
The China Business Review
November–December 1988
Diversifying China's Diet

The China Business Review

The magazine of the US–China Business Council

November–December 1988   Volume 15, Number 6

Cover: China's increasingly sophisticated consumers are demanding—and getting—a greater variety of food products. *Photo of Head Chef Guoming of Fangshan Restaurant in Beijing by Dennis E. Cox.*

Xiamen: Total foreign investment in Xiamen has passed the $1 billion mark. **Page 15.**

China's managers: Education levels of China's managers are rising, but not fast enough to meet all enterprise needs. **Page 36.**

Departments

BRAIN DRAIN AND BRAIN GAIN

Ten years ago the first wave of Chinese students and scholars arrived in the United States to undergo training crucial for China's economic development and modernization. Some of them have remained in America, but most have gone home armed with new skills—which China must learn to utilize and appreciate.

According to the State Department, about 40 percent of the Chinese students in the United States are privately funded, often by foreign relatives, and receive F-1 visas. The others are at least partially sponsored by the Chinese government or by their work units and receive J-1 visas. A new study by the Committee on Scholarly Communications with the People's Republic of China (CSCPRC) reports that in the past decade, US funding for J-1 visa holders had climbed significantly, primarily because Chinese students are seen as a valuable resource with which to supplement serious shortages of American students in certain graduate sciences.

The CSCPRC report estimates that around 8,000 Chinese students have stayed in the United States both legally and illegally after completing their courses of study. The most significant factors contributing to their decision to stay seems to be fear that their skills will not be fully utilized in China, and that they will not be able to maintain an adequate standard of living there.

Chinese authorities have recently taken measures to confront these fears. For example, responsibility for selecting most foreign study candidates has been shifted from the State Education Commission to the work units, which should result in students pursuing studies overseas that relate directly to their unit's needs. Many work units are also using contracts that stipulate the responsibilities of both student and unit. Government officials have also pledged to try and improve job placement and living standards of intellectuals, many of whom believe that China's growing prosperity has passed them by.

Whether or not these measures can be implemented effectively enough to ensure the timely return of Chinese students abroad remains to be seen, but the "brain drain"problem should not be overemphasized. It is inevitable that some students will not come home, but China can make the most of its human resources by spotlighting those who do return, not those who don't. —PB

PAWNING OFF LOAN SERVICES

The average Chinese traveler may not leave home with an American Express card, but he can now find emergency funds elsewhere. Since December 1987, pawnshops have served as a source of instant cash for a variety of needs. Ding Dehua, for example, was traveling in Xiamen when he lost all of his money. At the Wenan Pawnshop, he pawned his driver's license for the 30-odd dollars he needed for a train ticket home to Beijing. And a Wenzhou woman pawned her home property deeds in return for instant cash to buy a plane ticket to visit overseas relatives when a wire transfer didn't arrive on time.

Pawnshops have been permitted to reemerge not only to provide quick cash to travelers in desperate straits. While in 1952 pawnshops were banned in China in an effort to eradicate usury, exploitation, and other capitalist tendencies, they are described today as natural extensions of emerging commodity markets and welcome experiments in economic reform—for the simple reason that they fulfill a financial need.

Chinese banks have strict lending guidelines that eliminate virtually all but State-owned enterprises from the list of eligible loan recipients, and the growing numbers of private businesses find it extremely difficult to get capital. By supplying credit to these customers, pawnshops fill a gap in the financial services network.

At the Wenan pawnshop in Xiamen 90 percent of all transactions are conducted with manufacturing enterprises and small businesses, and most of the roughly two dozen shops scattered from Heilongjiang to Guangxi provinces have similar lending patterns. For instance, a businessman in Chengdu pawned his car for over $3,000 to start up a new venture; a Wenzhou engineering company exchanged the deed to its building for a $32,500 loan to buy stainless steel plate; and a self-employed businessman in Chengdu pawned his color television for $250 to buy goods from Guangzhou.

While most Chinese banks charge an annual interest rate of 6 percent, pawnshops charge *monthly* interest rates ranging from 2 to 8 percent, with .5 to 3 percent added for storage and handling. The shops accept a variety of items, including refrigerators and televisions, industrial equipment, gold and silver, and antiques. The value of the items must exceed $27, and pledgers receive a loan for 50 to 80 percent of the value of the item. Any item that is not redeemed by the deadline—one to six months depending on value—is auctioned off or sold to the State.

Chengdu's Zhao Keqiang, China's pioneer pawnshop owner, pointed out that pawnshop rates are much lower than those available from private money lenders. And some of China's banks have found pawnshop rates irresistible. In May, a consortium of seven banks formed a joint venture pawnshop in Fuzhou, and the example was quickly followed by two urban credit cooperatives. It seems that simply meeting its own demands is causing China's banking sector to diversify in spite of itself.

—AED

GREEN FORTRESS UNDER SEIGE

The Daxing'anling forest fire in Heilongjiang Province in May 1987 served as a dramatic signal to the outside world that China's "green fortress"—the Chinese term for the country's forests—is under seige. The demands of a growing industrial base have led to official overcutting and to a massive black market in timber fueled by illegal felling. Timber reserves all over China are shrinking dramatically. Nearly 400 million cubic meters of roundwood are harvested every year, but natural growth replaces only 300 million cubic meters. Officials in Heilongjiang, the top timber-producing area, predict that if cutting continues at the present pace, there will be no mature trees left in the province within five years.

As a result of the timber shortage, harvesting permits are required for any tree felled. But the unceasing demand for wood has encouraged tree poachers, who sell illegally logged trees on the black market. In Jiangxi Province, for example, more than 230,000 trees were illegally felled in the first six months of 1988, leading to the arrest of 134 people and the fining of 580. In August officials in Sichuan Province were warned to stop assisting tree thieves, who had perpetrated over 3,000 cases of illegal felling since January.

This led the Ministry of Forestry (MFOR) and the Ministry of Public Security to announce in August that immediate action would be taken against people involved in the illegal felling of trees. However, the MFOR needs greater resources and the cooperation of local officials to effectively put a stop to the plundering.

The State Planning Commission and the MFOR also announced in August official restrictions on wood use in seven industrial subsectors. Industrial consumers are encouraged to instead use iron, steel, plastics, or other combustible fuels, and the Ministry of Finance will reportedly offer tax breaks to those who find effective substitutes.

Chinese planners predict that annual timber imports could run as high as 39 million cubic meters by 2000, which would cost nearly $4 billion at today's market prices. The long-term environmental costs may also run high, for in addition to providing fuel and supporting industrial development, China's forests are also the front line of defense against farmland erosion. So far, however, the tree shelters established along desert perimeters and riverbanks have been unable to prevent an annual soil loss estimated at 4.3 billion tonnes. While importing timber can partially meet industrial needs, China's green fortress needs heavy reinforcements to fulfill its role as defender of the soil. —AED

I'LL TAKE TWO CHEFS TO GO

As Western food makes inroads into Chinese mouths (*see* p. 28), new varieties of Chinese food are becoming available abroad. Many of China's culinary experts are venturing overseas to tantalize foreign palates with samples of regional specialties—and earning rave reviews.

Cantonese food—including lightly seasoned chow mein, egg rolls, and fried rice—is what most Westerners consider typically Chinese. The chefs that China is sending abroad today are purveying more sophisticated fare—the complex spiciness of Sichuan, the well-seasoned seafood of Shandong, and classic banquet specialties from Beijing.

The first chefs arrived in the United States in 1985, when a New Jersey restaurateur imported 10 chefs from her husband's home province of Sichuan to impart some fiery flavor into her standard fare. The woman's sister, a rival restaurant owner, quickly imported six Beijing chefs to prepare such traditional dishes as dragon's beard noodles and authentic Peking duck. And Boston's Legal Sea Foods restaurants brought over two Shandong specialists for an eight-week tour last February whose dishes proved so popular that they stayed on the menu when the chefs returned home.

Sichuan food is particularly popular overseas, according to Chen Kehao, general manager of the China Sichuan Corporation for International Techno-Economic Cooperation in Chengdu. His company supplies Sichuan chefs to restaurants in over 20 countries from Ireland to Peru. Demand, he says, is increasing all the time.

Tianjin officials, who have sent over 160 chefs abroad on culinary tours, say they are most welcome in Japan, where they successfully combine local foods with Tianjin flavors. The Shandong chefs at Legal Sea Foods were similarly inventive, incorporating unfamiliar salmon and spiny lobster into mouth-watering dishes. Still authentic?

Does it matter? —SER

MAGAZINE STAFF

Sharon E. Ruwart
editor

Pam Baldinger
Ann Elizabeth Dean
associate editors

Priscilla Totten
production manager

Jennifer Little
book editor

The China Business Review welcomes articles from outside contributors. Manuscripts submitted for consideration should be typed, double-spaced, and normally may not exceed 5,000 words. They should be sent to the editor, *The China Business Review*, Suite 500, 1818 N St., NW, Washington, DC 20036-5559, USA (telephone 202-429-0340). The US-China Business Council retains all rights to articles and artwork published in *The China Business Review*.

The China Business Review is published bimonthly by the US-China Business Council, a nonprofit organization incorporated under the laws of the District of Columbia. Second class postage paid at Washington, DC, and additional mailing offices. Postmaster, please send address changes to *The China Business Review*, 1818 N Street, NW, Suite 500, Washington, DC 20036, USA. Articles in *The CBR* do not reflect Council policy, unless indicated. The Council is grateful to I-Chuan Chen for the calligraphy used for the magazine's departments.

 ISSN No. 0163-7169; USPS No. 320-050

BUSINESS TRAVELER

商业旅行

Teeing Up for Tourists

Carol S. Goldsmith

Forty years ago China's revolutionary leaders closed down all golf courses in China in their drive to rid the country of its bourgeois elements. What better way to make the foreign devils unwelcome than to ban their favorite sport?

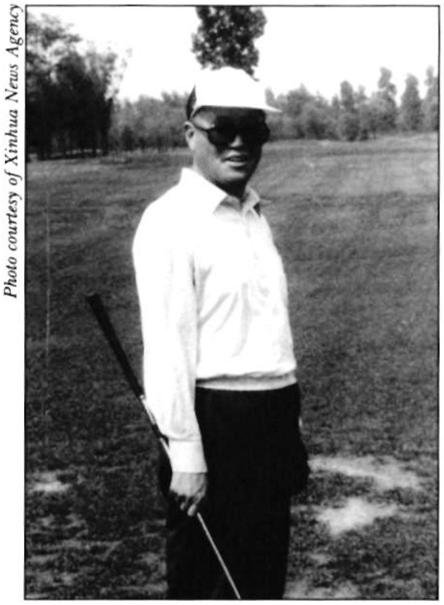
Since China's first post-revolutionary golf course opened in 1985, however, golf has reached a new—and very high—level of respectability. In the forefront of the fad is Communist Party Secretary Zhao Ziyang, who reportedly tees up twice a week and even serves as honorary chairman of the China Golf Association. Internationally renowned players, course designers, and equipment manufacturers are also exploring China's golf potential. While golf is probably not destined to become a sport of the masses, it should hook foreign tourists—and their foreign exchange.

The return of putting greens, fairways, and hazards to China can in some ways be credited to Arnold Palmer, who designed the Zhongshan Hot Springs Golf Course in 1985. Located about three hours by car from Guangzhou, the rolling 18-hole course is set against a dramatic mountain backdrop. Course facilities include a health club, restaurant, and bungalow apartments.

Professional Golf Association (PGA) Secretary Dick Smith, who toured China's golf courses in 1987, had high praise for the Zhongshan course, noting that it has the greatest potential to support championship-level play in China. Zhongshan has hosted the China Men's Open for the past three years and would be a likely future site for a major international tournament.

The course is open to both members and nonmembers. Individual 18-hole member greens fees cost

Photo courtesy of Xinhua News Agency



Once the bourgeois sport of foreign devils, golf has reached a new level of respectability in China. Communist Party Secretary Zhao Ziyang tees up twice a week in Beijing and serves as honorary chairman of the China Golf Association.

around $20 and all-day greens fees run about $25, with nonmember fees costing about $25 and $32, respectively.

Inspired by the success of Zhongshan, Chinese and foreign developers have opened or planned courses around all major business and tourist centers, including Beijing, Tianjin, Shanghai, Hangzhou, Guangzhou, and Zhuhai and Shenzhen Special Economic Zones. Some of these courses are being designed by golf architects from the United States, Japan, and Europe. Noted American golf architect Robert Trent Jones, Jr., for example, was spotted sizing up prospects for a nine-hole course along the coast of Hainan Province. Jones recently announced plans to design Shanghai's first 18-hole championship course, which is expected to open in 1990.

China's potential as a golf frontier has aroused the interest of Japanese investors and players, who must often wait years to join exclusive clubs with exhorbitant membership fees in their own country. A Japanese group owns and operates the Beijing International Golf Club, a straightforward 18-hole course northeast of Beijing—nicknamed the "Ming Tombs Course" due to its location. Smith noted that the course was designed for rapid, as opposed to difficult play, and that overnight guests may be accommodated in the comfortable clubhouse. A round of golf at the Ming Tombs Course costs about $73, including caddie, changing room, clothing, and equipment fees.

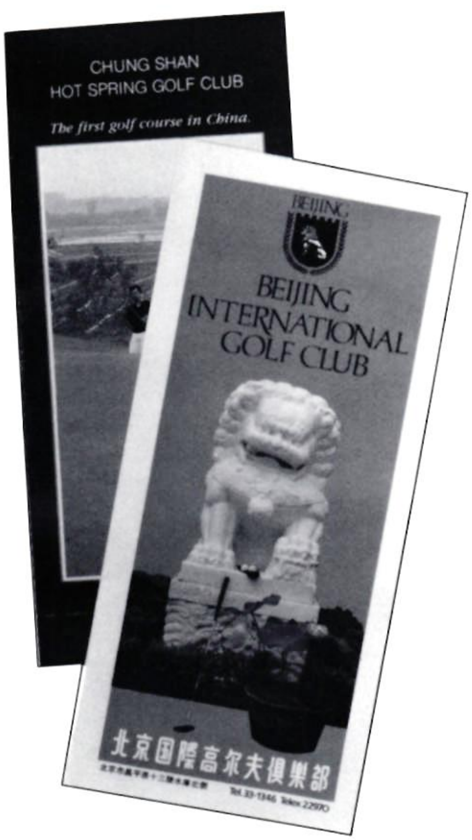
Japanese investors have also linked up with the Chinese government to build the Beijing Golf Club, a $10 million complex northeast of Beijing that is home to China's national golf team. Designed by Americans Bradford Benz and J. Michael Poellot, the club includes two 18-hole championship courses and a driving range. The course will be the site of the first exhibition golf match ever held at the Asian Games, which Beijing will host in 1990.

Beijing has several other golf options in addition to its standard 18-hole courses. There's the Chaoyang Golf Club, a nine-hole course located about 1 kilometer from the Great Wall Sheraton Hotel. And the Sheraton's East Garden even offers an 18-hole *miniature* golf course.

Carol S. Goldsmith led the PGA on an inspection trip of China's golf courses in 1987. Formerly with InterPacific Travel Management Group, she recently became director of marketing and sales for the Portman at Shanghai Centre, a multi-use hotel and business complex scheduled to open next fall.

Foreign golf equipment manufacturers are also looking at possibilities in China. While sizable domestic sales of clubs, carts, tees, balls, and clothing are a long way off, China offers excellent potential for manufacturing equipment, and a number of foreign companies are already doing so. Arnold Palmer, for example, has scouted southern China for opportunities to establish a joint venture to manufacture his signature line of golf bags, clothes, and other items.

Chinese courses are not yet of a standard to merit a spot on the PGA tournament circuit, but with players and promoters searching for ever more challenging and exciting courses—and China ever eager to promote tourism—it's only a matter of time. Last summer, in fact, Zhao Ziyang and Foreign Trade Minister Zheng Tuobin teed up with American pro Larry Nelson and 60 other players at Beijing's first international golf tournament. While golfers in China are now driving for show, in the future they'll also be putting for dough.



COMMENTARY

评论

Bilateral Investment Treaties: Rethinking the US Approach

Laurence W. Bates

The signing of the Sino–Japanese Bilateral Investment Treaty (BIT) in August, together with the activation of the Sino–Australian BIT in July, leaves the United States and Canada as the only major industrialized countries that have not concluded BITs with China. Japan's success in obtaining provisions that have posed major obstacles to the US negotiations should prompt the US business community to take another look at what it stands to gain from concluding a BIT, and how it might amend its negotiating strategy in order to gain these concessions.

Because the US government has not concluded a BIT with China, American companies run the risk of being discriminated against in terms of investing in certain types of industries as well as in other activities such as sourcing raw materials. And in the worst case scenario of expropriation, which would probably occur only in the unlikely event of a serious deterioration of political relations, US investors would have no legal claim to compensation. The US business community must consider whether it is prepared to accept this anomaly, given the obvious protection enjoyed by European, Australian, and now Japanese investors.

An investment protection vehicle

The concept of a bilateral investment treaty gained US favor in the 1980s in response to the collective assertion of national will by developing countries in the 1970s, which was sometimes manifest in expropriation or nationalization of foreign investors' assets—as in Libya, for example.

US negotiators concluded 10 BITs between 1982 and 1986 (although none of them has yet been ratified by the Senate and those with Panama and Haiti have been withdrawn). BITs soon came to be considered legitimate vehicles for promoting and protecting foreign investment in developing countries. These treaties can supplement and create laws governing the treatment of foreign investments in countries with still-emerging legal systems, such as China, while on a political level, a BIT may symbolize that a bilateral relationship is on solid ground.

Most Sino–foreign BITs consist of a few articles covering five broad subject areas: scope of coverage, type of treatment, standard of compensation in case of expropriation, transfers of foreign exchange, and settlement of disputes. Existing Chinese law does not yet cover all of these areas specifically and comprehensively, and BIT provisions can fill those gaps.

Breakthroughs in the Japanese BIT

The detailed listing in the Sino–Japanese BIT of the types of business activities that cannot be subjected to discriminatory treatment, as well as an extensive list of prohibited discriminatory measures such as restrictions on purchases of raw materials, marks the first time that Chinese law has addressed the question of appropriate protection for specific activities. The Agreed Minutes section lists the assets of foreign representative offices as protected investments—another step forward. Under current Chinese law as developed under the previous BITs, such assets might not automatically be considered protected investments even for countries that have a BIT with China.

The treaty also extends protection to all investments made "not in violation of" Chinese law as it existed at the time of the investment, which in a developing legal system like China's may mean a broad scope of protection, since many investments were made in the early 1980s when the law governing them was rudimentary at best. This may protect Japanese investments in cooperative joint ventures established in the early 1980s. Such investments had no firm legal standing in China until this year.

The treaty also provides—for the first time in a BIT—for the establishment of a joint committee composed of representatives of the two governments, which is required to meet alternately in Beijing and Tokyo to review legal developments in the two countries and to make recommendations to the two governments pertaining to the implementation of the Japanese BIT and foreign investment legislation generally.

The most significant breakthrough of the Japanese BIT is the standard of treatment to be accorded to protected investments. Until now, a foreign investor whose government had concluded a BIT could argue only that his protected business activities should not be subjected to discrimination vis-a-vis investors from other countries with BITs (that is, most favored nation treatment), and the Chinese have had the legal right to insist that activities of Chinese State enterprises should be given greater protection (that is, no national treatment). Now, for the first time, China has acknowledged that a foreign investor of a country with a BIT will enjoy nondiscriminatory treatment vis-a-vis Chinese companies—and even better treatment should other foreign investors receive better treatment.

Japan's successful inclusion of these provisions should encourage the US business community that the sticking points in US BIT negotia-

Laurence W. Bates is an associate resident in the Beijing office of the international law firm Paul, Weiss, Rifkind, Wharton & Garrison.

tions with China can be resolved favorably.

Redirecting US negotiations

In 1983, an interagency US negotiating team put forth a draft proposal for a Sino–US BIT. After several sessions, the talks reportedly broke down and have not yet been rescheduled.

Some of the issues that have reportedly hindered the US negotiations have apparently been eliminated with the conclusion of the Japanese BIT. In the area of treatment of established investment, for example, the United States has long insisted that more favorable of national treatment or most favored nation treatment apply, and that a treaty include a list of prohibited discriminatory measures—both of which are found in the Japanese BIT.

Outstanding US concerns not answered by the Japanese BIT include a minimum standard of protection no less than that required by international law, a preservation of rights clause, the right to prompt review of expropriation claims, guaranteed convertibility of certain enumerated types of payments (such as investment returns), and mandatory submission of all disputes (including government–investor disputes) to arbitration.

The US side should direct its negotiating strategy, as the Japanese apparently did, to substantive legal and business issues that improve China's overall legal protection of foreign investment. The demand for the international law standard, for example, might without detrimental effect be abandoned, since the Chinese are unlikely to recognize principles embodied only in customary international law. Similarly, the US should not assume unrealistically that a BIT will solve the paramount problem of obtaining convertible foreign exchange to repatriate remninbi profits.

However, insistence by US negotiators on a prompt review of expropriation claims, together with an explicit recognition of going-concern value in assessing these claims and mandatory submission of government–investor disputes to arbitrators might eventually result in a treaty for US investors that not only would provide long-overdue protection, but also would represent a further fleshing out of Chinese law on protection of foreign investment.

Do We Really Need a BIT?

Roger W. Sullivan

The United States and China are not close to agreeing on a bilateral investment treaty (BIT) after over five years of negotiations. Rising US investment levels suggest that the lack of a BIT has not deterred American companies from seeking out opportunities in China. There are a number of reasons why concluding a BIT with China would not substantially help American investors and could even damage bilateral relations.

A BIT is one mechanism that protects foreign investment. Laws, regulations, precedents, including those set by other countries' BITs, and contract terms are other sources of protection. A foreign joint venture in China will get "national treatment"—or as close as China is prepared to come to that—and equal access to electricity and raw materials under existing Chinese laws and regulations, particularly the 22 Articles of October 1986. It is doubtful that the fuzzy language of the Sino–Japanese agreement, with its exceptions for "public order" and the "sound development of the economy," offers any substantially new protection to the existing body of laws and precedents China offers to all foreign investors. If there are any new protections that might result from the agreement, it is also doubtful that China would limit their application to Japanese companies or to those from other BIT signatory countries. To do so would run counter to China's policy goal of attracting foreign—particularly American—investment.

Every company would like assured protection against the worst eventuality—expropriation or nationalization of foreign assets. But no one really believes that a government to government agreement can guarantee such protection. Most companies reason that Chinese policy and national interests render the possibility of expropriation remote. Were policy to change so drastically that expropriation became a concern, few believe that a bilateral agreement would offer much protection.

Significant obstacles stand in the way of concluding a US–China BIT agreement. US negotiators are unwilling to compromise the BIT model they first put forth when negotiations began in 1983—which contains more specific and demanding terms than those in the Sino–Japanese BIT—for fear of setting precedents for yielding concessions that other countries might seek for themselves. The complexities of China's economic system and Beijing's tendency in government to government negotiations to request special case treatment for China make it unlikely that the two sides will reach common ground.

Finally, even if negotiators agree on language, it might prove impossible to get a treaty through the Senate without having it saddled with unrelated riders on human rights, missile sales, or other political issues of the day. Such an amended agreement would almost certainly be unacceptable to China. So instead of a treaty protecting US investments, we would end up with a failure that would become an unnecessary irritant to US–China relations and might trigger the kind of discrimination the agreement sought to preclude.

If a main purpose of a BIT is simply to clarify what protection China will offer foreign investment at this stage in its economic and political development and to "symbolize a bilateral relationship on solid ground," why not bury the idea of an unnegotiable treaty and instead draft a simple memorandum of understanding between the United States and China that summarizes the protections China is prepared to grant and assures that most-favored nation treatment would apply to US businesses. Such an agreement would reassure business, preserve the BIT model, and avoid the pitfalls and perils of an aborted attempt at Senate ratification.

Roger W. Sullivan is president of the US–China Business Council.

Taiwan traders and investors are moving cautiously toward the mainland—and being greeted with open arms

Reaching Across the Water

Mitchell A. Silk

Taiwan's 40-year-old "Three No" policy toward the mainland regime—no negotation, no compromise, no contact—is undergoing a dramatic, if unofficial, transition. While Taiwan's leaders maintain their traditionally militant stance against the communist leadership in Beijing, the Taiwan business community is reaching across the Taiwan Strait with greater confidence to access mainland materials and labor needed to succeed in increasingly competitive world markets. In 1987 alone, indirect trade between Taiwan and the mainland—mostly through Hong Kong—was estimated around $1.5 billion, and is widely expected to exceed $2 billion in 1988. The mainland is welcoming these traders and investors with reassuring legal gestures and modest incentives, hoping that increased economic ties will eventually lead to political contact and compromise. While formal negotiation is probably far in the future, today's "Three No's"—at least as far as business goes—have been effectively translated into "no avoidance, no restriction, no interference."

Today's "Three No's"—at least as far as business goes—have been effectively translated into "no avoidance, no restriction, no interference."

Relatives and raw materials

Taiwan has slowly moved toward the mainland over the past few years as a result of both internal and external pressures. Many members of the generation that fled the mainland in 1949 long to visit their birthplaces and relatives again. In late 1987, Taipei responded to these sentiments by lifting many restrictions on mainland visits. So far an estimated 200,000 Taiwan visitors have seized the chance to cross the strait.

