
W91-III	16 (Small process control computer)	8-64	500,000	Hubei Radio Factory
HDS-801	32	64-256	300,000-500,000	No. 1932 Institute

Model	Word length (bits)	Major Technical Characteristics	Factory
Microcomputers based on US models			
Microcomputers using Intel 8080 computer chips developed through reverse engineering:			
DJS-051 B,C	8	4k–6k RAM, 2k EPROM, takes 78 instructions	Shanghai Changjiang Computer Factory
DJS-052	8	8k–48k RAM, 2k–16k EPROM, takes 78 instructions	Anhui Radio Factory, Jiangsu Radio Factory
DJS-054	8	8k–64k RAM, 2k–4k EPROM, takes 78 instructions	No. 6 Institute, Yentai (Shandong Province) No. 2 Radio Factory, and Shanghai Computer Factory
DJS-050	8	Single board computer	No. 6 Institute, No. 830 Factory, and Shenzhen Electronic Assembly Plant
Utilizes imported Motorola 6800 computer chips:			
DJS-061	8	2k–8k RAM, 2k–8k ROM	No. 1447 Institute
DJS-062	8	8k–64k RAM, 1k ROM, 1k EPROM, takes 72 instructions	Hunan Radio Factory, No. 1447 Institute, and Jinzhou (Liaoning Province) Computer Factory (Sells for ¥20,000)
DJS-063	8	16k–48k, 1MH, takes 72 instructions	Shaanxi Electronics Institute
DJS-064	8	11k–64k RAM, 7k ROM, takes 72 instructions	No. 6 Institute, No. 4500 Factory
DJS-060	8	Single board computer	No. 6 Institute, No. 4500 Factory
Utilizes imported Zilog 80 computer chips and components:			
ZSS	8	1k–2k RAM, 2k–4k EPROM, takes 158 instructions	Shanghai Computer Factory (sells for ¥16,000).
DJS-045	NA	Single board computer	No. 735 Factory
Based on Rockwell International's AIM-65 microcomputer:			
DJS-035	NA	Single board computer	No. 734 Factory
New trial-produced Chinese computers			
DJS-140 high speed computer		64k–128k, 800,000 ops (operations/second) with memory cycle time of 1.1–1.4 microseconds	Produced jointly by Beijing No. 3 Computer Factory and Qinghua University. Will be produced at Jinzhou Computer Factory and sell for ¥150,000.
BCM-2 microcomputer		64k RAM, utilizing Zilog 80 computer chips and other imported components. Designed as a Chinese character processing system, can generate 5,000 characters.	Beijing No. 2 Computer Factory
TP-801		Single board microcomputer	Produced jointly by Beijing Engineering University and Jingye Company (HK).
DJM-330		China's first general purpose hybrid (digital/analog) computer capable of calculating linear equations to the 24th order	Semiconductor Research Institute of the Chinese Academy of Sciences
Computer laser editing typesetting system		Can store 600,000 Chinese characters of 500,000 bytes and produce 60 characters/second by laser scanning. Takes 140,000 software instructions. One of the projects of the 1978 science and technology plan. Required ¥3 million investment.	Beijing University with six other units
DYL-1300		Microcomputer based on DJS-130	Semiconductor Research Institute of the Chinese Academy of Sciences
24 beam Chinese character laser printer		Incorporates advanced acoustical optics; prints 1,000 characters/second.	Laser Laboratory of Applied Physics, and Beijing Engineering University
Computer memory		China's first 16k MOS dynamic RAM memory	Semiconductor Institute of Chinese Academy of Sciences
DJS-300		Reported as comparable to IBM 4341	NA
Portable calculators			
Great Wall 204		4k RAM, 3k ROM, utilizes Zilog 80 computer chips, performs 8 kinds of formulas	Nantong (Jiangsu Province) Computer Factory
Simplified liquid crystal type		Does 7 operations up to 12 digits	Factory Nos. 750, 8460, 4509, and 4292
Liquid crystal function type		Calculates 7 functions up to 12 digits	Beijing No. 5 Computer Factory, and Factory Nos. 8460, and 602
Numerical simplified		Does 7 operations up to 12 digits	Dalian Radio Factory, and Shaoyang (Hunan Province) Radio Factory, and No. 750 Factory
Numerical function type		Calculates 7 functions up to 12 digits	Yentai No. 3 Radio Factory, Beidaihe No. 1 Radio Factory, Dalian Radio Factory, No. 750 Factory
Storage and printer type		Does 10 operations up to 12 digits	No. 4292 Factory

SOURCE: State Administration of Computer Industry, Beijing, July 1981. SACI publications translated by I-chuan Chen and Karen Berney. Material obtained by the National Council's Beijing office from a Chinese computer exhibition held at the Beijing Exhibition Hall during September–October, where 200 computers and peripheral devices built by 86 Chinese factories and research institutes were displayed.

forthcoming advisory notes neither clarify nor address the administration's policy on software exports to the PRC.

CAD and Export Controls

Another export opportunity, albeit one constrained by export controls, is for computer-aided design equipment (CAD). CAD allows an engineer to test design parameters that a software program transforms into graphics on a screen and then reproduces on a hard-copy plotter. The advantage of CAD is that it increases manpower productivity and reduces the lead time needed to get new products to the prototype stage.

In January 1980 Computervision received a \$1.5 million order to supply two CAD systems to manufacturers of watches and printed circuit boards in Xi'an, and one to the Yan Shan Petrochemical Works for oil-piping design. Calma, another producer of CAD equipment, is one of the many US firms participating in a \$30 million project to build and equip a semiconductor plant in Wuxi that will support the production of 4 million color TVs a year. IBM recently received an order for four medium-size 4341s, of which one will be used for ship design by the Shanghai Shipping Corporation.

Although the technical levels of CAD equipment are below those of the soon-to-be-announced criteria for approving computer exports to the PRC, the OEA says that CAD license applications will

be reviewed on a case-by-case basis. License approvals, however, will be limited to CAD with relatively unsophisticated two dimensional layout capability. In addition, CAD for specific devices, including multi-layer integrated circuits, is likely to be denied.

So far, two of Computervision's licenses, those for oil piping and printed circuit board design, have been cleared by both the US and COCOM. But the OEA attached conditions requiring the firm to downgrade the systems' performances by eliminating cathode ray tubes and reducing the size of magnetic disk storage from 80 million bytes to 30 million bytes. Its third license along with Calma's and IBM's cases are still pending in the US.

Mastering the Technology

"If China only imports computers, its industry will be in trouble. In the long run the big push must be to acquire technology, not end products." This is the assessment of an industry insider who added, "The Chinese have come to this realization and are beginning to talk technology transfer."

Examples of China's pragmatic approach are apparent in Zilog's and another US computer company's agreements with CEIEC, which start with assembly and testing operations as the means to impart the skills necessary for eventual hardware manufacture in China. Zilog's deal is already under way. The other computer vendor is

awaiting an export license and expects favorable consideration.

Following the delivery of about 100 MCZ-1/50 systems, Zilog began selling CPU micro components to its Chinese partner for assembly. Here China agreed not to divulge proprietary design information to an outside party. The next step will involve connecting CPUs to peripherals. Putting a standardized microcomputer together isn't too difficult, but assembling a larger system, like the one involved in the other agreement, is no easy task. The constant testing and fine-tuning work required will be the real learning experience for Chinese engineers. (Initially China expects to assemble only a few large systems a year.)

After the systems are installed and operating, Zilog will send technicians to China to teach repair and maintenance to Chinese support personnel. If all goes well, CEIEC and Zilog will commence negotiations for licenses covering production technology of select computer components. Presumably, technology agreements with other computer firms will follow a similar path.

As China's computer industry matures, American experts predict new forms of US-China business cooperation. Twenty years from now, they believe, China could be a major supplier of software talent and be writing programs for the manpower-hungry US market. 光

Peripheral Equipment Produced by Factories Under the State Administration of Computer Industry

Model	Major Technical Characteristics			Factory	
	Photoelectric input devices	Speed of input (meter/second)	Tape length (meters)		Stop/start interval (millimeters)
RDG-5		0.75	NA	<1	Yentai No. 6 Radio Factory
RDG-6		0.5	120	NA	Yentai No. 6 Radio Factory
RDG-7		0.5	50	NA	Yentai No. 6 Radio Factory
RDG-8		3.0	200	<500	Yentai No. 6 Radio Factory
RDG-9		3.0	200	<500	Yentai No. 6 Radio Factory
RDG-10		0.375	NA	NA	Yentai No. 6 Radio Factory
RG-3		2.5	50	<2.5	Hohhot No. 2 Electric Equipment Factory
RDG-12		0.75	NA	<1	Hongze Electric Equipment Factory
RDG-13		2.5-1.25	NA	<1	Hongze Electric Equipment Factory
RDG-14		1.5-0.75	NA	<1	Hongze Electric Equipment Factory
RDG-16		2.5	200	<1	Yentai Radio Factory
RDG-17		1.5	200	<1	Hohhot No. 2 Electric Equipment Factory
RDG-18		2.5	200	300	Hohhot No. 2 Electric Equipment Factory
RDG-19		0.5	100	<1.5	Hohhot No. 2 Electric Equipment Factory

Model	Type	Drum wheel diameter (millimeters)	Number of magnetic channels	Storage capacity (megabits)	Speed (revolutions/sec.)	Factory
ZGC-101	Fixed head	310	232	0.82	1,500	No. 4292 Factory
ZGC-201	Floating head	220	204	1.2	3,000	No. 738 Factory
ZGC-202	Floating head	220	204	1.2	3,000	Jiaonan (Shandong Province) Radio Factory
ZGC-401 A	Floating head	310	304	4.3	1,500	No. 4292 Factory
ZGC-403	Floating head	350	288	4.1	1,500	No. 738 Factory

Model Line printers	Number of symbols	Speed (line/second)	Factory
CYD-101	13	2.7	Nanjing United Front Radio Factory
CYD-103	16	20	Tianjin Red Star Factory
CYD-104	16	20	Harbin No. 4 Radio Factory
CYD-801 A,B	64	10	Nanjing United Front Radio Factory
CYD-802 B	64	10	Tianjin Red Star Factory
CYD-1202	96	7	Hangzhou Computer Peripheral Equipment Factory
CYD-120-3	96	600 lines/minute	Factory No. 734, and Hohhot Electric Equipment Factory
CYD-130-1 matrix printer	96	100 Chinese characters	No. 734 Factory
CYD-1321 matrix printer	96	140 Chinese characters	Nanjing Front Factory
CYD-132 matrix printer	96	120 Chinese characters	No. 734 Factory
CYD-160-6	96	420 lines/minute	No. 734 Factory, and Hohhot Electric Equipment Factory
CYD-1302 two-way printer	96	180 Chinese characters	No. 734 Factory
CYD-130RO two-way printer	96	180 Chinese characters	No. 734 Factory
CYD-1302KSR two-way printer	96	180 Chinese characters	No. 734 Factory
CYD-603 character needle type printer	NA	20 Chinese characters	Suzhou Shenli Radio Factory
T-1202 platform printer	(Components imported from Tally, USA)		Fujian Electronics Technology Institute

Model Console printers	Type	Number of of symbols	Line width (symbols/ line)	Speed (characters/ second)	Factory
HZD-3	Matrix	96	72	23	Factory Nos. 830, 633
HZD-5	NA	96	130	15	Changzhou Electronic Instrument Factory
HZD-6 B	Matrix	96	80	23	Jiangmen No. 2 Radio Factory
HZD-7	NA	96	130	15	Tianjin Red Star Factory
HZD-8	Matrix	96	132	40	Shenyang No. 6 Radio Factory
HZD-120	Matrix	96	120	45	Nanjing United Front Radio Factory
HZR-1	Thermo- sensitive	64	80	20	Beijing No. 4 Computer Factory
DO9	Thermo- sensitive	64	80	40	No. 4291 Factory
HZD-M1	Matrix	96	80	125	Jiangmen No. 2 Radio Factory

Model Hole punch machines	Specification of tape	Speed (row/second)	Percent of error	Factory
CDZ-1	5.8	120	<10 ⁻⁵	Qingdao Microelectronic Machinery Factory
CDZ-2	5.8	100	<10 ⁻⁵	No. 4291 Factory
CDZ-3 A	5.8	150	<10 ⁻⁵	No. 4291 Factory
CDZ 4	5.8	75	<10 ⁻⁵	No. 4291 Factory
D-08	5.8	75	<10 ⁻⁵	No. 4291 Factory

Offline hole punch machines

BDF-1	5-8	13.3	<10 ⁻⁵	No. 8271, Factory
BDF-3	8	13.3	<10 ⁻⁵	Beijing No. 2 Peripheral Equipment Factory, and Luoyang No. 2 Radio Factory
BDF-4	5-8	13.3	<10 ⁻⁵	Factory Nos. 8472, and 8271
CFJ-5	5-8	13.3	<10 ⁻⁶	No. 4292 Factory
5Z-3	5	10.0	<10 ⁻⁵	Jinan Radio Module Factory, and No. 733 Factory

Model Magnetic tape machines	Width of tape (inches)	Number of magnetic channels	Speed (meter/second)	Start/stop interval (microseconds)	Factory
ZDC-101	0.5	9	0.3	<28	Shandong Electric Equipment Factory
ZDC-102	0.5	9	0.3	<23	No. 4507 Factory
ZDC-103	0.5	9	1.0	<8.3	No. 4507 Factory
ZDC-104	0.5	9	0.3	<28	Taishan Instrument Machine Tool Factory
ZDC-105	0.5	9	1.0	<8.3	Shanghai No. 4 Electric Equipment Factory
ZDC-106	0.5	9	1.0	<8.3	Shandong Electric Equipment Factory
ZDC-202	0.5	9	2.0	<5	Shanghai Electric Equipment Factory
ZDC-203	0.5	9	2.0	<5	Manchuria Electrical Equipment Factory
ZDC-204	0.5	9	2.0	<5	Hohhot Electric Equipment Factory
DL-1	1.0	16	2.0	<30	Hohhot Electric Equipment Factory
ZDC-1 cassette machine	0.15	2	19 mm./sec.	<25	Qiqihar North No. 2 Radio Factory
ZDC-3 cassette machine	Uses C-60 magnetic tape	2	4.76 cm./sec.	NA	Shanghai Hongyu Electronic Equipment Factory

Model	Storage capacity (megacharacters)	Data transmission rate (1,000 characters/ second)	Average data access time (microseconds)	Ways of recording	Factory	
Magnetic disk devices						
CY-50 changeable magnetic diskette	58	312	<45	Double frequency	No. 1915 Institute	
ZPC-101/2 fixed head magnetic diskette	2.5/5.0	470/940	<10	FM/MFM	No. 4507 Factory	
ZPC-1101 changeable magnetic diskette	29	312	<40	Double frequency	No. 4292 Factory	
ZPC-1102 changeable magnetic diskette	29	312	<60	Double frequency	No. 1932 Institute	
ZPC-201 double plate magnetic disk	6	312	<50	Double frequency	No. 4509 Factory	
CP-81 6 plate magnetic disk	3	93	<100	Double frequency	Shanghai Huangpu Instrument Factory	
ZPC-1 floppy disk	3.1 megabits	250,000 bits	10	Double frequency	No. 690 Factory	
ZPC-2 floppy disk	3.1 megabits	250,000 bits	10	Double frequency	Suzhou Electronic Equipment Factory	
ZPC-3 floppy disk	3.1 megabits	250,000 bits	10	Double frequency	No. 4507 Factory	
RCP-2 floppy disk	3.1 megabits	250,000 bits	10	Double frequency	No. 738 Factory	
Model	Size of paper (sq. millimeter)	Speed (lines/second)	Percent of error	Factory		
Plotter						
CTS-1A flatboard type	750 × 540	800	<0.15	Hohhot Electric Equipment Factory		
CTS-2 flatboard type	1200 × 2500	4–6 meters/minute	<0.2	Hohhot Electric Equipment Factory		
CTS-4 rolling type	740 × 100,000	12 meters/minute	<0.2	Hohhot Electric Equipment Factory		
Flat electricity type	1800 × 1200	NA	NA	Shanghai No. 1421 Institute		
LZ-10	340 × 500	1200	<0.2	Harbin Longkou Instrument Factory, and Tianjin Automation Instrument Factory		
HJZ-2	440 × 920	15 meters/minute	<0.2	No. 1915 Institute		
Model	Size of screen (inches)	Character specification	Types of characters	Number of characters in each display	Number of edit functions	Factory
Visual displays						
ZFX-I	19 (color)	5 × 7	64	512	7	Tianjin Qinghua Radio Factory
ZFX-II	19 (color)	5 × 7	64–128	800	12	Tianjin Qinghua Radio Factory
DZX-2B	12	5 × 7	64	512	4	Fushen Electronic Instrument Factory
HZX-1	19	5 × 7	95	960	9	Jiangsu Radio Factory
HZX-2	12	5 × 7	64	1280	12	Beijing No. 1 Peripheral Equipment Computer Factory
HZX-3	12	5 × 7	64	1280	16	Fushen Electronic Instrument Factory
HZX-4	12	5 × 7	96	1920	11	Factory Nos. 4500, 734, East China Normal University Scientific Instrument Factory, and Shanghai Yaguang Radio Factory
HZX-6	12	5 × 7	64	1280	2	Beijing No. 1 Peripheral Equipment Factory
Character Display	12	5 × 7	95	1920	6	East China Normal University Scientific Instrument Factory
ZD-110 (tentative)	12	5 × 7	95	1920	5	No. 4500 Factory
ZD-1220 (tentative)	12	5 × 7	95	1920	13	No. 4500 Factory
ADM-3A	12	5 × 7	64 or 95	1920	6	Fujian Broadcasting Equipment Factory
ZXZ-10	12	5 × 7	96	1920	NA	Jiangsu Taichang Electronic Instrument Factory
Model			Major Technical Characteristics			Factory
Light pen plotters						
HTX-1	Compatible with DJS-100 series computers. Equipped with 4k × 16k storage, major frequency is 5 megacycles, produces 512 kinds of characters and symbols. Each line can be extended to 40 meters. Time required to fix a bit of data is less than 22 nanoseconds.					No. 734 Factory
751 type	Equipped with 8192 × 9 slow memory storage, major frequency is 2–2.5 megacycles, produces 95 standard and 32 non-standard characters with 106 basic strokes. Time required to fix bit of data is 30 nanoseconds.					No. 4131 Factory
75-1 character display	Equipped with 16k × 8k slow memory storage, produces 128 kinds of characters in 7 × 9 form. Each screen holds a 15 × 16 characters. Speed of drawing lines is 0.5 millimeters/nanosecond, requires 17 nanoseconds to draw medium and small characters and 33 nanoseconds for large characters. Produces solid, dotted and pointed lines.					Hunan Radio Factory

SOURCE: State Administration of Computer Industry, Beijing, July 1981. Official SACI materials translated by I-Chuan Chen and Karen Berney.

Fang Yi on science and technology Zhang Wenbin on the oil industry Tao Zuji on private consulting

Vice-Premier Fang Yi

Minister of the Science and Technology Commission

“We have not made a final decision on priority projects yet, but we have a clear idea about some of them—agriculture, energy, transportation, consumer goods production, and nonferrous metals.”

China's Science and Technology Commission, reestablished in 1977, has become the cutting edge of China's modernization program. Computers, energy conservation, and agricultural research are among the 27 top investment areas identified in the commission's ambitious eight-year plan for technological development, unveiled in March 1978. Vice-Premier Fang Yi, minister in charge of the S&T Commission, led China's delegation to the first meeting of the US-China Joint Science and Technology Commission held in Washington, DC in October.

Interviewing Fang Yi for The CBR were Nicholas H. Ludlow, editor-in-chief; Dr. Christopher Clarke, associate director of research at the Council, and Chen I-Chuan, special assistant for language services at the Council. Gervaise Lee transcribed the interview. Attending this interview, held on October 17, 1981, were Wu Mingyu, director of policy research at the S&T Commission, and Jin Xiaoming, interpreter.

CBR: We have heard that you are preparing a new science plan. Could you describe to us China's science and technology plans and priorities for 1982 to 1990?

Fang: We are now preparing our sixth five-year plan. At the same time we are formulating our science and technology policy. We have not made a final decision on priority projects yet, but we have a clear idea about some of them—agriculture, energy, transportation, consumer goods production, and nonferrous metals.

More attention, too, is being paid to these areas, and arrangements will be made for the training of science and technology personnel according to the new plan.

As for the training of this personnel, we shall look at both the next few years and at an even longer period in the future.

CBR: In May of this year, you said that

“scientific research should always march ahead of production and construction.” Could you explain China's priorities in more detail?

Fang: Agriculture is the first priority since we have one billion people in China. With such a population, agriculture is very important, because we cannot live without grain for a day.

Our second priority is energy. This is to industry like grain is to agriculture, so it is very important.

The third priority is raw materials. We have already achieved good results in these few areas. As for the plan made in 1978, we need to do some revisions now because some of the parts of the plan, such as big scientific projects, were not suited to our economic condition. [Among the more costly projects recently postponed were the development of China's first cyclotron and satellites for scientific purposes.]

Therefore, we need another plan. On the one hand we need to do some

revisions and on the other hand, we shall proceed, particularly in agriculture. And particularly in the breeding of germ plasm and good seeds, and in the extraction and the smelting of non-ferrous metals.

CBR: Can you comment on the future role of computerization in China's economy?

Fang: Our government pays a lot of attention to the question you just raised, to both hardware and software of computers, but particularly to computer software.

CBR: Can you elaborate on that?

Fang: As for the computers, right now we are doing research—our own research—in production, and we are trying to make bigger and better computers. At the same time we are ready to import computers—good computers—from foreign countries, particularly microcomputers, so that we can improve our computers by learning from these imported computers.

CBR: You said the second priority in science and technology research is energy. What kind of plans do you have for energy development?

Fang: We have a policy for energy. First of all we put our attention on coal production because China has very rich deposits of coal. Due to the increase of oil prices, the coal is being utilized more and more, so we put our emphasis on coal production.

We are also focusing on the extraction of petroleum. In collaboration with the United States, Japan, and France we have found a great deal of oil in the South China Sea and Bohai Bay.

According to materials submitted to us by foreign companies, there are big oil deposits in offshore areas. So we will start bids at the end of the year or at the beginning of next year.

Apart from the petroleum production, we also are focusing on hydropower since China is very rich in hydro-power resources.

Furthermore, we shall put our emphasis on energy conservation.

CBR: Will you emphasize nuclear energy?

Fang: Right now we don't have enough funds to invest in this industry. Besides, we think there is great potential in our existing energy resources—coal, petroleum, and hydropower.

Here lies the difference between our country and the US and Europe. In China only two percent of our hydro-power potential is being utilized, and this is a very clean energy source. It is also a renewable energy source.

CBR: What is the role of the Science and Technology Commission in industrial research, feasibility studies, and energy conservation?

Fang: The task of the State Science and Technology Commission is to coordinate all the departments, ministries, and agencies involved, and to make a general plan for all of these agencies.

CBR: Could you explain the Science and Technology Commission's relationship with the State Economic Commission, the Machine Building Commission, and the Energy Commission?

Fang: Take nonferrous metals, for instance. Our Science and Technology Commission is responsible for organizing technical information from the Chinese Academy of Sciences, the technical bureaus of all the ministries concerned, as well as the universities, to solve technical problems involved in nonferrous metals development.

CBR: What then are the specific differences between the Energy Commission, the Machine Building Commission, and your commission?

Fang: The Energy Commission is responsible for petroleum, coal, and hydropower, while the Machine Building Commission is responsible for the building of machines. But these two commissions need science and technology, which our commission is responsible for. Our commission has the authority to direct other ministries in regard to science and technology, and every year the ministries have to report their plans to us and submit plans to us for approval.

CBR: All ministries?

Fang: Yes. Just for their major plans, not minor plans. They submit the most important interministerial plans. We cannot afford to go into great detail with these plans, otherwise it would be too much for us to handle.

CBR: Will there be greater emphasis on the research and development of new products and technology in China?

Fang: Investment in new technology, new projects, and scientific research will increase.

CBR: Will there be greater emphasis on feasibility studies in the future?

Fang: That is for sure! At the moment we are in the process of economic readjustment, and we are beginning to see many good results from it.

Take agriculture, for example. We have achieved very good results. This year the southern part of China was stricken by floods and the northern part by drought, but we can still achieve

a good harvest; this year may be a record year.

Our countryside is getting richer, much richer than it was before. However, a problem has developed with this change. Now the peasants have money in their pockets and their first demand is to build new houses. This creates a demand for great quantities of cement, glass, and bricks.

There is also a request for good cloth because the peasants' standards have improved. Their demands for necessities have also gone up. In the past it was sufficient to have a watch, a bicycle, and a radio. But now they want TV sets. Take sofas, for example. There was no need for a sofa in the countryside; now there is great demand.

Our capacity for producing these things is not up to their demands, and so we cannot satisfy their demands. This will certainly encourage workers in factories when they have seen that the peasants have done so much. And they will think about what they should do to improve the national economy.

Then there is the question of how we should use industry to support agriculture.

CBR: There is the question of heavy industry versus light?

Fang: In the past most of our investment was in heavy industry. But the lack of funding in light industry produced problems because we could not satisfy the needs of the people. So we switched and made a change in the proportion of investment in heavy industry and light industry. The good situation is just beginning. It's going to get much better as time goes along.

Wu: In the past we lacked large-scale feasibility studies. We have to study the need of the market so we can arrange production according to that need—the proportion of light industry to heavy industry.

CBR: Recent reports in the Western press have indicated a change back to heavy industry. Do you have any comments on this?

Fang: We are in the process of readjustment, and in this process we will find out what we should do. It cannot be said that we are switching back our attention to heavy industry. We are just feeling our way in the process.

In the second half of this year the speed of development of heavy industry rose much higher.

CBR: So there has been an increase in development of heavy industry?

Fang: Yes. An increase in the second half of this year.

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Zhang Wenbin President of the Petroleum Corporation

“Onshore production is stable. We will continue to concentrate on the big eastern fields of Daqing, Shengli, and Dagang.”

While the Chinese have been convening behind closed doors to decide upon contract terms with Western companies, the outside world has been anxiously awaiting their decisions. All that was known by mid-autumn was that real progress had been made.

Atlantic Richfield, the first and only US company thus far to sign an agreement with the Petroleum Corporation, received State Council approval in late August to begin negotiations on an operating agreement. By late September, an ARCO team was in Beijing finalizing details for this agreement, which will allow drilling to proceed.

Also by late summer, the Chinese seemed to be finalizing the tax law that both Chinese and US oil executives want promulgated before the bidding begins. Oil executives were relieved when a PRC tax delegation arrived in Washington in late September for discussions with Treasury Department officials. In October, a number of US oil companies were reportedly in Beijing reviewing final contract terms.

On September 22, the Ministry of Petroleum stated that it expects to begin bidding

for rights to drill in the South China Sea and the southern Yellow Sea at the end of this year or early in 1982.

Just prior to that announcement, Zhang Wenbin, president of the Petroleum Corporation of the PRC, agreed to a September 10 interview with *The CBR*. Zhang, 62, also serves as vice-minister of the Ministry of Petroleum and managing director of the Petroleum Corporation's most important subsidiary, the China National Oil and Gas Exploration and Development Corporation. The CNOGEDC has been the major player in the negotiations with foreign companies for cooperation in offshore development.

Stephanie R. Green, director of the Council's Programs and Government Relations Department, interviewed Zhang in a meeting that included Tang Changxu, 50, manager of the Offshore Branch, CNOGEDC, and Xing Zhifeng, interpreter. A second interview was held on September 15 with You Dehua, 50, deputy managing director, CNOGEDC, as well as with Tang Changxu and Xing Zhifeng. Green escorted the Chinese oil officials when they visited the United States in March 1979.

CBR: Why did you originally decide to treat ARCO separately from the other American oil companies?

Zhang: ARCO was the first US oil firm to contact us. Its chairman William Anderson visited China, not as a representative of an oil company, but as the chairman of the Aspen Institute, shortly after the normalization of relations between the US and China. Mr. Anderson met with our Vice-Premier Li Xian-

nian, and during the meeting asked about the possibility of cooperation between ARCO and China. Vice-Premier Li said there could be cooperation.

At that time, none of the other oil companies had come to China. So it is only because of history, not because of a particular intent to form a special relationship, that ARCO was the first US oil company in China. Because the relationship with ARCO was started earlier,

it was done on an individual basis.

CBR: Has the ARCO agreement been approved by the State Council?

Zhang: Yes, it has been approved by higher authorities. Now ARCO will return to China next week to negotiate the operating agreement. If the negotiations are smooth, the contract will be concluded quite quickly.

CBR: Will ARCO's contract be used as the basis for negotiation with the other major companies? Or is it an exclusive document that does not apply?

Zhang: The ARCO contract is not quite the same as with the other firms. Some provisions are the same, some are not.

CBR: Did you give ARCO assurances that taxes would be creditable for US income tax purposes?

Zhang: The tax credit issue is under discussion. We now think there will be no problem with the tax credit. Companies have made many suggestions, and your government also knows the situation.

CBR: The Petroleum Corporation has said that it hopes to announce bidding for the unified Pearl River delta area and the Yellow Sea by November. In the West, we have heard many rumors that the bidding will fall behind that date. Can you reveal the status of the bidding?

Zhang: It is fact, not rumor, that we cannot offer bidding in November. During the last six months, I have discussed many of the questions involved with all the oil companies, including Exxon, Mobil, Conoco, Phillips, Chevron, and Amoco.

We cannot offer bidding until we have the regulations for offshore cooperation with foreign entities and the income tax law. Without these, there will be no law to protect foreign firms.

I think these two documents can be promulgated by the end of 1981 so that the bidding can begin early next year. I don't want to wait too long. These documents must be approved by the State Council.

The regulations are not the same as the petroleum resources law, since the petroleum law is not limited to offshore oil. The regulations are, in essence, the model contract.

CBR: Will you attend the Guangzhou oil conference in November?

Zhang: This is only an exhibition, not a conference. Whether or not it is important, I don't really know.

CBR: What do you estimate will be the length of time from the bidding announcement to the signing of contracts?

Zhang: We cannot estimate the exact period. We think the bidders should have time to study the documents after they receive them, and to discuss them among themselves. After they give us a reply, we will take some time to discuss the issues among ourselves.

