THE CHINA BUSINESS REVIEW

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Food *for* Thought

IN THIS ISSUE:

Looking at Labor

—the new labor law

—finding and retaining Chinese staff

—Xian-Janssen's novel training techniques

IPR: US vs China

—China's view of its IPR regime...

—...and the view of USTR

—tips for protecting intellectual property

CONTENTS

美中商贸评论

November-December 1994

FOCUS: Food and Agriculture

FEATURES

DEPARTMENTS

Cover photograph by Dennis Cox, ChinaStock.

A Quarrel over Quality Control

Increasingly, companies throughout the world are getting their production methods certified under the ISO 9000 management quality process developed by the Geneva-based International Standards Organization (ISO). PRC manufacturers, too, are seeking formalized ISO accreditation according to established international practices (*see The CBR*, May-June 1993, p.48). The only problem, in China's case, is that two competing organizations claim the right to set up quality assurance and certification bodies and accredit business entities, even though one such entity is the norm.

The State Bureau of Technical Supervision (SBTS), which has State Council-approved authority over national quality standards, serves as China's official representative to the ISO. Disputing SBTS' claim to be the sole authority on ISO 9000 control certification is the State Administration of Import-Export Commodity Inspection (SACI/CCIB), which cites a clause in the Chinese import-export commodity inspection law that permits SACI to set up "quality license systems" for export-licensing purposes.

To facilitate the administration and supervision of China's ISO 9000 standards, SBTS set up a PRC accreditation body this year. SACI/CCIB, not to be outdone, has set up a similar entity and has begun accrediting local CCIB or CCIB-related units as certification bodies. These CCIB bureaus, which originally were established to grant export approvals, have been using their authority to persuade export manufacturers to seek ISO certification from SACI/CCIB rather than SBTS. The ISO 9000 Forum, which recognizes SBTS's authority to issue quality certifications, has "questioned" SACI/CCIB practices.

The international ISO authorities maintain that SACI/CCIB accreditation bodies have an inherent conflict of interest, as these units seek to provide ISO certification while offering consulting services on how to attain ISO 9000 status at the same time. Even though the Forum has no legal authority to stop SACI from issuing certifications, its concern will clearly affect the willingness of foreign buyers to accept SACI/CCIB certifications.

The turf war is escalating the costs of ISO 9000 certification in China, as many quality-conscious companies are considering obtaining two certifications—one from SACI/CCIB to safeguard their ability to secure export approvals, and one from an international certification body based outside China to ensure their quality credentials are accepted by foreign trading partners. Resolving the dispute between China's competing quality certification bodies is expected to be a long and difficult process. Late last year, the State Council ordered all government bureaus—not just those involved in quality control certifications—to divest themselves of any direct interest in commercial units. Each bureau was supposed to submit its divestment plans to the State Council by July 1, 1994. However, the State Council granted one exception to the divestment order: SACI/CCIB. SACI, it appears, has good connections within high government circles. SBTS and SACI are now engaged in "coordination" discussions to clear up the ISO certification process and other issues of contention. It is unlikely the two organizations will be able to come up with a lasting solution themselves.

In the meantime, foreign companies should insist on using certification bodies accredited by known and respected authorities. This practice will not only ensure that a firm's ISO certification truly reflects its quality management standards, but will also encourage authorities in Beijing to resolve the SACI/SBTS turf war to help Chinese products win international recognition and acceptance.

—Ari ben Avraham

Ari ben Avraham is a trade consultant based in Hong Kong.

Rethinking Tied Aid

In a shift from previous US government policy (*see The CBR*, May-June 1993, p.36), the US Export-Import Bank has begun an aggressive new program to help US companies compete abroad by matching other nations' lending for projects in China and elsewhere.

In the past, US officials staunchly opposed tied or concessionary aid for commercially viable projects, complaining that these less-than commercial rate government loans—which are not offered by the United States—effectively eliminated US bids from serious contention. The United States was a major force behind the 1992 Helsinki Agreement, signed by 22 of the 24 Organization for Economic Cooperation and Development (OECD) nations, which outlawed tied aid offers for commercially viable projects in China and other "middle-income" developing countries. The agreement led to a sharp decrease in the number of tied aid offers to China.

By June 1994, however, Eximbank, still maintaining that it opposes the use of tied aid, established a new Tied Aid Capital Projects Fund aimed at countering foreign tied aid. Apparently, the Administration seeks to shore up US company prospects abroad by matching tied aid offers even if the particular project falls within OECD guidelines.

Eximbank has already implemented its new matching policy on several projects, including a few in China. While Eximbank cannot initiate tied aid offers, the new program appears to put more weapons at its disposal to help US companies compete in China and other countries.

—VLW

Tiptoeing on the Taiwan Issue

A new US policy on Taiwan unveiled in September includes a number of symbolic changes that accord the island more status without fundamentally changing the "One China" policy that has guided US-China-Taiwan relations since 1972. The revised policy allows US Cabinet and other officials (other than the secretaries of state or defense) to visit Taiwan, and allows the word "Taiwan" to appear in the title of Taiwan's representative office in the United States.

The PRC, predictably, charged the United States with interfering in China's internal affairs upon learning of the new policy. The outcry was short-lived, however, and US officials expect no major downturn in US-China relations as a result of the change.

—Sheila Melvin

Sheila Melvin is a business advisory services associate at the US-China Business Council.

IN MEMORIAM

Ambassador Han Xu

The Council notes with regret the July 19 passing of former Chinese Ambassador Han Xu, who died of cancer in Beijing at the age of 70.

Han's first diplomatic posting in the United States was as deputy chief of China's liaison office in Washington, from 1973-79. He quickly became familiar with many American officials and played an important role in negotiations that led to the normalization of China's relations with the United States in 1979.

After a stint in China as vice foreign minister from 1982-85, Han returned to Washington as ambassador, a position he held until 1989. Untiring in his efforts to improve the US-China relationship, Han was a strong supporter of the Council, and attended the Council's very first membership meeting in 1973. Former Council President Christopher Phillips noted Han Xu "had an easy way with people. He had energy, imagination, and know-how." Han recognized that a healthy bilateral trade relationship was critical to the establishment of full diplomatic relations with the United States, and did his utmost to strengthen ties between China and the US business community.

Timothy Gelatt

Timothy A. Gelatt, a leading expert on the legal aspects of doing business with China, died of a cerebral aneurysm in New York on August 22.

Gelatt was well known to the business community in both East and West not only for his authoritative books, essays, and lectures on Chinese law, but also for his expertise in negotiating contracts for multinational companies pursuing business opportunities in China. An attorney by training, Gelatt worked for Baker & McKenzie and Paul, Weiss, Rifkind, Wharton & Garrison before joining O'Melveny & Myers. Throughout his career, he participated in many US-China Business Council events, serving as chair of the Council's Legal Committee in the late 1980s.

Gelatt also developed a special interest in law and liberty on the mainland and Taiwan. His scholarly publications, reports for major human rights organizations, and op-ed pieces enlightened readers about the administration of criminal justice and restrictions on political participation on both sides of the Taiwan Strait. He will be sorely missed by the Council and former colleagues, clients, and students.

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Assessing APEC

The upcoming meetings in Jakarta provide the Administration an avenue for strengthening critical relationships currently under stress

President Clinton, Secretary of State Christopher, Secretary of Commerce Brown, and US Trade Representative Kantor will head to Jakarta in mid-November for this year's APEC (Asia-Pacific Economic Cooperation) ministerial and "Informal Economic Leaders' Meeting" (APEC jargon for what we usually call "summit meetings"). American business in general, including US firms with strong China interests, is watching with interest, but very much from the sidelines.

APEC occupied US headlines last year, in large part because the United States held the rotating chairmanship of the organization in 1993. In addition to the large ministerial meeting that typically marked APEC's highest-level event of the year, President Clinton added the innovation of the first Leaders' Meeting, bringing together an unprecedented gathering of Asia-Pacific political leaders, including China's President Jiang Zemin, Japan's then-Premier Morihiro Hosokawa, Indonesia's President Suharto, and many others. Of the 15 economies then represented in APEC, only Malaysia declined to participate in the Seattle meetings.

The Leaders' Meeting last year helped to confirm APEC's appeal to most of its member economies, and 1994 has seen a remarkable expansion of APEC-related activities and membership (Mexico and Papua New Guinea are the latest additions). The fact that President Suharto, as he picked up the reins of the APEC chairmanship in Seattle last November, invited his fellow leaders to meet again in Indonesia in November 1994 was a clear indication that after five years of low visibility and informality, APEC had begun to jell and to command its members' attention at the highest levels.

As APEC's visibility has increased, the organization has spread its energies in many directions. Separate meetings of regional counterparts—trade ministers, finance ministers, and environment ministers—have been convened. The Committee on Trade and Investment, established in Seattle, is hard at work on a range of APEC plans for greater technical and economic cooperation throughout the region, including a non-binding set of principles aimed at enhancing intra-regional investment. The 10 APEC working groups—which consist mostly of government specialists, and sometimes business representatives as well—continue to move forward in such areas as human resource development (one of President Suharto's designated priorities), tourism, marine resource conservation, industrial science and technology, and others.

