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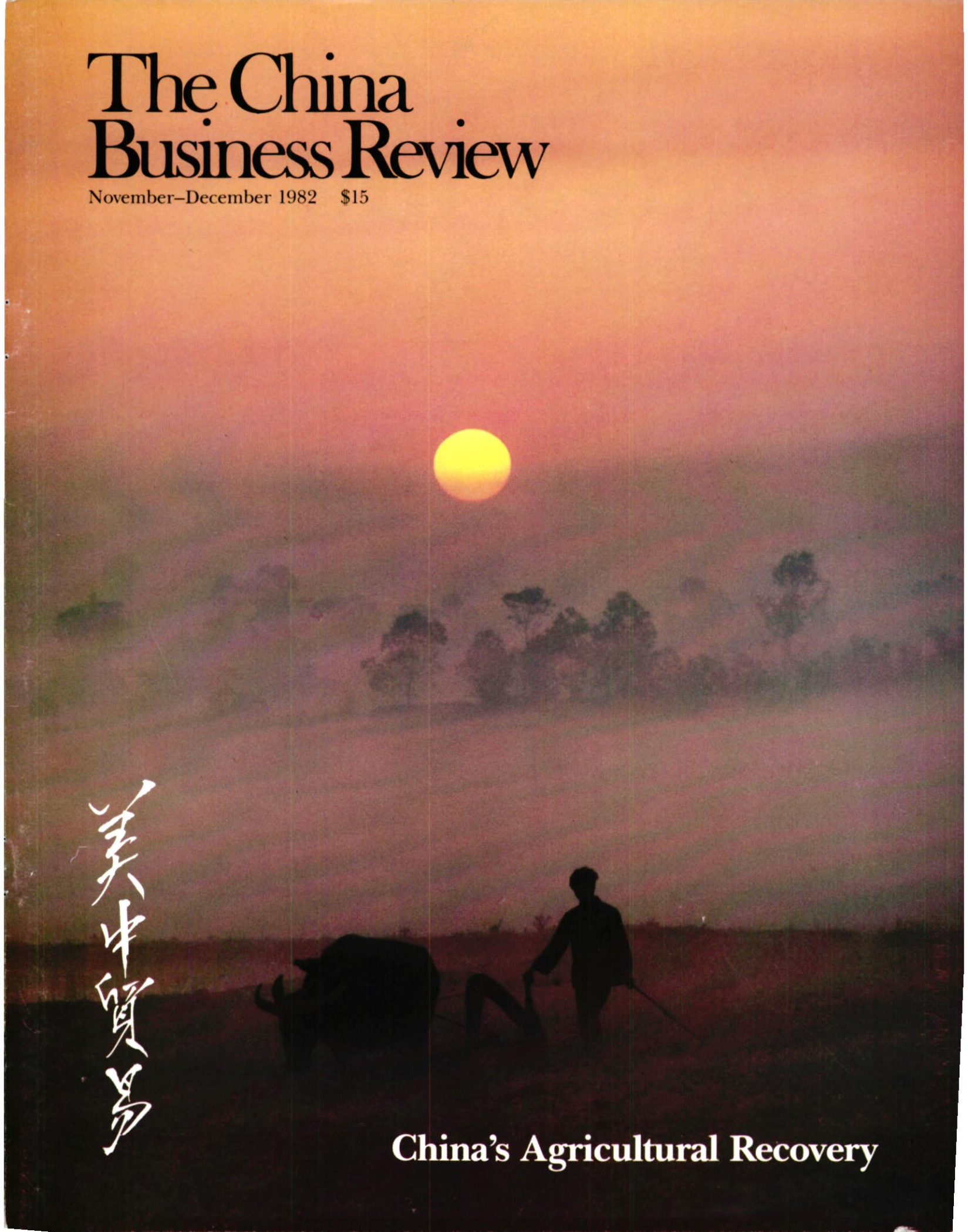

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The China Business Review

The magazine of the National Council for US–China Trade

November–December 1982 Volume 9, Number 6

Cover: Farm production has jumped by nearly 30 percent in the last four years, giving the first major boost to rural incomes in decades. **Page 14.** Photo of the sun rising over Chengdu Plain by Tom Nebbia.

Agricultural Machinery: The front runners in the competition to produce large horse power tractors for reclamation work in China are all US firms: John Deere, International Harvester, and Ford. **Page 20.**

Joint Ventures: A leading China trade attorney discusses—and explains how to avoid—20 major difficulties that every company should know about. **Page 23.**

摘要

THE 1983 BUSINESS OUTLOOK

The coming year shows every sign of being a considerable improvement over 1982. The principal cause for optimism is the increased availability of cash on the Chinese side. The main developments:

▶China's reserves have tripled in two years. The IMF reports that China's foreign exchange holdings stood at $6.3 billion at mid-year; its gold holdings (of 12.6 million fine troy ounces) are worth well over $5 billion at today's gold prices.

▶The state budget is in balance for the first time in five years. Finance Minister Wang Bingqian even hopes for a surplus this year. During the lean years from 1978 to 1981, the state budget ran up an accumulated deficit approaching $30 billion, which was largely responsible for the sharp cutbacks in the new investment—and imports—carried out in 1979 and 1980.

▶Major projects that were once postponed are being revived. October's *People's Daily* carried a forecast by Ma Hong, one of China's top industrial planners, that "the construction of major projects that introduced foreign technology and in which construction was suspended two years ago will be resumed and continued." The statement comes from a man who strongly advocated terminating major projects back in 1979.

▶China's trade balance is projected to show a $3–6 billion surplus this year—the first in five years (1981 trade was in balance). If past behavior is any clue, the Chinese leadership will adopt a more liberal interpretation of self reliance because a positive trade balance in past years has tended to pacify the government's more conservative wing.

▶The PRC enjoys a healthy balance of payments. Tourism alone may net several hundred million dollars in 1982. Other major earners of foreign exchange include profits from shipping (the PRC's merchant fleet has been growing by 1 million gross registered tons each year), profits from Hong Kong, Macao, and other foreign investments, remittances from Overseas Chinese, and profits from labor exports (more than 25,000 Chinese technicians and workers are now working in 30 countries, and China has signed 600 contracts worth nearly $1 billion for various construction projects abroad). A US government source predicts a current account surplus in 1982 of $6.3 billion (the country's anticipated trade surplus plus invisibles). China's cash-rich accounts could make it even harder for foreign banks to find customers in China. Most of China's borrowing requirements probably can be met by the World Bank, IMF, and government-to-government soft loans.

▶The Bank of China is lending more abroad, and in recent months has moved to expand its loans to Chinese customers. The bank recently launched a $1 billion loan program for small and medium enterprises. $200 million of this total will come from the bank's Hong Kong branch. Many of the bank's domestic branches have separately announced plans to increase lending to facilitate China's foreign trade.

DIRECT INVESTMENT DOWN IN FIRST HALF 1982

Foreign investments during the first half of 1982 totaled only about $100 million, the State Economic Commission revealed in October. This is just 6.5 percent of the total value of foreign investment contracts signed in 1981.

Only four new equity joint ventures were approved (bringing the total signed since July, 1979, to 44); 35 new coproduction arrangements (bringing the total to 425); and 10 compensation trade deals (raising the total to 600).

The decline largely reflects Hong Kong's troubled economy, since at least 90 percent of the approximately $3 billion so far invested in China comes from Hong Kong investors. The city's exports declined in real terms during the first nine months of 1982, and property values reportedly are down 40 percent as compared with 1981.

SHENZHEN SWEETENS THE POT

Hong Kong's recession is spilling over the Shenzhen Special Economic Zone just north of the city, where over half of China's total foreign investment reportedly is located. Shenzhen's response to the decline in investor interest was to promulgate a set of new investment incentives on October 4. The key terms:

▶*Lower taxes.* Exemption from the Consolidated Industrial and Commercial Tax is now possible in certain cases, and "relatively large" enterprises may obtain a 15–20 percent reduction in income taxes paid over a period of up to three years.

▶*Lower rents.* Discounts of 20–40 percent will be given to "relatively large and advanced industrial enterprises." The basis for calculating new rentals will be the "standard lease rate" of ¥10 per square meter per year, which in fact is not the standard rate but the absolute minimum rate stipulated in Article 16 of the Guangdong's November 17, 1981, Provisional Land Regulations for the Shenzhen Special Economic Zone.

▶*Lower wages.* From now on wage rates are to be "50 percent lower than those in Hong Kong under similar working conditions." This represents a major concession. A few years ago one Shenzhen official told the National Council that wages in Shenzhen were to be 10–15 percent below Hong Kong rates for comparable work.

RECENT UPTURN IN JOINT VENTURE ACTIVITY

The large number of equity joint ventures currently under negotiation indicate renewed interest in this form of investment activity, and may even signal a reversal in the downward trend in the number of joint ventures being approved.

The Foxboro Co. venture. The Massachusetts-based company is moving quickly to set up an instruments joint venture that has been three years in the making. The company is already training a group of 21 managers and supervisors and may soon choose suppliers

and start shipping materials and equipment. Foxboro signed the 20-year, $10 million equity joint venture agreement in April, 1982, and received State Council approval in August.

The joint venture company, named Shanghai–Foxboro Co. Ltd, will produce process-control instruments at the Shanghai No. 3 Electric Meter Factory. Initially the company will produce two product lines: the Spec 200, and the 800 series of transmeters. By late 1983, according to a Foxboro source, the factory will be producing more than $3 million worth of the instruments per year.

Equipment for the production lines will include both existing machinery at the factory and new domestic and imported equipment. Since the factory will primarily be an assembly plant, suppliers are also being selected for the analogue electronic components for the instrument sets. These components will include: circuit boards, integrated circuits, and display units. Some of these will be supplied domestically; others will be purchased from US and Japanese companies.

Significantly, Foxboro is under no commitment to buy back products, though a company source said that some components may be purchased and that the joint venture could become a major source of Foxboro equipment for their Eastern markets. Now under discussion is an agreement to establish a service and distribution arm of the joint venture. Talks about a second Foxboro JV with the Guangdong Instrument Factory have been put on a back burner.

TWO UNIQUE PHARMACEUTICAL VENTURES

After years of talk about possible joint ventures in pharmaceuticals with US and West European companies, the China National Pharmaceutical Industrial Corporation, along with local Chinese companies, have signed two such agreements in the past two months. But the significance of the two ventures (one signed with Squibb International, the other with a Swedish consortium) goes far beyond breaking the ground for cooperative agreements in this industrial sector. The terms of the agreements are unprecedented in the recent history of foreign investment in China.

Terms common to both contracts which are particularly striking are an equal equity split between the foreign and Chinese partner, and an understanding that the bulk of the resultant product will be marketed in China. Moreover, the foreign company's profits will be repatriated in hard currency. Most joint ventures in the past had to pay profits out of export earnings.

The $8 million Squibb deal, signed with the Shanghai Pharmaceutical Industry Corp. and approved in October, will set up a new factory to package a broad range of pharmaceuticals.

Initially, the 6,000-square-meter plant will produce some 20 different products including Squibb's *Corguard*, and *Capoten*, both hypertension drugs. Production will also include a range of antibiotics and vitamins. The board is evenly divided between Chinese and US members. The chairman is Chinese, but the president and vice-chairman will be Michael W. Percopo, president of Squibb International. Under the terms of the agreement, said Percopo, Squibb will supply some of the more sophisticated bulk formulas: others will be obtained domestically. Squibb has agreed to purchase a sufficient amount of product from the joint venture to offset Chinese foreign exchange purchases of equipment and materials, but the Chinese have agreed to market the bulk of the output in China and to allow Squibb to convert and repatriate its 50 percent share of profits. In the future, Percopo said, the joint venture may establish its own trademark for exports.

Squibb deal is remarkably similar to a Swedish joint venture signed at about the same time with the China National Pharmaceutical Industrial Corp., Jiangsu Province, and the city of Wuxi on the Chinese side, and by a consortium made up of the Swedish companies Astra, KabiVitrum, Ferring, Ferrosan, and Leo. The deal was reportedly coordinated by the Swedish Pharmaceutical Industry Association. As in the Squibb deal, the equity split for the $12 million venture is 50–50. Only about 30 percent of output will be exported, just enough to cover the foreign currency outlays for imported bulk pharmaceuticals from Sweden. The joint venture, called Sino-Swede Pharmaceutical Corp. Ltd, will produce a range of Swedish formulas including KabiVitrum's fat emulsion, *Intalipid* and its amino acid, *Vamin*, as well as hypertension drugs under Astra's patent and a Leo formula for a chewing gum to help smokers cut down on cigarettes.

The only previous foreign joint venture to produce pharmaceuticals in China was signed by the Japanese company, Otsuka. Under that agreement, a factory is now under construction near Tianjin which will produce hospital solutions.

MAGAZINE STAFF

James B. Stepanek
editor

Carol S. Goldsmith
managing editor

Chris Brown
Martin Weil
associate editors

Elizabeth A. Mueller
copyeditor/production assistant

Christopher M. Clarke
political analyst

Jennifer Little
research assistant

Judy Bourke
manager, publications sales

Randy A. Gould
art director

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The UN in China

The country that spurned foreign aid is now seeking UN assistance as fast as Chinese planners can generate proposals.

Karen Berney

In 1978, seven years after the PRC regained its seat in the United Nations, Beijing announced its decision to become a recipient of UN technical and economic assistance for the first time. Until that time China had contributed $10 million to other developing countries through UN organizations but had declined to receive any assistance itself.

The United Nations Development Program (UNDP), the major channel for multilateral preinvestment aid, thereupon established an office in Beijing and began approving Chinese-proposed projects as part of a $30 million mini-program for China during the last three years (from 1979 to 1981) of its second aid disbursement cycle. Eager to fully participate in UNDP's third funding cycle (from 1982 to 1986), China's Ministry for Economic Relations with Foreign Countries (merged in March with the Ministry of Foreign Trade and now called the Ministry of Economic Relations and Trade) sent a series of delegations to the headquarters of the UN's specialized agencies to brainstorm on plans for a five-year China program.

A $142 million tentative project budget for China was approved by UNDP's governing council in June, 1980, making the PRC the third-ranked recipient of UNDP assistance, after India and Bangladesh. UNDP employs a complex formula to determine individual country allocations, the most important factors being GNP per capita and population size. Though India and Bangladesh have smaller populations than China, they received larger allocations ($252 million and $201 million, respectively) because they report lower per capita income figures than China.

However, after deductions to cover projects in China initiated during the second cycle, and Beijing's decision to relinquish 5 percent ($7.1 million) of its allocation to UNDP in a gesture of "good will," China was left with an operational budget of $119.9 million. Of that amount, $40 million will be spent over the next two years, and $69.9 million between 1984 and 1986. ($34 million of the $119.9 million total is still uncommitted for specific projects.)

Though pleased to finally have a presence in China, UNDP officials concede that the funds available are inadequate to the needs of so large a country as China. Indeed, UNDP spending in China only amounts to 2.5 percent of the agency's $5 billion (1982–1986) budget for worldwide assistance.

Partly for this reason, other UN agencies have followed UNDP to China. The United Nations Fund for Population Activities (UNFPA) has inaugurated a $50 million (1980–85) China program and taken a leading role in the PRC's 1982 population census. The International Fund for Agricultural Development (IFAD), which works in cooperation with the UN's Food and Agricultural organization (FAO), is supporting a $60 million World Bank project in the North China Plain with a $35 million loan of its own. FAO's other partner, the World Food Program (WFP), has been helping China feed laborers working on large-scale agricultural construction projects since September, 1981. The World Health Organization (WHO), under its regular aid program, funds research and training activities in China at an estimated cost of $1 million a year. The latest UN player to appear on the scene is the United Nations Children's Fund (UNICEF), which has committed $20.16 million of its 1982–84 budget to China's 350 million-plus youngsters. And in June, 1983, Beijing will finally occupy its seat in the International Labor Organization (ILO) in Geneva, which could open the door to ILO technical cooperation projects in such fields as management, vocational training, and occupational health and safety.

Among the other active UN agencies in China are: UN Industrial Development Organization (UNIDO); UN Conference on Trade and Development ment (UNCTAD); Office of the UN High Commissioner for Refugees (UNHCR); International Telecommunications Union (ITU); World Meteorological Organization (WMO); and World Intellectual Property Organization (WIPO). These organizations serve as the implementors for UNDP-financed projects, and send officials shuttling in and out of China arranging conferences and study tours. UNESCO, for example, awarded nearly 200 UNDP-funded fellowships to Chinese scholars between late 1979 and 1981.

Moving at a Fast Pace

Altogether, the UN family of agencies has initiated 200 major projects in China, and new ones are being approved as fast as Chinese planners can generate proposals. "UNDP would really need about 15 years in other countries to reach that number," said Nessim Shallon in an April interview with the *China Daily*. Shallon, general coordinator for all UN agencies operating in China, attributes the successful launching of UN programs to Beijing's strong commitment to developmental assistance. China is particularly appreciative of UN efforts after having been "cut off for some time from the latest scientific and technological developments around the world," he noted. The smooth implementation of UN projects, he said, reflects the efficiency with which Chinese officials identify realistic projects and work with their UN counterparts. A UNFPA official has also commended the Chinese for their "remarkably efficient financial reporting."

UNDP Projects: Small but Beneficial

The UNDP's China program was formulated in accordance with Beijing's principal of "relying mainly on its own efforts and seeking foreign assistance as subsidiary." Hence, China is providing the main financial inputs necessary for most UNDP projects, including funds for new construction and human resources. A typical UNDP project normally requires less than $1 million, and is directed toward upgrading existing institutions through research, training, and demonstrations. Since they aim for quick results, UNDP project cycles seldom exceed two or three years. All UN projects are included in China's current five-year (1981–85) development plan.

The significance of UNDP projects for the US business community is much greater than the sums of aid suggest. UNDP traditionally carries out preinvestment feasibility studies for the World Bank, IFAD, and other international lending institutions. Often, these preinvestment studies represent the early phase of much larger projects. For example, a group of American, Australian, and Canadian companies recently conducted feasibility studies for two Chinese dams to be developed under a current World Bank program.

UNDP programs are also setting the stage for more professional and sophisticated business relations with the Chinese. Whenever possible, the UNDP encourages recipient institutions and departments that have the requisite capability to directly take part in the execution of projects. In two or three years, therefore, US executives will be negotiating with a larger number of Chinese officials who have gained experience in managing foreign-assisted projects.

From a technical standpoint, UNDP projects are also reducing the risks of doing business in China. For example, the construction of a $700,000 quality control laboratory for consumer electronic products may not represent a vast market for US equipment suppliers, but it could save firms time and money later on when they buy products made by the Chinese electronics industry.

Business Opportunities by Sector

UNDP is actively recruiting experts, teachers, and consultants in nearly every field to implement projects. One future project, for instance, has budgeted $1.7 million for foreign advisory services to elevate the technical competence of Chinese civil aviation personnel. Other projects will require the procurement of foreign-manufactured goods. Under the terms of IFAD's $35 million loan, $7 million will be given to Hebei Province by 1986 to purchase 135 pieces of agricultural equipment, including seeders, harvesters, transport vehicles, feeding facilities, and animal by-products processing machines. US manufacturers of medical and laboratory equipment should note that about 60 percent of UNICEF's China budget is earmarked for equipment purchases on the international market. And in some cases, China itself will be importing equipment to support UN-assisted projects.

The following is a list of all known existing and planned UN projects in China as of September, 1982, for the period of 1982–86, arranged by economic sector. Interested companies are urged to contact the appropriate executing UN agency.

Agriculture, Forestry and Fisheries

UNDP plans to spend a total of $38.36 million on agricultural technology, natural resource technology, and training programs during its current programming cycle. These are designed to strengthen regional agricultural planning, scientific farming, and ecological control.

Get to Know Your UN Representatives in Beijing

A valuable but little known resource accessible to the China-based US business community in Beijing is the UNDP office located at 2 Sanlilu, Dongxijie. Tel: 523721. Since opening in late 1979, the UNDP staff has grown to include over forty Chinese support personnel and eight professionals representing UNIDO, UNFPA, WFP, WHO, UNICEF and UNHCR (FAO reports that it will soon establish its own Beijing office). The UNDP staff maintains close contacts with China's agricultural and industrial organizations, and may be able to provide economic intelligence and project information. The eight UNDP officers are: Nessim Shallon, resident representative; Alan Doss, deputy representative; Yves De San, regional program advisor; Narinder Kakar, assistant representative; Kerstin Leither, assistant representative; Anne Heyes, assistant representative; Joseph Meyer, program director; and Sirri Melchior-Tellier, UNFPA coordinator.

UNDP Projects Executed by FAO:

National Training and Applications Center of Agricultural Remote Sensing. Begun in 1980 with $650,000 from UNDP and $1.45 million from China, the project will be completed in 1984. UNDP recently granted an additional $800,000.

Pilot Demonstration Center for Intensive Pasture Fodder and Livestock Production in Inner Mongolia. Begun in 1979 with $1.12 million from UNDP, and $5.18 million from China. Additional UNDP assistance: $400,000.

Research Center of Integrated Wood Utilization. Begun in 1980 with $500,000 from UNDP, and $786,000 from China. Additional UNDP assistance: $700,000.

Improvement of vegetable oil production technology. Initial UNDP grant: $600,000.

Production of fish and prawns. Initial UNDP grant: $600,000.

Land resources utilization in Loess Plateau. Initial UNDP grant: $600,000.

Cotton seed processing plant. UNDP grant: $500,000.

Tropical Crops Testing Center. UNDP grant: $500,000.

Forestry Inventory. Initial UNDP grant: $500,000.

Sugar Processing Research Center. Initial UNDP grant: $500,000.

Preservation and processing of fish products. Initial UNDP grant: $500,000.

Research and development of soybean production. Initial UNDP grant: $450,000.

Sericulture center. UNDP grant: $447,000.

Beijing Vegetable Research Center. Begun in 1980 with $250,000. Additional UNDP assistance: $400,000.

National Rice Research Institute. Initial UNDP grant: $400,000.

Center for Pesticide Research and Development. UNDP grant: $400,000.

Utilization of salt lake resource for potash fertilizer production. Initial UNDP grant: $300,000.

Food processing technology. Initial UNDP grant: $200,000.

Improved quality of basic tractors. Initial UNDP grant: $200,000.

Other planned projects yet to be formally initiated will be in the areas of fishery protection, pest control, farm mechanization, and the improvement of oil-bearing crops and ginseng production.

IFAD Loan:

In June, 1981, the IFAD approved a $35 million loan for grassland development and livestock breeding projects in North China. China's contribution of $77.3 million will cover almost 70 percent of the project cost. The IFAD loan will be repaid over a 50-year period, and carry a 1 percent annual service fee. The projects, involving the mechanization of irrigation, transportation, planting, seeding, and harvesting operations, will be completed over the next seven years. The Machinery Import and Export Corporation (MACHIMPEX); in cooperation with FAO, is responsible for equipment procurement.

FAO Projects:

In addition to executing 20 national, and four regional, projects for UNDP, FAO is currently providing bilateral assistance to China to:

Establish a Coconut Research Center: $215,00.

Improve rosin quality: $105,000.

Train agricultural computer personnel: $120,000.

Improve olive production and technology: $38,500.

Introduce seed technology and processing technology: $500,000.

Strengthen remote sensing: $250,000.

FAO recently sent a mission to China and was presented with a $40 million request from Beijing to fund projects in agricultural education and research. FAO is now seeking donors for the projects.

World Food Program Assistance:

The WFP began operating in China in late 1979. Since then, it has financed two emergency food operations valued at $8.8 million, and 13 development projects valued at $75.2 million. Of the latter, two have been completed, nine are operational, and two have yet to be started.

WFP assistance is used to buy food from exporting governments to supplement the nutritional needs of laborers engaged in agricultural construction. WFP's most recent program was approved in October, and will supply Chinese workers involved in World Bank–IFAD projects with $1.3 million-worth of wheat and vegetable oil for seven months.

Light Industry and Consumer Goods

UNDP will provide $23.98 million over the next five years to PRC consumer goods and other light industries.

UNDP Projects Executed by UNIDO:

Synthetic Fiber Research and Development Center. UNDP grant: $3.5 million.

Plastics Processing and Application Center. Begun in 1981 with $450,000 from UNDP, and $1.98 million from China. Additional UNDP assistance: $400,000.

Research and development of fly ash utilization. Initial UNDP grant: $700,000.

Quality control laboratory for consumer electronics products. Initial UNDP grant: $700,000.

Window/door manufacture. Initial UNDP grant: $605,000.

Aid to machine building industry. Initial UNDP grant: $600,000.

Pulp and Paper Technology Center. Initial UNDP grant: $500,000.

Cement Development Center. Initial UNDP grant: $500,000.

Institute of Metal Research. Initial UNDP grant: $315,000.

Photographic plates production. UNDP grant: $309,000.

Development of dye-stuffs. Initial UNDP grant: $300,000.

Development of modified natural rubber, rubber–plastic blends, and anti-earthquake building materials. Initial UNDP grant: $300,000.

Control and testing of filters. Initial UNDP grant: $250,000.

Electrostatic precipitator. Initial UNDP grant: $250,000.

Light Weight Building Materials Research and Development Center. Initial UNDP grant: $200,000.

Glass Development Center. Initial UNDP grant: $200,000.

Hot processing technology used in machine building. Initial UNDP grant: $200,000.

Establishment of Central Leather Laboratory in Shanghai. To be completed in early 1983 with $250,000 from UNDP, and $231,329 from China.

Research and development in the area of pesticides. To be completed in early 1983 with $164,650 from UNDP, and $1.65 million from China.

Other projects still being planned are in the areas of housing construction, leather processing technology, food inspection, carbon fibers, research, bearing testing techniques, and nondestructive testing.

Energy and Conservation

China has identified 12 energy priorities which emphasize both increased output and conservation. In the near future, new projects will be identified, while the funding of existing ones is scheduled to increase.

UNDP Projects:

Oil and gas survey in Southwestern China. Initial UNDP grant: $4.0 million. Executed by UN Secretariat.

Direct coal liquefaction. Initial UNDP grant: $700,000.

Training center for thermal power plant operators. Initial UNDP grant: $600,000. Executed by UN Secretariat.

Oil well sand control techniques applicable to the Shengli Oilfield. Initial UNDP grant: $600,000. Executed by the UN Secretariat.

Prospecting, developing, and utilization of geothermal resources in the vicinity of Tianjin. Initial UNDP grant of $1.0 million is to be used in conjunction with a $7.0 million loan from the Italian government.

Energy Conservation Technical Service Center. Initial UNDP grant: $450,000. Executed by World Bank.

Solar Heating, Cooling, and Demonstration Center. Initial UNDP grant: $400,000. Executed by UN Secretariat.

Research Center for Thermal Energy Utilization Technology. Initial UNDP grant: $400,000. Executed by PRC government.

How to Introduce Your Company to the United Nations

When a UN project is approved, the appropriate executing agency issues invitations to a small list of qualified international suppliers to submit tenders. The chosen few are selected from a long roster of companies and organizations maintained by each UN agency. US firms interested in getting on an agency's roster can write to the Inter-Agency Procurement Services Unit (IAPSU), One United Nations Plaza, New York, N.Y., 10017, for a "Company Profile Form". The IAPSU will in turn disseminate data on your firm to potential UN customers.

US firms seeking to bid on a particular project can directly contact the procurement division of a UN agency for information and guidance on bidding procedures. Whom to contact in major UN agencies, and where:

John Cella, Senior Director
Office for Projects Execution
UNDP
1 United Nations Plaza
New York,
N.Y. 10017

Dennis Bathan, Chief
Procurement and Inventory Control Section
UNFPA
220 East 42nd Street, 17th Floor
New York, N.Y. 10017

J. Kabore, Assistant Director General
Cooperation for Development and External Relations
UNESCO
7, Palace de Fontenoy
75007 Paris, France

D. Gardellin
Purchase and Contract Services
UNIDO/Wagramerstrasse 4
P.O. Box 300
A-1400 Vienna, Austria

A. Doeve, Chief of Contracts Branch
Administrative Services Division
FAO or WFP
Via delle Terme di Caracalla
00100 Rome, Italy

Arne Jensen, Director
Supply Division, UNICEF
886 United Nations Plaza
New York, N.Y. 10017

C.G. Nickitis, Chief
Supply Services, WHO
20 Avenue Appia
1211 Geneva 27, Switzerland

Experimental Wind Power Station. Initial UNDP grant: $200,000.

Geothermal resources development program. Initial UNDP grant: $372,645. Executed by UN Secretariat.

Biogas Training Center. Initial UNDP grant: $310,000. Executed by FAO.

Hydropower Training Center. Initial UNDP grant: $160,000. Executed by UNIDO.

Other projects soon to be launched will be in the areas of coal exploitation and transportation, oil recovery techniques, and renewable energy resources.

Transport and Communications

Much of China's infrastructure is highly susceptible to earthquake damage and other natural calamities. UNDP has allocated $7.19 million for projects involving the establishment of preventative measures to protect China's water resources.

UNDP Projects:

Establishment of earthquake prediction site in Beijing–Tianjin–Tangshan–Zhangjiakou region. UNDP will provide $2.0 million. Executed by UNESCO.

Improvement of meteorological services. Initial UNDP grant: $1.5 million.

Hydrometeorological forecasting in the midstream of the Changjiang (Yangzi) River. Initial UNDP grant: $900,000. Executed by WMO.

Motion radiotelemetry network. Initial UNDP grant: $635,000. Executed by ITU.