So perhaps there will be a period of two or three months for the companies, then two months for us. At that time we will ask the companies whether they have the capacity to be successful bidders. If the oil companies share our opinions, we will reach agreement quickly. The whole period may cover 10–11 months.*

CBR: Under ideal conditions, could contracts be signed by the end of 1982?

Zhang: We feel the quicker the better, if all the oil companies will agree to our requirements.

CBR: Since you and the companies will probably have at least a few differences of opinion, when do you think the earliest time would be for commercial production to begin?

Zhang: We will rely on the efforts of the US companies. It is impossible for us to predict.

CBR: In the contracts for US oil companies other than ARCO, will the length of exploration and drilling be the same as for ARCO?

Zhang: The exploration period in the model contract is different from ARCO's. Also, the exploration period for each of the other companies will be different because it will be decided according to the acreage and the water depth in each area. In general, each contract will be different because of different conditions.

CBR: How do the seismic reports look for the four blocks of the Pearl River basin? Can you quantify the potentially recoverable reserves?

Zhang: The companies have provided different figures. Some are high, some are low. For example, Mobil has said 13.8 billion tons, Occidental has said 9 billion, and Exxon 3 billion.

CBR: When will ARCO begin drilling?

Zhang: ARCO will begin within six months after the operating contract is signed.

CBR: Do you hope to have the same kind of production-sharing with other US companies as you have with ARCO?

You: Since the model contract is not yet approved, we cannot say definitely. But it will not be quite the same for other firms. There will be the same kinds of differences between ARCO and other US firms as you can find between the

ARCO/China contract and the Indonesian model contracts.

CBR: Rumors circulated widely in early August that a draft tax law was completed and that you invited some US lawyers to review it. Can you comment?

You: The Ministry of Finance is responsible for drafting the tax law. There are several drafts, and we can't say whether the law is finished or not. Our Ministry of Petroleum took part in the discussions for the draft.

The Ministry of Finance did invite some tax experts from American universities and companies to visit China in July and August.

CBR: What will be the rate of taxation?

You: This tax question is so complicated. The basic principle is that the income tax rate should benefit the host country.

CBR: Will the rate be as high as 55 percent?

You: No, it will not.

CBR: What will be the percentage of oil payback?

You: All the crude oil produced will belong to the PRC. Then we will give a portion of the crude oil to the US companies. We have a different concept from the practice of the United Kingdom. We have not finally decided the amount yet, but in practice the foreign contractor will receive two portions: remuneration and cost recovery.

CBR: What are your projections for total Chinese oil production in 1985, 1990, and 2000?

You: We cannot predict the future. It will be according to the wealth of our resources, and it will depend on the first round of bidding.

This is a very, very complicated question. Too much is unpredictable, especially in offshore development. But anyway, we have good prospects in petroleum resources.

CBR: Onshore production in China is stable at about 100 million tons per year. What policies and actions are you pursuing to increase this production level?

You: As you mentioned, onshore production is stable. We will continue to concentrate on the big eastern fields of Daqing, Shengli, and Dagang. We will employ enhanced recovery methods to raise production.

In the east, we might find new oil pools to balance off other declining areas. So far as we know, we might find new pools within old large fields. We are doing some exploration work in these fields.

Most exploration work will be con-

centrated in the northwest fields because of the good prospects. But transport and logistics are very difficult.

CBR: So the emphasis in the east is on new pools in existing fields and not on finding new fields?

You: We still would like to find new fields in the east!

CBR: Has the Ministry of Petroleum assumed the rights to export crude oil, or is this still in the hands of the Ministry of Foreign Trade?

You: We think our corporation should have control of exploration, production, and marketing. But there is not really a problem of "right." It is only a question of the details of cooperation between our two ministries. It is not so important a problem; our ministries will cooperate with each other.

CBR: Will the present block operators in the South China Sea receive preference during the bidding process?

You: No, they will not.

CBR: Do you want to have all 46 participants in the South China Sea obtain a block?

You: Each of the 46 companies will have equal rights to participate in the bidding, but this doesn't mean that each one will get a block. We will choose the best ones. We think only a portion of the 46 firms can obtain a block.

CBR: I am sure you are aware of the fear of "forced marriages" on the part of the big oil companies.

You: We do not have a policy of forced marriages, only free marriages. This is according to our marriage law!

CBR: Will bidding for the Yellow Sea or the Pearl River be conducted first?

You: This is very complicated. We have not made a final decision.

CBR: What is your policy regarding offshore rear and forward supply bases?

You: Our policy is to use our own country. At present, we have established bases in Beibu and the Bohai, where we are expanding existing facilities. Some foreign companies come by way of Hong Kong, so they have bases there.

CBR: What is your policy on arbitration? Do you want to use the Legal Department of the China Council for the Promotion of International Trade?

You: We are still discussing this. We realize companies are worried about it. We don't think it will prove too difficult a point. 究

*For further discussion of the bidding timetable, see *The CBR*, July–Aug. 1981, pp. 55–57.

Tao Zuji

Manager of Shanghai Industrial Consultants

“SIC will initiate many new projects that will offer quick, extensive, [and] effective, but low-cost, means of communications to Chinese and foreign opportunity-seekers.”

The old business card of Tao Zuji, one of Shanghai's most ambitious and prominent citizens, reads like a veteran newsman's resume: Shanghai liaison officer (not to mention founder) of the China Translation and Publishing Corporation, Shanghai special correspondent for The Market Journal, and correspondent for the "internal" paper that circulates only to high PRC officials, International Trade News. Tao's new business card, however, boasts an even more impressive position: manager of what appears to be China's only nongovernmental consulting service for foreign businesses, Shanghai Industrial Consultants.

Tao granted this exclusive interview to The China Business Review's managing editor, Carol S. Goldsmith, shortly before the official announcement of SIC's formation. Joseph Borich, US consul in Shanghai, provided invaluable assistance as an intermediary.

CBR: Is it correct that the Party Central Committee and State Council granted you permission to establish Shanghai Industrial Consultants, with eight to 10 hand-picked employees, as a business liaison for foreign firms and Chinese enterprises?

Tao: Yes. Your statement is correct. But precisely speaking, the authority to establish such an unofficial organization was not given to me directly, but to Shanghai local authorities with the understanding that the new company would be under my personal management. . . . The official authority to operate was given by the State Council through the Shanghai municipal government.

The company is already established since its functions are now in actual operation, and it is fully legalized with the completion of company registration.

CBR: Please explain how SIC was formed.

Tao: SIC was formed on the basis of what I have achieved in the past two years as a freelancer. . . in providing counsel to Chinese and foreign industrial and trading interests. My long years of experience with the state trading corporation MACHIMPEX has offered me enough time to analyze the problems that China has to solve to tap the great potential in its foreign trade. Aside from the stiff working system, lack of exchange channels may be one of the most important reasons for slow progress. Since I have little power to influence my senior people to change their way of managing a trading corporation, I decided to do something by myself in order to present before them concrete examples of how useful and fascinating a trading outfit can be.

In 1979, seeing the need for China's own translation and publishing service for foreign firms, I proposed to the State Publication Affairs Administration Bureau the formation of a corporation to perform such functions. The bureau authorities valued my proposal and the China Translation and Publishing Corporation was eventually established with myself nominated as the Shanghai liaison officer. [This] put me in a legalized position to work with my foreign relations as a freelancer.

My project developed rapidly and very soon I found that myself and the two voluntary assistants (all three worked in our own spare time for job satisfaction and not for personal gains) were not in a position to cope with the increasing requests from the growing numbers of our domestic and foreign clients. Our achievements and difficulties were made known to the state leaders of our country, and then support was given directly from above authorizing us to form an unofficial, nongovernmental body so as to enlarge the scope of our activities.

CBR: What types of services does SIC perform?

Tao: The new company will be aimed at building exchange channels between Chinese and foreign organizations primarily in mechanical and electrical products, with concentration on the promotion of Chinese exports. SIC is very interested in relaying information from one side to the other, but it will not be satisfied by merely acting as messenger. It will offer advice to both sides, take initiative to discover or even create opportunities, organize rendezvous in such a way that efficient exchange of ideas will take place, correct misunderstandings wherever necessary, and finally bring the two sides together to complete a business or start a mutually beneficial relationship in which both sides will be able to oversee the whole scheme of cooperation.

As SIC offers only consultant services in the capacity of a marriage broker to help each side talk with the right counterpart, it will not be involved in such specific business dealings as buying or selling. Decisions to buy or sell will have to be made by the two sides contemplating the business. Since it is a nongovernmental body, it has great flexibility in realizing its own business targets. Anything concerning normal business operations and within the limits of its terms of reference can be determined and handled at its own discretion.

CBR: Xu Pengfei, vice-chairman and managing director of the new Shanghai Investment and Trust Corporation, recently visited the National Council. He said SITCO oversees all business involving foreign investment, and he also said that SIC reports to Shanghai's First Bureau of Machinery Industry. Is this correct? When asked about the difference between SITCO and SIC, he said SIC is involved in giv-

ing information, not arranging business. Please explain.

Tao: Mr. Xu is right in saying that SITCO oversees all business involving foreign investment, but obviously SIC can also explore investment opportunities for foreign firms and bring them in contact with SITCO or any other investment controlling company in China, [such as] CITIC, if such opportunities are mature enough to justify it to do so. In short, SIC will assume the role of explorer in identifying business opportunities for state corporations as well as industrial entities.

SIC is basically an independent concern which operates on policies determined by its own board of directors. As its main responsibility is for the promotion of exports of mechanical and electrical products, it is natural that the First Bureau give it full support and that SIC has a special important relationship with the bureau in business operations. And also the First Bureau has an appreciable part of interest in SIC by participating in the SIC board, and can exercise a certain degree of leadership in the form of a holding company, but essentially SIC is an independent company.

CBR: Since SIC is associated with the First Bureau, is it limited to business in machinery and electronics? You have excellent contacts in translation and printing. So can SIC do business in those areas?

Tao: SIC's special close relationship with the First Bureau will definitely not prevent it from serving other bureaus that have interest in these fields. Electronics is the fastest growing industry in the world. SIC has already taken notice of this important trend of development, and has in fact been involved in schemes of cooperation between US and Chinese companies in computer technologies. As to translation, printing, and publishing, these are established lines of business and are indispensable means of information dissemination leading to technical and trade exchanges. They are SIC's basic functions and will only be developed to a still greater extent, not curtailed.

CBR: If foreign investment becomes involved, does SIC work with SITCO? Is there any involvement with the CCPIT?

Tao: SIC's relation with other state corporations such as SITCO and CCPIT is complementary. Our service is featured by initiative and flexibility. We will be interested in taking initiative to explore opportunities that may seem to be too small or too dim for state cor-

porations to devote their massive energy to work on.

CBR: You reportedly have been instrumental in the past year in arranging several million US dollars of business with foreign firms. In what industries and with what firms? What types of business have you transacted—joint ventures, compensation trade, straight sales?

Tao: So far we have not taken part in joint ventures or compensation trade, but only in straight sales and other flexible styles, such as processing with buyers' materials, producing against supplied drawings, assembling with supplied components, etc.

CBR: Can you give us some case examples of business you've conducted?

Tao: Some time back I read from the New Products column of *Newsweek* that a newly devised deep sea computer was available from an American manufacturer. I translated the reported material [and] sent it to Shanghai Salvage Company for their information. Immediately I got a very positive reply... that they were interested in purchasing such a new device for use by their divers in salvaging work, and that they wanted to have an offer as soon as possible. Through the help of *Newsweek* I got the name of the manufacturer as DACOR Corp., and in a very short time I was successful in bringing the buyer and supplier together and finalizing a first business for this American firm.

An American lady who is the agent of a very big buyer of screws and nuts in the US... tried in vain to get hold of Shanghai Fasteners Corp. [to get] more supplies for her principals. As if heaven arranged, she ran into my colleague in a lift in Shanghai's Peace Hotel, who had some metal parts in his hands. He immediately put me in touch with her on the phone, and within minutes she got her business marriage arranged so smoothly that contracts amounting to a million US dollars followed in the next few months.

CBR: Does SIC work on retainer or receive a commission? What percentage would be considered a reasonable commission?

Tao: SIC will gladly work with domestic and foreign clients on retainer. At the beginning we will charge only a moderate fee for foreign clients of say US\$150 per month for the manpower that will have to be spent in handling their inquiries with accuracy and efficiency. Postage for letters will be included in the basic rate, but telex

charges will be collected at cost, as one telex costs about US\$15 here, 3 minutes minimum. Traveling expenses or cost of contracting experts to do a specific job will also be for the originator's account. We will charge a reasonable rate of commission of say from 0.5 percent to 3 percent depending on the amount of the contract.

CBR: Does SIC retain all its revenues or return a portion to the state?

Tao: The distribution of the revenues is an undetermined question. As SIC is very much experimental as a government-funded, individually operated firm, we have as yet no ready experience to follow in deciding what percentage of earnings should go to the government and what to SIC for purposes of further expansion of business.

The government is the investor and will collect a portion of the profit (sales minus operating costs). The balance will be retained by SIC for reinvestment and staff bonuses. The staff will receive a bonus as in the case of other enterprises, but the figures are also yet to be determined.

CBR: Mr. Xu said that SIC is an experiment. Is it the only such consulting group in China or in Shanghai? There was a report a year ago that a foreign trade consultant had been established under the Ministry of Foreign Trade. Is that true?

Tao: Mr. Xu is right. There have been quite a number of consultant organizations established within China in the past year or so, including one (as I know) under the Ministry of Foreign Trade. But they are all state corporations. I have not heard of any individually operated consultant service designed for foreign relations (there are some for domestic trade) approved for operation aside from SIC.

CBR: What are your colleagues' backgrounds at SIC? What are their areas of specialization?

Tao: They are either from management in manufacturing companies or from technical research institutes. Most of them have good, strong technical backgrounds, but apparently they need practice and experience in trading. In starting this new endeavor, I had the original intention of bringing up a good company of capable industrial sales engineers, and I am glad that I am heading for this goal.

CBR: What advantages does SIC offer firms wishing to do business in China? Can you help with contract terms, taxes, tariffs, etc.?

Tao: Very interesting question. SIC can be of service to China traders in diversified ways. For US exporters to China, we are capable of bringing their products to the potentially interested right parties through:

1. low-cost technical advertising in specialized magazines for arousing general interest of related parties. SIC offers translation and letter-writing services for Chinese endusers for effective communication with US manufacturers;

2. economical brochure-printing services in the Chinese language (after translation), followed by direct mailing methods to SIC's 2,500 industrial clients, or through special arrangements with professional associations to approach their member companies with the product brochures, or through low-cost classified advertisements in professional magazines to invite requests for brochures;

3. approaching carefully selected users either by mail correspondence or by personal visits;

4. approaching decisionmaking bodies in control of the users' purchasing budget.

We can also offer expert advice regarding general requirements for trade, such as taxes and contract terms. For US importers of Chinese products or their agencies, we will locate the suppliers in China and collect information [for] specific inquiries, and keep them informed of the various opportunities to buy from China by letting them receive export promotion requests from Chinese suppliers. [That] approach for

selling to China can be equally effective in reverse direction.

CBR: Where do you see most of your business coming from?

Tao: The US is a very big market to deal with China. SIC has in the past concentrated interest in the US and will probably continue to do so in the future. Of course, we are open to all other areas, and are ready to establish relations with any friendly party interested in exploring business possibilities with us.

CBR: What do you see as the priority business areas for Shanghai?

Tao: The priority business areas for Shanghai will be, according to my personal assessment, in the field of mechanical and electrical products. The reasons are: Our country has attached more importance than ever to the export of industrial technical goods. Shanghai is an old industrial base with good management and processing skills. Shanghai is being given more autonomy to handle its own foreign trade affairs. [It] has a vast potential in manpower and technical capabilities to offer US manufacturers for coproduction arrangements. Shanghai is a port much more known to Western enterprises and more geared to international trade than any other inland provinces or cities, so this puts it in a very favorable position to liaise for other parts of China with foreign cooperators.

CBR: Mr. Xu said Shanghai plans to develop a self-supporting business/residential area between the airport and city with hotels, residences, offices, and

shopping. Can you give more information? Will SIC become involved in foreign participation in this project?

Tao: SIC will be glad to investigate any possibilities of foreign participation in China's construction work and make appropriate recommendations to the right parties for further negotiation. As to plans for Shanghai city construction, Mr. Xu is certainly more authoritative than SIC in supplying the required information.

CBR: Do you have any comments or any questions for US companies?

Tao: The above [answers] are submitted purely on a personal basis, and shall in no way be interpreted as representative of an official source of information. Taking this opportunity I would like to ask one general question. Can you generalize the comments, opinions, and criticisms from China traders in the US on the questions now existing with the development of Sino-US trade? What are the crucial problems, particularly on the Chinese side? Can you make any constructive suggestions for speedy remedy of these problems?

For your information, I am the special Shanghai correspondent for the Ministry of Foreign Trade's *International Trade News*, the *People's Daily's Market Journal* and the Beijing-based *Athletics*. I am also very closely attached to the celebrated economic journal *World Economic Herald* in Shanghai. I maintain other direct means of communication with various parties in China. ☎

Readers interested in contacting SIC may call Carol S. Goldsmith at (202) 828-8355 for further information.

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China's Machine Tool Industry

Now supplying 99 percent of domestic needs, the industry has stepped up its activities in research and foreign trade.

Liang Xunxian

Workers at the Jianshe Machinery Plant in Shanghai machine the rotor for a 55-ton pump.

Since its establishment in 1949, the People's Republic has developed the technical capacity to produce 1,400 types of machine tools. Today approximately 140,000 machine tools are produced annually, supplying about 99 percent of China's machine tool needs. This rapid advance has in turn spurred the development of the nation's aerospace, electronics, and defense industries.

Among China's newest machine tool designs is the SI-235 super-precision lathe that produces a roundness of less than 0.3μ and a surface finish of RA (roughness average) $0.01-0.02 \mu$ (ISO-R468-1966). The model MG-1432A cylindrical grinding machine grinds to a surface finish of RA 0.01μ , and the model TK4163B NC (numerical control) jig-boring machine has a positing accuracy of 5μ . Other advanced Chinese-made designs appear in the accompanying chart.

Modern Facilities

Seven large research institutes and 121 major factories come under the direction of the General Bureau of Machine Tools of the First Ministry of Machine Building, located at Sanlihe in Beijing. The bureau employs a large

contingent of engineers, technicians, and other research scientists and machine tool workers. The various divisions under the bureau determine the country's machine tool development policy and draw up annual and long-term plans.

The factories governed by the bureau produce metal-cutting machines, metal-forming and forging machines, foundry equipment, timber-processing machines, machine tool parts, measuring instruments, cutting tools, abrasive materials, grinding tools, synthetic diamonds, and borazon.

China's ability to manufacture modern equipment and complete plants is increasing. Complete sets of equipment for manufacturing automobiles, tractors, bearings, mining machinery, and heavy machinery are now being produced. By 1980, China had produced more than 20,000 units of high-precision machine tools, such as jig-grinding machines, scales, ball screws, and indexing plates, as well as worm and worm gears.*

Modern facilities in China have air-conditioned workshops and are equipped with master worm wheel machine tools and laser high-precision scale-measuring machines. Of course,

some of these factories also use imported machining equipment and measuring instruments.

The Shenyang No. 1 Machine Tool Plant and the Beijing No. 1 Machine Tool Plant, two of the General Bureau's largest factories, produce more than 100 types of machine tools, as well as engine lathes and universal milling machines. Annual output of the two plants is more than 4,000 units. Another advanced facility is the Wuhan Heavy Machine Tool Plant, the country's pioneer in heavy machine tool development. The plant employs more than 8,000 workers and supervisors and has workshops totaling 80,000 square meters in floor space. The factory is equipped with more than 2,000 machines, including a bridge crane with a lifting capacity of 150 tons. Its heavy machine tool research institute has 500 technicians and engineers.

Research Organizations

A research network that includes major plants, research institutes, and technical universities has been set up in China to promote both basic and applied research in the machine tool industry. Qinghua University in Beijing,

China's Advanced Machine Tool Designs

Model and type	Producing factory	Main characteristics
Beijing		
DG5432 high-precision jig EDM	Beijing Experimental Machine Tool Plant	Achieves positioning accuracy of 0.002 mm.
NC propeller milling machine	Beijing No. 1 Machine Tool Plant	Simultaneously operates 5 axes, and machines workpieces with diameters of 6 m.
X9421 rotor-slot milling machine	Beijing No. 1 Machine Tool Plant	Machines workpieces 2.1 m. diameter, 20 m. length, and 300 tons
Y31800 gear-hobbing machine	Wuhan Heavy Machine Tool Plant	Machines gears with diameters of 8 m.
Hubei		
B2150 plane-milling machine	Wuhan Heavy Machine Tool Plant	Machines workpieces up to 5 × 20 m.
CQ52100 vertical lathe	Wuhan Heavy Machine Tool Plant	Rotating table diameter 10 m.
Jiangsu		
Centerless-grinding machine	Wuxi Machine Tool Plant	Achieves finish of RA 0.01 μ (ISO)
Internal-grinding machine	Wuxi Machine Tool Plant	Workpieces to roundness of 0.5–1.0 μ and surface finishing of RA 0.01 (ISO)
Liaoning		
SI-222 high-precision magnetic-disk lathe	Shenyang No. 1 Machine Tool Plant	Machines magnetic disks used in computers of flatness of 0.3 μ with parallelism between two planes of 3 μ and surface finish of RA 0.01-0.02 (ISO)
Shandong		
281-400T multistation automatic press	Jinan No. 2 Machine Tool Plant	Press carries out 7 operations per stroke
Sichuan		
TG5432A jig-boring machine	Ningjiang Machine Tool Plant	Positioning accuracy of 2 μ
YG3780 high-precision worm-gear hobbing machine	Chongqing Machine Tool Plant	Machines worm gears with pitch accuracy of less than 1 sec., and with accumulated gear error of less than 2 sec.
Tianjin		
630-ton hydraulic metal cold extrusion press	Tianjin Press Machinery Plant	Produces workpieces to accuracy in base thickness of less than 0.1 mm.
Yunnan		
QGA405 circular-dividing machine	Kunming Machine Tool Plant	Produces grating with divisions accurate to ± 0.2 sec.
T42200 digital-readout jig-boring machine	Kunming Machine Tool Plant	Worktable two meters by three meters; positioning accuracy 0.01 mm.
Zhejiang		
MG7132 high-precision surface grinding machine	Hangzhou Machine Tool Plant	Grinds mirrors

SOURCE: General Bureau of Machine Tools, First Ministry of Machine Building, October 1981.

Jiaotong University in Xi'an, the Central-China Institute of Technology, the Dalian Institute of Technology, and the Northeast China Institute of Technology all have machine tool research centers. Their emphasis is on fundamental theory and the development of new technology.

The research institutes directly under the First Ministry of Machine Building serve machine tool factories all over the country. The Machine Tool Research Institute in Beijing is the largest, with 430 technicians and engineers as well as an experimental factory with 1,400 workers and supervisors. The laboratories and workshops cover an area of 40,000 square meters and include a constant-temperature shop of 1,500 square meters. Fundamental and comprehensive research is undertaken involving machining and manufacturing technology, machine tool structure; and measuring, testing, and automation techniques. This institute is the national information center for machine tool technology.

Some institutes are also responsible for a number of breakthroughs, among them a laser thread dynamic measuring machine, and a laser feedback thread grinding machine. The Beijing Machine Tool Research Institute has developed electro-hydraulic servo valves, NC (numerical control) and CNC (computer numerical control) units, grating NC rotating tables and machining centers with 60-tool auto-tool changers. These new products have won prizes at national science conferences and are now in serial production. Moreover, Chinese researchers have greatly increased their contacts with foreign colleagues in Czechoslovakia, East Germany, France, Italy, Japan, Romania, Switzerland, the United Kingdom, the United States, and Yugoslavia.

Since the aim of basic research is to provide new designs and technology to factories as quickly as possible, a few large machine tool plants have set up their own research institutes. Among them are the Shanghai Grinding Machine Research Institute at the Shanghai Machine Tool Plant, and the Beijing Milling Machine Research Institute at the Beijing No. 1 Machine Tool Plant.

Foreign Trade in Machine Tools

In the 1969–1979 period, China imported from the US, Japan, and Western Europe a number of metal-cutting and metal-forming machines. The total

value amounted to several hundred million US dollars. China began to export machine tools in 1957, and in 1979 and 1980, China exported more than 10,000 machine-cutting and metal-forming machine tools to more than 50 countries and regions. In 1979, machine tool exports consisted of: lathes, 30 percent; shapers and like machines, 12 percent; milling machines, 10 percent; drilling machines, 9 percent; grinding machines, 5 percent; and boring machines, 2 percent. The major types of metal-forming machinery exports were presses (accounting for 26 percent of the total), guillotine shears, pneumatic hammers, and universal punching and shearing machines. Most of these were conventional machine tools. Only in recent years has China begun to export advanced jig-boring machines and other high-precision machine tools, notably to Romania.

Cooperation With Foreign Companies

During the past two years, China has signed cooperative production contracts with five French, three West German, three Italian, and three Japanese firms to produce lathes, drilling machines, milling machines, boring machines, grinding machines, and NC lathes according to foreign blueprints.

The main types of business relations between Chinese machine tool enterprises and foreign firms take place through:

► **Foreign agents.** The First Ministry of Machine Building's own trading agency, the China National Machinery and Equipment Import and Export Corporation (EQUIMPEX), often appoints foreign agents to conduct business on its behalf, sometimes on an exclusive basis.

► **Direct negotiation.** Imports and exports, sometimes on a consignment basis, may be arranged directly between Chinese and foreign producers and endusers. Foreign companies are urged to contact Chinese machine tool organizations and enterprises by correspondence, telex or cable, and personal visits, as well as by attendance at the Chinese Export Commodities Fair held each spring and autumn in Guangzhou.

► **Subcontracting.** Chinese enterprises manufacture products according to the buyers' blueprints. Terms of payment are by sight letter of credit (sight L/C). In exceptional cases, deliv-

ery against payment (D/P) is also acceptable.

► **Processing and assembly.** Chinese enterprises process raw materials or assemble components provided by foreign customers according to the customers' specifications. Finished products are sold by the customers; the Chinese side charges a processing fee. If the customer provides equipment, the cost is paid off by reducing the customer's processing charges.

► **Compensation trade.** The customer supplies the necessary machinery, equipment, and technical know-how for which the Chinese side will pay in installments in suitable finished products, but not in foreign currency. Forms of payment fall into three categories:

1. *Product buyback.* The cost of imports is directly repaid with the goods produced using the imported machinery, equipment, and technology. This is called "direct compensation."

2. *Counterpurchase.* The client provides the necessary machinery, equipment, and technology. In compensation the client receives, within a fixed period, certain goods that are not related to the machinery, equipment, and technology supplied. This is "indirect compensation."

3. *Mixed compensation.* This is a combination of product buyback and counterpurchase. The terms of such hybrid arrangements may be decided upon by the two trading partners.

► **Cooperative production.** The two sides produce or provide certain parts and components, and one party or both parties are responsible for final assembly and marketing.

► **Joint ventures.** Such arrangements must conform to the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign

Investment (see *The CBR*, July-Aug. 1979, pp. 46-47). Joint ventures may be located inside or outside China in a place that both parties consider suitable.

Two foreign trade organizations handle machine tools, and may also be approached by foreign firms for information about compensation trade possibilities and other forms of business arrangements in the machine tool sector. These bodies are the China National Machinery and Equipment Import and Export Corporation (EQUIMPEX), which was set up in February 1980 by the First Ministry of Machine Building, and the China National Machinery Import and Export Corporation (MACHIMPEX), under the Ministry of Foreign Trade. The two organizations are still trying to establish a clear division between the types of machine tools that each handles. Their addresses:

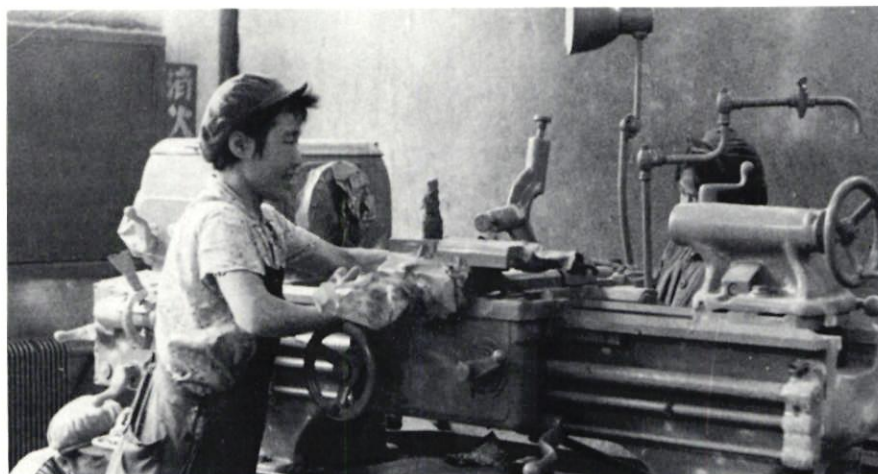
EQUIMPEX: 12 Fuxingmen Wai Jie; Beijing, People's Republic of China. Telex: 22186 EQUIP CN. Cable: EQUIMPEX BEIJING. Telephone: 868541, 862375, 866462. Managing Director: Jie Qinglin.

MACHIMPEX: Xijiao, Erligou; Beijing, People's Republic of China. Telex: 22242 CMIEC CN, 22328 CMIEC CN. Cable: MACHIMPEX BEIJING. Telephone: 891974, 890931. General Manager: Cheng Jixian. 光

**A worm gear consists of a toothed wheel (a worm wheel) designed to gear with a threaded, rotating screw (a worm).*

Liang Xunxian is deputy chief engineer in the First Ministry of Machine Building's General Bureau of Machine Tools. The article was commissioned by China Features, a subsidiary of Xinhua News Agency, for exclusive publication in The CBR.

Pictured are two laborers at the Ming Ching Lathe Works in Shanghai.



