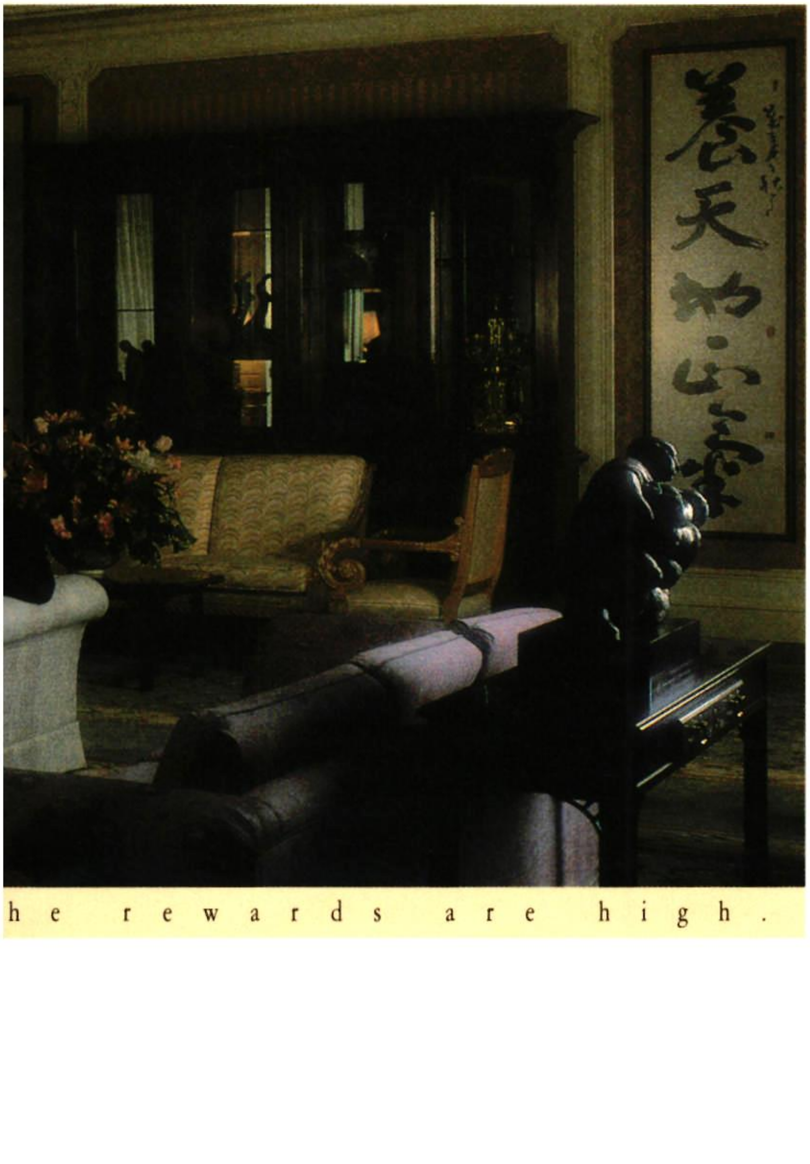
THE CHINA BUSINESS REVIEW

NOVEMBER/DECEMBER 1991 VOLUME 18, NUMBER 6

Eyeing Pudong

- The SEZs ten years later
- China-friendly databases
- Trouble in the tea industry



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The magazine of the US-China Business Council

Features

Departments

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Washington Beat

Textile Crackdown

In early September, the US Customs Service raided 23 Chinese textile trading company offices in New York and California, seizing documents and suspect shipments. According to Customs spokespeople, the raids are part of an ongoing investigation into illegal Chinese textile exports, which are falsely labeled as originating in other countries to evade US quotas and tariffs. Customs officials note that further raids are possible in the future.

USTR Launches 301 Investigation

At the direction of President Bush, the Office of the US Trade Representative (USTR) on October 10 initiated a formal investigation into Chinese market barriers to US exports. USTR can take up to a year to conclude its investigation, which will focus on four key areas: transparency of trade laws and regulations; import bans and quotas; technical barriers to trade; and the import licensing system.

MFN Conference Delayed

A conference to resolve the differences between the House and Senate bills seeking to revoke Most Favored Nation status for China appears unlikely to conclude before the end of 1991. Congressional Democrats may wait to assess the outcome of the USTR and Customs investigations of Chinese trade practices before meeting to confer on a final bill. However, they will probably seek to draw a presidential veto in 1992—an election year—regardless of whether they can muster enough votes to override it. —VL

Letter from the Editor

It's hard to believe that this is already our final issue of 1991—a year fraught with tension and uncertainty for US-China relations. Even as we tie up our production year and plan for 1992, the outstanding issues in US commercial relations with China are far from resolved. USTR's investigations into China's intellectual property protection and market barriers are still underway, the Customs Service is examining China's alleged evasion of US textile quotas and laws banning imports made by convict labor, the Federal Maritime Commission is weighing evidence that Chinese shipping agencies have breached the terms of the bilateral shipping accord, and the specter of withdrawal of China's Most Favored Nation (MFN) status still looms. The fallout from any of these issues could have a profound impact on US-China business.

Politics aside, the view of China's business climate is somewhat mixed. On the investment front, many US businesses are reporting that profits will be up this year, prompting some to actively scout out expansion and/or new investment opportunities. At the same time, however, Chinese officials' attempts to reassert control over joint-venture wage policies have triggered alarm bells throughout the international business community. On the trade side, US exporters appear to be selling more than in 1990, but the US trade deficit with China will still likely exceed last year's. The quality of much of China's exports, moreover, has continued to decline, leading to high numbers of trade disputes.

All of this uncertainty presents a challenge to US businesses active in the China trade, and to *The China Business Review* as well. We will continue to strive to keep you informed on these and other issues, and to uncover the hidden angles behind each. The need for accurate, thoughtful reporting is stronger now than ever, and we are committed to providing you the best information possible. We have already planned pieces for 1992 on electronics, telecommunications, foreign exchange balancing, and negotiation techniques, and I hope to receive suggestions on other topics from you in the weeks to come. In the meantime, on behalf of the rest of the staff, happy holidays and see you next year.

Best regards,

Pamela Baldinger

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Letter from the President

New evidence that China is exporting goods made with convict labor to the United States demands a concerted effort from both US business and government interests to persuade the Chinese to end this invidious practice. Otherwise, the law-abiding majority of traders in both countries could end up paying the price.

A Threat to Legitimate Business

Recent revelations in the press detailing China's use of forced prison labor in the manufacture of products for export are deeply troubling to all Americans, but should be especially repugnant to the business community. This is an issue that cuts straight to the heart of our moral integrity and legal responsibility, and threatens to significantly damage Sino-US commercial relations.

Imports of goods made by convict labor are illegal in the United States, no matter the country of origin. While China has never denied that inmates in its penal institutions are required to work, the Chinese government has, on numerous occasions, insisted that labor reform units are not permitted to export goods abroad. But it now appears clear that this policy is being flouted by certain units, perhaps with the tacit approval of Chinese officials. Given the often arbitrary nature of incarceration in China, which is suspected to have imprisoned thousands for their political beliefs, this breach of trust is particularly noxious to most Americans.

The US-China Business Council abhors these practices, and believes they must be stopped. This will require the cooperation of all parties involved in the illicit trade—the US government, US companies, and the Chinese government.

The US government, for its part, has already taken some steps to block illegal imports of Chinese goods made with prison labor, but needs to do more. The US Customs Service has announced it will hold all shipments of open-end spanners, socket wrenches, and steel pipe made by four factories—the Shanghai Laodong Machinery Plant, the Shanghai Complete Set of Labour Tool Co., the Shanghai Laodong Machinery Factory, and the Shanghai Laodong Steel Pipe Works—suspected of employing prison labor. Acting Director of Customs' Office of Investigative Programs Steven B. DeVaughn has also testified before Congress that Customs has intensified its intelligence-gathering efforts to detect forced labor products and is "expanding its forced labor initiative to wield the full range of its enforcement and regulatory authority." The US-China Business Council applauds these moves, and further calls on the Customs Service to negotiate with the Chinese a memorandum of understanding to establish procedures for promptly and effectively investigating allegations of prison-made exports, as instructed by President Bush in his July letter to Senator Max Baucus (*see The CBR*, September-October 1991, p.50).

US companies should also take strong action, adopting whatever measures are necessary to ensure that they are not trading with, investing in, or sourcing from factories that use convict labor. Importers, in particular, must scrupulously demand to know the origins of the products they import, whether they are dealing with a trading corporation or directly with a factory. US companies should make it clear to Chinese officials that export to the United States of goods produced by prison labor is unacceptable and illegal, and that they will report any instances of such activities to US authorities.

Finally, the Chinese government should immediately take steps to enforce its stated policy. Shutting down or fining offenders would help reassure a skeptical foreign audience that China is sincere when it says it does not permit prison units to engage in foreign trade. Aside from being essential to improve its much tarnished reputation, such moves would be in Beijing's own interest—the loss of a small amount of revenue from illegal exports is hardly worth the risk of jeopardizing billions of dollars of legitimate trade. For as long as China continues to export prison-made goods to the United States, pressure will mount on US authorities to take retaliatory action, such as the withdrawal of Most Favored Nation trading status.

It is imperative that US and Chinese authorities work together to eliminate illegal exports and prevent the convict-labor issue from being blown out of proportion. The US-China Business Council intends to raise this issue with the Chinese Embassy and in its contacts with appropriate Chinese authorities to impress upon them the importance and potential divisiveness of this matter. I encourage US companies to do the same.

China Information at Your Fingertips

An ever-growing amount of data is available on-line

Steven F. Jackson

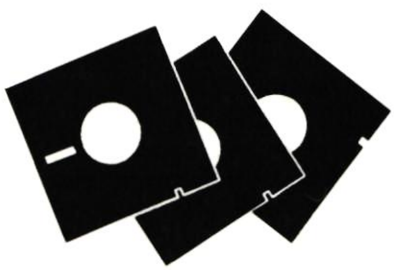
Since China's reopening to the outside world, a flood of publications about its people, economy, and politics has greatly increased western understanding of the business climate there, but the sheer number of books and articles ensures that any researcher would find a comprehensive literature search extremely time-consuming. In recent years, however, research efforts have been greatly aided by the phenomenal rise of on-line and "read-only memory" (CD-ROM) databases, which can accomplish in minutes what previously might have taken hours of painstaking research. Most business magazines, for example, are now available on-line, making it possible for researchers to access large numbers of articles without ever leaving their desks. In a business environment where time is money, on-line resources are quickly becoming indispensable.

The convenience of electronically transmitted information is not without drawbacks, however. More data doesn't necessarily mean better data, and navigating databases can take considerable time and money. But with a little practice, most academics and businesspeople can find much of the information they need at reasonable prices via computer.

Dialing for data

As declining costs have made computers and modems more accessible to larger numbers of people, there has been an explosion in the number of databases and on-line vendors providing pay-as-you-go access to information. The types of information available from electronic sources vary; some databases provide only a brief citation (author's name, article title, journal name and date) for a number of journals, some also contain abstracts, while others include the full text of some or all of the articles they list.

In a business environment where time is money, on-line resources are quickly becoming indispensable.



Most vendors file their information according to specific areas such as "business" or "law." Researchers interested in new laws affecting foreign businesses in China, for example, could enter "China" and "law" to pull up the list of descriptors (descriptive phrases) used to index the database entries. A subsequent search using selected descriptors would yield a more precise listing of citations, abstracts, and, if available, full-text articles. Each database has its own set of descriptors; those that work in one database won't necessarily work in another.

Because of the large number of databases available—and the thousands of individual entries within each database—accessing files can result in high bills. Familiarity with search protocol and careful preparation, however, can keep costs down (*see* box). To make the task easier, each on-line service provides printed guides—which are also available on-line—describing the search process and the applicable descriptors.

Among the major vendors providing information relevant to China business are:

• **DIALOG** The world's largest vendor of on-line databases, DIALOG provides access to several hundred databases. DIALOG also offers some of its databases on OnDisc, in CD-ROM format. DIALOG's easily mastered menu-driven program "Business Connection" is available for most of its databases, and provides users with a simplified command syntax. A number of China-related periodicals are indexed on DIALOG's databases, including *The China Business Review*.

China watchers may find several DIALOG databases particularly useful. In addition to databases citing industry-specific and popular business magazines, DIALOG users can also peruse *PAIS International*, a database of citations and short abstracts for political and policy-related journals. Business analysts can use *NEWSWIRE ASAP* to access a host of citations or full-text files from US

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and foreign newspapers and wire services.

More specifically, DIALOG maintains *Asia-Pacific*, a business-oriented database that indexes and abstracts articles and carries records on companies in Asia, including over 1,000 Chinese companies which have (or are seeking) foreign connections. Information provided includes such basics as name, address, and product lines.

Another popular DIALOG offering, *PTS Newsletter Database*, provides the full texts of articles from several Asia-related publications, including *East Asia Express*, *East Asian Executive Reports*, and Kyodo News Service's *Asian Political News* and *Asian Economic News*. DIALOG users can also access *Chinese Patents Abstracts*, a small database in English of selected Chinese patents.

Costs for using DIALOG vary considerably, depending on the database used and the type of information

Navigating databases can take considerable time and money.

obtained. Generally, the more information received, the greater the cost; article titles cost less than full citations or abstracts, while full texts are the most expensive. Over 90 of DIALOG's databases are available on *Knowledge Index*, a late-night and weekend subset that can save users as much as 75 percent over normal DIALOG charges. Most researchers generally find DIALOG fairly easy to use, though it can take a good deal of practice before one is able to conduct effective and inexpensive searches.

• **Mead Data Central** Ohio-based Mead Data is the vendor for the popular LEXIS and NEXIS on-line databases, which provide legal and news information, respectively. NEXIS is particularly useful for researching business issues in China, as it provides citations and full English texts for a number of publications, including post-1977 *Xinhua* news releases, *Asian Pacific Business*, *East Asian Executive Reports*, and *The Financial Times*' power industry newsletter, *Power in Asia*. In addition, full-text articles from the *New York Times*, *Christian Science Monitor*, *Los Angeles Times*, *Japan Economic Journal* (Nihon Keizai Shimbun), various wire services, and a number of specialized newsletters are available on-line. The Economist Intelligence Unit's country report on China is also provided in full-text format, offering a quarterly analysis of issues affecting the economy and politics of China.

Lawyers accustomed to using Mead's LEXIS database for legal searches will find a number of China-specific data sets handy. Available on-line is West Publishing, Inc.'s

Tips for On-line Efficiency

• **Decide your research needs in advance.** Subscribing to information in CD-ROM format, which is updated every few months, may be cheaper than going on-line. Correspondingly, if you need the latest information, you will need to be on-line, and can expect to pay more.

• **Know how much a database will cost before logging on.** On-line searches can be very expensive; some databases cost more than $2 per minute, not including charges for printing citations, abstracts, and full text of the articles.

• **Avoid on-line experimentation or fine-tuning.** Most vendors offer training courses and give subscribers extensive manuals on searching techniques. It pays to map out your search commands before going on-line; if a search brings up far more—or fewer—citations than anticipated, immediately log off to reformulate your search strategy. Also, learn the "break" command for your software in order to stop a search that is becoming too expensive.

• **Experiment on a subset of information before searching the full database.** Some of the larger business-oriented databases provide a small subset of the database for training and practice. Become familiar with the subset before moving on to the more expensive database.

• **Use the vendor's universal-search mode first.** An overall search will give you an idea of which databases offer the most citations on a specific topic. There is no need to waste time and money searching databases with only a handful of records if one database clearly has the bulk of entries.