Evaluation of ground water resources in Huang Huai Hai Plain. Initial UNDP grant: $500,000. Executed by WMO.

Flood forecasting system for the Yellow River. Initial UNDP grant: $400,000. Executed by WMO.

Development of digital transmission systems. Initial UNDP grant: $400,000. Executed by ITU.

Development of national water resource data, and Technology Transfer Center. Initial UNDP grant: $200,000. Executed by UN Secretariat.

Additional programs for implementation will be identified by China and submitted to UNDP during the latter part of its five-year program.

Science, Technology, and Education

UNDP technical assistance, totaling $26.37 million during the 1982–86 period, will be utilized to strengthen China's educational system.

UNDP Projects Executed by UNESCO:

Information processing center. Started in 1979, the project is UNDP's largest. UNDP grant through 1983: $6.7 million.

Strengthening the training and research in key universities. Initial UNDP grant: $1.2 million.

Civil aviation professional training. Initial UNDP grant: $1.2 million. Executed by the International Civil Aviation Organization.

Strengthening vocational education. Initial UNDP grant: $800,000.

Strengthening secondary education. Initial UNDP grant $600,000.

Computer training and development. Initial UNDP grant: $500,000.

Improvement of educational facilities for China's national minority populations. Initial UNDP grant: $500,000.

Training of medical personnel. Initial UNDP grant: $500,000.

Strengthening of Qingdao Advanced Training Institute. Initial UNDP grant: $500,000.

Science and Technology Institute. Initial UNDP grant: $460,000.

Strengthening of agricultural education. Initial UNDP grant: $400,000.

Establishment of Beijing Training Center for Senior Geologists. Initial UNDP grant: $409,000.

Computer science training. Initial UNDP input: $311,500.

Film Laboratory Center. Initial UNDP grant: $216,000.

Strengthening of China Research Institute of Printing Science and Technology. Inaugurated in 1980 with $251,650, UNDP is providing $200,000 in additional assistance.

TV university adult education program. Initial UNDP grant: $200,000.

Other Projects:

English for special purposes. Establishment of English centers in Shanghai, Beijing, and Xian at cost of $1.2 million. Executed by Chinese government.

Enterprise Management Training Center. Executed by UNIDO at a cost of $500,000.

Transfer of know-how through expatriate nationals. Initial UNDP grant: $560,000.

Strengthening the Beijing Institute of Posts and Telecommunications. Executed by ITU at a cost of $300,000.

New projects will be in the areas of statistical training, export promotion, educational broadcasting, teacher training, and budgeting and auditing.

International Trade and Finance

UNDP Projects:

Preinvestment support. UNDP has allocated $1.8 million to assist China's planning department in improving their feasibility studies, project designs, and contract management. Executed by World Bank.

Assistance to the Institute for International Economic Management. Begun in 1979, UNDP is executing the project with $800,000 of its funds, and $1.53 million from China. To be completed in 1984.

Training in computing technology involving trade statistics. Initial UNDP grant: $300,000.

Projects Executed by UNCTAD at a Total Cost of $1.1 million (only project titles are listed):

Export Packaging/Label Design Institute; Improvement of Commodity Inspection Techniques; Trade Information Development; Export Publicity and Promotion; Export Training; Trade Training College.

Other Projects:

The World Intellectual Property Organization (WIPO) is financing several training courses in the fields of patent and trademark law protection.

Advance Notice on Business Opportunities

To stay abreast of upcoming China projects funded by the United Nations and the World Bank, companies can subscribe to the business edition of *Development Forum*. At a cost of $250 for 24 issues a year, the newsletter provides timely information on the services and equipment required by particular projects, and furnishes instructions on how to obtain tender documents. Subscription inquiries should be sent to:

Development Forum/Business Edition
United Nations
CH-1211 Geneva 10, Switzerland
Attn: Annette Ekberg

Part of the $38 million budgeted by UNDP is for research to improve the production of ginseng and other cash crops.

Xinhua photo

The World Health Organization has already set up an experimental center using computer-controlled diagnostic equipment.

Xinhua photo

Health and Population

This area has received $7.19 million from UNDP, $50 million from UNFPA, and $20.16 million from UNICEF.

UNDP Projects Executed by WHO:

Drinking water supply and sanitation. Initial UNDP grant: $800,000.

Creation of model counties in rural health care. Initial UNDP grant: $600,000.

Establishment of Biomedical Information Center, and information network. Begun in 1980 with $200,000 from UNDP, and $2.42 million from China. UNDP has allocated an additional $150,000.

Establishment of Experimental Center for Clinical Diagnostic Reagents. Begun in 1980 with $200,000 from UNDP. An additional $150,000 has been budgeted.

UNFPA Projects:

UNFPA assistance will total $50 million through 1985, and is likely to be increased through bilateral donations to the agency. More than 35 different projects are now underway to assist China's population census ($15 million worth of computer equipment was installed for the 1982 population census); demographic training and research; population education, training, and publicity; statistics and evaluation; and the production and introduction of contraceptives.

UNICEF Projects:

Over the next two years UNICEF will spend $13.24 million (of its $21.16 million budget) on foreign equipment for various China projects. Another $5.3 million will be used for training grants, and the remaining $1.6 million is for project support. Known projects calling for international competitive bidding:

Education: UNICEF is now accepting bids for printing equipment to modernize the People's Education Press Printing House in Beijing.

Nutrition. UNICEF is seeking modern production and processing equipment for a protein-rich weaning food factory to be built in Shanghai. Operations are scheduled to begin in early 1984.

Health. UNICEF will be purchasing modern laboratory equipment to support the development of immunization delivery systems in five provinces.

Emergency Cooperation. UNICEF plans to equip a maternity hospital and a number of schools as part of a continuing rehabilitation post-earthquake project in Tangshan.

Karen Berney is a freelance writer who has contributed frequently to The CBR.

China and The World Bank

A Model Beneficiary in the Making?

Nicholas H. Ludlow

The benefits conferred upon China by World Bank membership in May, 1980, are already being felt both by China and American manufacturers. Not only has China received two loans worth $200 million and $60 million, but a significant share of the money appears destined for the US. Indeed, about half of the $43 million worth of contracts awarded in the first round of China's education loan went to US firms.

China joined the World Bank at a time when commitments had already been determined for fiscal 1981–83 from the Bank's soft loan source—the International Development Association (IDA), in which Beijing had the most interest. So initially, China had access only to unallocated IDA funds, and a small amount of profit transfers to IDA from the Bank's hard loan organization—the International Bank for Reconstruction and Development (IBRD).

Loans to China

Loans to China thus far have not taken away resources from other low-income beneficiaries of the World Bank, such as India and African countries. Beijing's two loans totaling $260 million (just a fraction of which have been disbursed), committed by the Bank in its last fiscal year ending in June, 1982, represented only 2 percent of the Bank's $13 billion in actual commitments in that fiscal year.

Nothing happens fast at the World Bank. Project preparation is a methodical, long-term process that may take several years, and five or more years to complete once a project has been approved.

Early on, the Bank prepared a report of almost a thousand pages which pinpointed some of China's real needs—for energy conservation, energy development, agricultural needs, improvement in educational standards, and better communications (see *The CBR*, July–August, 1981, page 6). The report emphasized the need for the PRC to improve economic efficiency by better planning, a revamped price structure, more responsible investment decision-making, improved labor mobility, and better foreign trade planning.

Based on its study, the Bank reportedly drew up a project plan for the approximately $800 million that was available through 1983, with an equal emphasis on spending for education, agriculture, energy, and transportation. Funding for these projects was to be split 50–50 between IDA and IBRD funding. IDA financing is virtually free.

The Bank's first China loan was signed in November, 1981, calling for $200 million in expenditures (half and half IDA/IBRD) for instruments, computer equipment, and training at 26 key Chinese universities.

IDA Cutbacks

China's entry to the World Bank, however, came at the time when the Reagan administration reduced funding for the World Bank. China, among other poorer countries, was caught in congressional resolutions which pledged a US contribution to IDA's sixth replenishment of $3.24 billion, or 27 percent of the total over four years instead of three.

The effect of this was to reduce annual IDA funding overall by 25 percent. In fiscal 1982, IDA lending to beneficiaries of the World Bank actually fell by 23 percent. And the first US payment in August, 1981, was for $500 million, rather than the $1.08 billion originally pledged.

These cutbacks shifted the emphasis from IDA funding to IBRD funding for all Bank projects, including those under preparation in the PRC. IBRD loans carry an annual interest rate of 11.43 percent, compared with a 0.75 percent service fee charged on IDA loans. Now only about 10 percent of the Bank projects currently under preparation in China involve IDA financing.

The reduced US commitment to IDA, ironically, came at a time when the World Bank's first loan to China was demonstrating the beneficial relationship between the Bank's lending activities and US exports. American firms won about half of the $43 million awarded in the first round of bidding on China's education loan, while Japanese firms won a third of the awards, and European companies won 15 percent.

A consequence of the US action to reduce IDA funds available to China

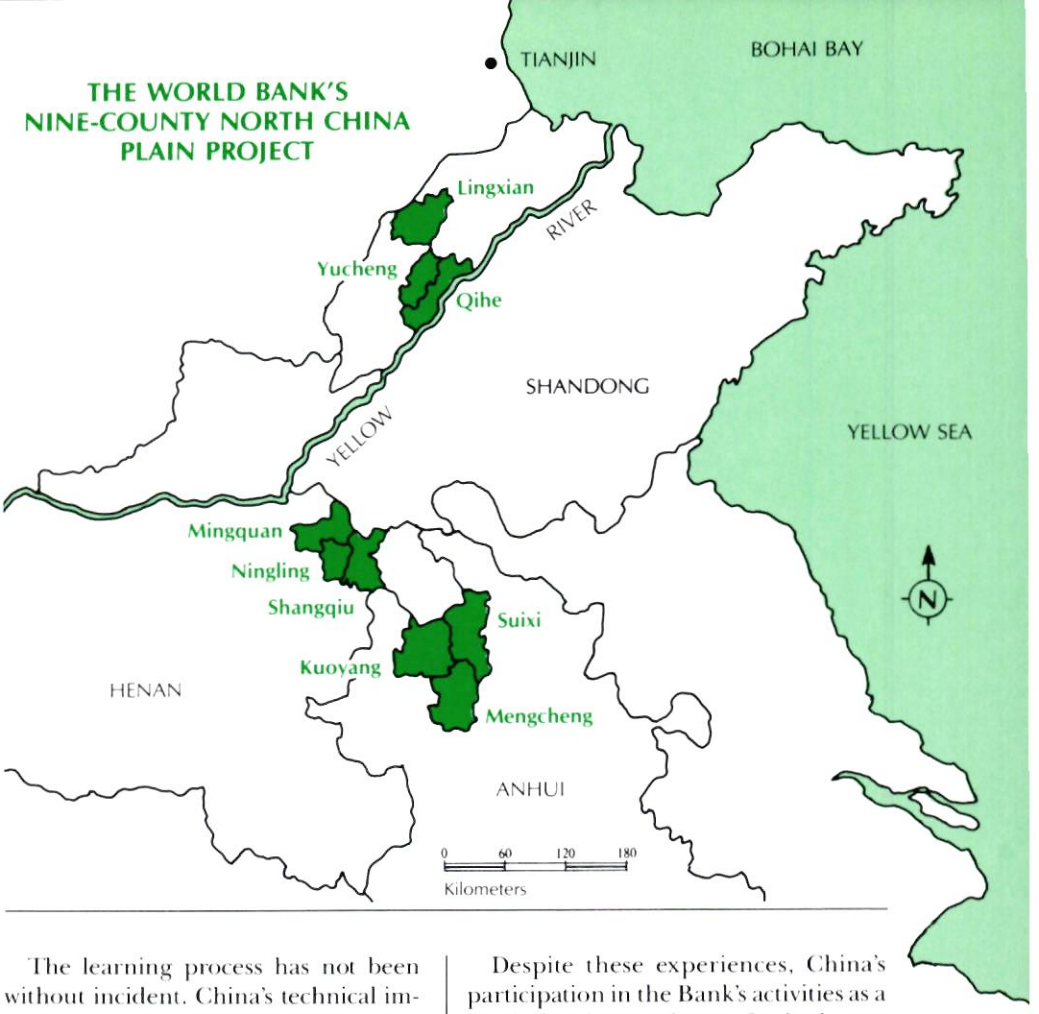
and elsewhere, has been the development of a proposal for a special technical account that will bridge the current IDA sixth replenishment with the next (IDA 7), paid for by donors other than the US, such as Canada, Italy, and France. Under the terms of this account, procurements will be from donor countries only. American exporters will not be eligible.

Backup Support

With Bank funding came all the resources of the World Bank—training for hundreds of China's project planners at the World Bank's institute in Washington and at a counterpart institute in Shanghai, the consulting services of some of the world's foremost economic planners, and management of project development by experts at the Bank.

This expertise, which is unlike that provided by any governmental credit institution or Exim bank, came at a time when China's planners appreciated the need for it. Indeed, after the fiasco of China's planning of the late 1970s, and the waste of China's scarce budgetary resources in so many sectors, Beijing's readmission to the World Bank was propitiously timed. The PRC might take exception to some of its operating principles, but there is no doubt that the Bank's advice and technical assistance is appreciated.

The Bank has had to go through an educational exercise with each sponsoring organization in the PRC: the ministries of Education, Petroleum, Communications, and so on. It has also had to coordinate its activities with the ministries of Finance (the Bank's "sponsor" in China), and Foreign Economic Relations and Trade, which has acted as liaison on project development.



The learning process has not been without incident. China's technical import corporation, TECHIMPORT, which serves as agent for Chinese ministries procuring equipment under Bank loans, irritated some companies when it asked them to discount their prices further or it would go to other bidders—*after* these firms had won bidding awards. Some negotiators were upset with TECHIMPORT's insistence on such things as arbitration in Beijing, and the approval of foreign export licenses within six months (a matter that is handled by foreign governments and is out of the hands of private firms).

Despite these experiences, China's participation in the Bank's activities as a whole has been salutary for both parties. Indeed, the PRC promises to become a model beneficiary nation. For example, China organized evaluation of the first round of bidding on its education project within two months, when, in Bank experience, 8–13 months is normal for similar, but much smaller projects in other Asian nations. In the $60 million North China Plain irrigation project, the second approved by the Bank, a major canal was dug within weeks of the loan being signed, much to the Bank's amazement.

China will be one of the chief contenders for a share of the $18 billion worth of IDA funds soon to be discussed among donors and beneficiaries involved in the forthcoming IDA seventh replenishment. If China continues to absorb the Bank's resources quickly—and to good effect—undoubtedly the PRC will carry more weight among Third World nations and set a standard that will be hard to beat.

Photo by Ludlow

A major World Bank priority is to alleviate port congestion in Shanghai, which handles 40 percent of the country's cargo.

Nicholas H. Ludlow is managing director of ITM Associates, a Washington-based consulting firm that serves as a clearinghouse for information on development bank projects. Mr. Ludlow formerly was the National Council's executive director of publications, research, and planning.

The Agricultural Outlook

Not only have reforms stimulated agricultural recovery, but they are changing China's agricultural trade with the world.

Frederic M. Surls

The rapid growth of agriculture has been one of the brightest features of China's economic performance in the last four years. Production of crops, livestock products, and rural sideline industry all showed healthy gains, and rural incomes are up by a wide margin. Because of these gains, China's imports of farm products, with the notable exception of grain, are now falling.

Impressive as the recent surge in production has been, agricultural progress is much less striking when viewed from a longer perspective. Over the last 25 years, China's farm sector has made only limited gains in per capita production, and most of the gains have occurred in the last few years. Moreover, the recent pace of growth cannot be maintained for an extended period, and growth in the future is likely to slow. This will present China's leadership with a new set of challenges in the future.

The Performance to Date

The growth of farm production since 1977 has been striking. Gross value of agricultural output, China's broadest measure of farm sector performance covering the production of crops, livestock, forestry, aquatic products, and sideline industry, grew by 28 percent between 1977 and 1981. Production of crops advanced by 22 percent, and meat production rose by over 62 percent. Rural industry also made major progress, as household sideline production, and the output of production team and brigade enterprises, advanced by more than 50 percent. Rural incomes grew at an even faster pace, following a round of major price increases for farm products in 1979 and subsequent smaller increases in 1980 and 1981.

The expansion of crop production has been uneven, however, with grain showing the slowest growth and cash crops such as oilseeds, cotton, and sugar advancing by much larger margins. Grain output rose by 15 percent between 1977 and 1981, while oilseed production rose 65 percent, and the output of cotton was up by 45 percent. An important reason for the different growth rates between grain and other crops is the large decline in grain area, as land has been shifted to the production of cash crops and to non-crop uses such as pasture and forests. Also, farmers in some areas have taken advantage of greater autonomy to cut back on unprofitable double cropping, especially of rice. Between 1977 and 1981, the area planted in grain crops—wheat, rice, coarse grains, and tubers—dropped by 6.6 million hectares, an area equivalent to 6.5 percent of the 1977 area. Over the same period, the acreage of major oilseeds—soybeans, peanuts, rapeseed, and sunflowerseed—increased by 40 percent. Acreage devoted to other cash crops also rose, but generally by smaller margins.

The shifts in acreage are only one part of the explanation for the growth of production that has occurred. Yields are also up sharply. Rapeseed yields have now doubled those of 1977, which was admittedly a poor year. Yields of other oilseeds are also up, with increases ranging from 10 percent (soybeans) to 35 percent (sunflowerseed). Cotton presents a similar picture, as yields grew by nearly 40 percent.

Reasons Behind the Growth

Revised agricultural policies and substantial increases in fertilizer supplies both contributed to this growth in yields. Fertilizer supplies grew rapidly during the late 1970s as production came onstream from the imported plants contracted in 1973 and 1974, and China's domestic production of phosphate fertilizers jumped. Between 1977 and 1981, domestic fertilizer production increased by about 70 percent. The application of chemical fertilizers rose at an even faster pace as fertilizer imports also increased. During this period, application rates doubled, growing from 66 to 133 kilograms per hectare.

The government's new policies aimed at improving incentives and increasing efficiency have also contributed to increased output. There are at least four important aspects of the new policies:

- higher prices for farm products,
- encouragement to farmers to specialize more, and limited freedom for farmers to choose the crops they grow,
- incentive and payment systems that tie incomes more directly to work, and
- greater scope for private production.

Prices. Government purchase prices were raised sharply in 1979, the first large increase since the mid-60s. This was followed by further selective increases for a more limited range of crops in 1980 and 1981. The price increases were structured in such a way

that prices were raised for compulsory deliveries, and a premium price paid for deliveries in excess of the compulsory quota. For example, the average price for the basic compulsory delivery quota of grain rose by 20 percent. A 50 percent premium was added for above-quota deliveries. In addition, once delivery quotas are fulfilled, producers can then sell remaining supplies to the government at negotiated prices, and, in come cases, on the free market. Since compulsory delivery quotas have generally not been raised, the proportion of above quota sales and the average price at which products are sold has continued to rise. Between 1977 and 1981, the average price paid farmers rose by about 40 percent. Since the retail price of most basic commodities has not risen, the government has incurred rising budget subsidies to cover the losses of the commercial system.

Specialization. Local self-sufficiency in grain production was a major policy theme during the Cultural Revolution. This has given way to a limited encouragement of specialization. The government is pursuing this approach by several routes. It is actively promoting land-use planning, has moved to shift marginal land to non-crop uses, and is designating key areas as bases for production of specific crops. These commodity bases are expected to have higher-than-average marketing rates and, in many cases, are receiving significant amounts of state assistance and priority supplies of inputs. The central government is also guaranteeing supplemental grain supplies for regions which are approved for specialization. These grain supplies probably have been extremely important in inducing areas to shift from grain to other crops. Previously, the requirement to be self-sufficient discouraged farmers from devoting land, fertilizer, and labor to cash crops out of fear that other areas would not provide them with grain.

In addition, producers now have somewhat greater autonomy in deciding what crops to plant. Just how this is being done is not entirely clear—acreage targets for some crops are still being set by the government, but producers apparently have some freedom to choose what crops to grow and in some cases, to ignore the plan without worrying about criticism.

Incentives. A third feature of Beijing's new agricultural policies is the attempt to link farmers' incomes more directly to effort and productivity. In order to "break the iron rice bowl"—egalitarian income distribution systems popularized during the Cultural Revolution—a greater share of team income is being distributed on the basis of work performed. The new "production responsibility system" (*see* page 16), involves a variety of forms of contracts between production teams and individual households or groups of households. Their form varies widely and extensive experimentation is still underway. In some cases the contract covers only a limited and specific task such as management of a certain plot of wheat once it has been planted. In other cases, land of the production team is effectively broken up with individual households given complete responsibility for specific pieces of land and for the crops that are grown on them. In this case the household enters into a production contract with the team, and is responsible for delivering a certain amount of what it produces to the team, for paying for supplies provided by the team and for contributing to the team welfare fund. Once these contractual obligations are met, households are free to dispose of surplus production as they see fit.

Since 1977 China has been playing catchup—making substantial gains by utilizing surplus production capacity created by the wasteful policies of the Cultural Revolution period. But these high growth rates can be sustained only if Beijing continues its flexible agricultural policies.

Private Farming. A final feature of the new policies that has contributed to greater production and higher incomes is the increased latitude allowed for private production. Area allowed for private plots has increased, with the legal maximum now set at 15 percent of the land of a production team. Actual size in most places is still well below this limit, but the amount of land in private plots has increased significantly. New regulations that permit more time to be spent away from collective production have also contributed to the expansion of private household production.

Along with greater freedom for private production, the reopening and expansion of rural markets has also contributed to the attractiveness of private sector production. More than 40,000 such markets are now open; this expansion of marketing opportunities has made a major contribution to the growth of all kinds of private activities, and to the rise in rural incomes. In part because of these changes, private income now accounts for more than one-fourth of total rural income.

The impact of these changes has been substantial and, at times, dramatic. Cotton production in the North China Plain, once China's major growing region, is one striking example. During the mid-70, cotton acreage and yields in the region dropped as a result of the preoccupation with grain production. Following cotton price increases in both 1979 and early 1980 and increased government supplies of grain to areas producing cotton, yields increased by 80 percent in one year. This was largely the result of the new policies, though very good weather and the popularization of new cotton varieties helped. Since 1980, cotton land in the region has continued to expand, contributing to China's record cotton crops in the last two years.

1982 Crop Prospects

The trends of the last four years are continuing this year, and further increases in production of most crops are likely, despite a poor beginning in the spring when serious drought threatened crops in the North China Plain and dry weather in the Northeast for much of the summer which damaged crops there. The shift of area out of grain has continued, despite worried government appeals to farmers not to reduce any further the land devoted to grain cultivation. The area of summer grain crops—largely wheat—was reported to be down by 600,000 hectares this year. Further cutbacks in double-cropped rice areas reportedly occurred in central China. Despite dry weather and the smaller available area, wheat production in 1982 may exceed last year's level.

The early rice crop, which accounts for over one-third of total rice production, rose by 3 percent to 1.5 million tons. The Chinese government is optimistic about this fall's harvest of intermediate and late rice. Coarse grain crops across the North China Plain are reportedly doing well, although production in the Northeast, an important

producing region, will likely be down, perhaps substantially. In all, grain production could be close to the 333.5 million tons called for in the state plan, or the 1979 record of 332.5 million tons. It will certainly be well above last year's 325 million ton level.

Production of most cash crops should be higher. The area of cotton land is up by more than 5 percent and the third consecutive record crop is in prospect. Most oilseed crops should also register increases, and a 6 percent increase in total oilseed production is projected. The rapeseed crop was 11 percent more than last year, and good crops of fall-harvested oilseeds such as peanuts are also likely, as is another record sugar crop.

The livestock sector should also show further gains in 1982, but the increase in output is likely to be relatively small. After very rapid gains between 1977 and 1980, meat production rose by only about 500,000 tons last year; a similar increase is likely this year. Year-end inventories of hogs have dropped for the last two years and sow numbers have also declined. However, slaughter rates have increased, as has the average

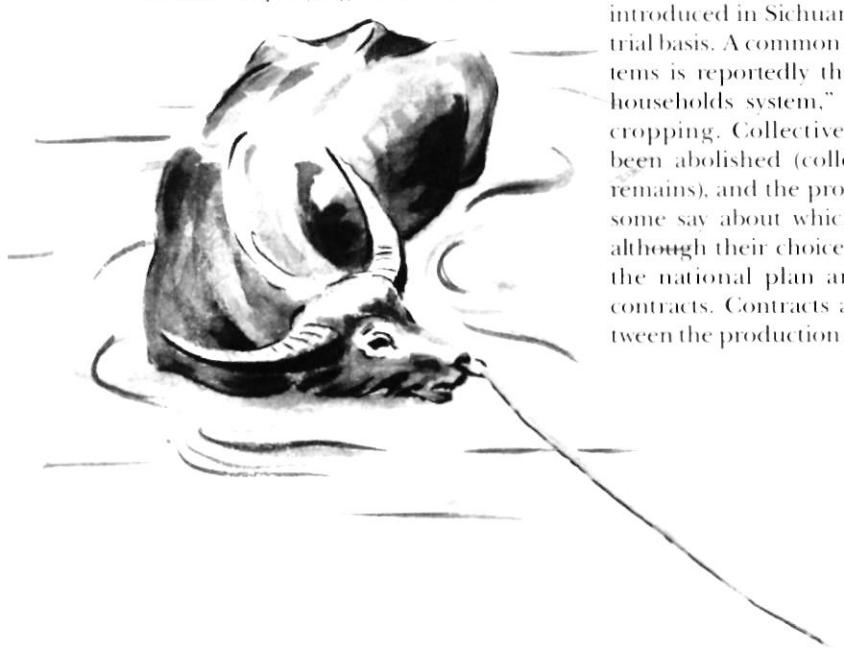
Returning Incentives To the Farmer

Kathlin Smith

China's decision in 1979 to restrain the heavy hand of central planning, and let farmers increasingly grow what they want for profit, has contributed to the longest period of rapid growth in decades. Though controls still exist, the increased freedom given to farmers has already altered the composition of China's farm output, and of its agricultural trade with the US.

By inducing greater efficiency in cropping through various reforms, China has succeeded in raising grain output over the past three years by 6.6 percent—on 5.6 percent less land. Reports of record harvests of wheat and rice in China this September surprised many observers who last spring predicted grain shortfalls due to poor weather conditions and reduced sown acreage. Cotton and oilseed have shown even greater gains.

At the heart of China's rural resurgence lies a reform called the "responsibility system." Credited with spawning new dynamism in the rural sector, these market-oriented incentives have had a marked impact on the quantity and diversity of China's agricultural production over the past four years. Much of the impact, too, comes from accompanying reforms such as increased government procurement prices, the liberalization of rural markets, and official encouragement to diversify production by expanding sideline industries. This package has resulted in some rural peasants enjoying higher living standards than their urban counterparts. Between 1979 and 1981, net income in peasant households reportedly increased by an average of 18 percent.



Many variants of the responsibility system are in use today. Some appeared as early as 1954, and during subsequent periods of liberalization, as in the early 1960s.

In 1977 responsibility systems were introduced in Sichuan and Anhui on a trial basis. A common form of these systems is reportedly the "contracting to households system," similar to sharecropping. Collective production has been abolished (collective ownership remains), and the production team has some say about which crops to plant, although their choice is still guided by the national plan and procurement contracts. Contracts are drawn up between the production team and an individual or family, which then is held responsible for the fulfillment of certain quotas. The household can decide how it wants to utilize its land and inputs to produce the quota—and anything extra.

In areas where collective agriculture remains relatively strong, often in areas near cities, the responsibility system tends to take more limited forms. Peasants are given more specialized tasks, function more as a group, and are paid in work points. Often these collectives derive a large portion of their wealth from sideline industries such as tool making, weaving, or food processing.

The principle of remuneration in all forms remains the same: If the individual or family fulfills its contract, payment is made according to the contract terms, while any above-quota production may be kept for home consumption, sold on local free markets (with some restrictions), or sold to the government at premium prices.

Crop diversification is one of the more obvious consequences of the system. Economic crops such as sugarcane, tea, silk, and tobacco have done

Kathlin Smith, presently with the China Council of the Asia Society, is completing her Master of Arts degree in International Development at American University.

slaughter weight. The private sector has played an increasingly important role in raising hogs, which account for nearly 95 percent of China's meat production. Over 90 percent of China's 294 million hogs are now privately raised.

China's Changing Agricultural Trade

Higher agricultural imports accompanied the growth of farm production through 1980, but imports are now dropping. Between 1977 and 1981, imports of farm products increased from $1.9 to an estimated $5.3 billion. Larger imports of both grain and cotton contributed to most of the increase. Grain imports rose from 6.8 million tons in marketing year 1977/78 to 14.5 million tons in 1981/82, and are expected to reach 16 million tons in 1982/83. Wheat has accounted for most of the increase in imports; coarse grain imports rose to a record 3 million tons in 1978/79 but have since declined. Imports in 1981/82 totalled only about 1.3 million tons, although they may reach 2 million tons this year.

Higher grain imports have been caused by both rising incomes and policies favoring specialization. Greater in-

better under the new system, and forest and lake areas, forced into grain production during the political mayhem of the sixties, are being slowly restored.

The impact of reforms is also reflected in the changing pattern of rural demand. Efforts by production units to increase yields have led to a greater market for inputs—fertilizer (especially potash), improved seed strains, and pesticides.