China's 121 Principal Machine Tool Plants

Name **Address** **Main product(s)**
57 Enterprises Under Direct Central-government Control

Beijing

Beijing No. 1 Machine Tool Works		Heavy-type plano-type, gantry-type bed-type, knee-type, and CNC milling machines
Beijing No. 2 Machine Tool Works		External-grinding and jig-boring machines, and machining centers

Gansu

Xinghuo Machine Tool Works	Tianshui County	Heavy-duty lathes and roll lathes
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Guizhou

The 6th Grinding Wheel Works	Guiyang	Synthetic diamonds, borazon
The 7th Grinding Wheel Works	Qingzhen County	Abrasive materials and grinding tools
Dongfang Machine Tool Works	Dujun	Planing machines, and openside planers
Xianfeng Machine Tool Works	Huishui County	Centerless grinding machines, and roller grinders and presses

Hebei

Baoding Casting Machinery Works	Baoding	Foundry machinery
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Heilongjiang

Harbin Measuring and Cutting Tool Works	Harbin	Surface-finish and gear-measuring instruments and cutting tools
Harbin No. 1 Tool Works	Harbin	Special cutting tools
Qiqihaer No. 1 Machine Tool Works	Qiqihaer	CNC vertical lathes, heavy-duty lathes, and deep-hole drilling lathes
Qiqihaer No. 2 Machine Tool Works	Qiqihaer	Milling, floor-type boring and milling machines and automatic cold and hot heading machines

Henan

The 2nd Grinding Wheel Works	Zhengzhou	Variety of abrasive materials and grinding tools
Zhongyuan Measuring Instrument Works	Sanmenxia	Pneumatic electric and measuring instruments, and roundness-testing instruments

Hubei

Wuhan Heavy-duty Machine Tool Works	Wuhan	Large-type and heavy-duty machine tools, lathes, floor-type milling, boring, gear-hobbing, and plane-milling machines
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Hubei, continued

Wuhan Machine Tool Works	Wuhan	Tools and cutters, grinding and hob-sharpening machines
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Hunan

Changsha Machine Tool Works	Changsha	Vertical-slotting, broaching and planing, and shaping machines
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Jiangsu

Nanjing Machine Tool Works	Nanjing	Automatic lathes and bevel gear-cutting machines
Suzhou Casting Machinery Works	Suzhou	Foundry machinery
Wuxi Machine Tool Works	Wuxi	Centerless-grinding internal-grinding, and special-grinding machines for bearing industry

Liaoning

Chinese and Czechoslovakian Friendship Plant	Dadong District, Shenyang Municipality	Boring, jig-boring, and radial-drilling machines
Dalian Machine Tool Works	Hekou District, Dalian Municipality	Transfer machine tools
The 1st Grinding Wheel Works	Sujiatun District of Chenyang Municipality	Variety of grinding materials and tools
Shenyang No. 1 Machine Tool Works	Tiexia District, Shenyang Municipality	Engine lathes, CNC lathes, lead-screw lathes, vertical multi-spindle auto-lathes, petro-tube thread-cutting lathes, magnetic-disk lathes
Shenyang No. 3 Machine Tool Works	Tiexia District, Shenyang Municipality	Horizontal multi-spindle automatic lathes and turret lathes, and CNC lathes

Nei Monggol

Hushi Machine Tool Accessory Works		Three-jaw chucks and pneumatic chucks
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Ningxia

Changcheng Machine Tool Works	Yinchuan	Lathes and CNC lathes
Dahe Machine Tool Works	Zhongwei County	Vertical-drilling and honing machines, and machine tools assembly

Qinghai

Qinghai Heavy-duty Machine Tool Works	Datong	Heavy-duty horizontal lathes
Qinghai Jichuang Machine Tool Works	Xining	Auxiliaries for machine tools
Qinghai No. 1 Machine Tool Works	Xining	CNC milling machines and tool milling machines
Qinghai No. 2 Machine Tool Works	Xining	Hob-relieving grinding and spline-milling machines

Shaanxi		
Hanchuan Machine Tool Works	Hanzhong County	Boring and jig-boring machines
Hanjiang Machine Tool Casting and Forging Works	Hanzhong County	Casting and forging machine tool parts
Hanjiang Machine Tool Works	Hanzhong County	Thread-grinding machine
Hanjiang Tool Works	Hanzhong County	Hobs, broaches, and drills
Qinchuan Machine Tool Works	Baoji	Gear-grinding machines
Shandong		
The 4th Grinding Wheel Works	Zhibo	Synthetic diamonds, borazon
Jinan No. 1 Machine Tool Works	Jinan	Lathes
Jinan No. 2 Machine Tool Works	Jinan	Mechanical presses, and horizontal broaching machines
Qingdao Casting Machinery Works	Qingdao	Foundry machinery
Yantai Machine Tool Auxiliary Works	Yantai	Accessories for machine tools
Shanghai		
Shanghai Forge and Pressing Machine Tool Works	Zhabei District	Forging and pressing equipment
Shanghai Machine Tool Electrical Equipment Works	Putuo District	Variety of electrical equipment for machine tools
Shanghai Machine Tool Works	Jungong Road	Surface, cylindrical-spline-crankshaft, disk-, and gear-grinding machines
Shanghai Tool Works	Yangpu District	Cutting tools
Sichuan		
Changjiang Machine Tool Electrical Equipment Works	Neijiang	Variety of electrical equipment for machine tools
Chengdu Measuring and Cutting Tool Works	Chengdu	Cutting tools, and hob- and gear-measuring machines
Chongqing Machine Tool Works	Jiulongpo Street, Chongqing	Gear-master worm-wheel hobbing machines
Chongqing Tool Works	Chongqing	Gear-cutting tools and carbide gear-hobbing tools
Ningjiang Machine Tool Works	Guanxian County	High-precision machine tools, jig-boring machines for watch and meter industry
Tianjin		
Tianjin Forging and Pressing Machine Tool Works	Hebei District	Hydraulic presses
Tianjin High-pressure Pump and Valve Works	Heping District	Hydraulic parts for machine tools
Tianjin No. 1 Machine Tool Works	Hedong District	Spiral-, bevel-, and gear-cutting machine tools
Yunnan		
Kunming Machine Tool Works	Kunming	CNC jig-boring, linear-grating, and circular-grating machines

Zhejiang		
Hangzhou Machine Tool Works	Hangzhou	Surface-grinding machines
64 Enterprises Under Joint Central and Local Control		
Anhui		
Hefei Forging and Pressing Machine Tool Works	Hefei	Forging and pressing equipment
Wuhu Heavy-duty Machine Tool Works	Wuhu Anhui	Horizontal-boring, milling, boring, and vertical fine-boring machines
Beijing		
Beijing Forging and Pressing Machine Tool Works		Forging and pressing equipment
Beijing Measuring and Cutting Tool Works		Variety of measuring and cutting tools
Precision Machine Tool Repairing Station of the First Ministry of Machine Building Industry		Precision lead screws
Fujian		
Shaowu Woodworking Machinery Works	Shaowu County	Woodworking machine tools
Gansu		
Tianshui 213 Machine Tool Electrical Equipment Works	Tianshui	Electrical equipment for machine tools
Guangdong		
Shaoguan Tool Works	Shaoguan	Cutting tools
Guangxi		
Guilin Machine Tool Works	Guilin	Milling machines
Guilin Measuring and Guilin Cutting Tool Works	Guilin	Cutting and measuring tools
Guizhou		
The 3rd Grinding Wheel Works	Guiyang	Variety of grinding materials and tools
Henan		
Anyang Machine Tool Works	Anyang	Lathes
Luohe Casting Machinery Works	Luohe	Foundry equipment
Xinxiang Machine Tool Works	Xinxiang	Vertical lathes and center-hole grinding machines
Yuxi Machine Tool Works	Sanmenxia	Turret and double-spindle vertical lathes
Hubei		
Changjiang Machine Tool Works	Yichang	Gear-shaping machines
Huangshi Forging and Pressing Machine Works	Huangshi	Shears, and automatic cold heading machines
Wuhan Machine Tool Accessory Works	Wuhan	Accessories for machine tools

Hunan			Shanghai, continued		
Hunan Machine Tool Works	Changsha	Circular-sewing machines	Shanghai Hydraulic Parts Works		Hydraulic parts
Shaoyang Hydraulic Parts Works	Shaoyang	Hydraulic parts	Shanghai Lixin Hydraulic Parts Works		Hydraulic parts
Jiangsu			Shanghai Machine Tool Casting Works	Putuo District	Cast parts
Changzhou Machine Tool Works	Changzhou	Transfer machine tools and drilling machines	Shanghai Measuring and Cutting Tool Works		Variety of measuring and cutting tools
Nanjing No. 2 Machine Tool Works	Nanjing	Gear-shaving, gear-honing, and hobbing machines	Shanghai Meter Machine Tool Works	Songjiang County	Meter machine tools
Jiangdong Machine Tool Works	Nanchang	Milling machines	Shanghai No. 2 Forging and Pressing Machine Tool Works		Forging and pressing equipment
Changchun No. 1 Machine Tool Works	Changchun	External-grinding and camshaft grinding machines	Shanghai No. 1 Machine Tool Works	Zhabei District	Gear-cutting machine tools
Liaoning			Shanghai No. 2 Machine Tool Works	Jiangan District	Lathes
Dalian No. 2 Machine Tool Works	Dalian	Engine lathes	Shanghai No. 3 Machine Tool Works	Xuhui District	Jig-boring machines
Shenyang Forging and Pressing Machine Tool Works	Shenyang	Forging and pressing equipment	Shanghai Pressing and Casting Machine Works		Castings and presses
Shenyang 213 Machine Tool Electrical Equipment Works	Shenyang	Electrical equipment for machine tools	Shanghai Punching and Shearing Machine Tool Works		Woodworking machine tools
Yingkou Electrical-discharge Machine Tool Works	Yingkou	Electrical discharge machine tools	Shanxi		
Yingkou Forging and Pressing Machine Tool Works	Yingkou	Forging and pressing equipment	Changzhi Forging and Pressing Machine Tool Works	Changzhi	Forging and pressing equipment
			Taiyuan No. 1 Machine Tool Works	Taiyuan	Openside planing, milling, planing machines, and lathes
Ningxia			Taiyuan Tool Works	Taiyuan	Cutting tools
Changcheng Machine Tool Casting Works	Yinchuan	Cast parts	Sichuan		
Qinghai			Changzheng Machine Tool Works	Zigong	Variety of milling machines
Qinghai Machine Tool Works	Xining	Forging parts	Chengdu Machine Tool Works	Chengdu	Internal-grinding, tool and cutter-grinding machines
Shaanxi			Chongqing Casting Machinery Works	Chongqing	Foundry equipment
Dongfeng Electric Heating Element Works	Lintong County	Synthetic diamonds, silicon, and carbon	Dujiang Woodworking Machine Tool Works	Guanxian County	Woodworking machine tools
Guanzhong Tool Works	Fengxiang County	Cutting tools	Neijiang Forging and Pressing Equipment Works	Neijiang	Forging and pressing equipment, and fine-blanking press
Shaanxi Machine Tool Works	Baoji	External-grinding machines	Neijiang Machine Tool Works	Neijiang	Gear-cutting machine tools, and cylinder-boring machines
Xi'an Forging and Pressing Machine Tool Works	Xi'an	Forging and pressing equipment	Tianjin		
Shandong			Tianjin Machine Tool Works		Surface-grinding and spline-grinding machines
Dezhou Machine Tool Works	Dezhou	Lathes and M-type deep-hole drilling machines	Tianjin No. 2 Machine Tool Works		Lathes and deep-hole drilling tube machine tools
Jiaoxian Forging and Pressing Machine Tool Works	Jiao County	Forging and pressing equipment	Yunnan		
Jinan No. 4 Machine Tool Works	Jinan	External-grinding machines	Kunming Milling Machine Tool Works	Kunming	Variety of milling and boring machines
Shanghai					
Shanghai Grinding Wheel Works		Variety of grinding materials and tools			
Shanghai Heavy-duty Machine Tool Works	Minhang District	Deep-hole drilling and guideway grinding machines			

China's Wide-Screen Comeback

主要演员

郑松茂 袁梦姪
张勇手 陶玉玲
冯恩鹤 董钰刚

第二春映月
彩色宽银幕故事片

八一电影制片厂摄制

中国电影公司发行

Photo courtesy of the American Film Institute

Poster for *Second Spring Mirroring the Moon*.

Carol S. Goldsmith

When the Chinese actress Qin Yi made her entrance onto the Kennedy Center stage, it became clear to all she was the star of the delegation. Dressed in a navy blue velvet gown, head held high and hands clasped neatly, the star of *Two Stage Sisters* and other films projected a curious mingling of pride and nervousness. Like the industry she represents, Qin was making her debut on the American screen, proud of the accomplishments of the past but perhaps uncertain of the future.

China's film industry lost a decade of its history, and of its potential, during the devastating Cultural Revolution. And now it is spending a great deal of time and creative effort trying to redevelop this popular form of entertainment. Last year 20 billion Chinese went to the movies; on any given day, then, more people are sitting in Chinese theaters than are living in France. With a ticket price of only 20 to 30 cents in

the cities and a penny or two in the countryside, films offer one of the few forms of entertainment both affordable and accessible to most Chinese.

Unfortunately, the country has neither the quantity nor quality of films the people demand. In 1980 China released only 82 feature-length films and 32 animations. Newsreels, documentaries, and scientific and educational films numbered well above 600, but the people have tired of watching the rote, unimaginative material that many present. A description of films that became popular after the fall of the Gang summed up the art at that time: "Korea is laughing and crying. Vietnam is airplanes and artillery. Romania is hugging and embracing. China is collections of news briefs."*

Until the arrival of Qin's delegation, which brought the US a selection of five Chinese films as part of a cultural exchange, Americans knew even less about China's film tradition than the

Chinese knew about ours. China's desire for knowledge about the film industry is at an all-time high, and the business potential could come close to matching it a few years from now. For it has become clear that China's filmmakers are turning their eyes Westward for clues on, and cooperation in, making a wide-screen comeback.

Close-up on the Studio System

China supports a budding film bureaucracy that should yield more than 90 feature films this year—a bumper crop in terms of recent history, but one that still lacks much of the quality and richness that had been attained before Jiang Qing and her Gang forced their script on the industry.

It was back in 1896 that the Chinese saw their first foreign film; nine years later they tried their own hand at the new art by filming a traditional Beijing Opera. According to a historical account just released by the China Film

Publishing House, the influences of capitalism and China's feudal culture characterized the simple, status-quo stories that were shot over the next 30 years. Film under the capitalists generally served as an inoffensive form of entertainment. But when the Communists' Left-wing Writers' Association got hold of the medium, setting up a secret film group in 1932, film suddenly became a vehicle for political change, forcefully urging the people to mobilize against Japanese aggression and Kuomintang rule.

With the founding of the New China came the establishment of a socialist film industry. Steady growth and artistic improvements rewarded China's loyal acting and directing community after 1949, up until the time that a plain actress whom many considered talentless captured the country's leading role as Mao's wife. Jiang Qing took swift and effective revenge against the colleagues who had previously spurned her, acting out the part of the maddened Circe. Actors, writers, and directors were turned into pig farmers. Feature film production was completely halted between 1966 and 1972, and what little art remained was reduced to political dogma. An elderly musician in the American documentary *From Mao to Mozart: Isaac Stern in China*, tells of spending 14 months locked inside a dark closet for the crime of introducing his students to Western music.

Things have been changing dramatically since the Gang's fall, as many of the persecuted take charge of recapturing China's nearly lost art. Today a film hierarchy operating under the Ministry of Culture seems to be allowing a measure of creativity that—while limited—still exceeds some filmmakers' best efforts.

The China Film Bureau, directly under the ministry, since 1978 has overseen the operation of the country's film production and distribution network. Eleven feature film studios now operate in China, the major ones being in Beijing, Shanghai, Changchun, Tianjin, Wuhan, and Xi'an. (Even Inner Mongolia houses one of its own—the Hohhot Film Studios.) Each province maintains smaller production units that turn out scientific and documentary films. And there is talk, says one Beijing film director, of establishing a feature film studio in every province.

As in the old Hollywood studio days, each Chinese film studio operates as a self-contained unit, with its own actors,

directors, scriptwriters, technical crew, recording studio, and lab. The Beijing Film Studio has a payroll of about 1,300; Shanghai's employs an 1,800-member staff.

While it is possible for a director, actor, or crew member to be assigned to another studio's project, on the whole each studio handles its work independently. Chen Huaikai, a noted director with the Beijing Film Studio, explained during his US trip with the film delegation how China's studio system works.

The director is at the heart of a production, just as in the US. It is his or her responsibility to work with the scriptwriters on developing screen possibilities, although the ultimate selection of material rests in other hands. The director, after choosing a number of desirable projects, submits the list to a studio committee made up of artistic and technical personnel. Such committees are similar in structure but different in function, the Chinese insist, from the groups that held sway immediately after the Cultural Revolution. Rule by committee, rather than by the individual, was taken to the extreme: At that time cast and crew were permitted to review and overrule every single decision a director would make. An August 1979 article in *China Reconstructs* described it this way: "After the direc-

tor had been thoroughly frustrated by all the criticism, then the shooting would start."

Now the committees limit themselves to evaluating the scripts and deciding, in conjunction with the studio head, which of the director's choices should be approved. Chen calls this the "bottom-to-top" process that governs most film projects. On rare occasions (and Chen emphasizes the *rare*) the Ministry of Culture or a bureau may hand down a film idea in the "top-to-bottom" process. But even then, Chen claims, the studio has no obligation to do the film.

"Art cannot be ordered," he said flatly.

The committees and directors consider three values in selecting their scripts: artistic, social, and box office value. Conveniently, film workers and government officials define their criteria in exactly the same way: "If it is a work of art," explained Chen, "certainly it has social value. If it is art, it shouldn't have disruptive effects on society."

Only recently has this mass "consensus" begun showing public signs of strain. The banning this spring of the 1980 film *Bitter Love*, which portrays persecution under Communist rule, provoked an outpouring of criticism in China—as well as the posting of a big-

The young actresses in *Two Stage Sisters* take on vastly different roles upon reaching Shanghai.



Photo courtesy of the American Film Institute

character poster in Beijing. The overriding sentiment among the people seems to have been: "Allow us to see the film and judge it for ourselves." Since then Chinese newspapers have carried numerous editorials debating how much influence over the arts the Party should wield.

After the selection of film projects has been made, the studio allots a certain budget to each production—usually about ¥700,000 (\$400,000), said Chen—partly on the basis of box office potential. The economics of doing a domestic film would make a foreign producer envious: "Extras" volunteer their services for crowd scenes, and actors command little if any more in wages than factory workers. (Popular film star Zhao Dan reportedly received the unheard of sum of ¥300 a month at the height of his career.) Occasionally a project commands a higher budget, such as Shanghai Film Studio's ¥2 million production of *Ola Yilan*. Chen laughed as he added that unlike in the US, the budget is determined *before* the film is complete.

Concern with box office value is encouraged by allowing the studios to retain a percentage of each film's profit. Unfortunately, quality does not necessarily translate into yuan. A film's for-

tones rise or fall in China as they do here—with the distributor. The Film Bureau makes the initial decision on how many prints will be made according to its own tastes and standards. Then the China Film Export and Import Corporation takes on the responsibility of allotting those prints to its provincial branches.

China operates about 2,400 full-time movie houses and shows films part time in another 4,000 theaters and auditoriums, primarily in urban areas. Throughout the countryside peasants see small-screen versions of these movies brought in by film production units, which consist of one or two projectionists and two cameras. About 90,000 of China's 110,000 projection units work in rural areas.

The prints are made on a unique, domestically produced 8.75-mm stock that projects a slightly larger image than the standard Super-8.

China's film industry employs a huge number of people—around 400,000. Yet only one higher institute of training offers a degree program in film. The Beijing Film Academy, reopened in 1978, offers four-year creative and technical training programs for high school graduates. Enrollment now stands at less than 1,000; the number

could go up or down at any time. "We will train only as many as we need," said Chen, "so everyone can get jobs."

Some talent is discovered and nurtured outside the educational or studio system, Chen added. Actors and directors frequently come from "brother units" in the theater, while scriptwriters may be found in university literature departments. An article in the September 1979 *China Reconstructs* said that the studios receive about 2,000 unsolicited scripts a year from amateur writers.

Very few of these are produced, however, since most reflect the moralistic plots and simplistic characterizations that China's modern filmmakers would rather avoid. Many Chinese consider such writing the lowest of the "three lows" of creativity that are hindering the development of their cinema: "low level of script," "low level of direction," and "low level of performance."

Western Coproductions: Long Shots and Short Takes

Since China established its Film Coproduction Corporation under the Film Bureau in July 1979 and began hinking about joint ventures with foreigners, filmmakers all over the world have rushed to their producers with

The way to revolution is through the wheat fields in the 1959 film *Song of Youth*.



Photo courtesy of the American Film Institute

that one-in-a-million, creative idea that makes this industry exciting: "Let's do a film on the panda!"

The Coproduction Corporation in its first eight months reported having received 160 proposals and negotiated with film and television producers in more than 50 countries. The number of proposals certainly has increased since then, as more independents check out the turf. But interestingly, the number of actual cooperative ventures remains small. China's interest has peaked and waned in the last two years. Filmmakers often find the Chinese quite enthusiastic about a proposal until they sit down to negotiate.

Complained one American agent in the China field, "The Coproduction Corporation is full of amateurs [who] want to spend two or three years talking. By then the Americans lose interest." Countered Chen Huaikai: "There is talk around the world that it is difficult to start a coproduction with China. But the other side wants to gain profit for itself only."

Coproduction is a rather broad term to the Chinese. Anything involving a foreign firm, whether or not the Chinese engage in a creative or technical role, is called a coproduction. Zhao Wei, deputy director of the China Film Coproduction Corporation, recently outlined three possible arrangements under this term:

► First is a joint investment, with the percentage split determined by the needs and capabilities of the partners. Zhao said a Japanese film company is now discussing this type of deal.

► Under the second approach, the Coproduction Corporation covers all the foreign company's local costs in exchange for having a Chinese delegation travel with the filmmakers, all expenses paid.

► The third involves foreign production control, with local support provided at a fee. Walt Disney Productions and numerous independents have followed this route.

A handful of American filmmakers and small network crews have been able to push through some documentaries under the last option—which is by far the easiest and least costly proposition in China. The shooting time can be a fraction of that required for a 35-mm feature; the crew tends to be more self-contained, needing little or no ancillary equipment or technical assistance; and—most important from China's point of view—the script probably adheres to the principle of "truth and

realism" (though precisely *whose* realism can be a sticking point).

Independent filmmaker Shirley Sun had a fairly easy time with her two China projects: the documentary *Old Treasures from New China*, which she did in 1975–76, and the recent "Three Cities" series aired by the Public Broadcasting System. Likewise John Wilcox, producer of ABC's "American Sportsman" series, made it through the cumbersome approval process and lived to tell about his three projects: one on the life and times of the giant panda (with former First Son Jack Ford), another on the Gongga Mountain in Sichuan, and a third that follows a hiking team up the Tibetan side of Mt. Everest.

Both filmmakers started their legwork way in advance, allowing ample time for the inevitable confusions and bureaucratic delays. The China Film Coproduction Corporation has its own problems to deal with once it receives the filmmaker's detailed plans. The only permission it can give on its own is the right to film; terms for all location work, technical assistance, and equipment rentals must be hammered out with the appropriate parties. A scene shot in an opera house or zoo, for instance, would require separate permission from the management. One filmmaker said a helicopter scene necessitated the involvement of the People's Liberation Army.

In contrast to Shirley Sun's early experiences, the Coproduction Corporation now makes almost all such arrangements for the filmmaker and includes them in the overall fee. Still she advises a filmmaker to triple-check to see that everything requested in the agreement is spelled out. And even then the fabled last-minute changes are bound to come up—such as finding out upon arrival that a particular site isn't available for filming, or that the needed equipment didn't make it to Beijing.

Walt Disney Productions has fared well with the filming of its one-hour documentary, *The Wonders of China*, despite the fact that the shooting involves trips to every province of China and to Tibet, and makes use of a "ponderous" filming process known as "Circlevision." Nine 35-mm cameras and assorted mirrors are needed to achieve a 360 degree effect. (The film will premier next fall in Florida, in a new circular Disneyworld theater modeled after Beijing's Temple of Heaven.)

In the estimation of Disney executive Randy Bright, the China Film Copro-

duction people were "very smart about business. They wanted a sense of who we were and where we're coming from." And, he said, they wanted "reassurance that we're not going to make a political statement about China."

Subject matter and tone constitute the biggest potential sticking points. China generally insists on script approval before filming and editing rights as the shooting goes on.

Shirley Sun viewed the omnipresent Chinese onlookers as helpful in pinpointing inaccuracies in her travelogue series. But Richard Richter, senior producer of documentaries at ABC, found that always having "somebody looking over our shoulders" made it impossible to work—especially when he says ABC made it clear before signing the agreement that Chinese editing rights would not be one of the terms.

ABC first discussed its idea—a documentary on the redevelopment of the performing arts since the end of the Cultural Revolution—a year ago with the Ministry of Culture. After the first meeting went well, Richter and his comptroller met with the Coproduction Corporation to discuss locations and fees. "We were as explicit as we could be without having done exhaustive research," he said.

Stone silence followed the meeting. Richter said it took numerous contacts after the first of the year to secure another invitation. When the news team met the Chinese again, "They claimed they didn't remember the conversations as well as we had, even though we had documents." Despite a subsequent agreement and another survey trip, Richter said it "became apparent we'd have access to practically nothing." So he dropped the idea.

"I get the feeling they're touchy about anything that's not a tourist film," he added.

It is interesting to note that Walter Cronkite experienced none of these difficulties when he filmed two general-interest "Universe" segments that were shown the middle of this year. Senior Producer Brian Ellis said the China Central Television Network had invited Cronkite to come to China on several occasions. When he finally assented and proposed his segments—on herbal medicines and aquaculture—the Chinese gave him a choice of shooting locations. Ellis says the Chinese never asked to see the script or screen the material. Which may go to show that China trusts Uncle Walter, too.

As productions become longer and

more complex, difficulties seem to grow as well. New York Producer Sidney Glazier decided to take his production of *The Marvelous Mongolian* elsewhere because of tiresome delays in China. At least one Hollywood studio has pulled out of discussions on shooting a musical variety show in the PRC. Industry talk has it that studios are still smarting from the bad impressions said to be left in China by Bob Hope Enterprises.

The 40-member Hope crew staged an elaborate variety show in China in August 1979 that used from 60 to 250 Chinese actors and technicians at any given time. Producer-Director Bob Wynn admits it was a pretty tense time. "China was in the throes of change and there were groups that didn't want us there," he said. "We had a good Chinese producer [and we] met some extremely competent people, but they had no control over some of the politically oriented crew."

The temper flare-ups that several producers believe caused hard feelings in China occurred, claims Wynn, only when his group was pushed beyond reasonable limits. "They kept our equipment in Tokyo for six days," he said. "They chartered the wrong plane; they would decide to do it *their* way with some of our sophisticated electronic equipment."

The production turned out to be as expensive as it was difficult. But Wynn

says he wouldn't hesitate to do that or another China project again. "I must say we got what we went for, and then some."

Hollywood on a China Budget

Opinions vary as to whether China is an expensive or inexpensive film site—undoubtedly because China has not yet developed a uniform fee structure for foreign filmmakers. One producer said the charges can vary widely, depending "on whether you're Walt Disney and have \$2 million to spend, or Robert Halmi and can afford \$500,000, say."

New York Producer Halmi just completed production on a one-hour TV film called *Peking Encounter*. The movie is a simple love story, he said: "American boy meets Chinese girl. Falls in love." (Only the Chinese insisted that it be an *American girl* who falls in love with a Chinese actor—whom they selected.) Liberty Mutual underwrote the project to the tune of \$600,000, and now is negotiating with the networks for a spring air date.

Halmi shares most filmmakers' opinion that filming is much more expensive in China than it is here, though some services tend to be underpriced. Translations were exorbitant, he said, running at about \$200 per page. "Because it's really typesetting rather than typing, one correction in a script can run \$300 to \$400."

Actors and technicians reportedly

can be hired at a lower scale than in most Asian and African countries. Halmi found the Chinese actors he used to be good, but different than he'd hoped. Their style of acting is "much more traditional and scholarly" than in the West. "We couldn't accommodate it [in the script], so we had to do it straight."

The Italians who are filming the \$25-million production of *Marco Polo* in China have spent the past two years trying to accommodate their style of work to the Chinese—in everything from budgeting to scripting to scheduling. Producer Vincenzo Labella has brought together more than 100 Italians with 100 Chinese and a cast of luminaries from around the globe for this eight-hour TV epic. The crew has had to cope with everything from popsicle salesmen interrupting the action to actors stripping off their costly, time-consuming makeup jobs when the set got too hot. Yet things seem to be wrapping up satisfactorily, and the project should turn out to be "mutually beneficial," as the Chinese like to say. According to *The Asian Wall Street Journal*, the producers paid China \$3.5 million for services and the right to film. The Chinese also have secured domestic distribution rights and a 10 percent slice of the worldwide profits.

Since the coproduction terms can vary so much from film to film, one Hollywood executive suggests that producers lay all their cards on the table when they meet the Chinese. "If you're coming in as a small-time person doing a one-shot," said James P. Devaney, president of JPD Enterprises, "they might not charge a percentage."

Devaney, one of the first producers to enter post-Mao China, has clinched a deal to distribute a one-hour version of the Chinese film *Bright China* outside Asia. Commissioned for the 30th anniversary of the PRC, the film uses a lot of archive footage to tell the story of liberation. JPD paid a flat fee to the China Film Export and Import Corporation, which governs distribution of all Chinese films abroad and of all foreign films in China, for the right to edit, narrate, and show the film. Interestingly enough, the corporation rejected Devaney's initial offer of a percentage split. That figure, he believes, would have given the Chinese "quite significantly more" revenues than the agreed-upon flat fee.

Devaney offers some straightforward advice to producers who are trying to get a lens in the door: Take in the minimum number of crew; employ

Romance, rather than revolution, occupies the minds of the workers in *Bus Number 3*.



Photo courtesy of the American Film Institute

some Chinese for coordination, logistics, interpreting, and crowd control; and—most important—let the Chinese in on the venture's potential. "If a person is willing to go in with statistics and projections" (audience and revenue potential on cable TV, for instance), "I think you'd have a lot more excitement." Likewise, if the project has limited distribution and market potential, Devaney says to discuss that as well.