• **Spend no more than 30 minutes on-line, and print out no more than 50 citations on any one subject.** Before continuing, log off to see how useful the first set of information is.

• **Take advantage of special discounts.** Several of the largest vendors, such as DIALOG and BRS, have late-night and weekend discounts on some of their databases, and the savings can be significant. For example, using DIALOG's *Trade & Industry Index* costs more than $96 per hour during the day, but the cost can drop to $24/hour at night and on weekends.

• **Explore alternatives for large searches.** For a large number of citations or full-text articles, it is sometimes cheaper to have the vendor print and mail them than to print out while on-line. Most vendors will provide these services on request.

• **Look for tailored services.** Many vendors have "alert" services that can notify a user of recent articles in a specific subject whenever he or she logs on, thereby saving some search time. In addition, inexperienced database users should consider using a professional on-line searcher, names of which can usually be found in vendors' newsletters or in specialized publications such as *Online*. The fee is usually more than recovered in the savings from efficient use. The business services of many public libraries may also be able to conduct paid searches. —Steven Jackson

On-Line Database Vendors

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Mead Data Central
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Dayton, OH 45401
(800) 543-6862

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Bryn Mawr, PA 19010
(800) 345-1301

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New York, NY 10020
(212) 512-3600

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US-China Business Council
1818 N Street, NW, Suite 500
Washington, DC 20036
(202) 429-0340

The WEFA Group
401 City Avenue, Suite 300
Bala Cynwyd, PA 19004
(215) 660-6300

Wilsonline
H.W. Wilson Co.
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Chinalaw, a publication that indexes translations of Chinese legal documents as well as national and provincial regulations governing foreign business activity in China. LEXIS also includes *China Hand*, which provides the full texts of foreign investment laws in China and other information on doing business there.

The initial subscription fee for using Mead Data Central is rather high, about $1,000 a month plus phone charges, but rates are readjusted after the first month based on monthly use. Searching is best done on a dedicated NEXIS/LEXIS terminal leased from the company, because the special keyboard allows faster and easier access. Normal keyboards, in contrast, don't allow the user to see the search commands as they are typed, which leaves a greater margin for error.

• **Wilsonline** Produced by the H. W. Wilson Co. in New York, Wilsonline is a relative newcomer to the on-line business. Many readers are familiar with the company's print indexes, such as the *Reader's Guide to Periodical Literature*, *Index to Legal Periodicals*, and *Business Periodical Index*, which are but three of the 25 indexes provided in the full Wilsonline package. Citations for articles, pamphlets, book reviews, and government documents are included in Wilsonline, along with publications such as *China Law Reporter*, *Far Eastern Economic Review*, *Beijing Review*, and since 1989, *The China Business Review*. Subscription rates vary with the number of databases the user wishes to access and the amount of on-line search time. For users who do not need information updated daily, a CD-ROM version called WilsonDisc is also sold.

• **Nikkei Telecom's Japan News and Retrieval**. Available in both English and Japanese, this service provides full-text news and company information, mostly from Japanese sources. One database potentially useful for business in China is *Nikkei Asian Corporate Data*, which contains names, addresses, product information, and limited financial data for over 2,000 Chinese companies.

The Nikkei's information is beamed daily via satellite from Tokyo to New York, where US subscribers must dial in to access the information service. After paying a $100 initial fee, users can select an unlimited on-line time option for $1500 per month. Researchers with less frequent data needs can opt for a pay-as-you go fee scale, which costs $450 per month plus $1 per minute spent on-line.

• **NewsNet** This on-line vendor carries the full text of a number of Asian business and technology journals, such as Kyodo's *Asian Economic News*, *Asian Political News*, and *East Asian Business Intelligence*, as well as other business-oriented databases. NewsNet also offers the *East Asian Express*, a journal of general business, economic, and financial news; reports of contracts awarded to foreign companies; and an updated list of currently available contract opportunities from the National Technical Information Service (NTIS) and other sources.

As with other vendors, costs vary by journal and also according to whether the user subscribes to the journals included in the database; non-subscribers can expect to pay substantially more.

• **WEFA Group** A group of econometric databases, WEFA contains several databases of potential interest to China business watchers. Most relevant is the *Asia Forecast* database, which contains some 1,500 annual time-series of historical and forecast data on the economies of Asian countries, including China. The forecasts, which are updated quarterly, provide economic projections for the next six years, and focus on such areas as investment activity, government policies, production, and consumer trends.

• **Maxwell Online BRS** Though it offers fewer databases than DIALOG, Maxwell's BRS contains many of the same databases and accessing them may be slightly cheaper than using the same or equivalent databases on DIALOG. Like DIALOG, discounts are given for late-night/weekend users. Since the search commands for BRS differ from those for DIALOG, any potential savings must be balanced with the need to learn a new search command system.

• **On! USCBC** In addition to databases offered on-line, electronic bulletin board services such as the US-China Business Council's On! USCBC are another potential source of China business data. Such bulletin boards can be targeted specifically to China or Asia, and offer a wide range of information. On! USCBC, for example, includes listings of all China-related stories in major US newspapers, and provides a bulletin board for the exchange of information on contracts and business opportunities. Some sections, such as a public forum for debate on China's Most Favored Nation status, are available to anyone, while other services are for the use of Council members only.

Selecting the right databases

Deciding which databases offer the most pertinent information for any particular agenda may take some legwork; in some cases, the desired information may not be available at all. Marketing and product information on China is scarce, for example, as market research is still in the early stages of development in China (*see The CBR*, May-June 1989, p.48). Information on who buys what products in China, if available, rarely gets transferred to electronic databases in any systematic way.

Deciding which databases offer the most pertinent information for any particular agenda may take some legwork; in some cases, the desired information may not be available at all.

Also lacking in most databases currently available in the United States is accurate and detailed information on potential Chinese partners or foreign competitors for Chinese business ventures. Dun and Bradstreet's *Asia/Pacific Key Business Enterprises*, which is not available on line, lists a handful of Chinese companies, but even this publication gives few financial details of the nature routinely required of US public corporations. Apparently, there are two Chinese vendors offering large databases of Chinese enterprise information on-line in Asia, but neither is yet available in the United States. Of the databases accessible to US-based researchers, Nikkei Telecom probably has the most extensive index of Chinese enterprises, though information on the finances of these organizations is largely incomplete.

For research needs limited to articles and bibliographies on doing business in China, the on-line services are a good start, but users should still consult other sources. Some useful journals, such as *China Trade Report* and JETRO's *China Newsletter*, are not available in any electronic form and might be missed by the researcher using only on-line searching. Likewise, the US-China Business Council's database of over 500 US investments in China is not available on-line through any commercial vendors.

A growing stock of knowledge

Over the past decade, on-line services have provided much more rapid and efficient access to information than was previously possible. Particularly for users without the time or access to the resources of a large business library, conducting on-line information searches provides information that would otherwise be unavailable. As more and more magazines and journals are added each year in both on-line and CD-ROM format, business researchers should be able to find at least a good portion of the information they seek.

At the same time, however, the increasing amount of data available in digital form will make it essential for database users to keep up-to-date on what is available and how best to access it. Choosing which on-line services to subscribe to will depend on the individual needs of each researcher; those with more time than money, for example, may want to search for citations rather than full-text articles, and then go to a library to collect the desired articles. In contrast, researchers with tight time-frames may obtain the full text of relevant articles, a task made easier by the growing number of journals available on-line. Though information on markets and products in China remains sketchy, electronic information sources have the potential to greatly simplify any business researcher's task. 完

The SEZs Come of Age

Now in their second decade, China's Special Economic Zones are holding their own

Lawrence C. Reardon

Ever since Deng Xiaoping formally proposed the establishment of China's Special Economic Zones (SEZ) in 1979, these special regions have evoked abject praise as well as condemnation. The rags-to-riches story of the most prosperous SEZ, Shenzhen, has been the subject of proud prose about China's developing economy, while the other four zones—Zhuhai, Shantou, Xiamen, and Hainan—have also received their share of accolades. At times, however, the SEZs have come under attack for breeding corruption and fostering inequality between Chinese provinces.

During the post-Tiananmen period, Western analysts have questioned the central leadership's commitment to the SEZs, citing land development restrictions in Hainan, tighter rein over SEZ leaders, and reduced foreign-exchange retention privileges for domestic investors in the zones as evidence that the SEZ experiment has run its course. Some claim that the media's preoccupation with the new Pudong development project in Shanghai is another indication that the SEZs have lost official favor. Such pessimism, however, is unwarranted, particularly in light of the strong economic gains the SEZs continue to post. In 1990, for example, Shenzhen alone attracted more than $500 million in foreign investment, around 8 percent of China's total foreign investment that year. As they enter their second decade, the maturing SEZs will continue to be important foreign exchange generators, as well as China's major links to the two mini-dragons, Hong Kong and Taiwan.

As they enter their second decade, the maturing SEZs will continue to be important foreign exchange generators, as well as China's links to the two mini-dragons, Hong Kong and Taiwan.

Attracting foreign investors

The role of the SEZs has evolved concurrently with the adoption of different national development strategies in China. Conceived during a period of economic reform and adjustment, the SEZs were initially designed to generate new sources of foreign exchange. The leadership coalition that emerged in 1979—which included Deng Xiaoping, Li Xiannian, and Chen Yun—was desperate to finance existing large-scale turnkey projects, such as the Baoshan steel complex. These leaders thus molded China's development strategy to emphasize the importation of advanced technology and equipment, and financed these purchases through innovative measures designed to attract foreign capital. One such measure was the Export Processing Zone (EPZ) concept, a strategy then followed by developing economies such as Taiwan and South Korea. The idea involved using comparative cost advantages in labor and land to attract the capital, technology, and entrepreneurial expertise of foreign investors.

To boost production and sales of Chinese exports to generate foreign exchange, the State Council in 1979 promoted two types of Chinese EPZs. The Export Commodity Processing Base (ECPB) policy, which had already been implemented, was given new impetus by the State Council, which issued stronger management regulations and increased government subsidies to these areas in 1979-80. Under the ECPB scheme, China's most important export commodities were centralized in bases in the coastal and interior regions, but remained entirely within the State Plan.

The second type of Chinese EPZ proposed by the Chinese Communist Party (CCP) Central Committee in 1979 was the Special Economic Zone (SEZ). Like the ECPBs, the SEZs were designed to generate foreign exchange to finance China's new import substitution strategy. Unlike the ECPBs, however, the SEZs fell outside the State Plan, and were to rely primarily on Chinese "compatriots" abroad for the capital and technology needed to develop export commodity production. According to a State Council document, the SEZs would ensure regional and national development by "motivating the enthusiasm of overseas Chinese and compatriots in Hong Kong and Macao to participate in the socialist construction of the motherland."

Shenzhen and Zhuhai, both in Guangdong Province, were the first areas designated SEZs in 1979, while

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a Central Committee document in May 1980 approved planning for two additional zones, Shantou (also in Guangdong) and Xiamen (in Fujian). Managed by their respective provincial governments, the SEZs were to permit Chinese from Hong Kong, Macao, and elsewhere to invest directly in factories in China. Some non-Chinese foreign manufacturers were also allowed to establish new factories or enter into equity joint ventures with local entities.

Early gains

Early on, the SEZ experiment proved particularly successful in Shenzhen. Foreign—chiefly Hong Kong—investment in Shenzhen's infrastructure jumped from 11 percent (¥5.5 million) in 1979 to 50 percent (¥135.3 million) in 1981; by 1984, Shenzhen's economy had grown 39 times over 1979 levels and accounted for 43 percent of China's industrial exports. Although the other SEZs never realized Shenzhen's spectacular growth rates, the infrastructure in Zhuhai, Shantou, and Xiamen was also rapidly modernized. Within all the SEZs, new roads and port facilities and improved water and electricity supplies helped catalyze industrial growth, especially in the older urban industrial centers within the zones.

The capital for the development of the SEZs came primarily from the Bank of China and foreign banks, which were allowed to establish branch offices in the zones. More important, however, was the economic interchange between the domestic economy and the SEZs. SEZs were permitted by the State Council to sell their products elsewhere in China if the goods were scarce on the domestic market, contained a large percentage of domestically produced components, or were produced by a foreign-invested enterprise using advanced technology and equipment. State, provincial, and local enterprises throughout China also were encouraged to transfer technicians to the SEZs to establish cooperative ventures with local companies based in the zones. Domestic partners were to provide the raw materials and semi-processed goods to the SEZ partner, which in turn would process the goods for export. By 1984 over 500 "inter-regional" enterprises were established in Shenzhen alone, producing goods ranging from textiles to consumer electronic products.

Competition from the coast

Spurred by the success of the SEZs, some members of the leadership coalition—especially Hu Yaobang and Zhao Ziyang—argued that the international market should play a greater role in determining China's economic policy. They gradually convinced Deng Xiaoping to

Early on, the SEZ experiment proved particularly successful in Shenzhen. By 1984, Shenzhen's economy had grown 39 times over 1979 levels and accounted for 43 percent of China's industrial exports.

transform the import substitution development strategy from an insular policy of discouraging imports to a more outward-oriented approach. Eventually designated the "Coastal Development Strategy," the scheme called for the more prosperous coastal regions to be transformed into major foreign economic trade centers, which would be partially integrated with the international economy. The interior regions would remain protected from international competition, in order to concentrate on production for the domestic market. It was calculated that this strategy would enable China's interior provinces to gain from the diffusion of technical and managerial innovations being tested along the coast.

Under this framework, the central leadership expanded foreign trade and investment privileges, access to foreign exchange, and taxation abatement schemes for the coastal areas. In 1984, the Central Committee designated 14 cities as "Open Coastal Cities," entitling them to approve foreign investment projects, offer various investment incentives to foreign businesspeople, retain a larger percentage of earned foreign exchange, and import certain equipment and technology duty-free. These municipalities, however, remained under Beijing's control, and did not enjoy the same bureaucratic

Shenzhen

Calligraphy by Yang Zhifang

深圳

Population: 1 million

Major Industries: Electronics, toys, textiles

Exports: $5.11 billion

Imports: $4.28 billion

1991 Foreign Investment (1st half): $406 million, 397 contracts

1990 Foreign Investment: $554 million, 796 contracts

All statistics are for 1990 unless otherwise noted.

Always the most free-wheeling of the SEZs, Shenzhen has maintained dynamic economic growth despite central government efforts to curb credit to the area under the austerity program. The city's security exchange gained official status in July 1991 after several years of frenetic market activity, and was the first in China to allow a foreign-invested company to list shares. Total foreign investment in Shenzhen from 1979-89 exceeded $5.5 billion, while export volume soared from $9.3 million to $2.2 billion. The 1991 opening of the city's new airport and other infrastructure improvements currently under way should ensure continued strong export performance in the future.

autonomy or degree of preferential treatment granted to the SEZs.

The Central Committee did allow certain "open cities," such as Dalian, Tianjin, and Guangzhou, to establish Economic and Technical Development Zones (ETDZs), which were essentially mini-SEZs. In 1985, "Large Open Coastal Economic Zones" were set up in the Yangtze and Pearl river delta areas and in southern Fujian. The Shandong and Liaoning peninsulas were later granted similar status, though none of these zones were able to exert the same degree of autonomy as the SEZs. Like the SEZs, the new zones were set up to encourage the transfer of technology, management reforms, and production inputs between the coastal and interior regions, though their primary task was to break down barriers to international economic exchange.