Taiwan's business community has also urged the government to lift barriers, but with more pragmatic motivations. Asia's other economic "tigers"—South Korea, Hong Kong, and Singapore—accompanied by nearby Thailand and Malaysia, are stalking Taiwan's dominant position in the world markets for electronics, consumer goods, and light industrial products. Despite a phenomenal 1987 GNP growth of 11.1 percent, 12 years of budget surpluses, and the world's second-largest foreign exchange reserve, rising labor and raw materials costs coupled with sluggish progress on upgrading Taiwan's industrial base could lead to Taiwan's displacement at the head of the Asian pack. The recent acceleration of economic ties between the mainland and South Korea—one of Taiwan's main competitors in labor-intensive industries—is an additional incentive for allowing Taiwan businesses more access to needed raw materials and labor on the mainland.

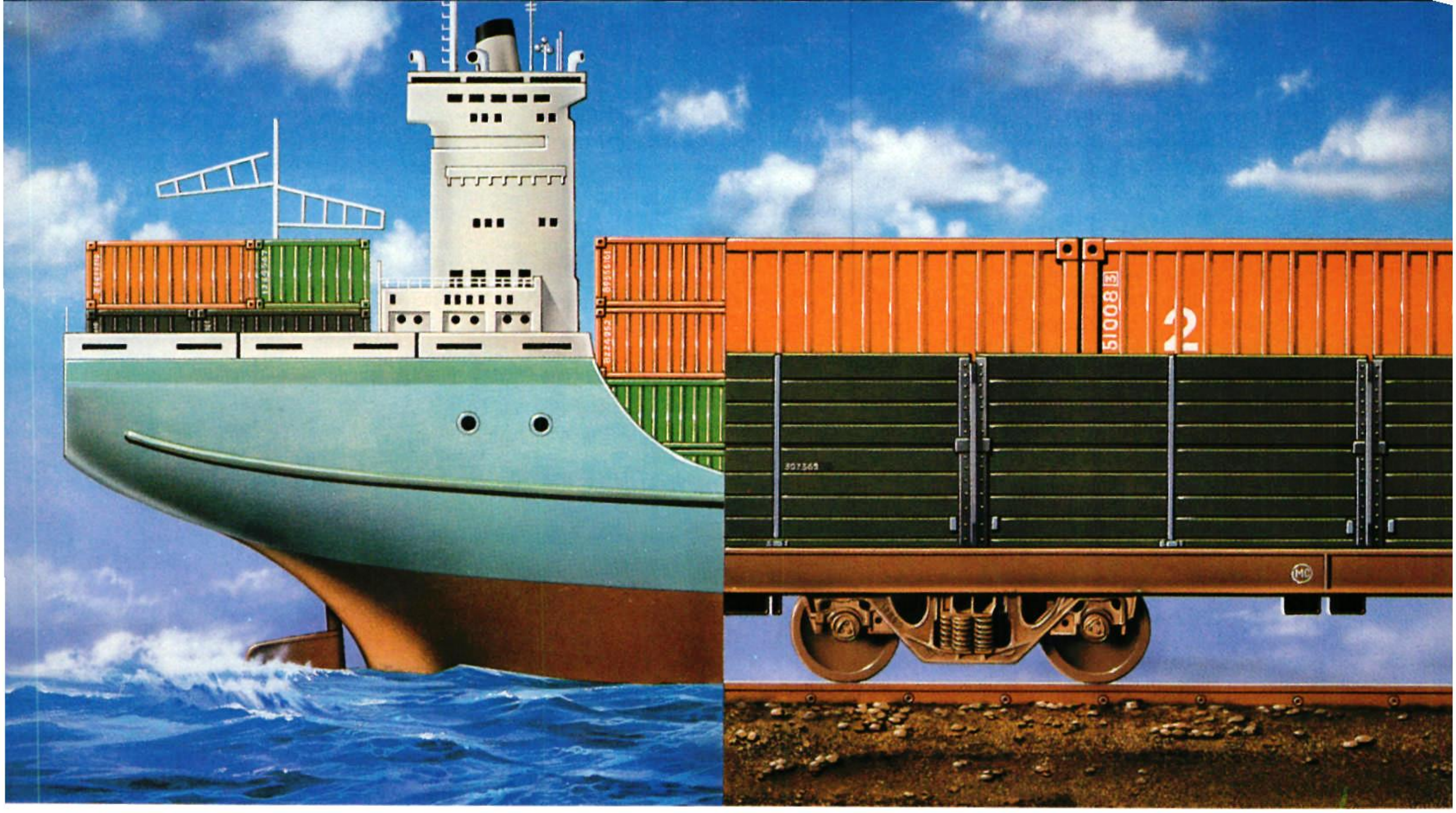
Sanctioning indirect trade

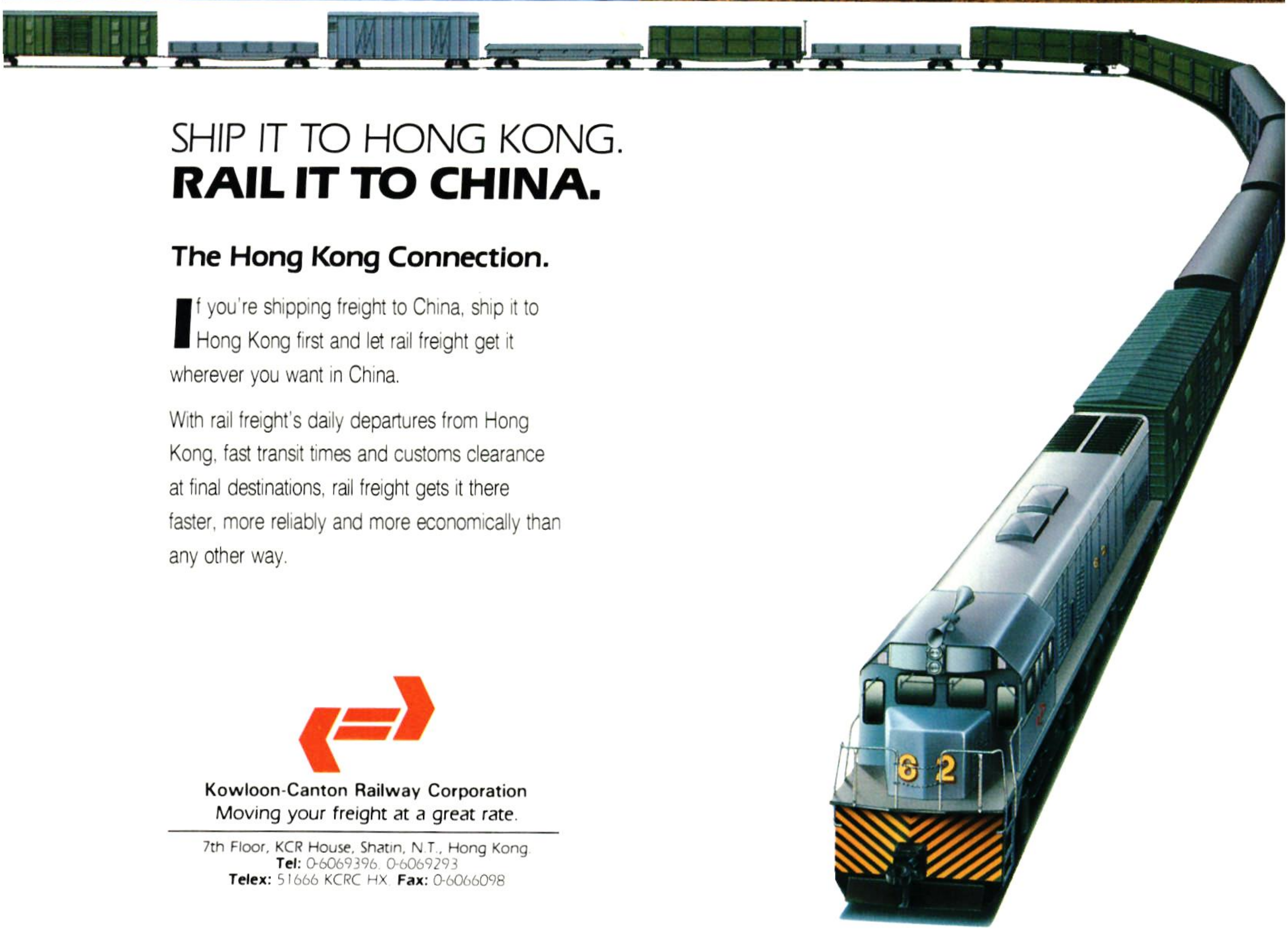
The most significant shift in Taipei's stance on trade and investment across the strait came in July 1987. Bowing to foreign pressure to reduce its bulging foreign exchange reserves and in line with its drive toward "internationalization and liberalization," Taipei revised and substantially relaxed restrictions on the remittance of foreign exchange. This removed the major mechanisms used to monitor outbound funds and facilitated all international trade and investment, including mainland trade.

Another step forward came in June 1988, when Taiwan's Executive Yuan approved regulations easing requirements for the establishment of third-country subsidiaries of Taiwan businesses. Previous regulations required a company to submit a detailed business plan, registration documents for executives and employees assigned to the foreign subsidiary, and to confirm an annual business volume of over $1 million. Today, however, Taiwan businesses are permitted to set up third-country subsidiaries upon simple notification to the Board of Foreign Trade. The modifications of these regulations will likely boost the active triangular trade between Taiwan, third countries such as Hong Kong and Japan, and the mainland.

The 13th Party Congress of Taiwan's ruling Kuomintang (KMT) in July further cleared the way for indirect investment. Official policy now permits indirect trade for commodities that cannot be sourced

Mitchell A. Silk is an attorney in the New York office of the international law firm Hughes, Hubbard & Reed. Actively involved in both Taiwan and mainland investment matters, the author also serves as a consultant to the East Asian Legal Studies Program of the University of Maryland Law School, and as an editor of the Chinese Yearbook of International Law & Affairs, *which reports on Taiwan's practice of international law.*





SHIP IT TO HONG KONG. **RAIL IT TO CHINA.**

The Hong Kong Connection.

If you're shipping freight to China, ship it to Hong Kong first and let rail freight get it wherever you want in China.

With rail freight's daily departures from Hong Kong, fast transit times and customs clearance at final destinations, rail freight gets it there faster, more reliably and more economically than any other way.

Kowloon-Canton Railway Corporation
Moving your freight at a great rate.

7th Floor, KCR House, Shatin, N.T., Hong Kong.
Tel: 0-6069396. 0-6069293
Telex: 51666 KCRC HX. **Fax:** 0-6066098

domestically, enhance the competitiveness of Taiwan's products, pose no threat to Taiwan's security, and have no adverse effect on Taiwan industry. In August, the Ministry of Economic Affairs (MOEA) followed up on the KMT congress by identifying mainland products that may now be legally imported through third countries. The list consists of 50 agricultural products, raw materials, and herbal medicines (*see* list), and the MOEA is currently preparing a second list of items for possible indirect import.

The MOEA has also identified a number of mainland items as potentially competitive threats to Taiwan industry, including footwear, explosives and fireworks, apparel, travel gear, handbags, fish, shellfish, furniture, white rubber products, textiles, vegetables, fruits, and meat. No decision has been reached on importing procedures for these items, but it is likely that once a final list is issued, import applications for such items will come under very stringent review by the Board of Foreign Trade.

A recent case highlights the rapid changes in Taiwan's stance toward mainland trade as well as the judiciary's contribution to the improved mainland trading environment. Last May, two Taiwan businessmen were convicted of sedition and jailed for investing indirectly in an eel farm in Fujian Province. But in September, Taipei's Judicial Yuan ruled that indirect business dealings with the mainland would no longer be considered seditious if transactions did not involve strategic material and were conducted solely for personal gain. Those imprisoned on these charges were subsequently exonerated and released.

This decision was presented by Taipei authorities as a "clarification" of the line between criminal sedition and permissible profit-seeking. But the subjective terms of the ruling seem to indicate that its real intention is to blur the line sufficiently to allow businesspeople the latitude to pursue opportunities that will benefit Taiwan's economy, while maintaining enough official control to allow the government to take action should it believe economic, security, or social concerns are being compromised.

Beijing extends a warm welcome

Mainland authorities have acted to encourage, accommodate, and reassure potential Taiwan investors. In July 1988 the State Council promulgated the "Regulations Regarding the Encouragement of Investment by Taiwan Compatriots." These 22 articles establish that enterprises with Taiwan investment enjoy all the benefits afforded to foreign enterprises under mainland law. The regulations do not grant Taiwan-invested enterprises substantially preferential rights vis-a-vis other foreign investors. Rather, they reassure Taiwan investors that they will receive the standard levels of protection and incentives offered to all foreign enterprises.

Fujian and Zhejiang provinces, the natural focal points of Taiwan activity, have also promulgated local incentives. Regulations issued in April by Fujian's special economic zone, Xiamen—

BRIDGING THE STRAIT

1982
PRC defines one country, two systems concept in new constitution.

MAY 1986
Taiwan pilot defects to mainland. Negotiations for return of plane and crew mark first official contact between the two regimes since 1949.

NOVEMBER 1987
Red Cross Society in Taiwan begins processing applications for mainland visits.

JANUARY 1988
Beijing sends condolences to Taipei on death of President Chiang Ching-kuo.

MARCH 1988
Taiwan permits mail delivery to and from mainland through Hong Kong.

MARCH 1988
Taiwan permits circulation of some mainland publications.

APRIL 1988
Taiwan participates in Asian Development Bank annual meeting for first time since 1986, when it imposed a boycott in response to mainland's accession to China seat.

MAY 1988
Boeing 737 hijacked from mainland to Taiwan. Taiwan returns plane.

the mainland point closest to Taiwan in terms of proximity, culture, and dialect—offer Taiwan-invested agricultural projects a four-year tax exemption starting with the first profit-making year and a one-fifth reduction up to 10 years thereafter. Taiwan investors also have the right to sell up to one-third of products manufactured with advanced technology and equipment on the mainland. Other incentives include an exemption from land-use fees for five years during the initial stage of the venture, as well as complete exemption from site-use fees for the same period for enterprises located in the Huli Industrial Zone. Employment provisions permit Taiwan investors to appoint mainland friends or relatives to act as agents or representatives for a venture, and ease restrictions on the relocation of these people to the enterprise. The regulations also relax entry and exit formalities for Taiwan investors.

Zhejiang's May incentives grant all Taiwan enterprises tax exemption for three years after the first profitable year, a 50 percent annual tax reduction the next four years, and a 20 percent annual reduction for 20 years thereafter. Technologically advanced enterprises and ventures located in "impoverished areas" will be eligible for a permanent 50 percent tax reduction. The Zhejiang regulations also allow Taiwan investors to pay for travel, food, and lodging at mainland Chinese rates, which are much lower than foreign visitors' rates.

These incentives are not significantly different than those extended to other foreign enterprises, but that means little to most Taiwan investors. Access to materials and labor is sufficient attraction. Publications on both sides of the strait have reported a number of mainland deals involving Taiwan investors, and various sources put the number of projects well into the hundreds. Xiamen SEZ, which got off to a slower start than Shenzhen SEZ, may benefit the most from increased ties—between 30 and 40 Taiwan investments worth a total of about $70 million were reported through June 1988 and 30 more are under negotiation (*see* p. 15). Zhejiang is also reaping early rewards. *Renmin Ribao* reported in September that Zhejiang Province had negotiated 503 Taiwan-invested projects, most of which are small ventures. The projects employ over 5,000 workers and account for $75 million in production revenues. Total investment (not representing actual capitalization) for Taiwan ventures is projected to reach $1 billion by the end of 1988.

Patent protection for compatriots

Central authorities have also promulgated two sets of regulations on intellectual property protection for Taiwan investors. The most important regulations establish that Taiwan Chinese enjoy the same patent rights and status as mainland nationals. Taiwan Chinese may submit patent applications directly to mainland authorities, through Hong Kong patent agents, or by encharging a mainland friend or relative to submit the application.

In addition to protecting Taiwan patents on the mainland, the regulations enhance worldwide protection of Taiwan patents by extending to Taiwan Chinese priority rights enjoyed by mainland nationals under the Paris

JULY 1988
Beijing announces 22 provisions to encourage Taiwan investment.

JULY 1988
The Kuomintang's 13th Party Congress in Taipei sanctions indirect mainland trade and investment and further eases restrictions on mainland travel and media circulation.

JULY 1988
Beijing appeals to Taipei to establish commodity inspection ties.

JULY 1988
Taiwan prosecutes hijackers of plane from mainland.

JULY 1988
Taiwan announces it will participate in the 1990 Asian Games in Beijing.

JULY 1988
Official from Taiwan's External Trade Development Council announces opening of a Hong Kong office to help monitor Taiwan–mainland trade.

JULY 1988
The PRC's Ministry of Foreign Economic Relations and Trade briefs Taiwan's mainland affairs inspection group in Beijing.

AUGUST 1988
Taiwan's Board of Foreign Trade approves 50 products for indirect import from the mainland.

AUGUST 1988
Mainland banks announce they will extend loans to Taiwan firms.

50 COMMODITIES APPROVED FOR INDIRECT IMPORT FROM THE MAINLAND

Seeds, fruit, and spores for planting
Squirrel fur
Horse hair (not carded or combed)
Hog bristle
Chicken, duck, and goose down or feathers
Goat hair used in making writing or scrub brushes
Castor oil (nonedible)
Beef tallow (nonedible)
Rattan and semi-finished rattan products
Rabbit skin and fur
Eel fry
Deer bone, tail, foetus, and veins
Kaolin
China clay
Syenite (for ceramic use)
Calcined bauxite
Refractory mortars
Feldspar
Paraffin wax
Diatomaceous earth
Emery sand carborundum
Guang min xiang (*saussurea radix*)
Cardamom
Hyascyamine semen
Magnetitum
Ramie (raw)
Flax and flax thread (raw)
Waste cotton
Raw cotton
Silk (raw or waste)
Sheep or lamb wool
Jilin ginseng, angelica acutiloba, lycium barbarum, and dried red dates
Camellia sinensis
Camellia oleifera
Rosin, colophony
Coal
Pig iron
Scrap iron and steel
Aluminum ingot
Tin ingot
Unwrought electrolytic copper
Talcum, talc
Natural rubber
Wood pulp for paper making
Leather
Rare earth metals
Synthetic and natural camphor
Silicon carbide, magnesium oxide, and aluminum oxide
Yellow phosphorous
Tung oil

Source: Mitchell A. Silk and US-China Business Council files

Union. Thus Taiwan Chinese who obtain an approved patent from mainland authorities may apply for priority rights in other signatory countries of the Paris Union, to which Taiwan does not belong. Similarly, Taiwan Chinese may apply for priority protection on the mainland based on patents from other Paris Union member countries.

Remaining roadblocks

Relaxed Taiwan restrictions and Beijing investment incentives are only the first steps for Taiwan traders and investors starting out on the business bridge to the mainland. The lack of official contact between Taipei and Beijing poses several fundamental roadblocks to businesses. For example, the issue of dual individual and corporate taxes is bound to arise as business picks up across the strait. Neither mainland nor Taiwan law provides an adequate way to avoid this burden, and for obvious political reasons a uniform and systematic way of handling double taxation will not be forthcoming, although unilateral means of relieving double taxation, such as reductions and exemptions, currently ease the burden somewhat. The situation will be exacerbated when Taiwan businesses conducting mainland operations through a third country inevitably expose the taxpayer to tax liability in the third jurisdiction. Taiwan investors will have to devise innovative tax planning methods in both individual and corporate contexts, or else factor in the cost of dual or triple taxation as an expense of a mainland venture for some time to come.

Another potential trouble spot is dispute resolution. Without official contact between Beijing and Taipei, Taiwan businesses are deprived of governmental support in the event of disputes on the mainland. Representatives from the China Council for the Promotion of International Trade (CCPIT) and the Taiwan Chamber of Commerce met in Hong Kong in September for initial talks on arbitration, but the technicalities—where to take disputes, procedural rules, and choice of law—will take some time to work out. The question of enforcing judgments is particularly sticky, and it is unlikely that a joint arbitration entity will be able to handle questions relating to such crucial issues as attachment and seizure of assets.

Indirect effects on foreign companies

Beijing's eagerness to woo Taiwan business will do little to increase the competition between Taiwan and other foreign investors on the mainland, primarily because they are interested in different types of projects. Most Taiwan investment is directed into labor-intensive manufacturing projects that produce inexpensive, low-tech consumer goods, while US and European companies prefer capital-intensive, high-tech ventures. Also, the average Taiwan investment level in mainland projects is likely to remain small, bearing closer resemblance to a typical Hong Kong deal than to a US or European venture.

If foreign companies based in Taiwan feel any effect from increasing mainland ties, it will also be indirect. While eventually it may be feasible for foreign companies to consider establishing a venture on either the mainland or Taiwan to target markets across the strait, the highly subjective status of Taiwan's current regulations on mainland investment make it far too early for foreign companies to count on any benefits from easing access.

In the nearer term, Taiwan's indirect imports of certain raw materials from the mainland may eventually reduce the market share for other foreign suppliers. US companies have sold Taiwan considerable quantities of soda ash, for example, which Taiwan may now import indirectly from the mainland. One US expert on Taiwan economic affairs speculated that in four to five years, US exports of other commodities such as raw cotton and steel could also suffer from mainland competition.

A limited partnership

The general euphoria over these developments may soon be tempered by reality. Increased access to labor and raw materials from the mainland will help Taiwan maintain a strong position as an exporter of low-priced consumer goods to world markets. But several factors will limit the mainland's significance in Taiwan's overall economic plans. As South Korea and other Asian neighbors close the gap in exports of low-tech consumer goods, Taiwan must meet today's global market demands by diversifying its manufacturing base and introducing higher technology and quality to its production practices, as well as continuing to reform its financial services sector. Mainland materials alone will not provide the fuel for this kind of development. And even if they could, Taipei is hesitant to rely too heavily on the mainland for supplies.

By attracting Taiwan manufacturing ventures, the mainland may earn more foreign exchange through exports, and increased economic ties with Taiwan may serve reunification aspirations. On the other hand, the rudimentary technology Taiwan ventures now offer do not contribute to Beijing's stated goals of attracting advanced technology. In order to continue to obtain more of the technology it needs from Taiwan, the mainland must demonstrate to Taiwan—through additional incentives and by other means—that all factors being equal, the mainland is the best place to invest.

Taiwan–mainland traders will also encounter practical pitfalls. As economic contacts increase, the daily difficulties of conducting business in a developing economy that is highly controlled and extremely bureaucratic will no doubt bring otherwise enthusiastic Taiwan investors to the same disillusion that has afflicted other foreigners. Many Taiwan businesspeople now assume, for example, that their status as compatriots allows them unlimited access to the mainland market, which Chinese law in general and the Taiwan investment incentives in particular clearly do not permit. Bureaucratic bottlenecks, quality control concerns, contract enforcement problems—in short, all the sticky issues of Sino–foreign business—will also affect Taiwan investors.

Finally, nonbusiness concerns will play a major role in the development of future economic ties. Taiwan's more relaxed stance on mainland trade is in line with domestic reforms and its move toward a more liberal and international outlook. But mainland activities will be closely monitored to ensure that political and security aspirations are not compromised. 完

Central planners and foreign investors are rediscovering the island's potential

Xiamen SEZ: Poised for Take-Off

Henry Topper

After getting off to a slow start, Xiamen Special Economic Zone in the Fujian delta has finally begun to blossom, with total foreign investment passing the $1 billion mark in early 1988. Until recently, Xiamen had not received the publicity enjoyed by the three other SEZs established in 1980. But Xiamen's proximity to Taiwan, which has growing trade and investment relations with the mainland (*see* p. 10), may move Xiamen into the limelight.

At the time the Xiamen SEZ was established, China's planners regarded the Guangdong–Hong Kong area as the natural nexus of Sino–foreign investment and trade. Relations with Taiwan didn't offer the same immediate promise for developing Xiamen, and the island SEZ took a back seat to fast-starting Shenzhen and Zhuhai.

By the mid-1970s, however, the heated rhetoric from across the strait had cooled somewhat, and Beijing authorities decided that Xiamen's time had come. The SEZ was expanded from the 2.2 square kilometer Huli Industrial Zone to encompass the island's entire 130 square kilometers, and central investment in infrastructure projects was increased.

Local development efforts were facilitated when Xiamen, along with the other SEZs, was granted provincial-level decision-making power in economic matters in early 1988. The decentralization of authority improves prospects for more efficient administration and less bureaucratic rivalry by allowing Xiamen to bypass the Fujian provincial authorities on development issues and project approvals. A January 1988 visit from Communist Party Secretary Zhao Ziyang, who toured the SEZs to promote the coastal development strategy, encouraged Xiamen to continue increasing its efforts to attract foreign investment, and reconfirmed the central government's commitment to Xiamen's success.

Improving the infrastructure

Recent efforts to improve Xiamen's infrastructure have had to compensate for years of neglect: government investment in Xiamen from 1949 through 1979 totaled less than $10 million. While efforts to improve the infrastructure were begun in 1979, central investment did not take off until 1984. Since then the government has poured nearly $540 million into transportation, public utilities, and communications systems.