"Coproduction means coproduction," he remarked, "so they should know where the project is going."

Lights. . . Cameras. . . Business

Some of the filmmakers who have succeeded with a China project have made it a point to involve the Chinese in the actual production, to make the filming a cooperative venture to the greatest extent possible. Randy Bright was favorably impressed with the skills of the Chinese technicians who supplemented Disney Productions' nine-member crew. Robert Halmi remarked that by the time his production had wrapped up, "the young Chinese sound man we used was as good as any American."

Home Box Office this spring filmed an ice skating show in Beijing with an all-Chinese television crew. Assistant Director Linda Jackson said the Americans videotaped the rehearsal and then discussed with the Chinese each shot they did and didn't like. The actual filming went fine, she said, although some editing problems have since cropped up. The color is not what it should be, and the focusing and zoom shots are sometimes off.

"Their equipment is outdated," she remarked.

Filmmakers here say China's film studios have just about everything the American studios have—only the equipment is about 20 years older. (The television industry, while not entirely modern, has been updated in recent years with Japanese equipment. More purchases should be made next summer. In September the National Council for US-China Trade sent member companies a list of 34 types of broadcasting, television, and audiovisual equipment to be purchased under the terms of a \$30 million World Bank loan now under consideration.)

All the motion picture stages and studios have been built or remodeled since 1949. The Beijing Film Studio, for instance, has five stages—one of them a special-effects stage—which one US equipment broker described as "pretty

Photo courtesy of the American Film Institute



The young A Bing practices the music that will sustain him through the years of adversity.

standard." About 85 percent of the feature films are shot in color, many of them using Eastman Kodak or Fuji film. The Chinese manufacture some of their own color film (Kodak officials aren't sure how much), and most of their black-and-white film.

China's feature films generally are shot silent on location and dubbed later. The US equipment broker saw nothing out of the ordinary in China's scoring stages and mixing rooms, putting them on a par with some older US facilities. But the music that comes out of them could start sounding a bit odd before long. Last fall the Chinese signed an agreement with a New York firm, Valentinos Major Production Music and Sound Effects Library, to use some of its background music for Chinese films.

Business activity has been picking up in the past year—and some Americans think this is just the beginning. Magna-Tech Electronics Company shipped six packages of high-speed sound recording, reproducing, and projection equipment to China at a total value of about \$750,000. In March the RCA Corporation installed about a half-million dollars' worth of high-speed sound-on-film equipment in Beijing. One equipment trader said that China

was comparing that system with a Magna-Tech system installed in Shanghai for its dollar-for-dollar value. However, those results have lost their significance now that RCA has phased out that particular equipment.

Hollywood Film Company just delivered a half-dozen special-effect and bidirectional printers at a price range of between \$50,000 and \$150,000 apiece. And Mitchell Camera Company shipped six 35-mm cameras to Beijing, each of them carrying a \$100,000 price tag.

Paul Yang of Paul Yang Associates, who handled the deal, says most of China's 35-mm cameras are domestically made, although the studios also use some German Arriflex cameras.

The Beijing Film Studio is testing some Panavision Panaflex cameras and lenses on the new film *Chi Yum*. Officials already have approached Panavision about purchasing two lense sets. But since the company is only in the leasing business, Vice-President Raphael Aramburo said the company has decided "no sale."

There is one, and only one, technical aspect of China's movie industry that makes it the envy of every filmmaker: It has the world's last Technicolor film-processing lab. The Beijing Film Studio

bought the system from the London firm a few years back, after all Western studios had been forced to abandon the dye-transfer method and switch to Kodak color film when the company dramatically cut its price. The system that gave us such vivid films as *The Wizard of Oz* and *Gone with the Wind* is shared by the various Chinese studios, but is not used for every film.

(Talk among a few US businessmen that China has manufactured a domestic version of the Technicolor lab could be substantiated by neither the Chinese film delegation mentioned earlier, nor any other manufacturer interviewed for this piece.)

China also has a one-of-a-kind adjustable lighting system that it developed for its own use. Technicians can move the lighting into 37 positions by remote control. Paul Yang described the system as "very ingenious," but doubted its practicality. "It takes too long to adjust," he explained.

From his numerous talks with the Chinese, Yang got the overall impression they are trying to overhaul their equipment in at least the partial hope of overcoming their other problems. "I try to tell them it's not the equipment," remarked Yang. "What they have is usable. The problem is management and technical capability and scripts."

Indeed, it is in its simplest film work that China seems to excel. The Shanghai Animation Studio has received numerous awards for its special animation techniques from festivals around the world, including the London Inter-

national Film Festival and Cannes.

The studio's painted ink-and-wash method, for instance, adapts China's stylized brush strokes to cartoons. Its paper-cut technique, first employed in the movie *The Pig Eats a Watermelon*, combines the use of paper cuts with the art of shadow puppetry. A flat puppet made of oxhide, donkey hide, or sheepskin is treated with saltpeter, scraped thin, and then dyed various colors. Performers use sticks to manipulate the dolls against a lighted white background.

It is generally agreed among filmmakers that in this phase of the industry, China has achieved the excellence it still seeks in feature films.

From *Star Wars* to *Bus Number 3*

The PRC film delegation that just departed the US is but the latest in several creative and technical delegations that have visited our film industry in the past year. The Chinese are intent on seeing as many foreign films and filmmakers as possible, in the hope of adapting foreign techniques to a Chinese style of filmmaking. Moviegoers and makers alike in China believe their pictures must begin to move away from the simplistic propaganda and moralistic pieces that have characterized the cinema for so long. Instead, they want the industry to march toward social realism.

The people's goals for their own cinema are reflected in their tastes in American films. Xie Rongjin, a foreign-film researcher at the Institute of

Foreign Arts and Literature, said recently that *Kramer vs. Kramer* and *Ordinary People* were among the film delegation's favorite US movies. Why? "Because they are realistic and representative of American life," she explained.

When asked about the delegation's reaction to *Star Wars*, she and another Chinese shrugged off the film. Said Xie, "We don't think that film is representative of American life."

A talk with the delegates revealed a surprising amount of interest in and knowledge of films worldwide. A blossoming of associations, research institutes, and cultural groups dedicated to the creative and technical sides of film has taken place since the Cultural Revolution. Readers are said to be lining up outside the Guojhi Shudian for hours on the days that various film magazines hit the stands. The Chinese Film Workers' Association alone publishes *Popular Cinema*, *Cinematographic Art*, *Cinematographic Technique*, and *Foreign Translations in Film Work*. A splashy English-language magazine that premiered late last year—*China's Screen*—each quarter gives Westerners an inside look at China's latest film projects.

To encourage artistic excellence, China even has instituted three awards programs to honor the best films: the Hundred Flower Awards, the Golden Cock Awards, and the Ministry of Culture Awards. The last carries with it bronze statuettes and cash prizes ranging from ¥1,500 for animation to ¥3,000 for features.

At left: poster for *Third Sister Liu*. At right: the militant—but amusing—ballads of *Third Sister Liu* moved the people to rebel against the greed of their feudal lords.



Photos courtesy of the American Film Institute

The first US-PRC film exchange—which China just completed with its cross-country US tour—has given each country a rare glimpse into the other's cinematic art. Since normalization, the masses have seen only a few B-grade American films, like *Convoy* and *Futureworld* (which is the movie the actors are all rushing to see in the PRC film *Bus Number 3*). The Ministry of Culture has invited filmmaker Shirley Sun to bring a half dozen independent films to Beijing, Shanghai, and Chengdu next fall. All that stands in the way of the festival right now is the \$60,000 needed for translations and subtitling.

Unfortunately, commercial considerations make it unlikely the Chinese will see many more recent studio releases. China and the Motion Picture Association of America have been unable to come to terms on distribution. MPAA's standard terms involve the dis-

tributor getting a share of the box office; China's provide for only a flat rental fee—and a small one at that.

MPAA President Jack Valenti makes the point that the industry would be undercutting its other markets in the East by giving China special deals. China counters by saying the US doesn't understand the fundamental difference between the American and Chinese movie industries.

Explained Chen Huaikai: "In China, film... exists to serve the people, to increase people's knowledge, and to satisfy their need for entertainment. In the US the purpose is to make money."

The five PRC films sent here number among the best pre- and post-Cultural Revolution productions China has to offer. (Some critics charge that the American films the Chinese viewed this spring are not necessarily the best we could have sent: *Shane*, *Snow White* and

the Seven Dwarfs, *The Black Stallion*, *Guess Who's Coming to Dinner*, and *Singin' in the Rain*—which the Chinese may or may not have found representative of American life.) In China's selections, Americans can sense some of the rich traditions of drama and myth that were broken by 10 years of havoc, as well as appreciate the great efforts that Chinese filmmakers must make to recapture their heritage.

The popularity of the festival's single comedy, *Bus Number 3* (or *The Younger Generation*), speaks to a new type of Chinese film that combines some of the wit and character of the older films with current political teachings. Like cherry cough medicine, this 1980 movie does its job without leaving an unpleasant aftertaste.

The story line is simple: A young worker on Bus Number 3 takes out his intense dislike for the job on his riders, until one of the passengers develops a loudspeaker that makes his work much easier. Throughout the film, however, the comic skits and plot twists drive home some surprisingly critical points. In one prolonged scene that virtually every China trader can recognize, a bus worker and her scientist friend spend most of one day trying to find an integrated circuit board for another invention. First, the girl at the counter tells them, "Have your plans approved by management, fifth floor." When they arrive there, the manager says, "No, that's equipment. Ground floor." On the ground floor they're told to go back to planning, and so on.

Finally, when it seems certain they've approached every department but this one, the man behind the desk asks them, "Have you got a permit for that?"

The climax of this romantic comedy comes after the young bus workers use a new tape recorder that the scientist designed as an address system, to play back the shy inventor's declaration of love to his girlfriend. Later, when the system is hooked up to the bus, the wrong tape is plugged in—to the riders' general merriment.

The moral of the story speaks to the state of China's industrial development and the direction in which it is heading. But the film says something very basic and appropriate about the country's movie industry as well: "Please do not laugh," the bus worker tells the passengers. "This is the first step in our modernization, and a lot is left to be done."

*From the September 1979 Hong Kong *Dongxiang*.

Who you know in China's film industry is not nearly as important as where you go, since coproduction ventures are approved in a top-to-bottom process reminiscent of the older days of moviemaking.

While most filmmakers interviewed for this story either contacted the Ministry of Culture or went directly to the China Film Coproduction Corporation, the PRC embassy recommends another route. Shu Zhang, second secretary for cultural affairs, says all inquiries concerning location work, film festivals, or other types of cooperation should be directed to the Commission for Cultural Relations with Foreign Countries. This ministry-level organization, reestablished about a year ago, then will direct the correspondence to the Ministry of Culture—which in turn will set the letter on its proper course within the ministry's vast domain.

Address for the Commission for Cultural Relations with Foreign Countries: Shatan, Beijing. Minister: Huang Zhen.

Once inside the Ministry of Culture, inquiries go to the China Film Bureau—the policymaking organization that oversees the country's production and distribution network. Director: Chen Bo. From there, letters involving any type of location work in China are referred to the China Film Coproduction Corporation, at 54 Dongsi Nanjie Lishi Hutong, Beijing. Manager: Li Weicun. Letters concerning film exchanges or rentals proceed

to the China Film Export and Import Corporation, at Xinjiekou Wai Dajie No. 25, Beijing. This company has absorbed the functions as well as the name of the Film Distribution and Showing Company. Manager: Hong Zang; Deputy Manager: Li Xin.

Television producers wishing to film in China have a choice of two approval channels, depending on the type of work to be done. Proposals for small-scale TV productions requiring little more than location shots may be sent to the China Television Service Corporation, under the Central Broadcasting Administration. Address: 2 Fuxingmenwai Dajie, Beijing. More elaborate productions that require technical assistance, actors, or extras are handled by the China Film Coproduction Corporation.

The importing and exporting of film equipment come under the domain of the China National Film Equipment Corporation, which Shu says operates directly under the Film Bureau. Address: Xinjiekou Wai Dajie No. B-25, Beijing. Some confusion exists over the approval channels for television equipment sales. For instance, MACHIMPEX and the State Bureau of Broadcasting and Television Industries both have been mentioned in this connection. Shu says perhaps the best bet would be to contact the Central Broadcasting Administration on equipment sales, even though it has no subsidiary designated for that specific purpose. —CG

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China Law

In the first of three articles on China's developing judicial system, two Washington lawyers discuss the workings of the new economic courts.

Arbitration clauses are appearing more frequently in contracts with the PRC. But as the second story explains, this last resort procedure may raise more questions than it settles.

The third article examines the joint venture, labor, and tax regulations, emerging as part of China's legal framework for foreigners.

Economic Courts

Paul A. Allen and Marc S. Palay

Among the functions of China's newly established economic courts is to resolve disputes involving foreign enterprises in China. The jurisdiction of these courts, their procedures, and unusually high conviction rates (often exceeding 90 percent) are issues of vital importance to US firms contemplating any form of direct investment in China. In this article, attorneys Allen and Palay of Bergson, Borkland, Margolis & Adler, Washington, DC, describe the structure and operation of these novel forums. Their report is based on interviews with Chinese judges and trade officials, and on personal observations obtained last spring by Allen, who was a member of a delegation to China of US legal experts led by Professor Ernest Gellhorn of the University of Virginia Law School.

Startling developments in the country's legal system are accompanying China's announcement of economic reforms and its desire to attract technology through foreign trade and investment. Of greatest significance for US businesses is the swift establishment of more than 1,000 economic courts since mid-1980.

These courts are empowered to handle disputes involving foreign firms as well as a host of domestic criminal and civil matters. As a result, the new tribunals—with their high conviction rates, "People's Assessors," and policy of only permitting representation by Chinese lawyers—may affect a company's business and legal strategy in China.

Economic courts form one of the three divisions or tribunals within the People's Courts provided for in the Organic Law of People's Courts adopted by the Fifth National People's Congress on July 1, 1979. (The others are civil and criminal.) Growth has been rapid: By the end of March 1980, 29 divisions operated in all Higher People's Courts at the provincial level, 277 in Intermediate People's Courts in prefectures, and 697 in Basic People's Courts at the county or district level. An additional 600 are now being established.

Jurisdiction

Economic courts are authorized to dispose of civil and criminal cases involving:

▶ contract and related commercial disputes between Chinese organiza-

tions that cause heavy economic losses;

▶ trade, maritime, insurance, and other business disputes involving foreign parties; and

▶ "economic" crimes which are specified in Articles 113-130 of the Criminal Law (adopted July 1, 1979) and in the environmental protection and forestry laws. Economic crimes entail a broad range of offenses including theft, bribery, smuggling, embezzlement, tax evasion, trademark infringement, misappropriation of state funds, economic sabotage, failure to treat industrial wastes, neglect of worker safety, and other "serious failures of duty and responsibility."

To guide the court, the third session of the Fifth National People's Congress reaffirmed in principle the validity of "more than 1,500 laws, decrees, and administrative regulations enacted by the state since 1949." Of these, 200 have been enacted since 1977. In addition, more than 50 new economic statutes drafted by the State Council's various departments are being reviewed by the Economic Statutes Research Center established in July 1981. The center is also updating 30 other statutes.

“Seeking Truth From Facts”

The impetus for establishing the courts was the often-voiced fear that the slow method of solving disputes between enterprises—the traditional practice of mediation by “superior organs”—would retard the pace of economic modernization. In the words of the *Beijing Review*, “The defect with this method was that many economic disputes could not be solved after long wrangling.” Instead, the economic courts were created and then touted as disinterested forums that would promote “socialist modernization” by promptly seeking “truth from facts”—to use the phrase of Vice-Premier Deng.

While the economic courts were conceived primarily as instruments of domestic policy, they probably were created with the foreign business community in mind as well. If so, the Chinese may have been responding, however indirectly, to Western anxiety over the resolution of disputes by the same bureaucracy that provoked the disagreement in the first place. Indeed, they may have been particularly sensitive to such concerns because of their own fresh memories of the turmoil of the Cultural Revolution. Then, disputes were generally resolved by determining which party was “Left” and which one “Right,” rather than by “seeking the truth from facts.”

Now, two years after the creation of economic courts and the announcement of economic reforms, an impartial factfinder has even greater appeal. China’s general increase in trade with the West and the decentralization of its foreign trade structure have significantly increased the potential for more complex commercial disputes. Moreover, as more Western personnel operate in China, there is the potential for job-related accidents and “economic crimes” involving negligence or environmental degradation.

In this setting, economic courts provide a refreshing departure from prior dispute/resolution systems. In fact, the tribunals have some elements in common with Anglo-American law: independent and elected factfinders, defense counsel, and specified routes of appeal.

But, as we observed during two trials and three interviews with economic court judges, judges may not be adequately trained, lawyers represent “the facts” and not a particular client, and the Chinese penchant for “working

things out” usually prevails.

To foreigners the economic courts are a double-edged sword: Ostensibly they are impartial factfinders whose goal is the “truth,” but they may provide the strongest incentive yet to settle a dispute through “friendly discussions,” conciliation, or arbitration.

Economic Courts as a Policy Tool: The Bohai Oil Rig Disaster

The capsizing of the Bohai No. 2 oil rig on November 25, 1979, and the August 1980 trial in the economic division of the Tianjin Intermediate People’s Court, underscored Beijing’s determination to use the law to hold managers accountable for their actions. The accident was the most serious in the history of China’s petroleum industry, causing 72 deaths and a loss of ¥37 million (more than \$25 million). This disaster, coming only five months after the creation of economic courts, was the first major test of their authority.

Chinese commentators have described how those responsible for the disaster attempted to avoid the blame, or at least tried to postpone it by sending the investigation through bureaucratic channels. Petroleum Minister Song Zhenming was quoted as saying that the disaster was caused by an unpredicted storm, that the loss was an acceptable price to pay to develop the Bohai oilfields, and that in view of these facts no further action was necessary. Apparently his allies in the bureaucracy helped curb the opposition. Indeed, Chief Prosecutor of the Supreme People’s Procuratorate Huang Huoqing acknowledged that there was “no small resistance” to trying those responsible.

Other Chinese leaders exerted pressure to identify and punish the guilty through the economic courts, presumably a less biased and charitable forum than the Petroleum Ministry. The official rationale for using the economic tribunals was that leading cadres who precipitated “major accidents” or committed “big mistakes or faults” causing great loss of public property should be punished. If they were not, the argument went, there would be a decline of quality of work and Party discipline.

This line finally prevailed. Three managers in the Petroleum Exploration Bureau and the captain of Bohai No. 282, the vessel that had towed the Bohai platform, were tried and each sentenced to a prison term varying from one to four years.

Resolving Disputes Over Shoddy Workmanship

Soon after this famous case, the economic tribunals began hearing more prosaic matters. The first economic trial ever to be held in Beijing involved a dispute over an electric hoist for which a factory of the Beijing Construction and Engineering Company had paid ¥4,935 to a supplier in June of 1978. According to a June 14, 1980 report in the *Beijing Evening Daily*:

“As the hoist failed to function when it was delivered, the factory was claiming ¥7,000 in compensation to enable it to buy a newer model, complaining that the model it had bought was now an old one. The court rejected this claim, arguing that the factory had to bear the consequences of its purchases, but ordered the supplier to repair the hoist and make sure that it would be suitable for the purpose for which the customer had bought it.”

Another early economic case in Beijing involved a dispute between a local tarpaulin factory and a weaving factory in Heilongjiang Province. The Beijing factory had refused to pay for the last 5,000 meters of a 30,000-meter order of canvas, claiming it was of inferior quality. According to the June 30, 1980 Xinhua report:

“After investigation the court determined that the main problem was that there was a dull market in Beijing for finished products made from the canvas for the time being. A mediation order worked out by the court ruled that the Beijing factory should pay ¥5,090 in cash to the Heilongjiang factory immediately and another ¥5,090 by the end of the year. Entailing a reduction in the original price by one yuan per meter of canvas, the solution was welcomed by both sides, according to court documents.”

Economic Court Players: Judges and Assessors

A full economic court consists of one judge and two People’s Assessors, who are usually ordinary citizens paid by their work units while they serve on a court. They have the same voting rights as judges; a majority vote of two out of three is necessary to render a verdict.

At the county level, judges and assessors are elected by the population at large, while at the prefectural level and above they are selected or removed by the standing committees of the People’s Congress; they serve the same length of term as the officers elected by these

congresses. While judges must be nominated, however, any Chinese citizen at least 23 years old may be put on the ballot to be an assessor. According to the Organic Law of People's Courts, judges and assessors, like most judicial personnel, must belong to the Chinese Communist Party.

All the judges our delegation interviewed in Tianjin, Nanjing, and Shanghai had some legal training, which now consists of a four-year university program. However, they admitted that the enormous disruptions of the 1966-76 Cultural Revolution deprived the country of adequate numbers of qualified jurists. At the present time China has approximately 200,000 "judicial workers"—employees of public security departments, procuratorates, and courts at all levels. Of these, only 4,800 are lawyers.

The most important cog in China's judicial machinery is the People's Procuratorate, the office of the prosecutor at each level of government that is somewhat akin to our attorney general's offices at the federal and state level. The prosecutor and deputies to the local People's congresses are elected at the same time. The prosecutor's actions are not reviewable by the People's



A majority vote of the judge (center) and two People's Assessors is required for the verdict.

Court. Furthermore, the prosecutor is the one official empowered to authorize an arrest or search, or to issue an indictment.

After a public security organization arrests an individual, the facts of the case are gathered and a report sent to the prosecutor, who then examines the

evidence, secures witness statements and, if warranted, issues an indictment.

The Trial of Kang

Major differences between the Chinese and American judicial systems surfaced during the trial of Kang Lian-guan, a 19-year-old construction

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apprentice in Shanghai who dropped a cement fragment from the third floor of a building being erected by his production team, killing a woman passer-by. Kang was instructed by the team leader to shovel the debris to the north side of the building, but after area residents complained, he elected to deposit it on the east side, where the accident occurred.

The case was assigned to the economic court of the Shanghai People's Court, not the civil or criminal division, because it involved a "serious failure of responsibility" on the part of an economic enterprise. The act, which would not have been criminal under Anglo-American legal principles, was an alleged violation of Article 114 of the criminal code because Kang disobeyed a work rule lawfully imposed by his team leader.

During the course of the trial at least one important pre-trial development surfaced: The construction team had agreed to compensate the dead woman's family in the amount of ¥1,600 (approximately \$1,000), and Kang had agreed to personally contribute an additional ¥400. This illustrates the continuing vitality of the usual Chinese policy of settlement by conciliation.

Inside the Courtroom: Arguing for Leniency

Kang was represented by a lawyer, one of only 70 in all of Shanghai, and one of 30 from the Justice Ministry's Legal Advisory Office there. (More than 1,300 of these offices have now been established throughout the country.) Also participating in the case were two prosecutors from among 500 employed by the Shanghai People's Procuratorate.

The court is especially equipped for foreigners; our delegation plugged in earphones and heard a simultaneous translation of the trial.

The young judge, perhaps 35 years old, was accompanied by two assessors, two prosecutors, the defense lawyer, and a scribe. Defendant Kang, as forlorn, embarrassed, and devastated a defendant as one is ever likely to see, was brought into the courtroom, head bowed, to stand in front of the court.

The trial lasted only about two hours. One prosecutor presented virtually all the evidence. The trial began when two witnesses appeared merely to affirm the prosecutor's opening statement that the debris had been wrongfully dumped. The witnesses then departed



Defendant Kang (right) and the two prosecutors listen to the defense.

without being cross-examined. The prosecutor read the indictment and the witnesses' statements which he had secured out of the defense counsel's presence. He also presented photographs and a piece of the cement that had struck the woman.

The prosecutor and the defense counsel briefly examined Kang. He maintained that his actions were excusable because of the residents' complaints and the team leader's absence. Both lawyers then made closing statements. The prosecutor argued that a worker's action contrary to a work rule clearly violates the criminal code. The defense lawyer focused on mitigating circumstances: Kang had been on the job only 88 days, the team leader should have been there, and there should have been warning signs as required by local practice.

Following 15 minutes of deliberation, the three jurists returned. The judge, reading from a prepared text, found Kang guilty but suspended his one-year sentence because he had a "proper attitude," he suffered from a liver condition, and he was the principal wage earner in the family. Kang, who could have been sentenced to

three years, then was grabbed by his jacket collar and taken from the courtroom. He was released later that day to be given a new construction job.

Persons convicted in an economic court can appeal as a matter of right to the next highest court. As we saw later in the Tianjin Intermediate Court, the appeal is heard by one judge and two People's Assessors. According to the administrator of the court, the duty of appellate courts is to determine whether the testimony is true, the evidence clear, the penalty correct, and the law suitable to the crime.

The appeal our delegation witnessed in Tianjin was surprisingly similar in format and procedure to the Shanghai trial. For example, the defendant's counsel argued only for a penalty less severe than that imposed by the lower courts. There was no argument that the defendant was innocent.

Foreign Companies and Economic Courts

An economic court is not limited to punishing crimes such as Kang's or to resolving contract disputes between two Chinese enterprises. It can also assert jurisdiction over maritime affairs, insurance, foreign trade contracts, joint ventures, and environmental problems. In sum, a foreign company doing business in China is within the long reach of the economic tribunals under three general sets of circumstances.

► The first, and easiest for the government to invoke, is if a company's contract or other agreement with a PRC entity expressly authorizes adjudication in China. For example, the China-Schindler joint venture agreement provides for the resolution of disputes arising under that agreement through arbitration or in the "ordinary court of the domicile of the actual defendant."

► Second, even without express contractual authorization, the authority of an economic tribunal might be invoked in connection with routine commercial disputes over such matters as product defects, delivery delays, or insurance claims.

► Third, illegal acts of a foreign company or its employees in the operation of a facility or enterprise on Chinese soil could subject the person or company to the jurisdiction of these tribunals. The most likely possibilities are noncompliance with environmental regulations, or criminal or negligent acts by employees.

To date, no foreign company has appeared in an economic court. The Legal Advisory Office of the China Council for the Promotion of International Trade (CCPIT) was created two years ago to provide or recommend Chinese lawyers to handle matters with foreign countries. In that time it has addressed many foreign cases, but apparently all have been settled by conciliation. The chief judge of the Nanjing Economic Court did predict, however, that "in the future maybe we will see this kind of dispute."

Even when a case is submitted to the court, says the CCPIT, "conciliation may be conducted . . . and the arbitration award or the court judgement will be made only after conciliation fails." Presumably, the court would facilitate conciliation with foreigners by assigning a CCPIT lawyer to the case.

Given the preference for arbitration, it is not surprising that far more economic cases are settled out of court than are actually tried. Of the 6,132 cases examined by economic courts last year, the Xinhua News Agency reports, 4,382 were "administered through mediation."

Foreign firms brought before economic courts will be properly represented, according to numerous official pronouncements—including several by Ren Jianxin, vice-chairman of the CCPIT's Legal Affairs Department. Non-Chinese nationals are not permitted to represent clients in economic courts, but Chinese lawyers are available to bring or answer lawsuits on behalf of foreign clients. They also may provide "consulting opinions" or negotiate with Chinese entities on behalf of foreign firms. According to the chairman of the Guangzhou Lawyers' Association, his city Legal Advisory Office even has specialists in matters that pertain to foreign countries, including joint ventures.

The structure of legal advisory offices and the diverse services they render prompted Vice-Chairman Ren to tell an American that they are "just like your law firms." Although the comparison is generally inapt, there is one similarity—clients must pay a legal fee. The fees are not paid to lawyers, however, but to the advisory offices. So far the rates have not been announced.

Legal Pitfalls

The right of a foreign company to legal representation in China should

not obscure a vital point: the difference between a lawyer's responsibilities in the PRC and the US. As the chief judge of the Tianjin Intermediate Court observed, "In our country lawyers represent the facts, not the client, and they are the legal workers of the state." The Chinese lawyer, like the judge, is supposed to be a "truth seeker" rather than a representative of any individual party. Thus, a Chinese lawyer will refuse to represent a client at a trial if the client is believed to be "incorrect," and on appeal lawyers "must remain silent," according to Chinese law, if they think that the result in the lower court was proper.

Knowing when to obtain legal counsel is one of the most important things foreign companies will have to learn. At least with respect to criminal cases, the Chinese judicial process can be swift: Two months elapsed between Kang's accident and his trial. Under the penal code, a defendant is entitled to a lawyer only after indictment by the procuratorate and arrest. It is unclear whether a foreign company or its employees who commit crimes or "serious failures of duty" are entitled to earlier representation.

If a person is indicted for a criminal offense, there are clear incentives not to go to trial in China: The procuratorate reportedly obtains convictions in 97 percent of the cases it institutes; a defendant's right to a lawyer does not ensure a legal defense in the Western sense; and courts are principally forums for imposing punishment rather than determining guilt.

Future of the Courts

There is much evidence that economic courts will have a growing role in the resolution of disputes and the punishment of economic crimes in China. But important questions remain. Might a foreign company use the threat of civil proceedings as a prod, for example, in dealing with intransigent local bureaucracies or enterprises that fail to meet their contract obligations? More importantly, will the largely untested judicial system be able to withstand political pressures? In short, are economic courts a fixture in the long-term drive for modernization or are they simply today's ornament?

In the words of a Beijing University law professor we interviewed, "The courts are new and we are still experimenting." ❀

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Arbitration

Yeow Ming Choo

China has become increasingly receptive to the notion of arbitration of commercial disputes in neutral settings. The principle is explicitly recognized, albeit as a last resort, in Article VIII of the US-PRC Trade Agreement signed on July 7, 1979. Moreover, a recent survey conducted by the Arbitration Subcommittee of the National Council's Legal Committee indicates that more than half of all US-China trade contracts contain clauses specifying arbitration in third countries.

Chinese negotiators still regard the arbitration process with distrust due to an ancient cultural aversion to settling disputes by litigation. A preferred method is "talking disputes into harmony" through mediation and conciliation. If they could, the Chinese would perhaps dispense with dispute settlement clauses in their contracts altogether. Indeed, three of the 29 contracts covered in the Council's survey contain no such clauses.