With the introduction of the coastal cities, the SEZs took on an additional role. Not only were they supposed to attract foreign capital and technology, they were also to act as role models for the open coastal areas and experimental hothouses for the coastal strategy reforms. Theoretically, foreign technology, capital, and management techniques would first be introduced in the SEZs, gradually utilized by the 14 Open Cities and their ETDZs, and then disseminated to the interior regions. In practice, however, the SEZs were forced to compete for domestic production inputs and foreign investment with the other coastal areas. This competition ultimately strengthened the SEZs, forcing them to become more efficient. A lack of investment capital in 1985-86, for example, prompted Shenzhen's newly appointed mayor, Li Hao, to reduce the number of basic construction projects and focus on those most likely to attract foreign investors.

Criticism mounts

Despite the technical and economic gains registered in Shenzhen and the other SEZs, Beijing was dissatisfied with certain aspects of SEZ policy implementation efforts throughout the 1980s. Initially, the central leadership was critical of the methods used to attract overseas Chinese investors for SEZ land development projects. The more strident critics claimed that the SEZs were effectively creating foreign colonies by selling territorial rights to foreign investors.

Eventually, however, the government turned its attention from land use to corruption. Thanks to Chinese laws giving SEZs the ability to import certain foreign goods duty free, "illegal" trade between the SEZs and the interior flourished for much of the decade. Basically, SEZ companies and officials acted as middlemen, importing consumer goods duty free and then selling them for large profits in the interior. In 1980-81, for example, a temporary CCP secretary in Shenzhen allegedly approved the importation of 135,000 television sets, 86,500 radio-tape players, and 850,000 tape cassettes for transshipment to the interior. In 1984-85, Hainan imported 341,000 vehicles, most of which were sold to other areas of China at exorbitant profit.

While the illegal entrepot trade infused the SEZs with finance capital, it had an adverse effect on the implementation of the national development strategy. Native industries were threatened by the increase in imported durables, while provincial governments and units increasingly geared operations to production of export goods to earn foreign exchange. They then used the funds to import automobiles, watches, bicycles, sewing machines, and other consumer goods. The result was a 30 percent drop in China's foreign exchange reserves in 1985, rapidly climbing inflation, and inability to meet State production quotas.

Following the SEZ Work Conference of January 1986, drastic readjustments were implemented to rein in the SEZs and turn them into foreign exchange generators, rather than foreign exchange spenders. Stricter foreign exchange and trade controls were adopted to prevent illegal entrepot trade; Shenzhen, for example, was separated from the surrounding areas by a 108-km barbed wire fence in 1987. The State Council also directed the SEZs to finance "outward-oriented" industrial and trading endeavors—i.e., those that would export at least 60 percent of production—to better fulfill their role under the coastal development strategy.

Looking "outward"

In response to this directive, the SEZs increased investment capital to "productive sectors" and made more credit available to local high-tech industries to develop competitive export products. In Shenzhen, local markets were developed to facilitate the buying and selling of such production inputs as materials, land, capital, and labor, in order to invigorate the role of the market in the

Zhuhai 珠海

Population: 500,000

Major Industries: Textiles, electronics, foodstuffs, metals and minerals

Exports: $678.4 million

Imports: $882.4 million

1991 Foreign Investment (1st half): $282 million

1990 Foreign Investment: $301 million, 424 contracts

All statistics are for 1990 unless otherwise noted.

While Zhuhai has greatly diversified its foreign trade and investment partners over the past decade, Hong Kong and Macao are still by far the most important foreign players in the territory. Zhuhai's export volume grew significantly in the first half of 1991, jumping more than 30 percent over the equivalent period of 1990. Companies in the city are playing an active role in the construction of the new airport in neighboring Macao. The airport, which is scheduled to open in 1994, should provide a boost to Zhuhai's foreign trade.

Despite the SEZs' close association with the reformist policies of Zhao Ziyang, the current regime has maintained them as the foundation of its modified coastal development strategy.

zone's economy. Shenzhen also granted foreign investors preferential exchange rates, tax incentives, and bonuses to encourage investment in "outward-oriented industries." By the end of 1986, Shenzhen's foreign exchange earnings (excluding foreign and domestic loans) had increased 37 percent over 1985 levels to over $1.21 billion, of which $378 million was earned from exports. Export industries were expanded in the other SEZs as well, but the majority of projects in these zones were still concentrated in the production of labor-intensive exports.

The Beijing leadership, satisfied with the growth in SEZ exports, granted Hainan full SEZ status in 1987. Although the national readjustment program introduced in 1988 reduced overall funding for SEZ infrastructure projects, Beijing continued to grant preferential treatment to export-oriented projects, especially those producing higher value-added products, such as electronic goods.

Paying up

After the mid-1989 leadership changes in Beijing, however, some of the SEZs immediately underwent a period of rectification. In May 1990, Shenzhen Mayor Li Hao was replaced by Zheng Liangyu, ex-CCP secretary of Xuzhou, Jiangsu Province. Hainan Governor Liang Xiang, who had previously served as Shenzhen CCP secretary, was also removed from office. In addition, Shenzhen University students, faculty, and staff found themselves in around-the-clock political indoctrination classes overseen by a new university president, whose conservative views earned him the nickname of "the Commune Party Secretary." Xiamen, Zhuhai, and Shantou, though, emerged relatively unscathed by the political changes in Beijing.

Despite the SEZs' close association with the reformist policies of the fallen Zhao Ziyang, the new leadership announced during the February 1990 SEZ Work Conference that the SEZs would remain the foundation of a modified coastal development strategy. The SEZs' mission as role models was somewhat diminished, since the new leaders were no longer eager for the interior economy to experiment with SEZ-type market reforms. They were, however, anxious to expand the SEZs' role as foreign exchange generators, seeking to tap the foreign exchange earnings of Guangdong, Fujian, and the SEZs to repay World Bank and other loans due in 1991 and 1992. Although foreign exchange rules for foreign-invested enterprises did not change, the SEZs reportedly were required to remit to Beijing up to 40 percent of earned foreign exchange in 1990 to help repay the national debt. Hainan, which encountered difficulties financing basic infrastructure projects and attracting new foreign investment, was allowed to retain 100 percent of its foreign exchange earnings.

Qualified success

The SEZs' ability to generate foreign exchange has clearly helped them stave off excessive interference from Beijing in recent years. Though there is an inherent tension between local and central officials given their different constituencies and priorities, the two sides appear to have reached an uneasy truce. Basically, in return for providing more foreign exchange for Beijing's coffers, the SEZs have been able to maintain their relative autonomy from the center.

In terms of their usefulness as "United Front" mechanisms, the SEZs have without doubt fostered better political and economic ties between overseas Chinese and the mainland. Political, economic, and psychological barriers between Hong Kong/Macao and the SEZs have been broken down, fostering a greater degree of integration throughout the Pearl River delta region. Hong Kong/Macao businesspeople can quickly and easily cross the border into Shenzhen and Zhuhai, and bureaucrats in both of these SEZs are generally cooperating on mutual cross-border problems such as infrastructure needs, smuggling, and refugees. Similarly, the recent influx of Taiwan capital to Fujian has helped ease tensions between Beijing and Taipei (*see The CBR*, September-October 1990, p. 32).

Aside from their importance in establishing links with Hong Kong

Shantou

Population: 8.26 million

Major Industries: Textiles, agricultural products, paper products, porcelain

Exports: $497.2 million

Imports: $727.1 million

1991 Foreign Investment (1st half): $102 million

1990 Foreign Investment: $274 million

汕头

All statistics are for 1990 unless otherwise noted.

On November 1, 1991, the Shantou Special Economic Zone was officially expanded to include Chaozhou City. The zone now covers 234 sq km, compared to 52.6 sq km before. By the end of 1989 there were over 300 foreign-invested enterprises in Shantou SEZ, primarily in the textile, chemical, and machinery industries.

and Taiwan, the SEZs deserve high marks for serving as the "laboratory" for many of China's national foreign trade reforms. For example, most of the "Twenty-Two Articles" issued in October 1986 (*see The CBR*, January-February 1987, p.11) to encourage greater foreign investment in China were first implemented in Shenzhen. The most successful tests included reductions in land usage fees, elimination of taxes on remitted profits, and preferential tax treatment for foreign-invested enterprises.

Beijing is concerned with maintaining control over the southern provinces, which have enjoyed more than a decade of relative political and economic autonomy.

The story on whether the SEZs have been able to act as a conduit for new foreign technologies is less clear. Throughout most of the 1980s, foreign investors in the SEZs were willing to invest only in labor-intensive, low-tech industries producing items such as toys and textiles. Even the highly vaunted Sanyo plant in the Shekou industrial zone in Shenzhen produces cheap electronic products for third world markets using outdated technology. Now, however, there is some evidence that the SEZs may be able to attract more sophisticated foreign investment. Companies such as IBM Corp. and Hitachi, lured by the high-grade facilities of the new Shenzhen Science and Industrial Park and the availability of highly skilled labor, have invested in the SEZ to produce electronic goods ranging from 3.5-inch diskettes to computer terminals. Though the other SEZs have yet to establish similar facilities to attract foreign investors, Xiamen, which can draw on Taiwan support and local skilled labor, probably has the greatest chance to successfully follow Shenzhen's lead.

Support for a new decade

These factors leave the SEZs well-positioned to command a strong role in China's economic growth in the 1990s. Deng Xiaoping appears to have assumed personal responsibility for the initiation and implementation of the SEZ experiment, a commitment underscored by the leadership's remarks at the February 1990 SEZ Work Conference. Similarly, during an October 1991 visit to Shantou, Li Peng reiterated support for the SEZs, calling on them to emphasize the development of high-tech industry.

During his trip, however, Li Peng also stessed the need to draw up a unified, comprehensive development plan for the SEZs. This reflects the leadership's concern with maintaining effective control over the southern provinces, which have enjoyed more than a decade of relative political and economic autonomy. But unless alternative sources of foreign exchange can be developed in the near future—which rules out the three-decade Pudong scheme—Beijing will have to become resigned to its comparatively diminished role in southern China. 完

Hainan

海南

Population: 6.5 million

Major Industries: Prawns and other agricultural commodities, light industrial products, metals and minerals

Exports: $326.5 million

Imports: $490.2 million

Total Foreign Investment: $478.5 million

1990 Foreign Investment: $103 million

All statistics are for 1990 unless otherwise noted.

More noted for corruption than industrial production, Hainan is the youngest and least developed of the SEZs. The island has been focusing on upgrading its infrastructure, beginning work on the expansion of the port in Haikou and the construction of the Fenghuang Airport in Sanya, for which Hainan has received $35.7 million in concessionary financing from France. Foreign investment has occurred primarily in real estate development, light industry, and agriculture-related projects.

Xiamen

厦门

Major Industries: Electronics, textiles, agricultural and aquatic products, granite

Exports: $900.3 million

Imports: $889.0 million

1990 Foreign Investment: $485.5 million

All statistics are for 1990 unless otherwise noted.

Xiamen experienced explosive growth in 1989 and 1990, thanks to an influx of Taiwan capital and investment. First-half 1991 figures, however, reveal that Taiwan investment is down markedly over the same period last year, registering 37 projects worth nearly $25 million—a decline of 50 percent and 83 percent, respectively. The drop reflects an overall slowdown in Taiwan investment in the mainland, the result of the 1990 crash of the Taiwan stock and property markets and corruption scandals involving Taiwan businessmen in Xiamen.

我会活动 Council Activities

Member Companies Address Possible 301 Sanctions

Council members met in Washington, DC, on October 9 to assess the implications of the US Trade Representative (USTR)'s 301 investigation into market barriers in China. Joseph P. Massey, assistant US trade representative, and Lee M. Sands, USTR's director for Chinese and Mongolian affairs, summarized reasons for the investigation, which has been launched under 301 provisions of the 1988 Omnibus Trade Act. Massey also outlined potential future strategies by the Bush administration for resolving 301-related disputes.

Executives from the more than 30 member companies represented at the meeting expressed a broad range of opinion on the wisdom and effectiveness of initiating a 301 investigation. In response to several questions, Massey clarified the basic criteria USTR will employ to select which product categories to levy sanctions against, should the dispute fail to be resolved within the legally mandated timeframe.

Likely targets for 301 sanctions include Chinese products exported in large quantities to the United States.

Likely targets for 301 sanctions include Chinese products exported in large quantities to the United States for which there are alternate sources of supply, which would minimize the impact on the US economy. Products produced by the State sector in China are also likely to be targeted, in order to prevent harming the more market-oriented sectors of the Chinese economy.

Can Pudong Deliver?

Shanghai's ambitious planners are counting on foreign investors to propel the new development area

Thomas B. Gold

For four decades, Shanghai has chafed as its wealth, output, and talent have flowed to Beijing and other parts of China for seemingly little in return. Now, in order to regain its former preeminence, Shanghai is embarking on a massive development scheme of its Pudong district. Aside from reviving the city's economy and boosting its clout in Beijing, the plan's backers—which include former Shanghai leaders who are now key players in Beijing—have several other ambitious goals in mind: drawing select foreign business activity from south to central China; demonstrating that China's economic reforms and open door policy remain in effect, especially in Shanghai; and tackling many of Shanghai's seemingly intractable environmental, logistical, and social problems in a comprehensive way.

The Pudong development scheme's huge scale and whopping multi-billion dollar price tag have made many local and foreign observers skeptical of its chances for success. While the obstacles are numerous, there are enough countervailing factors—not least of which is the indomitable chutzpah of the Shanghainese themselves—to merit keeping an eye on Pudong.

浦東

While the obstacles are numerous, there are enough countervailing factors to merit keeping an eye on Pudong.

Pudong: the facts

The Pudong New Area comprises a triangular area of 350 sq km of Shanghai municipality's Chuansha County, across the Huangpu River from the Bund. It is bordered on the west by the Huangpu River, on the south by the Chuanyang River, and on the north and east by the Yangtze River estuary, where the Yangtze empties into the East China Sea. Pudong's current population is 1.4 million, up 300,000 since the development project was announced in 1989.

Though largely undeveloped, Pudong is hardly a wasteland: it has more than 2,000 industrial enterprises that together employ around 400,000 people. The area's annual industrial output accounts for 10 percent of the municipality's total, as does its agricultural output. Petrochemicals, shipbuilding and ship repair, iron and steel, and building materials are Pudong's major industries.

Shanghai's planners envision a three-stage development program for Pudong. In the first stage, which coincides with the national Eighth Five-Year Plan (FYP, 1991-95), improving the physical infrastructure is to be emphasized. This will include construction of two or three bridges (the first of which, the Nanpu Bridge, is scheduled to open at the end of 1991), five tunnels (the Yanan Road Tunnel has been in operation since late 1990), a ring road bypassing the city center and extending out to the Hongqiao Economic and Technological Development Zone (ETDZ), a 50,000-line program-controlled telephone system, and gas and water works (*see* map). The bill for this first stage comes to approximately ¥10 billion.

The second stage, which dovetails with the Ninth FYP (1996-2000), should see work on a new international airport in Pudong, as well as more tunnels, a subway, a railroad, and updated laws, regulations, and policies. The final stage will extend for two or three decades into the next century and will focus on the continuous modernization of the area. The total cost of the project is estimated to be between $70-80 billion.

The Pudong New Area is to be divided into five sub-districts. According to Pudong Development Office spokesman Yang Xiaoming, during the first stage development will be concentrated in three of them:

- **Lujiazui Finance Trade Zone** This area, directly across the river from the Bund, is earmarked as a center for finance, trade, and commerce. Ideally, it will become an extension of the Bund, Shanghai's historical business center. Foreigners will be permitted to purchase and transfer land-use rights and engage in retail sales in this area. Office buildings, apartment houses, and exhibition facilities will be located in the nearby Huamu District.
- **Jinqiao/Qingningsi Export Processing District** Situated further

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north along the Huangpu River, this zone is designated for high-technology, export-oriented, non-polluting industries. Such industries include electronics, computer hardware and software (a local Silicon Valley is on the drawing board), and textiles.