Developing a common vision

The most spectacular item at this year's APEC meetings is likely to be the second report of the Eminent Persons Group (EPG), a small body created two years ago to provide a "vision" of APEC's future. The idea behind the EPG was to let non-government representatives free of bureaucratic and political restraints put their heads together. Chaired by Fred Bergsten, director of the Institute of International Economics in Washington, DC, the group's first report to the Seattle Leaders' Meeting called for "free trade in the Asia-Pacific" and for the building of a regional economic "community." Exactly what these terms encompassed and how the vision was to be achieved was unclear, however, so the leaders ordered the EPG to come back to the 1994 meeting with greater clarity and detail behind its proposals.

The new EPG report reinforces and refines the earlier recommendations, seeking to balance the flamboyance of the group's suggestions with down-to-earth recommendations on the mechanics of trade facilitation. The report will be sure to claim media attention and will effectively structure the Leaders' Meeting dialogue. A number of APEC member economies have already expressed concern at the boldness of the EPG's ideas and the suggested timeframe for realizing them.

What role for business?

Behind all the hype surrounding the EPG and the Leaders' Meeting are a number of unanswered questions regarding APEC's future direction and how the group should relate to business throughout the region. The linkages between APEC and the business communities of its 17 member economies remain fluid and incomplete; neither business nor APEC seems to know quite how to strengthen these ties, even though APEC explicitly understands that its work must support and extend the commercial links that define this economically dynamic region.

Last year, APEC leaders sought to address this concern by forming the Pacific Business Forum, which consists of two business leaders from each of the APEC economies—one from a smaller business and one from a large concern. Fluor Corporation Chairman Les McCraw, a member of the US-China Business Council's board of directors, is one of the two US representatives to the Forum. The Forum's report to the APEC leaders in Indonesia may help APEC make headway in establishing long-term working relations between government bureaucrats on the one hand and businesspeople on the other.

To date, the most tangible connection linking business to APEC has been the focused APEC Working Groups. US firms, for example, are actively involved in the Telecommunications Working Group. A number of US organizations, including the US National Committee on Pacific Economic Cooperation (US-PECC) and the Pacific Basin Economic Council (PBEC), as well as bilateral business associations including the US-China Business Council, offer channels of access to the APEC process. A new National Center for APEC has also been established in Seattle, as an outgrowth of the meetings held there a year ago. As the date of the Indonesia meetings draws closer, several US government agencies have attempted to brief small segments of the US business community about the upcoming meetings and their likely results.

But APEC has not yet become a meaningful factor in the strategic calculations of most businesspeople, at least not in the United States. Intentionally kept loose and informal in its formative years so as not to threaten any of its members, this young organization has not achieved—and may never achieve—the kind of undeniable impact on business that ultimately compels business attention and participation. Although APEC claims to be committed to supporting Asia-Pacific business, if it does not seize the current moment of opportunity for effective cooperation between governments and businesses throughout the region under its banner, it may find it hard to do so in the future.

The downside of prestige

It is too early to measure the impact of the annual Leaders' Meeting on APEC and Asia-Pacific economic relations. On the one hand, the prestige that top political figures bring to APEC lends the organization a media appeal and a bureaucratic urgency that the earlier ministerial-level gatherings could not match. The yearly gathering of presidents and prime ministers, if carefully orchestrated and deftly executed, can also help prevent the understandable cautiousness of 17 widely divergent members from stifling innovation and progress.

Yet the boom in APEC's prestige may complicate the organization's future progress. Until 1993, the secret of APEC's early advances lay in its relative invisibility. In a region where symbolism, face, and language take on extreme sensitivity, APEC's great virtue has been its informality, its quiet success in bringing working-level colleagues together to discuss nuts-and-bolts economic problems and work on unglamorous but promising solutions. Now, APEC is a high-visibility operation, driven in no small measure by the varied needs of the leaders themselves—prestige, media attention, "deliverables" for their home audiences, and for many, the evidence that they can stand up to perceived pressures from one or more of the APEC "big three"—China, Japan, and the United States.

So, as top US political and economic leaders head for Jakarta, APEC faces new challenges. In some ways, these are the challenges of success: APEC is gaining recognition. But recognition necessitates political adroitness and deft leadership of the organization. If phrases like "free trade in the Asia-Pacific" set off alarm bells in capitals around the Pacific Rim, APEC's members might find themselves splitting into two camps; in one, the United States and a few other economies would chafe and push for louder and more decisive policy advances, while in the other, the Asian economies would huddle together to avoid being "railroaded" by the more activist members.

US government representatives from Bill Clinton on down will need to steer skillfully if they are to encourage business enthusiasm for APEC without alienating the cautious and less exuberant Asian trade partners—including China—with whom the United States must continue to build effective economic ties. The President's APEC address in Seattle last year was a reflection of enlightened US policy, recognizing both the opportunities and the complexities of economic ties in the Asia-Pacific region. Since the Seattle meetings, however, the United States has had rough sailing with some of its key Asia-Pacific trade partners. Some of the nasty issues of last winter and spring—including the Most Favored Nation issue with China—have already been resolved. We hope that the US team at APEC can resolve other outstanding issues at the Jakarta meetings this November. 完

DOC Secretary Brown Meets with Council in Beijing

On August 30, Department of Commerce (DOC) Secretary Ron Brown celebrated "commercial diplomacy," [which] "brings benefits to both the United States and China—providing the Chinese people with the tools needed to continue their astounding growth and to nurture their economic reforms, while further opening China's vast market to American firms." Brown's message of vigorous re-engagement with China was delivered at a US-China Business Council luncheon for the delegation and 600 government and business leaders in Beijing.

Commerce Secretary Ron Brown's keynote speech in China was to a Council audience.

The Secretary's speech, the major address of his 10-day mission, conveyed to the Chinese a sense of respect and collegiality from the United States. During the Secretary's visit to China and Hong Kong, US firms—including several Council member companies—signed a reported $4 billion in new China contracts.

Brown also announced the signing of a framework document under the Joint Commission on Commerce and Trade (JCCT) and several sectoral agreements to establish working groups on business development, investment and trade, and commercial law. Though preliminary in tone, many of these agreements may lay the foundations for expanded government-to-government cooperation in areas of great concern to US businesses. The agreements signed involve: setting up guidelines for the JCCT Business Development Working Group; developing a joint management training center; cooperating in commercial law training programs; promoting participation by US firms and organizations in airport construction and financing in China; creating new JCCT subgroups in information technologies, medical technologies, services, electric power, and chemical and allied products; establishing a machinery committee under the JCCT Business Development Working Group; and providing for bilateral cooperation on numerous other topics ranging from flood and water resources forecasting to information and academic exchanges between DOC and China's National Environmental Protection Agency.

Council Welcomes China's Baby Bell

On October 2, the Council hosted a dinner for a 10-person delegation from China's new national telecommunications company, China United Telecommunications Corp. (Unicom). The Washington, DC event provided an opportunity for US telecom companies to introduce their products and services to the Chinese group, which was on a two-week US tour. Twenty-five Council members attended the dinner.

Unicom Chairman Zhao Weicheng seeks US partners for his firm.

Unicom Chairman Zhao Weicheng spoke at length about his new organization and its broad plans for providing better and cheaper service than its rival, the Ministry of Posts and Telecommunications. Unicom, established by the State Council in July 1994 with financial backing from the ministries of Electronics Industry, Power Industry, and Railways, also has many high-profile equity partners.

Unicom will provide a full range of voice and data telecom services including wire, wireless, satellite, and mobile communications. Its initial goals are to provide 10 percent of the nation's long-distance calls and 30 percent of mobile telecommunications by the year 2000.

Taking a Stand

■ Gao Lulin

Beijing is keeping vigilant on intellectual property protection

■ **Gao Lulin is director general of the PRC's Patent Office and president of the China Intellectual Property Society, a non-profit organization established to promote intellectual property protection and international cooperation on IPR issues.**

In the past decade, China has made rapid advances in the promulgation and enforcement of laws to protect intellectual property rights (IPR). In this short period, the Chinese government has established a modern intellectual property legal system; trained a contingent of patent personnel; and formed a complete organization for the administration, justice, research, and education of IPR issues.

Since 1992, China has passed or amended a number of intellectual property laws, including the Patent Law, Trademark Law, Copyright Law, and implementing regulations for all of these laws. China's intellectual property protection regime provides protection to creative achievements in the fields of science, technology, culture, and art. A legal framework has been set up to protect industrial property and copyrights.

As its trade with the outside world expands, China intends to strengthen the protection of patents, trademarks, and copyrights, especially with regard to imported products. According to the draft agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) signed during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), different timetables for implementation of the TRIPS provisions apply to different types of countries. The general timeframe calls for countries to implement the agreement within one year after the Agreement enters into force. Any developing country or nation transforming a centrally planned economy to one that is market-driven, however, is entitled to an additional four years to comply with the TRIPS terms. If a developing country has difficulty providing patent protection to every technical field, it may have another five-year extension for specific areas. The least-developed countries are given up to 10 years to implement the TRIPS agreement. China, though eligible to claim a transition period of up to nine years to phase in TRIPS requirements, has basically already reached world IPR protection standards.