China has always insisted that arbitration be conducted only as a last resort. Typically, a contract with a Chinese agency or corporation contains requirements that the parties make their best effort to resolve differences through "friendly consultation"

China's International Commitments and Declarations on Arbitration

Article VIII of the US-China Trade Agreement, signed in Beijing on July 7, 1979, and ratified on February 1, 1980:

If the Contracting Parties encourage the prompt and equitable settlement of any dispute arising from or in relation to contracts between their respective firms, companies and corporations, and trading organizations, through friendly consultations, conciliation or other mutually acceptable means.

2If such disputes cannot be settled promptly by any one of the above-mentioned means, the parties to the dispute may have recourse to arbitration for settlement in accordance with provisions specified in their contracts or other agreements to submit to arbitration. Such arbitration may be conducted by an arbitration institution in the People's Republic of China, the United States of America, or by a third country. The arbitration rules of procedure of the relevant arbitration institution are applicable, and the arbitration rules of the United Nations Commission on International Trade Law recommended by the United Nations, or other international arbitration rules, may also be used where acceptable to the parties to the dispute and to the arbitration institution.

Article XIV of China's joint venture law adopted on July 1, 1979, at the second session of the Fifth National People's Congress and promulgated on July 8, 1979:

Disputes arising between the parties to a joint venture, which the board of directors fails to settle through consultation, may be settled through conciliation or arbitration by an arbitral body of China or through arbitration by an arbitral body agreed upon by the parties.

Statements by Chinese officials:

More and more contracts provide for arbitration to be conducted in China. In the recent year, not a few economic and trade contracts signed by Chinese corporations and enterprises with those of US, Japan, Federal Republic of Germany, United Kingdom, France, and others clearly stipulate: in the event of disputes arising between the parties, the disputes shall be settled by themselves through friendly negotiation; failing that, the disputes shall be arbitrated by the Foreign Economic and Trade Arbitration Commission of the CCPIT. . . . The commission is gratified with such arbitration clauses contained in contracts signed by the Chinese and foreign corporations and enterprises and shall fairly and reasonably settle disputes in a truth-seeking way and on the principle of equality and mutual benefit (Ren Jianxin, director, Legal Affairs Department, CCPIT, January 1981.)

and "conciliation" before submitting the issue to arbitration in accordance with the contract's arbitration clause. In all of the remaining 26 contracts the Council surveyed, the dispute settlement clauses called upon both parties to settle their differences through conciliation. In two of them, in fact, the only settlement mechanism specified was "friendly negotiations."

Given their dislike of adversary proceedings, it is not surprising that the Chinese seldom resort to arbitration. The few instances of arbitration with Western companies have all taken place in Beijing, according to Chinese sources.

Yet US lawyers involved in China trade insist that the arbitration clause is an indispensable part of any contract. As the Council survey suggests, the Chinese will include arbitration clauses in order to meet the needs of their trading partners. But there is considerable variety in the types of clauses agreed to.

At one extreme the language is so vague as to be almost meaningless: "Any disputes which may arise shall be settled by friendly consultation or conciliation, and failing such settlement shall be submitted to arbitration."

Chinese negotiators typically will first insist that arbitration take place in Beijing, under the provisional rules of the Foreign Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade (CCPIT). Four of the Council survey contracts contain language to this effect. Although the commission's rules bear a resemblance to those used by other arbitral tribunals, it is not surprising that to many foreign companies, Beijing does not represent the optimum site for impartial arbitration.

A fallback position for Chinese negotiators is often arbitration in the defendant's home country. One of the contracts contained in the Council survey calls for arbitration in China if a Chinese party is the defendant, and in Stockholm if the American party is the defendant. To some US attorneys, this is a very unattractive mechanism, as it invites maneuvering on the part of both sides to become the defendant, which in turn may encourage intransigence and delay a solution.

A far more preferable procedure, in the view of most US companies and lawyers, is arbitration in a neutral third country under internationally accepted rules of procedure. This condition is acceptable in 14 of the contracts surveyed. Arbitration in Stockholm,

under the rules of the Arbitration Institute of the Stockholm Chamber of Commerce, is by far the most commonly accepted format with the Chinese. Stockholm traditionally has been favored as a neutral location for solving trade disputes between Western and socialist countries.

Other sites agreed to in the surveyed contracts include the Hague, Paris, and Geneva. To some US lawyers, Switzerland is unattractive since Swiss law allows certain arbitral decisions to be appealed.

The survey contracts also contain examples of the Chinese agreeing to use the Arbitration Rules of the UN Commission on International Trade (UNCITRAL), "the arbitration procedures of Sweden," and the Rules of Arbitration of the International Chamber of Commerce (ICC). In general, ICC rules are rejected by experienced Chinese negotiators because Taiwan is officially recognized by the ICC. It is quite likely that the contract in the Council's survey calling for arbitration by the ICC was signed by a Chinese organization relatively new to international trade.

In several of the contracts, no further elaboration was offered beyond the place of arbitration and the tribunal whose rules were to be followed. Since these rules specify the procedures, there is no reason to define them further in the contract. Some lawyers, however, feel it advisable to at least specify how arbitrators are to be selected, and many of the contracts surveyed indicated that each side in the dispute is to choose one arbitrator. The two arbitrators agree on another of neutral nationality to act as umpire. Some of the contracts also specified how the costs of arbitration were to be borne. In most cases they were covered by the losing party, although in one contract it was agreed to split the costs evenly. Other contracts explicitly stated that arbitration is to be considered final and binding, without appeal.

Trigger Mechanism

One of the crucial elements of a sound arbitration clause, according to US lawyers, is the so-called "trigger mechanism" which starts the arbitration process. Without a clear trigger, a threat to take the Chinese to arbitration loses all meaning. One of the contracts surveyed says only that "In case no amicable settlement can be reached between the two parties, the case under dispute shall be submitted to arbitra-

tion, which shall be held in the country where the defendant resides, or in a third country agreed to by both parties." Nothing in the contract prevents either party from amicable arbitration by claiming that an amicable settlement can still be reached.

The rules of major international tribunals, including the Stockholm Chamber of Commerce, the ICC, and UNCITRAL, all define the trigger as the initiation of a request for arbitration by one of the parties. Any contract which stipulates that these rules be used does not necessarily require further definition of the trigger in the contract. Yet, in the opinion of some, it is best to do so anyway to prevent misunderstanding.

Several of the contracts do so in vari-

ous ways. One indicates that "Each party shall appoint an arbitrator within 30 days after receipt of notification from the opposite party. . . ."

Another provides what should perhaps be a model in negotiating arbitration clauses with China:

"Any disputes arising from the execution of, or in connection with, this Agreement shall first be settled amicably by negotiation, failing which they shall be submitted to joint conciliation conducted by the American Arbitration Association and the Foreign Trade Arbitration Commission of the China Council for the Promotion of International Trade. Notwithstanding the foregoing sentence, either party to this Agreement may at any time have re-

Examples of Arbitration Clauses in US-China Trade

Friendly Negotiations

In executing this Agreement, should there be any dispute arisen from deliveries or any other unforeseen reasons, both parties will consult with each other to solve the problem in an amicable way through friendly discussion.

Undefined Arbitration

During the term of this Agreement, should any dispute arise, it shall first be resolved through consultation and agreement between the two sides in a friendly and cooperative spirit. In case agreement cannot be reached, the differences shall be decided by arbitration to be agreed by both sides.

Arbitration in Beijing

All disputes in connection with this Contract or the execution thereof shall be settled through friendly negotiations. In case no settlement can be reached, the case may then be submitted for arbitration to the Arbitration Committee of the China Council for the Promotion of International Trade in accordance with the Provisional Rules of Procedures promulgated by the said Arbitration Committee. The Arbitration shall take place in Beijing and the decision of the Arbitration Committee shall be final and binding upon both parties; neither party shall seek recourse to a law court or other authorities to appeal for revision of the decision. Arbitration fee shall be borne by the loser. Or the Arbitration may be settled in a third country mutually agreed upon by both parties.

Arbitration in Beijing or Stockholm

All disputes in connection with this Contract or the execution thereof shall be settled through friendly negotiations. When no settlement can be reached the disputes shall be submitted for arbitration. If the sellers are the plaintiff, the arbitration shall take place in Stockholm. Each party shall appoint an arbitrator within 30 days after receipt of notification from the opposite party and the two Arbitrators thus appointed shall jointly nominate a third person as umpire to form an Arbitration Committee. The said umpire shall be confined to citizens of Swedish nationality. If the Buyers are the plaintiff, the arbitration shall take place in Beijing and be conducted by the Arbitration Committee of the China Council for the Promotion of International Trade in accordance with the Provisional Rules of Procedures promulgated by the said Arbitration Committee. The decision of the Arbitration Committee shall be final and binding upon both parties; neither

course to arbitration in Stockholm, Sweden, to settle such disputes in accordance with the UNCITRAL Arbitration Rules in effect on the effective date of this agreement."

This clause makes due allowance for resolution by means the Chinese most prefer, namely negotiation and conciliation. Yet at the same time, it gives the US side the clearly defined right to obtain impartial arbitration if other methods do not achieve satisfactory results.

Enforcement of Arbitral Awards

China is not at present a party to the Convention of the Recognition and Enforcement of Foreign Arbitral Awards

(commonly known as the New York Convention). However, responsible Chinese officials have offered assurances that a foreign arbitral award will be enforced in China "so long as it is fair and not in violation of Chinese laws and policies." And Paragraph 3, Article VIII of the 1979 US-PRC Trade Agreement offers these additional assurances: "Each Contracting Party shall seek to ensure that arbitration awards are recognized and enforced by their competent authorities where enforcement is sought in accordance with applicable laws and regulations."

Hence, there is a commitment on the part of both governments to ensure recognition and enforcement in their respective countries of arbitral awards

rendered in the other country. As the former general counsel of the American Arbitration Association, Gerald Aksen pointed out in the *New York Law Journal*, "The only time the word 'shall' (which in legal language denotes mandatory) is used in the entire Article is in connection with governmental assurance of award enforcement."

Conciliation

Situated between "friendly negotiations" and arbitration is settlement by conciliation. Only one of the contracts surveyed by the Council calls for joint conciliation in the event that informal discussions fail to resolve the dispute.

Conciliation involves mediation by a third party, and does not lead to any binding judgements or demands on the disputants. As evolved through a series of negotiations between the American Arbitration Association (AAA) and the CCPIT's Foreign Economic and Trade Arbitration Commission (FTAC) in the mid-1970s, "joint conciliation" in US-China trade involved the appointment of one American conciliator by the AAA and one Chinese conciliator by the FTAC to jointly assist the disputants in reaching a mutually satisfactory agreement. AAA authorities indicate that this arrangement is not the most common in international trade, and in fact UNCITRAL procedures recommend only one conciliator. The AAA-FTAC procedures probably appeal to the Chinese since both sides are represented by friends, or at least compatriots who presumably understand their points of view. The process certainly has more the flavor of discussions among friends than either the proceedings under UNCITRAL rules or the formal arbitration procedures. China has set up similar joint conciliation mechanisms with other countries.

Conciliation Case Examples

Conciliation has already been used to successfully resolve at least five disputes in US-China trade. The first instance of conciliation took place in late 1979, and is the only case in which face-to-face meetings of the conciliators took place. The other known cases have been settled by telex communication, in some instances before conciliators were even appointed.

The first case involved the claim of a US exporter for several million dollars in a large contract, involving possible counterclaims by the Chinese. After several months of exchanges between the AAA and the FTAC by telex, the

party shall seek recourse to a law court or other authorities to appeal for revision of the decision. Arbitration expenses shall be borne by the losing party.

Arbitration in Stockholm (short version)

All disputes in connection with the Contract or the execution thereof shall be settled through friendly negotiation. In case no settlement can be reached, the dispute shall then be settled in a friendly manner by arbitration in Stockholm, Sweden, in accordance with the rules of arbitration issued by the Stockholm Chamber of Commerce, and in accordance with the laws of Sweden.

Arbitration in Stockholm (more detailed example)

All disputes arising out of or relating to the Contract shall be settled through friendly consultation between both parties. In the event that no agreement can be reached through such consultation, the disputes shall be submitted to arbitration.

The place of arbitration shall be in Stockholm, Sweden, and the arbitration shall be carried out according to the Swedish arbitration procedure in the English language.

The Arbitration Committee shall consist of one representative appointed by each party, and a Swedish member agreed upon by both parties.

The decision made by the aforesaid Arbitration Committee shall be final and binding on both parties, and both parties shall act accordingly.

The Arbitration fee shall be borne by the losing party, except if it is otherwise decided by the Arbitration Committee.

Arbitration Under International Chamber of Commerce Rules

If any disputes arise in connection with the Agreement, the Parties will attempt to settle them amicably in good faith through negotiation, in the spirit of cooperation. However, in the unlikely event that the Parties fail to reach agreement on some matter, then it shall be settled through conciliation or arbitration under the Rules of Conciliation and Arbitration of the International Chamber of Commerce, by appointing one or more arbitrators in accordance with said rules. The place of arbitration shall be the Hague, Netherlands. Each party shall bear his own costs and they shall bear equally all the costs of arbitration. The judgement upon the award shall be binding upon the Parties.

SOURCE: Legal Committee, Exporter Services Department, National Council for US-China Trade (ed.), *Questionnaire Response: Dispute Settlement and Penalty Clauses in US-PRC Contracts*, Washington, DC, April 15, 1981.

conciliators, one of whom was National Council Counsel Walter Surrey, reached a solution after seven days of meetings in Beijing. AAA spokesmen stress that the Beijing site was not to be considered a binding precedent for future cases. The conciliators were in constant touch with the parties of their respective countries, but there were few meetings involving both conciliators and the two parties. AAA and FTAC personnel rendered procedural assistance, but substantive matters were left to the conciliators.

The procedures used were made up very much as the conciliation went along, and in the process several differences in approach between the Chinese and US sides became apparent, including:

► The US side was very quick to appoint a conciliator, whereas the Chinese were reluctant to deal through one individual. Indeed, no Chinese conciliator was appointed until the first meetings took place.

► The Chinese side was more reluctant to fix procedures for conciliation, believing that fixed procedures limited the necessary give and take.

► The Chinese were reluctant to agree to face-to-face meetings until there seemed to be some broadly agreed-upon parameters for settlement. The US side, on the other hand, wanted face-to-face meetings precisely because the two sides were so far apart that there did not seem to be any such parameters.

► The Chinese were reluctant to accede to an American request for backup documentary evidence, considering this to smack more of adjudication than negotiation. Eventually, however, the Chinese provided the materials, which reportedly greatly facilitated the conciliation.

Despite these differences, the AAA feels that the conciliation was accomplished remarkably quickly and smoothly, and that, in view of China's distaste for arbitration, the conciliation mechanism holds great potential for the future. 光

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法律

Doing business with China: The Developing Legal Framework

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Timothy A. Gelatt

More than two years have passed since the promulgation of China's joint venture law of July 1, 1979, which covers the establishment of Chinese-foreign enterprises in China with joint equity contribution. That brief and often cryptic law, containing only 15 articles, was for quite some time the only formal piece of legislation specifically governing foreign economic activity in China. Would-be investors impatiently awaited the many additional laws and regulations necessary to fill in the picture of doing business in this uncharted territory.

Chinese officials frequently indicated during that first year that regulations regarding taxation, industrial property rights, labor, and other areas of concern to foreign business were under review, but made no promises as to publication dates. Then, in the late summer and early fall of 1980, the promulgation of certain regulations brought the long hiatus to an end—regulations on joint venture registration procedures and labor management, and income tax laws governing joint venture companies and individuals in China. Though numerous questions remain, a legal framework has begun to develop with the emer-

gence of a significant amount of legislation in several key areas relevant to investment and other economic activities in China.

Joint Ventures

The joint venture law mentioned the role of the General Administration for Industry and Commerce (GAIC), established in 1979, as a licensing authority for joint venture companies formed under the law and approved by the Foreign Investment Control Commission. The Regulations on the Registration of Joint Ventures Using Chinese and Foreign Investment, promulgated by the State Council on July 26, 1980, provide specific procedures for registration of a joint venture with the local administrative bureau for industry and commerce in the province where the venture is located, followed by licensing by the central GAIC. The process seems straightforward enough, and does not appear to cause any particular problem for the foreign investor.

By contrast, the Regulations on Labor Management in Joint Ventures Using Chinese and Foreign Investment, issued at the same time as the registration regulations, present significant difficulties. The joint venture law provided little guidance on the all-important issue of labor, and the labor management regulations were among the most anxiously anticipated by potential investors. Unfortunately, by leaving ambiguous what to foreign investors is the crucial issue—decision-making authority over labor questions—the regulations raise more concerns than they allay.

For example, the regulations state that labor contracts, covering the em-

ployment, dismissal, and resignation of workers and staff, labor insurance, and related matters, must be signed by the joint venture and a trade union organization formed in the joint venture, and then submitted to the provincial labor management department for approval. The intent to discharge workers must be reported to "the authorities in charge of the joint venture"—a sweeping phrase that could encompass numerous local and national bodies in China's bureaucratic web. Word also must be sent to the labor management department, "for approval."

In these and other cases where the regulations are similarly phrased, obvious questions arise. What criteria will the relevant authorities use in deciding their approval or disapproval? Is there any review procedure by which a joint venture, or its participants, may protest the authorities' decisions?

The answers, which should emerge either in the course of practical experience or through further guidelines, will be of much more help to foreign investors than the regulations as they now stand. By the end of this year, more light could be shed with the passage of a new set of joint venture regulations intended to supplement the joint venture law. These regulations, currently in draft form, may help clarify labor issues and answer a number of other questions left open to further regulation by the joint venture law: insurance, accounting, arbitration, technology valuation, land policy, and others.

Banking, Financing, and Foreign Exchange

The past year has seen significant legislative developments in banking and related areas. On September 22, 1980, the new Articles of Association of the Bank of China as approved by the State Council, took effect. The text appeared in the Hong Kong press a few weeks thereafter. The articles set forth the bank's organization, and clarify provisions of the bank's previous articles on its authority to engage in various types of loan transactions, to issue foreign currency bonds and other securities, and to participate in international financial activities that the bank is either engaging in or contemplating. The publication of the articles will help reassure foreign banks and other foreigners that the bank is acting under the Chinese government's formal authorization.

One area of increasing activity for the Bank of China is joint venture financing. Prior to the State Council's March 13 promulgation of the Provisional Regulations on the Bank of China's Handling of Loans to Joint Ventures Using Chinese and Foreign Investment, the only provision on joint venture financing was a joint venture law statement that a venture could "obtain funds from foreign banks directly." The new regulations provide the framework within which China's own official bank may extend loans to joint venture companies, as it has in several cases.

Under the regulations, any joint venture that has been approved, registered, and licensed in accordance with the joint venture law and registration regulations may apply for Bank of China loans. These loans may be used to meet production and marketing needs, to tide the venture over during periods in which accounts receivable for sold goods remain uncollected, or to finance expansion and technical improvements.

Loans may be in RMB or foreign currency, with interest and principal payments made in the currency in which the loan was granted. The regulations require that the borrower provide either collateral security or a guarantee meeting with the approval of the bank. Questions remain on the forms of collateral or guarantee that the bank will find acceptable, and which of the two types of security it will deem appropriate in which cases. Borrowers will have to await the accumulation of practice under the regulations.

The regulations' default provisions provide for the bank's right of set-off of overdue amounts against the account which a joint venture is required to open (with either the Bank of China or with a bank approved by the BOC). The bank may sell collateral upon default, and may place an interest surcharge of 20 to 50 percent on overdue loans. How the bank will determine the rate of a given surcharge is not indicated.

Any violation of the loan agreement with a joint venture allows the bank to take "such economic measures to protect its interest as suspending loan disbursements and accelerating repayment," depending on "different circumstances." Foreign investors will want to clarify in their loan agreements exactly what rights the bank reserves and the circumstances in which they can be exercised, since the sweeping

language of the regulations leaves this issue open-ended.

Rules governing the foreign exchange activities of foreign individuals and enterprises are included in the Provisional Regulations for Foreign Exchange Control. The State Council issued regulations on December 18, 1980. The Bank of China, the State General Administration of Foreign Exchange Control, and the SGAFEC branches administer the regulations. Specific responsibilities are assigned to the two bodies, but their relationship is not clarified.

The regulations require that the Bank of China act in accordance with contract stipulations of foreign personnel working in Chinese organizations, as regards the remittance or carrying of foreign exchange outside China. They do not specify to what, if any, guidelines organizations that employ foreigners may be subject in negotiating these stipulations.

The regulations do specify a ceiling for remittance or carrying out of foreign exchange—50 percent of after-tax earnings—for certain categories: 1. personnel of Chinese-foreign joint ventures; 2. representative offices of foreign firms in China; and 3. enterprises with overseas Chinese capital and enterprises with foreign capital. (The scope of the third item is vague, but supposedly it would include branches, subsidiaries, and representative offices of foreign firms in China.) This restriction will require careful planning on the part of foreign personnel and their employers, to avoid sending China wages that exceed twice the amount necessary for the personnel's use.

Joint ventures, enterprises with overseas Chinese capital, and enterprises with foreign capital all must deposit their foreign exchange receipts with the Bank of China and make all foreign exchange disbursements from their bank accounts. In order to remit after-tax profits and "other legitimate earnings" out of China, enterprises with overseas or foreign capital and foreign participants in joint ventures must apply to the BOC. They must apply to the SGAFEC or its local branches to remit capital funds out of China. No indication is given of the readiness with which the relevant authorities will approve these applications, or of the considerations that will figure in their decisions.

It is to be hoped that this and other gaps in the foreign exchange regulations will be filled in later by im-

plementing rules, which are promised in the regulations. Thus far, the SGAFEC has issued only two brief sets of implementing rules (August 10, 1981). These rules address provisions of the foreign exchange regulations covering the carrying of foreign exchange, precious metals, and payment instruments in convertible RMB (China's RMB-denominated foreign exchange certificates) into or out of China, and to the foreign exchange control measures that apply to foreign diplomatic offices, offices of international organizations, and other foreign representatives in China. The forthcoming regulations on joint ventures may well have more to say about foreign exchange procedures governing those entities.

Taxation

The joint venture law clearly anticipated both a joint venture income tax and an individual income tax. Fourteen months after its passage, the National People's Congress passed the Joint Venture Income Tax Law (JVITL) and the Individual Income Tax Law (ITL) (September 10, 1980). As supplemented by implementing regulations approved by the State Council and issued by the Ministry of Finance on December 14, 1980, the two laws go a long way toward setting out the tax regime that will apply to foreigners working in China and to joint venture enterprises. Nevertheless, numerous issues—of which only a few can be mentioned here—await clarification through further regulation and experience.

In the ITL and its regulations, the main issue of concern to foreigners has been residency. Individuals who reside in China for more than 90 days but less than an entire tax year (which is a calen-

dar year) are subject to tax on income "gained" or "sourced" within China. According to the regulations, that includes wage and salary income from "work within China." Individuals residing in China not longer than 90 consecutive days are not liable for tax on compensation paid by their employers outside China for work in China.

On June 30, 1981, a notice was drafted by the Central Ministry of Finance and issued by the Foreign Tax Collection Office (FTCO) of the Beijing Tax Bureau, which makes clear what foreign taxpayers have already been discovering in their dealings with the Tax Bureau—that the word "consecutive" in the 90-day provision does not mean what it might seem. The Chinese apparently have defined residency essentially as the right to remain in China, as evidenced by visas. Thus, under the notice, any foreigner who enters China with a visa valid for more than 90 days is presumptively a resident of China for more than 90 days and thus liable for monthly payment of the individual income tax. The fact that he leaves China before the end of that time does not excuse him from tax, so long as he returns during the effective period of his visa.

An FTCO official recently indicated that if a foreigner leaves China for the last time (i.e., without intending to return on that particular visa) and can show that he has actually spent a total of 90 days or less in China, he may have his resident status revoked and be entitled to a tax refund.

FTCO officials have added a startling piece to the puzzle of China's new tax system. In their view, all wage and salary income earned by an over-90-day resident of China (as defined in the notice)

during the period of residency is gained or sourced in China and thus taxable. No distinction is made, in other words, between the concept of residency, which subjects a foreigner to tax, and that of income sourcing, which determines on which income he is to be taxed. Thus, despite the language of the ITL regulations indicating that only income from work "within China" is taxable as China-sourced income, the FTCO takes the position that under the new notice the holder of a six-month Chinese visa who spends four of those months working in China and two months working in the US is taxable in China on six-months' wage and salary income. The extent to which tax authorities will seek to enforce this approach—and the way they will go about enforcing it—remain to be seen.

Residents of China for a full tax year are taxable on their worldwide income, gained in or out of China, consisting of wages and salaries, personal service compensation, royalties, interest, dividends, bonuses, and rental income, as well as any other income that the Ministry of Finance may later declare to be taxable. However, if they reside in China for less than five years, only that part of their offshore income which they remit to China is taxable.

The regulations state that "temporary" absences from China will not be counted for purposes of the one-year residency provision. The recent Tax Bureau notice defines this language by indicating that foreigners with visas or one-year residence permits (which representatives of registered offices in China must hold) who leave China and return during the effective period of their permit or visa are residents of China for one full tax year—no matter how much

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time they actually spend in China. In addition, a foreigner who "continuously" obtains short-term visas, leaving China when each visa expires and obtaining a new visa to reenter, is still a one-year resident so long as his periods of absence between visas during the year are 30 days or less.

Again, under the Tax Bureau's conception of income sourcing, all wage and salary income (though not other types of taxable income) earned during a foreigner's one-year "residence" in China is considered gained in China, even though part of such income reflects periods spent working outside China. Thus, the question of whether or not a foreigner remits wage and salary income to China for work done outside the country has no relevance for purposes of Chinese taxability.

Another controversial issue on which the IITL and regulations are silent is the tax treatment of various fringe benefits foreign firms provide to their employees in China. The recent Tax Bureau notice, as clarified in discussions with the FTCO, sets forth the following regime. All fixed allowances provided to employees of foreign companies in China, be they per diem, monthly, or otherwise, are taxable as wage and salary income. Payment by the employer of what the notice calls "company" expenses—transportation, accommodation, telephone and telegraph expenses, office expenses, advertisements, and business-related social expenses—does not result in tax to the foreign employee provided his company offers "proof" which is "verified" by the local tax authorities. The type of proof required and the nature of the verification remain unclear. A foreign firm's payment for the employee's personal expenses, such as food and laundry, will be counted as salary and taxed.

Taxation under the IITL is at graduated rates of 5 to 45 percent on wage and salary income above ¥800 (a threshold that will at least for the present exempt almost all Chinese from the tax), and at a fixed 20 percent rate for other forms of income covered under the law. Administrative difficulties resulting from the need to separate each item of income to determine taxability, deductions, and exemptions are among the many practical matters that await the attention of China's tax authorities as their experience in individual taxation develops.

Under the JVITL, joint venture companies organized in China under the joint venture law are subject to tax on

their worldwide income. The tax also reaches branches of Chinese joint ventures set up within or outside China. The tax rate is 30 percent, with an additional 10 percent for use by local treasuries. Provincial governments may, according to the regulations, eliminate or reduce the 10 percent surtax "on account of special circumstances." There is no indication of the procedures or requirements for obtaining this favorable treatment. In addition, the JVITL also imposes a 10 percent withholding tax on profits the foreign participant in a joint venture remits out of China.

The JVITL provides for a number of possible tax reductions or exemptions. Implementing an incentive referred to in the joint venture law, the JVITL allows a newly established joint venture that is scheduled to operate for 10 years or more to apply for a full exemption from tax in its first profitmaking year, for a 50 percent tax reduction in its second and third profitmaking years. The extent to which the tax authorities will automatically approve applications for this benefit is unclear.

Detailing another incentive introduced by the joint venture law, the JVITL provides that a participant in a joint venture in China that reinvests its share of profits in that or in another joint venture may, upon approval of the tax authorities, obtain a refund of 40 percent of the tax already paid on the reinvested funds. The regulations leave a number of questions about this incentive unresolved. For instance, it is unclear whether only reinvestment of undistributed profits in China qualifies the investor for the refund, or whether subsequent reinvestment of already distributed profits would also suffice.

The JVITL and the regulations provide detailed schemes for determining the taxable income of different types of joint ventures. In the case of deductions, the regulations use a number of undefined terms such as "operating expenses," "cost of sales," and others that may or may not mean the same to the Chinese as they do to foreign business people. One point that raises particular concern is the denial of a tax deduction for "interest on capital." Under the broadest interpretation—which seems an unlikely one—the provision could be read to deny a deduction for interest payments of any kind. More likely, the term "interest on capital" refers to interest on loans from shareholders, which would be treated as nondeductible dividends, as are dividends under

the corporate tax laws of the US and other countries. Yet a third interpretation would read the term as requiring that interest on a loan taken to acquire a fixed asset be capitalized as part of the cost of the asset and deducted over the asset's useful life in accordance with the regulations' depreciation provisions. The Chinese will have to clarify this provision before joint venture participants will feel confident in incurring any sizable debt.

The Regulations Regarding the Levying and Exemption of Industrial and Commercial Tax for Import and Export Commodities, issued by the Ministry of Finance with the approval of the State Council on December 30, 1980, shed some light on a joint venture's position under China's industrial and commercial consolidated tax. That tax is a turnover tax imposed on sales and service proceeds and on the amount of import purchases. As a general rule, it applies to all enterprises established in China, including joint ventures. The new regulations exempt joint ventures from paying the consolidated tax on imports approved by the government of advanced technology and prototypes (of equipment, etc.). They also exempt the foreign joint venture participant from consolidated tax on machinery, equipment, parts, and raw materials imported under the terms of the joint venture contract as part of the foreign participant's equity contribution. Joint ventures will pay consolidated tax on other imports, as well as on their sales proceeds. For income tax purposes, the JVITL regulations allow joint ventures to deduct consolidated tax on sales from their taxable income.

In addition to equity joint ventures covered by the JVITL, other forms of doing business in China are developing. These include the establishment of branches, subsidiaries, or representative offices in China, coproduction projects, and "contractual" joint ventures, in which both parties contribute to the venture and share profits but do not form an actual joint equity company. A new Foreign Enterprise Income Tax Law—in draft form at this writing—will apply to foreign enterprises employing these non-joint-venture modes of business in China.