- **Waigaoqiao Free Trade Zone** Located in the northeastern corner of Pudong, Waigaoqiao will include port facilities (four 10,000 tonne-class berths are to be built in the first stage; 30-40 are envisioned in all), export processing zones, a bonded area with bonded warehouses; and a base for the exploration of oil and natural gas fields in the East China Sea. A 3.6 million kw power plant is also planned for this area. The free trade zone will be enclosed and separated from the surrounding areas by a two-meter deep ditch and a barbed-wire fence.

The other two zones are the Zhoujiadu/Liulu industrial zone, which will accommodate factories making steel plate and glass for the shipbuilding and automotive industries, and the Beicai/Zhangjiang zone, which will be developed as a science and education zone.

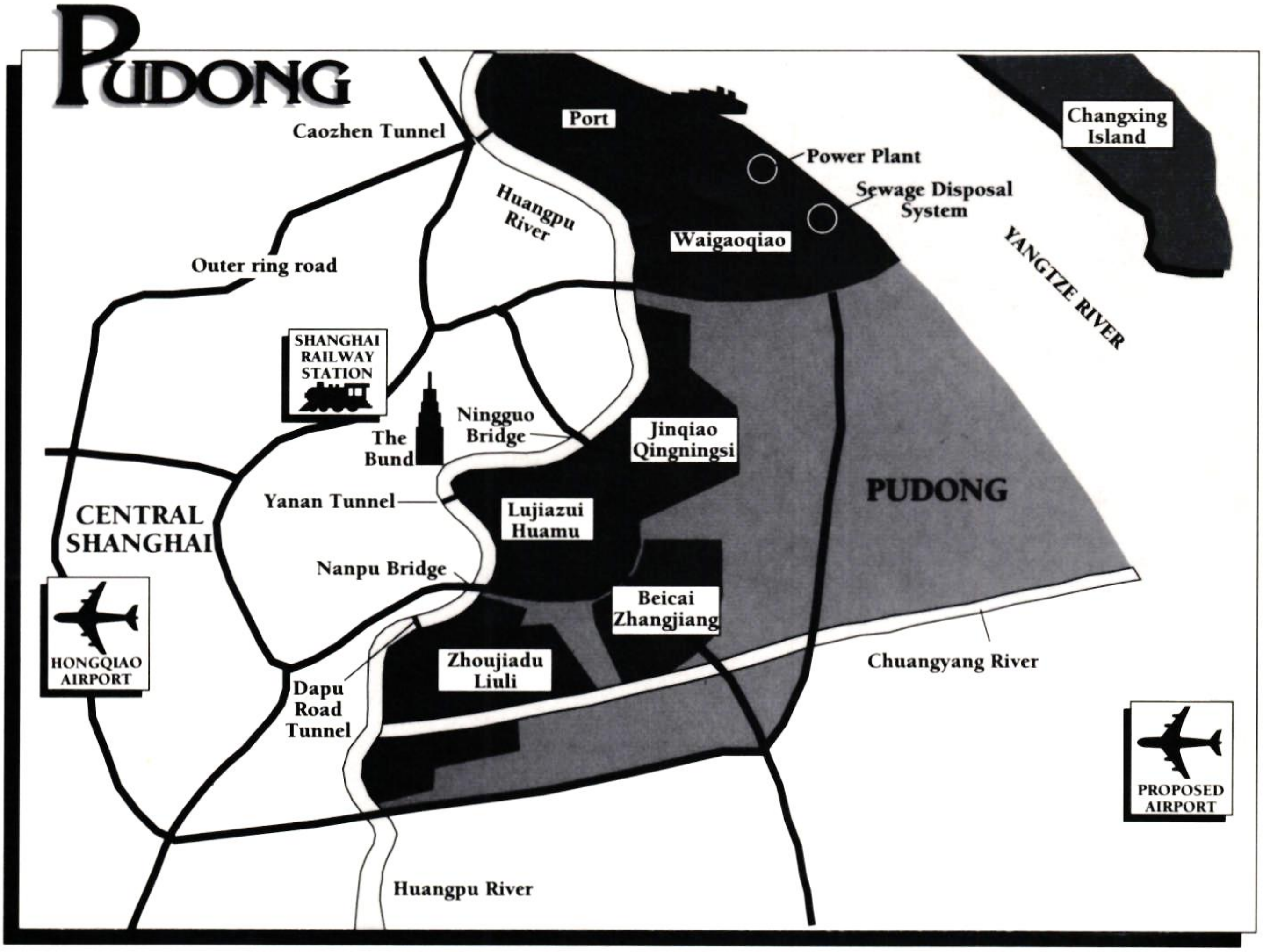
Perhaps the greatest distinguishing feature between Pudong and the ETDZs and SEZs is Pudong's comprehensive scope.

Each of the first three zones has a newly established development company to manage the development of its respective area. Each company has ¥100 million in registered funds and is 60 percent owned by the Shanghai government. The companies' responsibilities include constructing, selling, and renting buildings; running service operations such as hotels and restaurants; and serving as agents for import and export trade. They can also invest in key projects, including joint ventures with foreign enterprises (*see* list).

Not just another SEZ

Overall responsibility for development of Pudong rests with a leading group headed by the mayor of Shanghai. The Pudong Development Office is responsible for implementing plans, while foreign investment in the area is handled by the Shanghai Foreign Investment Commission.

These planners view Pudong's development as integral to the economic and social development of Shanghai. The development scheme, accordingly, is comprehensive in scope. This is perhaps the greatest distinguishing feature between Pudong and the Special Economic Zones (SEZs) and the Minhang and Caohejing ETDZs in the western part of the city. Pudong planners are counting on some of the outdated and polluting industries on the western side of the Huangpu—an area known as Puxi—to set up cleaner,




Shangri-La.
Where else.

more technologically advanced factories in Pudong. The former plants could then be torn down and the obsolete equipment either destroyed or transferred to the interior; the old sites would be converted to other use. Such a plan would greatly help clean up the heavily polluted Huangpu River and Suzhou Creek. Moreover, if enough of Shanghai's 13 million people move to Pudong, much of the decrepit housing stock in Puxi could be torn down and replaced. This would lessen the burden on Puxi's overstretched facilities and improve the overall quality of life in the city.

In terms of specific incentives, Pudong offers potential investors virtually the same treatment as the SEZs (*see* p. 30). Tax rates and exemptions are structured to favor infrastructure projects, though foreigners may also invest in tertiary industries (financial, real estate, wholesale, and retail operations) and can open foreign bank branches. They are also permitted to engage in entrepot trade for businesses in the Pudong New Area. In fact, over the past year Shanghai officials have focused on presenting Pudong as a zone for trade and finance as opposed to industry, perhaps to further distinguish it from the SEZs.

The politics of Pudong

The idea of developing Pudong is hardly new. Early in this century there was talk of building a bridge across the Huangpu, and Sun Yatsen, who led the overthrow of the Manchu dynasty in 1911, saw its potential as a port. Both before and after World War II, development plans were drawn up but never implemented due to warfare.

The present push to develop Pudong dates back to 1984. With the blessing of the State Council, then headed by Premier Zhao Ziyang, detailed investigation began late in 1986 under current-Mayor Huang Ju, who was assisted by Chinese-American developer Lin Tongyan. Then-Vice Premier Yao Yilin gave his support to Pudong after a visit to Shanghai in 1987, probably reflecting the approval of Chinese Communist Party (CCP) elder and economic guru Chen Yun, a native of the Shanghai region. At an international conference convened in May 1988, then-Shanghai Party Secretary Jiang Zemin came out strongly in favor of developing Pudong, largely because of the enormous difficulties involved in transforming the old city. He was backed by the new mayor, Zhu Rongji, and the former mayor, Wang Daohan, a man known to have the ear of Deng Xiaoping. Yao Yilin paid another visit in March 1990 on behalf of Premier Li Peng and Jiang Zemin, who had been promoted to CCP general secretary.

After Tiananmen, Pudong was seized upon by the central leadership as a way to demonstrate that China was still open and pursuing reforms.

Li Peng himself came to Shanghai in April 1990, and on April 18 issued a formal statement on behalf of the Party and the State on the opening and developing of Pudong. Five months later, the State Council approved two sets of policies regarding development of the area. These policies deal with such issues as taxation, land use, foreign investment approval, and customs regulations.

All of this activity indicates broad central support for the project across the spectrum of "conservatives" and "reformers." It is also clear that plans to develop Pudong were underway well before the fall of Zhao Ziyang. Thus, identifying Zhao with a southern development strategy and Jiang Zemin with a Yangtze strategy is overly simplistic. Nevertheless, the June 1989 crackdown did help Pudong; the development scheme was seized on by the central leadership—reportedly at the suggestion of Yang Shangkun—as a way to demonstrate to the world that China was still open and pursuing reforms. Moreover, it was believed that Shanghai, which is both geographically and politically closer to Beijing than is Guangdong, would prove easier to control.

The local leadership has supported Pudong all along, as a means to reverse Shanghai's decline. The 1980s were clearly the decade of Guangdong and the SEZs, into which Beijing poured significant money and resources. Even the neighboring province of Jiangsu, where thousands of township and village enterprises have spearheaded an economic takeoff, surpassed Shanghai in industrial output in 1985. Shanghai's industry grew at less than half the 14 percent rate of the rest of the nation in 1987, though it has performed comparatively well under the austerity program. Nevertheless, the city's revenues have continued to decline, largely due to its heavy reliance on money-losing, subsidy-guzzling State enterprises outside the State sector. These dinosaurs, many of which are owned by the central government and remit taxes directly to Beijing, cannot compete with the flexible and entrepreneurial new enterprises. Shanghai leaders see the Pudong project as a way to systematically link Shanghai's economy to that of the Yangtze Delta region and beyond, up to Wuhan and Chongqing. They want the 1990s to be the decade of Shanghai.

Who pays?

Although it is certainly bold, the Pudong development scheme contains what could be a fatal flaw; Pudong's backers expect foreign loans and investment to cover about one-third of the cost of the program. There is little evidence thus far to support such expectations; investment to date has been relatively minor and much of the foreign interest is in land speculation, rather than productive investment.

For its part, Beijing has committed ¥6.5 billion ($1.4 billion) to Pudong through 1995, while the Shanghai municipal government aims to invest ¥1 billion annually until the end of the decade. The actual figure, however, will depend on the annual growth rate of Shanghai's enterprises, which could mean the ¥1 billion goal is overly optimistic. Funds from domestic banks (10 have established branches so far), investments from domestic enterprises, and the sale of bonds are also expected to take up some of the slack.

But this will hardly be enough. The only foreign loan awarded to Pudong so far has come from the Asian

Development Bank (ADB), which loaned $70 million for the Nanpu bridge. The ADB has also agreed to guarantee interest payments on a $48 million complementary loan package for the bridge, though the loan funds will be provided by several Asian commercial banks. The Chinese are looking to the World Bank, other international lenders, and foreign governments for soft loans, but have secured no firm commitments thus far.

On the private-sector side, more than 7,000 potential investors have dropped in on the Pudong Development Office. Over 70 foreign ventures worth more than $100 million have been approved; more than 40 are already in operation. By far the largest investment to date is a $25 million joint venture between E.I. du Pont de Nemours & Co. and two Chinese enterprises to produce agricultural chemicals (*see* box). If this project is discounted, the average value of investment in the area is quite low. Most direct investment

Most foreign direct investment seems to be coming from Taiwan, and is being funneled into light industrial sectors such as electronics, not infrastructure.

seems to be coming from Taiwan, and is being funneled into light industrial sectors such as electronics, not infrastructure.

Can Pudong fly?

The Pudong Development Office is staffed by a group of bright, articulate young people who have clearly been instructed in western sales methods. They show a slick video, present a wealth of mockups and charts, and make Pudong sound like a viable project. Clearly, Pudong does have a lot going for it. Shanghai is an important industrial base and has a large pool of talented labor. In addition, the Yangtze delta contains more than one-third of China's population and produces 40 percent of its gross national product. A foothold in Pudong could be key to tapping this huge potential market. But despite these advantages, Pudong still faces a host of serious problems which could derail plans for development of the area. These problems include:

- **Changing political winds** To what extent does Pudong rely on the tenure of Jiang Zemin, Zhu Rongji, and their aged backers? It is not yet clear whether these leaders have the ability to bring domestic investors and lenders on board. Moreover, there are questions as to the commitment of some of the elders, many of whom blame the failure of the Soviet coup attempt and the downfall of the communist party there on the Soviet

Positive on Pudong

In April 1990, E.I. du Pont de Nemours established a $25 million joint venture with the Shanghai Pesticide Factory and the Shanghai Pesticide Research Institute in the Pudong New Area. The largest foreign investment in the Pudong New Area to date, the 50-year Du Pont venture will produce Londax rice herbicide for both domestic and export markets when it becomes operational in early 1992. CBR Editor Pamela Baldinger spoke with Du Pont Agricultural Chemicals Ltd. (Shanghai) General Manager Dick Y.H. Liu about his impressions of Pudong.

CBR: *Why did Du Pont choose to locate its joint venture in Pudong?*

Liu: We considered a total of 14 sites throughout China, and settled on Pudong for many reasons. First, it is near Shanghai. Aside from being the biggest city in China, Shanghai also has an excellent human resource base—it has many good universities, research institutes, and manufacturing organizations. In addition, Shanghai has a good transportation network, and good utility (water, gas, steam) supplies. We also received a lot of support from the Shanghai municipal government to locate in Pudong.

CBR: *Did the government offer you special incentives to get you to locate in Pudong?*

Liu: We did not receive special privileges or incentives from either the central or Shanghai government. But the Shanghai government has been very supportive and encouraging of the venture, and the central government has expressed a strong desire to protect our intellectual property.

CBR: *Infrastructure development in Pudong is still in the early stages. How has this affected your venture?*

Liu: Lack of infrastructure is the major disadvantage of Pudong at this stage, though current water and power supplies are sufficient for our needs. Locating in Pudong has affected us in other areas, such as recruiting and hiring labor. Local regulations, which limit wages to 120-150 percent of those in com-

parable State enterprises, have compelled us to augment other areas of the total pay package to attract workers to Pudong. We also had to buy the houses of the farmers who originally lived on the land we now occupy. This money was used by local authorities to resettle the farmers elsewhere.

CBR: *Do you believe China's development plans for Pudong are realistic? Why or why not?*

Liu: Both the central and local governments are engaging in a very ambitious program to develop Pudong. I believe it will be hard, but it's possible. Based on our experiences thus far, I would encourage other foreign companies to invest there.

Union's opening to the outside and laxity in ideological education. Pudong could become a convenient stalking horse for such individuals, especially if it grants foreigners rights even the SEZs don't offer, such as the ability to conduct free trade in Waigaoqiao.

• **Unclear lines of authority** It is still unclear who has ultimate authority over Pudong. The CCP has been loathe to grant too much autonomy to Shanghai, both because of general mistrust of the city's cosmopolitan residents and its importance in national industrial production and revenue generation. Even now, Shanghai accounts for 7 percent of total industrial output and 10 percent of total gross revenue. Beijing, therefore, may not wish to grant Pudong the autonomy to make rapid decisions and plan its own development. Moreover, some Pudong officials fear that the SEZs and open cities will try to use their clout to gain permission to provide incentive packages more favorable than Pudong's.

Pudong's development affects all of Shanghai; yet it is uncertain whether all of the constituent players can be made to coordinate strategy.