The TRIPS provisions will be implemented in China after the PRC is restored as a contracting party to the GATT. The Agreement stipulates that contracting parties should take effective measures to stop goods which trespass upon others' trademarks, patents, and copyrights, and includes remedies for preventing acts of infringement. With the establishment and perfection of the Chinese intellectual property legal system, for which further steps are being taken to ensure it complies with the TRIPS requirements, intellectual property protection and enforcement measures in China will be strengthened.

The terms of protection granted to IPR holders by Chinese legislation are already in conformity with international practice and TRIPS. The revised Chinese Patent Law, for example, provides a 20-year patent term for inventions and 10 years for utility models or designs. Trademarks are valid for 10 years from the date of the approval of the registration. If the registrant wants to use the registered trademark beyond that period, he may apply for renewal of the registration within the six-month period before the trademark is due to expire. Each renewal is valid for 10 years, and there is no limit to the number of times a trademark may be renewed.

For some literary works, the copyright protection term is the lifetime of the author plus 50 years after his death. If the copyrighted work is by a legal person or non-legal person entity, or consists of a service work in which the copyright belongs to a legal person or non-legal person entity, the copyright shall be protected for 50 years, ending on December 31 of the 50th year after the initial publication. The rights to publish, exploit, and be remunerated for cinematographic, television, video, or photographic works are protected for 50 years. If a foreign computer program is protected as a literary work, the term of protection is 50 years from the end of the year in which the program was first made public. The term of protection for a foreign work of applied art is 25 years from the date of completion of the work.

As a contracting state to the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms, China must provide at least 20 years of protection to producers of sound and video recordings, but has no obligation to provide protection to the phonograms produced before China became a contracting party to the Geneva Convention. However, in order to comply with the terms of TRIPS and the 1992 US-China Memorandum of Understanding on Intellectual Property Rights, China's Regulations for the Implementation of International Copyright Treaties stipulate that the term of protection for phonograms shall be 25 years, and extend the protection to works produced before China became a contracting party to the Geneva Convention.

The courts crack down

Aside from improvements to its IPR legislative framework, China has also stepped up the judicial and administrative enforcement of copyright, trademark, and patent protection. Any individual or entity in China bears legal responsibility for his or its infringing act, including stopping the infringement, taking any necessary measures to remove the influence of infringement (such as publishing a notice of correction), compensating for any damage, and, in some cases, paying a fine or facing criminal penalties.

According to the Chinese Patent Law, Trademark Law, and Copyright Law, those entities or persons whose intellectual property rights have been violated have two choices: institute legal proceedings in the people's courts or request administrative settlement. If the aggrieved party is dissatisfied with the decision of the administrative settlement, he or it may institute legal proceedings within the time limits provided by these laws (*see* p.15).

As China's judicial system evolves, the people's courts are playing a more important role in handling intellectual property-related disputes. Though some cases will continue to be settled through administrative means, more will be settled by the courts, as China's economic reforms deepen and the State itself bears less responsibility for the economic activity of enterprises and individuals. Foreigners, therefore, should not depend solely on government or administrative departments to handle IPR complaints, but should also institute legal proceedings with the courts when their intellectual property rights have been violated.

In the court system, patent infringement cases are handled first by the intermediate people's court of the province, municipality, autonomous region, or open coastal city where the infringing act arises. Further complaints or appeals are handled by the higher courts of that same locality.

Trademark and copyright infringement disputes, in contrast, are handled in the basic-level people's courts, with appeals taken care of by the intermediate-level people's court. Some important foreign-related cases, however, may be

China's Intellectual Property Protection Regime at a Glance

April 1963 Trademark Control Act
Supplants PRC's Provisional Trade Mark Registration of 1950. The act, which contains only labelling requirements and has loose enforcement provisions, is repealed in 1982.

July 1979 US-China Agreement on Trade Relations
Marks beginning of current PRC intellectual property protection regime. Both sides stipulate that each will offer the other reciprocal protection of patents and copyrights.

June 1980 China accedes to the **World Intellectual Property Organization (WIPO)**.

August 1982 Trademark Law
(*Detailed Implementing Regulations in 1983, 1988*) Replaces the 1963 Act. Based on first-to-file system; registration is valid for 10 years after approval, with a 10-year renewal option. 1988 revisions introduce protection for service marks.

March 1984 Patent Law (*Implementing Regulations issued in 1985*) Mandates registration of consumer products and licensing contracts; infringement penalties can be twice the profit earned through violations based on first-to-file system.

March 1985 China accedes to the **Paris Convention for the Protection of Industrial Property**.

May 1989 US-China Memorandum of Understanding (MOU) on Enactment and Scope of PRC Copyright Law
Stipulates that copyright legislation will include computer programs as a specific category; expands patent protection without specifying industries or time limits.

October 1989 China accedes to the **Madrid Agreement for International Registration of Trademarks**.

handled initially by the high-level people's courts.

To strengthen the administration of justice, special intellectual property courts have been set up recently in the Beijing Intermediate People's Court, Beijing High People's Court, and the high people's courts in Guangdong, Hainan, and Fujian provinces. These special courts handle both domestic and foreign IPR cases.

In light of the Chinese judicial principle that "disputes must be handled according to the law, enforcement must be strict, and illegal acts must be investigated and affixed," the people's courts have handled a large number of IPR cases. From 1981-91, 521 trademark dispute cases, 779 patent dispute cases, 5,185 technology contract dispute cases, and 689 copyright dispute cases were filed at the various levels of people's courts. Currently, the majority of cases involve domestic plaintiffs, but we expect to hear more cases involving foreign companies.

The number of cases received by the courts is increasing rapidly. The courts heard more than 1,400 patent dispute cases in 1993, for example, providing strong evidence that more and more IPR cases are being settled through judicial channels.

Administrative options

An individual or entity may also ask the administrative authorities for patent affairs to handle infringement disputes. The administrative authority for patent affairs of the locality in which the infringing act took place has the power to order the infringer to stop his illegal practices and pay for the damage.

For trademark cases, the administrative authority for industry and commerce at or above the county level has the power to order the infringer of a registered trademark to stop the infringing act immediately; seize and destroy representations of the trademark; order the removal of the trademark from the remaining goods or packaging; seize the die, plate, and other tools used to copy the trademark; order and supervise the destruction of infringing goods; and order the infringer to pay legal damages. According to the specifics of the case, a fine may be imposed, not to exceed 20 percent of the amount of illegal business or twice the profit earned by the infringement. In cases now being handled by the administrative authority for industry and commerce in several provinces, the fines may reach several hundred thousand *renminbi*.

Copyright cases are usually handled by local copyright administration authorities, but the State Copyright Administration has the power to handle those involving foreign parties, as well as cases it deems to be of particular importance. If it finds there is a copyright infringement, it may inflict administrative penalties, order the copyright infringer to stop making and distributing the illegal reproductions, seize unlawful income, confiscate the infringing reproductions and the production equipment, and/or impose a fine.

An entity or individual dissatisfied with the decision made by the administrative authorities for patent or copyright affairs has three months (15 days for trademark cases) from the receipt of the notification to institute legal proceedings in the people's courts. If the infringing company does not comply with the order, the administrative authorities may request the people's court to enforce the administrative order.

To strengthen the protection of registered trademarks, the Standing Committee of the National People's Congress issued a supplementary stipulation in February 1993 to encourage more serious criminal treatment for those found guilty of counterfeiting trademarks. If the amount of illegal business is huge, a prison sentence of 3-7 years can be imposed; previously, three years was the maximum sentence. Recently, the Standing Committee adopted similar criminal penalties for copyright counterfeiting, including prison sentences of 3-7 years for those guilty of illegally reproducing copyrights, and 2-5 years for those guilty of selling copyrights without authorization.

June 1991 Copyright Law
Extends protection to computer software, and to literary, artistic, and scientific works.

June 1991 Computer Software Protection Regulations (*Software Registration Procedures issued in 1992*)
Protects published software registered after the enactment date, leaving all existing software in China in the public domain.

January 1992 US-China Memorandum of Understanding (MOU) on Intellectual Property Rights
China pledges to extend copyright protection to foreign owners of software, books, films, sound recordings, and other mediums previously unprotected.

September 1992 Regulations for the Implementation of International Copyright Treaty Provisions
Provides further amendments to the Copyright Law. Extends protection to "applied art" (jewelry, watches, toys, furniture, etc.), which are subject to registration requirements.

October 1992 China accedes to the **Berne Convention for the Protection of Literary and Artistic Works**.

October 1992 China accedes to the **Universal Copyright Convention**.

June 1993 China accedes to the **Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms (Geneva Convention)**.

December 1993 Unfair Competition Law
Protects unregistered trademarks, packaging, and trade dress; prohibits unfair competition by monopolies/cartels in controlling prices.

January 1994 China accedes to the **Patent Cooperation Treaty**

July 1994 Copyright Implementing Regulations
Makes copyright infringement a criminal offense; violators can be sentenced to prison for up to seven years or executed in severe cases.

—Compiled by Michael Hsu

Protecting foreign IPR

Over the past 10 years, China has registered trademarks and received patent applications from some 70 countries. By the end of 1993, China had registered about 60,000 foreign trademarks and granted 18,000 foreign patents. More than a third of the 49,000 patent applications (and about 4,300 of those granted) have come from individuals and companies in the United States.