According to sketchy reports on the new law, income of foreign companies that set up branches or subsidiaries in China, or which engage in coproduction ventures, will be taxable at graduated rates of 20 percent on net profits

less than ¥500,000; 30 percent on net profits between ¥500,000 and ¥1.5 million; and 40 percent on net profits above ¥1.5 million. To each basic rate a local 10 percent surtax will be added, as in the case of the joint venture tax. The scope of income to be covered by the law and the definition of net profits remain unclear. Exemptions, reductions, and tax holidays similar to those provided under the JVITL apparently will figure into the new tax law.

The new tax law reportedly will include a separate 20 percent tax rate, though its exact application is as yet unknown. According to some sources, this rate will apply to the income gained in China (from interest, royalties, etc.) by foreign enterprises with representative offices, as opposed to branches or subsidiaries in China. Other sources indicate that even companies without any formal PRC representation will pay the 20 percent tax on their income gained in China. If the latter information proves correct when the law is released, a foreign company involved in a licensing agreement with a Chinese entity, for instance, apparently would be taxed on its royalties even if it had no actual presence in China.

The law also is expected to cover the joint exploration and development projects with foreign oil companies due to begin after China opens various offshore locations to international bidding. (Two such projects already have begun with French and Japanese concerns; details of the contractual tax provisions for those deals have not been published.) China's awareness that foreign oil companies will be reluctant to enter contracts in the absence of governing tax legislation is serving as a major impetus to early passage of the new tax law, quite possibly by year's end.

Special Economic Zones

Foreign investment and other economic activity in the areas designated as special economic zones—Shenzhen, Zhuhai, and Shantou in Guangdong Province, and Xiamen in Fujian—are slated to take place under a legal regime that will be largely separate from that developing for the rest of China. On August 26, 1980, the Standing Committee of the National People's Congress passed a set of regulations for the Guangdong Province SEZs. Those very general regulations appear to promise more control over labor mat-

ters for foreign investors than the ambiguous national labor management regulations. They also provide a 15 percent income tax rate for joint venture or wholly owned foreign enterprises in the zones, with unspecified "special preferential treatment" for enterprises established within two years of promulgation of the regulations, enterprises with investment of \$5 million or more, and certain others.

The regulations promise favorable consideration on questions of land rental, and exemption from import duties on means of production for enterprises in the zones. Further, the regulations appear to contemplate foreign exchange rules for the zones allowing foreign individuals and enterprises to freely remit foreign currency out of the zones.

On August 18 of this year, the Chinese press service released a 10-point set of policy guidelines, apparently approved by the State Council, that set the stage for new regulations for the Guangdong and Fujian zones. These new regulations will detail and in some cases expand the favorable treatment outlined in last year's Guangdong regulations on import duties, taxation, labor, foreign exchange, and other areas. The guidelines indicate, for instance, that under the new regulations all goods for production and consumer use imported into the special zones will be exempt from import duties, with the exception of cigarettes and liquor (which will be taxed at half the lowest applicable rate) and of a small number of goods (on which normal duties will be levied). The new regulations reportedly will grant tax holidays of from one to seven years, depending on the type of venture, as well as tax reductions or exemptions on reinvested profits.

Regulations Still to Come

Although there is certainly much more to say now about the laws governing business with China than there was a year ago, vast areas of concern to foreigners contemplating economic involvement in China remain uncovered by laws or regulations. One or two wholly owned foreign operations are already under way in Shenzhen's Shekou industrial district. Yet a governing law, in the absence of a Chinese companies statute and other relevant laws, is not to be found. Nonequity joint ven-

tures, coproduction projects, compensation trade deals, and the like are proceeding, and probably will for some time, on the bases of internal guidelines and contractual provisions.

A patent law, and other regulations relating to the licensing of technology, have yet to emerge. The patent law has undergone numerous drafts. As predicted, it is proving to be among the most difficult laws for China to formulate in a way that protects foreign interests while heeding the ideological dictates of a socialist system. Chinese legal officials recently indicated that foreigners should not expect its early release. Revisions of China's 1963 trademark legislation are still only promises.

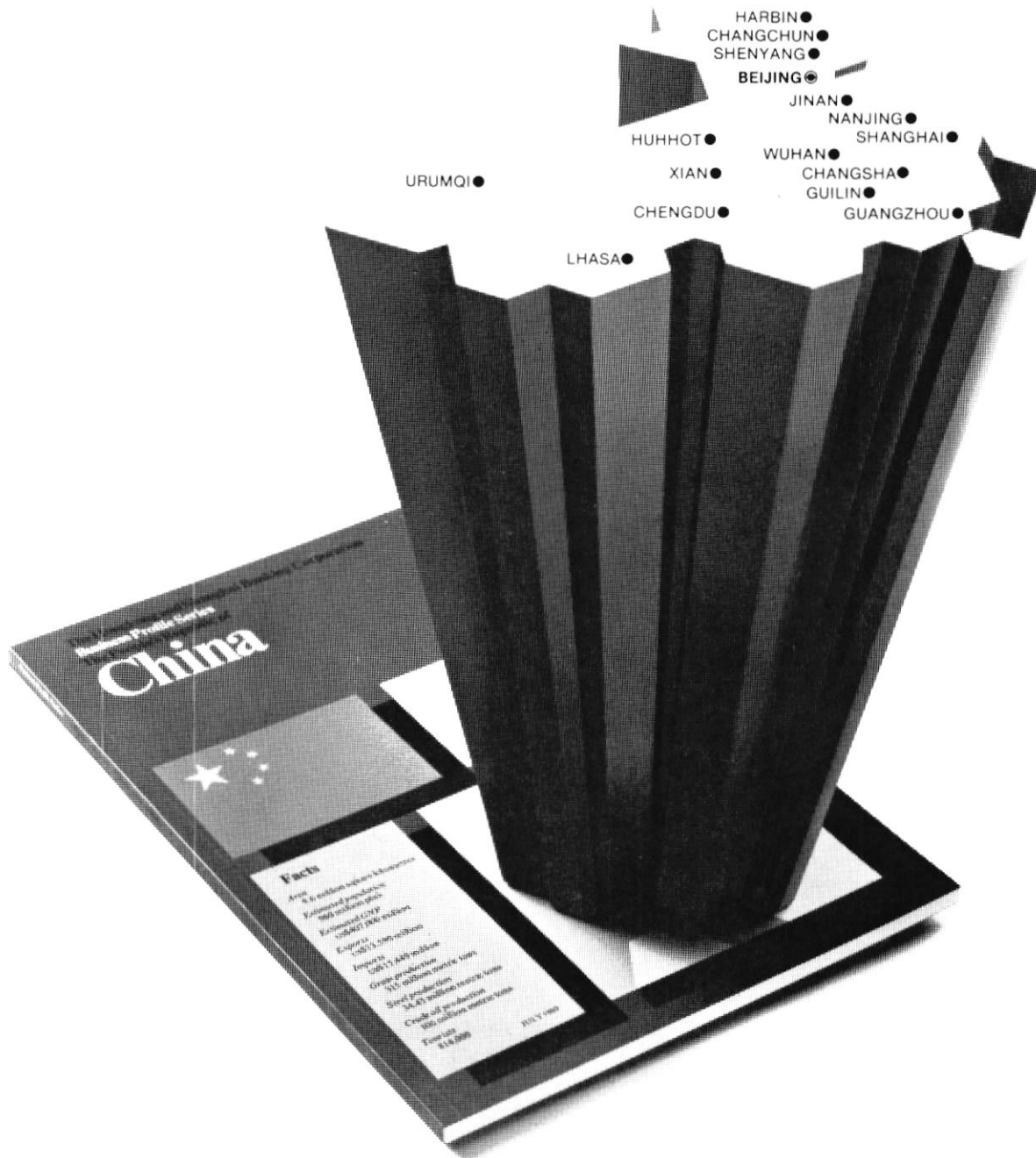
The civil code, which will lay down Chinese property law and other principles of relevance to foreign business, and the civil procedure code, which sets out the system governing actions in China's civil and economic courts, have undergone several drafts and have been circulated internally for comment and revision. Formal promulgation of the procedure code is likely to come soon, but the civil code's release may be some time in the future. A law governing contracts with foreign businesses, a banking law, and a natural resources law, are among numerous other pieces of legislation on China's drawing boards.

Chinese legal and economic officials have made it clear that they see the evolution of China's system of laws governing economic activity as taking place over a fairly long period of time. Wisely reluctant to rush out laws cut of whole cloth from other countries' statute books that will soon be found inappropriate for China, the Chinese have adopted an approach of relying on the formulation of new laws both on the study and comparison of foreign legal systems—both capitalist and socialist—and on the accumulation of practical experience at home.

Though it creates understandable impatience and frustration on the part of foreigners, this gradual approach should prove to be to their advantage. The Chinese expenditure of more time now on legal and economic training and on the absorption of experience should ultimately be reflected in the development of an increasingly comprehensive and workable legal framework for doing business in China.

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Business in Telecommunications

US firms are identifying select opportunities as China begins investing in its telecommunications infrastructure.

Karen Berney

By linking up with Intelsat, China would rapidly expand its domestic communications network.

With the PRC's September 20 launch of three scientific satellites on a single rocket booster, Beijing recommitted the country to the rapid pace of achievement that has distinguished its space program since the launching of the first Chinese-made satellite, the "East is Red," nearly 11 years ago. Nevertheless, financial considerations have forced a reordering of space priorities. Research and development of earth resources and meteorological satellites has been pushed back in favor of an all-out effort in space telecommunications. In 1983 or 1984, China's twelfth spacecraft, a 200-watt solar-powered, experimental communications satellite, will be launched into a geosynchronous orbit by a new three-stage, cryogenic-driven rocket. An operation-

al communications satellite, experts agree, will not be possible until the next decade.

In the meantime, Beijing plans to meet its most pressing domestic communications needs by linking up with the Intelsat network. Chinese and Intelsat officials are now negotiating an agreement under which Beijing initially would lease one and one-fourth transponders on an Intelsat satellite for about \$1 million a year. One transponder would be dedicated to nationwide broadcasts to two color TV stations, while one quarter of another would be used for intercity telephone transmission.

Ground support for Intelsat services would require an investment in earth stations. Since Intelsat offers its customers very little technical assistance,

Beijing is considering contracting with a US telecommunications engineering and designing firm for guidance in specifying the number, design, parameters, and site locations of earth stations, and in recommending possible equipment suppliers. China probably will build some earth station equipment locally and import certain components (antennas, amplifiers, and testing instruments) where its technology is lacking.

Regarding Beijing's plans to purchase a \$200 million satellite-broadcast and communications system from the US—plans which in 1980 were "postponed for several years"—NASA officials say Beijing will inform Washington of its ultimate intentions in the next three to four months. Agency and industry observers alike doubt that the PRC will revitalize the program.

The sale of a Landsat ground station, though, is imminent. Provided NASA and the Chinese Academy of Sciences can iron out a difference over China's desire for separate locations to house the station's receiving and data processing elements (see *The CBR*, March–April 1981, p. 33) a contract will be awarded in the early part of next year. General Electric and the California-based firms of Pickering Research and Land Resources Management, are competing for the \$8-\$10 million deal.

Business Opportunities with the Ministry of Posts and Telecommunications

China's Ministry of Posts and Telecommunications (MP&T) plans only modest investments in the country's communications infrastructure during the next four years. Work will focus on incremental improvements in China's existing hardware, according to information provided by a MP&T delegation that visited the US in late September under the auspices of the National Technical Information Agency (NTIA). US business and government representatives who participated in the National Council's telecommunications market seminar on November 12 acknowledged the constraints on capital outlays by the MP&T. But they stressed that hardware sales opportunities do exist in a few areas.

One such area is international communications, where US–China traffic, in particular, has been growing at a phenomenal rate. Jesse Wang of ITT World Communications Inc. reported that in June 1979 two communication trunks connected the US and China. Today there are 21—seven to Beijing, three to Shanghai, and one to Guangzhou. During February of 1980 the US received 3,646 minutes of telexes from China. That figure more than tripled during July of this year to 12,281 minutes of messages. ITT predicts an additional need for five more trunks in the near future. As a result, the firm has received positive feedback on its proposal to sell computer-controlled electronic switching systems to China, though the price is currently beyond the reach of the MP&T's budget.

The MP&T plans to implement a few high-priority projects but has not yet announced any timetable. These plans include acquiring a computerized system for radio frequency management and spectrum utilization, installing semiautomatic telephone links with

several countries, joining Beijing and Shanghai international switchboards with port cities and tourist centers, upgrading the Beijing International Switching Center, and introducing new data services such as radiophotos.

Beijing's self-reliance thrust will, for the near term, diminish central control of communications and enable provinces with foreign exchange to strike deals on their own. This situation, according to David Bowie, a Chinese telecommunications and electronics specialist with the Department of Commerce, "will lead to a continuation of uneven acquisition and application of technology and equipment—a situation that US industry should exploit where possible."

For example, last spring Guangdong Province announced that ¥200 million (\$133 million) had been earmarked for communications expansion in Guangzhou and the province's three special economic zones. By 1985, Guangzhou hopes to have 80,000 lines each operating through its public and private exchange networks. This presents export prospects for stored program control and digital switching equipment capable of handling 10,000 lines, said Bowie. Guangdong already has purchased Japanese equipment for 3,500 lines and a high-capacity microwave system linking Hong Kong, Shenzhen, and Guangzhou, from the Hong Kong firm Cable and Wireless.

Last May, Fujitsu of Japan received an order to supply Fuzhou with a 10,500-circuit switching system and medium-size computer for calculating telephone charges. Another sales opportunity exists in conjunction with upgrading the Xiamen switching center. Japanese firms already have presented bids to the Fujian bureau of the MP&T. But to be competitive, the MP&T delegation indicated that US firms must furnish prices and technical training packages comparable to their Japanese counterparts.

Tapping Other User Ministries

US experts advise firms to broaden their marketing efforts beyond the MP&T. The ministries of petroleum, railways, electric power, and defense, as well as the Public Security Bureau, Central Television Administration and press, all operate and maintain their own communications networks. Lun Zuqi, chief of the Guangdong Broadcasting Corporation, told US officials attending the October Guangzhou Fair that he is very interested in obtaining

information on US-made equipment that could aid in upgrading radio and TV facilities.

Perhaps the greatest business potential lies with the Ministry of Electric Power (MEP), which currently must lease channels from the MP&T to meet its needs. In a recent meeting with a US foreign commercial officer in Beijing, MEP officials stated that the ministry will be looking to buy various kinds of communications equipment in the next two years. Specific items mentioned:

- ▶ computers to connect China's six regional power grids,
- ▶ automated flood-warning systems to be located upstream from hydropower plants,
- ▶ wireless remote-control equipment for new hydropower plants. (The MEP hopes to finance such purchases with foreign loans for the stations.),
- ▶ special equipment for operating microwave relay systems in extremely remote areas that would not require the permanent stationing of technical personnel, and
- ▶ coupling transformers to enhance the efficiency of transmission lines that run below high-voltage power lines.

US experts encourage companies to promote three- to six-month technical training courses for Chinese engineers and managers at their facilities. Money from the United Nation's International Telecommunications Union is available. The NTIA and Federal Communications Commission also are committed to facilitating exchanges between the MP&T and US private industry, manufacturing, and research centers. Such programs can serve as a way for business executives to get to know some of the people who will influence telecommunications decisionmaking in the future. ☛

Corrections: Sept.–Oct. 1981 CBR

p. 4 The Coopers and Lybrand office listed is in Shanghai, not Guangzhou.

p. 26 CCPIT is not subordinate to the Ministry of Foreign Trade, as is implied by the chart. Since January 1, 1981, CCPIT has been an independent agency under the State Council.

p. 32 CTPS's US-China Electronics, rather than its *US-China Agriculture*, took a \$20,000 loss.

p. 32 George Hutter is publisher, not president, of AE&I.



A Few of China's Unusual Products

Kathryn L. Dewenter

Contrary to what many people have been led to believe, textiles and textile products are not the only goods the PRC exports to the United States. Peanuts were China's number one export to the US during the first three months of 1981. Gasoline was number two. Some of the fastest growing and more unique export items included wallpaper, plastic and rubber religious articles, Christmas tree lights, and metal coins. A few of these items are examined below; though each represents slightly different problems in importing from China, together they raise important issues and questions that all US importers must face.

BEER

Thanks to a major promotional campaign for Tsingtao beer, brought into the US by Monarch Wine, Inc. of Brooklyn, New York, many Americans are at least aware of this Chinese export. Other Chinese labels, such as Great Wall or Yuchuan, have been spotted on American shelves. But so far, Monarch Wine seems to be the only company able to establish a profitable, growing business in Chinese beer imports.

Throughout the 1970s, as many as eight companies had licenses to import Tsingtao beer from a German-built brewery in the port city of Qingdao. But only two or three actively marketed the beer, and distribution remained low. Then in early 1978 CEROILS extended an invitation to Monarch to participate in what became the first in a series of negotiations to import Tsingtao beer and vodka. That September,

Company President Leo Star signed an exclusive three-year contract to import both beverages to the US.

Since that time, Chester Moss, director of operations for Monarch Wine, has made six trips to China to discuss import arrangements and product improvement. On one visit Monarch took along a leading beer expert to help the Chinese improve the head on Tsingtao beer. The company also designed a new label that the Chinese are now printing themselves. Special bottle caps required in certain states have been provided by Monarch, along with six-pack carriers and lab supplies. The two sides are also discussing the possibility of importing Tsingtao in cans.

Monarch reaffirmed its good relations with the Qingdao brewery in March 1981 with the signing of a second five-year contract.

Last summer Monarch launched what it termed the largest US introductory campaign for an imported beer, spending an estimated half million dollars in 1980 for print and television advertising. (A Monarch spokeswoman thinks that figure will drop slightly this year.) A 10-second TV commercial was run by all three major networks in 40 states; the message reportedly reached 91 percent of New York's adult male population an average of 10 times each.

Surprisingly, the campaign did not lead to a large spurt in sales, though sales have been increasing steadily. In 1980 Monarch sold approximately 250,000 cases in the US. The company expects that figure to climb to 300,000 cases in 1981 and to reach a million cases in the mid- to late-1980s. Already Tsingtao has captured 40 percent of the market for imported oriental beer.

The only major problem Monarch officials say they've encountered with the Chinese beer has been delays in delivery. Originally only one feeder vessel worked out of Qingdao, and the cargo took approximately one month to reach the United States. (Though beer can sit on the shelves as long as six months, one expert says its compounds begin breaking down after 30 days.) Recently that problem has been alleviated as more feeder vessels have begun serving Qingdao.

Growth of the Tsingtao market has been strong enough to virtually force out its number-two competitor in the US. The New York-based China Trade Corporation began working with CEROILS in 1974 to import Great Wall beer and vodka under a five-year contract. But sales were less than brisk. Projects Manager Ed Bernard estimates that between 1977 and 1980, the company sold 22,000–25,000 cases of vodka and only 6,000 cases of Great Wall beer. To make a "viable effort" to compete, the company realized it needed "to put a couple of million dollars" behind the Great Wall label, Bernard continued. But since no US investors expressed interest in joining the venture, the company just let its market go flat.

Another short-lived Chinese beer import is the Yuchuan brand, imported by Franklin International of Los Angeles. Franklin announced the exclusive contract in 1975 in *The China Business Review*, with the declaration that Yuchuan would "receive much wider distribution and marketing support" than Tsingtao beer. Today, Franklin imports the beverage only sporadically.

According to Franklin President Thomas Fairbairn, no single factor can explain Yuchuan beer's cool public reception in the US. To begin with, the company was never guaranteed a steady flow of beer, and what did arrive was often spoiled. The 1976 Tangshan earthquake completely stopped production in the Tianjin brewery for an extended time.

The costs of importing the beer, advertising it, paying duty, and providing labels and six-pack carriers led to an unrealistically high price. And now that the novelty of the product has worn off, Fairbairn says he faces an overly competitive market. Because Tsingtao beer is so well known, he says, any other brand would have to sell for 10-15 cents less per bottle just to gain a footing in the market.

CHRISTMAS TREE LIGHTS

Sales of Chinese lights for American Christmas trees have potential for further growth. Imports worth \$1,000 in 1980 surpassed the \$15,000 mark in the first three months of 1981 alone.

Yet the whole import picture is not necessarily bright. Problems of quality, parts, price, and deliveries exist. Only one US importer right now is willing to struggle with the tremendous problems of importing from China, and he's not sure how much longer he can remain patient.

Murray Brandis, president of the General Trading Company of Los Angeles, has been working with the Chinese for two years now and hasn't received his first Christmas tree light. His hope has been to arrange a 50-50 joint venture with the Decorated Lamp Division of INDUSTRY's Shanghai branch, whereby the partners would manufacture C-7 tree lights, C-9 outdoor bulbs, and three sizes of miniature Christmas tree lights. Brandis would put up \$100,000 to buy one lineup of six manufacturing machines that could produce lamps and plug molds for about 10,000 sets a month. The Chinese would handle packaging and printing, as well as provide 50 percent of the funds up front.

Virtually nothing has gone right. Over a year ago Brandis checked over a string of lights and found the Chinese didn't have the proper wire, so he had to order supplies from Taiwan. Later he found that the paint on the outdoor decorative bulbs burned off when the

lights had been lit awhile. For some time now Brandis has been trying to get the Chinese factory to secure an Underwriters Laboratories (UL) certificate of approval to meet the requirement of most major American stores. This would necessitate the Chinese filling out applications for a permit covering string lights and plugs, sending product samples to UL, and enclosing \$3,000 in fees. A few months ago, after Brandis supplied them with the proper plug from Taiwan, the Chinese finally sent in their application. But UL is still awaiting the lights and the fee.

Brandis has offered his potential partners plenty of free advice, having invested between \$10,000 and \$20,000 in China trips alone. To gain a foot in the market of about two million sets a year, he suggested they price their lights at about 90 cents a set. The Chinese made no decision. To make their package more acceptable to American buyers, they would need to redesign their boxes, Brandis said. Again, no decision.

At one point Brandis suggested the Chinese use a home labor system that would employ "village workers," as Taiwan does. Under it, work would be parceled out to individual homes in supervisory districts. Light sets would be assembled and packaged right in the home. The Chinese expressed much interest in the process, but still took no steps.

"I'm beginning to lose faith in these people," Brandis complains. "There are no bosses around there."

POSTAGE STAMPS

In October 1980, Uncover Corporation in Cheyenne, Wyoming, signed an agreement with the China National Stamp Corporation (CHINASTAMP) to create the China Stamp Agency, the PRC's designated stamp agent for North America. The agency imports, markets, and distributes stamps, souvenir sheets, presentation folders, stamp booklets, postal stationery, and first-day covers. (Though Uncover is China's official stamp agent, it is not the only one. Agents such as Fidelity Trading Company in Cypress, California, auctioneers, and even private citizens are selling old, regional, and current issues of Chinese stamps.)

Uncover President Jim Helzer has nothing but positive comments about his dealings with the Chinese. "I cannot

speak highly enough of the quality of our relations..." The China Stamp Agency already has sold material worth more than 200 percent of the company's original "optimistic" projections. And Helzer says his contract with CHINASTAMP calls for "several million dollars" worth of business over the next few years.

Apparently the Chinese share Uncover's feelings. Business relations have been going so well that Uncover and CHINASTAMP recently signed an agreement to establish a joint venture called Ancient Coins of China. Under the agreement, details of which have not been released, Ancient Coins maintains the exclusive rights to a series of stamps portraying ancient coins and copies of those coins. Announcements of the issues should begin appearing any time.

Uncover has been doing much to advance the US market for Chinese postage stamps. The widespread publicity surrounding the creation of the China Stamp Agency helped notify collectors about new issues of Chinese stamps, and the value of imports to the US grew from \$8,000 in 1978 to more than \$250,000 in 1980. This fall the company is bringing two Chinese artists to New York for stamp exhibitions.

All this publicity can only help mend China's damaged reputation in stamp collectors' circles. Problems arose from a deal China struck last year to allow a US firm to exclusively market a commemorative stamp issue for the PRC national exhibitions in New York, Chicago, and San Francisco. Initially the price of the stamp sheetlets was high but reasonable, considering the unique and limited issue. But as the three-month exhibition progressed, the price continued to climb until it exceeded two and one-half times the face value.

The consensus among stamp dealers is that the US company was responsible for raising the price to increase its profits. Still, much ill feeling was directed at the Chinese, and many independent dealers use this example to illustrate China's disorderly marketing.

Stamp purchases have also flourished in China, now that the Gang of Four can no longer denounce stamp collecting as a "bourgeois hobby." Current issues, which are in the general public's price range, are in greatest demand.

A less scholarly reason also could explain the recent interest in stamp collecting. Word has it that Chinese stamps often are bought with local cur-

rency and smuggled to Hong Kong for resale in hard currency. One businessman reports that while he was contemplating a purchase in a Beijing shop, a Chinese man bought a set and then offered to resell it to him right in the shop for US dollars.

As one observer put it, "Obviously something is going on. There are constantly huddles of people all around and outside the stamp stores in China."

One US dealer predicts that such a high demand for stamps in China will increase their resale price in the US, since he says the biggest price factor is the original price. More cautious dealers believe the best investments and greatest potential lie in the older, more expensive stamps. A broker at Dumont Stamp Company, Inc. in New York points out that in the short term, however, the price of older stamps could level off as more come out of China. The rarest Chinese stamp he has seen—an issue from the 1960s showing a man holding Mao's Red Book—is now selling for \$6,000. Within a year he thinks that price will drop to \$1,000, but then it will appreciate at an even greater rate in the long run.

Because Chinese stamps have been available in the US only since the early 1970s, the market has been restricted. Most dealers believe demand will increase as supplies improve, provided that China embarks on a major selling and advertising campaign.

WALLPAPER

If there is one problem that this case example and the preceding ones share, it is undoubtedly China's inexperience in marketing techniques. Left to their own devices, the Chinese lack the expertise to tailor a product to the Western marketplace. Those rare instances where success is achieved are attributable to the joint efforts of importers and Chinese personnel working together on product design, specifications, color, and packaging.

Marguerite Shaw of K. J. Shaw Company, Inc., in Palm Desert, California, has worked extensively with the Chinese on marketing in connection with China's exclusive contract to sell grass cloth wallpaper in the US. When she first arrived in China in 1972, the PRC had barely heard of the grass cloth industry. And yet in the first three months of this year Shaw's grass cloth purchases from China totaled \$270,000.

A long-standing importer of grass

cloth wallpaper from Hong Kong and Korea, Shaw saw great potential for such an industry in China. Successful production requires an abundant supply of two things: natural fibers and inexpensive, semiskilled labor. While most countries have one or the other, China has plenty of both.

Accordingly, Shaw contacted an agricultural division in the Chinese government in 1972 with a proposal to establish a grass cloth industry there. She was soon invited to China's liaison office (now embassy) in Washington, D.C. to outline her proposal. Many months passed before a return invitation was extended. Armed with a hand loom, samples, a slide series detailing basic instructions, and accompanied by a friend from Hong Kong who spoke nine Chinese dialects, Shaw gave the first of a number of presentations. Slightly more than three years passed before she established her first grass cloth enterprise in a Shanghai commune.

Production was short-lived, however. The turmoil surrounding the fall of the Gang of Four closed the factory in 1976. When Shaw returned to China later that year she had to start from the beginning with a new set of pupils in a Tianjin factory. Before long the fates intervened and the earthquake that had halted Franklin International's beer imports closed down Shaw's second factory.

Rebuilding a base of operations was just one of her problems. Since the Chinese workers had no idea of their product's end use, establishing a system of quality control became almost impossible. And grass cloth producers in competing countries began pressuring the Chinese to sell their intermediate product for finishing abroad. It took a great deal of persistence to convince the Chinese to finish their cloth and make a name for themselves.

Shaw concedes that in the current market Chinese grass cloth wallpaper is "on the bottom rung of the ladder," suffering both from quality problems and bad PR. Most of the unfavorable press for her products is generated by her Japanese and Korean competitors, she believes. "Every mistake is amplified because those people don't want it in the country."

Yet given the recent pace of development in China's infant grass cloth industry, one cannot doubt that China will become an important supplier of grass cloth wallpaper in the future.

WIGS AND HUMAN HAIR

Despite recent increases in wig and human hair imports, many importers are pessimistic about potential growth for either product. The value of PRC wig exports to the US grew from \$52,000 in 1979 to \$309,000 in 1980, and is expected to reach \$316,000 this year. Meanwhile, treated human hair imports grew from \$107,000 in 1979 to \$238,000 in 1980, and should total \$390,000 this year.

But importers are quick to point out that most of those higher figures can be accounted for by substantial price hikes over the past few years. Some even contend that actual imports have fallen, especially of Chinese wigs.

According to Julius Klugman of Julius Klugman International Corporation, "China came in [to the wig market] when the big boom finished." Demand began shifting a few years ago from wigs to human hair and hair products. One Philadelphia firm, Wagman & Wolf, Inc., completely discontinued its wig imports from China and began purchasing human hair from CHINA-TUHSU, China National Native Produce and Animal Byproducts Import and Export Corporation. For a time the service, quality, and costs all met the needs of US importers, remarked Wagman & Wolf President Charles E. Grenamyre. But then the Chinese made a drastic move.

Believing the market would absorb any price, China raised its prices two to three times between 1978 and 1979 (and in the case of some long styles, four times), according to Grenamyre. "We thought there was some mistake," he said. At first American and Southeast Asian importers, who make up the bulk of the market, were forced to pay the tariff. Later the price hike had the predictable effect of decreasing demand—at least in the US market, where the need for dark, thick oriental hair is not so high.

Importers like Grenamyre and Klugman doubt that the drop in demand will affect prices very much. The Chinese do not seem eager to expand this business to a great extent. While they can supply short hair pretty readily, says Grenamyre, long hair is both harder to come by and more bother to dress. For the moment they seem content collecting high prices primarily from Korea, Hong Kong, and Japan.

MUSICAL INSTRUMENTS

Musicians ranging from the flute player in the local high school band to the concertmaster of a metropolitan symphony offer a potential market to China. Sales of Chinese instruments, both inexpensive and top of the line, have been growing in the US. Exports of all types of string, woodwind, and percussion instruments to the US surpassed \$162,000 between January and April of this year. China even did \$3,000 worth of business in grand pianos.