• **Bureaucratic interference** Pudong's development affects all of Shanghai; yet it is uncertain whether all of the constituent players can be made to coordinate strategy. The Caohejing and Hongqiao ETDZs, for example, seem to be quickly approving projects they stalled on earlier for fear that they will end up in Pudong instead. It is equally uncertain whether the corruption and rigidity of Shanghai's bureaucracy can be checked enough to attract sufficient foreign capital.

• **Unclear role of local industry and labor** There are significant doubts that Shanghai's State industries will be willing or able to make the investment in upgrading necessary to move to Pudong. Similarly, it is too early to tell if Shanghainese will be willing to move to Pudong or make the cross-river trip to work; the Shanghainese predilection to be at the center of action could make attracting talent problematic—or at least more expensive.

• **Insufficient incentives for foreign investors** Pudong's success ultimately depends on the willingness of foreigners to invest there. Yet Pudong must compete not only against growing opportunities in Europe, but against other regions of China (and, after 1997, Hong Kong). Returns on investment in infrastructure will come only in the very long term, a disincentive to most potential investors. Therein lies Pudong's catch-22; foreign investors generally won't invest in an area without an established infrastructure, yet without foreign investment, the infrastructure can't get established. Moreover, unlike other regions of China, Pudong has no natural constituency. Shanghai-born capitalists who fled to Hong Kong after 1949 are unlikely to want to commit great amounts of funds to Shanghai.

No verdict yet

Shanghai used to be known as "the Paris of the East," and its boosters constantly compare it to that city and London—great financial, commercial, and cultural cities that span both sides of a river. At this point, the Pudong development scheme is still too new for analysts or potential investors to evaluate conclusively. Key infrastructure projects are under construction and the zones are taking shape. While the significant amount of money and "face" riding on the project should ensure against outright failure, the widespread foreign belief that the current regime in Beijing may be short-lived has increased uncertainty, leading potential investors to shy away from long-term projects. Until Chinese leaders can eliminate that uncertainty, Pudong's promise will likely remain more fiction than fact. 完

Pudong Development Companies

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Deputy general managers: Zhou Bohua, Ting Wenhu, Yan Huhai
Office directors: Song Jinjiang, Xu Peiliang

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Foreign companies exploring investment opportunities in Pudong may also wish to contact:

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Putting Pudong in Perspective

Pudong's investment incentives are on par with those offered by the SEZs

Norman P. Givant

For close to two years now, foreigners considering investing in China have been barraged by the media blitz surrounding Shanghai's Pudong New Area. Propaganda aside, two questions remain: Why choose Pudong? How does it differ from the Special Economic Zones (SEZs) or the Economic and Technological Development Zones (ETDZs) of the open coastal cities? Potential foreign investors may find answers to these questions by comparing the laws and regulations governing these areas.

Not too special

Some 13 regulations have been promulgated—mainly by Shanghai municipal authorities—to give shape and direction to the Pudong New Area. Of particular interest to foreigners, the Regulations of Shanghai Municipality for the Encouragement of Foreign Investment set forth the incentives available to foreign parties who invest in Pudong. Basically, the incentives offered in Pudong are identical to those available in the SEZs and ETDZs (*see* chart). Former Shanghai Mayor Zhu Rongji reportedly requested that Pudong be allowed to grant more attractive incentives to foreign investors, but the State Council refused for fear the existing zones would demand equal treatment.

Article 25 of the regulation holds out the promise that foreign investors in Pudong may be granted special incentives if they invest in projects especially encouraged by Shanghai. Local officals, however, have been remarkably coy when asked what such projects and incentives might be. It thus remains to be seen whether this provision will have any real meaning.

Article 25 holds out the promise that foreign investors in Pudong may be granted special incentives if they invest in projects especially encouraged by Shanghai.

Who is welcome?

Generally speaking, foreign investment in Pudong is encouraged in several areas:

- Manufacturing enterprises, especially those that are technologically advanced or export oriented;
- Projects for the development and operation of large tracts of land; and
- Energy, transportation, telecommunications, and other infrastructure development projects.

The Guidelines for Industries and Investment in the Shanghai Pudong New Area give a clearer picture of the type of investment Shanghai wishes to encourage in Pudong. They provide a laundry list of desired industries and projects, ranging from power, water, gas, and waste treatment plants to high-tech industries such as computers, semi-conductors, precision machinery, and bio-technical engineering. These guidelines are not fixed in stone, however, and the Shanghai authorities will generally consider any sensible non-polluting industrial project.

Norman P. Givant is a partner in the international law firm Coudert Brothers and opened the firm's Shanghai office in 1986. For the past three years he has also served as co-president of the American Chamber of Commerce in Shanghai.

The specifics

The other regulations governing foreign projects in Pudong cover a number of areas, such as taxation, land use, administration, and finance.

Taxation The tax and other incentives to be granted to foreign investors in Pudong are stipulated in the Regulations on Reduction and Exemption of Enterprise Income Tax and Consolidated Industrial and Commercial Tax (CICT) to Encourage Foreign Investment in the Shanghai Pudong New Area. The regulations state that Sino-foreign equity or cooperative joint ventures and wholly foreign-owned enterprises engaged in manufacturing in Pudong are to be taxed at the rate of 15 percent on profits. As far as tax holidays go, those enterprises with terms of operation exceeding 10 years will be granted a two-year tax exemption and a 50 percent reduction for the three years thereafter. These rates are the same as those in the SEZs and ETDZs, but lower than those in force in the rest of Shanghai (excluding the ETDZs).

Joint-venture banks and financial institutions, as well as branches of

Incentives for Foreign-Invested Enterprises in China's Special Investment Zones

	ETDZs	SEZs	PUDONG
TAXATION			
15% income tax rate			
• for manufacturing ventures	✓	✓	✓
• for non-manufacturing ventures	✓	✓	✓
• for foreign joint-venture banks or foreign bank branches	X	✓	✓
Tax exemptions			
• for manufacturing ventures with terms of at least 10 years: 2 yr. exemption after first profit-making year, followed by 3 yrs. at 50%	✓	✓	✓
• for service sector ventures with terms of at least 10 years: 1 yr. exemption after first profit-making year, followed by two years at 50%	X	✓	X
• for banks with terms of at least 10 years and $10 million in capital: 1 yr. exemption followed by two years at 50%	X	✓	✓
Exemption from taxes on profits remitted abroad	✓	✓	✓
Additional tax exemptions/reductions available for technologicaly advanced, export oriented, or infrastructure enhancing ventures	✓	✓	✓
Eligibility for exemptions/reductions in CICT taxes, under certain conditions			
• on imports	✓	✓	✓
• on exports	✓	✓	✓
Exemption from export duties when at least 20% of value is added by an FIE to non-coastal zone materials prior to export	✓	✓	✓
Exemption from property taxes, under certain conditions	✓	✓	✓
LAND USE RIGHTS			
Maximum grant	50 or 70 years, depending on location	70 years	70 years
Transferable	✓	✓	✓
BANKING AND FINANCE			
Priority lending from Chinese financial institutions	✓	✓	✓
Right to establish foreign bank branches, Sino-foreign joint-venture banks, and financial corporations invested with foreign capital	X	✓	✓
CICT tax levied at 3% on loan business	Not applicable	✓	✓

Sources: Coudert Brothers, US Department of Commerce foreign banks with operating terms of over 10 years and foreign-invested capital (or foreign-allocated working capital) of over $10 million, are to be granted a one-year tax holiday from the first profit-making year and a 50 percent reduction in tax for the next two years. After this period, they will pay tax at the reduced rate of 15 percent of profits. This treatment is identical to that extended to joint-venture banks and other service joint ventures in the SEZs.

Land use Land use in Pudong is governed by two sets of measures. They permit the long-term lease of land and the purchase of land-use rights through public bidding, auction, or negotiation with the local authorities. The maximum terms for various uses of land are:

• Land used for commercial, tourist, or recreational purposes: 40 years
• Land used for industrial purposes: 50 years
• Land used for the purposes of education, scientific research, culture, public health, or sports: 50 years
• Land used for housing: 70 years
• Land used for other purposes: 50 years

These terms are comparable to those in the SEZs, but are longer than those granted in the rest of Shanghai, where 50 years is the upper limit.

Approval procedures The procedures for approving foreign investment projects in Pudong are contained in the Measures for the Examination and Approval of Foreign Funded Enterprises in the Shanghai Pudong New Area. The Shanghai Foreign Investment Commission (SFIC)'s $30 million approval limit for projects in Pudong is the same as its limit for projects in other areas of the city. Procedural requirements for Pudong applications are the same as well.

Domestic enterprises are also permitted to invest in Pudong, subject to the Provisional Measures of Shanghai Municipality to Encourage Investment in Pudong by [Domestic] Regions Outside [Shanghai]. Approved by the Shanghai municipal government in May 1991, these measures are unique. Domestic Chinese units have already set up numerous enterprises in the SEZs to take advantage of the incentives available there, but this is the first time that regulations specifically designed to encourage such investment have been publicly promulgated. The measures allow domestic enterprises to remit foreign exchange profits back to their home provinces, to be exempted from customs and CICT taxes on imports, and in some cases, to qualify for tax holidays. Domestic enterprises will also have access to Shanghai's foreign exchange adjustment—or "swap"—center.

Banking and finance Interestingly, one regulation promulgated as part of the campaign for the promotion of Pudong applies not just to Pudong, but to Shanghai as a whole. The Regulations for the Administration of Financial Institutions with Foreign Capital in Shanghai allows foreign banks to set up Sino-foreign joint venture financial institutions and banks, or branches of their own banks anywhere in Shanghai—not just in Pudong. The establishment of such institutions is subject to the approval and supervision of the People's Bank of China (PBOC). Despite Shanghai's efforts to persuade the PBOC to allow these entities to carry out a broad range of banking activities, the central bank, under pressure from domestic banking interests, has limited them to foreign-exchange business. Moreover, these banks may handle import-settlement transactions for domestic Chinese trading corporations only if they supplied the funds for the imports. The lucrative trade financing business in which foreign banks should have a clear edge has thus been preserved for the domestic banking industry.

Despite this highly restricted scope of business, by October 1991 two joint-venture finance companies and seven new foreign bank branches had been approved to set up operations in Shanghai; applications from 20 more banks are still pending. Though all of the approved organizations have opened their offices in Puxi—Shanghai's older, more developed business center across the Huangpu River—the Shanghai government is looking to them to provide much of the financing that will be required to develop Pudong.

Waigaoqiao: a step apart

The one facet of Pudong that is significantly different from the SEZs and ETDZs is the free-trade zone in Waigaoqiao. Firms located in this zone will be permitted to import and export goods for use in the zone duty free. Other areas of China have established bonded warehouses to facilitate export processing, but Pudong was the first to establish a free-trade zone.

To address the special requirements of a free-trade zone (which for tax and customs purposes must be kept separate from contiguous areas), authorities have drafted four regulations dealing exclusively with Waigaoqiao. They contain measures detailing customs and foreign-exchange control procedures in the zone, as well as administration of the area. According to these measures, individuals are allowed to work, but not live, in the zone. Daily entrance to and egress from the zone must be made at a designated station and both are subject to customs checks. Import licenses are not required for materials and components imported into the zone for export processing, and such imports are exempted from import duties and CICT taxes.

Foreign companies, which are generally prohibited from establishing trading companies in China, are allowed to engage in entrepot trade in Waigaoqiao. As export-processing companies in the zone will likely handle their own imports and exports, however, it remains to be seen whether the zone will generate sufficient entrepot trade to tempt foreign investors to establish full-fledged trading companies there.

Summing up Pudong

If viewed as a 20-year plan for the development of Shanghai, Pudong seems eminently sound. But it is not the solution to all of Shanghai's current investment needs; Pudong will not attract—and cannot support—substantial foreign investment until its basic infrastructure is completed. Moreover, Shanghai will have to cease paying lip service to the icons of economic reform and implement what it preaches if Pudong is to succeed in the longer term. Specifically, it will have to simplify and shorten contract negotiation and approval procedures, improve access to raw materials and markets, curb the obstructionism of its bureaucracy, and reduce the excessive costs of doing business in the city. Then, Pudong might really turn some heads. 完

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评论 Commentary

The Air Freight Game

Thomas E. Goetz

Hong Kong is losing its competitive advantage due to excessive air freight charges. The fault lies not with air carriers, but with an archaic air services agreement that denies US freight carriers Fifth Freedom rights through Hong Kong.

This agreement, known as "Bermuda II," was drafted by the governments of the United Kingdom and the United States in July 1977, before deregulation of the US airline industry. Bermuda II was designed to provide a framework for the development of air services between the United States, the United Kingdom, and the remaining UK territories, including Hong Kong. At that point in time, there was no way regulators could foresee that freight movement through the territory would skyrocket or that dedicated cargo airlines would carve an important niche in the industry. Thus, Fifth Freedom rights for cargo carriers was not an issue.

These rights enable holders to carry revenue traffic between any points on flights between three or more treaty-partner nations. For example, if an air-cargo flight originates in the United States and flies to Japan, it may both off-load freight in Japan and take on freight for its next destination, say, Hong Kong. In Hong Kong, that same air-cargo flight may off-load its cargo from both the United States and Japan, and take on freight for its next and final stop, Singapore. Upon returning from Singapore through Hong Kong and Japan to the United States, this flight may off-load and load without restriction at any of these locations.

The existing US-Hong Kong air services agreement, however, allows US flights to Hong Kong to deposit only freight loaded in America; they cannot take on Singapore-bound freight (for example) in Hong Kong. Conversely, when the flight returns to Hong Kong from Singapore, it cannot take on freight for Japan or any other non-US destination. As a result, in 1989 Federal Express was forced to forego 29,000 tons of available capacity on its flights within the region—the equivalent of 263 fully loaded air freighters. The cost of this wastefulness was borne by the Hong Kong exporting community, which in some cases had to resort to more expensive charter flights or slower ocean transport for lack of air cargo space.

The cost to the economy

According to a privately commissioned study conducted by Gellman Research Associates in 1990, if Hong Kong granted Fifth Freedom rights to US cargo carriers, air cargo rates for Hong Kong would decrease by 10-25 percent for intra-Asian cargo—one of Hong Kong's top potential growth areas. The study involved 700 firms, which together employ 267,000 people and account for HK$2.48 billion in revenue. Gellman Associates concluded that a 10 percent reduction in air-cargo rates would stimulate sales of the surveyed companies by HK$2.4 billion per year; a 25 percent reduction in rates would increase sales for those firms by HK$5.0 billion annually. The increased sales of those 700 firms would add an additional HK$700 million-1.5 billion to the Hong Kong economy per year.

But lost revenue is not the only cost of denying Fifth Freedom rights to US cargo carriers; their absence may also contribute to the territory's decline as a regional air hub. While Hong Kong currently is a favored hub for many airlines, a growing number of regional competitors are offering cargo carriers significantly more attractive opportunities. Singapore, for example, permits US cargo carriers 42 regional flights weekly; Hong Kong allows none. Moreover, with new airports scheduled to open within the next few years in Shenzhen and Macao—both of which are in the immediate vicinity of Hong Kong—US carriers will have new sites to which they might move their hubs. Such moves would end up depriving Hong Kong of external investment in terminal, handling, and maintenance facilities and harming corollary industries such as freight forwarding. They might also leave the new Hong Kong airport underutilized upon its completion (*see The CBR*, May-June 1991, p. 38).

What can Hong Kong do to bolster its position and eliminate the wastefulness of the current situation? When the US and Hong Kong governments meet this winter to review the existing agreement, they should seek to liberalize it. The US consul general to Hong Kong has already indicated the United States' desire to do so, but the Hong Kong government appears to favor preserving the status quo. Essentially, it seeks to shield domestic carriers from potential competition.