These efforts have resulted in an expanded and reliable infrastructure. Electrical power supply to the Huli zone went without interruption last year, and was further enhanced last spring when a major new power source came on line for the city. Railroads and highways are being expanded and upgraded to handle a doubling of traffic since 1980. And Fujian's Xiamen Airlines operates daily flights to Hong Kong.

Because the island boasts 40 kilo-

Henry Topper is president of US–China Educational Ventures, Inc., and consults on business and educational matters from his Baltimore office. The author and his family lived in Xiamen from 1986–87, and he returned in 1988 as director of an educational project sponsored by RJR Nabisco, Inc.

Photo courtesy of Interkiln

Xiamen SEZ topped the $1 billion mark in total foreign investment this year with help from US companies such as Interkiln, which established a $33 million joint venture to produce dinnerware and sanitary ware.

meters of deepwater coastline, Xiamen's planners place special emphasis on port development. Four 10,000 to 50,000 dwt deepwater berths were constructed during Phase I of the Dongdu Port project (*see The CBR*, Jan–Feb 1983, p. 34). Phase II of construction calls for six more deepwater berths, including 25,000 and 35,000 dwt container berths and a 20,000 dwt sundry goods berth with supporting conveyence systems. A $270 million investment plan announced in 1988 is expected to increase annual handling capacity to 3.5 million tonnes.

The local government is as determined as the central authorities to make Xiamen succeed. Building first on Xiamen's existing industrial base, which dates back to 1842 when Xiamen was designated one of China's Open Port cities, officials have offered more than 400 outmoded factories, with workshops, staffs, and support facilities to foreign investors. New facilities being built to attract foreign investors are concentrated in the Huli zone near the new town center. Xiamen investment officials direct foreign investors first to explore possibilities in this zone, which leases available space in its 20 new five-story factory buildings for an average of $22 per square meter. According to a Huli representative, all available factories have been allocated to foreign investment projects, although less than 75 percent of the buildings appear to be actively occupied. Huli's phase-two development will make more land available to investors.

Opening the mainland door

Xiamen is a natural focus of Beijing's efforts to promote the eventual reunification of Taiwan with the mainland. Xiamen and Taiwan share a common dialect, a long trade history, and many strong family ties that provide a link between the two hostile regimes. When Taiwan liberalized travel restrictions to the mainland last year, many of the first visitors sought out relatives in Xiamen. Existing ties made it natural for some to investigate business opportunities as well. Mainland authorities hope that Xiamen's development will show Taiwan's business community that the mainland can develop an industrial base using outside capital while giving investors a low-risk, reasonable return.

Xiamen was the first Chinese locality to offer Taiwan investors special incentives covering tax treatment, domestic sales, land use fees, local labor, and visa procedures. Xiamen has also established special organizations such as the Xiamen SEZ United Development Corporation to promote Taiwan trade and investment.

Fierce competition from southern SEZs for access to Hong Kong means that Xiamen's success ultimately depends on developing Taiwan as both a source of investment and production materials, and a market for exported goods. In the first half of 1988, Taiwan businesses had signed more than 30 contracts with Xiamen enterprises, worth nearly $70 million. Most of this investment was channeled into light industry—manufacturing shoes, eyeglasses, and plastics, for example—as well as some electronics and chemical engineering projects.

Foreign investment booms

Following a promising spurt of activity in 1984–85, foreign investment in Xiamen dropped off in 1986, not to resurge until late 1987. In the first half of 1988, the SEZ approved 80 foreign investment projects and earned $230 million in foreign currency from exports, 15 and 2.5 times greater than the respective amounts for the same period in 1987. The number of approved foreign investment enterprises in Xiamen exceeds 300, with total investment value over $1 billion. Investment has come from all over the world, including Hong Kong, Macau, Japan, Singapore, the United States, West Germany, France, Australia, the Netherlands, the Philippines, Canada, the Middle East, and Taiwan.

By July, 214 foreign investment enterprises had begun production. Most of these enterprises are relatively small, with a total investment of less than $5 million. Export-oriented tax incentives have boosted exports to 60 percent of all production and helped shift the focus of foreign investment away from the service industry into processing, assembly, and production. In 1987, 90 percent of the investment contracts signed were for manufacturing enterprises, and 70 percent were export-oriented.

Xiamen planners would like to direct investment away from low-tech sectors such as light industry and building materials into textiles, food processing, and electronics manufacturing. Typical of investment projects Xiamen has attracted to date is Amoy Fashion Gloves, a Philippine-based wholly foreign-owned enterprise that has been producing gloves for the export market for over three years. And the China Ceramics Company, a joint venture between two Chinese partners and Interkiln Corporation (US), manufactures sanitary ware both for the domestic market and export to Asian countries. By basing operations on a previously existing ceramics factory, Interkiln simplified the venture's start up and training stages and has reached its current production targets ahead of schedule.

While high-technology investments and technology transfer deals are still the exceptions, Xiamen authorities believe they will increase as investor confidence builds, and point with pride to several high-tech breakthroughs. The most significant of these came in April 1988 when Allen Bradley Corporation (US) signed a joint venture agreement with the Construction and Development Corporation of Xiamen to set up a joint venture that will produce and service automation control products. In July, Memotech International (US) established a computer hard-disk joint venture. And Rockwell International Corporation (US) recently announced an equity joint venture with the Xiamen Construction Development Company to produce electronic controls for heavy industry.

Until recently, poor banking services also inhibited the influx of foreign capital. But relaxed foreign borrowing regulations, support from Beijing, and growing foreign exchange revenues have virtually eliminated serious funding problems. Hard currency repatriation problems are being eased by foreign exchange adjustment centers—more commonly known as swap centers—(*see The CBR*, Sept–Oct 1988, p. 10) and greater flexibility and experimentation within the banking community.

Investment could be boosted even higher if current plans to turn the island into a free port similar to Hong Kong succeed. Although original plans called for establishment of a Xiamen free port in 1990, the recent creation of Hainan Province, which is also being considered for free port status, may delay Xiamen's bid.

Upgrading labor and management skills

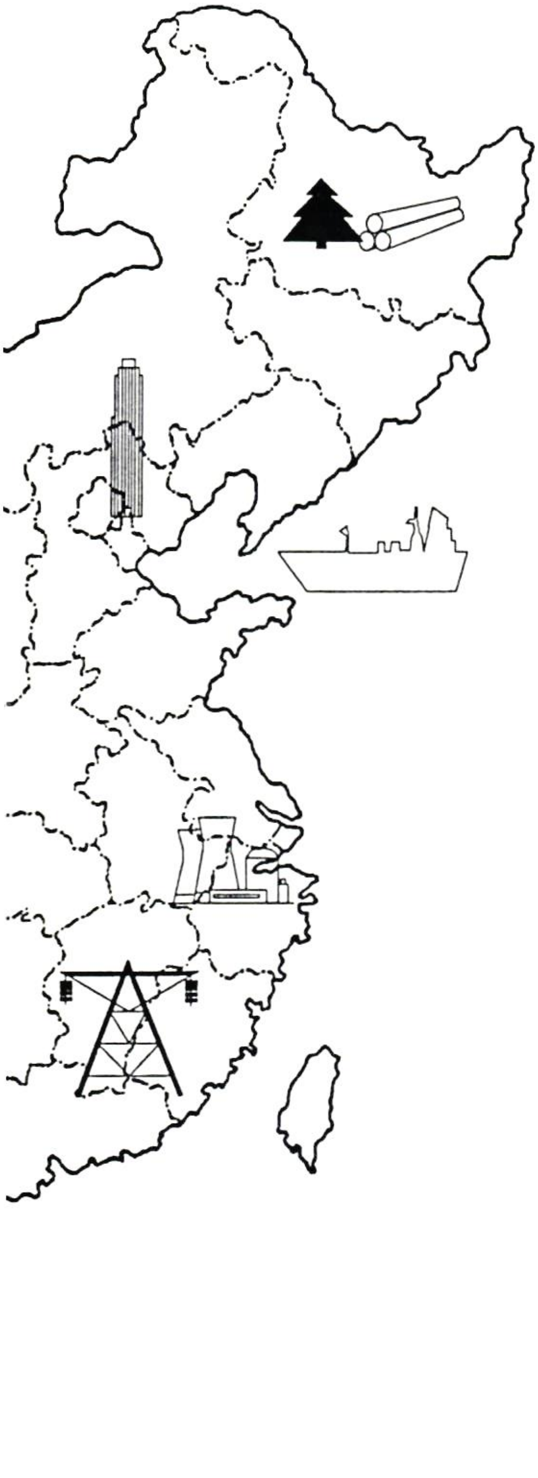
Attracting more foreign investment will require Xiamen to upgrade its labor force as well as infrastructure. Poor labor skills and banking services as well as persistent bureaucratic hassles still plague foreign investors in Xiamen, although authorities are aggressively trying to eliminate these problems.

The dearth of skilled laborers and managers is one of Xiamen's most serious obstacles to attracting overseas capital. A core of managerial and technical talent, such as Deputy Mayor Zhang Zongxu, a Beijing native who spent six years as the Chinese consul in Houston, has been imported to administer the zone. In general, however, the skill level of the average worker and manager is quite low, and the cost of training Chinese workers and providing expatriate management for foreign joint ventures is correspondingly high.

On the other hand, labor costs in Xiamen are the lowest among the SEZs, with the cost of supporting a worker ranging from $60 to $110 a month. Turnover is low for the highest paid workers and most foreign managers are quite pleased with the attitude and willingness of their employees. The city government's addition of technical and business subjects to local school curricula should help improve the skill level of the labor pool. And Xiamen University, one of China's top schools, has added law and management departments that may provide enough graduates to ease the shortage of management personnel.

Xiamen's authorities have demonstrated their commitment to soothing investors' worries with provisions to remove bureaucratic and administrative barriers, improve the labor pool, and keep wages low. The island's strategic location means that Beijing will do everything it can to make Xiamen successful. And many foreign companies with ventures in Xiamen express confidence in the island's rich future. In 1987, 25 established foreign investment enterprises received approval to expand their operations. Developing Xiamen may not have started out at high speed, but the pace is definitely picking up. 完

that puts China's major projects on the map!



Opportunities in China's Major Projects: Can American Companies Compete?

A resource guide to 257 key projects that offer timely opportunities for the sale of needed technology, equipment, or services. The list is conveniently broken down by sector, including name, description, location, status, and total investment for each project. Sectors include: petrochemicals, transportation infrastructure, telecommunications, power, chemicals, metals, coal, and building materials. The report also analyzes US performance by sector, details key factors affecting the competitiveness of American firms, and recommends ways to improve the US competitive position in China. 245 pages. August 1988.

China's Metals and Minerals: A Comprehensive Guide

A newly released reference on China's metals and minerals reserves, mines, production facilities, and development strategies. Contains recent foreign trade deals and major projects offering timely business opportunities. Also includes maps and a comprehensive listing of major deposits, organizational charts, and data on reserves, production, investment, and trade. 125 pages. October 1988.

China's Electric Power Development: Identifying Market Opportunities

The most comprehensive guide available to China's electric power market. China spends more than $1 billion per year on imported electric power systems—a figure that will grow to an estimated $1.5 billion by 1991. This study provides you with information on buyers of power equipment and related services, analysis of the market for various types of equipment and services, ongoing electric power projects and the role of foreign companies, as well as major power projects planned for the 1990s. Includes graphs and tables detailing current and future production and needs. Available December 1988.

The US-China Business Council, MPS
1818 N St., NW
Suite 500
Washington, DC 20036

Making Room in the Rice Bowl

Putting more variety and nutrients in the Chinese diet is a high priority, and foreign companies have some of the needed ingredients

Joel Haggard

Chi fan le mei you, roughly translated as "have you eaten yet," or more literally, "have you had cooked rice," is not only a common Chinese greeting, but also a rich cultural clue. Eating is so central to Chinese life—and rice has historically been so vital to the Chinese diet—that this is the most significant and considerate question one can ask another.

But as China experiences the most rapid economic growth in its history, the traditional diet is giving way to more substantial and varied fare. The need to make maximum use of scarce land and fuel resources once dictated a monotonous diet of rice and finely shredded vegetables and meat, but modern methods of fertilization, cultivation, and processing now allow consumer demand for new and different items to play a role in agricultural planning.

Agricultural reforms begun in 1978 fueled a 20 percent increase in caloric intake per person by 1982, from 2,000 to 2,485 calories. By allowing farmers to raise cash crops and sell surplus produce in free markets (*see* p. 32), the reforms also expanded the variety of available food products, particularly highly nutritious and previously scarce items such as fruit, vegetables, and fish.

These changes have brought the future of the nation's diet to the forefront of Chinese planning priorities. At the core of the discussion are the closely related issues of future protein sources and the growing demand for a wider range of food items. While some nutritionists favor a continued emphasis on the traditional grain and legume-based diet, other nutritionists—and most consumers—prefer a diet significantly higher in animal protein (meat and dairy products), which requires higher inputs of grain than domestic production can now supply.

Photo by Dan Reardon

In the pursuit of a more varied and nutritional diet, Chinese planners have imported foreign food processing equipment and technology, as well as large quantities of food commodities. And consumer rumblings for more meat and value-added food products could open the door further to foreign suppliers of everything from breeding cattle to chocolate bars. Last May's decision by Chinese leaders to phase out subsidized State retail prices for several staple items, along with the spread of food import licensing authority, paves the way for foreign business to satisfy some of Chinese consumers' demands. The prospect of tapping into this "market of a billion mouths" has aroused the interest of food companies around the world.

Joel Haggard is an associate with Agribusiness Associates, a Hong Kong-based company consulting in agriculture, livestock, and food sectors in Asia.

A range of dietary difficulties

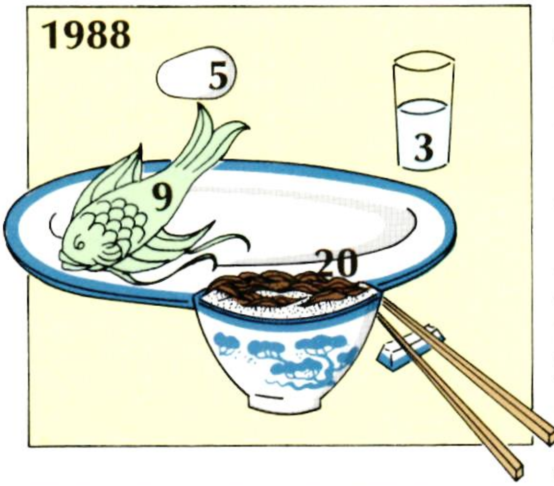
The staples of the average Chinese diet include grains, such as rice, wheat, barley, sorghum, millet, and corn; vegetables, such as cabbage and spinach; pork; eggs; fish; and cooking oils, including both lard and vegetable oils. Grains and legumes are the main source of protein, while vegetables provide vitamins A and C. Most Chinese families shop daily for their food, which is virtually all grown locally. Although red meat and milk have not been traditional staple foods, consumption of these items—along with sugar, fruit, processed and canned goods, and spirits—has increased dramatically since the agricultural reforms in the late 1970s allowed farmers and local food suppliers a greater say over what they grow and where they sell their surplus (*see* chart, p. 23). Although some vitamin and mineral deficiencies persist, basic dietary needs are met, and malnutrition is no longer a widespread problem.

A 1982 survey conducted by the China Institute of Preventive Medicine compares the average Chinese diet to that of people in other developing countries, and concludes that the Chinese eat better. In 1982, Chinese per capita daily protein and fat intake of 66.8 grams and 49.3 grams surpassed the average for other developing countries—57 grams and 40.6 grams, respectively.

Despite the encouraging statistics, pockets of vitamin and mineral deficiencies remain. Recent government surveys show that 40 percent of Chinese children suffer from rickets, 40 percent from iron deficiencies, and 60 percent from excessively low intakes of zinc, a trace mineral thought to be crucial for effective metabolism. According to China's

China's Changing Diet

(annual per capita consumption in kilograms)



Institute of Nutrition, the average Chinese child's intake of vitamin A, calcium, carotene, and riboflavin all fall below 50 percent of the Chinese recommended daily allowance. Many city children, on the other hand, appear to suffer from being stuffed by doting relatives. A 1988 survey of 44 Beijing nurseries found that half the children had excessive cholesterol intake and nearly 30 percent were overweight.

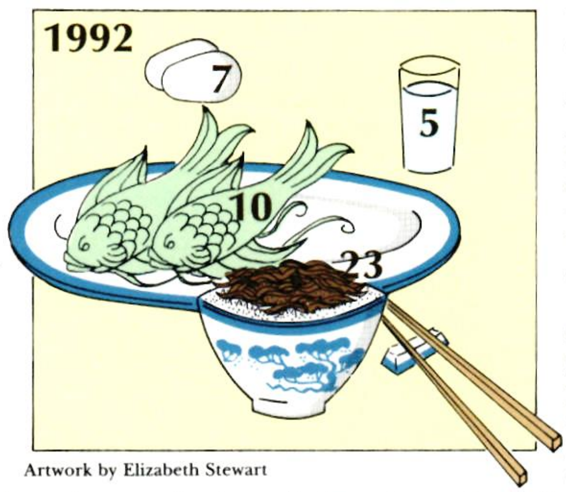
To address this wide range of dietary problems, nutritional planners have established dietary target levels from now until 2000.

Planning target intakes

While various ministries and officials disagree about the best way to improve the Chinese diet, the goals are clear: to increase calorie and protein intake and to minimize the differences between urban and rural consumption and nutrition patterns. According to the National Center for Rural Technology (NCRT), daily protein intake in the year 2000 should total 70–75 grams, up 10 percent from current levels, with 25 percent derived from animal protein compared to the current average of 11 percent. The NCRT also calls for an increase in nonstaple food production in recognition of predictions that grain production in 2000 will be similar to current levels.

To help implement these goals, the Ministry of Agriculture (MOA) has set production targets for certain foods under a five-year "vegetable basket project" announced last spring. This calls for the development of nonstaple food production, and emphasizes growth and diversification of the livestock sectors. The proportion of pork in total meat intake is targeted to drop from 83 percent to 78 percent, while the products of more efficient grain-converting animals—including poultry, eggs, milk and other dairy products, fish, and rabbits—will rise. Poultry consumption, for example, should increase from the current level of 2 to 3 percent to 12 percent of total meat consumption. Beef and mutton will account for 10 percent of the meat diet by 1992.

While value-added foodstuffs such as cookies, beer, and soda are not nutritionally vital, planners from the Ministry of Commerce (MOC) and the Ministry of Light Industry (MLI) favor increasing production of these items in order to satisfy consumer demand. By 1990 the MOC plans to double the current annual output of beer to 6.5 million tonnes, and boost the annual production of wine to 12.5 million tonnes. Likewise, the MLI plans to nearly double the annual production of soft drinks from the current level of 1.84 million tonnes to 3 million tonnes by 1990.



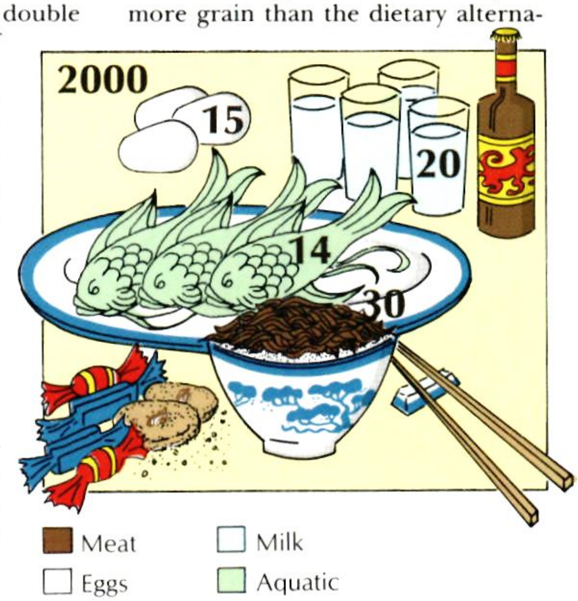
Artwork by Elizabeth Stewart

The great diet debate

Nutritional goals, rising disposable incomes, consumer demand for a more varied and value-added diet, and greater public nutritional awareness have combined to fuel a highly publicized debate on future food policy involving many voices and economic interests. Specialists from the Institute of Nutrition and the NCRT focus on nutritional issues, while the ministries of agriculture, commerce, and light industry look at dietary policy from a business angle as well. Ultimately, all of these views are considered by the State Council when it formulates broad, long-term economic plans.

The debate centers around how to transform the nation's grain supply into protein. NCRT nutritionists emphasize consumption of grains and legumes, particularly soybeans, over animal proteins. The NCRT plan calls for doubling current soybean acreage to 16 million hectares and developing new protein-rich varieties of rice, wheat, and corn. Supporters of this approach, including some nutritionists from the United Nations Food and Agricultural Organization, claim that current Chinese consumption patterns already follow the principles of good nutrition, and that a swing in the direction of a diet containing more dairy and meat products—that is, more fat and cholesterol—could promote the "diseases of civilization": high blood pressure, obesity, heart disease, and diabetes.

The other way to transform grain into protein involves using grain as a livestock input to produce more animal protein, following European dietary norms. Backers of this plan include some nutritionists as well as the agricultural and livestock industries. This approach would require more grain than the dietary alterna-



Source: National Center for Rural Technology and Ministry of Agriculture's Vegetable Basket Plan tive of sourcing protein from grains and legumes themselves. Lackluster grain harvests between 1985 and 1987 have reduced the margin for error in the choice of how to use grain resources (*see* box).

A clear consumer preference

Consumers are voting with their palates and purses for more animal protein in their diet, preferring both the variety of taste and perceived nutritional value of such items. Planners who also favor increased animal protein consumption would make the food supply system even more responsive to market forces and consumer demand than it is now, implicitly acknowledging that this might require China to import grain and/or subsidize inputs for livestock producers. Earlier this year the State Council allocated more than 1.5 billion kilograms of grain at subsidized prices to hog farmers, and the People's Bank of China and the Agricultural Bank of China have pumped almost $300 million into loans for the production of nonstaple foods, including animal proteins.

China's reformers favor making production of both agricultural inputs and final food products more responsive to market forces, and have established several models to demonstrate. For example, one large State-owned broiler facility in Beijing buys corn on the free market, leases out the majority of its production to individual households, and sells frozen boxed chickens on the local free market for whatever price they can fetch.

The government's May 1988 decision to phase out State price subsidies for vegetables, eggs, pork, and sugar represents a commitment toward market orientation in the agricultural sector. While current policy thus favors the development of indirect grain-consuming industries and increased production of animal protein sources, fluctuations in the grain supply could cause a shift in emphasis. And despite the gradual introduction of market forces, government decision-making will remain the most important determinant of agricultural production, prices, and consumption for the foreseeable future.

Foreign role on the rise

Grain imports of the late 1970s marked the entrance of foreign companies into China's food market, and both the size and scope of foreign imports have since expanded to encompass livestock, production inputs, food processing equipment, and food packaging technology. Top suppliers in 1987 included Canada, Australia, the United States, Thailand, France, Japan, Hong Kong, and New Zealand. Private sector activity is supplemented by government-to-government deals such as the Northern Livestock Project, a donation of dairy equipment from the New Zealand government.

As planners seek to diversify and improve the Chinese diet and to promote exports, the market for foreign products and technology should increase—though not indefinitely. At the moment, the desire to acquire foreign processing and packaging technology presents many

THE FUNDAMENTAL FOOD

Grain is the core of the Chinese diet. Traditionally, over 90 percent of energy intake has been derived from grains, with rice the predominant carbohydrate source in southern China and wheat and coarse grains, such as corn and millet, in northern China. Grains and legumes are the nation's major source of protein, and until recently, Chinese typically ate few meat or dairy products.

Chinese food historians hold that the traditional diet is the natural result of a long and fragile dialectic between the Chinese peasant and the land. Feeding a large population on a small amount of arable land called for maximizing the harvestable calories of every available acre. Of all grains, rice is the most efficient producer of calories per unit of land; similarly, soybeans surpass livestock and other grains as the best per land unit producer of protein.

China's dietary needs thus fostered efficiency and self-reliance. With these as watchwords China's communist leadership assumed responsibility for coordinating food production, distribution, and policy upon coming to power in 1949, and vowed to bring China's grain production to new heights. Efforts to supplement traditional crop production patterns with

Photo courtesy of Xinhua News Agency

modern fertilizers and farming techniques were well rewarded: growth in agricultural production between 1952 and 1978 allowed per capita consumption of major commodities to remain essentially stable despite a 65 percent increase in population.

Eventually, however, the ever-growing population—combined with a higher demand for grain to produce nonstaple food ranging from liquor to livestock—compelled China to seek grain abroad starting in the 1960s. At first, these large-scale purchases were viewed as stopgap measures to supplement poor harvests, but by the late 1970s they had become a regular feature of China's foreign trade.