Significantly, demand for large-scale agricultural machinery is down, itself an indication that the state can no longer sell to family units the type of machinery previously sold to larger, collective units. The demand for small tractors, however, has risen greatly. In Anhui province, sales of two-wheel "walking" tractors (known as garden tractors in the US) are running 10 times above 1980 levels.

The profit incentive may be a good cure for slow growth, but the medicine has not been without its side-effects. To name a few:

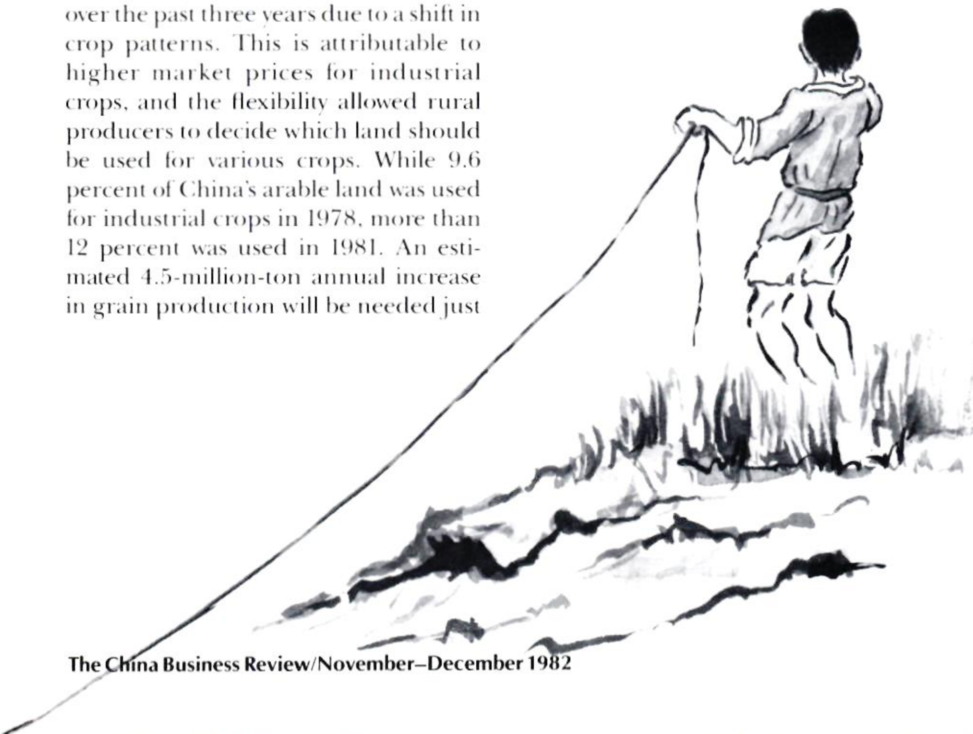
▶ The reduction in sown grain area has begun to alarm Beijing. Approximately 18.5 million tons of grain production reportedly has been foregone over the past three years due to a shift in crop patterns. This is attributable to higher market prices for industrial crops, and the flexibility allowed rural producers to decide which land should be used for various crops. While 9.6 percent of China's arable land was used for industrial crops in 1978, more than 12 percent was used in 1981. An estimated 4.5-million-ton annual increase in grain production will be needed just to maintain 1981 per capita grain levels. China's leaders, aware of the problem, have stressed that the sown grain area must not be further reduced.

▶ The government, having already spent $43.3 billion over the past three years on farm price subsidies, is in no position to raise procurement prices any more. This will make it harder to keep incomes growing.

▶ The responsibility system has reportedly led to greater income inequalities in rural areas. Families with fewer able laborers—and especially soldiers' families—are at a disadvantage in productivity. As economic gain to the household becomes more a function of the number of able workers, China's birth-control campaign could suffer a major reverse.

Even US exports to China have felt the effects of the country's rural reform policies. In the first seven months of 1982, exports of cotton and soybeans fell by 56 percent and 12 percent, respectively, as compared with the same period last year. But wheat sales are up 12 percent on the same period, and corn sales have increased by over 380 percent.

China's rural policy now faces a dilemma, brought on, in part, by its own success. On the one hand, the government probably could not sustain the large budget deficits needed to readjust agricultural prices across the board, and induce farmers to produce willingly all the crops needed to feed one billion people. Therefore quotas will continue to be used to make farmers produce what they probably regard as unprofitable crops. On the other hand, quotas must be implemented without dulling the incentives which have proven so important in agriculture's recent advances.



The Water Buffalo Parable

China's famous economist, Sun Yefang, was once ridiculed for advancing the "absurd" hypothesis that individual incentives and the price mechanism could guide an economy as easily as a rope through the nose of a water buffalo. Bureaucratic central planning of the Soviet variety, he argued, was like trying to push a water buffalo from behind. Today Sun Yefang is one of Premier Zhao Ziyang's chief economic advisors.

Photo by Xinhua

Mechanized sisal cultivation on the Leizhou Peninsula.

comes in both urban and rural areas have pushed up demand for higher quality grains such as wheat and rice. At the same time, government procurements of grain from the countryside have increased very little. On top of this, the government has been transferring a greater share of grain that it does procure back to the rural areas as part of the incentive program to encourage farmers to shift land and resources to producing cash crops. This has further increased shortfalls in urban areas. These two factors have combined to increase the demand for imported grain, particularly wheat.

While grain imports have been rising, the dramatic growth of cash crop production has reduced the need for cash crops imports. Cotton imports, which had risen to a record 849,000 tons in marketing year 1979/80, fell to 566,000 tons in 1981/82, and a further decline to 390,000 tons is projected for 1982/83. Imports of soybeans and soybean oil have been similarly affected. Soybean imports reached a peak of 810,000 tons in 1979/80 but have since fallen off—imports in 1982/83 are expected to total only about 400,000 tons. Soybean oil, imports of which equalled or exceeded 100,000 tons in 1979/80 and earlier years as China tried to alleviate a serious shortage of vegetable oils, fell to only 25,000 tons in 1981/82. No imports are expected in 1982/83.

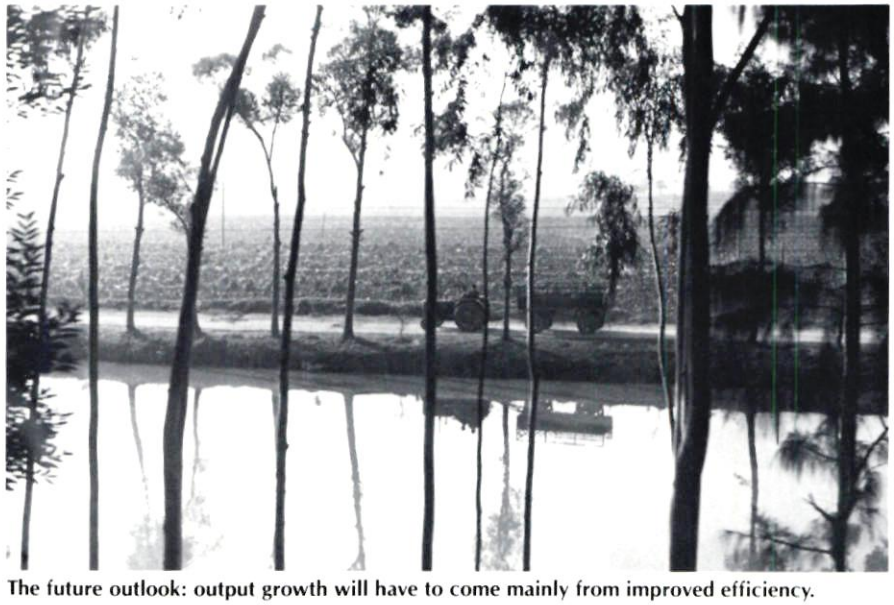
This pattern of trade is indicative of a policy of import substitution, in which larger imports of grain are being used to permit reductions in imports of other agricultural products. The larger grain imports free domestically-procured grain for shipment to areas which are expanding cash crop production. These imports are viewed as the necessary short-term costs for reducing imports of other agricultural products. China's long range foreign trade policy appears aimed at limiting the growth of agricultural imports, so as to free up more foreign exchange for the purchase of nonagricultural goods.

This same cautious approach to imports is evident in the livestock sector. Although policies announced in 1977 and 1978 envisioned rapid development of livestock production in and around urban areas and, by implication, the rapid growth of grain-intensive feeding operations, the policies implemented since 1979 have been much more cautious. Present policy favors a more balanced approach: the simultaneous development of range-fed cattle, sheep, and goats together with some expansion of concentrated feeding operations in and around the large cities. This approach has slowed the growth of demand for animal feed. It is likely that one of the reasons for this change was to moderate the demand for imported livestock feed. Some of the coarse grains China now imports are being used for feed, but most is probably used for human consumption. Part of this year's increase in projected imports is due to the shifts from wheat to corn because of low corn prices. China has also begun to import small amounts of malting barley for use in brewing.

This pattern of rising grain imports—and falling imports of other farm products—is evident in US agricultural exports to China. From 1977 to 1980, such exports increased from $66 million to $2.3 billion. Over this period, shipments of both grain and cotton rose sharply, reaching a combined total of $2.0 billion in 1980. Shipments of soybeans and soybean oil also grew to $226 million in 1980. Wheat shipments continued to increase in 1981, following the signing of the Sino–US grain agreement in October, 1980. But US exports of cotton, soybeans, and soybean oil tailed off as China reduced purchases of these items and total US exports of farm products to China dropped 13 percent to $2 billion. A further decline to about $1.6 billion is expected this year because of both lower prices for exports and further cuts in China's purchases of U.S. cotton.

Playing Catchup

The production levels achieved by China in the last several years are less striking when viewed in a longer-run



The future outlook: output growth will have to come mainly from improved efficiency.

perspective. Growth of per capita crop production since the mid-fifties has averaged only about 0.6 percent per year, with most of the growth coming in the last several years. As recently as 1977, the aggregate production of major crops on a per capita basis was no higher than it had been during the mid-50s, despite the country's increased use of modern inputs such as irrigation, fertilizer, and new varieties of major crops such as wheat and rice. For the last several years, therefore, China has been playing catchup—making substantial gains by utilizing surplus production capacity created by inefficient and wasteful policies of the Cultural Revolution period. These high growth rates cannot be sustained for too long.

Looking ahead to the next several years, growth rates should slow. Inputs are certain to grow more slowly, since major increases in irrigation area, fertilizer availability, and agricultural machinery supplies, are not expected.

This slowdown in input growth means that the future expansion of crop production will have to come from increasing efficiency in using existing inputs. Considerable latitude for gains from greater efficiency do exist. For example, chemical fertilizers are often used wastefully and nutrients are lost through volatilization before they have their full effect on crops. Greater efficiency could increase nutrient supplies, and better use of existing irrigation facilities could also have a positive impact on yields.

These sources of growth, while potentially substantial, can only be achieved if the government continues its flexible agricultural policies. This means that a reassertion of strong, central control over agriculture, and a reduction in local autonomy over cropping patterns, is likely to have a serious negative impact on the growth of production.

Continued technological progress and effective dissemination of new technology will also be crucial to agricultural progress. Given the severe impact of the Cultural Revolution on China's agricultural research capabilities, China is facing an extended period of difficulty as research and extension capabilities are rebuilt. Expanded exchanges of technology with the West and greater opportunities for Chinese scientists to work with their foreign counterparts will be an essential ingredient in maintaining the recent momentum of agricultural progress.

Agricultural imports are not likely to grow dramatically in the next several years, particularly if China is successful in generating increased domestic production. The annual level of grain imports may increase slowly, while imports of other farm commodities will probably stagnate as long as production of cash crops such as oilseeds and cotton make modest gains. An important variable in this picture, however, is what happens to the acreage of cash crops. The government is stressing that the contraction of grain land must stop, and that future gains in production of cash crops will have to come from er yields. Whether the government will be able to halt this decline is far from certain, however. A continued decline in grain area would tend to increase grain imports but would also tend to reduce the importation of non-grain commodities.

The thrust of recent trends therefore seems clear: China will have to continue the relaxed agricultural policies of the past several years and continue its more open approach to international contacts if the momentum of agricultural growth of the last several years is to be maintained. If this can be done, then yields should continue to rise, although at rates below those of the recent past. ❧

Frederic M. Surls is an agricultural economist with the US Department of Agriculture's Economic Research Service. His duties include analyzing China's agricultural production and foreign trade.

Output of Major Farm Products

(Million metric tons)

Grain shows the slowest growth, while the output of oilseeds, cotton, and sugar show the fastest growth due in part to the large increase in land devoted to cash crops.

	1970	1975	1977	1978	1979	1980	1981	1982 Est.[1]
Total grain[2]	240.0	284.5	282.7	304.8	332.1	320.5	325.0	—
wheat	29.2	45.3	41.1	53.8	62.7	54.2	58.5	58.5
rice	110.0	125.6	128.6	136.9	143.8	139.3	143.2	145.0
Cotton	2.3	2.4	2.0	2.2	2.2	2.7	3.0	3.2
Oilseeds[3]	17.0	16.0	14.7	16.4	17.4	20.2	24.3	25.8
Sugar Crops	15.5	19.1	20.2	23.8	24.6	29.1	36.0	—
Tobacco	—	—	1.1	1.2	.9	.9	1.3	—
Meat[4]	6.0	8.0	7.8	8.6	10.6	12.1	12.6	—

[1]October, 1982, estimate by USDA.
[2]Includes wheat, rice, coarse grains, other miscellaneous grains, tubers, and soybeans.
[3]Includes soybeans, cotton seed, rapeseed, peanuts, and sunflower seed.
[4]Includes pork, beef, mutton, and lamb.
SOURCES: China State Statistical Bureau, and USDA.

Index of Farm Output

1977 = 100

Fisheries lagged behind, and livestock production well ahead, the overall growth in agricultural output of 28 percent between 1977 and 1981.

	1970	1975	1977	1978	1979	1980	1981
Crops	87.3	103.2	100.0	109.5	117.2	115.8	122.0
Livestock	74.3	97.8	100.0	105.0	120.6	126.0	133.6
Forestry	56.0	89.8	100.0	105.5	106.9	121.5	125.3
Fisheries	78.9	100.0	100.0	101.7	94.6	105.3	108.5
Rural Industry*	48.4	61.5	100.0	112.0	125.8	146.3	156.2
Total	78.94	95.97	100.00	108.96	118.30	121.51	128.45

*Includes household handicrafts and output of production team and brigade industry. Excludes commune and country-run industry.
SOURCE: USDA

Reclaiming the Good Earth

The largest land reclamation project of the past 20 years should mean business for US firms.

Chris Brown

To meet the challenge of China's dwindling area of farmland, the country has embarked upon a campaign to reclaim millions of acres of frontier wasteland. But to accomplish this gargantuan task China will require mechanization far beyond the country's present industrial capacity.

For several years, China's Ministry of Agriculture has been buying small numbers of sophisticated US farm machines for experimental land development projects. Now, the ministry is ready to proceed with reclamation on a much grander scale, and for the first time it is drawing on international financing to pay for the projects. The World Bank is becoming a key player in the enterprise. The bank has already delivered a soft loan of $60 million to the ministry for a land reclamation project on the North China Plain, and other loans are anticipated to bring that total to as much as $250 million next year.

As reclamation plans pick up steam, the Chinese will have to rely heavily on farm equipment imports. There are also prospects for foreign cooperation to help the Ministry of Machine Building beef up its manufacturing of modern, large scale equipment. In both these areas, US companies have a dramatic lead in the international competition by virtue of their presence in the slowly growing market over the past five years.

China's reclamation plans are part of a strategy to address one of the country's most dire problems—the decline of arable land. According to Dr. Vaclav Smil of the University of Manitoba, China's total area of tillable land decreased by nearly one-third between 1957 and 1975. A 1981 report by the USDA Office of International Cooperation and Development states that China now has only 0.12 hectares of tillable land per person. This is less than one-sixth the per capita farmland of the US and is even less than that of Bangladesh.

THE MEANING OF LAND SCARCITY

If the US only had 0.3 acres of farm land per person—the same ratio that China has—then all of America's food would have to be raised on the available farm land east of the Mississippi River.

Part of the reason for the loss of farmland is deforestation. This is caused, says Smil, both by rural peasants burning every available scrap of wood as fuel in the absence of a sufficient coal supply, and by massive land clearing for farms to feed the growing population. The result is erosion and flood damage. Another contributing factor is the accelerating pace of industrialization. In recent years, with the Chinese policy of promoting a mixed rural economy, factories have begun to usurp prime farmland. As this and other recent policies have increased rural incomes, there has also been a greater demand for housing, for which more farmland is sacrificed.

China is meeting the challenge on two fronts. One thrust has been to institute policies to conserve land and increase per acre yields in the heavily populated areas stretching from Guangdong in the south to the North China Plain. This has involved well-publicized campaigns of water management, tree planting, and better efforts at central planning to limit the area of fertile land taken up by industry and housing. To increase yields per acre, agricultural policy has stressed better management incentives and improved research in fertilization, plant protection, irrigation, harvest, and storage.

In these traditional growing areas, there is little need for large-scale, modern mechanization. Emphasis is being shifted from large tractors to small two- and four-wheeled tractors better suited to the smaller, family-size work units now permitted under the government's "rural responsibility system" (*see* page 16). Resource allocation, both human and fuel, have also determined this course. Agricultural planners have no desire to exacerbate rural underemployment by replacing farmers with machines, nor are they willing to in-

crease fuel use unless it is necessary. Agricultural machinery already accounts for 40 percent of the country's diesel oil consumption. Increased allocations would be hard to justify in light of China's stagnant oil production and the continued growth of fuel-hungry industries.

A market forecast issued by the Ministry of Agricultural Machinery (now the Agricultural Machinery Bureau under the Ministry of Agriculture) reflects the emphasis on smaller machines. The forecast breaks down China's farm machinery needs in 1982 as follows: 200,799 walking tractors of 3 to 15 hp; 46,707 tractors of 20 to 100 horsepower; 144,589 powered husking machines; 51,287 spray irrigation machines; and 17,625 trucks. Virtually all of this equipment can be supplied domestically.

China's second policy thrust is the reclamation of wastelands—a monumental effort that could require substantial foreign machinery imports. The target zones include the Northeast provinces of Heilongjiang, Jilin, and Liaoning. Reclamation is also envisioned for areas of Inner Mongolia and the far western regions of Xinjiang. Unlike the cultivated areas of the central and southern regions of East China, the northeastern areas have little available labor, and short growing seasons. The rigors of reclaiming this land and farming it will require powerful, fuel-efficient tractors and combines, automated irrigation systems, and the mechanization for grain handling and storage.

The workhorse of agriculture in the Northeast has been the Dong Fang Hong tractor, manufactured at the Luoyang Tractor Works. It is a sturdy, easily maintained 75 hp crawler tractor, but its maximum speed is only 2–3 km per hour. To meet the schedules of large-scale farming in a region with a short growing season, a faster tractor is required, and one that is more fuel efficient. Modern equipment from the West has been purchased for testing on model farms in China's Northeast, but only when a World Bank land reclamation project begins next year will foreign purchases begin on a larger scale.

$60 Million for the North China Plain

The World Bank already has committed $60 million for a land reclamation project on the North China Plain. Its purpose is to restore productivity to farmlands that have been depleted by overuse and flooding. Since the area is already intensively cultivated, the project will not require substantial farm machinery imports.

The World Bank's International Development Association (IDA) delivered the money for the project to the county agriculture bureaus last summer. The 50-year IDA loan carries a .75 percent service charge. $117 million of the project's total cost of $177 million will be borne by the Chinese.

The 12 hp tractor made by the Xiangtai Tractor Plant.
Photo by Liu Zhiwei, New China Pictures Co.

Work will center on 200,000 hectares of land in nine counties in the provinces of Shandong, Anhui, and Henan. This is an area ravaged by years of flooding by the Huang He (Yellow River) and its tributaries.

It is estimated that 6 million hectares in the region are affected to varying degrees by salinity and waterlogging. Corn yields in the area are now about 2 tons per hectare—less than one-third the average yield of US farmland. Experimental desalinization in Shandong has reportedly increased corn yield to 7.5 tons per hectare.

Since 1949 China has spent tens of billions of yuan on flood control in this region. Now that much of the groundwork has been done to straighten the course of the river, dredge it, and build dykes and levies, the next step is to drain, irrigate, and fertilize the land.

The four-year project calls for a North China Plain Agricultural study, accompanied by the construction and improvement of main, lateral, and sublateral drains and irrigation ditches; construction of pumping stations and tubewells (and provision of equipment); expansion of the rural highways and electrification systems; the provision of chemicals and agricultural machinery and equipment; increased research and extension services; and comprehensive soil and water studies.

Apart from the purchase of large quantities of imported fertilizer, most of the needed goods and equipment will be supplied domestically. A source close to the project, however, reports that the Chinese might buy foreign earth-moving equipment.

The need for heavy machinery is due to the increased cost of peasant labor. In the past, the Ministry of Agriculture relied on "volunteer" labor—peasants who were willing to work for subsistence wages of 70 to 80 fen a day (about 40¢). As peasant incomes have risen in recent years, the government must pay two or three yuan (about $1.25) per day to recruit farm laborers.

$80 Million for Heilongjiang State Farm Project

More important in terms of agricultural mechanization is the anticipated World Bank project to reclaim 200,000 hectares of swampland in the far Northeastern "three rivers basin" of Heilongjiang. The World Bank will put up $80 million for the project and the Chinese will reportedly put up ¥270 million ($135 million at current exchange rates). Of the World Bank funds, $60 million is earmarked for agricultural equipment, such as combine harvesters and large (130–160 hp) tractors, most of which will probably be imported.

An estimated 450 tractors will be needed altogether. In addition, the Ministry of Machine Building is seeking a foreign coproduction partner to help manufacture large horsepower tractors in China. The World Bank loan is expected to provide a 15 percent bid advantage to domestic suppliers, and the ministry is determined to get in on the action.

Over the past few months, two delegations from the MMB have been to the US to discuss coproduction of large horsepower tractors at the Shenyang Tractor Works. The ministry's plan calls for the US company to provide designs and technology, and all but the simplest components for the tractor in its first year of production. After a five year period of technology transfer, the entire tractor would be manufactured in China.

An arrangement of this sort has been under discussion in China since the mid-1970s. In 1979, the Italian company, Fiat, was believed to be close to an agreement on the deal, but in early 1982 the agreement fell apart. Now the Chinese seem to have narrowed the prospective foreign partners down to a handful of US companies, the frontrunners being John Deere, International Harvester, and Ford.

Members of the most recent Chinese delegation, led by Shenyang Tractor Works Director Wang Jiaofu, have revealed that the ministry is now prepared to move at full speed on the project in an effort to commence production in time for the World Bank bidding. According to Wang, the planned schedule is to sign a contract with a US company this year. All tractor designs would be transferred in 1983, and production of a small number of tractors could begin the same year. By 1987, he said, the factory should reach an annual output of at least 500 tractors built entirely with Chinese-made components.

Some observers question whether the MMB can move quickly enough to meet the World Bank's bidding deadline. The loan is now being negotiated, and bidding could begin next spring or summer. Another question is whether the ministry's plan is workable. Some observers say that the projected scale of output is simply too small to justify the capital investment required both for the Shanyang plant and all the ancillary facilities that must be built or expanded to supply parts.

So far, only one US company has entered an agreement with the Chinese for coproduction of agricultural machinery. Under a five-year contract signed last year, Deere and Company will supply technology and know-how for the production of three different types of combine harvesters. The combines will be produced at two Chinese factories—in Kaifeng, Henan Province, and at Jiamusi in Heilongjiang Province. Deere will buy back components worth more than the value of its sales. The diesel engines for the combines will reportedly come from Deutz Gmbh. in West Germany.

Photo by Zhang Shenggui, New China Pictures Co.

The "Lantuo" brand walking tractor manufactured by the Lanzhou Hand Tractor Factory.

US Equipment Purchases by Heilongjiang Model Farms

Experiments using all US equipment on Heilongjiang state farms began in 1978. In that year, Deere signed a contract to supply over $1 million worth of equipment to mechanize a development project known as the Friendship Farm. A 1,650 hectare area already under cultivation was turned over for trials using Deere equipment, which included two model 8630 four wheel drive tractors, four 4440 tractors with power shift and front wheel assist, three 7700 combines, and one newer 8820 combine. Deere also supplied a full range of implements. Center-pivot irrigation for the farm was supplied by Valmont Industries Inc. Berico Industries supplied a full wheat-drying and storage line.

In 1980, a much larger project was initiated with equipment from International Harvester. The Honghe project, located about 200 miles due north of Jiamusi and about 30 miles from the Soviet border, involves the reclamation of some 20,000 hectares of wasteland. International Harvester supplied more than 300 pieces of equipment for the project, including 30 model 3588 front wheel assist tractors, 20 model 986 conventional tractors, and 46 model 1460 (170 hp) combines. As with the Friendship Farm, center-pivot irrigation was supplied by Valmont, and drying and storage equipment by Berico Industries. The project was financed by Nishiman. The Japanese trading company will take repayment of the loan (estimated to be in excess of $10 million) in soybeans.

These experiments in frontier land development have taught the Chinese what equipment they need and how to use it. Now, with the World Bank's help, they are ready to undertake the largest land reclamation effort of the past two decades. As terms for the Heilongjiang loan are ironed out, preliminary discussions have begun on an even larger project in the Western province of Xinjiang. That project will introduce cotton growing on a vast area of wasteland on the slopes of Tian Shan—and also will require extensive machinery imports from the West.

CORRECTION

The statement on page 31 of the September–October *CBR* that "US mushroom importers have joined with the representative office of the China National Cereals and Oils Import and Export Corporation (CEROILS) in hiring the law firms of Baker & McKenzie and Patton, Boggs & Blow to handle the case," is incorrect. Only the law firm of Baker & McKenzie has been retained.

Equity Joint Ventures

20 Potential Pitfalls That Every Company Should Know About

Jerome Alan Cohen

The equity joint venture has thus far been the least popular of the three principal forms of investing in China. There are roughly ten times as many "cooperative enterprises," and fifteen times as many "compensation trade" arrangements. The reasons for this are not hard to find. In these early years of China's experimentation with various forms of direct investment, it is often more complicated to create equity joint ventures than the other available forms, because joint ventures involve joint organization and management of a new, limited liability company by parties that come from different systems, are in different circumstances, and have different goals. The demands of negotiating and drafting the joint venture contract, the articles of association and appended documents, such as supply, marketing, and technology transfer agreements, are generally greater than for the other forms. The problems of administering the entity once it is approved are also likely to be greater.

One should not infer from the fact that only 40 equity joint ventures had been approved as of January 1, 1982, that foreigners are not enthusiastic about this vehicle. This year has witnessed the conclusion of a number of new joint venture contracts, such as those signed in September by the Swedish pharmaceutical industry and the Geophysical Company of Norway with their respective Chinese counterparts.

Although experience in concluding joint venture contracts is still limited, a review of some of the principal problems that have been encountered in negotiations may be of interest to business people who are considering this type of investment.

Voting. One problem that invariably arises is how the board of directors of a joint venture company (a "JVC"), which has supreme authority over the enterprise, will handle voting problems. The number of board members representing the Chinese and foreign sides usually reflects the ownership shares of the parties. Foreigners may have more than 50 percent ownership and more than half the positions on the board, but ordinarily they will not. Whatever the division of ownership, joint venture parties have to decide in their contract and articles of association how the board will govern itself. Will board decisions be made by consensus, by a special majority, or by a simple majority? Will some decisions require consensus, while others require merely one type of majority or another? Thus far, China lacks a corporation law, and the July, 1979, Joint Venture Law does not deal precisely with the voting problem. It does, however, imply that important decisions should be made by consensus rather than by voting, and this law spells out a variety of matters that constitute important decisions.

The Ministry of Foreign Economic Relations and Trade has stated that only decisions that revise the articles of association, terminate a joint venture, or increase, transfer or mortgage its capital, or call for its merger with another organization, will require unanimity; all other decisions may be taken by a two-thirds vote or a simple majority. Moreover, some joint venture contracts do provide for decision-making by majority voting and tend to require, either implicitly or explicitly, that a minimum of one director from each side be recorded as voting with the majority, at least on important questions. This prevents one-sided decisions and in effect requires consensus prior to action. What the forthcoming Rules for the Implementation of the Joint Venture Law will provide is not known.

What happens in the absence of consensus? The Chinese way is to discuss things until agreement is reached. Indeed, the first board meeting of a manufacturing joint venture lasted eight days! This shows how an imported institution may function differently in the Chinese context. But if the board is stalemated, what is it going to do? Early termination of the venture is one option, and some joint venture contracts provide for termination prior to scheduled expiration in specified circumstances. Obviously, one tries to avoid termination, but certainly, in drafting the contract, one has to take account of the possibility of stalemate and the consequences. Of course, if the issues that confound the board lend themselves to conciliation and arbitration, that route may be prescribed, and joint venture contracts usually authorize it. But many business questions do not lend themselves to that kind of third party intervention. The absence of any easy remedy to resolve disputes, coupled with the threat of early termination, increases the importance of solving problems through discussion.

Capital Contribution. There is virtually no limitation upon the kinds of capital contributions that can be made. Recently, however, a restriction on the use of technology as a capital contribution has appeared. In one JV under negotiation, where the foreign investor wishes its contribution to consist of technology and a small amount of cash, the foreigner also wants to be paid by the venture for part of the technology in the form of a royalty under a license. The Chinese side has said that, in these circumstances, 85 percent of the capital contribution of the foreigner should be in cash or the equivalent, and only 15 percent of the capital can constitute technology. Of course, the royalty that would otherwise by charged will be correspondingly reduced to the extent that part of the technology is received as a capital contribution. The matter is still being negotiated.