This protectionist stance will continue to force excess costs onto Hong Kong exporters—the lifeblood of the territory's economy—and effectively voids Hong Kong's claim to be a bastion of free trade. In today's multi-faceted society, no decision will please every interest group. The deciding factor, then, must be the largest common denominator. In the case of the air services agreement, the common interest calls for the lowest possible cost of air services and prompt action to achieve this goal.

Thomas E. Goetz is chairman of the government-appointed Import/Export and Wholesale/Retail Trades Advisory Board and governor of the American Chamber of Commerce in Hong Kong.
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Reading Between the Leaves

China's tea industry is falling behind in its quest to be.number one

Keith Forster and Dan M. Etherington

On the surface, the Chinese tea industry presents a remarkable picture of sustained growth. Production and exports have increased steadily since the mid-1960s; by 1988 output had reached 545,000 tonnes, nearly four times the 1971 figure. Exports during the same period also grew at a fast pace, rising from 53,000 to 197,000 tonnes, for yearly earnings in excess of $400 million. By 1984, tea had become China's most valuable agricultural export, echoing back to the previous century, when tea reigned as the country's primary export (*see The CBR*, January-February 1987, p.46).

Despite this stellar performance, a number of problems threaten further expansion of the industry. Large-scale planting efforts from 1965-77 led to increased output and higher yields for many years, but both output and yield per acre have declined since peaking in 1988—and no improvement is anticipated in 1991. This decline, coupled with rising domestic consumption and inefficient production, will make it difficult for China's tea industry—currently the second largest in the world in terms of production—to keep pace with demand for the foreseeable future.

Output climbs . . .

Tea grows across a wide range of geographic and topographic areas in China. Fermented black tea for export comes mainly from the provinces of Hunan, Guangxi, Yunnan, Sichuan, and Hainan. The green teas (which are not fermented) and *oolong* teas (partially fermented) preferred by domestic consumers are grown in several regions, particularly in Jiangsu and Zhejiang provinces. China's tea drinkers are also consuming growing quantities of such scented teas as jasmine, which is made by adding dried flowers to green tea.

With nearly half the world's total tea acreage, China produces only about 20 percent of world output.

Tea was collectively farmed in China until the late 1970s. By the early 1980s, however, production had become characterized by small, scattered, household-managed gardens operating on short-term contracts, along with some larger State-run farms. Tea output grew about 7 percent per year throughout the 1970s and 1980s—a dramatic growth rate for any crop, but particularly for a perennial plant that typically takes up to 10 years to produce at full levels. Though the market reforms of the early 1980s provided farmers with greater incentives to grow tea, the rapid growth in tea output was due more to mass plantings than decollectivization. In 1973 and again in 1974, for example, China planted 100,000 hectares of tea—an area equivalent to the entire tea-growing acreage in Kenya, the world's third largest producer.

Keith Forster and Dan M. Etherington are researchers in the Research School of Pacific Studies at the Australian National University, Canberra. They are members of the Contemporary China Centre and economics department, respectively. They have published extensively on the PRC and Taiwan tea industries, and are currently writing a book on the past 50 years of tea production in China.

. . . while yields stagnate

While the number of bushes planted in China may have increased, the actual amount of tea yielded per acre has not. Though a few provinces and State-run farms had yields in the range of 1,000-4,000 kilograms/hectare (kg/ha) in 1990, the average yield nationwide was only 498 kg/ha, a decline over the 516 kg/ha yield in 1988. These levels, moreover, are barely half the yields reported in China in 1914-18, before prolonged civil war and the Japanese invasion sent the tea industry into decline.

Compared with other tea-producing nations, China's tea yields are extremely low. With nearly half the world's total tea acreage, China produces only about 20 percent of world output. In contrast, India, with less than 20 percent of total global tea-producing area, produces over 30 percent of the world's tea. India's average yield in 1990 was over 2,000 kg/ha.

The low efficiency in China suggests that management of the acreage planted in the 1970s has been poor. Since new plants, if well managed, typically yield at least 1,000 kg/ha when mature, the minimal increases in China's average yields over the past decade are evidence of inadequate field management techniques.

National data, which became available in 1982, support this conclusion. Government statistics indicate a wide gulf between total planted area and area actually harvested. In 1982, for example, 256,000 ha were classified as immature. By 1989, this area should have joined the "plucked" area as the young bushes matured, but plucked area increased by only 70,000 ha. Furthermore, more acres were added to the estimates of immature fields, leaving a total of 198,000 ha of unplucked tea.

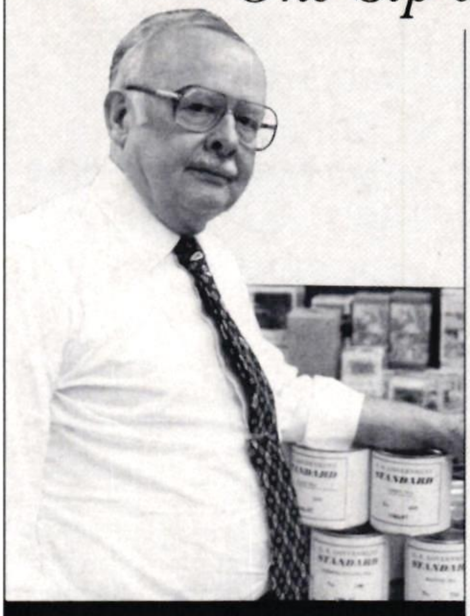
These figures suggest that China's unplucked acreage consists not only of immature plants, but also of abandoned and neglected areas. Over the past five years, we have seen many mature tea fields in China that appeared seriously neglected; some areas in Zhejiang and Anhui provinces, for example, had large numbers of tea plants of roughly the same age that clearly had received different levels of care. The fields consisted of a patchwork of small plots; some were well maintained, but others were infested with weeds. Some plots had over-height bushes, while others had recently been pruned.

Projected shortfalls

Such findings suggest that China may have difficulty meeting future international and domestic demand, both of which are on the rise. In 1988, the State Council projected that by the year 2000 China's tea output should nearly double to 900,000 tonnes, of which at least 400,000 tonnes should be exported. Domestic consumption, though low, will also likely rise; annual per capita consumption of tea in China doubled from 0.18 kg in 1979 to 0.36 kg in 1988. If annual domestic consumption increased to 0.5 kg/head by the end of the century, total domestic consumption would reach 650,000 tonnes. Combined with anticipated export production, China would be faced with an average annual shortfall of 150,000 tonnes.

To meet the total projected demand of 1 billion tonnes by the year 2000, an October 1989 article in *Economic Daily* calculated that tea output would have to increase at an average rate of 5 percent per annum during the current decade. Since Beijing has stated that future increases in output must come from improvements in productivity rather than from further expansion of area devoted to tea growing, yields on the current 1 million ha would have to average 1,000 kg/ha—nearly twice the current average—in order to

One Sip at a Time



Few exports to the United States require a quality assessment as rigorous as that mandated for tea. By law, all tea imported into the country must meet minimum standards established each year by the Food and Drug Administration (FDA). Associate Editor Vanessa Lide recently spoke with Robert H. Dick, who has served as the FDA's supervisory tea examiner for over 30 years, about trends in China's tea exports to the United States.

CBR: *Why is tea so stringently inspected?*

Dick: The Tea Act of 1897 was a response to US tea importers' complaints about getting the "dregs" and having little legal recourse against the suppliers of the shoddy shipments. The Tea Act established minimum-quality standards for tea imports to protect against substandard tea. In those days, China produced every type of tea on the market, so there were 10-12 standards established each year just for Chinese teas.

Today there are eight standards for all types of tea. Each year a board of tea experts meets to decide on the minimum standards for each variety of tea; those standards are applied to the following year's imports. We're primarily concerned with the taste and body of the tea—if it's too thin or pale, for example, you might as well drink water. Samples of the minimum acceptable teas are made available at cost to importers, who can relay them to suppliers with instructions that they are the lowest acceptable quality for US purchases.

All teas are subsequently judged against these standards. At times, we taste as many as 400 different teas in a day, but few teas (less than one percent) actually fail inspection because our standards are set low. We've found that suppliers are unlikely to send teas that might fail, as they would either be re-exported—at the supplier's expense—or destroyed. Most rejected teas either have too much moisture or mold, or have picked up some foreign odor.

CBR: *How do Chinese teas compare to those from other countries?*

Dick: China is different from other countries because it produces just about every type of tea available. Though Argentina is now the leading supplier of black tea to the United States, if you added up all the Chinese teas, China would be the largest source of US tea imports. It supplies everything from gourmet Keemun black tea from Anhui Province to the lower-quality teas grown in southeast China. The Chinese have also been experimenting with bushes from other parts of the world, and have come up with some good teas—sometimes you can't tell them from the best Assam teas from India.

CBR: *How would you assess the quality of China's tea exports to the United States?*

Dick: Overall, the quality of Chinese teas is going down. The biggest problem is musty smell and taste. Sometimes, tea is held in warehouses in China for several years, but it doesn't hold up well in storage. People there are used to the musty flavor and consider it a sign of good tea, but in the United States people don't like it. The musty smell can also be caused by steam processing, which can leave too much moisture.

Quality has also dropped because more than 50 percent of all US tea imports are used for iced tea and iced tea mixes. While high-quality teas produce a richer flavor, they also produce a cloudy drink. US consumers want a clear brew for their iced tea, even if it means using lower-quality tea.

meet these targets. In a tacit acknowledgement that such gains are unlikely, the government recently revised its projections and set forth less ambitious goals under the Eighth Five-Year Plan (1991-95).

Steeped in inefficiency

Improving China's ability to meet even these modified targets will require further liberalization in the areas of production, processing, and marketing. On the production side in particular, reforms are needed in land-tenure arrangements for long-lived perennial crops like tea. Many farmers are reluctant to invest in improved cultivation techniques when land-tenure contracts average only about four years—far less time than it takes for a tea bush to mature. Short contracts thus result in a tendency to reap maximum short-run profits by over-plucking immature bushes, to the detriment of long-term bush maintenance. This tendency has been reinforced by the high costs of fertilizer, machinery, and tools, which have discouraged crop improvement efforts. When high inflation raged in 1988, for example, tea production costs soared, and returns did not keep pace with those from other cash crops. Farmers thus found little incentive to re-invest in their tea fields.

Furthermore, the small size of most plots precludes farmers from the benefits of economies of scale, which in turn results in low yields. In Jiangsu, the only province with collectively-managed tea farms, the 1990 average tea yield exceeded 1,000 kg/ha—far above the average yields of other provinces. Jiangsu collectives profit from large-scale planning, management, research, and processing. While individual workers and families within the collective receive their own production targets, they also receive higher prices for above-target production. This incentive helps boost overall production.

Shoring up price and quality

Even if China is able to increase tea production in the next few years, it must concurrently improve quality if its teas are to command premium prices on the domestic and international markets. This will require Chinese tea processors to operate in a more stable manner. In the mid-

After hitting a peak of over 200,000 tonnes in 1989, China's tea exports declined in 1990 and are expected to fall substantially in 1991.

1980s, for example, some tea processors, following changes in relative prices, switched from green to black tea and back to green again within four years. Though most varieties of tea leaf can be made into either green, black, or *oolong* teas, each type requires different processing techniques and equipment. Attempts to change manufacturing processes in such a short time frame caused a drop in quality, which was noted by both domestic and overseas consumers.

In addition, since the early 1980s there has been an explosion in the number of small-scale tea-processing plants using crude equipment, adding further to the problem of declining standards. Since 1980, local governments all over China, whether at the provincial, county, municipal, or township level, have encouraged the development of processing industries as a means of stimulating local industry and raising taxation revenue. All attempts by the central government to regain control over tea production have been rebuffed, despite widespread recognition of flaws in the system.

Another significant obstacle to increasing efficiency in Chinese tea production is the country's uneven marketing reforms. In the early 1980s, domestic distribution and pricing of tea was subject to the monopoly management of the Ministry of Commerce. In 1984, however, individuals, enterprises, and other government departments were encouraged to participate as well. State Council Document 75, released in June 1984, stipulated that the marketing of tea was to be liberalized to allow negotiated buying and selling, leaving supply and demand to determine prices and the supply of different varieties. The one exception to the liberalization scheme was the procurement and sale of "border tea"—compressed or brick tea produced in southern and southwestern provinces and sold to minority peoples in Xinjiang, Tibet, and Inner Mongolia. For strategic, political, and economic reasons, this type remained under the monopoly management of the Ministry of Commerce.

Farmers, processors, and private merchants responded immediately to the newly liberalized tea industry; farm-gate prices—the amount paid for the unprocessed product—and domestic retail sales increased, while reserves fell. In 1985, the spring crop reached the retail market a month earlier than in previous years and State marketing agencies, which had previously accounted for about 90 percent of the tea procured, purchased only 65 percent. At the farm-gate level, prices rose by an average of 35.8 percent, as processors and procurers—from State and collective entities, as well as individuals—fought for tea leaf for both the domestic and export markets.

This led to a full-scale "tea war" in 1985, when rising prices and short supply forced processors to scramble for tea leaf. The limited marketing reforms also created a situation whereby different policies governed tea production for different markets. Farmers sought to avoid producing border teas, for example, since they remained under tight control of the Ministry of Commerce. Instead, they shifted toward providing green and scented teas for the growing domestic market, making it difficult for China to meet export targets.

The tea war continued until 1989 in some provinces, fueled by a deliberate State marketing strategy that set aside about 60 percent of total output for border and export markets. The Ministry of Commerce's Supply and Marketing Cooperative, a State body in charge of marketing many agricultural commodities, was reinstated as the principal channel for the marketing of tea in 1989. Its share of sales from farmers rose from a low of 62.4 percent in 1988 to 73.8 percent in 1989. Given slack domestic demand under the current austerity program, State marketing agencies—with large stocks to clear and large bank loans—are reluctant to purchase more tea. As a result, procurement prices have fallen though production costs continue to rise.

Stagnant exports

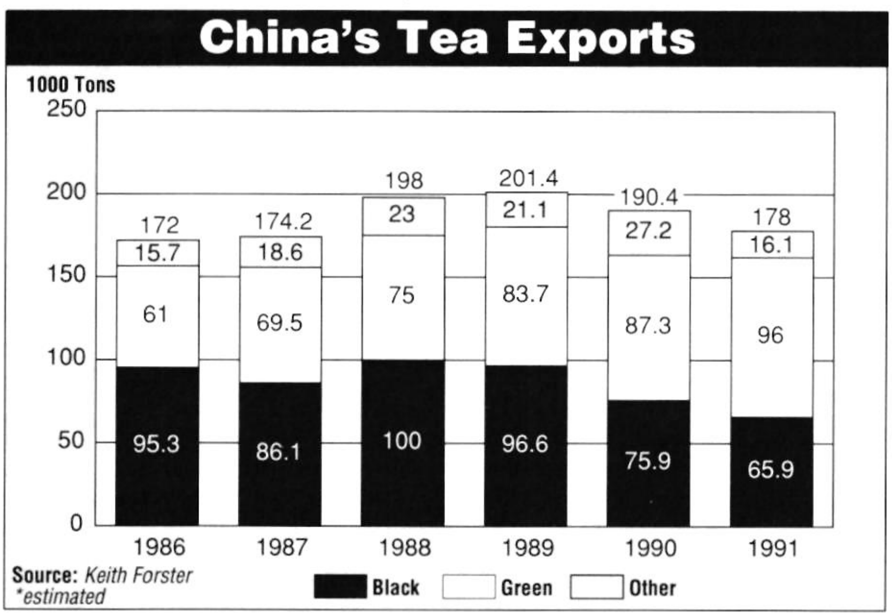
Decentralization of the tea industry also lessened Beijing's control over export quality. In 1982, one-half of total national tea exports—a full one-third of all black tea exports and two-thirds of green tea exports—flowed through a single trading company in Shanghai. By 1988, there were 17 trading companies empowered to export tea. Though some land-locked provinces such as Anhui continued to use Shanghai as a transshipment port, most of the tea-producing provinces began to export directly. These areas, however, lacked Shanghai's experience and trade contacts. Moreover, the heightened competition among the corporations for international markets resulted in relaxed quality control measures.