Increasing reliance on foreign grain has not only compromised the old ideal of self-sufficiency, but also complicated the response to growing consumer demand for a more varied diet. Economically conservative planners have clung to the standard of grain as a measure of self-reliance and fought plans that called for reducing the amount of land devoted to grain production. Progressive economic reformers favor the option of importing grain, as long as it sustains the agricultural sector's efforts to meet consumer demand. But the political consequences of a stretch of poor grain harvests loom as a serious threat to the faction in power, as it would give conservative planners ammunition with which to attack the pace of reforms. As a result, the reformers approach the grain issue with care. Even in the midst of announcing plans to eliminate many food subsidies at the April 1988 National Party Congress, Party Secretary Zhao Ziyang stated that domestic resources—rather than consumer demand—should remain the principal guide for China's food and agricultural planners. —JH openings for foreign firms; likewise, the current emphasis on developing more animal protein sources calls for many types of inputs in the livestock sector, where foreign companies have already been active (*see The CBR*, Jan–Feb 1988).

Today foreign firms supply a wide variety of food production and processing technology. Imports in 1987 of food, livestock, edible oils, and food processing machinery totaled nearly $3 billion according to Chinese customs figures. Demand for equipment and technology in these areas will remain strong, as it will in aquatics; soft drinks, wine, and beer; candy, gum, and snack foods; baby food; instant coffee; and food packaging. And with the opening of a Kentucky Fried Chicken franchise in Beijing in November 1987, Western fast food has discovered a potential high-growth market (*see* p. 28).

Until the early 1980s foreign companies were reluctant to venture beyond straight sales of equipment and technology into the realm of investment. One of the early food sector joint ventures was Beatrice Foods' (US) partnership with the Guangzhou International Trade and Investment Corporation and the Guangzhou Food Industry Corporation, which established Guangmei Foods in 1981. This Guangzhou factory produces snack foods, canned fruit and vegetables, soft drinks, and sherbet. In general, however, high input costs and strict export-licensing guidelines initially slowed the entrance of foreign companies into food projects.

Recent improvement in China's investment climate, along with increased sourcing flexibility for inputs, has enticed more foreign companies into this sector (*see* table). These enterprises are targeting their products for both domestic consumption and export.

Imported inputs in demand

China's domestic food industry has grown dramatically during this decade. In 1986 the total value of output was $28 billion, double the 1979 total of $14 billion. Foreign imports are needed to continue this impressive growth. Demand will be particularly strong in the following areas:

▶ **Feed.** Today's larger and more sophisticated livestock production facilities demand higher quality feeds than China now produces. MOA planners place a high priority on sourcing high-quality feed additives and protein sources that stretch the nutritional value of available grain supplies and thus reduce demand.

▶ **Edible oils.** Imports of edible oils increased by over 1,000 percent between 1983 and 1987, from $24.5 million to $189 million. Likewise, per capita consumption jumped from 3.54 to 5.24 kilograms between 1982 and 1986. But consumption is still low, and China needs processing equipment and technology to convert its 300 substandard oil plants to higher quality oil production.

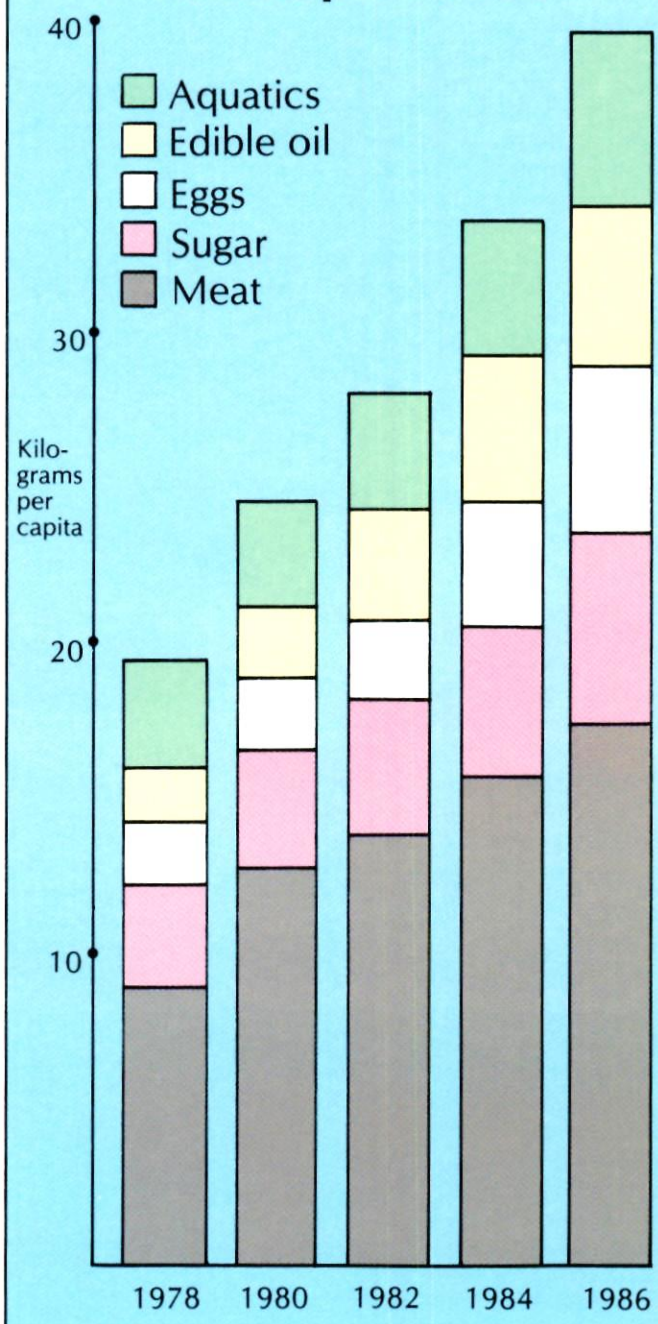
▶**Beef.** Although dietary plans call for diversifying meat sources beyond pork, the MOA's encouragement of range fed cattle production limits the potential for both foreign sales of feed and confinement equipment and beef-exporting joint ventures.

▶**Poultry.** The growing emphasis on poultry products, especially broiler meat, is fueling demand for more scientific feeding technologies and health products such as vitamin pre-mixes and trace minerals. China may also seek to import micro-ingredient scales and other pre-mix plant equipment.

▶ **Pork.** Although per capita pork consumption will

Photo by Ann Elizabeth Dean

Doubled in a Decade: Consumption of Non-Staple Foods



Source: *China Statistical Yearbook*; Agricultural Statistics

Artwork by Elizabeth Stewart

register slower growth than other meats, China's swine program requires lean-meat breeding stock and confinement system technology and equipment. As China looks toward the export market, sophisticated slaughterhouse equipment as well as meat processing technology will be required.

▶ **Dairy.** The nascent dairy sector needs dairy breeding stock and dairying and packaging equipment.

▶ **Processing technology.** Foreign seed, grain, vegetable, and fruit processing equipment and technology will be required to improve the quality of processed foods and bring them up to export standards. In addition to slaughtering equipment, cold storage, transportation, and refrigeration equipment may be imported. Boosting production of already strong export items such as canned mushrooms and other vegetables is a top priority.

▶ **Value-added products.** Both domestic demand and the export potential for value-added food items will open the door wide to foreign involvement in this area. Production of soft drinks jumped from 200 million liters in 1979 to 1.81 billion liters in 1986, and beer output rose from 510 million liters in 1979 to 4.13 billion in 1986. Production levels of wine, snack foods, and many other products have experienced similar gains. Local companies and entrepreneurs—rather than the central government—will be the main purchasers of foreign production and packaging technology for these products as well as for such items as candies, baked goods, baby food, processed fruit and vegetables, and food flavorings.

More channels for straight food sales

Until economic reforms of the past three years opened a few local marketing channels, straight sales of foreign food products to Chinese consumers were few and far between. Most large-scale imports of food have been limited to bulk government purchases of staple commodities such as grains and vegetable oils, which are expected to continue. Some fresh fruit has been imported through barter trade with the Soviet Union and the Philippines, among other countries. Now, however, increasing levels of disposable income, expanded import authority, and re-

A PROFILE OF SINO-FOREIGN FOOD VENTURES, 1986-88

The Coca-Cola Co. (US)

In September 1988 Coca-Cola began operating the *Shanghai Shenmei Beverage and Food Co.*, an $18 million wholly owned plant that supplies concentrate to authorized bottlers who produce Coca-Cola, Fanta, and Sprite for domestic sale. Coca-Cola currently has eight joint ventures that operate bottling plants in Beijing, Guangzhou, Xiamen, Zhuhai, Dalian, Nanning, and Shanghai. In an agreement with the Tianjin Beverage Factory and two Ministry of Light Industry affiliates, another bottling plant, which will also produce orange and lemon concentrate for local industry, will open in Tianjin in late 1988. The *BC Development Co.* a joint venture between Coca-Cola and CITIC, is setting up two bottling plants in Nanjing and Hangzhou. BCDC also has an equity share in *Wuxi BC Foods Co.*, which produces instant noodles.

Danish Interbrew (Denmark)

This Faxe Bryggeri subsidiary signed a compensation trade agreement with the Guangzhou Brewery in June 1987 under which Interbrew will supply technology, equipment, raw materials, and technical management assistance to the Guangzhou Brewery in return for the exclusive export rights to "Double Happiness" brand beer.

Elecster Oy (Finland)

Elecster Oy signed a $1 million, 25-year joint venture with Hangu Farm of Hubei Province in October 1986 to produce bagging machines and electric ultra-temperature sterilizers that process 1,000 liters of milk per hour. Elecster Oy owns 51 percent of the venture. The company also signed five similar contracts in 1987 as part of a Sino-Finn dairy development project for which the Finnish government has offered concessionary loans and $5.4 million has been invested.

H.J. Heinz, Co. (US)

The *Heinz-UFE Co.*, a $10 million, 30-year joint venture between Heinz (60 percent), the General Corporation of Agriculture, Industry, and Commerce for Land Reclamation of Guangdong Province, and the Guangdong United Front Food Enterprise went into operations in June 1986. The Guangzhou-based baby food plant produces 3,000 tpy of dried baby cereal products for the domestic market.

Hong Kong Dairy Farm Co. Ltd. (Hong Kong)

The *Guangzhou Cold Foods Co., Ltd.*, a $10.8 million joint venture, was established between the Hong Kong Dairy Farm Co. Ltd. (30 percent), the Guangzhou People's Foodstuffs Factory (50 percent), and the Guangdong International Foodstuffs Co. Ltd. (20 percent) in July 1986. Targeted production is 5,000 tpy of ice cream. The *Guangzhou Refrigerated Foods Ltd.* is a $10 million, 20-year joint venture between a subsidiary of Dairy Farm (30 percent) the Guangzhou People's Foodstuffs Factory (50 percent), and International Food Corp. Ltd. (20 percent) established in May 1986. The venture will produce ice cream and other refrigerated foods.

Kente Co. and Hokkaido Shoji Co., Ltd. (Japan)

These companies established the *Shanghai Xianghe Foodstuffs Co., Ltd.*, a $1.5 million joint venture with the Shanghai Confectionary, Cigarette, and Wine Co., and Shanghai Foreign Trade Corp. in March 1987. The venture will export sweetened bean paste, chestnut, and biscuit products.

Marubeni Corp. (Japan)

Marubeni concluded a compensation agreement in July 1987 to build a plant to raise and slaughter broiler chickens in Tianjin, for which they will receive plant output as partial payment. Marubeni has also invested in a joint venture with two other Japanese companies. **Nitto Food Manufacturing Co.** (10 percent), **Toa Shokuhin Kaihatsu Co.** (2.5 percent), and Marubeni (37.5 percent), established a

$1 million joint venture with a Chinese research institute (50 percent). The Chongqing-based venture will produce *konnyaku*, a food made from the ground root of the devil's tongue plant.

Nabisco Brands, Inc. (US)

Nabisco (51 percent) and the Beijing Yili Food Co. (49 percent) opened a $9 million, Beijing-based joint venture bakery, *Yili-Nabisco Biscuit & Food Co., Ltd.*, in June 1988. 85 percent of the 6,000 tpy production (40 million packages) of Ritz, Premium, Escort, and Maria brand biscuits and crackers is targeted for domestic sale with the rest to be exported to Southeast Asian countries.

Nestle SA (Switzerland)

Nestle has agreed with the China Development and Investment Corp. Ltd. of Beijing and the Heilongjiang Shaungcheng County Dairy Industry Corp. to set up a joint venture dairy plant capitalized at $23 million. Nestle will receive a licensing fee for its name-brand products and technological expertise. The plant is expected to open by 1989 and will produce milk, milk powder, cereals, and baby food.

PepsiCo Inc. (US)

The *Shanghai McCormick Seasoning & Foodstuff Co.*, a joint venture between PepsiCo (25 percent), **McCormick & Co. Inc.** (US) (35 percent), and Shanghai Foodstuffs and Sundries (40 percent) will invest more than $3 million in a plant to package herbs, spices, sauces, seasonings, jams and other food products for export. PepsiCo also has a share in the *Guangzhou Beverage Factory*, which produces 10 million cases of soft drinks annually. PepsiCo subsidiary, **Kentucky Fried Chicken Corp.**, has established one restaurant in Beijing and plans to open another in Shanghai. Another subsidiary, **Pizza Hut**, plans to open a franchise in China by the end of 1988.

Seagram Ltd. (Canada)

Seagram agreed to establish a $6 million equity joint venture called *Shanghai Seagram Ltd.* with the China Distillery of Shanghai in April 1988. The two-phase venture will include a blending and bottling plant and a distillery that will produce whiskey, wine coolers, and sparkling wines. Phase One is scheduled for completion in 1990. The partners expect $6 million worth of output in the first year, with most intended for domestic sale.

Toyo Seaweed (Japan)

Toyo (50 percent) agreed to establish the *Dalian Aquatics Co.* with the Dalian Aquatics Bureau (50 percent) in March 1987. This 17-year, $2.1 million joint venture will produce essence of kelp products.

Warner-Lambert International Operations (US)

Warner-Lambert established the *Harbin Warner-Lambert Confectionary Co., Ltd.* with the Harbin Number 3 Sweet Factory in April 1988. The 30-year joint venture will produce Dentyne, Trident, and Chiclets brand chewing gums and Halls' cough drops and fruit-filled candies. Production is expected to begin April 1989. Warner-Lambert will contribute 55 percent of the $2.7 million total investment and is entitled to 30 percent of production, to be distributed worldwide.

Compiled by Bryan Batson from company interviews and US-China Business Council files. For details on Sino-US food processing sales and ventures between 1984 and 1986, see The CBR, *Mar–Apr 1986, p. 38.*

Note: This list is not meant to be comprehensive, but rather to demonstrate the wide variety of foreign activity in China's food sector.

laxed foreign exchange regulations have made it somewhat easier for foreign companies to market directly to Chinese customers.

A growing number of Chinese businesses are now licensed to import both fresh and processed food. Hotels and Friendship stores—among the first to gain this authority—have used it to import such products as US and Australian beef, Del Monte pineapple juice, and various brands of wines and spirits. Consumers willing to spend more money on higher quality food create an attractive retail market, especially now that foreign exchnage is more accessible. As more and more local entrepreneurs respond to consumer demand, imports of fresh fruits, meats, and vegetables could grow. Already, certain special items used in Chinese cuisine—chicken's feet and some processed meats—are being imported for local sale.

Many foreign companies have taken a long-term approach to the Chinese market by establishing a presence through licensing agreements or production joint ventures. The Coca-Cola Company pioneered this area, signing its first licensing deal in 1979. Coke now has 10 bottling plants throughout China. More recently, companies such as General Foods Corporation (US) have entered into joint venture arrangements to manufacture products for the domestic market. General Foods' venture with the Guangdong Dairy Products Factory, named the Guangdong Foodstuff Company, will produce Maxwell House brand instant coffee for domestic sale. Some output will also be exported to help balance foreign exchange expenditures. Other ventures, particularly those in the livestock and brewing industries, currently export their products, but may turn to domestic sales as the market matures.

Right now Chinese policymakers are encouraging dietary diversity by gradually allowing consumer demand to have a greater influence on food and agricultural production. Notwithstanding a grain failure or hard currency shortfall, foreign technology will be sought to help satisfy the demands of increasingly sophisticated consumers. As more cracks appear in China's iron rice bowl, the meals within promise greater flavor, variety, and nutrition. 完

AGRICULTURE AND FOOD PROCESSING CALENDAR

事历

AG CHINA 88/3RD INTL AGRIBUSINESS & FOOD PROCESSING EXHIBITION AND CONFERENCE. November 7-11, 1988. Beijing. Exhibits include small- and large-scale farming equipment, cash crop processing, aquaculture, dairy and slaughterhouse primary processing, seed production, and horticulture. *Contact:* Carlos Jiminez at Cahners Exposition Group, 999 Summer Street, P.O. Box 3833, Stamford, CT 06905-3833 (Tel: 203/352-8451).

CHINA AGRI 89/CHINA'S OFFICIAL AGRICULTURAL EXHIBITION. May 19-23, 1989. Beijing. Exhibits include farm and harvesting machinery, agricultural machine parts and processing equipment, breeding technology, meat and poultry processing equipment, and fishing machinery and equipment. *Contact*: Paul Seline at Asia Marketing Associates, P.O. Box 8074, Natick, MA 01760 (Tel: 617/655-4000).

3RD INTL FOOD PROCESSING MACHINERY & EQUIPMENT EXHIBITION. June 5-9, 1989. Guangzhou. Exhibits include food and soft drink manufacturing equipment, quick-freezing equipment, candy production lines, food packaging equipment, and testing instruments used in food processing. *Contact:* Guangdong International Trade & Exhibition Corp. in Guangzhou (Telex: 44476 GITE CN).

CHINA FERTILIZER 89. June 29-July 3, 1989. Beijing. Exhibits include fertilizer production equipment. *Contact:* Paul Seline at Asia Marketing Associates (*see above*).

CHINA FOOD PRESERVATION 89. September, 1989. Beijing. Exhibits include food preservation and storage technology, and food additive applications. *Contact:* B & I Trade Fairs in Hong Kong (Telex: 64882 ASIEX HX).

CHINA FARM 89. September 13-16, 1989. Beijing. Exhibits include equipment and technology for intensive animal production and crop cultivation. *Contact:* SKH International Services Ltd. in Hong Kong (Telex: 89587 SHKIS HX).

IPCONEX FOODFEST 89. November 15-20, 1989. Beijing. Exhibits include machinery and equipment for food, pharmaceuticals, and other light industry processing and packaging. *Contact:* SHK International Services Ltd. in Hong Kong (Telex: 89587 SHKIS HX).

AGRO EXPO CHINA 90/2ND NATIONAL AGRICULTURAL EXHIBITION. Spring 1990. Beijing. Exhibits include agrochemicals, soil conditioning equipment, harvesting equipment, and animal nutrition feed. *Contact:* Ron Akins at E.J. Krause & Associates, Inc., 3 Bethesda Metro Center, Suite 510, Bethesda, MD 20814 (Tel: 301/986-7800).

The Garden Hotel, Guangzhou. The best value business hotel that isn't all business.

The Garden Hotel, Guangzhou, is a five-star hotel that understands businessmen want much more from a hotel than business facilities.

And that's why we have the widest selection of top international class restaurants in town, including a totally unique sampan-style restaurant where guests can sample a fascinating variety of Southern Chinese specialities.

Not to mention outstanding sports and entertainment facilities, shopping arcades and myriad services.

Executive Floor Lounge

Of course, we also have an extensive range of business facilities: business centre, a special Executive Floor, vast meeting and conference facilities. And state-of-the-art communications.

All in an ideal location just minutes from the city centre and within easy reach of the railway terminal and airport.

But the happiest news of all is that you won't have to pay a fortune for any of it.

Which is just part of The Garden Hotel's attitude to serving guests.

The Garden Hotel, Guangzhou.
Better for business.

For enquiries and reservation, please contact:
The Peninsula Group Reservation Centre, Hong Kong. Tel: 3-7321321
The Garden Hotel, Guangzhou.
Tel: 338989 Telex: 44788 GDHTL CN
Fax: 338989 ext. 3232 Cbl: 4735

花园酒店
The Garden Hotel
GUANGZHOU

Managed by
The Peninsula Group

A Fast Food Frontier?

The long-term potential is still unknown, but foreign food franchisers are eager to enter the China market

Ellen E. Chen and Christopher G. Oechsli

While the opening of a new fast food restaurant rarely merits a turn of the head in most countries, the opening of the world's largest Kentucky Fried Chicken restaurant in Beijing in November 1987 was widely publicized as a milestone of sorts. The first franchise to penetrate China's potentially vast fast food market, the restaurant also epitomizes China's continuing interest in Western concepts such as speed and efficiency.

The substantial presence foreign fast food has quickly established in other Asian countries certainly makes the untapped China market appear tempting to potential foreign franchisers. In Japan, for instance, nearly 1,500 McDonald's outlets sell $1.13 billion worth of burgers a year—and in Taiwan the popularity of "Golden Arches" fare has been suggested as the reason for the current rice surplus. In Hong Kong, South Korea, and Singapore, many famous foreign franchises vend a wide variety of Western-style pizzas, cookies, hamburgers, ice cream, and more. Now Beijing boasts its own fast food with KFC Beijing (*see* box, p. 30), and the parent corporation, PepsiCo Inc., is reportedly considering adding two more restaurants in Beijing and Shanghai. Another PepsiCo subsidiary, Pizza Hut Inc., announced in September that a joint venture contract between Hong Kong's Amit Corporation and the Beijing International Services Corporation was signed to open a Pizza Hut restaurant in Beijing by December. A number of Chinese organizations, many located in Shanghai, have expressed interest or initiated contact with Western fast food franchises such as Big Boy, Wendy's, Popeye's Famous Fried Chicken, Golden Skillet International, Subway, What-A-Burger, and Arby's.

While KFC Beijing's continued popularity indicates that there is indeed a market for Western-style fast food in China, assessing consumer demand is only the first step in determining whether China can realistically be viewed as the next Asian frontier for franchised fast food services. Looming large over the discussion of legal and practical matters—such as sourcing adequate food and labor supplies, protecting trademarks and proprietary technology, and balancing foreign exchange—is the question of how franchisers fit into China's modernization scheme. Is food service franchising a limited novelty, or does it encompass techniques that China wants and needs? Will China encourage Western investment in fast food operations as a means of acquiring technology and know-how, merely tolerate these activities that provide employment and food for a privileged few, or restrict the market to encourage domestic operations? Only time will tell.

The questionable value of fast food technology

The issue of foreign food service technology's contribution to China is the first to confront franchisers during joint venture negotiations. Assessing the value of capital contributions is a tricky negotiating point for all Sino–foreign joint ventures, but in a country where Western-style fast food franchises are rare, the level of consumer demand and need for their products and services is completely unknown. Because establishments such as KFC are not export-oriented and generally do not involve advanced technology, the value of an equity contribution such as a fast food operations manual is open to considerable debate. Likewise, it may be difficult for a foreign franchiser to persuade Chinese authorities that technology to be transferred to a food service outlet will benefit China's development by producing new products "urgently needed in China" or suitable for export; improving the quality and level of productivity; or conserving materials and energy resources, as required under the 1983 Joint Venture Regulations.

Last May's State Council decision to stop or suspend construction of certain nonproductive ventures such as luxury hotels and guesthouses may also present an obstacle to China's acquisition of fast food technology. An official of the Shanghai Foreign Investment Commission stated in an interview for this article that the fast food industry is not encouraged for foreign investment because it is domestically oriented and lacks advanced technology.

A hands-on investment

Unlike typical US franchise arrangements, which involve licensing trademarks for use in selling products developed by the franchiser, Sino–foreign food service operations generally require the foreign party to make a substantial investment and assume some degree of control over day-to-day operations. Therefore, most foreign companies choose to establish equity or contractual joint ventures with Chinese partners rather than sign simple licensing agreements. The foreign partner

Ellen E. Chen is a legal assistant and Christopher G. Oechsli is an attorney in the Shanghai office of the San Francisco-based law firm McCutchen, Doyle, Brown & Enersen.

contributes the needed technology and management expertise, and the associated trademarks may be contributed as equity or separately licensed to the venture. The Chinese partner's contribution usually includes cash, site-use rights, labor, and raw materials.

The Beijing Kentucky Company, Ltd., for example, is a joint venture between Kentucky Fried Chicken Corporation (KFC), which is responsible for managing the venture, and its two Chinese partners, the Beijing Corporation of Animal Production, Processing, Industry, and Commerce, and the Beijing Travel and Tourism Corporation. KFC contributes 60 percent of the approximately $1 million total investment, and the two Chinese partners contribute 12 percent and 28 percent, respectively. KFC Beijing's meals, decor, trademark, and image conform to international franchise standards down to the life-sized mannequin of Colonel Sanders that greets customers at the door.

Other equity joint venture food service operations in China include Windows on the World (Windows), with branches in Shanghai and Beijing, and the Shanghai Yan Zhong Hamburger Restaurant. The two Windows restaurants are equity joint ventures between a Hong Kong partner, Hong Kong China Food Hospitality and Catering Service, and two Chinese partners, the China International Trust and Investment Corporation (CITIC) in Beijing, and the Donghu Holding Group in Shanghai. Yan Zhong, also known as the Han BaoBao restaurant, is a Sino–Filipino cooperative joint venture between the Philippines' Great Harmony Trading Company and the Yan Zhong Copy Company of Shanghai.

China generally does not encourage the establishment of wholly foreign-owned restaurants, but the Shanghai Express, a restaurant in the Shanghai Hilton Hotel, is an exception. The owner is a Hong Kong registered company, CINDIC Hotel Investment Co., Ltd., which also owns 90 percent of the Shanghai Hilton.