A similar problem arises in evaluating the value of land contributed by the Chinese side, assuming that the right to land use is contributed in the form of capital. (Ownership cannot be contributed.) Local regulations prescribe land use rates for joint ventures, but only within rather broad boundaries. Local authorities have the right to fix the precise charge for use of the site in light of various factors such as the specific use and its infrastructural requirements, the condition and the location of the land and the costs of removing existing structures. Actually, evaluating the precise capital value of the land use then becomes a matter of bargaining. Although the Joint Venture Law implies that it is for the Chinese unilaterally to determine the value of contributed land (as distinguished from the value of buildings and other facilities, the ownership of which can be contributed), it is in fact possible to negotiate if the foreign party feels that the asserted value of the land use is unreasonable. If the parties cannot agree upon the value of the land, they can decide to have the venture rent the site and pay annual rentals that can be fixed for the period of the venture. In the same fashion, the venture can rent buildings and other facilities if the parties cannot agree on the value of these contributions.

Photo by Huang Xingquan, New China Pictures Co.

Assembling color and B&W TV sets at Hitachi's joint venture in Fuzhou.

Obstacles to Attracting Foreign Management. The Chinese want to attract foreign managers because their expertise may be crucial to the success of technology transfer and the general learning process related to the improvement of PRC management. Yet the Chinese are cautious, and sometimes ambivalent, about hiring foreign managers, not only for reasons of nationalism but also for practical reasons. Understandably, they do not want to restrict their own capacities for growth by relying too much on foreigners. Moreover, they worry about the problems of efficiently assimilating foreigners into their enterprises and also about the social impact foreigners will have on those around them.

Perhaps this is why Chinese negotiators seem less concerned than their foreign counterparts about the major obstacles to recruiting foreigners to work in China. Yet these obstacles are significant. For example, China limits the amount of foreign exchange a foreigner may repatriate out of salary paid to him in China. The foreign exchange regulations provide that only 50 percent of the after-tax compensation of a foreigner working in China can be repatriated as a matter of right. The foreigner can apply to repatriate the balance, but has no assurance that his application will be approved. This is a significant disincentive, particularly because most ventures will have to pay high salaries to attract foreign executives to live in China. Although, under current practice, the foreign personnel can be paid outside China in full or in part, and thus avoid the repatriation problem, this solution would probably require the foreign partner to bear the full expense of the foreign payment. The problem can be solved more simply if the authorities are generous in approving repatriation applications, and a June 23, 1982, statement by the exchange control authorities indicates that "all reasonable applications" are to be granted.

The issue of equal pay for equal work began to emerge as another potential problem area by mid-1981. The principle, of course, is wholly unobjectionable. Why should Chinese not get paid the same as foreigners? It sounds very reasonable. Yet in practice it is causing a lot of difficulty. If one has to pay US$60,000 a year to get a competent foreigner to become vice-president of a joint venture in China, does it mean the venture must pay a Chinese vice-president $60,000, even though the individual may only keep possibly $1,500 (the remainder going to the Chinese government), and even though he or she lacks the training and experience of a foreign manager? In principle, the Chinese answer thus far is "Yes." Obviously this could add substantially to the cost of the venture, which may easily have eight to ten Chinese in management positions equivalent to those assumed by foreigners. The parties have sought to resolve the dilemma in various ways.

One way out of the dilemma is to have the venture pay the foreign vice-president only a fraction of his total compensation, say $10,000, and pay his Chinese

counterpart $10,000, but then have the foreign company pick up the entire $50,000 remainder of the foreign vice-president's salary at home. But this solution is unattractive, for it means that the joint venture is heavily subsidized by the foreign company.

Some Chinese negotiators recognize the difficulty this principle creates for foreign parties, and have tried to be flexible. In one case the problem was minimized by paying the Chinese president a rather modest amount; the two vice-presidents, however, were paid much more than the president because one of them is a foreigner—and because that was considered the only way to cope with the principle. In another negotiation, not yet concluded, it was agreed that the parties to the venture would strive to reduce over time the salary differences of their respective executives, but that substantial differences would be allowed to exist at the outset. In a third instance, the Chinese proved cooperative in reducing the number of their representatives in the venture who would be regarded as on the same level as the foreign managers. And in a fourth venture, the Chinese agreed that their executives would be compensated at roughly two-thirds the foreigners' salaries. But to date there has been no general retreat from the principle.

Perhaps the Chinese emphasize this principle as a means of keeping down the salaries of foreign executives, which they frequently criticize as being too high for Chinese joint venture companies. They are also concerned about expensive fringe benefits, especially travel and holiday costs, necessary to attract foreign managers to China. In drafting the contract, care should be taken to spell out these matters, as well as housing, automobile, and housekeeping arrangements for foreign managers, in order to avoid misunderstanding.

Taxes may also be a disincentive. If a company wishes to move a representative in and out of China, perhaps having him there as little as 30 days a year, he may nevertheless be considered to be a Chinese taxpayer. For example, if the employee is given a multiple entry visa and a residence permit allowing him to live in China more than 90 days, he may be deemed a Chinese income taxpayer even if he only spends a few days in China on each visit. Or, if the individual makes successive visits of only two or three days each, but never is absent from China for more than 29 days at a time, 90 days after his first entry he may become a PRC taxpayer from the date of the first entry, even though each visit was under a separate single-entry visa. If deemed to be a PRC taxpayer, he may be expected to pay individual income tax on his entire earned income, not merely on that part paid to him in China by the company. Thus far, the PRC tax authorities have shown little interest in allocating income between jurisdictions in circumstances such as this, but, in practice the rigor of these rules may be relaxed in order to avoid unreasonable results.

Management Roles. In principle, Chinese and foreign investors agree that some joint venture management roles should be filled by foreign experts, but that these experts should not stay involved in the day-to-day operation of the venture any longer than necessary. The foreign firm usually finds it burdensome and costly to recruit and maintain able managers in China, where linguistic, cultural, and physical conditions are difficult for foreigners. As mentioned above, the Chinese host is not eager to keep many foreigners on the premises. In practice, the problem is likely to be that the two sides may have differing views about how long it will be necessary for foreign managers to remain in their posts. In drafting the documents, both sides usually recognize that only time will tell, and that flexibility should be retained to cope with the problem in the light of actual experience.

In some recent ventures, the Chinese have agreed to having a foreigner as president for an initial period such as five years (the chairman must be appointed by the Chinese side, according to the Joint Venture Law), and the foreign investor is usually able at the outset to place one or two other people in what it regards as key roles, at least for a time. Some contracts call for a phaseout of foreign managers over time, according to certain guidelines, while others provide for rotation, and a continuing balance between foreign and Chinese managers. Most ventures have two vice-presidents and provide for managers to head functional departments such as administration, finance, auditing, marketing, production, and research and development.

It is important to stipulate in the contract that foreign managers will have access to China and the venture from the outset. Several ventures would have been launched more smoothly had the hosts permitted the foreign managers to start work in China during the organizing, planning, and equipment-ordering stages rather than remain abroad until technology transfer began.

Lending to Joint Ventures. The idea of secured financing is reemerging in China. The Bank of China's Rules for Lending to Joint Ventures authorize the Bank of China to obtain collateral security for such loans, and foreign banks are also going to be increasingly interested in obtaining such security for any loans they make to entities in China. In the absence of security, guaranties are often crucial to the availability of such foreign credit. This is another evolving area of PRC commercial law and practice. What kinds of guaranties, who can make them, and in what circumstances, are questions that are in need of answers. Every foreign lender wants a Bank of China guaranty, but the Bank of China is careful to limit its commitments. Other Chinese guarantors are emerging, such as ministries, government agencies, and the local investment corporations that have been organized to stimulate cooperation between their city or province and foreign businesses.

Although the Bank of China has some highly knowledgeable experts, problems are often created by the lack of sophistication on the part of local officials who are increasingly involved in international transactions. Not long ago a local PRC company contracted with a foreign exporter to import machinery, and to issue promissory notes that the exporter wanted to discount. The Chinese company officials did not realize that when the notes fell due they had to be paid, no matter what—even if the foreign exporter failed to deliver the machinery needed by the Chinese company to make its product. (The sale of the product was supposed to earn the foreign exchange necessary to pay the notes.) When local officials discovered that a promissory note meant that they had to pay on the due date, regardless of the foreigner's compliance with the contract, they thought they were saddled with an unreasonable obligation, and extensive negotiations were required to reach a satisfactory arrangement.

Control by the Ministry of Foreign Economic Relations and Trade. This new ministry, created in March, 1982, by a merger of four institutions—the former Ministry of Foreign Trade, Ministry of Economic Relations with Foreign Countries, Foreign Investment Control Commission, and the Import-Export Commission—is charged with the responsibility of not only approving joint ventures and other foreign investments, but also maintaining continuing scrutiny and control of their operations. The ministry and its predecessor agencies have issued many rules, most of which are unfortunately not yet public, and it is the ministry's task to approve the manner of their implementation. Inevitably, this involves a good deal of supervision over how contracting parties exercise their discretion in negotiation.

For example, if one of the internal guidelines provides that ordinarily a technology license should be for a five-year term and that in some circumstances a ten-year term will be permissible, it will be up to the ministry to decide whether it is legitimate for a joint venture contract to authorize a 15-year term in response to the foreign investor's desire to have the term of the licensing agreement coincide with the duration of the venture. It will also be up to the ministry to approve any modification of the license during the lifetime of the venture.

It is very important that the ministry specifically approve all documents relating to the transaction, including all appendices to the joint venture contract and all subsequent modifications of the contract and appendices. It is the ministry's job to balance the need to provide stability and predictability through honoring the contract and the need to take account of new developments that have an impact on the investment.

In some cases, either because the investment is not large or because the project did not require the allocation of resources from other provinces, provincial agencies have carried out these responsibilities on behalf of the ministry. As several American investors have discovered, when the approval authority is turned over to provincial-level bodies under the ministry, the approval process is accelerated. It remains to be seen whether such autonomy is allowed to continue in light of recent efforts to recentralize many aspects of economic decision-making.

Feasibility Study Costs. Disagreement over who will bear the cost of a feasibility study can get the parties' relationship off to a bad start. The Chinese tend to be flexible about sharing the cost of a feasibility study, and even the cost of any preliminary study, especially if it does not involve out-of-pocket expenditures on their part. For example, they are usually willing to assign people to compile data, but are reluctant to pay the travel costs of foreign experts. Various arrangements can be made. Many foreign firms endeavor to have the Chinese assume some of the cost of a feasibility study, at least as a demonstration of sincerity and good will, and to help defray what can be large preinvestment expenditures.

Access to Raw Materials. Access to raw materials and the pricing of raw materials and utilities pose frequent problems in Chinese joint ventures. The Joint Venture Law requires a JVC to give priority to Chinese sources of necessary raw materials and other goods, but contract provisions that put a ceiling on the cost of certain PRC-sourced raw materials are now accepted. Often the ceiling is what it would cost to buy the materials on the international market; if the local cost is greater than that, the venture is then free to use its foreign exchange to buy the raw materials abroad. The Ministry of Foreign Economic Relations and Trade has stated that precious metals and natural resources that are used directly in production "should be priced in the light of the international market prices and paid in RMB," while water, electricity, gas, and motor vehicle oil should be paid for according to domestic prices. If the materials required by the venture fall into the category of PRC exports, they must be paid for in foreign exchange in accordance with the FOB export pricing.

Assuring access to Chinese raw materials and even utilities is not easy, and, in view of this, joint venture contracts generally obligate the Chinese party to arrange an uninterrupted and sufficient supply. It is useful in this respect to ascertain the venture's position in regard to the state economic plans—regarding the pricing of both raw materials inputs and production output—and perhaps even record the parties' understanding of this in the contract. Some approved contracts contain non-discrimination clauses, stipulating that prices charged the venture be no higher than those charged to Chinese enterprises and other joint ventures and that the joint venture enjoy equal access to raw materials. It may also be possible to insert into the contract a provision that makes the conclusion of long-term agreements between the venture and Chinese suppliers a precondition to the assumption of the parties' obligations under the joint venture contract.

Labor Problems. It is hard for the Chinese to determine what constitutes fair compensation for their labor. They do not want joint ventures to be a vehicle for exploiting Chinese workers. Yet they want joint ventures to succeed, and the higher the labor costs, the less attractive it is for foreign investors to take risks in a new environment rather than to continue investing in Taiwan, South Korea, or other familiar places. In each negotiation, bargaining determines the cost of the total labor package, but it is bargaining that takes place within guidelines. These usually provide higher pay for workers than they would receive in state enterprises, and require that the venture also pay the cost of labor insurance, medical care, and a host of subsidies. The cost of these benefits is said to be about 1.3 times the cost of actual wages. The total package is designed to be competitive with other countries.

Potential investors should not feel discouraged if, in an early round, PRC negotiators quote unreasonably high labor costs. This is sometimes done to test the limits of the possible or merely as a bargaining ploy. Occasionally it is attributable to inexperience. In any event, as experience accumulates and nationwide standards are formulated and made public, this problem should become easier to deal with.

The PRC has thus far proved flexible, at least in principle, in negotiating other conditions of employment such as allowing the venture to test workers before hiring, making its own hiring decisions, stipulating a probationary period, and firing workers if necessary. A number of joint venture negotiations have faced the problem of surplus labor. If a foreign firm is going to help modernize a plant that has 500 workers, when the modernization is complete

the plant may only need 200 workers. Surely that is no way for a foreign investor to begin relations with a Chinese community—by discharging 300 people. Therefore efforts have to be made to employ surplus workers.

Ventures will ordinarily have a labor union that will conclude a labor contract with the joint venture. Union officials will thereafter represent the workers—but under the tight supervision of the local government labor bureau.

Domestic Sales versus Exports. Sometimes the Chinese want the venture to market its products in China in order to meet PRC domestic needs. More often, however, they are more interested in earning foreign exchange by exporting the product and resist pressure for entry into the domestic market. Bargaining may be intense unless the foreigner is content to export virtually the entire production. There are a number of ways that a foreign company can use a joint venture to gradually open up China's domestic market. Sometimes the parties will agree that the venture should sell in China a specified percentage of its production each year. Or the venture may start by selling only an insignificant percentage in the Chinese market but increase the percentage every year. Some ventures do not enter the Chinese market until they export a certain quantity each year or cumulatively, over time, but once exports exceed a certain figure, the venture is allowed to sell a specified portion of its subsequent production in China. Because every venture must be responsible for its own foreign exchange needs, except in some instances when the venture's products are deemed to be import substitutes, each must export at least enough to earn foreign exchange sufficient to cover its external needs.

Profits and Pricing. The Chinese leaders want the foreign investor to make money in China. They are not plotting ways for him to fail. On the contrary, they want the foreign cooperation effort to succeed, for otherwise current economic development plans will be adversely affected. Yet they do not want foreigners to make too much money, because, if they do, the government will be accused of allowing China to be exploited. Therefore, as in the offshore oil negotiations that are underway, the art in each case is to agree upon what constitutes a reasonable profit. One standard that has been used, not as a guaranteed return on investment but as a goal in pricing the products of joint ventures sold in China, is 15 percent after tax on total turnover. This formula was accepted in the contract to create a joint venture to produce Schindler elevators in Shanghai. Another standard that is often thought to be reasonable is 20 percent before taxes on invested net equity, although current high interest rates make this seem less than enticing to some foreign companies.

Generally, when the venture sells abroad it has to set its prices according to world market conditions. But it must also be concerned about its ability to compete with other PRC producers of the same product, which may receive substantial state subsidies, while the joint venture company is loaded with extra costs that Chinese state enterprises do not bear. A non-discrimination clause should be placed in the contract in this respect, as well as in others.

How much freedom the venture will have to set its prices in China is still unclear. Prices of many products in the PRC are determined by the State Price Control Commission in light of the state's economic plans affecting a given product and current production conditions relating to the product. Experience is too limited to afford reliable insight into the degree of autonomy joint ventures will have in setting their domestic prices.

Foreign Exchange Regulations. Each venture usually has to maintain a foreign exchange account sufficient to meet its foreign obligations, such as payments for expatriate salaries, imported raw materials and equipment, distribution of profits, royalties, and interest payments on loans. Of course, there must also be enough foreign exchange at the termination or expiration of the venture to assure the fulfillment of whatever arrangement the contract provides regarding the purchase of the foreigner's interest and repatriation of capital. To cover the possibility that there may not be enough foreign exchange for this last purpose, the contract should provide some contingency arrangements obligating the Chinese side to undertake certain actions that would yield the necessary foreign exchange, such as dipping into its previous foreign exchange earnings or making available sufficient additional products for sale abroad. This solution has already been utilized in a number of contracts.

Another important foreign exchange problem that ought to be cleared up concerns the dollar–yuan exchange rate to be used in calculating a venture's financial flows into and out of China. Will each dollar earned by the joint venture and converted into RMB be converted at the official exchange rate (now roughly 2.0 RMB per dollar)? Or will it be converted at the higher rate given to Chinese enterprises in order to encourage exports? The latter "internal trade rate" has often been 2.8 RMB per dollar, but individual Chinese enterprises have sometimes been given substantially higher rates on dollars earned. Considerable confusion surrounds this subject in connection with joint ventures, and the feasibility study and the contract should clarify the situation.

Protecting Industrial Property Rights. The absence of effective protection of industrial property rights in China is one of the most troubling questions for potential foreign investors. At present, if an investor negotiates a joint venture with enterprise A, there may be 12 other factories under the same ministry that are in the same business. In such circumstances, the investor naturally worries about leaks, even though the joint venture contract may contain confidentiality provisions that will bind not only the venture but also enterprise A. Moreover, the same product may also be produced by enterprises under another ministry. The joint venture contract only binds enterprise A, of course, leaving the investor with no assurance that all the other enterprises will not exploit the foreign party's technology if they can acquire or develop it. Presumably the patent law contemplated by the PRC will provide such assurance. It is expected to be promulgated in 1983.

One should not exaggerate the nirvana that will be achieved by a patent system. In the end, whether the PRC offers protection through patents or contracts, or both, a joint venture partner can still cheat if it wants to, and cheating could conceivably go undetected for a long time. Foreign investors, of course, are negotiating with PRC enterprises because the foreigners believe the Chinese want to do business in good faith. Unfortunately, some recent reports of unauthorized dissemination and reproduction of licensed technology by certain PRC enterprises hearken back to an earlier era before the PRC decided to join the world economic community and are likely to erode the reputation for good faith that Beijing has nurtured. On the other hand, we should not forget that Chinese joint venture partners have a competitive interest in not disseminating the venture's technology to competing enterprises, including PRC enterprises. Nevertheless, a Chinese joint venturer might be ordered by a superior authority to do so or might, with official approval, secretly sublicense other PRC enterprises for a fee to be concealed from its foreign partner. So PRC good faith remains the key. Presumably Chinese policy makers are aware that a reputation for cheating will severely diminish China's chances of attracting future investment and also harm the nation's political standing.

Early Termination. In a joint venture contract, the foreigner often tries to enumerate the situations under which he would be allowed to terminate the venture prematurely. This makes the Chinese very uneasy. They sometimes think the foreigner is more interested in bailing out than in establishing the enterprise in a successful way. Yet the Joint Venture Law itself provides for premature termination in certain circumstances, such as heavy losses, and it is possible to list other circumstances in a contract. For example, foreign investors should consider the possibility that, after the contract is approved, new legislation or administrative regulations or measures applicable to joint ventures may make the deal so unprofitable that they would want to get out unless they can renegotiate to achieve the originally contemplated economic benefits. In certain instances, contract language that offers this opportunity has been accepted by the PRC.

Recognizing Intangible Value. How will the parties evaluate the venture upon its termination or expiration? Does China recognize the idea of "going concern value" for purposes of buying out the foreigner's interest? If at the end of the venture's scheduled operation it has proved to be a profitable enterprise with substantial good will, will there be some recognition of this intangible value or will the investor only receive a pro rata return, based on a percentage of ownership of the venture's net book value? Some investors insist on knowing at the outset of the venture how these matters will be handled; if going concern value is not to be recognized at the end of the venture, they say they will want to adjust their expectations accordingly regarding the yield during the period of the venture.

In some cases it has proved possible to obtain some vague contract language to the effect that an increase in the venture's value will be recognized. The problem is agreeing upon the formula and procedure to use. Should the parties agree in the joint venture contract to call in outside auditors or specialists in the industry to make the determination at the time of expiration? Or should the matter be left to the parties themselves to decide on the venture's value, with the proviso that the question will go to arbitration if the parties cannot agree? The forthcoming Rules for the Implementation of the Joint Venture Law should clarify the existing situation, which is murky regarding both the criteria and the procedures for handling this problem.

Dispute Resolution. Under the Joint Venture Law, conciliation and arbitration are available, of course, to resolve disputes that the parties cannot resolve in the Board of Directors (or through the Ministry of Foreign Economic Relations and Trade, or by some other means). This law makes no mention of litigation as a means of dispute resolution, and it seems clear that, if formal dispute resolution is required, the PRC prefers arbitration to going to court. Thus Chinese enterprises agree to arbitration provisions in joint venture contracts as well as others. Precisely because everyone hopes to avoid arbitration as well as litigation, its availability has a useful *in terrorem* effect and stimulates the parties to resolve disputes on reasonable terms through informal negotiations, as the recent settlement of the Baoshan steel plant controversy demonstrates. Therefore, even if the parties never go to arbitration, it is very important that the contract make effective provision for this possibility. Plainly, most problems will be handled infor-

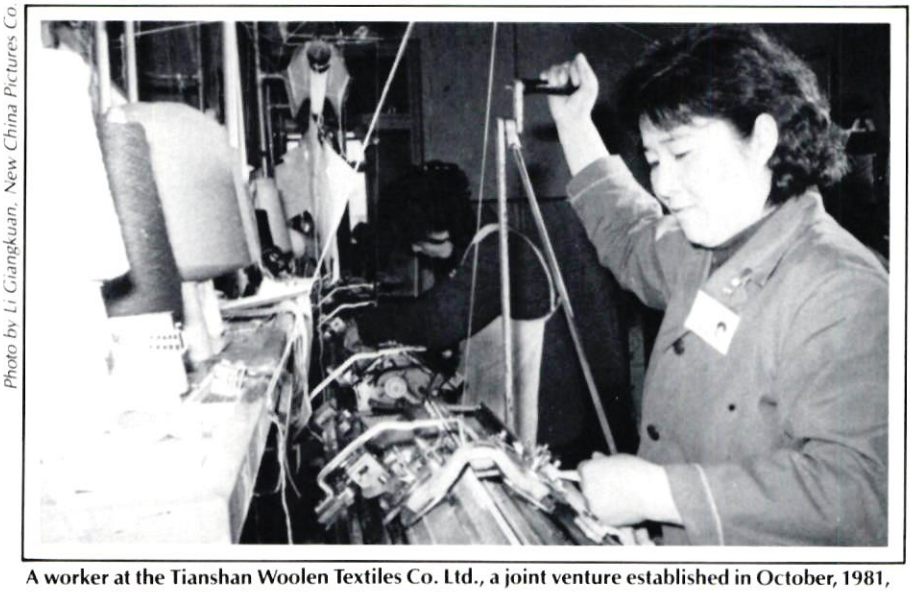


Photo by Li Qiangkuan, New China Pictures Co

A worker at the Tianshan Woolen Textiles Co. Ltd., a joint venture established in October, 1981, involving Xinjiang Province, Hong Kong, and Japanese venture capital.

mally, and thus far this generally has been done satisfactorily.

There is usually a good deal of negotiation about where arbitration should take place, under whose auspices, and according to what rules. The Joint Venture Law implicitly authorizes arbitration abroad as well as in China. Chinese enterprises press for arbitration in China under the Foreign Economic and Trade Arbitration Commission of the China Council for the Promotion of International Trade, and according to its rules, but they are careful not to risk losing the deal because of this insistence. Therefore, when foreigners insist upon arbitration in a neutral place before a neutral tribunal, the Chinese usually acquiesce, although some additional language may be inserted in the contract also permitting arbitration in China if the parties should agree to it at the time a dispute occurs. The Arbitration Institute of the Stockholm Chamber of Commerce is often accepted by the PRC as a neutral forum, and either its rules or those of the United Nations Commission on International Trade Law (UNCITRAL) are agreeable to the Chinese.

Governing Law and Sovereign Immunity. The PRC will not approve an investment in China that requires any dispute concerning it to be settled in accordance with the law of another country. However, foreign investors are reluctant to agree that Chinese law, as yet largely unknown in the area of contracts and joint ventures, shall apply. Usually a compromise is reached. The governing law is not spelled out, and the choice of law is left to the arbitration tribunal in case of a dispute. The Chinese generally feel confident in leaving the contract silent as to the governing law. More often than not, the place where the contract is negotiated and signed, and (in an investment in China) the place where it is to be performed, will lead, according to principles of private international law, to a decision that Chinese law would apply. Foreigners usually accept this compromise in the belief that the problem is likely to be settled before it reaches arbitration; or that, if it does go to arbitration, the arbitrators are not likely to make a formal choice of law; or that, if they do, they will somehow import into the applicable law whatever they think is fair.

Any investor that is reluctant to go along with this compromise should seek to insert a provision that calls for the contract to be interpreted, and any disputes decided, in accordance with generally accepted principles of contract and commercial law and international business practice. The acceptability of such a suggestion would be enhanced if it is offered as a supplement to Chinese law rather than in place of it.

Waiver of sovereign immunity from arbitral or court jurisdiction is sometimes explicitly stated in the investment contracts concluded by PRC state enterprises, which are independent legal persons and not part of the Chinese government. More often such a waiver is implicit in the agreement to go to arbitration and in other provisions that make clear that the transaction is commercial and that both sides agree to be subject to the contract's dispute resolution procedures.

The Threat of Expropriation or Confiscation. Foreign investors are naturally interested in reducing the risks of expropriation or confiscation by the PRC. The US does not yet have a bilateral investment protection agreement with the PRC, such as the recent Swedish–Chinese agreement, but is in the early stages of discussing one. It is already possible, however, for certain American companies to obtain political risk insurance from the United States' Overseas Private Investment Corporation, thanks to a 1981 bilateral agreement with the PRC concerning investment insurance and guaranties. It may be worthwhile, in addition, to seek to structure the contract so that, at any given time, a significant amount of the proceeds from the venture remains accessible to the foreign investor in a bank account outside China.

Apart from the conventional insurance of all types that it offers, the People's Insurance Company of China also offers political risk insurance to anxious foreign investors who are not sufficiently assured by the vague guarantees stated in the PRC's existing legislation. This insurance may be useful protection against an *ad hoc*, eminent domain type of PRC action, but it cannot offer much assurance with respect to an overall change in China's policy that is designed to take over the property of foreign investors generally. In these circumstances the PRC cannot be expected to give back with the left hand what it has taken away with the right.

Tax Treatment. Under the Joint Venture Income Tax Law there are incentives offered to equity joint ventures that do not exist for other forms of doing business in China, which are governed by the Foreign Enterprise Income Tax Law. For example, if a joint venture is reasonably profitable, the tax rate it pays will generally prove to be somewhat lower than for the other kinds of business organizations. Moreover, the tax holiday provisions are more generous. Also, under the Foreign Enterprise Income Tax Law there is no special treatment if a foreign firm chooses to reinvest some of its profits in China for five years, but under the Joint Venture Income Tax Law in such circumstances 40 percent of the income taxes paid on the reinvested amount may be refunded as an investment incentive.

How long there will be a separate Joint Venture Income Tax Law is not

Potential investors should not feel discouraged if, in an early round, PRC negotiators quote unreasonably high labor costs. This is sometimes done to test the limits of the possible. . .

known. Eventually the tax authorities hope to merge the two basic business income tax laws into one coherent system. Of course, the fact that there currently are tax incentives to create an equity joint venture does not mean that these incentives are necessarily sufficient to warrant the selection of this form of investment over some other arrangement that comes under the Foreign Enterprise Income Tax Law, since the latter may be more sensible for the parties in other, more important respects.

There are questions of how joint ventures are going to treat not only their non-Chinese employees but also their Chinese employees with respect to the withholding of individual income taxes, and this is very much under discussion now within the Ministry of Finance. Joint ventures reportedly will have to withhold the income tax due on the incomes of Chinese employees who are paid enough to be taxable under the Individual Income Tax Law.

Originally, when this law came out, PRC officials appeared to believe that only a handful of Chinese would come under it, because tax is not payable until one earns more than 800 yuan a month. Few Chinese who do not work for foreign-related enterprises earn 800 yuan a month. But Chinese employees of foreign-related enterprises often earn much more than that. In the latter circumstances, they may actually receive for their own use only a fraction of the wages paid in their name—an amount far less than 800 yuan per month, and the difference is pocketed by the Chinese agency that made them available to the foreign-related enterprise. Nevertheless, under the current interpretation of the Individual Income Tax Law, income tax must be withheld in their name by the joint venture or the foreign-related enterprise that employs them. Plainly, this must be taken into account by the foreign and Chinese parties when negotiating the wage package. A joint venture that serves as withholding agent is supposed to receive a commission of one percent of the tax withheld, as compensation for its services.