China has made much progress on protecting the intellectual property of foreigners and cracking down on infringers. We have investigated and settled cases involving infringement of trademarks belonging to IBM, 3M, M&M/Mars, Coca-Cola, Kodak, Levi's, Phillips, and other foreign companies. China has also stopped patent infringers from exporting color TV sets and rare earth permanent magnetic alloys, and supported licensing agreements between Chinese enterprises and foreign patentees.

The Chinese copyright administration has taken strict measures to stop three Chinese publishing houses from illegally translating and publishing *Scarlett*, the sequel to *Gone with the Wind*, and is now taking serious measures against counterfeit compact discs (CDs). Recently, the Beijing Intermediate People's Court announced its decision that the Walt Disney Co. was entitled to sue three Chinese publishing houses for copyright infringement.

These actions show that China takes the protection of foreign intellectual property rights seriously and provides a solid, effective legal basis for this protection. Although some foreign enterprises and companies may still have some complaints—some cases involving CDs, for example, remain unresolved—I am confident that all IPR cases, brought before the corresponding administrative or judicial authorities with the proper evidence, can be solved effectively.

China's IPR protection and enforcement efforts will no doubt face some difficulties in the future, however, particularly as the fast pace of economic development spawns ever more enterprises. Nevertheless, China has made unprecedented progress in intellectual property protection, and will continue to bring its IPR enforcement regime up to international standards. As IPR violations occur in every country, objective evaluations of the Chinese intellectual property system should be based on the country's legal situation, enforcement practices, and attitude of its authorities.

The PRC is already an important player in international efforts to protect intellectual property. China will, in accordance with global trends, further perfect its intellectual property system to promote the progress of science and technology, the prosperity of literary and artistic creators, and the development of trade. The number of trademark registrations and patent applications from US firms lead those from other countries, a strong indication that US firms are serious about the China market, and have faith in the IPR protection measures already in place. 完

Counter Feats

■ **Tan Loke Khoon**

The art of war against Chinese counterfeiters

■ **Tan Loke Khoon is an intellectual property lawyer with the China Practice Group of the Hong Kong office of Baker & McKenzie.**

One of the more recognizable American figures in China today has big ears, a round black nose, a long tail, and a smile that has charmed its way into the hearts of millions of children not only on the mainland, but around the world.

Speaking excellent Mandarin Chinese on his own television program, *The Mickey Mouse and Donald Duck Show*, Mickey Mouse (or *Mi Lao Shu*, as he is known in China) attracts a Chinese audience of some 250 million, including Chinese senior leader Deng Xiaoping and his grandson. The popularity of the Disney character extends beyond the confines of the Chinese living room into the marketplace, where consumers snatch up all kinds of imitation goods bearing images of Mickey and his animal friends.

The prospect of Mickey assuming a counterfeit alter ego and promoting unauthorized goods in the PRC hardly provided comic relief to the Walt Disney Co. In September 1988, the company retaliated against the widespread counterfeiting activity by withdrawing new episodes of the cartoon program from China's Central Television (CCTV). Disney then filed 350 applications for the registration of its various trademarks with the PRC Trademark Office before authorizing CCTV to broadcast other Disney shows. After registering the marks, Disney laid "mouse-traps" for the infringers and started cleaning up the marketplace.

Today, *Mi Lao Shu* is back in China, not just on television, but in comic books and department stores, where Mickey Corners have been established under licensing agreements with Chinese partners.

Doing battle

The plight of Walt Disney, though not unique, need not be shared by other foreign owners of intellectual property rights (IPR). By taking preventive steps against Chinese counterfeiters, companies can do much to protect their intellectual property rights. These measures involve using methods permitted under Chinese laws (*see* p.10) to ensure that the company obtains optimum protection of its intellectual property rights and can pursue legal remedies if necessary. Basic defenses against intellectual property infringement include:

■ **Registration** China's intellectual property regulations are based on the "first-to-file" system, except in cases of "well-known" trademarks. Foreign intellectual property owners, therefore, should register their marks to fend off counterfeiters even if they have no immediate plans to enter the China market. In cases where the intended trademark has already been registered by a third party, applicants can ask for cancellation of the registration on the grounds that the trademark has been improperly registered (as per the Paris Convention). In such cases, companies can also negotiate with the trademark owner for assignment (or transfer) of the trademark, or for a license, which allows the license holder to use the trademark as long as he pays license fees to the trademark owner. Assignment and licensing procedures, however, can be complicated and expensive.

Companies should not only concentrate on trademarks, but should also seek to protect other forms of intellectual property. Chinese versions of foreign trademarks should be registered in addition to the originals, as the Chinese public generally knows foreign trademarks by their Chinese equivalents. Name and trademark registrations should also be carried out in other Asian locales such as Hong Kong and Taiwan, as many PRC infringers have trade links throughout the region.

■ **Investigation** Investigation of suspected infringers is crucial. Once you know and understand your enemy, you will be better able to decide when and whether to commence formal proceedings to resolve the problem. You will also have a more realistic expectation of the final outcome and the remedies that may be obtained. In some cases, violators may be small-scale Chinese entities unable to pay full damages; intellectual property owners will have to be content with such basic actions as stopping the infringement and confiscating the fake goods in such circumstances.

Investigation of suspected infringers is crucial.

Foreign trademark owners should closely monitor the Chinese marketplace and take steps to document all counterfeit activities. It is particularly useful to investigate the Chinese counterfeiter's links with foreign investors or distributors, so that parallel legal actions may be taken in other countries. As some intellectual property cases, including trade name actions, are difficult to pursue in China today, it is sometimes more effective to file an action abroad against the foreign joint-venture partner of a Chinese infringer.

Companies suspecting large-scale infringement may want to hire professional help. To date, however, only one joint-venture and three private Chinese investigative agencies have been established to undertake assignments on behalf of foreign parties—one each in Shanghai, Beijing, and Guangzhou. As foreign investors may be concerned with the risk of employing Chinese agencies that might tip off the infringer, they may also contract with foreign investigation agencies (*see* box). Though not technically supposed to operate in China, these agencies have obtained information accepted by Chinese officials for the purposes of evaluating infringements.

Among Chinese organizations, only the State Administration for Industry and Commerce (SAIC) and its local bureaus have the authority within the context of their ordinary duties to conduct investigations of alleged infringers. The SAIC is a government agency and does not provide investigation services on a commercial basis. The government's National Copyright Administration (NCA), has, however, set up an investigation body, the Beijing Consultant Co., a quasi-government entity, to carry out such work on a fee basis. For infringement activities relating to trademarks, patents, and unfair competition, the SAIC has the final say on the cases handled at the administrative level, though its decisions can be appealed to the people's courts. NCA is the State's authority on copyright and software cases but its decisions can also be appealed through the court system.

Undertaking investigative work in China can be arduous. The names and addresses of suspect companies are often hard to trace, and poor telecommunications and infrastructure—not to mention the sheer size of the country—also confound the investigator's efforts. Some counterfeiters operate fly-by-night cottage industries, while others set up sophisticated underground networks that might have links to important officials.

Once an infringer has been identified, trademark, patent, and company searches should be carried out to verify the information obtained on the infringer and its products. As there are many bogus companies that exist on paper only, it is critical for the investigator to conduct searches through China's trademark offices and government organizations to gather all available information on the targeted offender.

■ **Warning letters** If an infringement has been found, it is sometimes prudent for a firm first to pursue informal measures, such as sending a warning letter or meeting with the infringer, before taking any formal legal action against the offending party. Given the low level of legal knowledge in China, the infringer may be unaware that its activities violate Chinese intellectual property laws. The warning letter should inform violators of the investigator's possession of proof, and in cases of clear infringement, should be aggressive in tone.

Establishing contact with the infringer may provide the owner with access to information that may be useful should a formal complaint be filed later. Most important, a direct meeting may uncover the size of the infringer's business, how long it has been violating the intellectual property holder's rights, and any connections that the company has with government organizations. Besides, foregoing an informal approach might give Chinese enforcement authorities the impression that the IPR owner is too litigious.

If the infringer is cooperative, the matter can be quickly settled by a formal undertaking committing the offender to cease future pirating activities. If the infringer resists, the IPR holder must decide whether it is cost-effective to pursue the matter legally and whether a conciliatory agreement may be achieved between the parties. Quite often, infringers ignore the warning letter altogether. In such cases, firms should file a copy of the warning letter with the local SAIC office in case administrative action is taken later.

■ **Newspaper notices** Placing warning notices against infringing activities and proclaiming the owner's rights in newspapers are generally less effective than court actions or direct warning letters in warding off infringers in China. In fact, such notices may backfire and inspire other potential criminals to start counterfeiting the same item, which would only create further consumer confusion. Nevertheless, infringing actions should be brought to public light when the case is completed or if it involves massive violations, so that there is greater public awareness of the intellectual property owner's rights and the punishments meted out to infringers.