Licensing: a limited option

Potential franchisers may also license technology and trademarks to a Chinese food service establishment instead of investing substantial capi-

tal or becoming involved in day-to-day operations. China's technology import contract laws impose substantial restrictions on such arrangements, however. For example, licenses generally cannot exceed 10 years, and the licensor cannot restrict the licensee's use of the technology after the license expires. The regulations also prohibit the licensor from requiring the licensee to purchase raw materials from a specified source, which adds an element of uncertainty to the task of maintaining consistent standards and quality levels throughout the franchise. While some potential franchisers may prefer the simplicity of a licensing deal, generally speaking, pure licensing arrangments in China do not allow a franchiser sufficient control to ensure uniformity of product and service.

Sourcing inputs calls for creativity

Foreign food service establishments in China encounter special problems in addition to the usual concerns such as winning project approval and balancing foreign exchange. Successful fast food operations require food supplies of consistent size and quantity, along with highly responsive and efficient personnel—both of which can be difficult to source and sustain in China.

Because of China's inconsistent food distribution network, foreign food service establishments often cultivate relationships with local private suppliers rather than rely on State markets, and some go to the lengths of flying in fresh vegetables from other parts of China or from outside the country. Hangzhou's Have-a-Bite restaurant in the Shangri-la International Hotel and the Shanghai Hilton's Shanghai Express benefit by coordinating orders of food and utensils with the hotel kitchen staffs, which can usually procure items in bulk at better prices and quality levels than the restaurants could on their own. These two establishments have an additional advantage in the foreign exchange balancing act, because the RMB paid by customers goes to pay for local labor and supplies, while the parent companies earn sufficient foreign exchange to cover the cost of imported items. Thus the restaurants can offer limited menus composed of both Western and Chinese items made principally or entirely from local sources, along with the ambiance, hardware, and supplies that only hard currency can buy.

LEADING THE FAST FOOD FLOCK

Not since Marco Polo brought back noodles from China and called them "spaghetti" has a taste been transferred further afield and met with such enthusiasm. The Chinese say that Colonel Sanders' chicken is "so good you suck your fingers"—and crowd into KFC's year-old outlet in Beijing to put their money where their mouths are.

The Beijing Kentucky Company, Ltd., a joint venture between Kentucky Fried Chicken Corporation (KFC); the Beijing Corporation of Animal Production, Processing, Industry, and Commerce; and the Beijing Travel and Tourism Corporation; is the result of contacts initiated about four-and-a-half years ago by the Chinese. The prospective partners sent KFC, the world's second-largest fast-food chain, several unsolicited faxes indicating their interest in the company, but KFC did not respond until it became a unit of R.J. Reynolds, which was already negotiating with the Chinese in other areas. Once KFC—now a PepsiCo, Inc. subsidiary—and the Ministry of Light Industry (MLI) entered formal negotiations, a deal was struck within a year and the 500-seat restaurant opened in November 1987.

KFC Beijing has broken one KFC world sales record after another. Despite the fact that the average Beijing citizen earns $1.20 per day and the average KFC meal costs $2.86, KFC has a daily average of 6,800 customers. Sales volume will reportedly allow KFC to pay back the project's financing in less than 18 months, although only 5 percent of KFC Beijing's sales are registered in foreign exchange certificates (FEC). KFC Beijing uses its renminbi (RMB) profits to purchase raw materials, which are all sourced locally except for the secret recipe seasonings and paper buckets. And to guarantee supplies of its main ingredient, KFC recently acquired a 30 percent stake in a joint venture poultry farm with the Tianjin Poultry and Egg Company. KFC may eventually export uniforms and soybean-based shortening to be used in its other operations or sold to foreign restaurants.

KFC Beijing's 150 employees—all native Chinese under a Singaporean general manager—receive an average of 180 hours of on-site training involving a combination of videos, written materials, and hands-on work. Employees are taught how to clean and maintain equipment; how to handle, store, and cook products according to KFC's recipes and standards; and how to deal with customers. "We try to instill the 'customer is king' mentality," explained Gregg M. Reynolds, vice president of public affairs for KFC in Louisville, Kentucky. "We specifically hired young, enthusiastic, friendly high school graduates."

Photo courtesy of Kentucky Fried Chicken

KFC forecasts annual sales of over $2.5 million for the Beijing outlet. Without revealing specific figures, Reynolds asserts that the "Beijing operation has been profitable from day one," and that KFC expects to do business in China for a long time. In fact, KFC recently confirmed its plans to expand China operations. On October 4, KFC and a subsidiary of C.P. Pokphand Company, Ltd. of Thailand announced the formation of the Chia Tai-KFC Investment Company, Ltd. The $21 million equity joint venture will reportedly deal with all future KFC restaurants in China outside of Beijing and Guangdong. Feasibility studies and a contract are being prepared for the first of an anticipated 10 restaurants in Shanghai, and should be ready by December. The first Shanghai outlet is expected to open in early 1989, and two more Beijing restaurants are under negotiation. "Both the Chinese and KFC are committed to these projects," Reynolds says. "We both expect to prosper."

—Pam Baldinger

The Beijing and Shanghai Windows resturants serve Cantonese and Western dishes that call for ingredients difficult to source locally, and accept payment only in foreign exchange certificates (FEC) to cover the cost of monthly supply shipments from Hong Kong and twice-weekly shipments of fresh vegetables from Guangzhou. Dorothy Kwok, the manager of Shanghai Windows, explained that Windows has a standing agreement to buy supplies from the Shanghai branch of the China National Cereal, Oil, and Foodstuffs Import–Export Corporation (CEROILS)—a relationship she describes as "unpredictable." Although Windows is not required to buy all imported products from CEROILS, it must pay exhorbitant import taxes on items purchased from other sources. Items that Windows does buy from CEROILS must be purchased in bulk quantities that often exceed the restaurant's storage space. Refusing to buy in bulk may cost Windows the chance to buy the same products again. Shanghai Windows also buys supplies in local private markets using RMB, which it obtains through a two-step process: first, FEC profits are changed into dollars at the Bank of China. The money then goes to the Shanghai Foreign Exchange Commission, part of the new network of currency swap centers. There the dollars are traded for RMB at a fluctuating rate, currently around ¥6.8/$1. While buying locally gives the restaurant more purchasing flexibility, the quality in these markets can be uneven.

The Han BaoBao restaurant sells Western food, such as hamburgers and hot dogs, together with such Chinese items as fried ribs and fish, and fried rice and noodles with beef or chicken. Han BaoBao's Filipino partner contributes the recipes, know-how, and managerial expertise, while the Chinese partner is responsible for sourcing raw materials. General Manager Tony Yang finds that the Chinese partner's connections ensure adequate supplies and quality of the necessary inputs, which come from three different local suppliers.

Serving with a smile

Labor is among the most problematic and frustrating issues facing foreign investors in China's restaurant industry. In addition to the standard problems involved in hiring and training a capable staff, fast food restaurants must operate at a level of speed and efficiency that is far above the standards of China's nascent service industries. Although they decline to be identified, several fast food managers in China have reported problems with some workers who did not adapt well to the high-pressure environment. Hotel restaurants generally provide extensive training in efficiency and customer service to restaurant employees, and these issues will probably continue to require attention from foreign franchisers for some time.


Photo courtesy of Xinhua News Agency

Chinese food service establishments may take away from Western fast food franchises the technology to prepare and serve inexpensive meals quickly and efficiently.

From dinners to dollars

The problem of balancing foreign exchange takes on a heightened significance for fast food franchises, for which volume and speed are the essential elements of success. The product must be affordable and in constant demand—but in China most potential customers have only nonconvertible currency at their disposal. How then to make a profit?

In addition to using the foreign currency swap centers increasingly popular among foreign joint ventures, fast food establishments are also using RMB profits to purchase local goods for export or for use in the venture. KFC Beijing, which reportedly reaps up to 90 percent of its profits in RMB, plans to use the earnings to buy Chinese shortenings and uniforms for other overseas operations. KFC Beijing's status as a China flagship of a global conglomerate, however, allows it to draw on more resources than smaller fast food operations like Han BaoBao, which is more oriented toward quick repatriation of foreign exchange. The restaurant was set up primarily to generate RMB to finance countertrade activities, such as the purchase of light industrial goods for export to the Philippines. This strategy has worked successfully for Han BaoBao's foreign owners—but most large food franchise operations are generally not interested in countertrade activities unless they can source local supplies for use in other franchise outlets. In China, available products include uniforms, promotional games and toys, industrial kitchen supplies, and a few food products such as lard.

Meals and modernization

The balancing success of Han BaoBao and the continued popularity of KFC Beijing may give encouraging signs to potential fast food franchisers—but fundamental questions still remain about the long-term market. What is the true extent of demand for Western-style fast food in China? How interested are the Chinese in acquiring fast food management expertise? Is the door wide open to any and all potential franchisers—or will China allow access only to famous international chains to give a modern gloss to its major cities? The answers to these questions will emerge only after thousands of thighs and fries have been eaten—but for now, despite scrutiny from export-oriented, high-technology-conscious officials, foreign franchisers continue to receive some encouragement for developing their products and services in China. The door for franchisers is ajar; which way it swings will depend on which way political and economic winds blow. Meanwhile, Chinese consumers are licking their fingers and enjoying the early pickings. 完

The Mixed Blessings of Agricultural Reform

China's agricultural reforms have brought more food to the table and prosperity to the farmer. But many farmers are finding that reforms have a down side, too.

Roseanne E. Freese

During the past decade, China's agricultural system has been rapidly transformed from commune-based subsistence farming to an increasingly monetized and market-oriented system in which the majority of farmers are diversifying their cultivation for profit. Universally hailed as successful, agricultural policies of the past 10 years have stimulated production and raised the quality and variety of food throughout the country. Distribution systems have also improved markedly, allowing tropical fruit from steamy Guangdong to make its way more easily to workers' tables in northeast China and lamb and melons from China's far northwest to reach the east and so on.

People throughout China have benefited from these changes, but perhaps the greatest beneficiaries have been the 800 million rural residents, and particularly the 300 million farmers who are increasingly free to choose what to grow, how much to grow, and where to market it. For most of this decade, the standard of living of China's farmers has been rising faster than that of the population at large, and the brick homes and semi-private plots of wealthy farmers have aroused the envy of many an urban worker.

The price of success

Despite the encouraging progress, 1988 has been a turbulent year for China's agricultural reforms and for China's farmers. The gradual freeing of agricultural prices, begun in 1986 and now at a crucial stage, became an issue of growing concern as prices shot upward in recent months, eroding the buying power of China's consumers. Between April 1987 and April 1988, the price of pork, which accounts for more than 90 percent of the meat in the Chinese diet, rose on average 56 percent, while the cost of beef and eggs rose 38 and 30 percent, respectively. The retail price index for agricultural commodities officially rose 19 percent between June 1987 and June 1988—a shock to consumers lulled by decades of virtually unchanged prices. Some foreign experts estimate that inflation actually reached 30–40 percent through the 1988 summer months, compared to just 2.5 percent a year from 1980 to 1984, and 7.5 percent from 1985 to 1987.

Not surprisingly, many consumers panicked last summer. Government moves to allow higher retail prices for pork, sugar, eggs, and vegetables were quickly followed by buying sprees, profiteering, and hoarding, and cities around the country began to institute local rationing to guarantee supplies of staple foods. These problems, coupled with uncontrolled price increases for other consumer goods, led the State Council to announce in late August that the government would hold major agricultural and consumer commodity prices relatively steady for the rest of this year and next year. Backing away from this year's earlier plans to accelerate price reform, the government decided to continue subsidizing basic food prices and pledged to ensure ample supplies of low-cost meat and vegetables to urban areas.

The rural squeeze

But while these moves may have left urban consumers breathing a sigh of relief, China's food producers have been left to deal with a half-reformed, multitiered pricing system that can have a capricious impact on their livelihood. In urban areas, the retail prices of essential agricultural commodities such as grains, cotton, and edible oils, are still directly controlled by central and local governments. These commodities are bought from farmers by the State at fixed, low prices. The prices of intermediate commodities such as fertilizer are allowed to float within a range negotiated between farmers and State procurement agencies. Finally, many locally produced nonessentials such as soft drinks and snacks can now be priced according to market demand without any government involvement. Above-quota amounts of these two categories of goods can also be sold at free-market prices. The unprocessed or semi-processed basic commodities whose prices continue to be set by the State make up the bulk of China's agricultural produce.

To complicate matters further, most goods are produced using inputs from all three categories and are sold under both the free and fixed price systems. For example, in 1985 fertilizer cost ¥630 per tonne at the State price, and ¥930 per tonne at the floating, discretionary price. By 1988 the State price had risen 27 percent to ¥800 per tonne, while the discretionary price had soared nearly 55 percent to ¥1,437 per tonne. Many farmers who had to buy fertilizer on the free market found themselves paying 80 percent more than those who were allocated State-controlled supplies. Some farmers receive fertilizer from the State as payment for produce, but this is often delivered after spring plowing is over, or is not of the type or quality that the farmer needs.

Roseanne E. Freese, formerly the Beijing representative of a US company engaged in establishing agricultural projects in China, is now working in California.

SALUTE THE MOST POWERFUL NEW BUSINESS ADDRESS IN CHINA.

Towering offices with world-wide telecommunications links. Luxury apartments to house your staff and two de-luxe hotels for visitors. Exhibition and convention centers, shops and restaurants.

The China World Trade Center, in the heart of Beijing. China's largest commercial development. Make it your power base in this billion-consumer market.

Office space is available from May, 1989. Return the coupon for details.

中国国际贸易中心
CHINA WORLD TRADE CENTER

YOUR POWER BASE
FOR BUSINESS IN CHINA

- - - - - - - - - - - - - - - -

Please complete the coupon or attach your business card.
YES, send me information on leasing in The China World Trade Center

NAME ____________________

COMPANY ____________________

POSITION ____________________

ADDRESS ____________________

FCB 11

MAIL TO
China World Trade Center Marketing Department, No. 1 Jian Guo Men Wai Ave. Beijing, China
OR Richard Ellis Ltd. 3806-7 Edinburgh Tower, 15 Queen's Road Central Hong Kong

Photo courtesy of Xinhua News Agency

China's farmers are discouraged from investing in improvements for their small plots by credit-tightening policies and diminishing State subsidies.

With most goods still subject to at least indirect State control, some farmers believe that the new contract system, which involves a somewhat arbitrary assessment of prices, is not much better than the old system in which all prices were fixed by the State. Still bound to fulfill State production quotas, some farmers complain that while in theory they should be able to sell their remaining output at free prices, in reality local governments often illegally interfere and prohibit them from selling on the free market in an attempt to corner the market themselves or to comandeer the goods for bribes and kickbacks.

This complex pricing system was designed to use price as a double-edged sword that stimulates production in some areas of the agricultural economy and cools down consumption in others, controlling inflation on the one hand, but preventing prices from rising to truly reflect local supply and demand on the other. Farmers are often trapped between the high cost of needed inputs, including fertilizer, pesticides, fuel, and farm tools, and the low State-set prices that they receive for their produce. Many respond by growing more sideline crops, which fetch higher prices. But in doing so they also run the risk of major losses, since there is no longer a guaranteed buyer for such produce. Moreover, the resulting decline in grain production has alarmed planners, who increased grain planting quotas and raised grain procurement prices last spring to ensure that more grain will be produced this year.

Shouldering a growing burden

The days when urban workers envied farmers their profit-making opportunities under agricultural reforms may be vanishing. The late-summer decision to slow down price reform effectively put a cap on farmers' incomes, although the income of workers in the many new rural industries and in urban areas will continue to rise. Moreover, urban workers will receive State subsidies to help them cope with the higher food prices, while farmers will not. As a result, many farmers are now leaving the land to look for work in rural industry or in already overcrowded cities. Others are taking their children out of school to provide extra help in the fields. In the long run, neither course of action will help the farmer—or the national economy.

The farmers that choose to stay on their land are being urged to increase their investment in agricultural infrastructure, although they receive little incentive to do so. Before 1980, the State spent almost 12 percent of its capital construction budget on agriculture projects, but in recent years this amount has dropped to just over 3 percent. The government expects individual farmers to begin taking up the slack, but farmers now have less money to invest and few legal guarantees that the government won't turn around and take their land away from them. Moreover, the average Chinese family cultivates only 0.6 hectares, or about 1.5 acres of land. This is far less than the 100 or more acres that an average American farmer tills, substantially limiting the investment drive of individual farmers.

Although the government wants to encourage agricultural investment, its policies do not always support this goal. Loans from the local branch of the Agricultural Bank of China and the Bank of China are becoming increasingly difficult for farmers to obtain, as tighter credit policies instituted to dampen inflation are reducing available funds. Further, many financial institutions prefer to lend their limited funds to more profitable local light industrial or export-oriented ventures, rather than to agricultural projects.

The government's heavy hand

Government inefficiencies and inconsistent policy implementation often compound the farmers' woes. Provincial leaders, untutored in the concepts of economic specialization and the benefits of unrestrained commerce, frequently seek to guarantee local self-sufficiency by forbidding certain farm products from being traded across provincial borders. Farmers in Hebei, for instance, are forbidden to sell their extra hogs to wealthy Beijing consumers that live nearby. Farmers in counties on China's national borders must apply for special local and provincial approval before they can export even relatively small orders of goods to neighboring countries like the Soviet Union and Pakistan, which may be only a few miles away.

Government policies concerning agricultural taxes, purchases, and subsidies are often viewed by farmers as unreliable. State grain purchasing prices may be suddenly raised or lowered after "contracts" have been signed. Many county taxation policies fluctuate between taxing in kind and taxing in cash, so farmers are sometimes paid in cash and sometimes with subsidized fuel, fertilizer, and oil supplies. The bureaucracies that distribute these supplies are so vast that one county had to mobilize 11,000 people to distribute the subsidies while each farmer had to apply for eight stamps, three permits, and four seals in order to receive them.

Situations like the cover-up of an incident last spring in which Beijing railway workers held farmers from Guangdong captive for three days while stealing their boxcars of watermelon have contributed to a growing mistrust between farmers and government officials. *Peasant's Daily* has begun publishing photos of corrupt policemen, in addition to printing extensively documented descriptions of destruction of farmland and livestock from industrial pollution and cases of unabashed bribery and malfeasance of officials toward farmers. According to *People's Daily*, almost half of the farmers interviewed in a recent survey claimed that rural officials "abuse power in their own interests," "don't follow the Party's rural policy," and "are only interested in how to enrich themselves."

Problems for foreign agribusiness

Agricultural reforms also pose some problems for foreign firms. Rising agricultural prices are cutting into the profits of commodity traders that source in China. Meanwhile, food production joint ventures are being hurt by the high price of sugar and other inputs and plagued by shortages of basic commodities that are compounded by organizational, technical, and regulatory obstacles. For example, intercounty and interprovincial marketing of products such as meat and grain by private entities is frequently considered to be speculation in China, and thus illegal. As a result, joint venture managers trying to develop supplies of specialized products from different parts of the country face numerous roadblocks.

The scale of agricultural projects in China is another problem. Most projects are either too small (less than $1 million) to interest foreign investors or of such vast proportions (tens of millions of dollars) that the steady supply of inputs—such as 10,000 head of cattle per month—is almost impossible to obtain at any price, much less process and ship according to international standards of freshness and sanitation.

Mixed blessings of reform

The picture for farmers is not all bleak this year. Certain agricultural reforms, including improvements in transportation, distribution, and marketing systems, should continue to move forward. But a truly market-oriented agricultural economy is still many years down the road, and additional gains in output and productivity will grow ever more difficult to achieve. Between 1978, when agricultural reforms were initiated, and 1984, agricultural output grew by an average of over 9 percent a year. Now that the effects of removing the greatest inefficiencies in the system have been felt, this rate has slowed to 3 percent a year since 1985.

Faced with growing consumer discontent and rising corruption fueled by the large price discrepancies in rural markets, leaders believed they had little choice but to replace their full-speed-ahead approach with a slower and more deliberate strategy. Caught between the government's desire to control prices in order to guarantee cheap food supplies and its need to allow prices to rise to stimulate agricultural investment and production, farmers are finding it increasingly difficult to deliver what is expected of them without suffering in the process.

While the current slowdown of reforms was necessary from the leadership's point of view, these leaders have acknowledged that they do not want, and cannot afford, to hold back progress for too long. The challenge ahead lies in finding a middle road that will allow market-oriented reforms to proceed without tipping the delicate balance between the needs of China's consumers and producers. 完

With more responsibility than ever before, 436 managers identify the skills they need to succeed on the job

Career and Education Patterns of Chinese Managers

Herbert W. Hildebrandt and Jinyun Liu

As Chinese manufacturing enterprises take on more responsibility for their profits and losses under reform, the role of managers is on the rise. Middle managers—those below the top director level who generally surpervise all aspects of operations—are finding that increasing accountability and competitiveness are altering their conceptions of skills and training needed to manage successfully.

A recent survey of 436 Chinese managers (282 men, 150 women, and four of unidentified gender) in 31 manufacturing industries ranging from textiles to automotives assessed their education and training levels and gauged their opinions on the types of skills and preparation that were most valuable on their career paths. Some 35.5 percent classify their jobs as involving general management/administration; 18.2 percent are in production/operations; 12.6 percent in personnel/labor relations; 10.9 percent in marketing/sales; 10.3 percent in finance/accounting; 4.5 percent in politics/ideology; 3.6 percent in computer/information systems; 2.8 percent in research and development; and 1.7 percent in law.

While the Chinese bureaucratic structure stifles Chinese managers' aspirations to the executive titles enjoyed by their US and Asian counterparts, they do share a desire to reach positions of leadership and make significant contributions to their enterprises and to their country.

Long hours, many tasks

In addition to overseeing production operations and other standard managerial tasks, Chinese managers spend considerable time working on employee welfare issues such as housing, children's educational arrangements, and ration coupon allocation. In addition, the political and ideological issues that are considered an essential part of factory operations require periodic meetings for both managers and staff.

To fulfill these duties, Chinese middle managers put in an average of 52.3 hours per week, slightly above the required 48-hour, 6-day work week. Working an extra day is just part of the reason for exceeding the 48.6 hour average of their American managerial counterparts. Since Chinese factories tend to be less mechanized than those in more advanced industrial countries, more man-hours are required to achieve similar levels of productivity. Chronic distribution and communications inefficiencies and other production bottlenecks also increase the time and managerial intervention needed to accomplish a given task.

Many Chinese managers appear to function primarily as conduits of information rather than as participative decision-makers. As an indication of this fundamental difference from their US and Asian counterparts, Chinese managers ranked business communication dead last on a list of recommended courses of study—while US and Asian managers generally rate oral communication as the most important area to study.

In China, most of the debate concerning the functions of an enterprise takes place among provincial- or ministerial-level planners, who then "recommend" to an enterprise the direction it should take. By the time a directive reaches the operational level within a factory, it has been generally accepted and requires little substantive discussion by those who will actually carry it out.

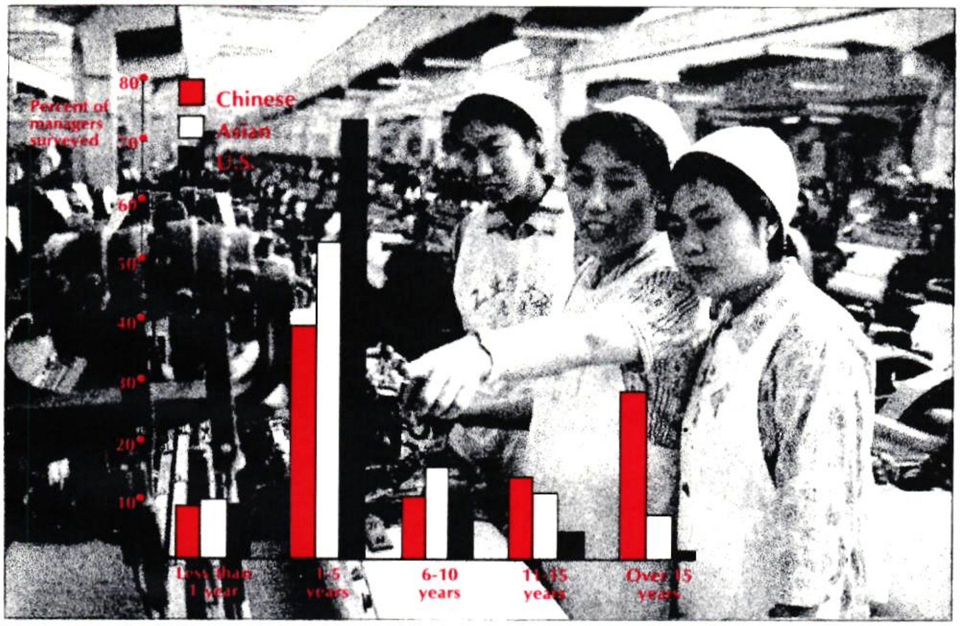
When meetings do take place within an enterprise, they rarely feature interruptions, questions, or opposing views of set presentations. While a topic is under discussion, formal communication patterns emphasizing consensus and heirarchy predetermine who will speak and how much influence their words will carry. Opinions are often offered in the form of prepared speeches, and the meeting ends when the senior member of the group offers his or her opinion on the matter, which is followed by nonverbal reactions such as head nodding or short oral affirmations from certain participants.