As PRC economic cooperation with foreign firms gathers momentum, many new questions are being raised concerning business taxes, and the law is gradually developing in this area. For example, in the first year of one joint venture, the venture made a profit and claimed a tax holiday because the Joint Venture Income Tax Law authorizes full exemption from tax in the first profit-making year of a venture scheduled to operate for 10 years or more. The local tax authorities refused to approve the holiday. What the law means, they said, is that exemption should be granted for the first profit-making year in which a profit is made using the technology transferred from the foreign investor to the venture; as the technology had not yet been transferred, there was no entitlement to a tax holiday. The foreign investor in the venture challenged this ruling, and the central authorities agreed with the foreigner.

This is a very important point to appreciate: it is possible, if one does not think an interpretation by an agency is correct, to question it—in a nice way. Chinese tax authorities realize that there are ambiguities giving rise to the need for interpretation of the law, and they wish to interpret the law reasonably. Obviously their goal is to collect tax revenues, but they do not wish to drive out foreign investors by acting in ways that seem unfair.

Similar questions arise frequently with respect to customs duties; the Industrial and Commercial Consolidated Tax, which is similar to a sales tax that is imposed at every stage in the transfer of goods from their production through marketing channels, and which varies in its rate depending on the type of goods taxed; the Buildings and Land Tax; and the Transport License Tax. It is to be hoped that the interpretations and decisions resolving these questions will be collected and published so that all affected persons can benefit from the guidance offered. In the interim, investors must take care to spell out in the joint venture contract not only the various taxes but also their specific application to the venture.

Profit Distribution. The Joint Venture Law provides that the venture's "net profit" shall be distributed between the parties to the venture in proportion to their respective capital contributions. Net profit is determined by **1.** ascertaining the gross profit (or gross income less expenses); **2.** deducting from the gross profit the income tax owed; and **3.** deducting from the amount thus derived a certain percentage of that amount, normally stipulated in the articles of association, to be set aside for the three funds prescribed by the law: the reserve fund, the bonus and welfare fund for workers and staff, and the expansion fund. The percentage for these three funds is arrived at through negotiation and has varied from investment to investment. The highest total percentage I have encountered is 20 percent, and 15 percent or substantially less is usually agreed upon. Sometimes, no specific figure is selected, and the matter is left to the board of directors to determine.

All of the net profit may be freely distributed, unless the parties agree in the contract to reinvest all or part of it for a period, as they did in the Schindler venture. The board of directors may also agree to restrict dividends, if the venture is temporarily short of foreign exchange, for example. In such circumstances, the board could call for reinvestment of the net profit, or distribute dividends with the understanding that foreign investors would not repatriate their dividends until sufficient foreign exchange became available.

One could easily write at greater length about joint ventures in China, or go into greater detail concerning the matters introduced above. This brief overview should be sufficient, however, to indicate not only some of the basic problems that may arise, but also the solutions that are being devised in the course of the slow and difficult, yet thus far increasingly successful, Sino–Western investment negotiations. During the past few years the PRC and foreign businessmen have made impressive progress in their unprecedented effort to establish equity joint ventures. The next few years should prove to be even more challenging, as those involved in the process move from negotiation to implementation.

Jerome Alan Cohen is a partner in the international law firm of Paul, Weiss, Rifkind, Wharton & Garrison. He commutes to China from New York as the legal advisor to American and foreign companies. He also teaches part-time at Harvard Law School.

The Textiles Deadlock

The US could impose even more restrictions on Chinese textiles unless a new agreement is reached this year.

Martin Weil

The most bitter economic dispute between China and the US since bilateral trade resumed in 1971 is coming to a head, as both governments attempt to negotiate a new six-year textile agreement before the old one expires on December 31. Three rounds of negotiations have resulted in near-total deadlock. Tough US negotiating tactics—including actions to further restrict Chinese imports while the talks are in progress—combined with stiff Chinese resistance to any compromise of its position has produced an emotionally charged atmosphere that could hurt US–China trade as a whole.

The major stumbling blocks in the negotiations: the number of textile and apparel categories for which the US will set import quotas for China; the rates of growth that will be permitted for items under these quotas; and the rules governing the imposition of new quotas during the life of the agreement, a procedure also known as the "consultation mechanism."

Behind the impasse on these issues is the US recession, which has aroused the powerful US textile industry to a fever pitch of opposition to foreign competition and particularly to competition from China, the country the industry now views as its most serious long-term threat. This has deeply offended the sensitivities of the Chinese, who are depending on their strong textile industry to earn the foreign exchange needed to purchase US goods—including textiles. A point that Chinese negotiators never let the US side forget is that China's imports of US textile products far exceed the value of its exports to the US.

China is of course aware that textile exports to the US are carefully controlled, at least from the major producers, but it expects the US to treat it more leniently than the "big 3"—Hong Kong, Taiwan, and South Korea. Its claim for special treatment rests on the country's large purchases of American textile fibers, the large size of the Chinese textile industry, and the short time that China has been competing in the US market. US negotiators, however, cannot please the Chinese without angering domestic producers and other exporters.

Another round of talks may be held in mid-December to try to reach an accord by year's end. But if the old 1980 agreement is allowed to expire without a new settlement, the US will be free to begin imposing any unilateral restrictions it likes. While the exact consequences of such a course of events cannot be predicted with certainty, they can only be negative.

China Runs Up Against the System

The Chinese are up against a carefully constructed textile barrier. For almost a decade prior to 1971, the US had limited cotton textile and apparel imports, but in that year the US government began signing comprehensive bilateral agreements that limited all cotton, synthetic fiber, and wool textile imports from major suppliers. More than 20 countries have now signed such agreements.

The ground rules governing these agreements, and those signed by other industrialized nations, are set forth in a series of international multi-fiber agreements, first concluded in 1973 and renewed in 1977 and 1981. The first MFA called for developed countries to increase textile quotas from developing countries by at least 6 percent per year. But in fact most US bilateral agreements have been more restrictive, straying further and further from original MFA goals as time has passed.

The average annual growth in US apparel imports between 1971 and 1979 was only 2.7 percent in quantity terms, according to the US International Trade Commission. More important for China, however, is the fact that 1971 is the key reference year. This has locked Hong Kong, Taiwan, and South Korea, substantial exporters at that time, into positions as leading suppliers. Collectively, they still maintain a 40 percent share of the total US import market, and close to a 60 percent share of the apparel import market.

Countries with smaller market shares are treated more liberally than the big 3, but as their market shares grow they are subject to more restrictive treatment. Should a country expand its exports suddenly it is likely to run up against quotas sooner than if it expands gradually. There are currently 108 textile categories, including 72 cotton, synthetic fiber, and wool apparel categories—any of which can be subjected to quota if imports increase rapidly. Under this comprehensive system, a country can hope to overtake one of the big 3 only over a very long period of time, if ever.

The obvious problem that China faces is that in 1971, the base year, its exports to the US were negligible. The dilemma for the US side is how to integrate a country that is the world's largest producer, with the greatest export po-

tential, into a system that makes no provision for the rapid entrance of a major new supplier.

The 1980 Textile Agreement

Before 1978 no attempts were made to restrict Chinese textiles through a bilateral textile agreement, mainly because its exports grew slowly and erratically. But when exports shot up in 1978, the US government moved to bring China into the system. US officials point out that no other country besides China has ever been allowed to achieve an annual export total of 201 million square yards (equivalent) before restrictions were imposed. But it is a measure of how restrictive the system is that when the US sought negotiations with China in 1978, China's share of US textile and apparel imports (in quantity terms) was only 3.5 percent.

At that time, China was already becoming a sizeable supplier in a number of categories of basic cotton apparel, as it began to increase sales of low-priced, less fashion-sensitive clothing. Former Special Trade Representative Robert Strauss went to Beijing in May, 1979, with the intention of placing restrictions on some of these categories

The acrimonious history of US–China textile negotiations began, as one US source said, with the two sides "not even on the same planet." When the negotiations broke down, Strauss placed unilateral quotas on PRC cotton gloves, knit shirts and blouses, woven shirts, trousers, and synthetic fiber sweaters. China considered these actions to be unfair and refused to make concessions in the negotiations for about a year. In October 1979, the US imposed additional unilateral quotas on blouses and synthetic fiber coats, and waited for the impact to register. This happened quickly enough, as Chinese shipments in excess of quota levels were embargoed in bonded warehouses.

Finally, in April, 1980, the Chinese made their first real counteroffer, and after arduous negotiations, the two sides concluded an agreement in September covering the years 1980 through 1982. Three-year quotas, or "specific limits," were set for the seven categories already restricted. This was a small number of quotas compared with those facing the big 3. But only in the gloves category was China confirmed as the number one supplier, or allocated more than a 15 percent market share.

The key for the US side was the consultation clause, allowing the US to place new restrictions on any category in which there was judged to be "market disruption." When market disruption was claimed and a "call to consultation" issued, the clause provided a formula for the US to limit China's exports to a level only slightly above the average of the year ending two months before the call was made pending final agreement on a quota.

Though China's hard-line negotiating tactics may have gained it some concessions, the basic contours of the agreement were in line with US desires. The key provision making the package acceptable to the Chinese was a vague private understanding that the US would not call any category for consultations until China's exports were comparable to the principal suppliers.

Problems with the 1980 Agreement

Tensions continued after the agreement was signed, as the US called seven categories for consultations in 1980 and 1981, including wool sweaters, several types of cotton apparel, and two categories of cotton cloth. The quota negotiations were unusually long and bitter.

Despite these tensions, the US generally lived up to its informal understanding in 1981 not to restrict Chinese imports in a particular category until such exports were the third largest. China even managed to become the number one or two supplier in several categories under quota.

Evidence of similar good faith on the Chinese side was the attempt to set up a visa system monitoring exports to help China stay within quota limits. However, provincial authorities continued to make unauthorized shipments under the decentralizing reforms then in practice. The difficulty of enforcing the visa system became noticeable when wool sweater quotas were filled, but sweaters continued arriving on US shores. Large numbers of sweaters ended up in bonded warehouses causing great hardship for importers.

In response to these problems, the head office of CHINATEX, the textiles trading corporation under the foreign trade ministry changed the visa system for woven goods under quota in 1982. Now only the head office, not branch offices, can issue export visas. This has created some new problems for importers, who cannot be 100 percent sure when signing a contract with a CHINATEX branch whether the head

US Textile Imports by Value (Million US $)

China's exports to the US increased by over 100 percent in the last three years, indicating once again that a country which increases its exports suddenly is particularly vulnerable to quotas.

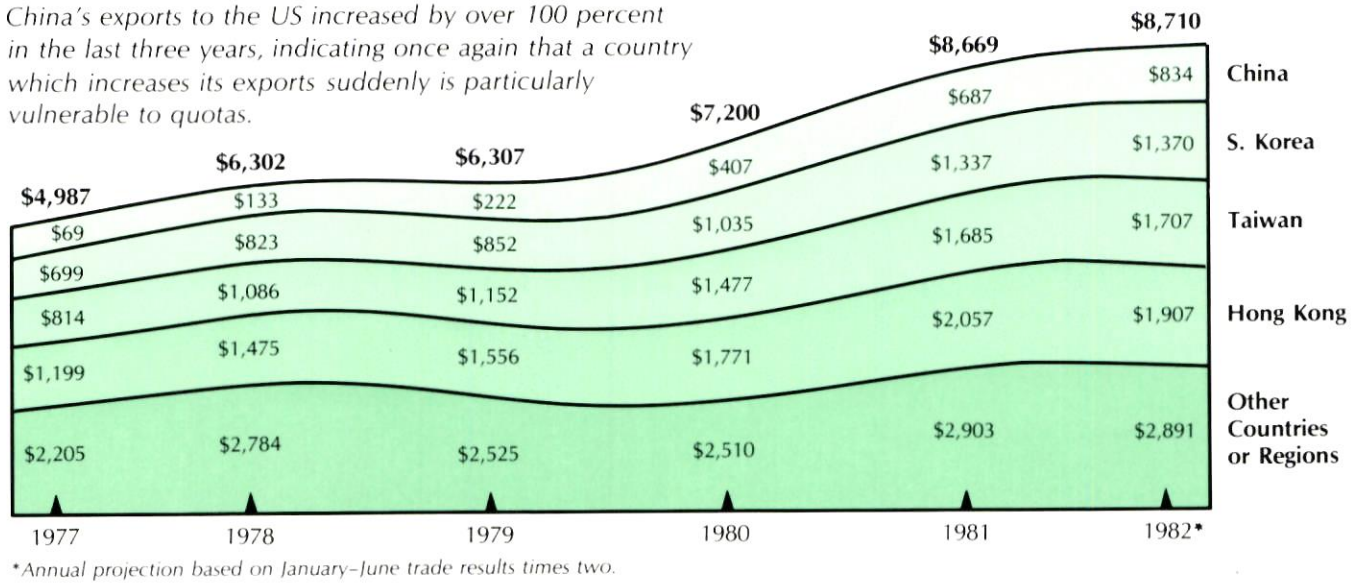


Chart prepared by Sally Wile

*Annual projection based on January–June trade results times two.

office will allow the deal to go through by issuing a visa.

Some US government insiders argue that China did not make the best possible use of the agreement. Calls for consultations could have been avoided, in their view, if the Chinese had restrained their export surge and maintained informal contacts with the US government to determine what were acceptable export levels for each category. Moreover, the Chinese could have called for consultations on certain categories themselves, and perhaps have obtained higher quotas before industry lobbyists tied the government's hands.

The Chinese, however, opted instead to increase exports as quickly as possible. In part this was the result of decentralization, which made it difficult for the head office of CHINATEX to control exports. But the Chinese seem to have made a calculated decision to accelerate their export drive to stay one step ahead of new calls for quotas. And many observers believe that this was China's only option to avoid even tighter restrictions on its exports than it now faces.

Consequently, the volume of China's exports increased by 41 percent in 1980, and 73 percent in 1981, achieving a total of 561.8 million square yards (equivalent) worth $687 million. This represented 36 percent of China's total exports to the US in 1981.

These inroads were by far the largest made by any country in the 1980–81 period, and they caused alarm in the domestic industry. To make matters worse, China's exports increased just when sales and employment in the US textile industry were declining in response to the worsening recession.

Big 3 or Big 4?

The US textile industry would like the administration to roll back quotas for all major textile suppliers. Although European governments are demanding such rollbacks from the big 3, the US administration is unwilling to resort to this. President Reagan has, however, committed himself to a policy of limiting import growth to that of the growth of the American textile market.

This commitment, by definition, ties textile agreements with different countries to each other. The pattern for the big 3 was set in March, when an agreement reached with Hong Kong called for growth rates in categories under specific-limit quotas (meaning most categories) of only 0.5–2.0 percent, compared with earlier growth rates of 1–6 percent. Similar agreements were reached later in the summer with Taiwan and South Korea.

The relationship between these agreements and the China agreement lies at the heart of the current impasse. From the point of view of the US negotiators, the big 3 have become the big 4. In the year ending July, 1982, according to Department of Commerce statistics, China captured a 10.6 percent share of total US textile imports (in quantity terms), compared with 12.2, 14.3 and 17.9 percent for South Korea, Hong Kong, and Taiwan, respectively. The next largest third world supplier, by contrast, was Pakistan, which accounted for only 3.3 percent. Since it has become a major supplier, US negotiators feel it is time China signed an agreement similar to those with the big 3.

The Chinese argue that in terms of value they account for only 6 percent of US imports. This is because Chinese textiles tend to be of lower quality and value. The fact that China can only compete in the low price, less fashion-sensitive market, in the Chinese view, entitles it to more favorable treatment than exporters from other countries who can compete in a broader sector of the market and earn more foreign exchange by commanding higher prices.

The Chinese also maintain that their exports, unlike those of the big 3, include semifinished cloth, as well as garments. In the area of apparel imports, which has tended to rouse the most controversy in the US, China accounted for only 9.3 percent of US imports (by volume) in the year ending July, 1982, compared to 18–20 percent for the big 3.

Wanting to be Number One

Some observers feel that what the Chinese really want is to be allowed to overtake the big 3 within a reasonable length of time and become the number one supplier. This is only fair, from China's point of view, since it buys more cotton and synthetic fibers from the US than it exports in the form of finished and semifinished textile products. In 1981, China's "textile trade deficit" with the US was about $450 million. In early 1982, Chinese purchases have declined. But this is believed to be a temporary slowdown caused by overpurchases of synthetic fiber in 1981 (when a few provinces used their increased autonomy from Beijing to go on a buying

US Textile Imports by Volume

(Million square yards equivalent)

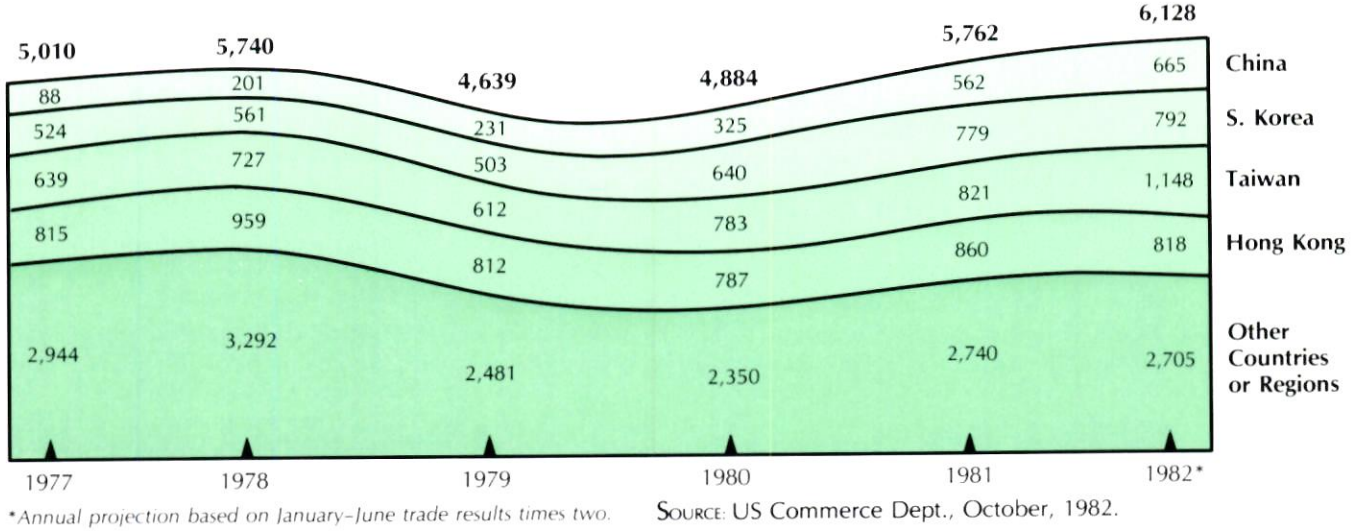


Chart prepared by Sally Wile

*Annual projection based on January–June trade results times two.

SOURCE: US Commerce Dept., October, 1982.

spree), as well as consecutive years of record cotton crops.

Although the Chinese do not put the argument forth directly to their US counterparts, another consideration is believed to be China's fear that a clampdown on textile exports would force it to diversify its exports in order to continue expanding foreign exchange revenues. Diversification might be relatively easy for the more dynamic economies of Hong Kong, Taiwan, and South Korea, but not for China's centrally planned, bureaucratic economy.

In short, the Chinese would like the US to take other factors into account besides the simple number of square yards the US is importing. The entire history of the textile protection program, however, is characterized precisely by its single-minded concentration on the issue of import penetration. Broader economic or foreign policy concerns are generally excluded.

US government officials insist that they are taking into account the special factors in the China case. But as one of them told *The CBR*, "These special factors entitle the Chinese to slightly better treatment than the other major suppliers."

The initial proposal to China in August, 1982, provided more liberal treatment than the final agreements with Hong Kong, Taiwan, and South Korea, according to US textile negotiator Peter Murphy (under the office of the US Trade Representative). But such details as have publicly emerged in the Chinese media suggest an offer quite similar to those with the big 3.

In addition to the 10 categories (three of which are actually combinations of two categories) for which the two sides have already agreed on quotas, the US is reportedly asking for a total of 18 new apparel specific limits in the new agreement. With 31 controlled categories, China would be in the same league as the big 3, and unquestionably have to slow the rate of growth of its textile exports to the US. The allowed growth rates for items under a specific limit would range between 0.5 and 2.0 percent, according to Chinese press reports—identical to the rates given Hong Kong.

Furthermore, the US wants to change the consultation mechanism so that final quota levels are set automatically when Chinese exports in many unrestricted categories reach certain defined levels. This represents a hardening of the US negotiating position, in that previously there was room to negotiate the final levels after initial restraints were applied under the consultation mechanism. The US is also unwilling, in the current negotiations, to reiterate its informal assurance that restrictions unspecified in the agreement will not be applied to China until exports reach the level of principal suppliers.

There are many who believe that the initial US offer was a deliberately hard-line position designed to jolt the Chinese, and that there is actually considerable room for maneuvering. According to this argument, the Chinese rejected the proposal out-of-hand to make textile industry hard-liners realize that compromise is necessary.

The lack of progress in the second and third rounds of talks, from September through November, however, suggests that the room for maneuvering may not be very great. The Chinese counterproposal does not provide any hint of compromise. It, too, seems to have been an initial hard-line position. Any compromise will involve complex give-and-take on a number of issues that affect each other: ▶ the number of categories under quota, ▶ the size and growth of quotas, and ▶ the nature of the consultation mechanism.

It is obvious that on the issue of the number of quota categories, the US is showing little flexibility. In fact, knowledgeable US government sources have told *The CBR* that it is a nonnegotiable issue. To drive home this point, the US began imposing unilateral quotas in 1982 under the consultation terms of the old agreement, thereby presenting Chinese negotiators with a *fait accompli*. Four categories were called in April, 1982: cotton playsuits and three synthetic fiber categories—woven shirts, woven blouses, and women's trousers, the first synthetic fiber restrictions since sweaters. On August 30, immediately following the first round of negotiations, four more were called: cotton sweaters, suit-type coats, wool suits, and synthetic fiber women's coats. Then, after the failure of the second round of negotiations in October, the pressure pattern continued with four more calls: cotton nightwear, cotton terry cloth towels, and men's synthetic fiber coats and trousers.

Some of these new calls, in contrast to those in 1980–1981, clearly violate any assurances the Chinese may have been given about allowing exports to build to "major supplier" levels. In the case of wool suits, for example, China was only the fifth-largest supplier during the first seven months of 1982, accounting for only 8.1 percent of US imports.

Some observers believe that the most recent calls signal a loss of control by the more moderate voices in the US government. Ordinarily, calls must be approved at the assistant secretary level in a number of agencies. But to these observers, the 1982 calls appear to be the actions of lower-level bureaucrats. Particularly worrisome is the apparent shunting aside of the State Department, the agency with the most sensitivity to the political issues at stake. Whatever their motivation, the calls add a major irritant to an already difficult negotiation. It is unusual for there to be so many calls at a time when an entire agreement is being renegotiated. To the Chinese, they come across as crude weapons to foreclose discussion on the issues for which there should be some give and take.

Also poisoning the atmosphere are two dumping petitions by the domestic industry against Chinese shop-towels and polyester-cotton printcloth. For the towels, the industry case rests on the dubious logic that, since US factories are the most mechanized in the world, anything coming in under US producer prices is *ipso facto* dumped. In both cases, the industry petition passed the first hurdle when the ITC found that there is "reasonable indication of injury" to the US industry from Chinese imports. Although private industry, not the government, is behind this development, the Chinese regard it as part of a broad pattern of protectionist harassment.

Because of actions like these, the negotiations are being conducted in an acrimonious atmosphere which was absent in negotiations with the big 3. In those cases, there was good faith and hard, pragmatic bargaining. In China's case, there seems to be genuine anger at perceived discrimination. The concern of the Chinese has reportedly prompted the ambassador to meet face-to-face with Commerce Secretary Baldridge and US Trade Representative Brock. Beijing's English language *China Daily* has printed government warnings that "strict restrictions on textile shipments would greatly harm relations between the two countries."

What Will Happen?

A climactic fourth round of negotiations is now planned for late December in Beijing. The fact that the US congressional elections are over may loosen the US position a little. But the stubbornness of both the Chinese and the US

textile lobby, not to mention the continued bite of the recession, make the possibility of no agreement with China a real one.

Judging from past precedent, the Chinese will be prepared to reach a reasonable compromise. In many negotiations, they take a stubborn, hard-line position until they are absolutely sure the other side has given as much as it has to give, and then strike the best deal they can. This is precisely what happened during the first textile negotiations in 1979. After a year of stonewalling, the Chinese relented when export orders began drying up in the face of US unilateral quotas.

The US government is confident that similar pressure from importers, who will be unwilling to do business in the climate of uncertainty created by a no-agreement situation, will again bring the Chinese around. In purely economic terms, there is no denying that China is much better off with a reasonable agreement than with no agreement.

But the intensity of the Chinese reactions so far raises the possibility that the Chinese will not behave as the US expects. And conditions differ from 1980. At that time, China's pro-US policy was at its peak. Now, pro-US forces in China have just finished a long, political battle on the Taiwan arms issue. Foreign trade policy, too, has veered back toward the more conservative idea of balanced trade. Finally, the fact that this is the second knock-down-drag-out battle in three years makes the situation more dangerous. It was a difficult process for the Chinese to make concessions the first time around, and now they are being asked to make major, new concessions almost immediately. The big 3, by contrast, negotiated their earlier (five-year) agreements in 1977.

Chinese actions will depend to some extent on the bureaucratic entities most involved in the issue. They are: CHINATEX, the textiles trading corporation under the Ministry of Foreign Economic Relations and Trade; MOFERT itself, as distinct from CHINATEX; and the Ministry of Foreign Affairs. Of these, CHINATEX is seen as the most willing to compromise, given its greater day-to-day contact with and understanding of the American system, and its desire to get on with business. The Ministry of Foreign Affairs also is thought to be anxious to avoid a major battle with the US. MOFERT, whose bureaucratic imperative has traditionally been to balance trade, and get China the fairest deal possible, is believed to be the most hard-line of the agencies.

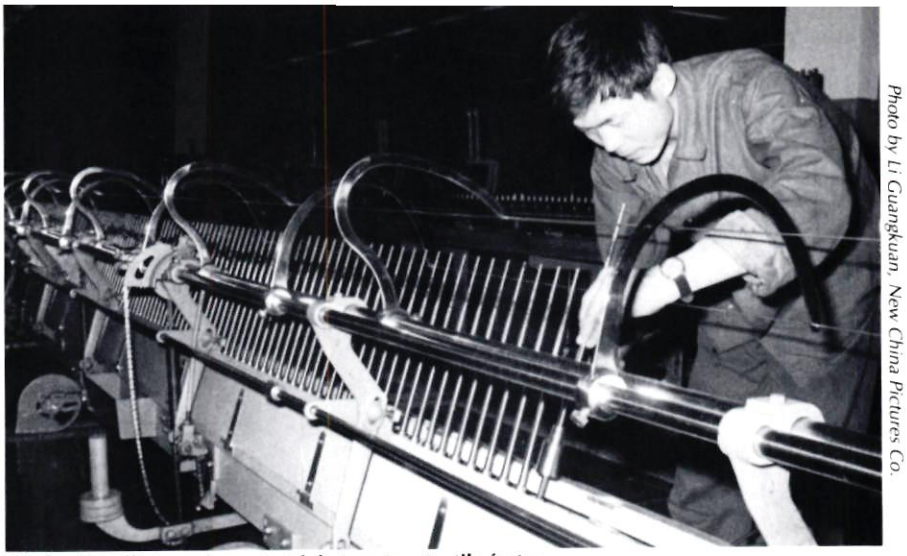


Photo by Li Guangkuan, New China Pictures Co.

Worker installing equipment at joint venture textile factory.

Although it would be dangerous to read too much into it, the fact that a MOFERT official, Li Dengshan, heads the Chinese negotiating team is certainly interesting. CHINATEX officials led the team for the first agreement.

The elevation of textiles minister Hao Jianxiu to the Communist Party Secretariat could also have some interesting repercussions. If negotiations remain at an impasse, the secretariat might have to consider it in the end. But Madame Hao's views on the subject are not yet known.

Retaliation

If the two sides seem close to agreement on January 1, there is some possibility that the US will allow the current agreement to be extended temporarily until a new one is signed. The alternative, in the event of no agreement, is unilateral US action. What can China really do if the US acted unilaterally? The truth of the matter is that the economic cards China holds do not comprise a particularly strong hand.

The Chinese media has characterized US textile proposals as "contrary to the principles of the US–China trade agreement," which calls upon both sides to give each other Most Favored Nation treatment. Presumably, therefore, the Chinese would consider themselves released from this obligation if the US acted unilaterally. But what this would mean in practice is not clear.

Purchases of textile fibers would be the most obvious area for retaliation. The threat to reconsider these purchases has been made explicitly on several occasions.

A cutoff would hurt some US synthetic fiber producers. But Chinese purchasers in early 1982 declined for purely economic reasons, which diminished the potential impact of an abrupt cutoff.

The effect of a cotton cutoff today would also be less than it would have been a few years ago. In 1980, China purchased about 15 percent of total US production. But rising domestic cotton production, and slower increase in demand for cotton textile products at home and abroad, have already cut Chinese purchases in 1982 to a projected 150,000 tons, or only about 6 percent of anticipated production.

Retaliation in grain purchases—a potentially effective political weapon given the strength of the US farm lobby—is probably precluded by a four-year government-to-government agreement expiring at the end of 1984 which commits China to purchase at least 6 million tons per year. Any attempted response in the area of oil would hurt China more than the US.