■ **Administrative actions** If the above measures do not yield satisfactory results, foreign firms may file a complaint with a

INTERVIEW

China's Private Eyes

Beijing-based IP Protect China Limited is the first fully licensed, private joint-venture investigative firm in China to take on intellectual property rights (IPR) cases on behalf of local and foreign clients. CBR *Assistant Editor Michael Hsu recently discussed the company's activities with Hong Kong barrister Maria Tam, chairman of the board of IP Protect Services Limited, the joint venture's Hong Kong-based partner.*

CBR: *When did IP Protect begin operations?*

Tam: We started in July last year. The company is a 50:50 joint venture between the Hong Kong partners and two Chinese individuals—Zhao Damu, a former lawyer with the Ministry of Justice, and Qing Shiqing, an ex-Public Security Bureau (PSB) official. Zhao is also the general manager and chairman of the joint venture. Aside from Zhao, IP Protect's staff consists of four lawyers and two full-time investigators formerly with the PSB. We also maintain a national network of ex-policemen and ex-security bureau people we can call on as needed.

CBR: *What kinds of investigations have you conducted? Who are your clients?*

Tam: About two-thirds of the 15 investigations we have handled to date involved foreign or Hong Kong companies; the rest were for local Chinese clients. We recently conducted an investigation for Hazeline soap, a product manufactured by the British firm Burroughs Wellcome. We discovered the Chinese infringers were actually copying both the soap and the packaging at two factories. Subsequently, 200 boxes of countefeit items, estimated to be worth about ¥3 million, were seized by the authorities. Not all of them were Burroughs Wellcome products, though.

Even though China has promulgated IPR legislation and joined all the relevant international conventions, protection of intellectual property is not a top priority as far as execution of the law is concerned. Local resistance to implementation of IPR laws is pretty strong, whether from officials or the triads [organized crime rings]. Local bureaucrats—all the way down to the village level—may be keen to protect the infringers because counterfeiters generate jobs and investment in the community.

In terms of implementation of IPR laws, Beijing's highest priority is to crack down on counterfeit alcohol, drugs, pesticides, and insecticides, because they can cause injury, death, or destroy good farmland. Protection of brand names is not the government's first priority, which is why it is necessary for firms to hire private investigators to safeguard their interests.

CBR: *How do you typically conduct an investigation?*

Tam: The first thing is to check if the client has registered its intellectual property for protection. Then, because we are well-linked with ex-PSB officials throughout China, we have people on the ground gathering evidence. The information we produce goes to the PSB authorities, who decide whether to undertake raids and/or other actions.

Two-thirds of our cases have been completed, most of them successfully in that the goods were seized and the counterfeit activities stopped in that particular location. Some cases, however, have proven more difficult to resolve, mainly because local authorities have refused to cooperate with PSB authorities.

CBR: *How do you recommend foreign companies protect their intellectual property?*

Tam: They should definitely go to the Patent Office, SAIC, or the Public Security Bureau. If the officials don't help, they can come to us.

government body. For trademark and unfair competition matters, this will be the SAIC, which is vested with broad investigation, discovery, and enforcement powers. After receiving the evidentiary papers alleging infringements, the SAIC or its local branches will investigate the charges. SAIC powers can be exercised in an expeditious and flexible manner without the need for extensive hearings or other formal procedures. When the agency deems an infringement has occurred, SAIC officials will generally attempt to stop the violation through informal persuasion or the imposition of sanctions. The diligence of SAIC officials, however, varies with locale.

SAIC officials may also order the confiscation of illegal goods, payment of fines, revocation of business licenses, payment of compensation and damages, posting of public apology notices, and the serving of jail sentences. Confiscation is the most frequently employed option, followed by fines. Fines assessed for infringements vary according to the seriousness of the incident, but are usually minimal, and do not serve as a serious deterrent to future infringements.

Presently, the administrative bodies in charge of trademarks, patents, unfair competition, copyrights, and software belong to separate departments and organizations. Software and copyright issues are handled by NCA, while cases involving unfair competition, trademarks and trade names, and passing off come under SAIC's mandate. When a particular infringement case straddles two or more areas of intellectual property law, the various governing organizations must coordinate their efforts. To undertake a successful raid in which offenders are caught red-handed, the intellectual property owner, the investigative agency, the representative agents and lawyers, and the Chinese enforcement officials must all work together. If counterfeits are being produced in several sites in one province, the IPR holder might find it more practical to seek the intervention of provincial authorities, rather than try to launch raids with the support of each of the local administrative authorities.

Representatives from the IPR holder are generally allowed to accompany enforcement officials on raids, as the Chinese authorities might find it difficult to locate the infringers or distinguish between the genuine and counterfeit products. They frequently need assistance in identifying all the relevant evidence.

As the volume of piracy in China far surpasses the ability of the existing administrative and legal system to cope with it, foreign IPR holders should provide local enforcement officials with logistical support. The local administrative offices generally lack the resources, manpower, and motivation needed to resolve infringement disputes. Foreign companies must appreciate these constraints and exercise patience, tolerance, discretion, and understanding. The situation is certainly improving and Chinese enforcement of IPR violations is moving toward international trends and standards.

■ **Legal action** Victims of infringements may also seek redress through the courts, although the administrative route is generally faster, less expensive, and more effective because administrative officials tend to have more experience in IPR cases. The Chinese government has recently established special courts in major cities to handle intellectual property matters, and intellectual property divisions have been set up in provincial and municipal courts throughout the country to adjudicate on intellectual property disputes. As these courts are new, they are still relatively inexperienced in the interpretation and implementation of intellectual property-related laws. They presently suffer from a shortage of manpower, and some judges have been assigned to these courts even though they lack the necessary background to rule on intellectual property cases. Companies may therefore opt for administrative settlements, especially for trademark cases, for the time being.

Besides, bringing an infringement action to the court might attract negative publicity, and such proceedings can be expensive and time-consuming. Simple infringement cases may takes months before they are finally resolved; larger scale, massive violations can take years. However, for complicated copyright and unfair competition cases involving huge losses or the presence of criminal gangs, court proceedings will probably be necessary.

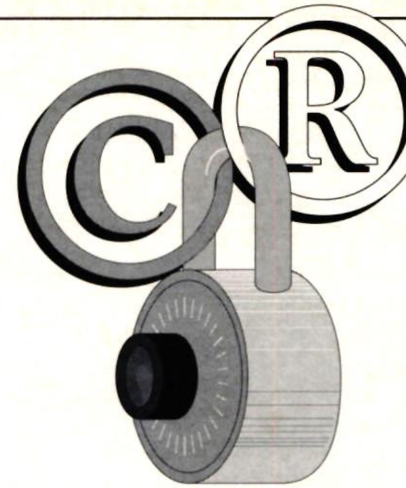
Victory assured?

With USTR's June 30 designation of China as a "priority foreign country" for intellectual property issues, China has until the end of the year to improve its record of piracy enforcement or face US trade sanctions on a range of Chinese goods. The next few months, in fact, may be a good time for companies to seek court actions against infringers, as the continuing USTR investigation into China's enforcement of intellectual property regulations may put the spotlight on infringement cases filed with the intellectual property courts. Already, in a high-profile copyright case in June Chinese senior leader Deng Xiaoping's daughter, Deng Rong, won ¥15,000 in damages against pirates of her book *My Father Deng Xiaoping*. Other efforts designed to stem piracy include new, tougher penalties for violators of copyrights—including execution in extreme cases—and the reported closure of several illegal compact disc factories.

China is expected to continue its campaign to clamp down on infringers throughout the country, especially in the audio-visual industry. Chinese authorities are also investigating lax enforcement practices at townships that are notorious for protecting their counterfeiters, such as Shantou and Shenzhen in Guangdong, and Fuzhou in Fujian Province.

Companies wishing to see better IPR protection in China must do more than merely cry "foul play." IPR holders should also hold seminars to educate the Chinese public on intellectual property issues; the common Chinese idea is that intellectual property belongs to everyone and should be equally shared. Companies must also implement internal policies that ensure their intellectual property is carefully guarded and that speedy investigation, policing, and enforcement measures are undertaken against infringers if violations occur.

The Walt Disney Co. has done just that. In August, it became the first foreign company to win a copyright suit filed with the Beijing People's Intermediate Court. The action was taken against a Chinese retailer, publisher, and distributor who were producing and selling pirated children's books based on Disney's animated films. Disney is seeking ¥670,000 ($77,000) in damages and for the pirating firms to cease their illegal publication. Even in China, it appears that Disney happy endings may sometimes come true. 完



IPR Watchdogs

■ Lee M. Sands and Deborah Lehr

Ensuring China protects US intellectual property rights is a priority for USTR

■ Lee M. Sands is deputy assistant US trade representative and Deborah Lehr is director of China and Mongolia affairs at the office of the US Trade Representative.

Effective protection of intellectual property is essential if Beijing hopes to see continued high growth in its trade with the rest of the world and high levels of foreign investment in China. No company can safely invest its resources in China, however, if the Chinese government cannot guarantee that the investor will receive the full protection stipulated in China's intellectual property laws and regulations.