Varied career paths

Most managers in this survey began their careers in the area of production/operations, as might be expected of manufacturing industries. They then moved into general management/administration positions, most often after a period of one to five years. Promotions and movements laterally or vertically come slowly due to limited job mobility and the strong Chinese tradition of seniority. Some 27.4 percent of the managers in this study spent 15 or more years in their previous position; 13.8 percent spent 11 to 15 years; and 10.7 percent spent 6 to 10 years. By contrast, only 6.9 percent of a comparable group of Asian managers stayed in their previous position 15 or more years (*see* chart).

Herbert W. Hildebrandt is a professor of business administration and communications at the School of Business Administration at the University of Michigan. Jinyun Liu is a doctoral candidate in the Department of Sociology at the same university.

Time in Previous Position



29.8 percent for teachers and professors; 28.2 percent for engineers; 10.5 percent for doctors and health technicians; and 4.1 percent for administrative staff.

China is trying to raise the quality of enterprise managers both by attracting new employees with higher education levels and by providing management seminars and specialized training courses for existing managers. One specific way in which China might raise the number of middle-level managers with post-graduate degrees from the .7 percent survey level is by bringing some of the many Chinese studying management and business administration abroad into Chinese enterprises (*see* p. 38).

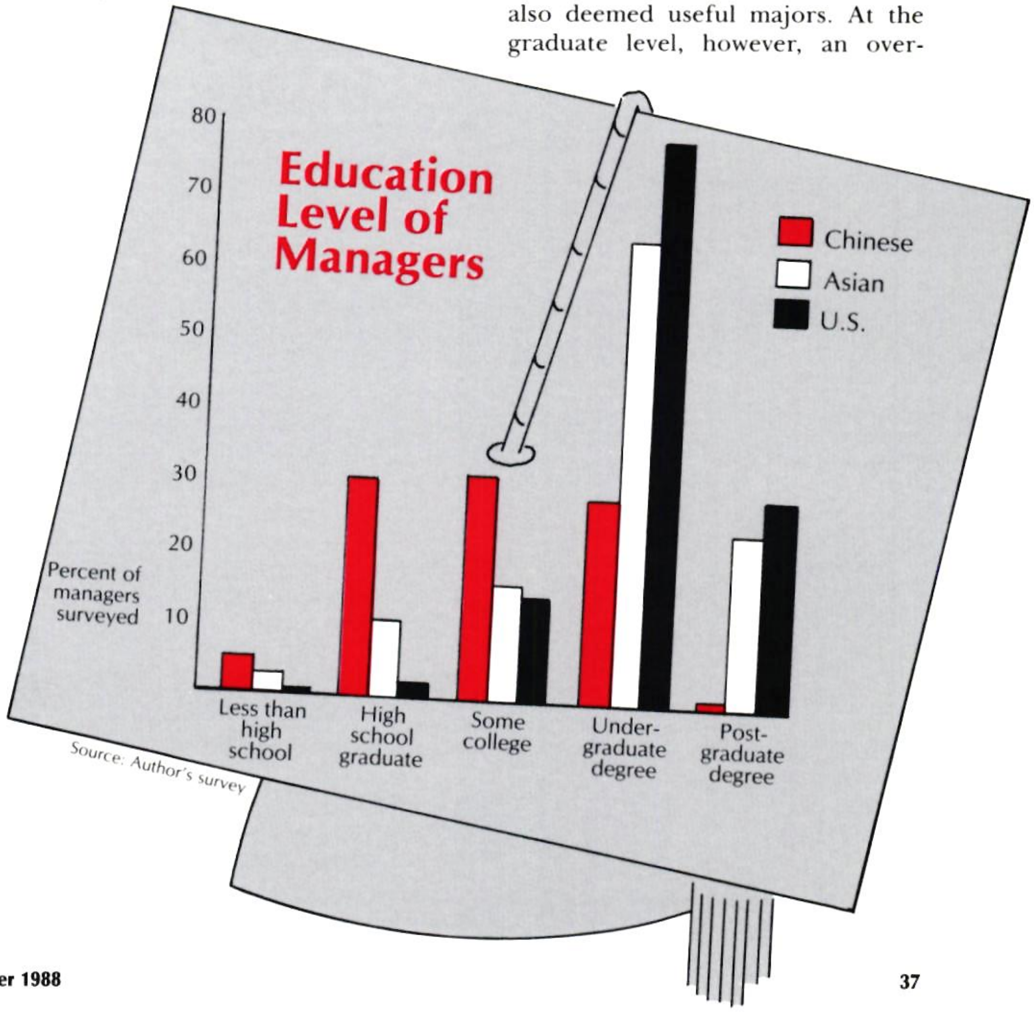
The managers in the survey suggested that two career paths—general management/administration and politics/ideology—helped them climb more quickly to the top of an enterprise. Production/operation and marketing/sales are ranked the second best route.

Jumping to a different enterprise to accelerate an ascent is not a viable tactic. Just over a quarter of the managers surveyed had spent more than 21 years working at the same enterprise. By contrast, only 2.8 percent of Asians and 14.7 percent of US managers had been with a company over 21 years. And as an illustration of the lack of both personal and career mobility, 95 percent of the 141 Chinese managers surveyed who work in Beijing were also born there. Central government planning, migration policies, and a factory's desire to hang onto skilled labor thus constitute significant external constraints on a manager's career.

Rising educational levels

As a group, managers do not rank as one of the more highly educated groups in the Chinese population. In this survey 27.6 percent of the Chinese managers held the equivalent of an undergraduate degree, many in engineering (*see* chart). Of the managers who had been with an enterprise more than 25 years, 20 percent had a college degree. By contrast, 51.4 percent of the managers who had been with an enterprise from one to five years (with an average age of 30.6 years) had obtained an undergraduate degree. The younger managers tend to have a higher level of education, but very few have graduate-level training.

The results of China's third national census published in 1986 reported that members of the category of "managers of enterprises, institutions, and related working units" held just 8 percent of all college degrees. This contrasts with



Wanted: basic business skills

Today's managers have definite ideas about the best educational preparation for a management career. At the undergraduate level, 60.4 percent recommend majoring in business administration. They emphasize first improving overall managerial skills, then turning to specialized areas such as marketing and sales. Accounting, personnel relations, and international business are also deemed useful majors. At the graduate level, however, an overwhelming majority—87.3 percent—recommend business administration. Science and mathematics finish a distant second with 6.8 percent.

When rating specific courses relevant to management, these managers place finance and marketing at the top of the list. As Chinese managers receive more responsibility for profits and losses, they are finding that finance courses provide an essential foundation for decision-making. Sales and marketing skills were not of great importance when China's economy was tightly controlled at the center, but in today's more competitive and export-oriented environment, managers have learned to value competence in these areas.

This practical bent affects managers' view of overall career patterns as well. When asked where they would begin their careers if they had the option to start over again, nearly one-third of the managers chose management/administration, areas where few initially began. Citing the importance of new technologies, another 13.5 percent opted for training in computer/information systems.

Changes could provide choices

Recent changes in the job assignment and labor contract system may allow today's managers more flexibility in attracting workers who have the skills and qualifications to help them become the managers of tomorrow.

At a January 1988 meeting, the State Education Commission (SEC) adopted a new policy to begin in 1993 under which the SEC will provide enterprises with information on college students in response to employer requests. Students will be able to apply for jobs that match their skills. A factory should thus be able to attract graduates specifically interested in their field of production, and candidates can be screened through a review process.

The gradual introduction of individual employment contracts between workers and factories should also help create an increasingly mobile labor pool, which could allow factories more choice in hiring managers as well as workers.

China's economic leaders appear to have realized that improving the level of education and training of enterprise managers will increase productivity. Recent changes in general employment policies and enhanced training efforts directed at current managers should gradually help make up the shortcomings of today's managerial corps. Tomorrow's more competent managers will be able to take on even more responsibility for guiding their enterprises to top competitive levels. 宋

Finding jobs that use their skills tests the creativity and perseverance of Chinese MBA graduates

The Managerial Elite

Lisa Jacobson Treacy

Understanding how Western management techniques can be applied in China is critical as the country continues on the path of economic growth and modernization. Until recently, however, few Chinese had any exposure to Western management skills and practices. In an attempt to close this gap quickly, China has invited numerous academics, consultants, and businesspeople to China to give advice on doing business "capitalist style." At the same time, a growing number of managers, technicians, and students are pursuing master's degrees in business administration (MBA) in programs at home and abroad.

Pinning down the total number of Chinese MBA holders in China today is difficult, but one unofficial estimate puts the number at 200–300. A profile of these people presents a fairly uniform picture: most are males between 30 and 40 years old with engineering backgrounds. The majority are chosen to pursue an MBA because they demonstrate strong leadership skills. Communist Party membership is not a prerequisite.

MBA programs in China

China is tapping a wide variety of resources in the drive to train better managers to support economic reform. Some MBA candidates are sent to study abroad through exchange programs or independent financing. Others participate in the small number of formal programs offered in conjunction with Western institutions in China. In these programs, students follow a generalized course of instruction that includes marketing, finance, accounting, and human resource management. After studying for two years in China with foreign and Chinese professors, students are required to spend time working for companies abroad in order to gain firsthand knowledge of Western business practices.

The larger programs of this type include the Dalian-based school sponsored by the State University of New York at Buffalo (SUNYAB), the Tianjin-based Oklahoma City University (OCU) program, and the Beijing-based China European Community Management Program (CEMP). The oldest of the three, the SUNYAB program, is jointly sponsored by the United States Department of Commerce (DOC) and the Commission on Restructuring the Economy of the People's Republic of China. Both the SUNYAB and OCU (which also offers a masters degree in accounting) programs enroll an average of 45 MBA students each year and bring their MBA graduates to the United States for practical training.

The US training has two purposes—to test the students' business

Lisa Jacobson Treacy, a 1988 summer intern at the US-China Business Council, is currently pursuing a master's degree in applied anthropology at American University.


South
经济世界

management skills, and to contribute to a project of value to the host company. Projects are usually related to China and encompass market studies and strategic planning designed to improve the company's performance in China. Students and companies are matched according to their backgrounds, skills, and interests. Companies that have hosted SUNYAB students include BP, Occidental Chemicals, Union Carbide, Ingersoll-Rand, and Marine Midland.

Alternative sources of training

In addition to the jointly administered MBA programs, a number of management institutes teach a variety of nondegree courses in such subjects as marketing, international marketing, new product development, consumer behavior, and the principles of management. Instruction also focuses on providing solutions for participants' on-the-job problems. These management institutes offer several advantages over the formal MBA programs. Students spend less time away from their jobs, and many of the course offerings are more immediately useful and practical—and thus more attractive to the students and their bosses.

One of the oldest and largest of these programs is offered by the National Center for Industrial Science and Technology Management Development at the Dalian University of Science and Technology, a program partially financed by the DOC. Another large program, the China Enterprise Management Training Center in Chengdu, is a joint project of China's Ministry of Foreign Economic Relations and Trade, the State Economic Commission, and the Canadian Development Agency. Other joint efforts include the Columbia University Business School's cooperation with the University of International Business and Economics in Beijing to establish an executive program on joint venture management, the World Bank-sponsored management courses at training centers in Beijing and Shanghai, Japan's center in Tianjin, and West Germany's program in Shanghai. Most recently China established the Eastern Advanced Institute of Management and Decision Sciences in Beijing, which awards advanced degrees in development strategy and industrial enterprise management.

Graduates' skills underutilized

A study recently published by the Committee on Scholarly Communications with the People's Republic of China (CSCPRC) indicates that independently financed Chinese students in the United States are three times as likely as officially sponsored students to study business administration. While this data may indicate that acquiring Western management skills is not yet seen as a priority by Chinese planners, it may also reflect insufficient knowledge about how these skills may be applied and the difficulties China has had in placing and utilizing MBA holders. In theory, as the responsibility system places greater decision-making power in the hands of managers, China should shift away from the concept of enterprise management by committee. MBA graduates could in turn play a vital role by assisting their work unit in such activities as joint venture projects and international trade. In practice, however, China's shift to a competitive commodity economy run by aggressive middle-level managers has been slow. The way in which MBA graduates are being utilized highlights the disparity between theory and reality.

An article published in *China Youth News* at the end of 1987 charged that bureaucracy and poor personnel selection were squandering the talents of China's expensively trained management specialists. The paper surveyed 37 MBA holders who estimated that only about 30 percent of their newly acquired skills were being utilized in their current posts. In particular, graduates complained of being assigned jobs that did not engage their MBA skills at all, and of facing overarching resistance to any innovation that they tried to introduce to improve productivity.

In an informal survey of 14 MBA holders who had some training in the United States, *The CBR* also found inappropriate job placement and underutilized skills to be the most common complaints. A typical example is Huang Tian, one of the first graduates of the SUNYAB program in December 1986, who was assigned as a teacher in his original work unit—a position that gave him little opportunity to use his new knowledge. After teaching for over a year-and-a-half, Huang was recently promoted to chief of the Foreign Trade Section within the Management Department of the Qingdao Express Company, but he still feels his MBA skills are utilized "only a little" and that he gets little official encouragement to apply them.

Several MBA holders pointed out another aspect of this dilemma. One commented, "my boss expects me to utilize my MBA skills, but my job responsibility and authority do not permit me to do so." Another added, "since some leaders do not understand the real meaning of an MBA, they pay little attention to [which are the best jobs] to assign MBA holders."

Resistance to innovation

Even MBA graduates who secure positions that could theoretically take advantage of their skills face problems implementing new ideas. Higher-level managers often do not understand the principles of Western management. One MBA holder says, for example, "I have neither met with obstruction nor received encouragement to utilize my MBA skills. The key point is that few managers and colleagues understand what I am saying."

In China, most jobs have traditionally not required managerial techniques—a frustration to returning MBAs. Take, for example, the case of Gao Peiye, who received an MBA in 1986. Gao has since served as an officer in the enterprise administration department of the Jilin Telecommunications and Post Administration Bureau, as an officer in the enterprise administration department of the Changchun City Telecommunications Office, as an intern in the accounting section of the business department of the People's Construction Bank of China, Shenzhen Branch, and currently as section chief of the bank's foreign exchange section. Despite this unusual degree of job mobility and apparent suitability of several positions, Gao complains that his MBA skills are not being fully utilized.

Many MBA holders who feel their training is being wasted express the desire to find employment in joint ventures, where foreign management would presumably be more appreciative of their contributions. But securing a transfer to another work unit involves overcoming a series of hurdles.

Transferring to suitable jobs can be difficult . . .

China's MBA trainees return from their studies with expectations of finding highly responsible and honorable positions, but they are often placed in inappropriate and frustrating jobs from which it is difficult to resign. One of the causes of improper job assignments is a general lack of knowledge on the part of many bureaucrats about the substance of an MBA education. But a more fundamental weakness is the highly structured employment system itself.

Skilled labor—particularly trained managers—are few and far between in China, so work units are often reluctant to let go of those they have. In order to transfer from one work unit to another, employees must first make a formal application. The work unit then decides whether or not to give permission for the worker's personnel file to be released to the new unit. By withholding this file, an unyielding boss can easily block a transfer application. In addition, if a company wants to hire an applicant from outside the province, the company must secure permission from the potential employee's provincial government. If the company is in the same province but a different city, the candidate's muncipal government must give permission for the intercity transfer.

Many of the MBA graduates reported problems in obtaining transfer approval. One expressed his desire to find a more challenging position but admitted that he will first need "some lead members to deal with my school leader to allow me to leave." Another received job offers from several joint ventures, but the combination of paperwork and the views of some leaders stood in the way of his transfer. One comment about the difficulties of securing a transfer was particularly succinct: "my unit takes me as its own property."

Xu Jixin, who received an MBA in 1987 and returned to the Ministry of Textile Industry, is up against similar contraints. As an engineer, he uses few of his MBA skills except for his English. Xu has been able to introduce some new ideas on an informal basis, and he has good prospects for promotion, but would still prefer to switch from the ministerial bureaucracy to a working enterprise. The head of his department has already refused several such requests, and Xu thinks that a company wishing to hire him "will have to pay money to the ministry" to gain his release. As a ministerial employee, Xu must also receive approval from the central Ministry of Labor and Personnel before his transfer could take effect. Another MBA holder employed by a ministry is similarly trapped, but hopes that as his ministry undergoes reorganization and staff cuts in the near future he will be able to shift to another company—perhaps even a foreign one.

. . . and time-consuming

The time required for job transfer approval to wend its way through the bureaucracy can also affect the chance to change jobs. After graduating from an MBA program, Zhang Xuchao returned to the Capital Construction Bureau at the Ministry of Coal Industry, which had financed his degree. Although he was recently able to switch to a position as deputy director of the International Cooperation Department for the State Energy Investment Corporation earlier this year, Zhang was forced to pass up an offer to become vice president of the Chinese side of a joint venture with Occidental Petroleum because approval for the transfer did not come through in time.

MBA graduates who do not return to their work units have a much greater degree of job mobility than those who do, but they still face difficulties. To obtain jobs that utilize their skills, free agents need only send out their resume for consideration. However, if the applicant is accepted and the transfer is made, the new employee may again run into problems getting his personnel file from the original work unit.

Even MBA graduates who secure positions that could theoretically take advantage of their skills face problems implementing new ideas. Higher-level managers who do not understand the principles of Western management often resist innovation.

In response to publicity given to the problems associated with the placement and utilization of Western-trained graduates, some urban centers have launched employment consultation services and held personnel exchange conferences. And a new law instructs employers not to prevent employees who wish to transfer to foreign enterprises from doing so, but this measure will only affect a small number of people even if it is obeyed.

Modernization may expand MBAs' role

Clearly, there is a significant gap between the rhetoric of a government eager to modernize and the reality of MBA holders' role. There appears to have been little progress in correcting this problem, as today's students continue to face the same types of problems the earliest graduates encountered. But those MBA graduates surveyed by *The CBR* seem generally optimistic that the situation will improve.

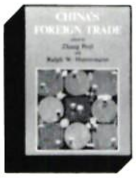
Zhang Xuchao notes that many Chinese leaders still make decisions subjectively. As reforms proceed, however, MBA holders should increasingly participate in strategic decision-making. Similarly, another graduate adds that "China business is more backward in management than in science and technology . . . more and more [of the] students with MBA degrees can be sure of playing an important role in [China's] modernization." Li Juefei terms the current role of MBAs in China's modernization "hard to identify" but believes that their role will expand as a market-oriented system emerges.

The success of a few MBA holders in securing positions in work units that appreciate their expertise is another hopeful sign. Li Fuxiang is one example. Following graduation from the University of Texas at Dallas, he took a position as a trader in the foreign exchange department of the Bank of China (BOC). After working his way up to manager of this department, he was named assistant general manager of the BOC's New York City branch. He credits his education with providing "fundamental knowledge that gave me a fast learning curve in foreign exchange, capital markets, and lending areas" as well as management. And he notes that the bank "put me in the right position to allow me to play a strong role in these areas."

As one survey respondent pointed out, an important part of Western management training is preparing graduates to find innovative solutions to seemingly dead-end situations. Thus flexibility and creativity—rather than training in economics or finance—may be the most valuable assets MBA graduates can bring both to their jobs and to their own attempts to improve job mobility and full use of their skills. 完

BOOKSHELF

书刊介绍



China's Foreign Trade, edited by Zhang Peiji and Ralph W. Huenemann. Lantzville, B.C., and Halifax, Nova Scotia: Oolichan Books and the Institute for Research on Public Policy, 1987. 127 pp. $12.95 softcover.

This book is a collection of papers on China's foreign trade policies, plans, and administration. Most of the articles were written by Chinese scholars affiliated with the Ministry of Foreign Economic Relations and Trade's International Trade Research Institute, a think tank long associated with China's most progressive and innovative foreign trade research. This volume performs a useful service by making the research of these scholars available to an English-speaking audience.

The book's first seven chapters examine China's global trade strategy, touching on the role of trade in the country's development, macroeconomic control of foreign trade, the import and export system, the internal organization of China's trading system, foreign investment, and China's application to rejoin the General Agreement on Tariff and Trade (GATT). The last six chapters review China's bilateral trade relations with the United States, Japan, Canada, Western Europe, the Soviet Union and Eastern Europe, and the Third World.

A reader new to China business will find in this book a concise overview of issues affecting China's trade and foreign investment, while a well-informed reader may already be familiar with many of the views and analyses presented here.

—Jeffrey R. Taylor

China Trade and Price Statistics in 1987, compiled by the State Statistical Bureau. New York: Oxford University Press, 1987. 243 pp. $49.95 hardcover.

This statistical compendium contains data on China's foreign economic relations and trade and tourism, as well as valuable domestic price and consumption data for many major commodities ranging from aquatic products to woolen fabrics. Numerous time-series tables present statistics starting in the 1950s for domestic consumption of consumer goods, retail sales and price indexes, farm and sideline product sales, service trade workers, and cost of living indexes.

Despite the title, information is provided only through 1986, which limits the volume's usefulness for market surveys that require current data. The reader should note that although the foreign trade, investment, and tourism statistics contained here can be found in other sources, the domestic trade and price information stands alone as a valuable resource. —JLL

China Statistics Monthly, jointly edited and published by the Chinese Statistical Information and Consultancy Service Center of the State Statistical Bureau and the China Statistics Archives of the University of Illinois at Chicago. Subscriptions available from China Statistics Archives, Suite 700 South, 1033 W. Van Buren St., Chicago, IL 60607-9940. $240 for 12 issues. Quarterly diskettes of data are available for an additional $100.

This comprehensive journal is based on the Chinese-language periodical *Monthly Bulletin of Statistics—China*, and includes official data collected by the China State Statistical Bureau on many aspects of China's economy and trade, including employment, agriculture, industrial sectors, transportation, price indexes, domestic commerce, and foreign trade and tourism. Foreign companies that need to track commodity production and sales will find the up-to-the-minute statistics provided here to be very valuable.

Financial data and statistics on the SEZs and the 14 coastal cities, a glossary of basic economic terms, and additional graphs enhance the data from the original Chinese publication. The May 1988 issue also features a discussion of fixed investment statistics, and future issues promise more such editorial notes examining both statistics themselves and how they are compiled.

The University of Illinois at Chicago, which has a five-year arrangement with the State Statistical Bureau to publish and translate information, hopes to speed up the publication cycle to bring out data faster. The May 1988 issue (which contains data through March) arrived in the United States in September. —JLL

China Trade Agreements, by Thomas C.W. Chiu. 2nd edition. Philadelphia, PA: Taylor & Francis, 1988. 315 pp. $70 hardcover.

The only book of its kind, *China Trade Agreements* is a collection of forms and contracts used in many areas of foreign trade, including sales and purchases, joint ventures, technology transfers, compensation trade, and processing and assembly. The sample model contracts, memoranda of understanding, and letters of intent are particularly useful.

The book fails to include any explanations of when and how to use the forms, and an apparent lack of editing has left the English extremely awkward. Thus while a lawyer might find this volume a useful reference, a nonlegal specialist should be extremely cautious about constructing an agreement using these sample documents. —JLL

China Trade Documents, by Thomas C.W. Chiu. 2nd edition. Philadelphia, PA: Taylor & Francis, 1988. 427 pp. $75 hardcover.

There seems to be no logical plan behind this compilation of laws and legal forms. Perhaps they are leftovers from *China Trade Agreements*, reviewed above, which is more contract-oriented than this volume. In any case, *China Trade Documents* is merely an assemblage of legal texts and documents without any explanations for applying and using them.

Some of the documents in this volume could prove helpful to the potential trader, including sample letters of credit, shipping documents, notary forms, and patent and trademark registration forms. A detailed section on insurance provides examples of risk clauses for platform drilling rigs, drilling barges, and property insurance. Other sections include taxation forms and registration forms for representative offices in China. This volume, along with *China Trade Agreements*, will prove most useful to lawyers and experienced China traders. —JLL

PRC Laws for China Traders and Investors, by Thomas C.W. Chiu. 2nd edition. Philadelphia, PA: Taylor & Francis, 1988. 726 pp. $95 hardcover.

This book does not fulfill its ambitious promise of providing a concise reference to law and practice in China trade. The bulk of the text consists of Chinese foreign trade laws through September 1, 1987, and is divided into various sections dealing with banking, foreign exchange, joint ventures, oil and energy resources, customs and duties, and trademark and patent law.

The book is not well organized, and without an index it is difficult to locate information. Legal practice notes are scarce and sometimes inaccurate. For example, the author states that foreigners have turned away from investing in favor of more technology transfer. Not only is this a dubious statement, but the author then fails to mention or explore any technology transfer laws—a serious omission.

Despite its drawbacks, the book contains some gems. The copies of model contracts and certain hard-to-find trade documents are useful, although they do not qualify the text as a stand-alone guide to foreign legal practice in China—which is what one expects for the price of this volume. —JLL

Technology Transfer in the PRC: Law and Practice, by Richard J. Goossen. Dordrecht: Martinus Nijhoff, 1987. 197 pp. Price unavailable.