Another possible action for China would be to instruct its trading corporations to buy from sources other than the US in cases where price and quality were equal, and China was not otherwise bound to buy American. Whether this would register a big economic impact is unknown. Its greatest impact might be to give a political jolt to US government officials who have refused heretofore to allow broader concerns to bear on the textile negotiations.

No other country has really succeeded in applying political pressure that changed a textiles agreement in a major way. In the end, China seems stuck in a difficult position that will, one way or the other, result in major new restrictions to its textiles exports to the US.

Tourism: Changing Course

As the market slips, the issues multiply.

Carol S. Goldsmith

China travel may have arrived at a crossroad. Today, four years and two million foreign tourists after the welcome sign went up, the industry is taking stock of itself, assessing its considerable progress while pondering the uncertainties ahead.

Tourism has been something of an economic miracle for China. Income last year approached $700 million, up some $83 million over the previous year. Tourists eager for their first peek at the mainland traveled from 140 countries. The growth rate dipped below the phenomenal increases of the first two travel seasons, yet remained the envy of the Far East. In 1981 some 675,000 foreign tourists visited the PRC. Only a year before that, the State Statistical Bureau counted 529,000 foreign tourists (*see* chart).

Such progress, impressive enough on its own, is considered remarkable for an industry that only began developing in 1978. China needed to do little more than open its door to let in a tide of tourists. The first three years saw the number of foreign tourists invited by CITS (China International Travel Service) increase by an annual average of nearly 30 percent. Hotels in the major cities were severely overcrowded, and China recognized that major improvements in the infrastructure would be needed to satisfy more foreign guests. Even so, the government saw no reason that growth could not continue at its previous rate. Throughout the year CITS stood by its earlier prediction that the number of foreign tourists would grow by 30 percent annually for the next five years. Income could easily reach $2 billion in 1985.

That was the dream. Unfortunately for China, and for tour operators here, the reality is less promising.

This year marks a definite slow-down in the China travel trade. According to CITS statistics, the number of foreign tourists is climbing at the lowest rate since 1978. Economic conditions worldwide have played havoc with people's travel plans. Cancellation rates the past year have been high, particularly from Europe and the US. In 1981, CITS received 272,000 tourists primarily from Japan, the US, and Europe—more than a 24 percent increase over 1980. If CITS meets its optimistic target of 300,000 this year, the increase would be 10.2 percent.

Meanwhile, *Business China* reports this discouraging news: In the first six months of 1982, the number of tourists handled by CITS and the Hong Kong-based China Travel Service declined by about 15,000 people, from the same period the previous year.

The Chinese have yet to acknowledge this trend publicly, let alone discuss its causes. But the downturn apparently has made an impression. Officials have spent much of this year announcing new tourism policies, resurrecting some of the old, and then reversing certain decisions that had just been made. Early this year CITS centralized its authority and adopted stricter deposit policies to protect itself from a high cancellation rate. Itineraries would be standardized and prepackaged, officials announced. And operators would be required to deal with the CITS head office in Beijing rather than work through the branch of their choice.

By October, though, it seemed that officials had again changed their minds. Word leaked out that central control would be relaxed, restoring some measure of autonomy to the disgruntled branch offices. That same month, officials announced that China would begin receiving individual foreign tourists, and that tourists could now visit 29 Chinese cities without securing a special travel permit. The move is part of a new campaign to increase the number of individual and special-interest travelers.

Tour operators have been mightily confused by the mixed signals coming from China. Some of the policies, they feel, show a flagrant disregard of changing market conditions and of the sales problems that wholesalers have. But at the same time, the Chinese have made a few announcements that indicate a greater willingness to consider the grievances of US operators—and even to discuss core issues on a formal, bilateral basis.

China gave the Commerce Department somewhat of a surprise in August, when a meeting called to discuss the possibility of a US–China tourism agreement actually resulted in the signing of a bilateral accord.

Peter McCoy, undersecretary of commerce for travel and tourism, went to Beijing for talks with Han Kehua, director general of the General Administration for Travel and Tourism (GATT), the policy body for China's tourism industry.

Within a few days of their introduction, the officials agreed to establish a government-to-government committee "to facilitate cooperation and exchanges in the field of tourism." The Chinese also accepted the applications of two American tour operators to open offices in the PRC: American Express (which already had a Beijing representative) and First Family of Travel. The two companies were assured that they are the first tour operators permitted to

open registered offices in China.

The bilateral states that the committee will meet "as necessary" to discuss particular issues. Either co-chairman may invite other government or private sector representatives to participate.

That language pleased the 20 tour operators and hotel, airline, and advertising concerns that comprise the National Council's new Travel and Tourism Committee. The group was formed in June as the only committee to specifically represent companies in the China tourism field.

Chairman David Elmore, president of First Family, notes that the formation of a private sector and a government-to-government committee has created a "two-tiered policy bridge" between both countries' tourism industries. Council members briefed McCoy on tourism issues just prior to his trip to China, and were credited with providing much of the framework for the successful negotiations.

China preceded the signing of the tourism bilateral with another unexpected announcement, this one inviting operators and tourism officials worldwide to its first World Tourism Conference, to be held between February 28 and March 5, 1983. Liu Zihan, deputy director of CITS New York, believes the first day and a half will be devoted to a tourism update and policy announcements for next year. Between speeches by the foreign guests, Liu says operators will have time to meet with officials to "evaluate the China tour product" and discuss 1984 itineraries.

"This will be a milestone in the development of tourism in China," states Liu.

US operators doubt some of the grandiose claims. For one thing, they say, early 1983 will be too late for any meaningful discussions on 1984 tours, since CITS will issue the programs in the early spring. Individual meetings will be difficult, if at all possible to arrange. Officials are bound to be preoccupied with the staging of their first international conference.

"I think we'll basically be sitting in this big room hearing the Chinese hand down policy statements," says one wholesaler. "It's gonna be deadly."

Turnout should be excellent, nonetheless. Virtually all of the 50 US wholesalers doing China tours plan to attend, mostly as a show of good will. Some may approach the initial meeting with trepidation, given the type of CITS announcements handed down this season. New policies were put forth centralizing authority in the head office, standardizing itineraries (temporarily, at least), and declaring that deposits for 1983 bookings would be nonrefundable.

Some operators rushed to Beijing on the heels of the last two announcements, expressing their shock that China would respond to a declining growth rate with increasingly rigid policies.

Tourists from the US this year will fall far short of the magic 60,000. That is the figure accepted as the US share of China tour visas; it also is CITS's estimate of American tourists this season. Few of the major wholesalers foresee much of an increase over the 49,219 US tourists CITS says visited China last year. One operator thinks a 15 percent increase is the best that could possibly happen in 1982. Next year could be more of the same. Interviews with the top 12 US wholesalers, who account for the bulk of the China market, indicate that they have taken only about 55,000 visas for 1983.

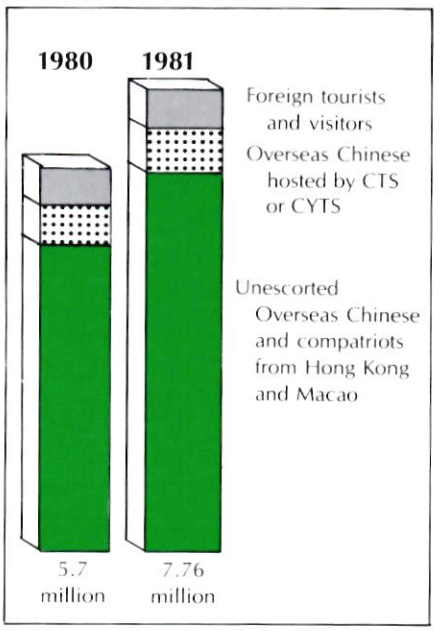
Operators are in no mood for more surprises. Several of China's recent policy decisions have been blamed for creating, or compounding, their problems. This year they would like to start off the new season by revising some of the 1982–83 policies, and by working with China to develop plans that respond to the changing market.

Deposits

No single policy has created as much ill feeling as the nonrefundability of deposits. In the past China asked operators to pay a ¥50 ($35) deposit on their bookings a year in advance. The fee could be refunded up to three months before a group's arrival. China felt, however, that the practice didn't work. "The great majority of operators declined to pay the deposit until three months before arrival," remarks Liu Zihan. "Some declined even then."

Subsequent cancellations could cost CITS a bundle, since it is required to pay deposits to each hotel and to China's airline, CAAC. The risk became increasingly costly as the market declined. So last May, CITS reacted by turning the ¥50 deposit into a nonrefundable fee. The first ¥10 is now due upon tour confirmation one year in advance of departure, and the rest in quarterly installments.

Wholesalers were stunned by the conditions more than the concept. As one major operator put it: "I don't think it's unreasonable that the Chinese would want to levy such a fee. The problem that I and many people have is *how* it is levied."



CHINA'S FOREIGN TOURISTS AND VISITORS

	1980	1981
Foreign Visitors*	**529,000**	**670,000**
Business visitors hosted by MOFERT and other ministries	230,000	300,000
Guests of government	81,000	98,000
Foreign tourists hosted by China International Travel Service	218,000	272,000
(Of which:)		
(Japan)	—	(124,155)
(US)	—	(49,219)
(Hong Kong)	—	(26,000)
(France)	—	(10,247)
(W. Germany)	—	(7,000)
(Others)	—	(55,379)
Overseas Chinese and compatriots hosted by:		
China Travel Service	**694,000**	**886,000**
China Youth Travel Service	**10,000**	**27,700**
Unescorted Overseas Chinese and compatriots	**4,467,000**	**6,176,300**
TOTAL	**5,700,000**	**7,760,000**

*In 1979 362,000 foreign visitors toured China; total visitors to China that year were 4,200,000. In 1978 there were 229,000 foreign visitors; 1,880,000 total visitors.

SOURCE: China International Travel Service, head office (figures provided to *The CBR* October, 1982), *China Economic News* (August 23, 1982), and National Council estimates.

Both the fee and the payment schedule vary, admits Liu, according to CITS's relationship with a particular wholesaler. One small firm interviewed for this story had never heard of the deposit; a larger one said that CITS waived or reduced his deposit for certain tours. The majority, however, pay the ¥50.

This seemingly small sum adds up quickly for the major and medium-size wholesalers. One member of the National Council's tourism committee has calculated that the deposit amounts to a $1.5 million interest-free loan for China. Given the current market, operators say it is nearly impossible to get a good fix on the number of tourists going there one year in advance. "When the Chinese receive a request for visa allocations," remarks Kurt Bodmer, senior vice-president for overseas at Club Universe, "they tend to think this is the actual number of passengers coming next year. But at that point, we still have to promote the tours in order to generate any passengers."

China's reasoning and the wholesalers' concern stem from the same situation: the United States' high "percentage of nonmaterialization." This cumbersome term describes the percentage of tour cancellations from a given country. According to Liu, the average cancellation rate for US operators "has gone up from 30 percent in earlier years to 50 percent in the most recent year"—an obvious reflection, he says, "of the changes in the tourism market." US operators cite these changes as the very reason they should not be "penalized" for trying to sell China tours.

Japan, according to Liu, has experienced a similar cancellation rate the past year. But it has not been forced to pay the same price. *The China Business Review* obtained a copy of the terms and conditions for 1983 tours as prepared by the CITS Japan department. It states that Japanese operators pay a ¥50 deposit only three months prior to a tour's departure. The full tour costs must be paid 15 days prior to group entry, versus 30 days for American firms.

September marked the deadline for most US operators to make their first-quarter installment for 1984 tours. Most wholesalers dutifully, but reluctantly, paid their ¥10 fees. One major operator decided to delay payment until executives could meet with CITS to discuss the terms. Others undoubtedly will make their own recommendations known at the 1983 conference—ranging from abolishing the fee to developing some type of credit system. Globus Gateway President Paul Albrecht suggests that cancellations be credited against the number of extra passengers delivered on a certain tour, pointing out that operators incur penalties for their shortfalls but no incentives when they make additional bookings. Says he, "It's definitely a one-way street."

Itineraries.

Shortly before CITS laid down the law on deposits, it issued a startling policy statement on tour selection: For 1984, operators would choose tours from a list of more than 200 standard itineraries, rather than make recommendations to CITS. The idea was to divide up the golden cities that are most in demand—Beijing, Shanghai, Xian, Guangzhou—and couple them with less popular spots. Cried one operator, "We were being forced to pay a deposit on programs that we felt wouldn't sell."

The hue and cry went up quickly, and the policy went out the window. But the attitude didn't change. China wants, and needs, to develop more tourist spots, both to expand its industry and to alleviate the hotel crunch. Competition for the golden routes has become more fierce; many operators still find it nearly impossible to get more than two hot cities on a trip.

Operators sympathize with the problem, but deplore China's package approach. "You cannot make the whole country a tourist spot," says China Sightseeing President Rowland Hsu. And China shouldn't be able to force cities on tourists "any more than we could require people who want to visit New York City to go to Cheyenne, Wyoming."

CITS early this year centralized its authority for itineraries and hotel bookings in the head office, restoring the powers it enjoyed before decentralization. Operators generally see this as a positive move. In the past, CITS branches individually reserved blocks of hotel and airline space, which later could be cancelled through the same branches. Some cancellations fell through the cracks, and rooms that were actually empty remained booked in the hotel register. Another group might like to detour through a certain city if rooms were available, but with decentralization there was no central way to find out.

It remains to be seen how this system will be affected if CITS does indeed restore more power to the branches. Despite the advantages to the new booking system, a few operators worry that special-interest tours will suffer under central control. Previously, operators who wished to circumvent the head office could ask a particular branch to arrange a tour—Jiangsu, for example. Jiangsu then became the general contractor, subcontracting travel arrangements in other provinces to each individual branch. The foreign operator paid one lump sum to Jiangsu (about 20 percent of the tour price, according to one firm), which in turn gave a share to the branches.

Under this year's policy, Jiangsu would become the subcontractor to the head office, and consequently would receive the lesser fee. It is not surprising that this policy caused a good deal of discontent within the branches. George Roman, who runs Roman Specialty Tours, encountered problems earlier this year when he tried to arrange a backpacking tour through Northeast China via the head office. Though the overall service was good, he says the prices were completely out of line. CITS charged the standard rate for hotel accommodations even though the group spent most of its time in the woods. Backpackers supplied about 40 percent of their own food, he says; yet CITS insisted they pay for regular meals.

The head office justified these fees by saying that "special arrangements" had to be made for the tour. Roman thinks the branch office could have been a much more effective troubleshooter if it hadn't lost some of the incentives.

Prices.

The law of supply and demand has affected tour prices in China . . . but not by much. CITS reduced its service fees for off-season 1982 tours by 20 percent; meanwhile, domestic air fares for December were cut by 20 percent and train fares by 10 percent.

"But 10–20 percent is hardly sufficient to lure the traveler to China," says Rowland Hsu, especially in the winter months.

Tour operators have several problems with China's price structure. For openers, Americans must pay top dollar for every item and service, while overseas Chinese, Japanese, and other nationalities can buy the same things for less. Secondly, prices vary wildly across the country. Liu Zihan brought up the subject himself. "Tourists complain that they buy [a certain] quality of good in Beijing," he remarks, "and then

find it for a lower price in Shanghai. The same thing with tourism."

Most important, though, some operators believe CITS charges too high a price for the China experience—not because tourists question its value, they say, but because so many right now are unable to justify such a big ticket expense.

Given the current market, "CITS should lower its prices 20 percent in the peak season and 30 percent in the slack season," according to China Holidays President Thomas Wong. Globus Gateway's Paul Albrecht suggests that China "give less" on some tours to bring down the price. "People would be perfectly happy with less sightseeing and fewer than three big meals a day," says he. More tours of shorter duration might also be in order.

On the whole, however, US tourists seem less concerned with the China package price than the US operators do. Inter Pacific Tours President Patrick Yau points out that the daily land price in China ($40 and up) is on a par with prices in other Far East tourist destinations. Domestic air fares compare favorably as well. Operators agree that few tourists go into a China trip with much hesitation about the cost, and even fewer come out with any complaints.

But that could change in the future. Some operators worry that as China becomes more familiar and less exotic to tourists, many will begin doing more comparison shopping in the Far East. In Hong Kong and Japan, remarks one US wholesaler, "everything is by your convenience. If you don't like the restaurant or a certain sightseeing activity, you can go somewhere else. In China, everything is by the government."

For the short term at least, the consensus is that China should give tourists—and operators—a better idea of what to expect for the set price. Neither itineraries nor lodgings can be confirmed before a group's arrival. Complains one wholesaler, "It's not easy to explain to a retailer why my tour costs more than another, unless I can give him a good indication that we've got the Beijing Hotel instead of the Friendship."

Competition.

Each of George Roman's specialty tours this season—the backpacking adventure, a "China Fishing Odyssey," and the first cross-country ski trip through China—must be sold at between $1,500 and $2,500 for the land package, to make the staging of the trip worthwhile. "Yet I open the paper and see companies offering 18 days for $1,995, including air fare," he marvels. "I can't understand how they can offer that."

Wholesalers have seen the US market flooded by individuals, retailers, and Hong Kong agents who have secured their own visa allotments from China. Taken together, their bookings are said to equal 25 percent of the business handled by wholesalers here. These companies can either sell their excess visas to American operators, or circumvent them by offering tours directly to retail agents, at prices deemed "unrealistically low."

CITS, by casting its net so wide, has inadvertently drawn in many unqualified or unscrupulous travel firms, to the detriment of tourists, bona fide operators, and inevitably China itself. Some firms try to make a quick dollar by offering an inferior, cut-rate product. Others lay low until the foreign wholesalers have developed the market; then they start selling their tours direct. Laments one US operator, "I spend $150,000 per year on advertising China travel. The Hong Kong agents don't spend anything here."

Many wholesalers wish China would step in to help its American friends. One way would be to limit the number of itineraries to Hong Kong that would be marketable in the US (basically the longer tours). Another would be to issue guidelines on visa marketing abroad. Operators realize this is a delicate subject, since very often they have to go to Hong Kong for some of the most popular itineraries. Still, they say, China should try to discourage such competition.

"The government must realize," states Rowland Hsu, "that this is *not* the way to treat a loyal, productive wholesaler."

These loyal wholesalers are expected to produce 60,000 tourists every year through their own promotional efforts. That means producing advertisements, booklets, brochures, posters, and films, and it means educating the travel agents—85 percent of whom," says Thomas Wong, "don't know anything about China." It also means working closely with the Chinese themselves, trying to promote the idea of promotion.

"This will be the decade of marketing," proclaims Cord Hansen-Sturm, vice-president of First Family of Travel. As competition stiffens and the numbers decline, more must be done to promote China as a desirable tourist spot.

Operators share the conviction that "promotional efforts have to be done by the country, not principally by the tour companies." The Chinese feel that right now they're doing as much as they can. GATT in June reported that 19 hotels, with 9,600 beds, are being constructed by the state. China sees its job as developing the infrastructure, while foreigners develop the market. "Of course," says CITS's Liu Zihan, "we would be happy to help."

Many operators would be amenable to forming some type of cooperative with the Chinese to promote travel and tourism. Some have mentioned developing a joint advertising campaign with China, like the one Young and Rubicam created for Tianjin carpets, as a "mutually beneficial" move. (*See The CBR*, May–June, 1982, p. 15.)

In the near term, though, operators would settle for receiving more and better tourism information from the Chinese. Surprisingly little information is available to help operators project tourist numbers and travel trends. They may know the number of US tourists going to China every year, but have little idea about business travelers. (The State Statistical Bureau counted 130,000 US travelers of all categories for 1981, but industry experts think that figure—if accurate—must refer to the number of trips rather than individual travelers.) CITS provides scant information about the dozens of areas being cited as tourist spots. Tourism projections, say wholesalers, reveal little more than China's fondest desires.

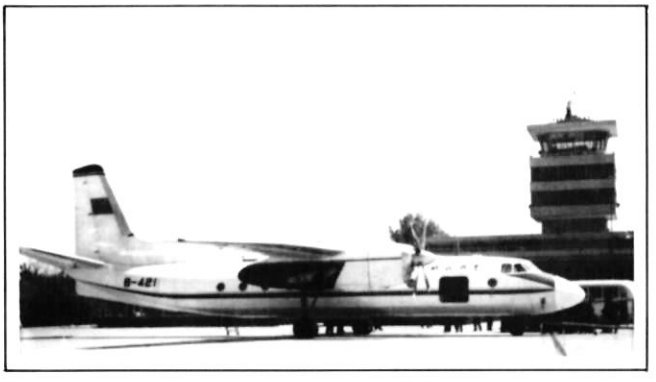
Travel into this giant realm may be limited for the next year or two. But China's tourism potential is vast. Japan last year received more than 350,000 American travelers, according to the Japan National Tourist Bureau. Well over 375,000 US tourists visited the tiny colony of Hong Kong in 1981. Of them, says one operator, nearly one in every three goes back.

A much smaller fraction of the American public has visited the mainland, and most of those tourists have gone only once. If China were to lower its prices and continue to polish its image, say operators, tourism might resume the incredible growth it enjoyed for the first few years of normalization. Remarks Thomas Wong, "You could go to China three or four times and still not see enough."

The Yun-7
China's Newest Passenger Airplane

Shu Yao
China Features Correspondent

China's new two-engine turboprop passenger airplane, the first civilian aircraft to be mass-produced in China, uses no foreign equipment, electronic components, or licenses. Produced at the Xi'an Aircraft Company in Shaanxi Province, the plane is designed to carry between 48 and 52 passengers and 4.7 tons of freight. It has a range of 1,900 kilometers (1,181 miles) and an average cruising speed of 518 kilometers (322 miles) per hour.



The nine test models produced so far have met all international technical standards required for certification. In July the Ministry of Aviation Industry approved commercial production. According to a ministry official, the plan employs "early 1970s" technology, and can land on short, earthen runways. The plane will phase out older aircraft currently used on China's domestic routes (*see below*). Though design work on the plane began as early as 1966, it stopped during the Cultural Revolution and only resumed in 1978.

CHINA'S AIRCRAFT

E. Sabina Brady

Aircraft	Number acquired, produced, or ordered	Date delivered or ordered	Passenger capacity	Gross wt. *Cargo wt.* (lbs.)	Max. speed *Cruising speed* (mph)	Range (miles)	Engine no., type *Max. power*	Comments
An-2	5,000 +	1955-65	13	12,127 *2,750*	159 *124*	560-1,087	1xASh-62IR *1,000 hp*	China has patent to produce USSR model; over 5,000 produced since 1957 for civil and military use. 300 + in civilian use.
An-5	—	1970s	—	—	—	—	—	Adaptation of Soviet Mig-19; some An-5s exported to Pakistan
An-12	—	—	—	—	—	—	—	Soviet model cargo transport
An-24	25 +	1960s-70s	32-44	46,300	335 *280*	400-1,400	2xAI-24A 2,550 shaft hp	Soviet turboprop resembles Fairchild F-27; 8 delivered between 1965-72
Aero 45	2-3	—	5-7	3,000 *1,310*	*152*	930	2 propeller	Czech transport (Yungari No. 1) produced in China
Alouette III	15	1967	*7*	4,190 *2,330*	112	500	1 3-blade main rotor with single turbo jet	Helicopter
B-5 "Hong-5"	400	1950s	—	—	—	—	—	Light bomber copy of Soviet Ilyushin Il-28; produced in Harbin since 1950s
B-6 "Hong-6"	80 +	late 1960s	—	—	—	—	—	Bomber produced in Shenyang; copy of Soviet Tu-16
BT-6	2,000	1961	—	—	—	—	—	Modelled after Soviet Yak-18; exported to Bangladesh, N. Korea, Zambia; production begun 1961

Beijing No. 1	50	1958-60	8-10	6,600	186 *170*	668	2xAl-14R, 260 hp	Adaptation of Soviet Yak-16
Bell 212	11	*2/79*	14	—	—	290	Pratt & Whitney turboprop PT-6	Purchased from US; Additional 2 on lease from Japan for 1 year beginning Aug., 1981.
Boeing 747SP	5	3 in 1980, 2 in 1982/83	291	630,000 *85,980*	691 *679*	8,637	4xJT-9D	Deliveries of first 3 made in March-September 1980; preliminary accord for purchase of 1 and agreement in principle to buy another reported October, 1982.
Boeing 707-320	10	1972	160	322,000 *51,482*	599 *550*	5,528	Pratt & Whitney JT3D 4 engines	China purchased 40 spare engines
Boeing 737	5	1982/83	—	—	—	—	—	CAAC and Boeing reportedly signed preliminary accord, October, 1982.
Capital No. 1	10-15	1960s	5-10	4,210 *1,320*	*115*	500	2xM11FR radial, 160 hp	Adaptation of Soviet An-14; no serial production
Chujiao-6	2,000 +	1961	—	2,415 *430*	*178*	640	Housai 285 hp piston	Resembles Soviet Yak-18A; exported to N.Korea, Vietnam, Zambia
Citation II	3	1/82-4/82	—	—	—	—	—	Purchased from Cessna under $1 million "best efforts" buy-back agreement
DC-9	*2*	1982/83	—	—	—	—	—	China reportedly has reached initial agreement to purchase 2 DC-9s from McDonnell-Douglas.
Dauphin 365N	50	1981-85	—	8,470 *3,982*	190 *161*	547	Arriel engines	Aerospatiale helicopter coproduction in Harbin and Zhushou
F-5 "Jian-5"	2,000 +	—	—	—	—	—	—	Copy of Soviet Mig-17
F-6 "Jian-6"	3,000 +	early 1960s	—	19,180 *6,480*	*590* (Est.)	863- 1,366	2xRD-9 Klimov turbojets	Unlicensed copy of Soviet Mig-19; exported to Albania, Bangladesh, Egypt, Kampuchea, Pakistan, Tanzania, Zambia; produced in Shenyang
F-7 "Jian-7"	80	—	—	—	Mach 2.05	—	—	Unlicensed copy of Soviet Mig-21; production suspended mid-1970s; exported to Egypt, Albania, Tanzania
F-8 "Jian-8"	—	1965	—	—	Mach 2.0	—	R-11 turbojet	Adaptation of Mig-21; produced in Shenyang; exported to Albania, Tanzania; production suspended mid-late 1970s
F-9 "Jian-9"	—	1970s	—	*22,050* 3,300	Mach 1.0 500 *Mach 1.56*		2xTumansky R-98 turbojets	Turbojets Chinese-made; airframe based on F-6 (Mig-19)
F-12 "Jian-12"	—	—	—	—	—	—	—	Unsuccessful adaptation of Mig-23
Feilong No. 1	—	1959 (prod.)	4	—	—	—	1xM-11FR, 160 hp	Based on Shenyang No. 1 and Yak-12
Feng Shou No. 2	5,000 +	1958 (prod.)	—	—	—	—	1xASh-621R, 1,000 hp	Second version of An-2 transport; many have been exported
H-5	300	1958-80	14	—	—	—	14-blade rotor	Copy of Soviet Mi-4 helicopter made in Shenyang under license
Heilongjiang No. 1	—	1958	3	*584*	*100*	410	1xM-11FR radial, 160 hp	Based on Soviet Yak-12
HP R7 Herald 200	*2*	1965	56	44,000	310	—	2xRR Dart, 2,020 shaft hp	UK craft that resembles Fairchild F-27
HS Trident 1E	3	1970	109	117,000	610	—	3xRR Spey RB-163-1	4 used aircraft bought from Pakistan; 1 crashed in 1971
HS Trident 2E	32	1972-77	112	145,500	612	—	3xRR Spey RB-163-25	First 9 delivered 11/72—9/74
HS Trident 3B	*2*	1974-75	152	158,500	590	—	3xRR Spey 512 + IRR RB-162 booster	—
Il-12 (Ilyushin)	5	1950s	*27*	38,000 *6,350*	*252* *202*	780- 1,240	2xASh-82 FNV, 1,850 hp	Resembles Convair 240; deliveries in 1950s
Il-14	54-58	1950s	32	36,400 *6,350*	— —	930- 1,600	2xASh-827 1,900 hp	Resembles Convair 340
Il-18	14-19	1960s	84-110	134,600 *30,865*	425 *388-404*	2,920	4xAI-20K 4,000 shaft hp	Resembles Lockheed Electra
Il-28	300 +	1950s	—	*4,000*	559	684	2xKlimov VK-1 turbojets	Produced in Harbin
Il-62	5	1971-72	186	347,100	560	—	4xNk8-4, 23,000 lb thrust	Resembles British VC-10

Li-2 (Lisunov)	28	1950s	25	26,000 *6,600*	*150*	1,200-1,500	2-propeller	Soviet version of Douglas DC-3
Mi-1	—	—	—	—	—	—	—	Helicopter
Mi-2	—	—	6-8	—	—	—	—	Helicopter
Mi-4	15	—	8-14	15,875 *2,200*	*93-99*	250-300	14-blade rotor	Helicopter
Mi-6	5	1965	70-80	70,000 *17,600*	*168*	310	5 blade rotor, 2 gas turbines	Helicopter
Mi-8	—	—	—	—	—	—	—	Helicopter
Mig-15UTI	100 +	1956 (prod.)	—	—	—	—	—	Trainer also designated as F-2; no longer in production
Mig-23	—	—	—	—	—	—	—	1 purchased from Egypt after unsuccessful attempt to copy
Messer-schmidt BO-105C	3-4	mid-1970s	5	4,600	167 *138*	357	2xAllison C-20 400 shaft hp	German helicopters purchased for oil exploration
Mirage 2000	1	1983 (Est.)	—	—	—	—	—	Contract signed 1982
Nomad STOL	15	—	15	—	—	—	—	Purchased from Australia
Red Flag No. 1	— —	1958	6	*1,102*	111 *84*	310	1xAi-14R radial, 260 hp	Based on Soviet Yak-12; no evidence of serial production
Shenyang No. 1		1958	—	—	121	—	1xM-11FR, 160 hp	Based on Yak-12
Sungari No. 1 Super Frelon	13	1970s	27-37	28,660 *8,000*	165 *152*	584	Turbomeca Turmo IIIE, 1,515 shaft hp	Aerospatiale helicopter
TS-62	4	—	28	25,200 *6,500*	*170*	660-1,450	2-propeller	Soviet modification of Douglas DC-3
Tu-124	2	—	60	73,193 *15,452*	*497-559*	932-1,552	2 turbojet	
Twin Otter	4	1982	20	12,500 *5,113*	210 *196*	600-1,100	2xPW PT6 620 shaft hp	Purchased from Canada for geophysical surveys
Vickers Viscount 843	6	1963-64	56-74	72,500 *14,500*	380 *357*	1,760	4xRR Dart, 3,000 shaft hp	Purchased from UK
Y5	—	1975	—	—	—	—	—	Patented version of Soviet An-2; exports desired; production begun in 1975
Y-6	—	—	—	—	—	—	—	Copy of H-14
Y-7 "Yun-7"	9 test models	1980-81	48-52	46,300 *10,360*	322	1,181	Chinese design	Possibly copy of An-24, which possibly is copy of Fairchild F-27
Y-8	—	—	—	—	—	—	4 engine, piston	Copy of An-12; exports desired
Y-10	2	1980	—	—	—	—	Pratt & Whitney JT-30 engines	Resembles Boeing 707
Y-11	—	—	6-8	7,715 *1,981*	136.7 *102.5*		2xHousai-6, 285 hp	Chinese design similar to Australian Nomad, produced in Harbin; exports desired; piston engines to be replaced with turboprops
Yak-12	—	—	3	—	—	—	—	Prototype of 3-seater Heilongjiang No. 1
Yak-18A	—	1954 (prod.)	2	—	—	—	—	Soviet trainer; Chinese version Chujiao-5
Yenan No. 1	—	1958	—	—	118	—	1xAI-14R radial, 260 hp	Designed by Xi'an Aircraft Factory
Yungari No. 1	—	1958	5-7	*1,310*	—	—	Twin engines	Based on Czech Super Aero 45; produced in Harbin
Zhi-5	—	1958 (prod.)	—	15,000	—	—	Single piston engine	Patented copy of Mi-4 helicopter; production stopped in 1982; civilian version called Whirlwind
Zhi-6	—	—	—	24,000	—	—	2 turboshaft engines	Copy of Mi-8

SOURCES: *Aeronautics in China*, American Institute of Aeronautics and Astronautics, New York, October, 1981; *China's Approach to Technology Acquisition: Part I The Aircraft Industry*, The Rand Corporation, Washington, D.C., January, 1975; *Civil Aviation in Communist China Since 1949*, The Rand Corporation, Santa Monica, CA., December, 1968; *Jane's All The World's Aircraft Supplement, 1979*, (Air Force Magazine, June, 1979); *The Chinese War Machine*, Salamander Books, Ltd., London, 1979; *The Aeronautical Establishment in the People's Republic of China*, US Department of Commerce, Washington, D.C., February, 1980; and National Council files.