Right now, despite the excellent progress China has made in improving its legal regime for the protection of intellectual property rights (IPR), piracy of copyrights, trademarks, and, in some instances, patented products, is rampant. In the copyright field alone, US industries estimate that they lose upwards of $800 million annually. In addition to the well-known piracy of compact discs (CDs)—some 26 Chinese factories currently produce 75 million discs each year even though the Chinese market can only absorb about 5 million—there is also massive piracy of computer software, including CD-rom products. According to the Business Software Alliance, 94 percent of all computer software in China is pirated, while virtually 100 percent of US audiovisual works in the country are illegal copies. Aside from the loss of sales revenues foreign IPR holders suffer when piracy is widespread, many also forfeit market share in China, one of the world's most exciting and dynamic economies, because the lack of IPR protection acts as a barrier to their participation in the Chinese economy. Such lost opportunities harm US industries—and China's as well.

IPR piracy in China effectively destroys the creative initiative of Chinese inventors and scientists. IPR pirates seriously damage China's prospects of developing a viable computer software industry, for example, and the PRC's many highly creative software programmers are as frustrated as their US counterparts by software piracy. Similarly, Chinese musicians and artists are as dismayed as their US counterparts when they find their products have been reproduced illegally. The Chinese government also loses out to piracy, as counterfeiters thwart its development plans for high-tech sectors and deprive it of tax revenues. Only the pirates benefit under current conditions.

At a policy level, the governments of the United States and China recognize the importance of protecting intellectual property. Improving IPR enforcement is clearly in line with the goals of China's modernization and reform programs. Both governments realize that protection of intellectual property is a goal for which both must strive; the United States has no quarrel with the Chinese government in this regard, but shares the same goals.

Chinese progress

In that light, the United States applauds the many positive steps that China has taken in the past few years to bring its IPR legal regime up to international standards. In the area of copyrighted works, China has joined and endorsed the principles of the major international copyright conventions—including the Berne and Geneva conventions. China is also an active member of the World Intellectual Property Organization, and has issued pertinent regulations to strengthen copyright protection for foreign works. More recently, China made copyright infringement a criminal act, amending its criminal code to enact strict penalties for infringement (*see* p.9).

In other intellectual property realms, China has amended its patent law to extend protection to agrichemical and pharmaceutical products as well as processes, and has extended its term of protection to 20 years from the date of filing. In addition, China has adequate trademark laws that, if enforced, would go a long way toward damming the flood of infringements currently sweeping the country.

Enforcement of China's IPR laws has lagged behind enactment, however. The prevalence of piracy—especially of copyrighted works and trademarks—and the inability of the Chinese authorities to date to reduce it, however, cannot be ignored. The office of the US Trade Representative (USTR) is committed to ensuring that China and our other trading partners take effective steps to control piracy. China's failure to make commitments to bring under control the piracy of US products left the United States with no choice but to identify China as a "priority foreign country" under the 1974 Trade Act and to initiate a Special 301 investigation on June 30, 1994.

The Special 301 investigation

Under the Trade Act, the Special 301 investigation can last as long as six months. The statute permits USTR to extend its investigation for an additional three months under certain conditions, including substantial progress on the part of the offending country. Should US Trade Representative Michael Kantor determine at the end of the investigation that China's IPR enforcement practices constitute an unreasonable or discriminatory burden or restraint on US commerce, he must decide upon an appropriate response. Under similar circumstances in 1991, USTR published a list of Chinese products on which import tariffs as high as 100 percent would have been imposed had China not adequately met US concerns by the time the tariffs were scheduled to go into effect (*see The CBR*, January-February 1992, p.5). The deadline for Ambassador Kantor's determination on China's progress is December 31.

The United States is committed to resolving the issue of IPR protection in China through negotiations and consultations with Beijing. As of this writing, USTR has held several rounds of consultations with China, most recently in October. China has taken some positive steps so far, but much remains to be done if an agreement is to be reached by the December deadline.

> The United States asks that China remove any illegitimate restrictions limiting the access of foreign intellectual property products to the PRC market.

The US government sees no reason why its concerns over IPR enforcement in China cannot be settled expeditiously and successfully. Clearly, it is in the interest of both countries to do so. Early and successful resolution would contribute to greater trade, expanded transfer of technology and investment, and a better investment climate in China. We will spare no effort to see China's system improved. We expect that the Chinese government's intentions are the same.

Problem spots

The United States' requests of China are reasonable and China's fulfillment of them would greatly strengthen IPR protection in China. The United States has worked successfully and cooperatively with other Asian countries to improve IPR protection; they provide excellent models for Beijing to study as it contemplates how to improve its own IPR enforcement regime.

The current investigation and negotiations with China center around three basic concerns. They include:

- **Effective measures to curtail immediately IPR piracy**. Such measures include, but are by no means limited to, systematic raids on known manufacturers, distributors, and retailers of infringing products; establishment of special enforcement periods during which prosecutors target and raid large-scale pirates repeatedly; and creation of special IPR enforcement task forces to coordinate and direct the activities of the police and other concerned agencies against pirates.
- **Creation of an effective IPR enforcement regime**. Structural changes in China's IPR enforcement regime are an appropriate and natural response to endemic piracy. Such changes might include elimination of conflicts of interest between production ministries/Chinese companies and IPR enforcement agencies, so that enforcement agencies are free of any possible interference or influence by organizations or individuals involved in piracy; elimination of obstacles to effective prosecution of IPR pirates, such as high filing fees in the courts and insufficient resources on the part of IPR enforcement agencies; establishment of an effective border control system for intellectual property; creation of title verification and other means to verify that producers of intellectual property are properly licensed by the rightholders; provision of sufficient resources to IPR enforcement agencies as well as to agencies and organizations that procure intellectual property; and, perhaps most important over the long term, education of the Chinese public in the importance of the protection of intellectual property, and training for enforcement agencies in the detection of intellectual property infringement and prosecution of infringers.

In addition, as part of China's desire to accede to the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO), it must change some rules and regulations to bring its IPR regime in line with the Uruguay Round's agreement on Trade-Related Aspects of Intellectual Property (TRIPS). Such changes include strengthening border enforcement and protection for computer software.

■ **Improve market access for intellectual property products.** Clearly, demand among the Chinese public is great for foreign intellectual property products such as motion pictures, videos, and sound recordings. If legitimate market access for foreign products is denied by informal quotas and/or bans, pirates will fill the demand. As a result, the United States asks that China remove any illegitimate restrictions—including quotas, whether formal or informal—limiting the access of foreign intellectual property products to the PRC market.

To China's credit, the Chinese government in recent months has begun to take steps to improve enforcement. For instance, the government has established a high-powered IPR conference system to oversee nationwide enforcement efforts. This group, which includes ministers of enforcement and manufacturing agencies, met for the first time in July. In addition, China's National People's Congress has enacted tough criminal penalties for serious infringers, though we do not believe anyone has yet been charged with criminal infringement. Some municipalities in China, such as Shanghai, have begun setting up strict systems to prevent piracy from taking place. China has also launched raids on retailers of pirated products, but to our knowledge, these have not targeted the key manufacturers and distributors of pirated goods.

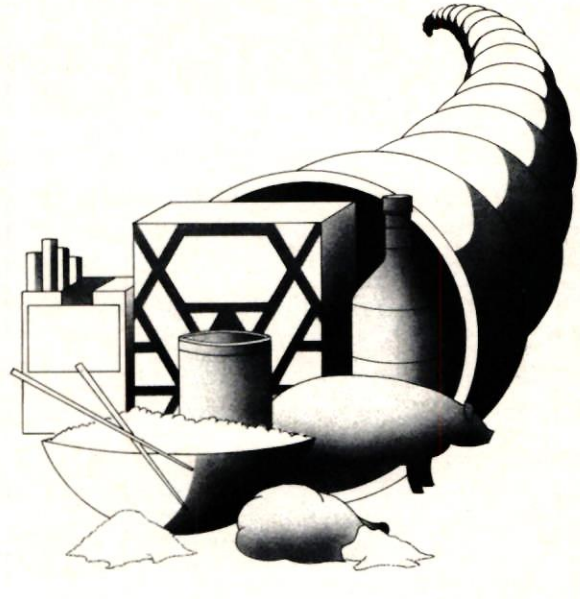
The US government has taken many steps to help the Chinese improve their IPR enforcement system. US agencies have sponsored training and education seminars in China that featured experts from the US Customs Service, Department of Justice, and the Patent and Trademark Office.

US industry has also stepped up activities to improve intellectual property protection in China. Groups such as the Business Software Alliance, the Motion Picture Association of America, and the Recording Industry Association of America have sponsored seminars, provided funding for enhanced Chinese enforcement efforts, and brought cases before the Chinese courts and enforcement agencies. As of this writing, US companies have filed more than 20 cases in Chinese courts. There have been some initial, positive judgments against infringers (*see* p.11).

These steps, however, are preliminary. The problem of piracy of intellectual property persists. The United States recognizes that it will take time for China to create the institutions and mechanisms that will ensure sustained protection of intellectual property. Nonetheless, we believe that, with the exertion of political will and effort, China can successfully curb infringement in the near term. We are waiting to see China adopt measures to close down pirate-CD production lines, create an effective border enforcement system, and prosecute serious infringers of IPR.