Importers, when asked to pinpoint the market and predict the future for Chinese instruments, tend to sound a discordant note. Some see limited opportunities for less expensive band instruments here. Others forecast a bright future for finely crafted, quality instruments. Two US companies—Multivox and Ideal Musical Merchandise Company—have followed completely different importing plans, and each has achieved some measure of success.

Multivox of Hauppauge, New York, has been importing a wide range of Chinese instruments for a little more than two years. Originally a Canadian agent handled all design and material improvements with the Chinese; now Multivox works directly with several INDUSTRY branch offices while trying to arrange direct importing links with Chinese factories. Imports include primarily inexpensive band and string in-

struments and some higher-quality strings.

Multivox has been fairly pleased with the quality of its Chinese imports. (On the average it receives one bad instrument in five.) But the company doubts the imports will capture much of the US market. The musical instrument market overall is neither large nor growing, a company spokesman remarks. And he believes the only hope of expansion lies with lower-cost instruments that appeal to student musicians.

While Multivox does not emphasize the instruments' nationality in its promotions, Jack Loeb at the Ideal Musical Merchandise Company makes a point of showing the China label. His first trip to the PRC in 1973 convinced him that China had much to offer in higher-grade musical instruments, particularly in strings. At that time, however, the Chinese "bent over backwards" to hide where the instruments came from, Loeb said.

Loeb's campaign to have the Chinese label their violins with the model and factory name had a twofold purpose: to give the instruments credibility in the international music community, and to allow them to enter international competitions.

For lack of a label, the Chinese violins Loeb submitted to the biennial Violin Society of America competition in 1976 and 1978 were not permitted to enter. But they did earn a great deal of professional acclaim. Last year Loeb was able to enter four Chinese violins with the makers' names, biographical sketches, and pictures. One instrument crafted

by Chen Jingnong captured the gold medal for tone.

Loeb's efforts to promote the quality and credibility of Chinese instruments run the gamut from advertising to marketing advice and cultural exchanges. His main mission in China these days is trying to convince exporters to concentrate on selling quality instruments to experienced dealers. The cheaper instruments could damage China's overall reputation in the field, he cautions. Furthermore, if the Chinese "indiscriminately sell to whoever can get a letter of credit, then they will do themselves a disservice," Loeb remarks.

Loeb keeps in close touch with Chinese factory managers and violin makers on developments in the international music trade. Right now he is trying to arrange for one or two Chinese violin makers to work in his Manhattan shop, believing they could learn first-hand how to correct problems of craftsmanship.

The market has changed in a way that can only benefit quality Chinese instruments, Loeb believes. The older, famous-name lines are fast disappearing from view. Those that remain are often priced according to their antiquity, not their quality.

In Loeb's view, the fact that Chinese string instruments already are being used by members of the New York Philharmonic sounds a positive note for the future. ✻

Kathryn Dewenter works at the Chemical Bank in New York, and is coauthor of China Business Manual 1981.



A "J" on the lower left corner of a PRC stamp denotes a commemorative stamp, while a "T" denotes a special issue. The three numbers following the letter give the serial number of the set, the number of stamps in the set, and the number of the stamp itself, in that order. The year of issue is on the right side. Denominations tend to range from one-half fen (less than 0.3 cents) to 20 yuan (\$13), with 4 fen and 8 fen being the most common denominations.

Between 1949 and 1979, China issued more than 340 sets of stamps with more than 1,490 designs. Prior to the establishment of the People's Republic in 1949, China put forth 80 issues with 108 designs, the first in 1878.

The New Internal Exchange Rate

Ruth E. Goldberg

By tying its internal settlement rate to the US dollar, at ¥2.8 to \$1, China hopes to counter some of the problems of decentralized foreign trade.



On January 1, 1981, the Bank of China instituted a new internal exchange rate of ¥2.8 to the US dollar, which is the rate offered by the Bank of China to other Chinese entities engaged in foreign trade. The new rate exists side by side with China's official foreign exchange rate, now roughly ¥1.8 to the dollar, that is used by all foreign entities (including tourists) engaged in foreign currency transactions with the Bank of China. While the old, variable external exchange rate is pegged to a basket of foreign currencies (including those of several developing countries), the newly established internal rate is tied only to the US dollar.

Why did China in effect devalue the yuan? Apparently the aim of encouraging exports and discouraging imports—the reason why most countries devalue their currencies—was at best only a secondary consideration. Most observers believe that China adopted its new “internal settlement rate,” as it is officially called, to overcome problems caused by the decentralization of foreign trade that began in 1979. Prior to decentralization, the Ministry of Foreign Trade and its foreign trade corporations (FTCs) had been responsible for orchestrating essentially all business transactions with foreign countries.

Because of the ministry's near

monopoly over foreign trade and the fact that the Chinese yuan is not a freely convertible currency, the ministry could clear its own internal accounts without regard to the official exchange rate maintained by the Bank of China. This meant that transactions with foreigners could be handled at one exchange rate, a rate that would maintain the image of the yuan as a strong currency. At the same time, agencies and enterprises could transact foreign exchange at a different, considerably depreciated exchange rate.

The need to apply internal exchange rates is not new in China. Since domestic prices for the most part are fixed administratively instead of by the market,

domestic prices paid or charged by the FTCs are generally unrelated to cost and prices on the international market. Typically, the FTCs have had to subsidize exports and recoup these losses with profits earned on imports. Although a variety of mechanisms might have been employed by the FTCs to correct this implied overvaluation of the yuan, alternative internal exchange rates established on an ad hoc basis were apparently used most often.

With decentralization, the Ministry of Foreign Trade and its trading corporations were no longer the only entities permitted to conclude foreign trade deals. It then became necessary to promulgate a unified internal exchange rate system applicable to all domestic trading organizations, including enterprises newly involved in foreign trade. The government charged the Bank of China with administering this new internal settlement rate of ¥2.8 to the dollar. According to some accounts, this rate is the average of the internal exchange rates then in use.

apply in the provinces of Guangdong and Fujian, where transactions do not need central approval if they do not involve materials or capital from outside the province.

Little information is available on the specific banking transactions that ensue. Piecemeal reports, however, indicate the following: Once permission has been obtained, the FTC representing the factory buys the approved amount of foreign exchange from the Bank of China at the internal settlement rate of ¥2.8 to the dollar. The FTC uses these dollars or other foreign currency to make the import purchase. It then sells the imported goods to the factory for the agreed amount of yuan, normally charging a 0.5 to 3.0 percent commission.

On the export side the conditions are reversed: The FTC buys the commodity from the producing unit at an agreed-upon yuan price and then sells it on the international market. The foreign exchange received from that transaction is converted back into yuan by the FTC at the internal exchange rate of ¥2.8 to \$1.

approaches the appropriate FTC, which in this case might be the China National Machinery Import and Export Corporation (MACHIMPEX). The factory and MACHIMPEX then agree on a price or acceptable range of prices. MACHIMPEX will then negotiate a price with a foreign company within these parameters. If the machine costs \$100,000, MACHIMPEX will draw down its account by this amount with the Bank of China to pay the foreign supplier, and sell the machine to the factory for ¥280,000 plus a commission of, say, ¥5,000. Thus, the total cost to the enduser is ¥285,000. It is clear from this example how applying a devalued internal settlement rate of ¥2.8 to the dollar could make importing more expensive to the enduser: If the external exchange rate of ¥1.8:\$1 were used, the factory could have purchased the machine at the much lower price of ¥185,000.

In the case of exports, a Chinese firm would work out an agreed purchase price with MACHIMPEX of say, ¥280,000. MACHIMPEX would buy the goods from the producer at that price

1.95
February 12
1976

1.91
November 5
1977

1.74
May 17
1978

Foreign Exchange Policy Under Decentralization

Decentralization has encouraged the creation of a host of new ministerial and provincial trading corporations that either conduct trade in their own right, or negotiate trade deals on their own and use the good offices of an FTC to represent them at the contract signing.

If a Chinese factory that lacks its own foreign exchange wants to buy goods from abroad, it must first obtain permission from China's Import and Export Commission. Normally only purchases in excess of \$3 million are referred to the commission, and purchases in excess of \$100 million are referred to the State Council. Other rules

This process short-circuits when Chinese enterprises possess their own foreign exchange earned through exports. Such enterprises are allowed to maintain foreign exchange accounts in the Bank of China and retain about 10–15 percent of their foreign exchange earnings. Nevertheless, they must pay commissions for "services" to local and central authorities. What the nature of these "services" is and which authorities are involved is not clear.

Typical Case Examples

To better understand how goods are paid for, let us look at how an FTC imports a piece of machinery ordered by a Chinese factory. Once the factory has obtained permission to import, it

and sell them abroad for at least \$100,000. Again, we can see how applying a devalued internal exchange rate of ¥2.8 to the dollar could encourage producers to export. Using an exchange rate of ¥1.8 to the dollar, the FTC would have to pay the Chinese factory a much lower price in yuan which might discourage it from exporting.

In many cases, however, the new internal rate simply replaces former ad hoc subsidies and charges. To the extent that this is so, producers and endusers continue to realize the same yuan payments and charges as they did in the past; there is no incentive to buy less and sell more to the FTCs. Establishment of the new internal rate en-

courages exports and discourages imports *only* when price changes are passed on to producers and endusers, as in the previous examples. The degree to which the devaluation of the internal settlement rate has actually affected domestic prices is not known.

In any event, even using the new rate, special measures are often required to compensate for great differences between foreign and domestic prices. Some Chinese exports still require subsidization, due to either production inefficiencies or price irrationality, and some critical imports must also be supported by the government to make them affordable domestically.

China still employs a variety of unofficial exchange mechanisms to address these situations. Most are not only sanctioned, but are directly controlled by the government.

Other Exchange Mechanisms

Subsidies. As mentioned above, the Chinese government has long subsidized certain export and import items.

Suppose a Chinese good which sold for \$100 on the international market

The new rate of ¥2.8 per dollar has reduced the need for ad hoc subsidization of this type, but even now there is information that the government continues to apply different rates of exchange. Rates higher than ¥2.8:\$1 would be used for exports which are otherwise noncompetitive, or for imports which authorities particularly wish to discourage. Likewise, a lower exchange rate is occasionally used when imports are deemed necessary and desirable. In the case of wheat, for example, the implicit exchange rate is currently ¥1.5 to the dollar, according to Ji Chongwei, vice-chairman of the Foreign Investment Control Commission.

The domestic price of wheat is fixed (as are the prices of all state plan items) and was not allowed to increase to reflect the new internal exchange rate. Thus, Ji claims, the Chinese government suffers a loss of ¥400 on every ton of wheat imported. The domestic prices of other key imports were also unaffected by the new internal rate; for example, imported cotton, chemical fertilizers, sugar, and agricultural chemicals all sell in China at very low

zhou, Tianjin, and Shanghai) to facilitate currency exchanges between enterprises with temporarily idle foreign exchange and those that desire to purchase foreign exchange to fill their quota.

Through these special facilities, the Bank of China simply brings buyers and sellers together and charges a commission. The brokerage fee of 0.3 to 1.0 percent is collected from both the buyers and the sellers. The Bank of China does not take a position itself in the transactions. These transactions reportedly must be within 10 percent of the official internal exchange rate, though much wider variations have been noted. No foreign transactions between two or more foreign currencies (such as yen into marks) have been reported. Normally transactions take place between the yuan and the US dollar, Hong Kong dollar, or pound sterling.

Other rates. A number of additional exchange rates reportedly exist, including a black market rate about which little is known. In addition, transfers of foreign currencies between Bank of China branches, or even ex-

1.60
May 30
1979

1.50
April
1980

1.62
February 18, 1981

2.8 January 1, 1981 New Internal Rate

cost ¥200 to produce. At the old rate of ¥1.5 to \$1 (just before the internal rate was implemented in 1981), an FTC would have had to offer a subsidy of ¥50 or more in order to compensate the producing unit for its costs of production. The FTC could have offset much of these losses by profiting on export items that were produced more cheaply than abroad, or on profits from imports.

This subsidy of ¥50 might have assumed a variety of forms in Chinese accounts, including an alternative exchange rate, a direct payment, or simply a higher government purchase price. Whether explicit or not, the ¥50 subsidy represents an exchange rate of ¥2 to the dollar for the producer.

prices relative to their prices abroad. Subsidizing these and other imports will cost the government more than ¥10 billion this year, according to Vice-Chairman Ji.

Market determination. In October 1980, the government established a system allowing state-owned enterprises with surplus foreign exchange to sell to other state enterprises. An enterprise can only hold foreign exchange if it has accumulated foreign exchange earnings from exports, or holds a foreign exchange quota. But the possession of a quota does not mean that the Bank of China necessarily has foreign exchange available for sale. The new system established brokerage houses at Bank of China branches (notably in Guang-

changes of equipment between Chinese enterprises, might involve or imply numerous other exchange rates.

The Consequences of Devaluation

China's recent adoption of an internal settlement rate generally systematizes the informal internal rates previously maintained by the Ministry of Foreign Trade. To the extent that it does, the new internal rate will have no impact on producers and endusers. The effect of devaluing the currency for internal transactions also will be muted by the continued need for subsidies, accompanied by efforts to recoup those losses by profiting on imports.

The Outlook

The problems of pricing, exchange rates, and inconvertibility of the yuan will be recurring themes in China's economic reform program. As long as prices remain irrational, no single exchange rate will be adequate without mechanisms to correct for both overvalued and undervalued commodities.

Beijing may well view the administration of both an external and internal exchange rate system as a transitional measure to help gauge the most appropriate rate for an official devaluation in the future. Just since January of this year, when the internal rate was established at ¥2.8 to the dollar, the external value of the yuan has dropped from ¥1.5 to ¥1.8 to the dollar. If the external rate continues to devalue over time, it might come to approach the internal rate—eventually eliminating the need for a separate rate for internal accounting.

Still, the continued prevalence of subsidies at the current internal rate indicates that, even at ¥2.8 to the dollar, the yuan might well be overvalued for most transactions. The question of what China's exchange rate ought to be, however, will be a difficult one to answer. As long as administrative mechanisms isolate China's economy from the world marketplace, determining the most appropriate exchange rate for the yuan remains an impossible task. 完

Ruth E. Goldberg will be joining the Washington office of General Atlantic Trading, Inc. in January 1982. She was formerly with the US State Department's Office of Chinese Affairs. The views expressed in this article are solely those of the author.



US-PRC Exim Bank Agreement

On October 1, William H. Draper III, president and chairman of the US Export-Import Bank, and Wang Weicai, vice-president and vice-chairman of the Bank of China, signed Exim Bank's first loan to assist US export sales to the People's Republic of China.

The \$28.4 million loan will facilitate Combustion Engineering's sale of \$37.9 million in power-generation equipment and services to the China Machine Building International Corporation and the China National Electrical Equipment Corporation. The transaction will help to upgrade China's capacity to produce large (300-mw and 600-mw) electric power generating equipment at facilities in Shanghai and Harbin. A second loan of \$28.7 million for a companion sale by Westinghouse, will help cover the sale of engineering design services and components for a 315-mw and 630-mw turbine generator set. The loan was signed in early November.

Exim Bank has been open for business with China since spring of 1980, when it established a working relationship with the Bank of China. The two banks formalized the relationship in May 1981 by signing both an operating agreement and an overall credit agreement in Beijing.

As approved in Exim's February 1981 Preliminary Commitment for the CE transaction, the Bank of China will make a \$5,683,500 cash payment, and First National Bank of Chicago will provide a \$3,789,000 loan without Exim Bank's guarantee.

Exim Bank will make a \$28,687,500 direct loan in support of Westinghouse's \$38,250,000 sale at an 8.75 percent annual interest rate, as approved in its February 1981 Preliminary Commitment. The Bank of China will make a \$5,737,500 cash payment, while Westinghouse has arranged a \$3,825,000 loan from Chase Manhattan Bank, N.A.

Both transactions will be repaid in 10 semiannual installments beginning August 1985. The equipment and most of the services are scheduled for delivery by early 1985.



The concluding handshake: Seated left to right are: Gregory Tallas, vice-president in charge of China, First National Bank of Chicago; William H. Draper III, president and chairman of the US Exim Bank; Wang Weicai, vice-president and vice-chairman of the Bank of China; and Chai Zemin, China's ambassador to Washington.

Photo by William Salus courtesy of US Export-Import Bank

Business Facilitation: Its Many Facets and Failures

Scott D. Seligman

Veteran business executives who have been pursuing the China market since the early 1970s are forever recounting stories of the “bad old days,” when the business climate was only slightly warmer than a January in Harbin. The frosty reception accorded Americans and others of their bourgeois ilk is exemplified in the story of one trader at an early Guangzhou Trade Fair, who made the error of suggesting that a particular product be manufactured to foreign specification. He recalls being told in no uncertain terms that China did not cater to capitalist whims, and that if he was not interested in purchasing China’s socialist products as they were, he needn’t remain at the fair! Equally vexing for traders then were the obscure methods by which Chinese authorities made decisions, the unpredictability and occasional abruptness of negotiations, and the foreigners’ total dependence on the good will of the Chinese hosts to accomplish even the most minor of logistical arrangements.

With the fall of the Gang of Four and the onset of normalization, China’s attitude toward American traders softened considerably. To achieve the newly espoused Four Modernizations, China had to have access to foreign equipment and technology. And to purchase such equipment abroad, China needed to expand vastly its export earnings.

The new-found emphasis on exports heralded a dramatic change from the previous decade, when the Ministry of Foreign Trade, then at its nadir, was better known by the sobriquet “Minis-

try of Selling Out the Country.” Today a flexible response to “capitalist whims” is the order of the day.

With increased trade came a growing interest in trade delegations. The typical, multicompany delegation followed a rigid itinerary that included a few site visits, technical seminars, and some sightseeing. The format provided a relatively painless way for the Chinese to gain a great deal of useful information in a short period of time with minimum effort and expense.

The Chinese escorted the foreign delegates everywhere and soon began inviting individual firms to send representatives on their own. But these, like all delegations, were short-term affairs: after negotiations and the mandatory trips to the Great Wall and a commune or two, the foreign friends were expected to shake hands with their hosts and go home.

The Turning Point

The late 1970s saw a profound change in China’s relationship with foreign businesses. The Chinese found it in their interest to allow some foreigners to establish long-term representative offices in China. They saw the benefits of this concession—improved communication with foreign companies, increased access to technical knowledge (not to mention considerable additional foreign exchange revenues)—as outweighing the inconvenience of having foreigners more or less continually in their midst.

This decision has in turn spawned other liberalized measures. When ac-

cess to China was limited, the Chinese made even the most minor logistical arrangements. Having foreigners in residence created a great deal of pressure for China to take at least some responsibility for their daily affairs.

It’s much easier now to obtain visas, travel within China, clear customs, and rent office space. In some areas the Chinese merely have attempted to standardize and rationalize existing systems and procedures and gear up the organizations in charge to serve foreigners; in other areas where no guidance existed, new laws and regulations were drafted to regulate activities.

Still, artificial barriers to normal business relations remain. Some of the outstanding business-facilitation issues:

Visas. Prior to August of last year only the Ministry of Foreign Trade (MOFT) was authorized to issue invitations for foreigners to make business trips to China. If a foreign trade corporation (FTC) or other organization wanted to invite a foreign business representative, the request had to be processed by the MOFT before the invitation could be authorized and the visa issued. This posed grave problems because of the way in which the Chinese bureaucracy is organized: Cutting across ministerial or organizational lines inevitably causes problems. Horror stories abound of visas “lost between the cracks” that separate organizations from each other and from the Ministry of Foreign Trade.

The process began to be liberalized last autumn as provincial and even municipal authorities were granted au-

thority to invite foreigners to China. Local FTC branches could then go directly to local authorities instead of applying through their head offices to the Ministry of Foreign Trade in Beijing. Although visas are now much easier to obtain, it is still true that only the people the Chinese want to see at a particular time may visit. Obviously, problems can arise when there are conflicts in negotiations and companies cannot send the necessary people.

Multiple-entry visas are still reserved for the select few due to inflexibilities in the system and some real constraints. Facilities, particularly hotel rooms, are in short supply, and the system by which they are allocated is not equipped to handle large numbers of foreigners arriving from abroad without reservations made in advance by their hosts. All foreigners must still be hosted by Chinese organizations that take responsibility for the foreigners' welfare and accommodations. Very few activities can be arranged by the foreigners themselves.

That multiple-entry visas are now readily available to long-term representatives of registered firms represents a major step forward in the normalization of trade relations. Although other traders have been able to obtain them—usually those who have good business relations with the Chinese—the vast majority of business representatives in Beijing still hold short-term, one-time-only entry visas. Much paperwork is required each time they leave and reenter the country.

The interests of both the Chinese and the foreigners would clearly be better served if in addition to resident expatriates, US- and Hong Kong-based American business representatives primarily responsible for China business in their firms were also granted multiple-entry visas.

Office registration. Last October the Chinese government promulgated provisional regulations governing the registration of foreign representative offices and resident personnel. These guidelines were published at approximately the same time the US Commerce and State departments stepped up efforts to normalize the status of Chinese trading groups operating in the US. There are now 11 US subsidiaries of Chinese ministerial or foreign trade corporations. Most are based in New York City, and nearly all are now registered to do business and are subject to US taxes.

In September 1980 the Chinese

passed an individual income tax law which affects all long-term foreign residents, as well as a handful of locals whose monthly incomes exceed ¥800 (\$475)—earnings that probably originate abroad, since not even the highest-ranking cadres technically take home that much in China. Still to come is a law to assess taxes on the business activities of resident corporations.

Despite many remaining questions, the very fact that these regulations have been promulgated at all signals substantial progress. If nothing else, they confer on foreign offices a measure of approval to operate over the long term in China. They also spell out the benefits of being registered, such as multiple-entry visas and facilitated internal travel, as well as the penalties assessed on those firms that do not register.

Residential and office space. The problems of an overpopulated, crowded country are felt acutely by even China's foreign community. While foreign diplomats are for the most part assigned apartments in diplomatic compounds, Beijing offers foreign business executives precious little office space and virtually no acceptable apartments or houses. Expatriate traders are confined to hotels set aside for foreigners, whether they are transient or long-term guests.

As a result, offices frequently are established in residential space. Foreigners wishing to set up representative offices have often brought their typewriters and files into their hotel rooms and set up shop. The Chinese have made a small amount of rather expensive nonhotel space available to foreign enterprises, but there has never been enough to go around. And with China's increased emphasis on tourism, already scarce hotel rooms will be in even greater demand.

Despite the lack of alternatives, rumors continue to circulate in the foreign community that firms with long-term offices in certain hotels—usually the prestigious Beijing Hotel—will be pressured to find other accommodations. The rumors will continue until firms are able to sign long-term lease agreements on the space they rent. The Beijing Hotel maintains arbitrary restrictions against bringing in office furniture, files, and office machines, against installing telex machines, and even against allowing large numbers of people to congregate in guest rooms. The Chinese feel that hotels should be used as *hotels*; business executives counter that until alternative space is provided,

they will have to continue to work in their rooms.

Business representatives criticize the Chinese for the seemingly arbitrary way in which hotel space is allotted. Unlike most other countries, China has no facility for reserving hotel rooms more than a day or so in advance. Visiting business executives generally have no idea where they will stay in Beijing or elsewhere until they arrive at the airport. Nor do foreigners have any say as to where they will stay. Here in Beijing, the municipal First Service Bureau is responsible for assigning all hotel rooms to foreigners. It does not deal directly with foreign guests, but receives room requests from Chinese host organizations. All too often assignments are then made based on the relationship between the bureau and host. Hosts with more clout usually have a better chance of reserving better rooms. Moreover, the bureau always sets aside certain hotel rooms in case a high-ranking cadre arrives at the last minute. Most of the time the set-aside rooms are not used at all; and even when they are vacant, their availability is never acknowledged and they rarely are offered to foreigners who request them.

The Chinese prohibit business representatives from allowing anyone to use their rooms while they are away—including company colleagues—unless the host organization first issues a letter of approval. And if a colleague is coming to China under the auspices of a different host, he often will be required to pay for other accommodations. With the growth in tourism and the cancellation over the last few years of several joint venture hotel and office complexes in Beijing, business representatives doubt there will be a significant improvement in this situation in the near future.

Internal travel. Travel in China by foreign business representatives is regulated by the Ministry of Public Security through its local bureaus throughout China. Certain areas of the country are not open to foreigners because local conditions are deemed "unsuitable," meaning that an area may be too backward, too poor, or unequipped with hotel facilities deemed appropriate for foreigners. While permission to travel to "open" cities is fairly easy to obtain, it still requires a great deal of paperwork. Normally, a foreigner's host organization must write a letter to the local Public Security Bureau requesting permission to travel. If the bureau approves, a

travel permit is issued, which in turn allows the purchase of train or airplane tickets. The whole procedure usually takes a few days.

Because Chinese organizations have been given incentives to engage in "socialist competition," dependence on a host organization can have real drawbacks. There have been instances of one entity making it difficult for a potential foreign business partner to travel elsewhere in China to discuss business with a rival organization. Many foreign traders have been told by the head office of a particular FTC here in Beijing to deal directly with it, and not with a branch office in another city. Yet if a business executive wishes to travel to that city anyway, he or she must ask the head office to make the travel arrangements.

Long-term representatives of foreign firms are now granted six-month travel permits for up to 20 cities in China, where they can travel without prior approval of their host organizations. This is an important concession championed by the General Administration for Industry and Commerce, which oversees company registration. Traders are hopeful that restrictions on their colleagues' travel will be loosened as well. In particular, foreigners ought to be free to travel to "open" cities without having to deal with the complicated system of internal travel permits, which in recent years seems to have become little more than a formality.

The vagaries of travel within China are many. But foreign travelers are not singled out for bad treatment in China, except insofar as they must pay premium rates for seats on trains and planes. Locals and foreigners alike must deal with an air and rail system that has no round trip tickets; that requires confirmed, ongoing air reservations to be reconfirmed at each stop and that permits frequent flight cancellations due to rain and fog. Booking of international CAAC flights was recently computerized; a reservation that once took days to make can now be done instantly. Perhaps the domestic reservation system will follow suit.

Customs. The Chinese Customs Administration charges duties of varying rates on imported foreign equipment. A few years ago duties were never levied on foreign equipment brought in for temporary use (as in seminars, for example), since it was assumed it would be carried out again.

The system became complicated when foreigners took up long-term res-

idence in China and began importing goods they did not intend to carry out. In addition, sample merchandise brought in began to be sold to Chinese organizations. Long-term residents were still permitted to bring in items duty free, but if they departed China without the merchandise—even temporarily—customs would hold a deposit on the equipment until the traveler's return.

One bugbear of the system is that rules and rates are not enforced uniformly at different ports of entry and exit, or even at the same airport if a different customs officer is in charge. While Beijing's Central Customs Bureau maintains that a \$3,000 photocopying machine must be properly assessed at 25 percent of purchase value, a foreign firm with an office in Beijing recently reported being assessed nearly 50 percent of value for such a machine. Arrangements made with Beijing customs often are not honored in Shanghai and Guangzhou, and a deposit left at the Beijing Airport cannot be redeemed in Shanghai. Occasionally, customs duties are charged twice on the same item, as when a piece of office machinery is taken out of China for repair or servicing and then is reimported.

Customs rates also can be arbitrary. Beijing customs recently assessed a US firm \$1,600 on medical equipment brought in for technical seminars, though the full amount ultimately was refunded when the merchandise left China. The *ad valorem* duty on a \$1,000 electric typewriter is currently 12.5 percent or \$125, and a \$220 slide projector is now assessed at \$66. Blank paper is technically assessed at 10 percent of its invoiced value, though foreign firms frequently pay as much as 50 percent.

Communications. Getting in touch with the outside world is a costly proposition in China. Long distance telephone calls cost two to three times what they do if they originate in the United States, and the cost of cables and telexes similarly exceeds prices abroad. Most resident American business executives reverse charges on telephone calls home and even use credit cards so that telex costs are charged, more cheaply, to the other end.

Recently efforts have been made to improve the situation. Telex booths were installed on the first floor of the Beijing Hotel late last year, though users of these machines must pay a surcharge earmarked for the hotel's cof-

fers. Other hotels are beginning to follow suit. Authorities have not allowed messages to be received by the Beijing Hotel telex machines, nor, until recently, had approval been given for the installation of any additional telex machines in guest rooms—a constant source of consternation for the many businesses with offices here.

Installing and operating a telex machine in China costs a great deal more than it does elsewhere in the world, and the domestically made machines are often of the antiquated clatter-and-ring variety. The Ministry of Posts and Telecommunications requires an initial startup deposit of about \$2,000 (versus \$450 in the US). Monthly charges average about \$200, but the hotel may assess an additional daily charge for the privilege of maintaining a telex machine. That can raise the figure above \$600. In the US a typical monthly fee runs about \$110.

Communications from the US to China are often plagued with problems of a different sort. Many American firms have sent letter upon telex upon cable to their Chinese counterpart organizations, raising questions that are met with a stony and often puzzling silence. Asian etiquette frowns on direct negative responses to friends; naysaying is seen as potentially causing a loss of face. Rather than to say no to a request, the Chinese would prefer to say that something is inconvenient or very difficult to accomplish; frequently, they would rather say nothing at all. Other Asians may understand instinctively how to read such an indirect response, but Westerners generally don't deal well with ambiguity.

Local labor. Despite the ideological risks of allowing its citizens to work for foreign capitalist enterprises, China is interested in providing resident foreigners with both office and domestic help in order to earn foreign exchange. To serve this need, organizations have been formed in the major cities with resident foreigners. In Beijing the Friendship Commercial Service Corporation performs this service.

As the corporation has gained experience, methods of matching people with positions have greatly improved. Whereas foreign corporations asking for assistants were previously forced to hire locals sight unseen and skills untested, now an interview regularly precedes an engagement. The corporation still will not permit firms to interview a pool of candidates and then choose among them. But a firm may interview

serially and make an independent decision each time. The capabilities of these workers vary greatly, and few have any real training in office skills.

While foreign entities are charged relatively large sums of money (by Chinese standards) for the services of these people, the workers themselves receive only about one-tenth of the fee collected by the Friendship Commercial Service Corporation.