As a result, tea exports declined in 1990 after hitting a peak of over 200,000 tonnes in 1989, and are expected to fall further in 1991 (*see* chart), thanks to the recent abolition of export subsidies. Under the new rules, provincial trading companies are now supposedly responsible for their own profits and losses. China's black tea exports tend to be low quality, and therefore fetch low prices. At times, prices on the world market have actually been lower than production costs. Without export subsidies to make up the difference, China's exports of black tea will likely decline. Moreover, the rapidly changing economies in such traditional markets as the USSR and Poland—which previously purchased black tea through barter trade—may pose real problems for China's exporters, since all trade is now supposed to be conducted in hard currency. It is doubtful whether these economies will have the cash.

In the green tea trade, which has been far more profitable for China in recent years, provincial rivalries threaten to undermine consumer confidence in product reliability and quality. Though Chinese teas dominate the world green-tea market, importers in the primary North African markets have complained recently of deteriorating quality. China has made relatively few efforts to market this beverage to other markets, though there is growing interest worldwide in the reported anti-carcinogenic properties of green tea.

Seeking foreign investment

Until the 1980s, China's tea industry was largely self-funded and self-reliant. In the past few years, however, Japanese firms have made some modest investments in the industry. The most recent example, a joint venture producing tea machinery, went into production in Hangzhou in March 1990. The factory aims to manufacture 10,000 units of harvesting and pruning machinery by 1995. Western technology, which is currently used for such processes as packing tea bags, may be increasingly sought after as the industry seeks to raise its standards.



The tea industry's largest potential source of foreign investment funds and technology, however, is Taiwan. Taiwan tea companies have already provided technical assistance and investment to the adjacent province of Fujian, particularly in the processing of *oolong* teas, which are favored in Taiwan. Until the Taiwan government lifts the embargo on imports of tea from the mainland, however, Taiwan investment in the mainland tea sector will remain limited.

Falling behind

Whether China's tea industry will offer significant opportunities for foreign investment depends on whether it can recover from its recent decline. If the rates of growth from 1963-88 could be maintained until the end of the century, China probably would overtake India to become the largest tea producer in the world, and perhaps even the largest exporter. The fall in output over the last two years, however, suggests that this is unlikely. Beijing's stated policy of not increasing total tea acreage, along with the slowed pace of economic reforms, will likely prevent the industry from maintaining such rapid growth rates.

Without the cushion of new plantings to rely upon, China will have to improve the management and utilization of existing tea plants to sustain output and exports. Though some short-term gains may be made by properly caring for existing fields, long-term increases in output will require more extensive planting, renovation of old fields, and replanting with higher-yielding varieties. However, these changes are unlikely to occur under the current institutional structure, in which bureaucratic and provincial rivalries abound, given the distinct goals of each of the major players. The Ministry of Agriculture is charged with production, research, and extension; the Ministry of Commerce has jurisdiction over processing and domestic sales; and the Ministry of Foreign Economic Relations and Trade (MOFERT) handles exports. Calls from within the industry for a single national tea authority seem to have gone unheeded. Without better central coordination, China's world tea ranking may well slip back behind third-place Kenya in the next few years.

书刊介绍 Bookshelf

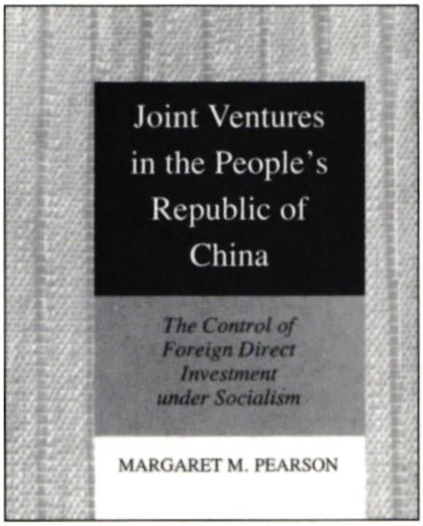
Joint Ventures in the People's Republic of China: The Control of Foreign Direct Investment and Socialism

Margaret M. Pearson. Princeton, NJ: Princeton University Press, 1991. 335 pp. $39.50 hardcover.

China's attitude toward foreign direct investment has gone through several permutations since the advent of the open policy in 1979. In *Joint Ventures in the People's Republic of China,* essentially a published Ph.D. dissertation, Margaret Pearson has constructed a useful framework for understanding the evolution of China's investment policies and anticipating future developments.

Much of Pearson's discussion addresses the relative ability of socialist host economies to maximize the benefits—and minimize the costs—of foreign investment. She explores the hypothesis that China, because of its planned economy and alluring domestic market, has exceptional leverage in setting the terms for foreign investment. Basically, she finds that while the Chinese have indeed had a comparatively strong negotiating postition, their ability to effectively regulate foreign investment has varied, due to both internal and external pressures. She correctly distinguishes between policy and implementation of policy, highlighting the clash between the two often encountered at the working level.

Pearson tracks the Chinese leadership's contradictory objectives of both controlling and attracting foreign investment throughout the 1980s, finding that emphasis on one or the other generally shifted with political winds. In the late 1970s and early 1980s, for example, conservatives and reformers arrived at a consensus that foreign direct investment in China should be permitted, but strictly controlled. By the middle of the decade, the conservatives had been eclipsed by the reformers, who increasingly recognized both the value of foreign investment and the disincentive of excessive controls upon it. Thus, efforts were made to



reduce the amount of control exerted by Party and State organs over foreign investment projects. Foreign investors responded to this liberalization of the investment environment by increasing the flow of investment into the country.

The ascendency of more conservative elements since the late 1980s has resulted in a reassessment of the pace of economic reform and opening. Basic suspicion of foreign economic forces has and will continue to slow the implementation of reforms sought by foreign investors. While still supportive of foreign investment, the current regime is seeking to more firmly assert its influence over it.

Pearson's well-documented, thorough analysis provides useful insights to businesspeople accustomed to dealing with capitalist systems. She makes clear that there is a rationale for the plethora of seemingly contradictory statements and regulations regarding foreign investment in China. Whether that rationale is ultimately in the best interests of the Chinese people, however, is a question still open to debate.

—Richard Brecher

Doing Business in China

edited by William P. Streng and Allen D. Wilcox. New York: Matthew Bender & Co., Inc., 1990. $95.00 looseleaf.

One of the most recent compendiums of legal and practical guidelines to doing business in China, this volume stands out for its breadth of scope and depth of discussion. Whether discussing general principles of contract law in China or such practical concerns as intellectual property protection, taxation, or insurance, *Doing Business in China* offers sophisticated and useful information for law firms and corporate counsel.

The book's contributors read like a "Who's Who" of the China legal profession, with Jerome Cohen, Richard Goosen, Jamie Horsley, Stanley Lubman, Pittman Potter, Clark Randt, Mitchell Silk and others lending their expertise. The chief drawback is that not all sections were written at the same time. For instance, the copyright section was written prior to the passage of the copyright law in 1990, and the chapter on foreign investment vehicles appears to have been written as far back as 1987, a significant—if perhaps unavoidable—shortcoming in the fast-evolving world of China business. However, the looseleaf format, which allows the reader to remove needed sections from the binder easily, should make it possible to keep the volume current—provided the publisher prints the periodic updates it has promised.

—Richard Brecher

Manufacturing in Guangdong: An Executive Guide to Operating in Southern China

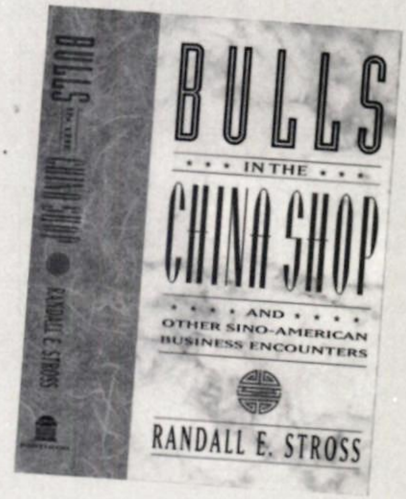
by Business International. Hong Kong: Business International, 1990. 146 pp. $795 softcover.

While Guangdong Province's Special Economic Zones (SEZs) offer relatively similar tax incentives to foreign investors, the costs of doing business in each can vary significantly. Shenzhen, for example, charges foreign-invested enterprises (FIEs) for hiring workers from outside the city—to the tune of ¥10,000 each. Workers in Shekou and the Guangzhou Economic and Technological Development Zone (ETDZ) command the highest basic wages (from ¥500-900 per month) in Guangdong, but in Shekou 50 percent of the wages must be paid in Hong Kong dollars. To help business planners keep tabs on such factors, *Manufacturing in Guangdong* assesses several sites in the province, including the three SEZs, Shenzhen, Zhuhai, and Shantou; the ETDZs; and several municipalities in the Pearl River delta, including Guangzhou, Foshan, Dongguan, and Huizhou. Chapters address such issues as real estate, transportation, utilities, wages, labor supply, finance, and the regulatory environment.

Each chapter includes anecdotes relating how foreign companies have dealt with the topic discussed; H.J. Heinz Co., for example, built its own generators in order to ensure a constant supply of energy for its Guangzhou joint venture, even though they cost twice as much to use as the local utility. A final chapter features 10 full case studies culled from interviews with managing directors of FIEs throughout the province.

This book is targeted at investors already set on establishing manufacturing facilities in Guangdong Province; it offers little comparison between Guangdong and other regions in China. However, the volume's large type and numerous graphs and tables help to highlight the distinguishing factors of sites long popular with foreign investors. —DR

Bulls in the China Shop and other Sino-American Business Encounters



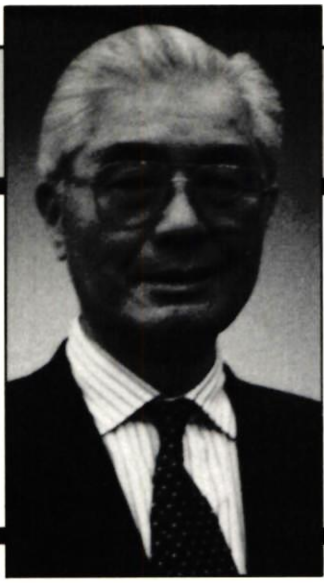
by Randall E. Stross. New York, NY: Pantheon Press, 1990. 330 pp. $25 hardcover.

This review of Sino-American commercial dealings from the 1970s through the end of the 1980s will be an amusing read for anyone familiar with China business. The book does not attempt to provide a comprehensive history of its subject, nor does it make predictions about the future. Instead, Stross, a professor of international business, focuses on the sometimes funny and sometimes sad encounters between Americans and Chinese in the course of their developing commercial relations.

Stross has a good feel for the pulse of the American business community in China, and his descriptions of expatriate life in China are full of good stories. The complex mix of exuberant optimism, frustration, and deep-seeded bitterness felt by many American business representatives in China is also well captured.

In its serious moments, this anecdotal history provides plenty of food for thought. The author argues persuasively, for example, that Sino-American business encounters have fundamentally changed both sides, and that the influence of western business played an important role in the events of May and June 1989 in China. But the book is at its strongest when examining larger themes and the motivating forces behind human behavior. The chapter titled "Negotiations," in particular, contains an excellent summary of the evolution of negotiation styles and strategy on both sides, making all other publications on the subject seem out of date. Stross also explores the familiar theme that neither side has lived up to the other's expectations, and has some interesting thoughts about why. He argues that both Americans and Chinese still tend to have unrealistic and often overly sentimental images of each other, leading to persistent misunderstandings and periods of deep disillusionment.

This book is well-written and presented in an attractive volume. It might be just the thing for the China trader on your gift list this holiday season. —Madelyn Ross



Interview

The China International Trust and Investment Corp. (CITIC) has become one of China's most successful and respected companies since its founding in 1979. A transnational conglomerate, CITIC has 25 subsidiaries, 20,000 employees worldwide, and a portfolio encompassing domestic and foreign investment as well as leasing, real estate, financial, and consulting services. Editor Pamela Baldinger met with CITIC Chairman Rong Yiren to discuss CITIC's strategy for the 1990s.

Helping China Prosper

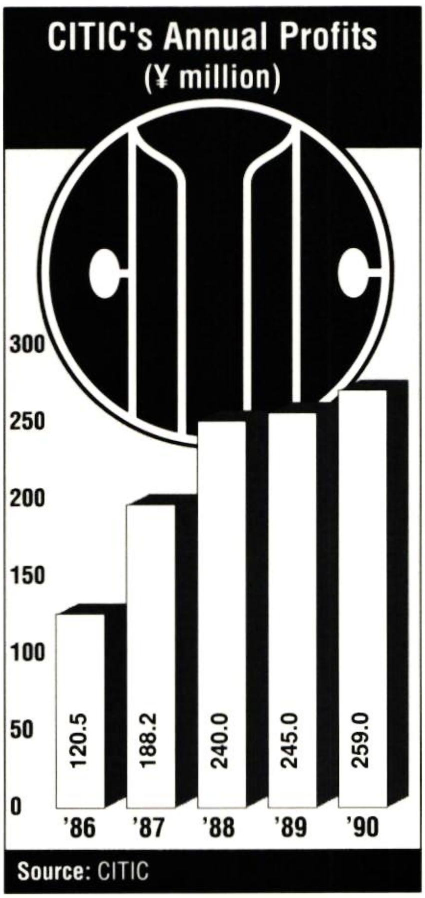
Q *In 1989 CITIC was investigated by central authorities and fined $5.1 million for illegal profiteering and tax evasion. Restructuring also resulted in CITIC suspending construction in a number of projects. How did these events affect your overall strategy and profitability?*

A CITIC's profitability increased in both 1989 and 1990 (*see* chart). We continued to expand both overseas and at home; CITIC is a partner in 121 joint ventures with foreigners, and 179 joint ventures with other Chinese organizations. We are also the sole owner of 63 enterprises. Since 1982 CITIC has raised $1.6 billion through 12 overseas bond issues. This money has been used for investment funds and loans and also for our leasing and real estate operations.

As for our strategy, we have to be guided by the Eighth Five-Year Plan, which puts restrictions on certain areas. We seek to attract foreign investment in light of the needs of the State.

Q *The Eighth Five-Year Plan emphasizes the service sector—do you plan to increase investments in this area?*

A We mainly invest in the industrial sector, but we will also make some progress in the finance and service sectors.



Q *What about CITIC's investments abroad? Will you continue to invest strongly in Hong Kong?*

A Hong Kong is a unique case, as China will resume sovereignty over the area in 1997. In Hong Kong, we must invest with the idea of maintaining the area's stability and properity. In the past few years we invested extensively in Hong Kong, and will continue to invest in the future. This year we plan to establish a waste recycling joint venture in Hong Kong with an American company.

Q *Thus far your Hong Kong subsidiary has invested heavily in the territory's infrastructure, buying into the transportation and telecommunications sectors. Does it plan to invest in the energy sector as well?*

A We do not have such plans right now. CITIC Hong Kong does have plans to get into power generating plants on the mainland, however, in Jiangsu Province.