We also look forward to working cooperatively with our Chinese colleagues in the intellectual property field and to seeing an early resolution of our bilateral concerns over intellectual property protection and enforcement. The governments and industries of both nations—and indeed of all of China's trading partners—will be the beneficiaries. If we fail, only the pirates will benefit. 完

Seeds of Change



■ Frederick Crook

Shifts in policy and consumer preferences have altered China's traditional agricultural economy

The world's largest producer of wheat, rice, cotton, hogs, silk, sweet potatoes, vegetables, and other crops, China is also one of the world's largest importers of wheat, vegetable oil, sugar, and chemical fertilizers. Predicting China's future agricultural production, however, is complicated by variations in its yearly harvests, the unclear outcome of negotiations over its accession to the General Agreement on Tariffs and Trade (GATT), unforeseen internal economic reforms, and other factors. While the value of both China's agricultural imports and exports is likely to expand over the next decade, the PRC is likely to buy more than it sells.

Today, China's agricultural economy accounts for less than 20 percent of total PRC exports and less than 16 percent of the gross value of output. The agriculture sector's share of total output has been falling steadily, but still underpins the nation's fast-growing industrial sectors. The huge rural labor force supplies new recruits for China's burgeoning factories, as well as food and raw materials for industrial processing. And, though rural consumers, who have an average annual per capita income of less than $160, are consistently less well-off than their city cousins, they still form a huge market for a wide range of goods produced by the industrial sector.

As China continues to reform its economy, urban and rural residents alike will demand greater access to quality foodstuffs, yielding new opportunities for US agricultural exports such as wheat, refined vegetable oils, processed foods, and seasonal fruits and vegetables. But as the agricultural sector matures, China's own agricultural products will be unleashed on global markets, in some cases competing with US goods.

The backbone of the economy?

Since the 1950s, Chinese Communist Party (CCP) policies have stressed agriculture as the "foundation" of the PRC economy. The initial wave of economic reforms announced in 1978 at the Third Plenum of the 11th Communist Party Congress led to the establishment of the household control system and the gradual dissolution of the commune system. After a period of stagnation in agricultural production, Party leaders at the Fifth Plenum, held in November 1989, called for better resource management and increased investment to raise crop yields and improve agricultural technology (*see The CBR*, July-August 1990, p.6). As recently as October 1993, Premier Li Peng reiterated the official "foundation" rhetoric.

Nevertheless, State and individual household agricultural output declined from 1988-94, in part because Beijing has been unwilling to back up its rhetorical support of the agricultural sector with sufficient investment funds. From 1985-92, the central government allocated only

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3.4 percent of its capital construction budget to the agricultural sector. State investment in recent years has been increasingly channeled toward upgrading industrial manufacturing facilities and building infrastructure such as railways, roads, airports, and port facilities—all of which produce higher rates of return than do comparable investments in agricultural production.

Individual farmers, for their part, have had little confidence in the Party's land contract system. Fearing a sharp shift in government land policies, many have invested in new homes rather than in upgrading their land. Others prefer to invest in rural enterprises, hoping for lower risk and higher profits than they could earn by investing in the land itself.

As a result, improvements in yields have slowed and production costs have soared. Rural economic output now accounts for 45 percent of China's gross domestic product. Even within the rural economy, non-agricultural output now accounts for over 64 percent of total rural output value.

Fear of inflation

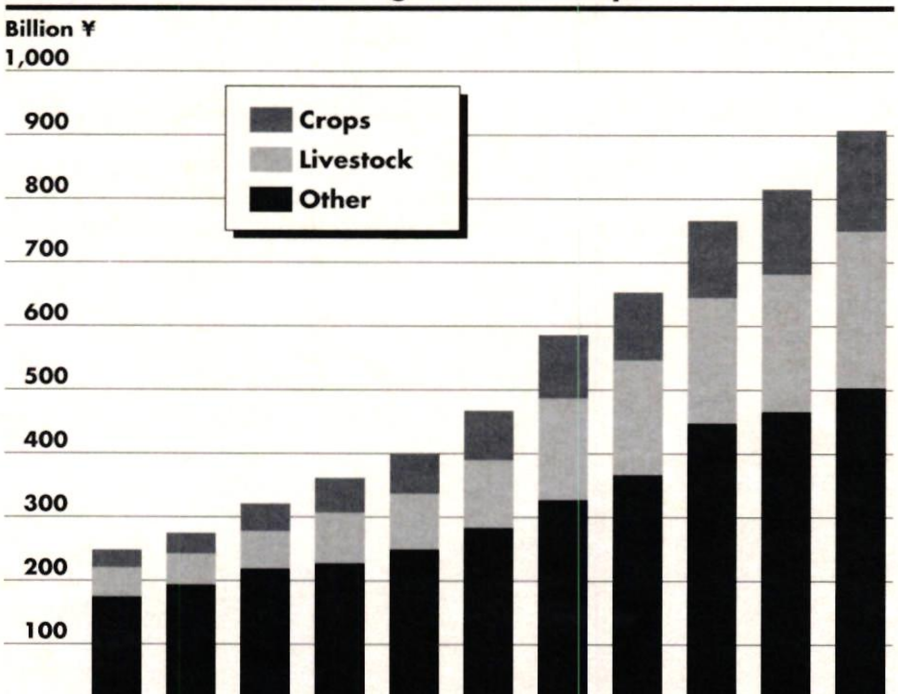
Other reforms instituted by Beijing over the past few years have also inhibited agricultural production. In late 1992 and 1993, China's provinces were allowed to experiment with ways to disband the 38 year-old planned purchase and supply system, in which the government planned the production of grains and edible oilseeds, purchased the needed commodities at fixed or negotiated prices, and then transported, stored, milled, and retailed the final product to primarily urban consumers.

Farmers were required to sell these products to the government at fixed prices which were often below market prices. To compensate for the low purchase prices, the government provided farmers growing these staples with diesel fuel, fertilizers, and pesticides at fixed prices for most of the 1970s and 1980s. The retail prices for the commodities—which were available only with ration coupons—were kept low, resulting in large government subsidies to urban consumers. These subsidies proved to be a huge strain on the government's budget, however.

By the spring of 1993, most provinces ended their planned supply programs and ration coupons were given to children as play money. The transformation of the procurement system was much more complex, however. Some provinces continued to use the fixed quota purchase system, linking their purchases to the provision of subsidized inputs to farmers. Some provinces fixed the amount of production to be sold to the State, but paid market prices for the commodities purchased. Other provinces ended the use of the fixed quota system and purchased whatever goods they needed at market prices and allowed markets to supply inputs as well.

The result of these reforms was a rapid rise in grain and edible oil prices in late 1993 and early 1994, which caused alarm among a leadership already concerned about soaring inflation rates. In early 1994, Beijing reinstituted the fixed quota purchase system for specific grains and oilseeds, but raised the government purchase prices to improve peasant incomes and give farmers the means to purchase inputs, which were no longer being supplied at fixed government rates. A recent survey of six provinces, however, suggests that each locality retains considerable authority over quota purchases, with the result that quota prices vary from province to province.

Gross Value of China's Agricultural Output



SOURCE: US Department of Agriculture

Stabilizing grain prices

On June 28, the State Council issued a six-point circular directing provincial governments to improve management of wholesale grain markets to keep prices stable. Strict punishments were promised for "those engaging in grain business without licenses and those hoarding or speculating in grain." Transactions outside the wholesale markets were banned.

In early September, the CCP Central Committee and the State Council made inflation control the government's top priority, urging stabilization of grain and oil prices. Whereas in June the government acted to limit markets on the wholesale side, in September it acted to curb price movements on the retail end of the marketing chain. In mid-September, State-owned provincial grain bureaus fixed retail prices for polished rice, wheat flour, noodles, and edible oils. The grain coupon system will not be re-instated, but the government intends to guarantee military personnel and the urban poor 10 kg per capita per month of standard-grade rice, flour, and edible oil.

Farmers, in the meantime, face escalating energy, labor, and raw material costs which are eroding their profit margins, limiting their ability to purchase inputs, and leading to rural unrest (*see* box). Once again, farmers confront a now decade-old problem: the government fixes the prices of key commodities farmers sell to the cities, but allows prices for urban industrial goods to rise, resulting in the terms of trade going against farmers growing staple crops.

In large part, this cycle is the result of China's "grain mandate of heaven" mentality. The leadership's right to rule depends on its ability to feed the people. If the government cannot provide grain, then it has lost its mandate and political legitimacy. As long as the populace and leadership maintain this view, China's grain market will never be totally free from government control and foreign companies can expect many zigs and zags in PRC grain production and marketing policies.

Tallying the current harvest

Many farmers, viewing production of grain, oilseeds, and cotton as unprofitable because of low government purchase prices and fixed purchase quota policies, have turned their attention to more profitable cash crops such as fruits, vegetables, and special varieties of rice. Prices of these goods are not subject to State controls and fluctuate with supply and demand. Output of livestock and forestry and aquatic products is also on the rise. Nevertheless, production of many traditional staples is still strong. A brief look at China's basic crops follows.

■ **Grain** In 1993, grain crops, a classification which includes wheat, rice, corn, sorghum, millet, barley, oats, soybeans, potatoes, and pulses, accounted for 75 percent of China's total sown area. The 1993 grain harvest, a record 456 million tonnes, was up 3.1 percent from the 1992 crop. The 1994 crop, though high, is likely to be slightly lower than the 1993 harvest because of lower sown area and poorer weather conditions.