Market information. There is a real need for China to be more forthcoming about its long-term economic development and budgetary plans. All too often economic information is classified as "secret" for no apparent reason. China has just begun to issue tenders for bids on equipment it wishes to purchase, but the practice is still the exception rather than the rule. More than one firm has discovered Chinese interest in a particular product line only by reading press reports outlining deals already struck by their competitors.

One problem which has been fairly successfully addressed in recent years is that of access by foreign businesses to Chinese endusers, who after all are the key decisionmakers on the question of whether to import new equipment. The decentralization of economic decisionmaking coupled with a more liberal attitude toward making contact with foreigners has ameliorated this problem to a great extent.

Openness in the area of specific purchase or sales interest clearly benefits both sides when firms are involved in competitive bidding, since the best deals are made when there is more, rather than less, information available. Many business representatives hope for a consistent set of procedures to be followed by all Chinese organizations involved in foreign trade and a network of foreign companies and other commercial organizations through which market information can be dispersed in a timely and efficient way.

Price gouging. One of the most objectionable practices confronting traders, tourists, and diplomats alike is the two-tiered price system governing certain commodities and services for foreigners. Air and rail tickets, for example, are sold at one price to foreigners and at a considerably lower price to Chinese citizens. When foreigners call attention to this point, the Chinese usually express surprise that any objection should be raised at all, since foreigners have more money to spend and

so should obviously be expected to pay more. An argument sometimes made is that the Chinese government subsidizes travel for its citizens, but no such subsidy is or should be made available to others. The large price differentials often charged make the argument less than persuasive to foreigners.

Prices in local stores for Chinese-made goods do not, as a rule, vary according to purchaser, but an increasing number of stores are either set aside exclusively for foreign patronage or have certain sections that cater exclusively to foreigners. Merchandise in these stores is more expensive than that available for locals, but it is also more carefully selected for quality. This is true both in the Friendship stores and tourist hotels.

Another problem is that foreign business representatives occasionally are accorded special treatment and given special services—such as limousines instead of private cars, hotel suites instead of single rooms, or guest houses instead of the more reasonable hotels—and then charged exorbitant fees for them later. In many cases the Chinese genuinely are trying to make their guests as comfortable as possible, with no intent to overcharge. Yet business representatives believe they are paying too high a price for services neither requested nor necessarily desired.

Charging foreigners extra may increase foreign exchange earnings in the short run, but the practice diminishes the sentiments of good will and friendship that are toasted at so many banquets. Successful business relationships are based on mutual benefit, and firms that must absorb considerable up-front expense in their China activities are not likely to offer Chinese buyers the most attractive prices for their equipment.

Nevertheless, the current business climate in China has come a long way from the frosty environment of the Guangzhou trade fairs in the early 1970s. The Chinese have endeavored to normalize their trade relationships and to provide for the comfort and convenience of their foreign friends. But China must actively encourage—not merely tolerate—the presence of business entities and their activities. Much more remains to be done before doing business in China will be as convenient for Americans as it is in other Asian countries—many of which compete with China for foreign investment capital and other types of business. 完

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China Bookshelf

GENERAL

Shanghai: Revolution and Development in an Asian Metropolis, edited by Christopher Howe. Cambridge: Cambridge University Press, 1981. 444 pp. \$69.50. Twelve papers presented at the Contemporary China Institute Conference in 1977 address the role of Shanghai in the evolution of modern China. Despite earlier government policies designed to equalize regional differences, Shanghai has remained a major force in the country's political and economic life. The papers, written by China specialists, help to explain how Shanghai has maintained its cultural, ideological, and economic identity. Included is a chronology of modern Shanghai, 1842–1979. An index follows the text.

China: A Geographical Survey, by T. R. Tregear. New York: Halstead Press, 1980. 372 pp. \$46.95. Two earlier books by Tregear, *Geography of China*, published in 1965, and *Economic Geography of China*, 1970, with little updating, form the basis for this work. Where updating has occurred, the most recent information provided is for 1975. The volume's lack of recent information is especially evident in the chapter on foreign trade, where tables present statistics of the mid-1970s. Throughout the book, place names appear in Wade-Giles romanization. Although some portions of the work remain relevant, this publication cannot be considered a "new" book.

ECONOMY

China's Economy in Global Perspective, by A. Doak Barnett. Washington, DC: The Brookings Institution, 1981. 752 pp. \$32.95 hardbound, \$16.95 paperback. The latest in a series of valuable contributions by one of America's most influential sinologists, *China's Economy in Global Perspective* marshals a voluminous quantity of useful information and insight on the development of China's economy and its increasing assimilation into the international economic system. Basically five short books in one, Barnett's volume deals with China's evolving modernization plans since the death of

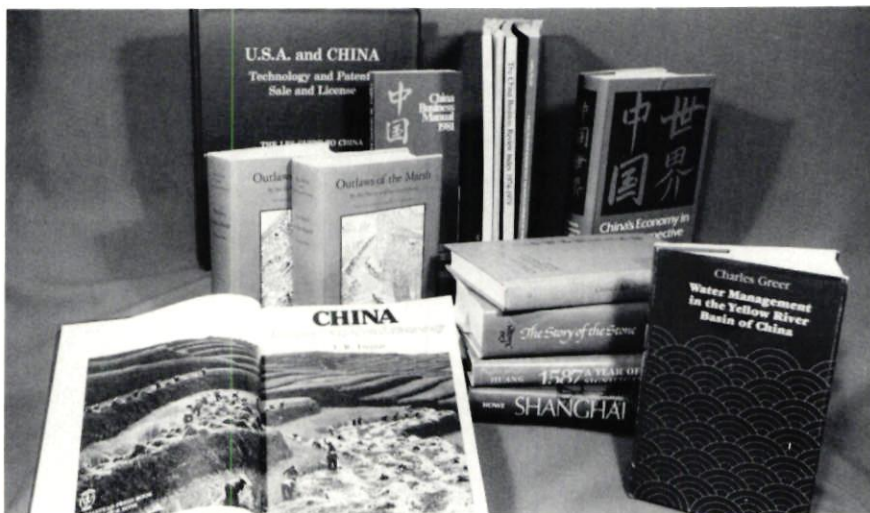


Photo by Anne Catherine Fallen

Mao Zedong; issues in technology transfer from both Chinese and foreign perspectives; China's role in the world food system; China's role in the world energy system; and the development of Sino-American economic relations since 1971. Appendices and an index are included. —CC

China's Modernization Strategy and the United States, by Lynn Feintech. Washington, DC: Overseas Development Council (1717 Massachusetts Ave., NW, 20036), August 1981. Development Paper 31. 74 pp. \$3. This important study by Lynn Feintech, head of political analysis in the Bank of America's Economics Policy Research Department, reviews Chinese economic policies during the past three years and the industrialized world's response, especially that of the United States. How China finances its foreign trade is thoroughly examined. The author looks ahead to closer US–PRC economic ties and examines factors that could affect the pace of the developing relationship.

SECTORAL STUDIES

China Energy Report. Hong Kong: Energy Committee of the American Chamber of Commerce (1030 Swire House, Hong Kong), March 31, 1981. 57 pp. \$20 plus \$2.95 airmail postage. Issued in two sections, the first half of the report looks at China's energy development and plans, using data through September 1980. The second half of the report focuses on China's onshore and offshore oil development through 1980. The report concludes by stressing that China needs a comprehensive energy plan to solve its energy problems and that foreign technology will be needed to increase onshore and offshore oil production.

Water Management in the Yellow River Basin of China, by Charles Greer. Austin: University of Texas Press, 1979. 174 pp. \$25. Greer describes the Yellow River Basin's management history down to modern times, giving special attention to how China combines modern technology with foreign assistance and traditional, labor-intensive methods. Greer concludes that the Chinese have been very successful in flood control and that the root problem—the silt load of the Huanghe, or Yellow River—will continue to frustrate engineers, as it has over the centuries. Appendices, notes, a bibliography, and an index are included.

China's Silk Trade: Traditional Industry in the Modern World, 1842–1937, by Lillian M. Li. Cambridge: Harvard University Press, 1981. 288 pp. \$15. This well-documented study traces the development of China's silk industry and trade from the opening of the treaty ports in 1842 to the worldwide depression in the 1930s and the collapse of the silk market. A final chapter compares the experiences of the Chinese and the Japanese silk industries during the period. Notes, a bibliography, glossaries, and an index follow the text.

CHINA TRADE

USA and China Technology and Patents Sale and License: The LES Guide to China, edited by Edward P. White. Stamford: Licensing Executives Society, 1981. 182 pp. \$50 (members of LES), \$60 (nonmembers). (Order from E. P. White, 2 Linden Road, Chapel Hill, NC 27514.) The report is based on the November 10–23, 1980, trip of the US Patent Licensing Delegation to China. In ring-binder format, the volume

contains sections on China's current economic readjustment and its implications for technology acquisition, considerations in approaching the market, advice on whom to contact, opportunities in cities and economic zones, the main features of a technology transfer agreement, the Chinese legal system and proprietary rights, taxes and insurance, US government export controls, and a review of China's geography and industrial potential. Appendices contain texts of Chinese laws and regulations, and examples of technology transfer agreements. A copy of the US Commerce Department's *Doing Business with China*, 1980 edition, is included. The report will be useful to all businessmen considering technology transfers to China.

China Trade: A Guide to Doing Business with the People's Republic of China, by Herbert B. Azif. Coral Springs, FL: Intraworld Trade News (1500 NW 103rd Ln., FL 33065), 1981. 131 pp. \$19.95. Azif's book, an up-to-date primer on China trade, will be most useful to newcomers. How-to information is emphasized. Although the author states that a few chapters carry direct quotes from the Commerce Department's *Doing Business with China*, quoted portions are not noted in the text. A useful feature of *China Trade* is its listings of consultants and agents in trade, advertising and banking. The book contains a large number of Chinese advertisements, and three chapters are devoted to what China has to sell.

China Business Manual 1981, compiled by Christopher M. Clarke and Kathryn L. Dewenter. Washington,

DC: The National Council for US-China Trade, 1981. 318 pp. \$9.50 to National Council members, \$11.95 to nonmembers.* A comprehensive directory of China's economic bureaucracy and foreign trade organizations, the *China Business Manual 1981* supplies information on leading officials; and the cable, telex, and phone numbers and addresses of commissions, ministries, foreign trade corporations, banking institutions, and other service organizations. The organizational structure of seven provinces and municipalities is explained. Organized by subject, the *China Business Manual* is indexed by organization name and by product. The manual is a vital resource for doing business with China.

The China Business Review Index and Microfiche, 1974-1979. Index compiled by James A. Stevens. Washington, DC: the National Council for US-China Trade, 1981. Index, 140 pp. Index and microfiche, \$160. Index only, \$150. Microfiche only, \$90.* *The China Business Review Index 1974-1979* provides access to information in *The China Business Review* by subject, organization name, and country or region. The accompanying microfiche package contains all issues of *The China Business Review 1974-1979*. The index and microfiche will be especially useful to China researchers.

Trademark Registration in the PRC, compiled by Christopher M. Clarke and Nicholas H. Ludlow. Washington, DC: the National Council for US-China Trade, May 1981. 59 pp. \$40 to National Council members, \$75 to nonmembers.* This report includes the information and the documents

needed to register a trademark in the PRC. Procedures for filing applications, renewals, changes of address, and assignment of trademarks are detailed, and application forms are provided. Also included are official statements and regulations on trademarks and other background materials. This publication updates the Council's 1978 edition of the same title.

HISTORY

1587: A Year of No Significance: The Ming Dynasty in Decline, by Ray Huang. New Haven: Yale University Press, 1981. 278 pp. \$19.95. In an account of the lives of seven prominent officials, the author portrays the court and ruling class of later imperial China and its ability to adapt to change.

LITERATURE

Outlaws of the Marsh, by Shi Nai'an and Luo Guanzhong, translated by Sidney Shapiro. Bloomington: Indiana University Press in cooperation with the Foreign Languages Press, Beijing, 1981. 2 volumes. \$37.50. A cherished classic of Chinese literature, *Outlaws of the Marsh* recounts the adventures of an outlaw army battling the tyrannical rulers of the early 12th century. Illustrated with woodcuts from a Ming Dynasty edition, this work is the first unabridged English translation of the 14th century novel. An earlier condensed translation of the novel is Pearl Buck's *All Men are Brothers*. *Outlaws of the Marsh* is the first in a series of literary and scholarly books to be copublished by Indiana University Press and the Foreign Languages Press of Beijing.

The Story of the Stone (Dream of the Red Chamber), a novel in five volumes, by Cao Xueqin. Volume 3: *The Warning Voice*, translated by David Hawkes. Bloomington: Indiana University Press, 1981. 637 pp. \$35. The third volume of a five-volume set, *The Warning Voice* continues this translation of the classic 18th century novel of manners, *The Story of the Stone*.

*Prices shown for the National Council for US-China Trade publications do not include postage and handling. For prepaid orders, please add \$1 per copy to cover those costs.

Books and business guides submitted for possible review in The China Business Review should be sent to the National Council's book editor, Marianna Graham.

Council Library Receives *China Daily*

China's first English-language newspaper began publication on June 1, 1981. The eight-page *China Daily* is published five days a week and carries major world and domestic news stories in addition to stock and money market information, TV schedules, crossword puzzles, and domestic and foreign advertising.

China Daily is available to member companies in the National Council's library. Foreign subscribers may obtain copies directly by writing to *China Daily*, Circulation Department, 2 Jintai Xilu, Chao Yang District, Beijing, People's Republic of China. Cable: 2492. An annual airmail subscription in the US costs \$238.80, and a surface subscription \$116.40.



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CHINA BUSINESS

Jennifer Little
Assistant Librarian

The following tables contain recent press reports of business arrangements exclusive of those listed in previous issues. The total-value figures for China's exports and imports distinguish between sales (which press reports indicate are definite) and negotiations (which are deals reportedly still under discussion). Joint ventures, licensing arrangements, and other forms of business arrangements are included if classified as such in Chinese and foreign media reports. The accuracy of these reports is not independently confirmed by *The CBR*.

National Council members can contact the library (202-828-8376) to obtain a copy of news sources and other available background information concerning the business arrangements appearing below. Moreover, member 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 Jennifer Little.

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EXPORTS TO CHINA: 1981 SALES AND NEGOTIATIONS THROUGH SEPTEMBER 15

Company/Country	Product/Plant/Technology	Value	Status/ Date Announced
Agricultural Commodities			
(Thailand)	100,000 tons of rice during the second half of 1981.	NVG	Will sell 4/1/81
(Egypt)	150,000 bales of cotton.	NVG	Will export 7/13/81
(US)	53,900 pieces of hide in the 1981 marketing year.	NVG	Will sell 8/81
NA	100 chinchillas for breeding for their pelts.	NVG	Exported 8/81
Australian Wheat Board (Australia)	500,000-metric-ton wheat sale for delivery from November 1981 to January 1982.	\$107.6 million (Aus. \$78 million)	Sale announced 8/4/81
(USSR)	300,000 cubic meters of timber.	NVG	Will export 8/5/81
Chemical Plants and Equipment			
Vereinigte Edeltahlwerke (Austria)	Plant to manufacture pyrethrum insecticide.	\$11 million	Negotiations announced 8/19/81
Compagnia Tecnica Internazionale Progetta (Italy)	Machinery and technical services for processing polypropylene chips into finished plastic products such as bags and floor coverings.	\$70 million	Announced 9/81
Consumer Goods			
British-American Tobacco Co. (UK)	Has provided equipment and supervised a cigarette factory in Beijing.	\$1.4 million (£750,000)	Announced 8/19/81
Dodwell Trading Co. (Hong Kong)	Is marketing Pabst Blue Ribbon Beer in Shanghai; 100,000 24-can cases to be sold this year.	\$668,337 (HK\$4 million)	Contract signed 8/19/81
Electronics			
Solartron Instrumentation (UK)	Has opened a service station in Beijing.	NVG	Announced 3/6/81
Unimor (Poland)	100,000 Neptun 625 monochrome sets (TV receivers).	NVG	Order announced 3/6/81
D.D. Webster Electronics (Australia)	Three Spectrum microcomputers for Beijing Institute of Technology.	\$50,000	Sold 8/81
Reed Corp. (Japan)	Hotel management system.	NVG	Will export 8/4/81
Commodore Electronics, Ltd. (Hong Kong)	Will provide and install 50 microcomputer systems in 15 of China's provinces; each system consists of a CBM 4032 computer, a CBM 4040 floppy disk drive, and a CBM 4022 printer.	NVG	Contract signed 8/19/81

Food Processing and Packing

Coca-Cola Co. (US)	Second Coca-Cola bottling plant to be built near Guangzhou.	NVG	Agreement signed 8/28/81
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Machinery

Seattle Boiler Works (US)	Model SDH-4500 diesel, gas, heavy oil marine supply boiler for medium-density fiberboard plant bought by the Fujian Forestry Import and Export Corp. from Washington Iron Works.	NVG	Shipped 8/5/81
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Acigraf and Cerutti (Italy)	Will supply a complete unit for color printing flexible packaging material.	\$1.3 million	Contract won 8/19/81
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Petroleum and Natural Gas Equipment

Whittaker Corp. (US)	Six 34-man survival capsules for use on offshore platforms.	NVG	Shipped 8/3/81
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Scientific Instruments

VG Analytical (UK)	Four advanced mass spectrometers for mineral exploration and scientific research.	\$937,850 (£500,000)	Sold 8/81
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Shipping

Universal Dockyard, Ltd. (Hong Kong)	Will build seven self-propelled split-type hopper barges for TECHIMPORT.	\$8.3 million (HK\$50 million)	Contract secured 8/19/81
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Tourism

Unitours (US)	Will charter the Chinese cruise ship <i>Goddess</i> for excursions on the Yangzi River beginning September 25.	NVG	Agreement signed 8/2/81
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Transportation Equipment

China Orient Leasing Co. (Japan and China)	Contract with a Beijing TV factory for containers and forklifts.	NVG	Signed 7/22/81
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Santa Fe China Trucking, Ltd. (US)	Agreement with the Guangdong Provincial Transportation Department to be allowed to operate a container-truck service from Hong Kong to Zhanjiang via Guangzhou.	NVG	Signed 8/81
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Miscellaneous

(Australia)	Flood and drought relief to Hebei and Hubei provinces: a) medical supplies b) wheat	\$100,000 \$2 million	Will send 5/13/81
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(France)	French patents contained in 1.4 million documents weighing 40 tons.	Gift	Announced 7/16/81
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Lehman Brothers Kuhn Loeb Inc. (US)	Will provide financial advice to the Bank of China and the China International Trust and Investment Corporation.	NVG	Agreement signed 8/15/81
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(US)	Clothing and food for the victims of the flood in Sichuan Province.	\$25,000	Aid awarded 9/10/81
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Total value of 1981 sales listed through September 15	\$203.4 million +
Total value of 1981 negotiations listed through September 15	\$4.4 billion +

**CHINA'S EXPORTS: 1981 SALES AND NEGOTIATIONS THROUGH SEPTEMBER 15**

Company/Country	Product/Plant/Technology	Value	Status/ Date Announced
Agricultural Products and Equipment			
(Thailand)	The Guangdong Farm Machinery Import and Export Corp. will export 7,000 rice and wheat harvesters.	NVG	Agreement signed 7/13/81
Light Industries			
Sunweave (US)	Plans to import tablecloths and placemats.	NVG	Announced 8/10/81

Power

Oriental Supply & Engineering Co. (US)	Has contracted the China National Machinery and Equipment Import and Export Corporation for:		
	a) a 725-kw water turbine generating set to Hellhole Hydroelectric Power Station in Placer County, California	\$230,570	Agreement signed 7/15/81
	b) a 630-kw water turbine generating set to Baily Creek Hydroelectric Power Station in California.	NVG	Announced 8/31/81

Shipping

(Hong Kong)	Wharf to be built by China Merchants Steam Navigation Co., Ltd. near Tuen Mun for vessels of 10,000-20,000 tons.	\$66 million (HK\$400 million)	Announced 1/19/81
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Total value of 1981 sales listed through September 15 \$66.2 million +
Total value of 1981 negotiations listed through September 15 \$1,204.1 million +



JOINT VENTURES: 1981 PRESS REPORTS THROUGH SEPTEMBER 15

Foreign Party	Chinese Party	Technology/Terms	Value	Status
Jay Ease Construction Co. (US)	China Merchants Steam Navigation	Hua Jay Joint Venture Co. is erecting eight blocks of four-story factory buildings in Shekou.	NVG	Announced 6/5/81
Chan Brothers, Ltd. (UK)	Fujian Province	Marketing of the whole range of Chinese products handled by all foreign trade corporations under the Fujian Foreign Trade Corp.	NVG	Agreement signed 7/81
Fasteners' Institute (Japan)	First Ministry of Machine Building	A screw-making factory (no location given).	NVG	Negotiations announced 7/7/81
Various foreign construction entities	China Construction Engineering Corp.	Nine joint ventures: the Yemeni-China Construction and Engineering Co., the Gulf Realty Construction Co., the China-Thailand Construction and Engineering Co., the Companhia de Construção Fomento Predial Hwashan, Ltd., the Carino Realty Co., Ltd., the Watson Architectural, Engineering, and Design Consultant Co., the Wuyi Construction Co., Ltd., the Ryoden-China Engineering Co., Ltd., and the China Overseas Construction-Shengli Co., Ltd.	NVG	Established 7/13/81
(Singapore)	Fujian Development and Construction Corp.	50-50 joint venture to build a hotel and office complex in Xiamen and Fujian. The Chinese will provide land, public utilities; the Singaporeans, capital.	NVG	Letter of intent signed 7/22/81
Inchcape Enterprises, Ltd. (Hong Kong)	China Merchants Steam Navigation Co. and Guangdong Bureau of Traffic	Bus service in Guangdong Province.	NVG	Is under way 8/81
Uni-Shanghai Woolltex (Hong Kong)	Shanghai Textile Industry Bureau	United Woollen Spinning and Knitting Factory will produce yarn and sweaters from angora and lamb's wool; Hong Kong partners own 40 percent and the Chinese 60 percent. Contract for 15 years, renewable.	\$6 million	Established 8/5/81
China Light & Power Co. (Hong Kong)	Guangdong Power Co.	Two pump-storage reservoirs that could supply four 200-mw plants for eight hours in peak periods daily.	NVG	Feasibility study considered 8/14/81

Foreign Party	Chinese Party	Technology/Terms	Value	Status
Kubota, Ltd. (Japan)	Jilin Province	Plans to open a center to provide training in rice cultivation and use of machinery for this purpose.	NVG	Announced 1/28/81
Chan Brothers, Ltd. (UK)	Fujian Province	Processing: cooperative deal for the processing and marketing of frozen fish fillets.	NVG	Agreement signed 7/81
JFP Well Service (Hong Kong)	NA	Is granted the option to contract the Nanhai I jackup for drilling outside Chinese waters.	NVG	Memorandum of understanding signed 7/81
A Lun Gold Co. (US)	Bank of China	Gold-lending agreement.	NVG	Signed 7/31/81
Hawker Siddeley Rail Projects, Ltd. (UK)	NA	Technical cooperation for diesel electric locomotives, heavy duty power semiconductor devices, railway brake equipment, and railway signaling equipment.	NVG	Arrangement signed 8/81
Lindblad Travel Inc. (US)	Wuxi branch of CITS	Long-term agreement to charter a cruise ship for tours of the Suzhou—Yangzhou section of China's ancient Grand Canal; China is responsible for providing meals, free provision of tea, soft drinks, mineral water, fresh and dried fruits, and pastries.	NVG	Signed 8/81
Electronic Space Systems Corp. (US)	China Machinery and Equipment Import and Export Corp. and Xiangtan Electric Manufacturing Works	Have entered into a cooperative agreement for the manufacturing and marketing of the ESSCO Stand Alone Solar Power Plant.	NVG	Announced 8/5/81
(Sudan)	NA	Trade protocol for the 1981—82 fiscal year under which Sudan will export cotton, gum arabic, and other commodities and import from China building materials, tea, medicines, chemicals, and rice.	NVG	Agreement signed 8/11/81
(Hong Kong)	Guangdong and Guangxi provinces	Possible cooperation to develop hydroelectric resources.	NVG	Feasibility study submitted 8/14/81
Arbor Acres Farm Inc. (US)	Guangdong Provincial Foodstuff Corp.	Will supply a farm near Guangzhou with chicken breeds and technical assistance.	NVG	Contract signed 8/15/81
Danieli & Co. (Italy)	NA	Contract to transfer know-how to China's steel mills.	NVG	Negotiations announced 8/19/81
Deere & Co. (US)	Ministry of Agricultural Machinery	Will provide technology for the design and manufacture of combine harvesters in Henan and Heilongjiang provinces.	NVG	Announced 8/29/81
Sanhill Co. (Hong Kong)	Huasheng Radio Factory	Processing: first lot of frequency and amplitude modulated variable capacitors for radio receivers China assembled for Sanhill Co.	NVG	Delivered 8/31/81
Hitachi Seiki Co. (Japan)	MACHIMPEX	Licensing: three-year contract to provide blueprints, technology, and training in the operation of milling machines to be built at the Beijing No. 1 Machine Tool Plant.	NVG	Signed 9/81
Martingare, Ltd. (UK)	China Corp. of Shipbuilding	Has been appointed as general agents for the UK, Europe, the Middle East, Asia, and Australasia.	NVG	Announced 9/81
Spectra International (US)	China Corp. of Shipbuilding	Processing: five-year contract for the processing of dairy equipment; the Jianganshan Machinery Plant will produce a dozen varieties of pipe joints including sensors, roll-on ferrules, and BM claws with materials supplied by Spectra.	NVG	Signed 9/81

Tokai Bank (Japan)	Bank of China	Cooperation agreement involving the transfer of computer technology and training.	NVG	Signed 9/81
Arnold Palmer Course Design Co. (US)	NA	Will discuss the design of a golf course to be part of a new \$50-million resort complex.	NVG	Announced 9/1/81
Hewlett-Packard Co. (US)	NA	Has agreed to create a distributorship in Beijing to sell and service the company's electronic equipment in China.	NVG	Announced 9/3/81
China Trade Corp. (US)	a) China Railway Foreign Service Corp.	Compensation trade: will transfer Payton Corp.'s technology to China for the manufacture of innovative freight car undercarriages; CTC will market the product.	NVG	Framework for agreement announced 9/10/81
	b) China Highway Transport Industry Co. and the China Transportation Technical Consulting Services Co.	Technology for diesel engines products to be produced in China. Probably compensation trade.	NVG	Framework for agreement announced 9/10/81
	c) China National Aero-Technology Import and Export Corp.	Transfer of technology for the manufacture of a three-engine aircraft except for the engine and avionics. Probably compensation trade.	NVG	Framework for agreement announced 9/10/81

NVG = No value given.

NOTES: Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in *International Financial Statistics (IMF)*.

Contracts concluded over two months ago are also included if they were not reported in the last issue of *The CBR*.

RMB: Dollar Rates

	RMB/ US\$	US\$/ RMB	<i>September 23</i>		<i>October 6</i>			
			Bid	Offer	Bid	Offer		
			1.7318	57.7434	1.7332	57.6967		
			1.7404	57.4581	1.7419	57.4086		
			1.7361	57.6004	1.7376	57.5506		
<i>September 9</i>			<i>September 24</i>		<i>October 7</i>			
Bid	1.7708	56.4717	Bid	1.7404	57.4581	Bid	1.7419	57.4086
Offer	1.7796	56.1924	Offer	1.7492	57.1690	Offer	1.7507	57.1200
Median	1.7752	56.3317	Median	1.7448	57.3132	Median	1.7463	57.2639
<i>September 10</i>			<i>September 25</i>		<i>October 8</i>			
Bid	1.7601	56.8150	Bid	1.7491	57.1723	Bid	1.7280	57.8704
Offer	1.7689	56.5323	Offer	1.7579	56.8861	Offer	1.7366	57.5838
Median	1.7645	56.6733	Median	1.7535	57.0288	Median	1.7323	57.7267
<i>September 12</i>			<i>September 26</i>		<i>October 9</i>			
Bid	1.7477	57.2181	Bid	1.7579	56.8861	Bid	1.7211	58.1024
Offer	1.7565	56.9314	Offer	1.7667	56.6027	Offer	1.7297	57.8135
Median	1.7521	57.0744	Median	1.7623	56.7440	Median	1.7254	57.9576
<i>September 15</i>			<i>September 29</i>		<i>October 14</i>			
Bid	1.7233	58.0282	Bid	1.7526	57.0581	Bid	1.7297	57.8135
Offer	1.7319	57.7401	Offer	1.7614	56.7730	Offer	1.7383	57.5275
Median	1.7276	57.8838	Median	1.7570	56.9152	Median	1.7340	57.6701
<i>September 17</i>			<i>September 30</i>		<i>October 16</i>			
Bid	1.7147	58.3192	Bid	1.7631	56.7183	Bid	1.7417	57.4152
Offer	1.7233	58.0282	Offer	1.7719	56.4366	Offer	1.7505	57.1265
Median	1.7190	58.1734	Median	1.7675	56.5771	Median	1.7461	57.2705
<i>September 22</i>			<i>October 4</i>		<i>October 21</i>			
Bid	1.7095	58.4966	Bid	1.7437	57.3493	Bid	1.7487	57.1853
Offer	1.7181	58.2038	Offer	1.7525	57.0613	Offer	1.7575	56.8990
Median	1.7138	58.3499	Median	1.7481	57.2050	Median	1.7531	57.0418

SOURCE: The First National Bank of Chicago.

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US-CHINA TRADE, 1971-1981 (million US dollars)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981*
US Exports	—	63.5	740.2	819.1	303.6	135.4	171.3	823.6	1,716.5	3,749.0	3,800
US Imports	4.9	32.4	64.9	114.7	158.4	201.0	202.7	324.1	592.3	1,058.3	1,900
Total	4.9	95.9	805.1	933.8	461.9	336.4	374.0	1,147.7	2,308.8	4,807.3	5,700

*National Council projection.

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 I don't know who you are.
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 I don't know your company.
 我不知道你的公司的产品
 I don't know your company's product.
 我不知道你的公司代表什么
 I don't know what your company stands for.
 我不知道你的公司有那些顾客
 I don't know your company's customers.
 我不知道你的公司办得怎样
 I don't know your company's record.
 我不知道你的公司的声誉如何 ——
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