书刊介绍

Chinese Commercial Negotiating Style, by Lucian Pye. Cambridge, MA: Oelgeschlager, Gunn & Hain, 1982. 109 pp. $6.95 paperback, $17.50 hardcover.

This slim volume is essential reading for all China traders. Based on interviews with Americans in the China trade, Pye analyzes the style of Chinese negotiators and illuminates the attitudes and tactics that come into play during the negotiating process. The likely responses of American negotiators are examined, and their experiences are compared with those of Japanese businessmen. The great value of this book is that it analyzes, and not merely describes, the Sino–American commercial negotiation process. It suggests some valuable negotiating principles.

U.S.-China Trade Negotiations, by Rosalie L. Tung. Elmsford, NY: Pergamon Press, Inc., 1982. 283 pp. $32.50.

Tung's book emphasizes not styles of negotiations, though these are mentioned, but negotiations in the broader context of business strategies in approaching and developing the China market. Introductory chapters provide an overview of US-China trade (which unfortunately includes organizational information outdated by China's recent reorganization). The core of the book, however, is a chapter reporting questionnaire findings and six case studies. The central chapter specifically addresses the mechanics of negotiations, how to prepare for negotiations, factors that contribute to success or failure, and how companies organize for the China trade. The information in this chapter was compiled from 138 useable responses to a questionnaire sent to all members of the National Council for US-China Trade in 1979. Six in-depth case studies report the experiences of one government agency and five corporations in developing their China relationships. A final third of the book is devoted to appendices with a broad range of contents: laws, speeches, and information on various Chinese organizations.

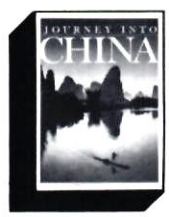
Commercial, Business and Trade Laws: The People's Republic of China, edited by Owen D. Nee, Jr., Franklin D. Chu, and Michael J. Moser. Dobbs Ferry, NY: Oceana Publications, Inc., 1982. Binder I in 16 booklets, issued July, 1982. $125 basic subscription price; supplements will be sent with additional charges; discounts available to subscribers to some other Oceana services.

This compilation of commercial law texts with explanatory introductions is an excellent reference resource. Planned as a comprehensive looseleaf service, forthcoming Binders II and III will include principal bilateral agreements affecting trade; Binder IV will deal with issues in trade and investment and include forms and sample contracts. Updates to the materials will be sent to subscribers; separate charges will be made for the supplements.

The currently available compilation of booklets contains introductory materials, constitutional law, the structure of government and the judicial system, contract law, foreign trade regulation, registered offices, foreign investment, foreign exchange control, taxation and accounting, special economic zones, arbitration, and industrial property. Materials on transportation, labor law, environmental law, and other regulations affecting the conduct of business will be forthcoming. The booklets include the major commercial laws adopted between late 1978 and April 1982 as well as older laws and less-known regulations that affect commercial relations. Not all laws affecting foreign businesses are included, since, as the introduction notes, there exists a category of "internal" regulations that are not made available to foreign business executives. In this publication, the translations of the official Chinese law texts were prepared under the supervision of Mrs. Amber Wong Nee, head of Coudert Bothers translation department.

China Facts & Figures Annual, Vol. 5, 1982, edited by John L. Scherer. Gulf Breeze, FL: Academic International Press (Box 1111, 32561), 1982. 346 pp. Available by standing order or as a single volume at $47 plus postage and handling $1.35 in US; $1.75 elsewhere.

A handy compendium of facts and statistics gleaned from other publications, the 1982 edition of this annual publication carries data on 1980, with some coverage of 1981. The book contains a brief survey of developments in 1980 into 1981 and sections on China's government; party; military; economy; energy; 1980 provincial statistics; industry; agriculture; foreign trade and aid; transportation; culture and communications; institutions; health, education, and welfare; and special topics, such as a 1981 calendar of events, a chronology of US–China relations 1979–80, and a bibliography of key works on China. A detailed table of contents serves as the index, and Volume 5 contains the tables of contents of Volumes 1–4.



Journey into China. Washington, DC: National Geographic Society, 1982. 518 pp. $19.95, plus $3 postage and handling; deluxe edition, $29.95 plus $3.75 postage and handling.

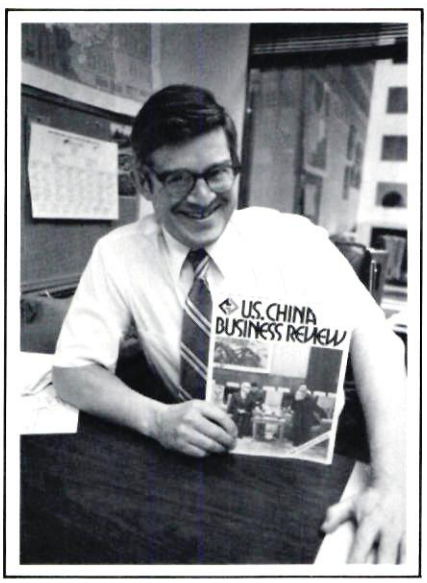
A beautiful book combining fascinating photographs with informative text, *Journey into China* is sure to please. And, it's just in time for holiday giftgiving. Enclosed in the book is a detailed wall map of China, and on the reverse, a chart of the "Peoples of China," illustrating China's ethnic diversity.

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.*

Nicholas H. Ludlow Leaves Council to Establish Clearinghouse on Development Bank Projects

Nicholas H. Ludlow, the National Council's executive director of publications, research, and planning, left the Council November 1 to establish, with two partners, a clearinghouse for information on projects being funded by the World Bank and other development banks. The new firm, International Trade and Marketing Association (ITMA), already has developed a unique worldwide data base and has begun serving clients throughout the US.

In announcing Mr. Ludlow's resignation, Council President Christopher H. Phillips said: "With Nick's departure, we are losing not only a pioneer member of our staff but one of our most capable and dedicated staff members. He will be sorely missed by all his friends in the National Council."



1974: Volume 1, issue 1.

Ludlow was one of the first staff members to join the Council in 1973. He served as director of publications and research for the first six years of his tenure, becoming the executive director of publications, research, and planning in May, 1979. During those years he was responsible for the production of 61 publications on the China trade, including *Selling Technology to China*, the *China Business Manual* and its 1982 *Supplement*, and the recently published *China's Provinces*.

Ludlow developed an extensive market intelligence system to inform Council members about the latest business opportunities and changes in China's trade structure. He was the founder and first editor of *The China Business Review* which was established in 1974 to present in-depth reporting and analysis of the China trade. Under his direction, the Council's library grew into the most comprehensive information source in the US on China's economy, trade, and political structure.

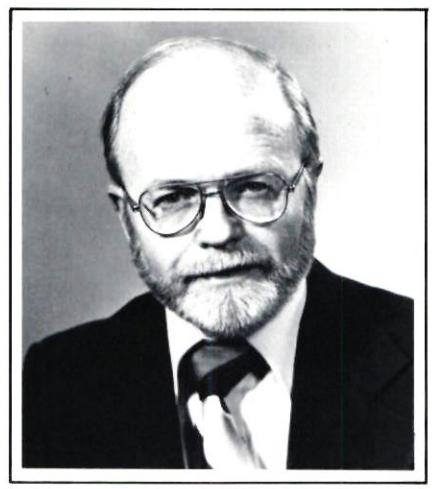
Nick Ludlow's contributions to the Council were more varied than his title indicates. He organized and escorted to China the Council's first industrial delegation in 1976 (on agricultural chemicals), and on numerous trips met senior officials from the various commissions, ministries, and provincial organizations.

In the US he escorted and helped to organize the visits of many senior Chinese officials, including the Bank of China president, minister of finance, and chairman of the CCPIT. He arranged and accompanied the first Chinese investment delegation to visit the US (April, 1982), staging five seminars in San Francisco, New York, and Washington, DC.

Ludlow has spoken widely on China trade issues and has participated in many conferences throughout the country. His two-day conference on selling technology to China was the first in the Council's line of conferences, briefings, and seminars.

Throughout his nine years at the Council, Nick Ludlow initiated, directed, and published a wide range of in-depth reference materials that today form the core of many leading companies' libraries on China. These works have contributed more than information about the trade, however. His recruitment and encouragement of talented researchers for these projects has helped launch the careers of many men and women who now direct the China operations of major US firms.

Everyone here at the National Council wishes Nick Ludlow the same success in his own venture that he helped to bring this organization.



Council Names William Clark Vice-President For China Operations

Two important staff appointments were recently announced by Council President Christopher H. Phillips. William W. Clarke, former Director of PRC Affairs at the Department of Commerce and a familiar figure in the US–China business community, has been named the National Council's Beijing Representative with the title of Vice President for China Operations. Vice President Roger W. Sullivan has become Executive Vice President of the Council.

Since May, 1982, Clarke has been Vice President of BET Trading Associates, a firm specializing in the trade of energy-related products and technology with socialist countries, and the successor firm to BWT Trading Company of Houston. In addition to his seven-year tenure in the China Division of the Department of Commerce, Clarke also served for ten years at Commerce as a Division Director in the Office of Export Control, acting many times as technical advisor to US delegations at COCOM in Paris.

The Council has worked steadily over the past year to expand its Beijing office and the services it offers in China to member firms. During the past year the office has been expanded, and now occupies a two-room suite in the Beijing Hotel. A telex machine has been added, and services available to member firms now include arranging substantive briefings, appointments with Chinese officials, and office support (including temporary secretarial assistance, message, mail, and telex receipt, and photocopying).

Clarke will join the Council's staff in Washington in mid-November and will assume his new responsibilities in Beijing on January 1, 1983.

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Librarian: MARIANNA GRAHAM
Publications: CAROL S. GOLDSMITH

Address
1050 17th St., NW, Suite 350
Washington, DC 20036 USA

Telephone Number
(202) 429–0340
Telex: 64517 NCUSCTUW
Cable: USCHINTRADWSH

BEIJING OFFICE
Representative: JEANNE T. CHIANG
Deputy Representative: ROSANNE DRUMMOND
Advisor: LI WENDA
Suite 1136, Beijing Hotel
Telephone: 552231,556531, ext. 1136
Cable: USCHINTRAD
Telex: 22637 NCPEK CN

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Commercial Officers: CLARK T. RANDT, PETER HANLEY
Science Counselor: JACK GOSNELL
17 Guanghua Lu
Jianguomenwai, Beijing
Telephone number: 52–2033

SHANGHAI CONSULATE
Consul General: DONALD M. ANDERSON
Economic/Commercial Officer: KENT WIEDEMANN
1469 Huai Hai Zhong Lu
Telephone: 379–880

GUANGZHOU CONSULATE
Consul General: JEROME C. OGDEN
Economic Officer: JAMES H. HALL
Dongfang Hotel
Telephone: 69–900

HONG KONG CONSULATE
Consul General: BURTON LEVIN
Economic Section:
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Senior Commercial Officer: J. RUSSELL TROWBRIDGE
26 Garden Rd.
Telephone: 5–239011

PRC GOVERNMENT OFFICES IN THE US

EMBASSY
Ambassador: CHAI ZEMIN
Commercial Counselor: AN DONG
2300 Connecticut Avenue, N.W.
Washington, D.C. 20008
Telephone numbers (202):
Reception: 328–2500
Commercial: 328–2520 thru 2527
Visas: 328–2517

NEW YORK CONSULATE GENERAL
Consul General: CAO GUISHENG
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Commercial Consul: SONG GUIBAO
520 12th Avenue
New York, New York 10036
Telephone numbers (212):
Commercial: 564–1139 & 2541
Visas: 279–0885 & 1127

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Consul General: WU XIAODA
Commercial Consul: WU MINXIAN
3417 Montrose Blvd.
Houston, Texas 77006
Telephone numbers (713):
Commercial: 524–4064
Visas: 524–4311

SAN FRANCISCO CONSULATE GENERAL
Consul General: HU DINGYI
Commercial Consul: GUO YIMIN
1450 Laguna Street
San Francisco, CA 94115
Telephone numbers (415):
Commercial: 563–4858
Visas: 563–4857

Jennifer Little
Research Assistant

The following tables contain recent press reports of business arrangements exclusive of those listed in previous issues. Joint ventures, licensing arrangements, and other forms of business arrangements are included if classified as such in Chinese and foreign media reports. For the most part, the accuracy of these reports is not independently confirmed by the *The CBR*.

National Council members can contact the library 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.

中外貿易

EXPORTS TO CHINA: 1982 SALES AND NEGOTIATIONS THROUGH OCTOBER 15

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agricultural Commodities	
(Cuba)	440,000 tons of raw sugar during 1982. $300 million. 8/3/82.
(Thailand)	110,000 tons of rice. $25.2 million (B580 million). 8/11/82.
(Malaysia)	6,000 tons of refined palm oil. $2.14 million (M$5 million). 8/22/82.
Hy-Line (US)	Brown egg producing parent stock. 8/30/82.
J.H. Williams and Sons Pty, Ltd. (Australia)	Legume and grass pasture seed. 9/6/82.
(Australia)	220,000 bales of wool during the 1981/1982 season. 9/19/82.
Chemicals	
(Japan)	8,300 tons of low density polyethylene, 1,000 tons of high density polyethylene, and 500 tons of propylene. 8/9/82.
Chemical Plants and Equipment	
Kanebo Ltd., Mitsui & Co., and Toko Bussan (Japan)	Are negotiating with China for the sale of Kanebo's 10-year old acrylic fiber plant at Hofu, Yamaguchi Prefecture, which will be relocated to the Shanghai area. 9/5/82.
Mitsubishi, C. Itoh & Co., and Nissho Iwai (Japan)	Will construct ethylene glycol plants at the Daqing and Nanjing petrochemical plants. 9/26/82.
Coal	
Salzgitter (W. Germany), Alsthom-Atlantique (France), Focoex (Spain), Asec (Belgium)/China South West Energy Resources United Development Corp.	Will participate in a regional coal exploitation and development project. Salzgitter will improve the Zhanjiang port facilities ($330 million); Alsthom will build a 3,000 mw power plant ($1.5 billion); Focoex will construct the mines ($2.3 billion); and Asec will handle railway development between Liupashui and Zhanjiang ($2 billion). 8/82.
Bank of Tokyo (Japan)/ China National Coal Development Corp.	The bank has signed an agreement to provide advice on coal exploration and export financing. 8/3/82.
Occidental Petroleum Corp. (US)	Has proposed that Japan take part in its planned development of the Pingshuo steam coal mine. 8/16/82.
Joy Manufacturing and Denver Equipment (US)	Have sold an indirect heat exchange dryer for the coal preparation plant at the Xiqu mine in Shanxi province. 8/25/82.
Construction Equipment	
Komatsu Ltd. and Kato Works Co. (Japan); Caterpillar Tractor Co. and Wabco Construction and Mining Group (US)	Will open centers in Beijing to supply construction machinery parts and service. 9/7/82.
Construction Materials and Planning	
Kuwait Fund for Arab Economic Development	Will aid in the construction of the Ningguo Cement Plant, Anhui. Loan of $49 million (KD14.3 million). 8/82.
Power Engineering Associates Ltd. (UK)	Compensation Trade: Has signed a letter of intent with the Hexian Marble Quarry, Guangxi, to provide quarrying equipment and machinery for a marble processing factory. ($1.8 million). Has signed memoranda of understanding for: 1) Construction of a white marble quarry in Leiyang County ($1 million). 2) Expansion of the Hunan Marble Slab Plant ($1.2 million). 3) Compensation Trade: Expansion of the Yexian Quarry, Shandong ($900,000). 8/82.
Japan Golf Promotion Inc.	Will construct a golf course in Zhujiang City, Guangdong. $7 million (¥1.82 billion). 8/17/82.
Prentice & Chan, Olhausen and Vanderweil Engineers (US)/ Chinese Academy of Agricultural Sciences	Will provide the architectural design and mechanical/electrical engineering services respectively for a national plant genetics resource center in Beijing. 9/10/82.
Consumer Goods	
S.A. Egretier (France)	A complete set of vinticulture equipment. 8/4/82.

NA = Not Available

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*.

Artois (Belgium) and Technip (France)	Artois will brew a new beer in Guangzhou; Technip will construct the plant. 8/27/82.

Electronics and Electrical Equipment

Sharp Corp. (Japan)/ China National Machinery Import and Export Corp.	3,000 kits for personal computers and 250,000 kits for desk-top electronic calculators for assembly in China. $2.3 million (¥600 million). 7/16/82.
IBM Japan Ltd. (Japan)/ Ministry of Education	6 computers for universities. $6.4 million. 7/18/82.
Hitachi Ltd. (Japan)/Ministry of Education	8 computers for universities. $6 million. 7/18/82.
Computer Services Corp. (Japan)	Will help China train computer software programmers. 7/20/82.
CSK (Japan)	Will present a medium-scale, general purpose computer to the Chinese Academy's computer technology institute. 7/20/82.
California Computer Systems (US)	Is negotiating to set up a plant in China to manufacture microcomputer peripherals (no location given). 8/82.
IBM (US)/China National Machinery and Equipment Import and Export Corp.	Have signed an agreement to exchange technical assistance on Chinese character processors. 8/2/82.
Arbat (UK)/China Electronic Import and Export Corp.	4 Digital Equipment PDP11 minicomputers for the China Aviation Administration and for the Beijing Railway Administration. $1 million. 8/19/82.
Radofin Electronics (HK)/China Merchants Steam Navigation Co.	Coproduction of computer and video games in the Shekou Special Economic Zone for export to the U.S. and Europe. 8/25/82.
Fujitsu Ltd. (Japan)/ Qinghua University, Beijing	Will cooperate in the development of software for medium-size, general use computers. 8/27/82.
Nippon Electric (Japan)	Is training computer maintenance personnel and software engineers at its software center in Beijing. 8/27/82.
IBM (US)/Bank of China	10 automated teller machines. 9/82.
EXO Corp. (US)/NA	Several System 8 computers. 9/82.
Casio Computer Co. (Japan)	Will ship 400,000 calculator kits for assembly in China. $5.8 million (¥1.5 billion). 9/1/82.
General Robotics Corp. (US)/Zhejiang Import Corp.	DEC LSI-11-based computer systems. $500,000+. 9/6/82.
Sanyo Electric (Japan)/ NA	Has signed an agreement to manufacture portable desk calculators in China. 9/19/82.
Perkin-Elmer Corp. (US)/ China National Oil and Gas Exploration and Development Corp.	Five 3220 minicomputers for oilfield production analysis. 10/82.
Power Engineering Associates Ltd. (UK)	Joint Venture: has signed a memorandum of understanding to expand the Maanshan Magnetic Materials Plant in Anhui. 8/82.

Food Processing and Processed Foods

Tokai Kogyo Co. (Japan)/ China National Cereals, Oils and Foodstuffs Import and Export Corp.	Four 4,000 ton capacity refrigerators for Hebei Province to handle the export of Tianjin chestnuts. 8/11/82.
Thaihua Trading Co. (HK)/China International Trust and Investment Corp., Hainan branch	Compensation Trade: Four packing machines for the production of black tea bags Payment will be 50 tons of tea over a three-year period. 9/13/82.

Iron Ore

Mountain States Engineers (US)	Has designed an ore and waste haulage system for an iron ore project (no location given). 6/82.

Light Industry

Power Engineering Associates Ltd. (UK)/Liuzhou Artistic Ceramics Plant	Compensation Trade: Have signed a memorandum of understanding to expand the Guanxi plant. $950,000. 8/82.

Machine Tools

UIS International (US)/ China National Aero-Technology Import and Export Corp.	The US firm has been appointed by China the exclusive distributor of the UIS Air Arrow cutting tool line. 9/20/82.

Machinery

Nova Machinery Pty Ltd. (Australia)	Four metal working machines to be used in the shipyards at Guangzhou. 5/15/82.
Mitsubishi Heavy Industries Ltd. (Japan)/China National Technical Corp.	Three boring machines to be used in constructing railway bridges on the line between Beijing and Qinhuangdao. $1.4 million (¥370 million). 8/13/82.
Jungers Verkstads A.B. (Sweden)/China National New Building Materials Corp. and Beijing New Building Materials Factory	Have contracted for the sale of rock wool thermal insulation pipe section producing equipment and technology. 8/30/82.
Modern Label and Ribbon Manufacturing Co. Ltd. (HK)/Shenyang Tools Industry Corp.	Will coproduce sticker platen presses at the Shenyang City Corporation of Tools Industry. 9/13/82.

Metals and Minerals

Mass-Global Corp. (US)/ Guangzhou Industrial Development Corp.	Have signed a contract to supply an aluminum-extruding plant and anodizing facility. The extrusion plant is to be subcontracted to Texas Hydraulic Corp. $2 million. 8/24/82.
Nippon Mining, Mitsubishi Metals, and others (Japan)	2,707 mt of copper cathode in July 1982 and 1,000 mt in October 1982. 10/4/82.

Military Equipment

Vosper Thorneycroft (UK)	Is negotiating to upgrade China's Luda-class destroyers. 7/29/82.

Petroleum and Natural Gas Products and Equipment

Christensen, Inc. (US)/ China National Oil and Gas Exploration and Development Corp.	Will establish an oilfield machinery sales and service facility at Dagang called Christensen Energy Tools. 7/19/82.
Exxon Corp. (US)	Is discussing with the Guangdong authorities the technical details of a project to pipe liquified petroleum gas to Shenzhen residents. $6.6 million. 7/29/82.
Atlantic Richfield Co. and Santa Fe International Corp. (US)/China National Offshore Oil Corp.	Have signed an agreement which calls for a seismic program, exploration, and drilling in an offshore area south of Hainan. The US companies are to assume 100% of the exploration costs; China will take a minimum share of the oil production, and the remainder will go the the US. 8/23/82.
Consolidated Catering Services—China (HK)/ China Nanhai Oil Joint Service Corp.	Joint Venture: May set up a venture to provide catering services for bases in the South China Sea. 9/3/82.
Geophysical Co. of Norway/China National Offshore Oil Corp.	Joint Venture: Have signed a 50-50 venture agreement to provide geophysical and seismic survey services to companies planning to drill off the Chinese coast. $2.5 million capital. 9/12/82.
Esso Hongkong Ltd. and Chan Ho Co. (HK)/ Shenzhen Petroleum Co. and Guangdong Trust and Investment Corp.	Joint Venture: Have opened an Esso service station in Shenzhen. 7/29/82.

Airtrust Pty Ltd. (Singapore)/China Nanhai Oil Joint Service Corp.	Joint Venture: Have signed three letters of intent in which Airtrust will provide helicopters, supply vessels, and salvage and towing services to support China's offshore oil development. 9/27/82.

Pharmaceuticals

Astra, KabiVitrium, Ferring, Ferrosan and Leo (Sweden)/China National Pharmaceutical Industry Corp.	Joint Venture: Have formed the Sino-Swed Pharmaceutical Corp. Ltd. to build a factory in Wuxi and produce pharmaceuticals for the Chinese market and for export. Total investment $12 million. 9/22/82.

Ports and Related Equipment

Marubeni Corp. and C. Itoh & Co. Ltd. (Japan)	Have signed a letter of intent for the construction of a dock in Shandong for the shipping of liquified chemicals. 8/16/82.
Yoshinaga Manufacturing Co. and Wako Koeki Co. (Japan)	Two 200-ton floating cranes for the construction of port facilities in Shijiusuo, Shandong. $3.8 million (¥1 billion). 9/20/82.

Power

Sieverts Kabelverk (Sweden)/Shenyang Cable Plant, Liaoning	Production equipment for cross-linked polyethylene power cable. $12.9 million (Rmb 25 million). 8/82.

Scientific Instruments

Tellurometer (UK)/China National Machinery Import and Export Corp.	Ten distance-measuring systems. $170,000 (£100,000). 9/82.
Finnigan Corp. (US)/China National Technical Import Corp.	15 mass spectrometer systems. $4 million. 9/22/82.

Shipping

NA (Norway)	Two 13,000-ton used containerships. 8/82.
Maruzen Showa Unyu Co. Ltd. (Japan)/China Ocean Shipping Agency	Have concluded a contract to facilitate Japan-China intermodal door-to-door transportation. 8/6/82.
Japan Van Lines/China Ocean Shipping Co. and China Ocean Shipping Agency	Have signed a contract for full-container intermodal door-to-door transportation. 8/19/82.
Ishikawajima Harima Heavy Industries Co. and Nomura Trading Co. Ltd. (Japan)/China National Technical Import Corp.	Have signed an agreement to provide three tugboats: 2 for Shijiusuo harbor and 1 for Qinhuangdao harbor. $4.31 million (¥1.1 billion). 8/23/82.
Mitsui Engineering & Shipbuilding Co., Imamura Zosensyo Co. and Kanematsu-Gosho Ltd. (Japan)/China Nanhai Oil Joint Service Corp.	Have signed letters of intent to sell a total of 8 supply boats to be used in the South China Sea. $31 million. 9/17/82.
Ishikawajima Harima Heavy Industries Co. (Japan)/China Shipbuilding Corp.	Two diesel engines for container ships and two 35-ton deck cranes. 9/21/82.
Thoresen Offshore Services Ltd. (Norway)/Guangdong Shipbuilding Industry Import and Export Corp.	Have signed a letter of intent in which Thoresen will supply the technology and equipment for the construction of 8 offshore oil service vessels. $50 million. 9/30/82.
Daihatsu Diesel Mfg. Co. (Japan)/China Shipbuilding Corp.	The Japanese firm will provide a factory in Anqing City with engine parts and technology to produce ship engines. 10/5/82.

Steel and Steel Products

Sumitomo Metal Industries, Nippon Kokan, Nippon Steel, and Kawasaki Steel (Japan)	60,000 tons of seamless steel pipes. 8/7/82.

Telecommunications

Ericsson International (Sweden)	Has concluded a contract to install 7,500 lines for a computerized digital telephone system called AXE10. $8.6 million + (£5 million +). 6/2/82.
Nippon Electric Co. (Japan)/Ministry of Posts and Telecommunications	Electronic switchboards for international telex transmissions. $763,000 (¥200 million). 8/18/82.
Essex Group Inc. (US)	Has signed a technology transfer agreement to make telephone cables in Chengdu. 8/28/82.
Hitachi Ltd. (Japan)	Has signed a contract for the sale of the digital PBX system. 9/1/82.
Cable & Wireless (UK)/Guangdong Posts and Telecommunications Administrative Bureau and China Nanhai Oil Joint Service Corp.	Joint Venture: Will provide telecommunications service between offshore oil rigs in the South China Sea and their onshore headquarters. $17.2 million (£10 million). 9/7/82.