Goossen's basic analysis of transferring technology to China is divided into two sections. The first portion of the book reviews relevant legislation on topics including joint ventures, contracts, patents and trademarks, and technology imports. The second portion of the text examines practical problems related to technology transfer, such as pricing, payment methods, and acceptance tests. Unfortunately, however, Goossen only devotes 12 pages to this important and useful information. Examples and case studies would have significantly enhanced the discussion of the issues addressed in this section. And since the book's completion in mid-1986, China has released new legislation for technology transfers that is not included in the volume, such as the "Implementing Rules for the Regulations on the Administration of Technology Import Contracts," and the "Revised Implementing Rules for the Trademark Law," both dating from January 1988. —John Frisbie

Magnificent China: A Guide to Its Cultural Treasures, by Petra Haring-Kuan and Kuan Yu-Chien. Co-published by Joint Publishing Company (HK) and China Books and Periodicals (San Francisco), 1987. 409 pp. $34.95 hardcover; $19.95 softcover.

Despite its title, this book is much more than a guide to China's cultural treasures. The Sinologist authors have stuffed the first section of *Magnificent China* full of a surprising range and depth of information. Maps of population, ethnic groups, industries, railroads, shipping lines, climate, and agriculture, along with organization charts and tables of all kinds, supplement the chapters on literature, religion, philosophy, and art that one would find in a conventional guidebook.

The book's second section gives plenty of practical and fascinating travel tips, and the third section offers province-by-province information on geography, history, tourist attractions, shopping, and more. Both sections make good use of anecdotes to support the facts; the reader will learn, for example, that the Jiapingguan Canting restaurant in Guangzhou is not only one of the oldest restaurants in the city, but also that "Zhou Enlai savored the fried pigeon" there.

Students seeking insights, armchair travelers wanting to get a feel for China, and executives wishing to know more than the name of the best hotel or the latest exchange rate will all enjoy this informative hybrid of encyclopedia and travel guide.—PET

BOOKS RECEIVED

The Anvil of Victory: The Communist Revolution in Manchuria, 1945-1948, by Steven I. Levine. New York: Columbia University Press, 1987. 314 pp. $35 hardcover.

Breaking the Iron Rice Bowl: Prospects for Socialism in China's Countryside, by Pat Howard. Armonk, NY: M.E. Sharpe, 1988. 264 pp. $32.50 hardcover; $14.95 softcover.

China and Malaysia: Social and Economic Effects of Petroleum Development, by Peter Hills and Paddy Bowie. Geneva: International Labor Office, 1987. 148 pp. SwF22.50 softcover.

Copenhagen Papers in East and Southeast Asian Studies, edited by Kjeld Erik Brødsgarrd. A new publications series from the Center for East and Southeast Asian Studies, University of Copenhagen. Issue No. 1, 1987, appeared in November 1987 and contains several articles regarding China's political and economic reforms. Single issue cost: Dkr85.00.

China's Satellite Parties, by James D. Seymour. Armonk, NY: M.E. Sharpe, 1987. 151 pp. $25 hardcover.

Foreign Direct Investment, the Service Sector and International Banking (UNCTC Current Studies Series A, No. 7). New York: UN Centre on Transnational Corps., 1987. 71 pp. $9 softcover.

Human Rights in the People's Republic of China, by Yuan-li Wu et al. Boulder, CO: Westview Press, 1988. 332 pp. $35 hardcover.

A Relationship Restored: Trends in U.S.-China Educational Exchanges, 1978-1984, by David Lampton with Joyce A. Madancy and Kristen M. Williams for the Committee on Scholarly Communications with the PRC. Washington, DC: National Academy Press, 1986. 266 pp. $19.95 softcover.

CHINA BUSINESS

中外貿易

Jennifer Koch Brick

The following tables contain recent press reports of business contracts and negotiations exclusive of those listed in previous issues. For the most part, the accuracy of these reports is not independently confirmed by *The CBR*. Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in the IMF's *International Financial Statistics*.
US-China Business Council member firms can contact the Business Information Center to obtain a copy of news sources and other available background information concerning the business arrangements appearing below. Moreover, firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in *The CBR* by sending the information to the attention of the Business Information Center at the US-China Business Council.

中外 贸易

SALES AND INVESTMENT THROUGH SEPTEMBER 30, 1988

Foreign Party/ Chinese Party	Arrangement/Value Date Reported

Agricultural Commodities

China's Imports

(Argentina)	Will provide sugar in barter exchange for Chinese coal. 5/88.
Kansas (US)	Sold 150,000 tonnes of soft red wheat. 7/88.

Investments in China

Two Japanese companies/ Heilongjiang State Farm General Bureau	Will finance soybean and other farming production for 15 years in return for soy products. $625,000 (J¥79.3 million). 9/88.

Other

The World Bank/Ministry of Agriculture	Provided $61 million loan to develop fruit crops along the upper Yangzi River. 8/88.
Alaska (US)/Yantai Ocean Fishing Co.	Will send two vessels to fish in Alaskan waters for nine months. 8/88.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Industry Import-Export Corp.; CASS: Chinese Academy of Social Sciences; CATIC: China National Aero-Technology Import-Export Co.; CCTV: China Central Television; CEIEC: China Electronics Import-Export Corp.; CHINATEX: China National Textiles Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNCCC: China National Chemical Construction Co.; CNIEC: China National Nonferrous Metals Corp.; CNOOC: China National Offshore Oil Corp.; CNTIC: China National Technical Import Corp.; COSCO: China Ocean Shipping Co.; CPIC: China National Corp. of Pharmaceutical Economic and Technical International Cooperation; ICBC: Industrial and Commercial Bank of China; HIPDC: Huaneng International Power Development Corp.; INSTRIMPEX: China National Instruments Import-Export Corp.; ITIC: International Trust and Investment Corp.; MACHIMPEX: China National Machinery Import-Export Corp.; MAI: Ministry of Aviation Industry; MEI: Ministry of Electronics Industry; MINMETALS: China National Metals and Minerals Import and Export Corp..; MLI: Ministry of Light Industry; MOCI: Ministry of Coal Industry; MOFERT: Ministry of Foreign Economic Relations and Trade; MPT: Ministry of Posts and Telecommunications; NA: Not Available; NDSTIC: National Defense, Science, Technology and Industry Commission; NORINCO: China North Industries Corp.; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SITCO: Shanghai Investment and Trust Corp.; SPC: State Planning Commission

Agricultural Technology

China's Imports

MEC Co. (US)	Signed six contracts to design and construct feed mills. $6 million. 8/88.

Investments in China

NA (Denmark)/Jiangchuan Farm, Heilongjiang	Will assist in setting up a comprehensive dairy farm and renovating a flour mill. 9/88.

Other

Mitsubishi Bank (Japan)/ Agricultural Development Trust Investment Corporation under the Ministry of Finance	Signed agreement to exchange information on China's agricultural development and to cooperate in China's fund raising and management. 7/88.

China's Investments Abroad

Chia Tai Group (Thailand)/ China Agribusiness Trust and International Investment Co.	Will jointly operate prawn-breeding pond in Bay of Thailand. 8/88.

Chemicals (Agriculture)

China's Imports

Spie Batignolles (France)	Has begun construction of fertilizer production plant in Qinhuangdao. $58 million. 6/88.
Sumitomo Corp. (Japan)	Will supply farm pesticides including 5,000 liters of sumi-alpha, 5,000 liters of nissorun, and 20,000 liters of meothrin. $235,000. 7/88.
Janka Industries Ltd. (HK)	Will supply diammonium. $2.9 million. 7/88.

Chemicals, Petrochemicals, and Related Equipment

China's Imports

Atochem (France)/Anhui International Trust and Investment Corp.	Has licensed polyvinyl chloride microsuspension process to be used by Hefei Chemical Works 12,500 tpy plant. 6/88.
Asfalti Breitner (Italy)/ China Kanghua Investment and Export Co.	Will sell bitumen membrane plant and provide employee training. 6/88.

Davy McKee Corp. (US)/CNCCC	Signed contract for construction of phosphoric acid production plant with phosphorous anhydride capacity of 275 tpd. 7/88.
World Enzymes Ltd. (US)	Will supply Endurazyme for use in road construction. $1.9 million. 7/88.
Vista Chemical Co. (US)	Sold ethoxylates. 8/88.

Investments in China

Lawter International Inc. (US)	Will build ink plant to be wholly owned for 50 years. 5/88.
NA (US)/No. 1 Light Industry Dept., Shandong	Established Luqing Rubber Industry Co., Ltd., in Gushan, Laizhou. $114 million (¥424 million). 7/88.
Zhongshan Co. Ltd. and China Everbright Corp, Ltd. (HK)/ SINOCHEM and Nanjing Chemical Industry Corp., Jiangsu	Established Nanjing Dongfang Chemical Industry Co. Ltd. joint venture to produce carprolactum. 7/88.
NA (US)/Beijing Dongfang Chemical Plant	Signed contract to jointly produce acrylic resins for domestic sale of 2,000 tpy of textile emulsion; will establish technology development center. 8/88.
E.F. Houghton (US)/Shenzhen	Will invest in industrial lubricants and chemical additives plant. $5 million. 8/88.

Other

Rohm & Haas Co. (US)/ Beijing Eastern Chemical Works	Have formed Eastern Rohm & Haas Development Center to market emulsions in China. 7/88.
NA (HK)/BOC, Harbin branch	Will provide $36.2 million loan for construction of methyl-methacrylate project. 7/88.
Nobel Chematur AB (Sweden)/ Shanghai Wusong Chemical Plant	Signed five-year buy-back agreement for 3,000-4,000 tpy toluene diisocynate. $35 million. 7/88.

Construction Materials and Equipment

China's Imports

IHC Holland (Netherlands)	Will supply suction-cutter dredger and self-propelling dredger. $18 million (DF35 million). 5/88.
Nihon Cement Co. (Japan)	Plans to transfer cement processing technology and start constructing or rebuilding cement plants. 6/88.
Onoda Cement Co. (Japan)	Will set up a cement plant and send technicians to Shandong. 7/88.
Leeds & Northrup (US)/CITIC	Sold distribution control system for cement mill. 7/88.
Uni-Flex Inc. (US)/Nanjing Purification Equipment Corp.	Will supply hose with mechanical locking system and external metal helix. $750,000. 8/88.

Consumer Goods

China's Imports

Kienzle Uhrenfabriken GmbH (FRG)/China Clock Factory and Shanghai Clock Factory	Signed know-how and delivery agreements. 6/88.

Investments in China

Status Eyes (Italy)	Will produce and sell Pierre Cardin eyewear in China. 5/88.
NA (HK)	Established the Xinjiang-Hong Kong Thermos Co. to produce 500,000 thermoses annually for export. $800,000. 6/88.
Kincheng-Tokyo Finance Co. (HK)/BOC, Zhujiang branch	Signed agreement to jointly loan funds to Guangzhou Renmin Tannery. $4 million. (50-50). 6/88.
Herald Metal and Plastics Works, subs. of Herald (HK)/ Shenzhen SEZ Overseas Chinese Town Economic Development Corp. and Kailong Investment and Development Co.	Signed agreement to establish Shenzhen Herald Metal and Plastic Co. Toy Factory. $3 million (HK$23.5 million). (HK:52.5%-SZ:20%-KID:27.5%). 6/88.
Procter & Gamble Co. (US) and Hutchison Whampoa Ltd. (HK)/Construction Import & Export Corp. of Guangzhou Economic & Technological Development Zone	Will establish Procter & Gamble (Guangzhou) Ltd. to make soap products. 7/88.
NA (FRG)/Benxi Huguang Chemical Plant, Liaoning	Established joint venture to produce cosmetics. 8/88.

China's Investments Abroad

Two Macau entities/ Guangdong	Established the Macau Pottery and Porcelain Corp. Ltd. to produce porcelain and porcelain base. 7/88.

Electronics, Electrical Equipment, and Computer Software

China's Imports

Western Digital Corp. (US)/ China Computer Development Corp.	Signed agreement for initial purchase of hard-disk controller boards and chipsets, and use of US chipsets to build and sell Chinese board-level products. $3 million. 6/88.
Heraeus Industrielaser GmbH (FRG)	Signed contract for carbon laser plant. 6/88.
Toppan Moore Co. (US)/Beijing	Will supply IBM AS/400 system to new hotel in Beijing. 7/88.
Socma (Argentina)/CITIC	Signed technology transfer accord and may form consortium to undertake projects of common interest. 7/88.
Plessey Controls Ltd. (UK)/ Beijing Municipal Public Security Dept.	Signed agreement to install computerized traffic control system financed through British loans. 7/88.
Sierra Co. (US)/Karamay Oilfield, Xinjiang	Sold software packages for seismic data clarification. 8/88.

Investments in China

Daewoo Electronics (S. Korea)	Opened 20-year joint venture to produce 300,000 refrigerators annually in Fuzhou, Fujian. $12.6 million. (SK:48%-PRC:52%). 6/88.
Iko Software Services Ltd. (FRG)/Tianjin Advanced Technology Development Corp.	Established Ticoss Ltd. to produce computer software. $1.7 million. (50-50). 6/88.
China Technology Trade Ltd. and DAW Computer System (HK)/ Institute of Computing Technology, div. of Academia Sinica	Opened Legend Technology computer company. 6/88.
Canon (Japan)/Beijing University	Formed Beijing Canon Information Technology Co. Ltd. to study precision laser typesetting technology and desk-top publishing techniques. Registered capital: $700,000. 6/88.
Tele-Art Inc. (US)/Beijing	Acquired 100 percent ownership of Tele-Art Beijing, which will design, produce, and import computer software. 7/88.

Bailey Controls (US)/ Beijing Automation Technical Research Institute	Established joint venture to install and service microprocessor-based products. 7/88.
Tecnicas de Electronica Yautimatismos (Spain) and Serco S.A. (Belgium)/Beijing Electronic Research Factory, Qijia Village Industrial Corp., China Metrology Research Institute	Established Uticell Force and Weight Transducers Co. Ltd. 30-year joint venture to manufacture transducers. $1.03 million. (TDY:50%-SSA:5%-BERF:25%-QVIC:17%-CMRI:3%). 7/88.
Memotech International (US)/Xiamen Electronics Co. and Hua Xia Group	Formed joint venture to produce computer hard disks. $4.4 million. 7/88.
Hong Kong East Asia (HK)	Signed contract for electronic component joint venture. 7/88.
Yokogawa Electric Corp. (Japan)/ Suzhou Crystal Element Co.	Established the Suzhou-Yokogawa Meter Co. to produce panel meter movements for export. Registered capital: $2.43 million. 7/88.
Rockwell International Corp. (US)/Xiamen Construction Development Co.	Established joint venture to produce electronic controls for heavy industry. (50-50). 9/88.
Printronics (Australia)/ Tianjin Printed Circuit Board Co.	Formed Shanghai-Printronics PCB joint venture to produce double-sided and multi-layered circuit boards. $12 million. (AUST:35%-TPCB:65%). 9/88.

Other

RIT (US)/Beijing Research Institute of Automation for the Machine-Building Industry	Agreement to give engineers six months training in US for design and development of three-dimensional CAD/CAM software. 5/88.
Wiltron Co. (US)	Will open sales office for microwave test instruments and systems in Beijing. 6/88.
Hitachi Electronic Co. (Japan)/INSTRIMPEX	Established Hitachi Electronic Product Service Center to offer technical service, maintenance and spare parts in Beijing. 7/88.
IBM China Corp. (Sino-US JV)/ China Machinery Industry Computer and Technology Corp.	Signed complementary marketing assistance program for IBM 9370 and 13xx systems, and will provide training for endusers. 7/88.

Investments in China

Philips Co. (Netherlands)/ No. 7 Radio Factory, Shanghai	Will establish the Shanghai Philips Semiconductor Co. and use Philips' technology to manufacture 70 million pieces of integrated circuits for Chinese and overseas markets. 7/88.

China's Investments Abroad

Provigo Inc. (Canada)/STM Computer Co.	Bought the Canadian firm to set up sales network. 6/88.

Electronics (Consumer)

China's Imports

Ampex Corp. (US)/Shandong TV Station, Jinan	Sold studio and field video equipment, ACE editing and ADO special effects units, and U-matic videotape for Chinese production facilities. 7/88.
Microwave Systems Engineering (US)/Hwadar Electronics Co. Ltd.	Transferred consumer microwave technology in exchange for low noise amplifiers. 7/88.

Other

CCIC Financing Ltd. (HK), Midland Bank (UK), Jeken and Jesen (FRG), Sumitomo (Japan), and a foreign consortium/BOC	Will provide $95 million loan to finance Anyang Color TV Tube Glass Case Factory. 7/88.
Varian Corp.(US)/Nanjing Changjiang Machine Building Factory and China Electronic Import & Export Corp.	Established Varian Microwave Equipment & Technology Service Center in Nanjing to provide installation and maintenance services for the domestic market. 8/88.

China's Investment Abroad

Orion Electric Co., subs. of Daewoo Group (S. Korea)/NA	Will establish the first PRC-South Korean joint venture in South Korea, which will produce color television tubes. 8/88.

Engineering and Construction

China's Imports

Jardine Engineering Corp. (HK), Mather Platt (UK), and Siemens PFG (FRG)/CNTIC	Signed contract to build first part of two-phase project in Beijing to ease water shortage, and will install 2.5 MW water pumps. $25million. 6/88.
Japan Steel Tubing Co. and Japan Tekken Construction Co. (Japan)/ Shanghai Municipal Infrastructure Engineering Co. and CNCEC	Will construct river sewage treatment plant. $806,000 (¥30 million). 6/88.

Finance and Banking

Banking Agreements

Generale Bank (Belgium)/CITIC Industrial Bank	Signed general purpose line of credit. $27 million (BF 1billion). 6/88.
Blinder International Enterprises Inc. (US)/ China Foreign Trade Leasing Corp.	Will establish joint venture to form and sell a mutual fund in China. $2.5 million. (50-50). 6/88.
China Market Service GmbH, subs. Westdeutsche Landesbank (FRG)/ China International Economic Consultants	Signed cooperation agreement. 6/88.
Bank of America (US)/People's Construction Bank of China	Signed cooperation agreement permitting US bank's involvement in financing capital construction and industrial projects in China. 6/88.
Orient Leasing and Orient Fund (Japan)/CITIC	Signed agreement to set up the Investment Fund Under Joint Investment to support and promote Japanese investments in China. Registered capital: $12 million (J¥1.5 billion). 7/88.
Standard Chartered Bank (UK)/ People's Construction Bank of China	Signed agency arrangements agreement to cooperate with branches of each bank, both domestically and abroad. 7/88.

Loans

International Development Bank, affiliate of the World Bank	Will provide $300 million loan for rural economic reform. 6/88.
Itochu (Japan)/Kanghua Development Co.	Will provide loan to build a hotel, buy a fleet of taxis, finance an artist troupe, and earn long-term resources for China's disabled. $1 billion. 7/88.
(Japan)	Will provide $6 billion government loan package. 8/88.

Food Processing and Food Service

China's Imports

Dunham-Bush Inc. (US)	Will supply engineering and manufacturing know-how for commercial refrigeration. 5/88.
Holstein Und Kappert GmbH subs. of Kloeckner Werke (FRG)	Will construct brewery at Qingdao. 7/88.
Dean Worldwide (US)	Shipped complete baby food manufacturing plant to Guangzhou. 7/88.
Wenger International Inc. (US)	Sold eight food processing systems. 8/88.

Investments in China

Sempernova PLC (UK)/Zhejiang Oils & Fats Chemicals Co.	Established Sino-British Semper Co. to produce coatings that extend the shelf life of fresh fruit and vegetables. 6/88.
General Foods Corp. (US)/ Guangdong Dairy Products Factory	Established Guangdong Foodstuff Co. Ltd. to produce Maxwell House brand instant coffee. 6/88.
Xinli Business Development Co. (HK)	Signed agreement to jointly develop mineral water resources in Guangxi. $750,000 (¥2.8 million) 6/88.
Sankyo Food Co. Ltd. (Japan)/ China National Aquatic Products Joint Corp., Tianjin Aquatic Products Supply and Marketing Co., and Qingdao Aquatic Products Supply and Marketing Co.	Will supply raw fish for joint processing, and then market finished product abroad. 7/88.
Seiyu Ltd. (Japan)	Will open a supermarket. 7/88.
Mitsukoshi (Japan)/Beijing Fortune Building Co.	Will open Beijing Mitsukoshi Beverage Co. Ltd. Registered capital: $2.1 million. (J¥260 million). (50-50). 8/88.
Pizza Hut (US)/Beijing	Will open branch by year-end. 8/88.

Other

Grandy's and MFB American Foods (US)	Plan to open restaurants in China. 6/88.
NA (Hungary)	Opened a roast chicken restaurant in Beijing's West District. 6/88.
(US)	Signed preliminary agreement on compensation trade for cold-storage containers. 8/88.

Leasing and Insurance

Investments in China

Tokai Bank (Japan), Banque Indosuez (France), and Locasuez Asia, Ltd. (HK)/Industrial and Commerical Bank of China, Guangzhou International Trust and Investment Corp., and Guangzhou Foreign Trade Corp.	Opened Industrial and Commercial International Leasing Co. Ltd. to develop international and domestic leasing business and to introduce foreign funds and advanced equipment. Registered capital: $5 million. 8/88.

China's Overseas Investments

NA (UK)/China Merchant's Group	Will accept Chinese investment in insurance and offshore service businesses. $29 million. 8/88.

Machine Tools and Machinery

China's Imports

Elof Hansson and Sunds Defaberator (Sweden)/Shanghai Xinhuo Pulp and Paper Mill	Will supply complete sets of pulp-making equipment. $7.84 million. 8/88.
Impact (US)/Nanping Paper, Fujian	Will supply five moisture control systems for use in newsprint factory. 8/88.

Investments in China

Sandvik AB (Sweden)/ Chengdu Measuring and Cutting Tool Works, Sichuan	Signed letter of intent for joint venture company to produce and market hard metal products. $33 million (SwC200 million). 6/88.
Plantechnik Industrie Anlagen (FRG)/Anshan Iron and Steel Complex, Liaoning	Signed 17-year agreement to establish Dalian-Cologne Chain and Sprocket Manufacturing Co. Ltd.; will export 60% of production. 6/88.
US General Ball Bearing Co. (US)/ Shanghai Roller Bearing Factory	Signed contract establishing Shanghai General Ball Bearing Co. to produce for US market. $5 million. (USA:25%-PRC:75%). 7/88.
NA (US)/Dalian, Liaoning	Established pneumatic equipment manufacturing joint venture. 8/88.

Other

(Canada)/First Grinding Wheel Factory of China, Liaoning	Provided $81.8 million to finance imports of grinding wheel manufacturing equipment. 7/88.

China's Investments Abroad

Just Shanghai Ltd. (Australia)/ Shougang Machinery Engineering Corp.	Established Just Shougang (Australia) Pty Ltd. to market metallurgical and mining machinery in Australia and the Far East. Registered capital: $25,000 (A$20,000). 8/88.

Medical Equipment and Devices

China's Imports

Vital Scientific N.V. (Netherlands), subs. of Clinical Data (US)/Guangxi Autonomous Region Import-Export Trading Corp.	Signed contract to transfer technology to Guilin Medical Electronic Instrument Factory for the manufacture of blood chemistry analyzers. $860,000. 6/88.
Hong Kong Oxygen & Acetylene Co. Ltd. (HK)/Tianjin Municipal First General Hospital	Sold a Sonolith 2000 lithotripter. 6/88.
Berthold Hermle (FRG) and Wearmax Ltd. (HK)/Shenyang People's Hospital	Sold a centrifuge. 6/88.
Diagnostic Electronics (US) and Semtech Instruments Co./ Harbin Medical University	Sold doppler ultrasound angioscanner. $50,000. 6/88.
NA (US)/First Affiliated Hospital, Hunan Medical College	Sold SYVA-EMIT 5000 blood drug level monitor. 7/88.
Doptek (US)	Received orders for doppler ultrasound systems. 8/88.

Investments in China

Pacific Biomedical Enterprise (Singapore)/Guangzhou Cardio vascular Research Institute and Guangzhou Economic and Technological Development Zone	Established Guangzhou Pacific Biomedical Co. to produce low-cost valves used in cardiovascular surgery. (PBE:55%-GCR:15%-GET:30%). 2/88.

Oki Shikatokki Co. (Japan)/ Shanghai Shenda Corp., Shanghai East Hospital, East Development Co. under CAAC	Will form joint venture to produce polysulphone and super-hard resin false teeth, dental fillings and materials, medical apparatus, and instruments. 6/88.

Other

(Italy)/Hunan Childrens' Emergency Center	Donated $3 million, an ambulance, and an X-ray machine. 6/88.
Beckman Instruments Inc. (UK)/ Shanghai Jingan District Central Hospital	Established Shanghai Beckman High-Efficiency Liquid Phase Chromatograph Application Service Center to popularize use of chromatographs. 6/88.
Leitz (UK)/Beijing	Set up service center for its products; will deal strictly in RMB. 6/88.

Metals, Minerals, and Processing Technology

China's Imports

TRW Inc. (US)	Will supply hardware for slagging coal-combustion system. 7/88.
Air Products & Chemicals Inc. (US)/ Anshan Iron & Steel Complex, Liaoning, and Baoshan Iron & Steel Complex, Shanghai	Signed contracts for two high-tonnage air separation units. $40 million. 8/88.
Sumitomo Metal Industries (Japan)/ CITIC and Anshan Iron & Steel Complex, Liaoning	Sold mothballed aluminum smelter. $35.4 million (J¥4.5 billion). 8/88.