Q *If I were a potential foreign investor interested in the mainland, which sectors or parts of the country would you refer me to?*

A I would advise you to invest in energy, transport, telecommunications, the development and use of raw materials, or the updating of old enterprises. If you were interested in establishing a joint venture with CITIC, we would emphasize non-ferrous metals, petrochemicals, and the updating of old enterprises. We will not invest in such industries as bicycle, television, and household electrical appliance manufacturing, where production already exceeds demand.

Q *To date there has been little foreign investment in the petrochemical industry as petrochemical projects tend to be very expensive and SINOPEC is very protective. What plans do you have for this sector?*

A We plan to establish a joint venture in Shanghai with Du Pont [E. I. du Pont de Nemours & Co., *see* p. 27] to manufacture agricultural chemicals. The chairman of Du Pont recently visited China to discuss this project.

Q *Many US investors are interested in investing in China to serve the domestic market; but China's emphasis is on exports. Will CITIC continue to invest in consumer product-manufacturing joint ventures that target the domestic market?*

A A few years ago China's foreign reserves were low, so the government stressed raising them through exports. Now that they've recovered, I think the policy will be more flexible. We will consider export products as well as those that contribute to the improvement of the livelihood of the domestic population.

Q *Do you have any plans to participate in China's new national securities market?*

A One department of CITIC Shanghai is acting as an agent for the Shanghai Securities Exchange. The exchange is still a test case, so while we are getting involved, we are still very cautious.

Q *Does CITIC have any business dealings with Taiwan companies?*

A Many Taiwan businesspeople have come back to the mainland to explore cooperation with mainland enterprises. CITIC has given some of them advice. We have had many guests from Taiwan, but not many large enterprises; the big entrepreneurs are still restricted by the Taiwan authorities. But we do have a few small joint ventures with Taiwan investors.

Q *Currently, US-China commercial relations are shaky given the controversy over Most Favored Nation (MFN) renewal and the possibility of new economic sanctions. How has this uncertainty affected CITIC and your attitudes toward doing business with American companies?*

A According to my experiences, most US companies seem to want to continue their business relations with us. If anything happens to MFN, there will be some problems.

As China's objective is to double GNP in the decade to come, I think the same thing should apply to CITIC.

These will not only affect the two sides, but Hong Kong as well.

Q *Are you avoiding dealing with US companies during this period?*

A As long as American businesspeople are willing to deal with us, we will be happy to deal with them. Our plans are made with the best scenario in mind, but of course we are prepared for the worst.

Q *What are your goals for CITIC for the 1990s?*

A As China's objective is to double GNP in the decade to come, I think the same thing should apply to CITIC.

Q Fortune *magazine has called you one of the world's most interesting businessmen. How do you respond?*

A I'm just an ordinary Chinese businessman, trying to contribute my share to my country. I only wish to see China prosper, and China's contact with the international community grow.

中外貿易 China Business

Krista Rogers & Val Huston

The following tables contain recent press reports of business contracts and negotiations exclusive of those listed in previous issues. For the most part, the accuracy of these reports is not independently confirmed by *The CBR*. Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in *International Financial Statistics (IMF)*.

US-China Business Council member firms can contact the library to obtain a copy of news sources and other available background information concerning the business arrangements appearing below. Moreover, firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in *The CBR* by sending the information to the attention of the Business Information Center at The US-China Business Council.

中外
贸易

SALES AND INVESTMENT THROUGH
September 15, 1991

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

Banking and Finance

Other

Midland Bank (UK) and eight other British banks/NA
Finalized a 20-year syndicated loan to be used to purchase UK equipment for the Xinjiang Ethylene Project. $170 million. 9/91.

BankAmerica Corp. (US)
Opened Shanghai branch office. 9/91.

Bank of Tokyo Ltd. (Japan)
Will upgrade Shanghai representative office to full branch office. 7/91.

Nippon Credit Bank Ltd. (Japan), Chuo Trust Bank (Japan), Ogaki Kyoritsu Bank (Japan), Chokyo Bank (Japan), Nishi-Nippon Bank (Japan), and Norin Chuo Bank (Japan)/CITIC
Provided loan to support CITIC's construction projects in the energy, chemical, and textile industries. $23 million. 7/91.

Chemicals and Petrochemicals

China's Imports

Tecnicas Reunidas (Spain) and Toyo Engineering Corp. (Japan)/CNTIC
Signed contract to supply equipment for an ethylene complex in Tianjin. $150 million. 8/91.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CAIEC: China National Automotive Import-Export Corp.; CATIC: China National Aero-Technology Import-Export Corp.; CCTV: China Central Television; CEIEC: China Electronic Import-Export Corp.; CEROILFOODS: China National Cereals, Oil, and Foodstuffs Import-Export Corp.; CHINALIGHT: China National Light Industrial Products Import-Export Corp.; CHINAPACK: China National Packaging Import-Export Corp.; CHINATEX: China National Textiles Import-Export Corp.; CHINATUHSU: China National Native Produce and Byproducts Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CMC: China National Machinery Import-Export Corp.; CNCCC: China National Chemical Construction Co.; CNOOC: China National Offshore Oil Corp.; CTIEC: China National Technical Import-Export Corp.; ETDZ: Economic Technological Development Zone; ICBC: Industrial and Commercial Bank of China; INSTRIMPEX: China National Instruments Import-Export Corp.; MLI: Ministry of Light Industry; MMEI: Ministry of Machinery and Electronics Industry; MOE: Ministry of Energy; MOTI: Ministry of Textile Industry; MPT: Ministry of Posts and Telecommunications; NA: Not Available; NDSTIC: National Defense, Science, Technology, and Industry Commission; NORINCO: China North Industries Corp.; SEZ: Special Economic Zone; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SITCO: Shanghai Investment and Trust Corp.; SPC: State Planning Commission.

Snamprogetti Corp. (UK)/CNTIC
Signed contract to supply equipment for the Xinjiang Ethylene Project. $172 million (£100 million). 8/91.

Investments in China

Imperial Chemical Industries (UK) and Swire Pacific Co. (HK)/NA
Will establish paint manufacturing joint venture in Guangzhou, Guangdong Province. $22.2 million (£13 million). (UK:56% - HK:34% - PRC:10%). 9/91.

Imperial Chemical Industries PLC (UK)/NA
Will establish wholly-owned enterprise to develop new polyurethane products in Shanghai. $1 million. 7/91.

Other

Royal Dutch Petroleum Co. (Shell) (Netherlands)/CNOOC, SINOPEC, China National Oil and Gas Corp., Guangdong provincial government, and China Merchants Holding Co. Ltd.
Will conduct feasibility study for proposed $2.5 billion refining and petrochemical joint venture.

Gaz de France
Agreed to carry out studies, install equipment, and train personnel to modernize Beijing's 1,200-mile gas network. $3.4 million (Ffr20 million). 7/91.

Construction Materials and Equipment

Investments in China

Onoda Cement Co. Ltd. (Japan) and Mitsui & Co. (Japan)/Chinese Construction Material Investment Corp.
Will establish joint venture to produce cement. $54 million (J¥7.5 billion) (Japan:57%-PRC:43%). 7/91.

China's Investments Aboard

Uganda National Housing and Construction Corp./China Sichuan Corp. for International Techno-Economic Cooperation
Established Eastern Africa Construction Co. Ltd. joint venture in Uganda. 7/91.

Consumer Goods

Investments in China

Pierre Cardin Corp. (France)/Beijing Liyuan Corp.
Established joint venture to produce cosmetics. $1.2 million. (Fra:51% - PRC:49%). 9/91.

Minnesota Mining & Manufacturing - 3M (US)/3M China
Will expand Shanghai facilities to produce telecommunications, health care, electrical, and electronic consumer products. $12.5 million. 9/91.

Kin Son Electronic Holdings Co. (HK)/Seagull Co.(Shanghai)
Established joint venture to produce, distribute, and service cameras in China. $1.28 million (HK$10 million). (HK:50% - PRC:50%). 9/91.

Toshiba Battery Co. (Japan) and GP Batteries International (HK)/Huizhou
Will establish battery manufacturing joint venture in Guangdong Province to produce zinc-carbon batteries. $10 million. 8/91.

Mitsubishi Corp. (Japan) and Young Chang Akki Co. (ROK)/NA
Established joint venture to produce metal parts for pianos. $1.3 million (Japan:10%-ROK:60%-PRC:30%). 7/91.

NA (Japan)/Xiangxian County, Hebei Province
Established joint venture to produce straw sandals. $120,000. 7/91.

China's Investments Abroad

NA (Ghana)/Shanghai No.3 Bicycle Plant
Will establish joint venture to produce bicyles. $1 million. 7/91.

Electronics and Computer Software

China's Imports

International Business Machine Corp. (US)/Anshan Iron & Steel Co., Liaoning Province
Will supply computers for management and machinery maintenance systems. $8.4 million. 9/91.

Investments in China

Bakat Co. (Singapore)/CATIC
Established the Hangxing International Automation Engineering Co. joint venture to design and install industrial process control systems and to develop software. $1.5 million. (Singapore:25% - PRC:75%). 9/91.

NA (Japan)/Fudan University
Established Shanghai Zhonghua Software joint venture to develop Japanese-language software products. 7/91.

T&W Co. (US)/Stone Corp. (Shanghai)
Will establish software joint venture in the Pudong New Area. 7/91.

Other

Ashton-Tate Corp. (US)/Beijing
Will market a Chinese-language edition of its dBASE IV version 1.1. 7/91.

Environmental Technology and Equipment

Investments in China

Sea Express Co. Ltd. (US)/Shanghai Sea Eagle Mineral Water Equipment Manufacturing Corp.
Will establish joint venture to produce water filters. $850,000 (US:25%-PRC:75%). 7/91.

Food and Food Processing

Investments in China

President Enterprises (Taiwan)/Xinjiang International Trust Co.
Will establish joint venture to produce tomato paste in Urumqi, Xinjiang Province. $5 million (Taiwan:70%-PRC:30%). 7/91.

Itoman & Co. Ltd. (Japan) and Samioh Foods Co. Ltd. (Japan)/Shanghai Food Import-Export Corp. and Shanghai Animal and Egg Corp.
Established Shanghai Shenteng Domestic Animal Co. Ltd. joint venture to export frozen chicken. $21.12 million (Japan:50%-PRC:50%). 7/91.

Other

NA (Denmark)/Hailun Sugar Processing Plant
Provided loans to import Danish sugarbeet-processing technology and equipment. $18.85 million. 9/91.

Machinery and Machine Tools

Investments in China

Hitachi Koki Co. Ltd. (Japan), a subsidiary of Chuo Co. Ltd. (Japan)/Shanghai Electrical Machinery Corp.
Established Shanghai Hitachi Power Tool Co. Ltd. joint venture. $10 million (Japan:25%-PRC:75%). 7/91.

Societe Emeraude SARL (France)/Beijing Metallurgical Automation Engineering Corp.
Will establish Hua Teng Numerical Control Equipment Co. joint venture to produce digital-controlled equipment in Beijing. $1.37 million (Fra:25.5%-PRC:74.5%). 7/91.

Medical Supplies and Equipment

China's Imports

The Cambridge Instrument Co. PLC (UK)/NA
Sold 35 cryostats to medical centers across China. $431,575 (£250,000). 7/91.

Investments in China

Toshiba Corp. (Japan)/Beijing Medical Radiation Equipment Factory
Established joint venture to produce X-ray machines. 7/91.

China's Investments Abroad

NA (HK, Philippines)/Wujiang Medical and Health Care Products Factory
Will establish joint venture in the Philippines to produce medical materials for the US market. 7/91.

Metals and Minerals

Other

US Department of the Interior/China National Non-ferrous Metals Industry Corp.
Signed cooperation protocol in the fields of non-ferrous metal mining and minerals research. 7/91.

Packaging, Pulp, and Paper

Investments in China

NA (HK)/Shanghai News Printing Development Co.
Will establish Shanghai Security Printing Co. Ltd. joint venture to print securities documents. 7/91.

Power Plants

China's Imports

Technopromexport (USSR)/CNTIC
Sold two sets of 800,000 kw generators for the Suizhong power plant in Liaoning Province. $699 million. 7/91.

Investments in China

Hopewell Holdings Ltd. (HK)/Guangdong General Power Co.
Established joint ventures to build two coal-fired power plants in South China. $3 billion. 7/91.

Other

Asian Development Bank/Lishi Shanxi province
Approved loan for Shanxi Liulin thermal power project. $65 million. 8/91.

World Bank
Approved loan to construct dam and power station for the Ertan Hydropower Project in Sichuan Province. $380 million. 7/91.

Property Management and Development

Other

Motorola Inc. (US)
Signed lease for 10,000 sq m in Tianjin. 8/91.

Ships and Shipping

Investments in China

Fairbreeze Shipping Co. (HK), Tong Ling Shipping and Enterprises Co. Ltd. (HK), and Teh Tou Shipping Co. Ltd. (HK)/NA
Established Shanghai Far East Container Co. Ltd. joint venture to produce shipping containers. $7.9 million. 7/91.

Schierack Beteiliguns (Ger)/Shanghai Zhonghua Shipyard and Jiangnan Shipyard
Established joint venture to build ships for transporting chemical and petrochemical products. $12.5 million (Ger:40%-PRC:60%). 7/91.

Telecommunications

China's Imports

GEC Plessey Telecommunications (UK)/Beijing
Signed contract to provide optical fiber cable and transmission equipment for five major routes covering more than 1,400 km in southwestern Hunan Province. 9/91.

Investments in China

Philips Electronics N.V. (Netherlands)/Wuhan Optical Fiber Communication Technology Co. and the Wuhan Trust and Investment Corp.
Began operation of Yangtze Optical Fibre and Cable Co. Ltd. $48 million (72.5 million guilders + ¥56 million) (Neth:50%-PRC:50%). 7/91.

NA (Switzerland)/NA
Established Shanghai Standard Radio and Telecommunications Co. Ltd. joint venture. 7/91.

Other

MCI (US)/Ministry of Posts and Telecommunications
Signed agreement to establish direct long-distance phone connections to China and to sell analog microwave transmission equipment. 7/91.

US Sprint (US)/Ministry of Posts and Telecommunications
Signed agreement to establish direct long-distance phone connections to China. 7/91.

Textiles

Investments in China

Jet Fashion International Co. (HK), Opec Co. and Tamurakoma Co. (Japan)/NA
Established clothing plant in Dongguang, Guangdong Province. $769,000 (HK $6 million). (HK:50% - Japan:50%). 9/91.

Chemtex (US) and Marubeni Corp. (Japan)/Guangzhou Asian American Polyester Co.
Established polyester-chip manufacturing joint venture. $20 million. (US:25% - Japan:25% - PRC:50%). 7/91.

Transportation

China's Imports

The Boeing Co. (US)/CAAC
Received order for 13 757-200 passenger jets. $800 million. 9/91.

Other

World Bank
Approved loan to double-track the 949-km Zhegan line between Zhejiang and Hunan provinces and to expand the Xuzhou rail yards. $330 million. 9/91.

World Bank
Approved IDA loan for Shanghai Metropolitan Transport Project. $60 million. 9/91.

NA (France)/Hainan SEZ
Will provide loan to build Fenghuang International Airport under condition French companies provide electrical equipment, machinery, and designs. $35.7 million (Ffr220 million). 7/91.

Asian Development Bank
Will provide loan for competion of the Yaogu-Maoming railway in Guangdong Province. $67.5 million. 7/91.

SBH Co. (Germany)
Established a representative office in Shanghai to deal with highway, tunnel, and urban traffic control equipment. 7/91.

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