Textile Plants and Equipment

Power Engineering Associates Ltd. (UK)/Huzhou Silk Printing and Dyeing Plant, Zhejiang	Coproduction: Have a memorandum of understanding to expand the plant. $9.8 million. 8/82.

Textile Products

Itoman & Co. (Japan)/Qingdao Joint Textile Import and Export Co. and Qingdao No. 1 Knitwear Mill	Compensation Trade: Have extended their 6/79 agreement to produce knitted underwear. 9/27/82.

Tourism

Hua Biao Real Estate Corp. (HK)/Shenzhen Special Economic Zone Development Corp. and Shenzhen Travel Service	Will construct a recreation center which will include a hotel, race track, and several gondalas. $30.8 million (HK$200 million). 8/11/82.
Overseas Chinese Travel and Recreation Corp. (HK)	Will build a holiday camp and tourist center at Dapenwan in Shenzhen. $15.4 million (HK$100 million). 8/11/82.
American Express and First Family of Travel (US)/China General Administration for Travel and Tourism	Under a memorandum of understanding the US companies will become the first foreign tour operators to do business in China, assisting American travelers. 8/22/82.
Dusitani Hotel Group (Thailand)/Shenzhen Special Economic Zone Development Corp.	Will construct a resort hotel, golf course, and other recreational facilities. $30 million. 9/16/82.
NA (Canada)	Joint Venture: Is building a hotel in cooperation with the Beijing municipal tourism service. 9/26/82.

Transportation

World Jet Aircraft (US)/General Administration of Civil Aviation of China	Two CFM56-2s for use in a prototype re-engining of a British Trident aircraft. 7/82.
International Civil Aviation Organization/General Administration of Civil Aviation	Will provide technical assistance and help train maintenance engineers and air traffic engineers. $1.8 million. 7/24/82.
Mercedes-Benz (W. Germany)/China National Import and Export Corp.	Will open a service center in Beijing. 7/25/82.

Fruehauf Corp. (US)	Licensing: Will manufacture its truck-trailers and container chassis at an auto assembly plant in Guangzhou. 7/29/82.
Volkswagenwerk AG (W. Germany)/Shanghai Motor Vehicle Plant	The Shanghai plant will assemble 100 "Santana" cars. 8/23/82.
Nissan Diesel Motor Co. (Japan)/China National Machinery Import and Export Corp.	Will sign an agreement to open a depot for truck parts and service located outside Beijing. 8/26/82.
RJS Corp. (US)/Shanghai Foreign Trade Corp.	An RJS-Model 70 tire plunger test machine. 8/30/82.
Mitsubishi Motors Corp. (Japan)	Will open a technical service center in the suburbs of Beijing for truck and bus maintenance and parts supply. 9/3/82.
Pacific Lease Hongkong Ltd. (Japan)/Bank of China, Shanghai branch, Shanghai Investment and Trust Corp. and Shanghai Friendship Taxi Service.	Leasing: 95 Datsun sedans and 5 Nissan minibuses. 9/6/82.

Miscellaneous

Shoko Chukin Bank (Japan)/China Trust and Investment Corp., Liaoning	Have signed an agreement to promote joint ventures, exchange information and staff, and promote capital procurement. 7/30/82.
TDI International (Australia)	Has won the advertising rights in China for major airports, railway stations and sea ports by offering to build duty-free shops at the ports in exchange for an exclusive 10-year contract. 8/6/82.
United Nations Children's Fund	Will provide China with funds for child development care and research. $20 million. 8/12/82.
Washington State (US)/Sichuan Province	Have signed a friendship agreement designed to foster technological assistance. 8/16/82.
Springer Verlag (W. Germany)/Shanghai Science and Technology Publishing House	Have cooperated in the publication of two medical books. 8/22/82.
Bill Burrud Products (US)	Has sold 30 episodes of "Animal World" and the documentary "Vanishing Africa". 8/24/82.

中外贸易

CHINA'S EXPORTS: 1982 SALES AND NEGOTIATIONS THROUGH OCTOBER 15

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agricultural Equipment	
Pakistan Engineering Co./China Agricultural Machinery Corp.	The Pakistani company will produce the Chinese-style diesel engines for farm use. 8/15/82.
(Thailand)	380 Sichuan-produced Emei-7 walking tractors. 9/5/82.
Construction	
Air-Consult (W. Germany)/China Airport Engineering Consultants	The Chinese subsidiary of CAAC is part of the West German-led consortium which has been awarded the contract to conduct a feasibility study for an international airport at Macao. 8/82.
Edok S.A.-Eter S.A. Contractors (Greece)/China Civil Engineering Construction Corp.	Have signed a five-year agreement to provide Chinese construction labor for the Greek firm's projects. 8/12/82.
Asahi Co. (Japan)/China National Metal and Minerals Import and Export Corp.	Joint Venture: Have formed a firm in Tokyo to import and market Chinese granite and marble. 9/7/82.
Electronics and Electrical Equipment	
American Underwriters' Laboratories (US)/China National Import and Export Commodities Inspection Corp.	Have agreed that Chinese electrical appliances will be inspected on behalf of the US organization. 8/82.
Lawrence Crow Electronics, Inc. (US)/China Electronics Import and Export Corp.	The US firm has signed an agreement to become the sole sales agent of Chinese electronics products exported to the US. 9/15/82.
AMF Inc. (US)/China National Machinery Import and Export Corp., Electronics Components Industrial Corp., Shanghai Radio Factory	Have signed an agreement in which the Shanghai plant will produce electrical relay circuits. 9/23/82.
Foreign Aid	
(Liberia)	China will finance the revitalization of the Barreke sugar refinery. Loan of $30 million. It will also present 20 military jeeps, 2 limousines, and 4 buses. 6-7/82.
(Mauritius)	Has signed a protocol with China for an interest free loan for the construction of an airport at Plaine-des-Roches. $15.9 million (MR175 million). 8/22/82.
(Libya)/Ministry of Public Health	The Chinese will dispatch a medical team to serve in Libya. 8/29/82.
(Guinea Bissau)	China will build a center for disseminating rice-growing techniques. 9/82.
Machinery	
Thorsen Tool Co. (US)/China National Machinery and Equipment Import and Export Corp.	Are negotiating the purchase of flat wrench hand tools. $1 million for first year. 8/82.
Park Corp. (US)	Will auction European-made machine tools which Park acquired from China. $21 million. 8/16/82.
NA/Shanghai People's Motor Plant	Submersible pumps. 8/18/82
(Philippines)/Beijing Iron and Steel Design Institute and Taiyuan Mining Machinery Plant	A high-speed finishing mill for rolling steel rods. 8/22/82.
Metals and Minerals	
Mitsubishi Corp. and Awamura Mining Co. Ltd. (Japan)/China National Metallurgical Import and Export Corp., Jiangxi branch.	1,200 tons of tungsten fines. 8/16/82.
Tanzania State Mining Corp.	Has signed an agreement with China to design the Tanzanian Kiwira coal mine, to include an access road, bridge, and power plant. 8/28/82.
(Japan)	Has signed an agreement in which China will export 4.5 million tons of coal in 1983, 6 million tons in 1984, and 7-8 million tons in 1985. 9/23/82.

Military Equipment

Pakistan Air Force	China is supplying 42 A-5 Fantan-A ground attack fighter aircraft. 5/82.
(N. Korea)	40 Chinese-made MIG-21 jet fighters. 10/13/82.

Petroleum

Wickland Oil Co. (US)	A tankerload of gasoline. 8/12/82.
(Singapore)	1.5 billion barrels of crude oil during the first quarter of 1982. $48 million +. 9/19/82.
(Japan)	Has signed an agreement to import 8-8.6 million tons of crude oil annually between 1983 and 1985. 9/23/82.

Pharmaceuticals

ICC Industries (US)	Is distributing erythromycin, an antibiotic manufactured in Nanjing. 8/17/82.
H. Reisman Corp. (US)/ China National Chemicals Import and Export Corp.	16,000 bottles of dihydrostreptomycin sulphate. 9/13/82.

Shipping

Midatlantic National Bank (US)/China Interocean Transport Inc.	The bank is financing the Chinese purchase of a warehouse/office facility in Linden, NJ. $875,000. 8/5/82.
Parley Augustsson Corp. (Norway) and Ocean Shipping and Enterprises (HK)/China State Shipbuilding Corp.	Have signed a contract for the construction in Wuhan of six tug-supply vessels. The equipment will be supplied by the Norwegian firm. $40 million. 9/27/82.

Telecommunications

(Central African Republic)	China will provide two sets of 50 kw transmitters and antennas for the Bimbo broadcasting station along with construction of the machine room and other buildings. 8/31/82.

Textiles

(Japan)	Has agreed with China to set a 23.6 million square meter trade volume of silk and satin for the period between 1/1/81 and 3/31/83. 9/6/82.

Tourism

Salen Shipping Group (Sweden)/China Ocean Shipping Co.	Has chartered the "Yaohua" passenger cruise ship for coastal and Yangzi River cruises. 9/6/82.

Trade Agreements

(Mozambique), (Bangledesh), and (Libya)	Have signed trade agreements with China during August 1982.

Transportation

Pan American World Airways (US)/China National Foreign Trade Transportation Corp. (SINOTRANS)	Have signed an agreement in which SINOTRANS will act as cargo agent for Pan Am in Beijing and Shanghai. 8/82.

Miscellaneous

Mezhounarodnaya Kniga (USSR)/China National Publications Import and Export Corp. and Guoji Shudian	Have signed agreement on the trade terms of mutual deliveries of printed matter. 9/14/82.

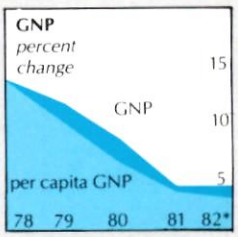
CHINA DATA

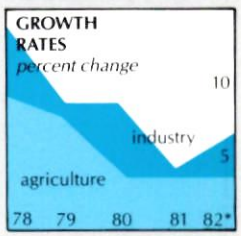
中國數據

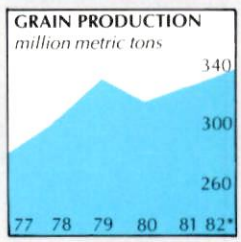
KEY INDICATORS

	1977	1978	1979	1980	1981	Percent change	1982 projection*	Percent change
GNP (billion yuan, current prices)	¥307.4	¥349.8	¥391.4	¥424.1	¥443.2	4.5	¥460.9	4.0
	$165.5	$207.8	$251.7	$283.0	$259.9	−8.2	$249.1	−4.2
Population (year end, million)	945.2	958.1	970.9	982.6	994.0	1.2	1,010.0	1.6
GNP per capita	¥325	¥365	¥403	¥432	¥446	3.2	¥456	2.2
	$175	$217	$259	$288	$262	−9.0	$247	−5.7
Total gross industrial and agricultural output value (billion yuan, 1980 prices)	¥553.1	¥616.1	¥668.6	¥716.7	¥749.0	4.5	¥784.2	4.7
	$299.0	$365.9	$430.0	$478.4	$439.3	−8.2	$423.9	−3.5
Gross value of industrial output (billion yuan, 1980 prices)	¥372.9	¥419.9	¥455.6	¥497.4	¥517.8	4.1	¥545.6	5.4
	$201.6	$249.3	$293.0	$332.0	$303.7	−8.5	$294.9	−2.9
Of which: Heavy industry	—	¥240.1	¥258.5	¥263.9	¥251.5	−4.7	¥271.6	8.0
	—	$142.6	$166.2	$176.2	$147.5	−16.3	$146.8	−0.5
Light industry	—	¥179.8	¥197.1	¥233.4	¥266.3	14.1	¥274.0	2.9
	—	$106.8	$126.8	$155.8	$156.2	0.3	$148.1	−5.2
Gross value of agricultural output (billion yuan, 1980 prices)	¥180.2	¥196.2	¥213.0	¥218.7	¥231.2	5.7	¥238.6	3.2
	$97.4	$116.5	$137.0	$146.0	$135.6	−7.1	$129.0	−4.9
Grain production (million metric tons)	282.8	304.8	332.1	320.5	325.0	1.4	335.0	3.1

*1982 first half results times two. Grain projection by State Statistical Bureau.







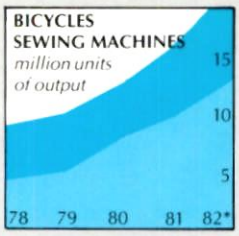
*Projected or planned

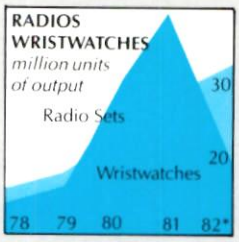
CONSUMER GOODS OUTPUT

(Million units unless otherwise indicated)

	1978	1979	Percent change	1980	Percent change	1981	Percent change	1982 projection*
Bicycles	8.54	10.09	18.1	13.02	29.0	17.54	34.7	23.1
Sewing machines	4.86	5.87	20.8	7.68	30.8	10.39	35.3	12.6
Wristwatches	13.51	17.07	26.4	22.16	29.8	28.72	29.6	32.0
TV sets	0.52	1.33	157.1	2.49	87.5	5.39	120.0	5.5
Radio sets	11.68	13.81	18.2	30.04	117.5	40.57	35.1	18.1
Cameras (thousand units)	178.95	238.0	33.0	373.0	56.7	623.0	67.0	867.8
Light bulbs	760.3	850.0	11.8	950.0	11.8	970.0	2.1	1,053.3
Cotton cloth (billion square meters)	10.286	11.43	11.1	12.80	12.0	13.4	5.0	15.1
Woolen piece goods (million meters)	88.84	90.17	1.5	101.0	12.2	113.0	11.9	123.3
Silk textiles (million meters)	610.35	663.45	8.7	759.0	14.5	835.0	10.0	910.7

*January–September production figures times 1.333.



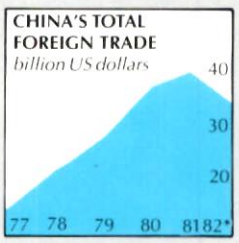


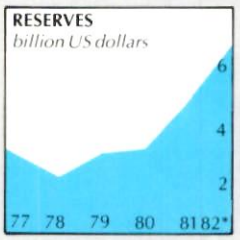
CHINA'S FOREIGN TRADE

(Billion yuan/dollars)

	1977	1978	1979	1980	Percent change	1981	Percent change	1982 projection
Exports (fob)	¥14.0 $7.5	¥16.8 $10.0	¥21.2 $13.6	¥27.2 $18.2	28.3 33.5	¥36.8 $21.6	35.5 18.5	¥39.6* $20.0*
Imports (cif)	¥13.3 $7.2	¥18.8 $11.7	¥24.3 $15.6	¥29.1 $19.4	19.8 24.1	¥36.8 $21.6	23.1 11.2	¥33.8* $17.1*
Total Trade (fob/cif)	¥27.3 $14.7	¥35.5 $21.1	¥45.5 $29.3	¥56.3 $37.6	23.7 28.5	¥73.5 $43.1	29.0 14.7	¥73.4* $37.1*
Total reserves (period end)	$2.89	$2.14	$2.74	$2.83	3.3	$5.29	86.9	$6.82
Of which: Foreign exchange	$2.35	$1.56	$2.15	$2.26	18.2	$4.77	111.0	$6.32**
Gold***	$0.54	$0.58	$0.59	$0.57	−3.2	$0.52	−9.6	$0.50**
(Gold reserves in million fine troy oz.)	12.8	12.8	12.8	12.8	0.0	12.7	−0.8	12.62**

*1982 first half trade results times two.
**May, 1982
***Valued at SDR35 per fine troy ounce and converted into US dollars at end-of-period dollar/SDR exchange rate.



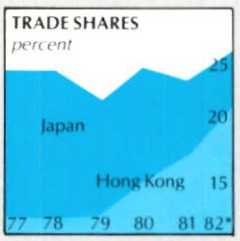


FOREIGN TRADE WITH SELECTED COUNTRIES

(Million US dollars)

	1977	1978	1979	1980	Percent change	1981	Percent change	1982 projection*
Japan								
Exports (fob)	1,955	3,074	3,674	5,109	39.1	5,076	−0.6	3,600
Imports (cif)	1,560	2,045	2,933	4,346	48.2	5,283	21.6	5,400
Total	3,515	5,119	6,607	9,455	43.1	10,359	9.6	9,000
Share of China's total two-way trade	24.0	24.2	22.6	25.1	—	24.0	—	24.3
Hong Kong								
Exports (fob)	44	63	82	1,249	227.0	1,964	57.2	2,040
Imports (cif)	1,735	2,249	3,021	4,401	45.7	5,272	19.8	5,160
Total	1,779	2,312	3,403	5,650	66.0	7,236	28.1	7,200
Share of China's total two-way trade	12.1	10.9	11.6	15.1	—	16.8	—	19.4
W. Germany								
Exports (fob)	501	995	1,493	1,145	−23.3	1,017	−11.2	600
Imports (cif)	288	367	534	808	51.3	769	−4.8	720
Total	789	1,362	2,027	1,953	−3.7	1,786	−8.6	1,320
Share of China's total two-way trade	5.4	6.4	6.9	5.2	—	4.1	—	3.6
Canada								
Exports (fob)	347	442	507	742	46.4	776	4.6	960
Imports (cif)	77	83	143	132	−7.7	183	38.6	180
Total	424	525	650	874	34.5	959	9.7	1,140
Share of China's total two-way trade	2.9	2.5	2.2	2.3	—	2.2	—	3.1

*1982 first half trade results times two.
SOURCE: *Direction of Trade Statistics* (IMF), various dates.



*Projected or planned

US–CHINA TRADE
(Million US dollars)

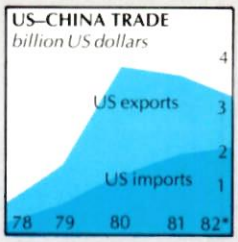
US EXPORTS (fas, schedule E)	1978	1979	1980	1981	1st half 1982/ 1st half 1981 % change	1982 projection*
Food and live animals	362.3	488.3	1,264.7	1,332.5	18.8	1,417.2
Beverages and tobacco	0.0	0.1	0.3	1.1	−82.1	0.3
Crude materials, inedible except fuels	223.9	531.8	1,183.3	1,102.9	−34.9	859.9
Mineral fuels, lubricants, and related products	1.8	0.7	1.8	3.1	754.3	6.0
Animal and vegetable oils and fats	37.8	42.0	73.4	21.8	−77.2	7.8
Chemicals	60.5	125.2	385.6	405.3	45.1	499.8
Manufactured goods by chief materials	25.3	243.9	423.6	446.9	−36.2	318.2
Machinery and transport equipment	93.0	228.7	358.4	211.8	−6.2	224.9
Misc. manufactured articles not classified elsewhere	13.7	55.2	55.8	70.7	−11.9	74.2
Items and transactions not classified	Negl.	0.6	2.1	2.5	−12.3	2.6
Statistical error	5.3	7.5	5.4	—	—	—
Total	823.6	1,724.0	3,754.4	3,598.6	−8.3	3,410.9
US IMPORTS (Customs value, schedule A)						
Food and live animals	26.0	51.4	57.3	96.3	35.0	123.5
Beverages and tobacco	0.6	0.8	1.4	2.3	239.1	4.7
Crude materials, inedible, except fuels	58.0	66.0	126.5	332.9	−69.7	140.8
Mineral fuels, lubricants, and related products	Negl.	96.4	134.7	293.5	166.2	419.8
Animal and vegetable oils and fats	3.3	3.4	2.0	0.3	63.6	0.7
Chemicals	34.2	59.8	110.4	125.5	19.7	156.3
Manufactured goods by chief materials	95.1	93.4	235.3	377.0	32.0	444.3
Machinery and transport equipment	0.5	1.1	5.7	39.6	123.4	47.0
Misc. manufactured articles not classified elsewhere	105.4	215.5	381.8	621.9	39.3	744.7
Items and transactions not classified	0.9	4.4	3.3	6.1	7.2	6.8
Statistical error	0.1	0.1	−4.8	−0.1	—	—
Total	324.1	592.3	1,053.6	1,895.3	19.7	2,088.6
Total two-way trade	1,147.7	2,316.3	4,808.0	5,493.9	0.6	5,499.5
US trade surplus	499.5	1,131.7	2,700.8	1,703.3	—	1,322.3
US two-way trade as percent of China's total trade	5.4	7.9	12.8	12.7	—	14.8

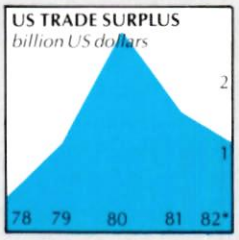
*1982 first half trade results times two.

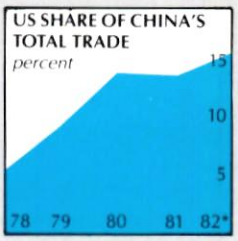
EXCHANGE RATES
(Period averages)

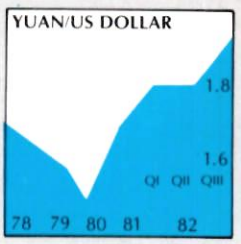
						1982			
	1977	1978	1979	1980	1981	QI	QII	QIII	Oct.
Yuan per US dollar	1.858	1.684	1.555	1.498	1.705	1.808	1.837	1.935	1.980
US cents per yuan	53.8	59.4	64.3	66.7	58.7	55.4	54.1	51.7	50.5
Japanese yen per yuan	144.5	125.0	140.9	151.3	129.3	130.5	132.5	133.4	138.0
Hong Kong dollar per yuan	3.300	3.250	3.201	3.329	3.315	3.230	3.150	3.100	3.330
Pound sterling per yuan	0.308	0.309	0.303	0.287	0.289	0.299	0.306	0.300	0.297
W. German marks per yuan	1.250	1.193	1.179	1.213	1.326	1.302	1.290	1.284	1.279

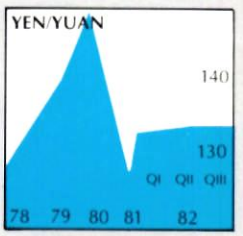
SOURCES: State Statistical Bureau, Ministry of Finance, Bank of China, General Customs Administration, *International Financial Statistics* (IMF), *Direction of Trade Statistics* (IMF), and US Commerce Department.











*Projected or planned

CUMMINS ENGINES ON STREAM

Engines designed by Cummins are starting to roll off the assembly line at Chong Qing, according to Dennis Kelley, Cummins' director of China marketing. In the first production under a 10-year licensing agreement signed in March, 1981, the Chong Qing plant has begun test manufacturing of Cummins' NH Series engines—855 cubic inch diesels with horsepower ranging from 230 to 475.

Initial production will be straight assembly using all Cummins parts, but the factory is expected to be producing 20 to 30 percent of the components within 18 months, said Kelley. Output is projected to be 400 engines in 1983, and is hoped to reach an annual rate of 2,000 engines by 1986.

The engines now being assembled are one of two series licensed under the agreement. The second series, called the K series, includes three models, a straight six cylinder, 1150 cubic-inch unit with 450 to 600 horsepower, a 2300 cubic-inch V-12 with 950 to 1200 horsepower, and a 3,067 cubic-inch V-16 with 1350 to 1600 horsepower. Technology for all components for the models will be transferred over the duration of the agreement, along with any innovations in design developed during that period. The terms for the deal are straight cash with both front-end payment and royalties. Cummins is also actively setting up a distribution center to support end-users with after-sales parts and service.

Meanwhile, Holset Engines, Ltd., Cummins' wholly owned subsidiary in Hattersfield, England, received State Council approval in August to license two models of turbo-chargers for production at the Wuxi Engine Factory near Shanghai. Under the contract with TECHIMPORT and the Agricultural Machinery Bureau under the Ministry of Agriculture, the turbo chargers will be used in 50 to 100 horsepower tractors built in China.

SUN HUNG KAI TAKES BEAR STEARNS ADVISORS

Member Company Bear Stearns China Advisors has recently become the New York Representative Office of Sun Hung Kai (China) Ltd., Hong Kong. The transfer of the New York Office (which had been a joint venture between Bear Stearns Securities and Sun Hung Kai Securities) follows the acquisition last summer by member company Merrill Lynch of 25 percent of Sun Hung Kai Securities.

The New York office recently won a $1.2 million contract for IMS minicomputers under a World Bank loan, and concluded sale of semiconductor equipment for the Beijing Electron Tube Factory. At present, the office is negotiating a container joint venture on behalf of Paceco Inc. and an oil-drilling platform joint venture for McDermott. As a representative of Sun Hung Kai, the division will continue to act primarily as a manufacturers' representative, but it will also expand into commodities trading.

SUZY CURTAINS SEWS UP CHINA DEAL

Lorraine Home Fashions of China has sewn up one of the more lucrative product development deals in China. Also known as Suzy Curtains, the New York-based importer and manufacturer brought in over $5 million in embroidered cotton-polyester curtains in 1981. In 1982, imports are projected to value $12 million.

Suzy Curtains keeps five factories and close to 20,000 workers in the Shanghai area busy embroidering curtains according to the company's specifications and designs. Most of the hand embroidery is sent out on a piece basis to Chinese homes where women embroider them in their spare time. The pieces are then assembled, finished, pressed, and packaged for export in the factories. Company President Bernard Rittenberg chose China to source his curtains because of the unique embroidery techniques and the extraordinarily high quality of the workmanship.

Conscious of the problems of protecting exclusive designs in China, ARTCHINA Shanghai Branch has assigned ownership of the curtains' "Lantern Brand" trademark to Suzy Curtains for the US market. If any other company attempts to import the curtains into the US, US Customs can seize the merchandise as a trademark violation.

CCIC READY FOR OFFSHORE OIL NEGOTIATIONS

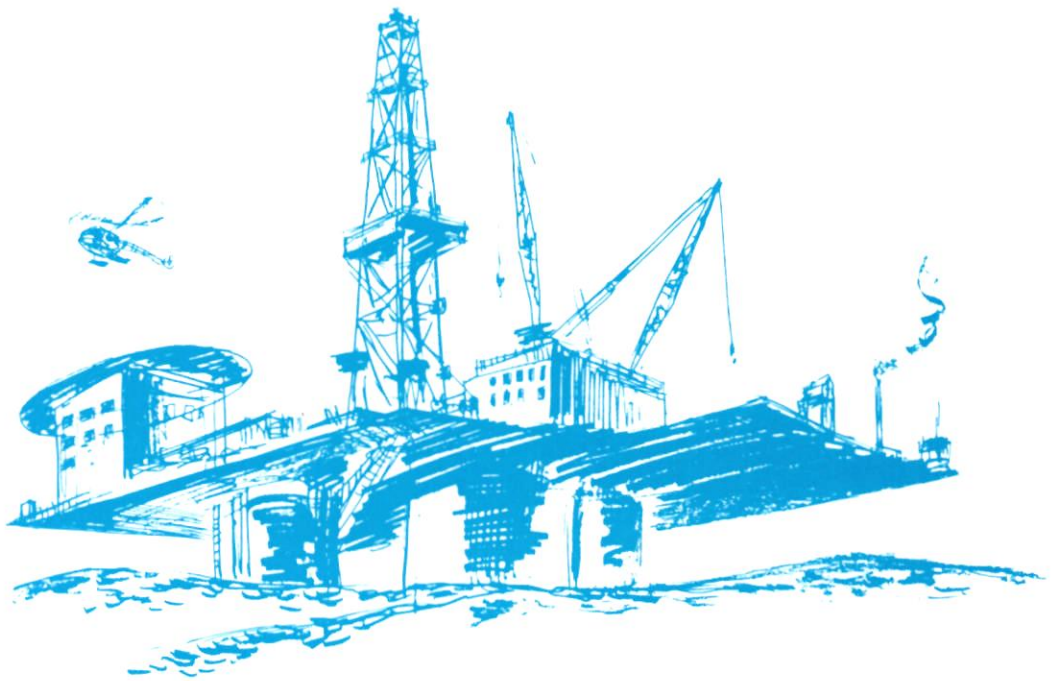
With negotiations for off-shore oil development contracts expected to begin by mid-year 1983, First National Bank of Chicago's Energy Project Finance Division is ready for "substantial work and major opportunities" according to the division's vice-president, Robert S. Bucklin. The US bank's Hong Kong affiliate, CCIC, is acting as consultant to the China National Offshore Oil Corp. (CNOOC) under a three-year agreement signed in July.

CCIC has already put the agreement into full swing, with First Chicago providing the bulk of advisory services. In August, the bank conducted a seminar which addressed such crucial topics as negotiation strategy, bid analysis, and financial analyses of western oil companies. Also at that seminar, CCIC outlined computer models based on the Chinese model contract. The models, prepared by First National, are programmed to allow financial analysis of a project under different assumptions for such variables as size of reservoir and production decline.

The US bank is now conducting feasibility studies for service bases and offshore drilling contracts. The studies include analysis of the drilling industry market, cost of rigs, and relative advantages for making, buying, or leasing the rigs. The consulting company has also begun to advise the Chinese on where to get financing.

CCIC is providing consultation to CNOOC for a flat annual fee. First Chicago holds a 30 percent share in the Hong Kong joint venture. Bank of Japan and Bank of China each hold 30 percent, as well. China Resources Co., Hong Kong, holds the remaining 10 percent. ₹

What's China Consultants International doing about offshore oil in the South China Sea?



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