Investments in China

Counting Industries (a HK, FRG, and Australian syndicate)/Beihai, Guangxi	Signed letter of intent to form steel mill joint venture. $700 million. 6/88.
Morgan Crucible (UK)/Dalian Refractory Plant	Formed joint venture to supply monolithic refractory materials for lining furnaces. 7/88.

Other

Nuova Samin (Italy)/China National Nonferrous Metals Import-Export Corp.	Agreement to exchange experience and technology, and will collaborate in metallurgy research. 6/88.
Dai-Ichi Kangyo, Mitsui, and Sumitomo Banks (Japan) and NA (FRG)/China International Iron and Steel Investment Corp.	Will provide funds to finance the expansion of Chengdu Iron Seamless Tube Plant. $110 million. (JPN:73%-FRG:27%). 7/88.

China's Investments Abroad

Mestar Engineering Corp. (US)/ Capital Iron & Steel Complex	Bought 70% share of the US steel-rolling machinery design firm. $3.4 million. 7/88.

Military Equipment

China's Imports

Collins General Aviation, div. of Rockwell International Corp. (US)	Will install electronic flight system as standard equipment in all L-8 jet trainers. 6/88.
Baldwin Aircraft International Corp. (US)	Began delivery of 500 all-composite advanced surveillance patrol-experimental jets contracted for in 1985. $1 billion. 8/88.
Boeing Co. (US)	Discussing purchase of CH-47D Chinook military helicopters. 8/88.

Mining Equipment

China's Imports

Plenty Mixers (UK), licensee for Philadelphia Mixers (US)/Guangdong Metallurgical Industry	Providing three high-performance MTE slurry mixers for iron ore mines. $185,000. 6/88.
Orion Yhtyma Oy Normet (Finland)	Received order for mining equipment. 7/88.

Packaging Equipment

China's Imports

Krones AG (FRG)/MLI and TECHIMPORT	Signed technology transfer licensing agreement to produce labeling machinery for the beverage industry. 5/88.
CIM International (UK)/SPC Laokou, Hebei	Will build a vegetable tin export-oriented canning plant to produce 60 million cans per year. $16 million. 6/88.
Tampeller Oy (Finland)/TECHIMPORT and Shanghai Xinhuo Pulp and Paper Mill	Will supply complete cardboard production sets. $23.75 million. 8/88.

Investments in China

Continental Can (HK)/Foshan Can Factory of China National Packaging Corp., Guangdong	Established Foshan Continental Can Co. to produce 140 million two-piece aluminum beverage cans annually. $10 million. 6/88.

Petroleum, Natural Gas, and Related Equipment

China's Imports

Sumitomo Metal Industries Ltd., Nippon Kokan K.K., Nippon Steel Corp., and Kawasaki Steel Corp. (Japan)/ MINMETALS	Will supply 400,000 tonnes seamless steel pipes used primarily for oil wells at $750 per tonne. $30 million. 5/88.
Western Petroleum Services International, subs. of Western Co. of North America (US)/ MACHIMPEX	Agreed to sell oil field services equipment. $26 million. 8/88.

Investments in China

NA (US)/Bohai Petroleum Corp.	Agreed to set up cooperative joint venture to produce geophysical prospecting equipment including seismic cable in Tanggu, Tianjin. 7/88.
Export-Import Bank of Japan/ BOC	Will extend loan for oil development project in Henan. $40,000 (J¥5 million). 7/88.

Other

Sembawang Engineering (Singapore)/ Lanzhou Petroleum Machinery Research Institute	Will jointly produce a 700 tonne drilling/workover rig. 8/88.

China's Investments Abroad

Coastal Corp. (US)/SINOCHEM	Will enter a joint oil refining and marketing venture in California. 8/88.

Other

Gaz de France (France)/ Beijing Gas Co.	Signed agreement to modernize Beijing gas mains, install a television monitoring system, develop a pilot study using French technology and equipment to supply natural gas to residential homes, and send Chinese technicians to France for training courses. 6/88

Pharmaceuticals

China's Imports

Capsule Technology Group Inc. (Canada)	Opened the first in a series of three fully automatic capsule plants in Guangzhou. 6/88.

Investments in China

Les Laboratoires Servier (France)/ Huajin Pharmaceutical Factory and China Pharmaceutical Corp., Tianjin	Signed cooperative agreement to produce Diamicron, a new hypoglycemic agent of the sulphonylurea group. 5/88.
Abbott Laboratories (US)/ Shanghai Institute for Pharmaceutical Industry, Ningbo Pharmaceutical Co., and Ningbo Special Free Trade Zone	Established Ningbo Abbott Biotechnology Ltd. to manufacture triglycerides and other diagnostic tests for the clinical chemistry market. (50-50). 7/88.

Other

Otsuka Pharmaceutical Co. Ltd. (Japan)	Founded the Japanese Otsuka Medical Foundation in Beijing to promote the PRC's pharmaceutical industry, and cooperation in pharmaceuticals between the two countries. $3 million. 6/88.

Ports

Other

Port of Trieste (Italy)/Port of Tianjin	Signed agreement to cooperate in exchanging goods and establishing storage warehouses, a jointly managed company, and an Italian government-financed school for professional training. 6/88.

Power Plants and Power Equipment

China's Imports

(Czechoslovakia)/Shentou, Shanxi	Assisting in extension of steam power plant. 6/88.
Bisan International (Australia)/ Bengbu Alcohol Factory, Anhui	Will supply equipment to clean liquid waste and harness gasses to generate electricity to power the plant. $1 million. 7/88.
GEC Turbine Generators (UK)/HIPDC	Contracted to build coal-fired power station. $294 million (£165 million). 8/88.
Alsthom Co. (France)/HIPDC	Concluded contract for two 350 mw coal-fired generators for Sichuan power plant. 8/88.
C. Itoh Co. Ltd. (Japan)/CITIC	Will jointly construct two generating units, each with 200,000 kilowatt capacity, for Shuikou Hydroelectric Power Station in Fujian. 8/88.
Voest Alpine Maschinenbau GmbH (Austria)	Will supply and install four discharge pipe systems for a power station in Yantan, Guangxi. 8/88.
Dravo Wellman Co. (US)/CNTIC	Will design and supply a train positioner/car dumper system for Shalingzi Thermal Power Station in Hebei. 8/88.
An Italian consortium/Sunburst Investment & Development Corp., div. of CITIC	Will construct the 700,000 kilowatt Ligang Thermal Power Plant in Jiangsu. $236 million (J¥30 billion). 9/88.

Other

UN Development and Program Agency, UN Technological Cooperation and Development Agency, and Italian Foreign Ministry	Will conduct surveys prospecting geothermal energy in Xizang. 5/88.
(USSR)/China Commercial Foreign Trade Corp.	Negotiating to jointly build several power plants, to be paid for through barter. 6/88.

Printing, Publishing, Public Relations, Broadcasting and Media

Investments in China

Adsale People Ltd. (HK)/ China Resources Advertising Co., Ltd. under MOFERT	Will set up China Export Products Promotion Center Ltd. to provide promotion network for China's export products in overseas media channels. 6/88.
Farton Co. (HK)/China Science Press	Established the Farton-Science Press Ltd. to publish books, albums, and other publications for overseas Chinese and an English edition for foreigners. 7/88.
Third World Magazine South (UK)/ Dept. of Home News for World Service, Xinhua	Will jointly publish "Jingji Shijie" (Business World) in Chinese to feature articles from London journal. 7/88.

Other

Lorimar Telepictures Corp. (US)/ Shanghai Television Network	Expanded upon five-year contract, which makes Lorimar the sole distributor of non-Chinese programming to STV, and gives it exclusive rights to syndicate programming in three additional provinces--Beijing, Guangzhou, and Fuzhou. 5/88.
National Printing Equipment and Supply Association (US)	Signed letter of understanding for cooperation in the printing industry. 8/88.
Satellite Music Network Inc. (US)/ Radio Shanghai	Will air four formats of popular American music. 8/88.
Daiei Studios (Japan)/People's Liberation Army and China Film Import-Export Corp.	Supported PRC filming of Dun Huang. 8/88.

Property Management and Development

China's Imports

Sicel (Italy)	Will build a complex of 400 houses for Western residents in Beijing. $43 million. 5/88.
State Research Institute of Architecture (France)	Will provide architects, conduct training, and offer equipment to jointly renovate residential quarter of Shanghai. 7/88.
All Nippon Airways Co. (Japan)/ Xi'an	Will manage 360-room hotel opening in 1990. 8/88.

Investments in China

Toplus Development Ltd. (HK), owned sub. of Blinder International Enterprises Inc. (US)	Signed joint venture agreement to wholly construct and manage a 750 room hotel in Beijing. $53 million. (HK:51%-PRC:49%). 6/88.
Miramar Hotel and Investment Co. (HK)	Will invest in 200-room luxury Shanghai hotel, and Beijing hotel with 500- to 600-room convention center. $120 million. (HK:25%-PRC:75%). 7/88.
Sun Enterprises Ltd. (Japan)/ Hongqiao, Shanghai	Bought rights to 139,320 sq. ft. of land in economic development zone; first such deal with the

PRC. $28 million. 8/88.

China's Investments Abroad

Mountleigh (UK)/Tianjin Municipal Government	Signed joint venture agreement to develop 12 acres of London's docklands for commercial, cultural, and trade center. $201 million. 6/88.

Scientific Instruments

China's Imports

Ling Electronics (US)/ Ministry of Railways	Will supply combined environment test chamber through World Bank-supported project. $1.3 million. 5/88.
Ecco Engineering (HK), subs. of Monitek Technologies (US)/Chengdu Sixth Water Treatment Plant	Will sell on-line liquid monitoring instruments. $123,533. 6/88.

Ships and Shipping

China's Imports

Tacoma Boatbuilding Co. (US)/ Xiamen Celestial Yachts Ltd. (US-PRC joint venture)	Announced intention to acquire 48.5 percent of the shipbuilding firm. 8/88.

Other

Wilson Group (US)/SINOTRANS	Opened freight forwarding offices in Shenyang, Dalian, Tianjin, Shijiazhuang, Qingdao, Zhengzhou, Nanjing, Shanghai and Guangzhou, and plan to expand to western provinces. 6/88.
(S.Korea)/SINOTRANS	Agreed to inaugurate regular containership services between the ports of Shanghai and Pusan. 7/88.

Telecommunications

China's Imports

E.B. Nera (Norway)	Will supply radio lines, transmitters, and receivers for cableless telecommunications. $4.2 million (NKr27 million) 6/88.
AT&T Network Systems Group (US)/ Beijing Telecommunications	Installed 20 subscriber loop-carrier systems to alleviate high traffic loads. 6/88.
Philips Corp. (Netherlands)/ Suzhou No. 1 Wire Communications Factory	Will transfer digital switchboard technology. 6/88.
Ericsson Radio Systems (Sweden)/ CNTIC	Will supply cellular mobile telephone system to Shanghai. 7/88.
Contel (US)/Xinhua News Agency	Signed contract to supply 50 C-100 VSAT earth stations and license technology for satellite-based products. $300,000. 7/88.
Nynex Corp.(US)/Shanghai Posts and Telecommunications Administration	Signed 18-month contract to implement network monitoring system. 7/88.
L.M. Ericsson (Sweden)/Beijing Wired Communication Factory	Transferred program-controlled digital exchange technology. 8/88.
Pirelli (Switzerland)	Will supply optic fiber cable for railway from Zhengzhou, Henan, to Wuchang, Hebei. $1.4 million (£2.01 million). 8/88.

Investments in China

(Sweden)/Guangdong	Will provide loans to cities of Guangzhou, Zhanjiang, Zhaoqing, and Huizhou for importing program-controlled switchboard system with 131,000 local and 3,600 long-distance lines, and for 15 previously signed contracts. $80 million. 7/88.
GEC-Plessey Telecommunications PLC, joint venture between GEC and Plessey (UK) and Lityan Development (Singapore)/CITIC and Shanghai Digital Telephone Equipment Co.	Established 15-year joint venture to manufacture digital stored-program control systems. Registered capital: $4 million. 8/88.
XY Resources Inc. (US)/Changchun Telephone Equipment Factory, Jilin	Established joint venture to manufacture telephone equipment, using, in part, mothballed US equipment. $1.5 million. 8/88.

Other

AsiaSat, a Hong Kong-based consortium of Cable and Wireless PLC (UK), CITIC (PRC), and Hutchison Whampoa Ltd. (HK)/ Great Wall Industry Corp.	Signed agreement to launch AsiaSat-1, which will provide communiations facilities for China, S. Korea, India, Philippines, Thailand, Hong Kong, and Pakistan. 6/88.

Textiles

China's Imports

Sanpelcolmaey Co. Ltd. (Japan)/ Mailyard Garment Co. Ltd., Hubei	Signed contract to provide 10 suit designs and training to produce 100,000 Western-style suits annually. 7/88.

Investments in China

NA (Australia)/Beijing Municipal Knitwear & Textiles Import-Export Co.	Constructed a knitwear manufacturing facility. $1 million. 7/88.
Dow Chemical Co. (US)/CNCCC	Will form joint venture to produce 20,000 tpy polyester in Ningbo, Zhejiang. 7/88.
Xialing Co. (HK)/Xiamen Chemical Fiber Factory	Jointly set up Hualun Co. to produce 7,000 tpy long fiber polyester. $30 million. (HK:25%-PRC:75%). 7/88.

Transportation and Transportation Equipment

China's Imports

Daimler-Benz AG (FRG)/ NORINCO, Inner Mongolia Autonomous Region	Will transfer heavy truck production technology and supply truck parts. 6/88.
Canadair Inc. (Canada)/ Poly Technologies Inc.	Will supply two Challenger 601-3A business jet aircraft. $42.6 million. 7/88.
Chrysler Corp. (US)	Sold engine-making plant. 7/88.
Boeing Co. (US)/Y.F. International (HK-based consortium of 16 State-owned companies in Chongqing, Sichuan)	Will provide aircraft parts plant. 7/88.
Polaris Aircraft Leasing Corp. (US)/ Poly Technologies Inc.	Sold two Boeing 737-300 aircraft. 8/88.

Investments in China

Volkswagen AG (FRG)/First Automobile Works, Changchun	Will form jointly held company to produce Volkswagen and Audi cars in China. 5/88.
Olympic Fastening Systems (US)/ CATIC	Signed letter of intent to establish joint venture to market and distribute aerospace fasteners in Shenzhen. 5/88.

Blinder International Enterprises Inc. (US)	Signed letter of intent to purchase share in Shanghai bicycle manufacturing company and to commit $5 million after 18 months. (US:51%-PRC:49%). $1 million. 6/88.
The World Bank	Will provide $200 million loan for expanded railway system. 6/88.
Mercury Marine Division of Brunswick Corp. (US)/Wei Min Machinery, Leping, Jiangxi	Signed 30-year agreement to established Jiangxi Marine Co. Ltd. to produce, market, and service outboard motors. $5 million. (50-50). 7/88.
NA (Thailand)/Dandong Tire Factory, Liaoning	Set up rubber tire joint venture. $1.3 million. 7/88.
Unicarcen and Deg (FRG)/Two partners in Shanghai	Opened Shanghai GKN Driveshaft Co., Ltd. to produce joint transmission shafts for use in Santana cars. $24 million (DM42.5 million). 7/88.
Ongga Trade Corp. (Japan)/ Changshu Special Purpose Trucks Factory, Jiangsu	Opened Changshu Huadong Special Purpose Trucks Co. Ltd. to manufacture container and garbage trucks. $4.9 million. 7/88.
UTI Chemicals Inc. (US)	Entered joint venture agreement to produce bicycle tires. 7/88.
Hyundai Motor Corp. and Kia Industrial Corp. (S. Korea)/ Shandong	Agreed to jointly produce automobiles, microbuses, and trucks. 8/88.

Other

Federal Motor (Indonesia), subs. of Honda Motor Co. (Japan)	Conditional agreement on long-term export of 2,000 Honda motorcycles annually. 5/88.
Messerschmitt-Bolkow Blohm GmbH (FRG)/Xi'an Aircraft Co.	Will assist in development of MPC75 76-passenger aircraft. $500 million. 5/88.
Hertz International (US)/ China Travel Service	Will jointly promote "Hertz Affordable China Safari," an all-inclusive hotel and rent-a-car package holiday tour in Guangdong and Guangxi provinces. 5/88.

Miscellaneous

Investments in China

Sanwa Bank Ltd. (Japan)/China Kanghua Development Corp. and China Kanghua International Trust and Investment Co.	Signed agreement to cooperate in introducing clients to business in China. 5/88.
General Society of Surveillance (Switzerland) and Mitsui Co. Ltd. (Japan)/CCIC Finance Ltd., Shanghai	Opened China Import-Export Consumer Goods Inspection Center for inspection of textiles, garments, toys, and porcelain. 5/88.
NA (Taiwan)/Pingtan Island, Fujian	Negotiating to establish joint venture with local businesses. 6/88.
RIA Environmental Technologies Co. (Canada)/Chinese Research Academy of Environmental Sciences and China Association of Environmental Protection Industry, Beijing	Will establish an international environmental technologies development center to promote ways of improving the environment. $283,377. (C$350,000). 6/88.
SGS Hong Kong (HK)/China National Import-Export Commodities Inspection Corp.	Established joint inspection center in Beijing to enhance foreign trade cooperation. 9/88.

Other

(USSR)	Signed agreement allowing regional governments of both countries to conduct trade independently. 6/88.
The Rand Corporation (US)/Hainan	Will assist in drawing up strategic plan for social and economic development of the island. 6/88.
US International Arts Council/ China Palace Museum	Agreed to exhibition of 80 Chinese paintings in the US. 7/88.
Viak Ab (Sweden)/Nanshi Water Treatment Plant	Will conduct feasibility study on technical renovation of the plant. 7/88.
(Australia)	Signed agreement for mutual protection and encouragement of investment. 7/88.
(S. Korea)	Planning to set up trade offices in each country's capital. 8/88.
(USSR)	Will build a 250,000 tpy paper and pulp factory joint venture in the PRC using Siberian forest resources. 8/88.
Japan System Co Ltd. (Japan)/ China International Sports Travel	Have government approval to organize Silk Road Rally automobile race. 8/88.
(S. Korea)	Signed agreement to begin tourist exchanges. 8/88.

China's Investments Abroad

Vetlanda Nordiska (Sweden)/ Yingkou Piano Factory, Liaoning	Bought out Swedish piano manufacturer, and will rebuild Swedish factory in Yingkou. 7/88.

THE US–CHINA BUSINESS COUNCIL

OFFICERS
Chairman: Charles E. Hugel
Vice-Chairmen: Jack J. Murphy, Alexander Brody, Steven G. Rothmeier
Secretary-Treasurer: Frank Zarb
Counsel: Walter S. Surrey
President: Roger W. Sullivan

BOARD OF DIRECTORS
Donald R. Beall, chairman of the board and chief executive officer, *Rockwell International Corporation*
Alexander Brody, president/international *Ogilvy & Mather Worldwide, Inc.*
Alan Chien, chairman, *Abacus Group of America, Inc.*
Daniel W. Derbes, president, *Allied-Signal International*
R. Derek Finlay, senior vice president, *H.J. Heinz Company*
Patrick J. Gnazzo, president, *United Technologies International Corporation*
Thomas L. Gossage, president, *Hercules Specialty Chemicals Company, Hercules Incorporated*
William B. Graham, senior chairman, *Baxter Healthcare Corp.*
Roger W. Hale, group vice president, *BellSouth Corporation*
Claus M. Halle, president, *Coca-Cola International*
John A. Hinds, president, *AT&T International, Inc.*
Charles E. Hugel, chairman and chief executive officer, *Combustion Engineering, Inc.*
William A. Liffers, vice chairman, *American Cyanamid Company*
J. David Luening, group director, APG staff-Westchester, *IBM World Trade Asia/Pacific Group*
William J. McDonough, vice chairman of the board, *First National Bank of Chicago*
Jack J. Murphy, chairman of the board, president, and chief executive officer, *Dresser Industries, Inc.*
Christopher H. Phillips (Honorary), retired president, *The US–China Business Council*
Paul Ravesies, president (ret), *ARCO International Oil & Gas Company*
Steven G. Rothmeier, chairman and chief executive officer, *Northwest Airlines, Inc.*
David S. Tappan, Jr., chairman and chief executive officer, *Fluor Corporation*
David Tendler, chairman, *Tendler Beretz Associates Ltd.*
Paul W. Van Orden, executive vice president and member of the Corporate Executive Office, *General Electric Company*
Colin Webster, executive vice president, *BP America, Inc.*
Frank Zarb, partner, *Lazard Freres & Company*

WASHINGTON STAFF
President: Roger W. Sullivan
Vice President: Richard E. Gillespie

Business Advisory Services: Karen Green
China Business Review: Sharon E. Ruwart
Publications: Madelyn C. Ross
Business Information Center: Jennifer Little
Management and Budget: Richard L. Peterman
Research: David L. Denny

Address
1818 N Street, NW, Suite 500
Washington, DC 20036 USA
(202) 429–0340
Telex: 64517 NCUSCTUW
Telefax: (202) 775-2476

BEIJING OFFICE
Director for China Operations: John Frisbie
Project Manager: Zheng Xiao
Suite 3090, Beijing Hotel
Telephone: 5137766, ext. 3090
Cable: USCHINTRAD
Telex: 22637 NCPEKCN

HONG KONG:
Associate Counsel: Benjamin P. Fishburne, III

US GOVERNMENT OFFICES IN CHINA

EMBASSY
Ambassador: Winston Lord
Deputy Chief of Mission: Peter Tomsen
Agricultural Counselor: David M. Schoonover
Commercial Counselor: Lyn Edinger
Commercial Officers: Dennis Barnes, William Brekke, Timothy P. Stratford, Vincente Tang
Economic Counselor: James Larocco
3 Xiushui Bei Jie
Jianguomenwai, Beijing
Telephone: 532–3831
Telex: 22701 AMEMB CN

CHENGDU CONSULATE
Consul General: William W. Thomas, Jr.
Deputy Principal Officer: Scott Bellard
Jinjiang Hotel
180 Renmin Road
Chengdu, Sichuan
Telephone: 28–24481
Telex: 60128 ACGCH CN

GUANGZHOU CONSULATE
Consul General: Mark Pratt
Deputy Principal Officer/Economic Section Chief: Stephen A. Schlaikjer
Commercial Officers: Nora Sun, Todd N. Thurwachter
Economic Officer: Robert W. Dry
Dongfang Hotel
Telephone: 669–900
Telex: 44439 GZDFH CN
Attn: USA Consulate

SHANGHAI CONSULATE
Consul General: Charles T. Sylvester
Deputy Principal Officer/Economic Section Chief: Matthew P. Ward
Commercial Officer: Barbara Slawecki
1469 Huaihai Zhong Lu
Telephone: 336–880
Telex: 33383 USCG CN

SHENYANG CONSULATE
Consul General: C. Eugene Dorris
Economic Officer: Stephen R. Fox
Commercial Officer: William Center
No. 40, Lane 4, Section 5
Sanjing St, Heping District
Shenyang, Liaoning
Telephone: 290038
Telex: 80011 AMCS CN

HONG KONG CONSULATE
Consul General: Donald M. Anderson
Deputy Principal Officer: Arther Kobler
Commercial Officers: Lynn W. Edinger, Ying Price, Ned Quistorff
Economic Section Chief: Kaarn J. Weaver
26 Garden Rd.
Telephone: 5–239011
Telex: 63141 USDOC HX

PRC GOVERNMENT OFFICES IN THE US

EMBASSY
Ambassador: Han Xu
Minister Counselor for Commercial Affairs: Huang Wenjun
2300 Connecticut Avenue, N.W.
Washington, DC 20008
Commercial: (202) 328–2520 thru 2527
Visas: (202) 328–2517
Telex: 440038 PRC UI
Commercial: 440673 PRCC UI

CHICAGO CONSULATE GENERAL
Consul General: Deng Chaocong
104 S. Michigan Avenue, Suite 1200
Chicago, IL 60603
Administration: (312) 346-0287
Visas and Consular Affairs: (312) 346-0288

HOUSTON CONSULATE GENERAL
Consul General: Ni Yaoli
Commercial Consul: Wang Yixuan
3417 Montrose Blvd.
Houston, TX 77052
Commercial: (713) 524–4064
Visas: (713) 524–4311
Telex: 762173 CHINCONSUL HOU

LOS ANGELES CONSULATE GENERAL
Consul General: Ma Yuzhen
501 Shatto Place, Suite 300
Los Angeles, CA 90020
Administration: (213) 380-3105
Visas: (213) 380-2506 & 2507
Fax: (213) 380-1961

NEW YORK CONSULATE GENERAL
Consul General: Tang Xingbo
Commercial Consul: Shi Jingxin
520 12th Avenue
New York, NY 10036
Commercial: (212) 330–7428 & 7427
Visas: (212) 330–7409
Telex: 429134 CGCNY

SAN FRANCISCO CONSULATE GENERAL
Consul General: Zhao Xixin
Commercial Consul: Lu Zuwen
1450 Laguna Street
San Francisco, CA 94115
Commercial: (415) 563–4858
Visas: (415) 563–4857
Telex: 4970121 CCSF