Wheat output in 1994 is forecast at 103 million tonnes, down from 1993's record 106 million tonnes. Demand for wheat remains strong, as population increases and rising incomes in rural and urban areas are leading consumers to eat more baked goods and noodles.

Rural Rumblings

Left out of many recent discussions of China's tremendous economic surge are about two-thirds of its population—the rural residents considered by Mao Zedong to represent the heart of the Communist Party. China's rural residents, however, are keenly aware that they are losing out relative to urban residents. Per capita rural income in 1993—¥921 or $159 at the 1993 ¥5.8/$1 exchange rate—was less than one-third the average urban income of ¥2,337 ($402). While urban residents generally have guaranteed jobs, pensions, cheap food and housing, subsidized education, and health benefits, farmers have to provide their own housing, have no social security system, and have to finance their own schools and health care.

Reforms and decentralization, in fact, have both helped and hurt rural residents. Peasant tax burdens have increased steadily in the past decade, in part to pay for the proliferation of new government units and services in rural townships. Local cadres have levied a vast and seemingly random assortment of fees on everything from the provision of water to the showing of movies. They have also instituted mandatory labor contributions on many public works projects (*see The CBR*, July-August 1990, p.12).

Farmers have also been growing upset about the increasing clout of local cadres, many of whom dole out farm inputs and loans based on *guanxi* rather than need. Farmers accuse grain station personnel of falsely downgrading the quality of commodities in order to buy more at lower prices. Villagers have little recourse against local leaders, who can use their government and party positions to revoke land contracts, deny approvals to build new houses, or grant favors, such as the right to have a second child.

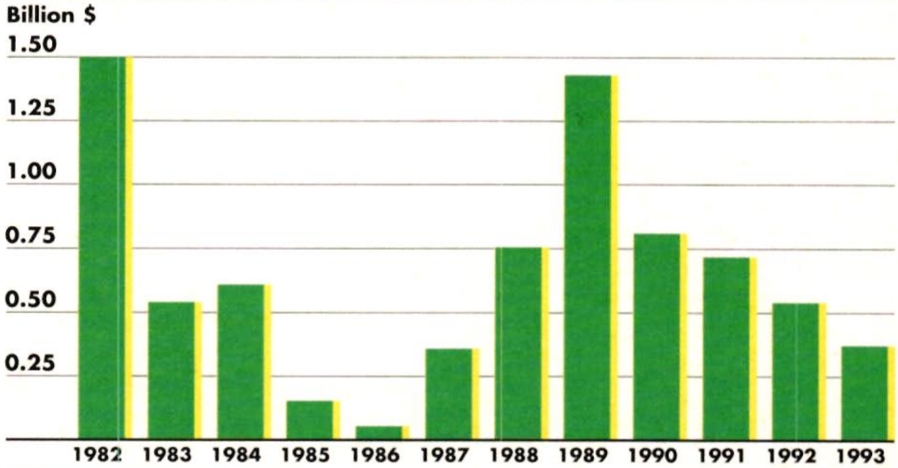
In some areas, rural tensions have exploded into violence. Press reports this August claimed some 830 incidents (each involving more than 500 rural residents) occurred in 1993. In 21 cases, crowds of more than 5,000 people were involved. In all, a total of 8,200 people were injured or killed, and armed police had to be called to quell 340 incidents. The reports also noted that county government and party offices were broken into in 560 counties.

Each year since 1990, the central government has instructed local cadres to reduce financial burdens on rural residents. At the same time, however, various ministries in Beijing have ordered their rural counterparts to expand personnel and services, which must be funded locally. While the individual services provided often have merit, the cumulative tax burden on the rural populace is far too great.

The rural economic management office (*nongjing guanzhan*) in the agricultural department of each township government is responsible for ensuring that the tax burden on any one peasant family does not exceed 5 percent of its net income from the previous year. But this office rarely has the political clout necessary to discipline other government departments for imposing unfair taxes or to declare certain fees, charges, and taxes null and void. The economic burden on peasants rarely falls.

The problems of China's 800 million rural inhabitants are getting some attention in Beijing, and central government and Party leaders have instituted some programs to solve problems in the countryside. But Party leaders are most concerned with urban unrest. Rural residents, in part because they are widely dispersed and less able to mobilize quickly, pose less of a threat to social order. Central leaders, for the moment, are content to hope that policies such as developing rural industry and promoting increased agricultural productivity will reduce tensions in rural areas. —*Frederick Crook*

US Agricultural Exports to China



SOURCE: US Department of Agriculture

Production of **rice** is likely to decline by a few million tonnes in 1994 and beyond as farmers shift available paddy land to production of more profitable crops, such as fruits and vegetables. Where conditions permit, farmers are raising high-quality and specialty rices, which can command good prices on the free market. For example, the fixed quota price for standard-grade rice is ¥1,000 per tonne, while *simiao* rice fetches ¥3,162/tonne and Liaoning Japonica rice commands ¥3,000/tonne on the open market. China will likely remain both an importer and exporter of rice for the rest of this decade, sending lower-quality rice to Cuba, Europe, and Africa; some high-quality Japonica rice to Asian countries; and importing high-quality rice from Thailand and Vietnam.

China's **corn** production has been greatly affected by changes in consumer tastes. Rising corn prices in late 1993 motivated farmers to grow more in 1994 and a record crop of 104 million tonnes is expected. An increasing portion of the harvest—an estimated 69 percent in 1993—is being used for livestock feed, in sharp contrast to 1979, when 70 percent of corn output was for human consumption. China is not expected to import corn this year, but is likely to export about 11 million tonnes, mainly to Japan, the Koreas, Russia, and other Asian destinations.

■ **Oilseeds** This year's production of these important crops—including soybeans, cottonseed, peanuts, and rapeseed—is likely to remain around the 38.3 million tonne level reached in 1993. Increases in soybean prices in 1992-93 encouraged farmers to increase soybean acreage, which helped curtail soybean oil imports. Likewise, a poor peanut harvest in 1992 led to higher prices which prompted more farmers to plant peanuts in 1993. Production of rapeseed and cottonseed, in contrast, declined in 1993 due to falling prices and bollworm outbreaks the year before, but both are likely to pick up somewhat in 1994.

Net exports of oilseeds in 1994 are expected to remain flat, mainly due to increasing domestic demand, particularly for soybeans. Over the next 10-15 years, however, China is likely to become a larger importer of edible oilseeds, as per capita consumption of edible oil generally grows with rising incomes and levels of industrialization. China's current per capita consumption of edible oil is quite low by international standards—5 kg per capita compared with 13 kg in South Korea and 17 kg in Japan.

■ **Cotton** China's cotton output has been hurt in recent years because of bollworm infestations, particularly in Shandong, Henan, Hubei, and Hebei provinces. But high stocks and reductions in the amounts of natural fibers used in yarn and textile manufacturing allowed China to reduce cotton imports from 355,000 tonnes in the August 1991-July 1992 period to just 53,000 tonnes in 1992-93. Cotton imports were up again in 1993-94, however, due to a shortage of cotton for textile use and the reported poor quality of China's remaining stocks.

To stimulate farmers to grow more cotton, the central government announced it would boost the official State procurement price for the 1994-95 crop by 21 percent and dispense additional cash subsidies for the purchase of cotton inputs. More resources at the national and provincial levels were allocated to cotton production this year, particularly for measures aimed at controlling bollworm infestations. Although farmers who suffered through poor cotton harvests in 1992-93 are likely to grow peanuts and soybeans instead of cotton, 1994 cotton production should increase somewhat. However, imports will probably also grow to meet the rising demand from China's textile sector.

Given the impact of the current cotton shortage on State textile industries, Beijing has been trying to tighten procurement and distribution systems and curb black market activities. No further liberalizations are likely in the production and marketing of cotton until domestic production recovers sufficiently. Cotton remains the most tightly controlled commodity in China; the government retains monopsony rights to purchase all lint cotton.

■ **Sugar**, another important crop, also continues to be in short supply. Marketing and price reforms introduced in the October 1992-September 1993 period resulted in a large crop that caused prices to fall and prompted farmers to plant alternative crops last year. Rising consumer incomes and rapid growth in the food processing and beverage industry should help boost demand in 1994 and future years.

A steep decline in shipments from Cuba, China's long-time barter partner, will likely encourage more sugar imports in 1994. While sugar production and prices are not determined by the government, Beijing has in the past maintained tight controls over sugar import quotas, based on its reluctance to spend foreign exchange on what it considers a non-essential item. Recent reports, however, suggest Beijing will cut the import duty on sugar by 50 percent sometime in the near future.

US-China Agricultural Trade, 1990-93

Major US Exports to China (Million $)

Type	1990	1991	1992	1993
Wheat	497.35	363.34	272.95	278.39
Soybeans	0	0	29.68	22.99
Cattle hides	1.25	7.19	6.24	10.37
Soybean oil	0	.85	7.88	.27
Cotton	272.21	318.79	185.94	.18
Corn	15.03	0	0	0
Tobacco	.94	0	0	0
Total US Agricultural Exports to China	814	722	545	376

Major US Imports from China (Million $)

Type	1990	1991	1992	1993
Vegetables (fresh and processed)	60.29	85.94	78.59	102.73
Feathers and down	37.46	43.39	43.87	32.20
Cocoa	11.57	13.55	20.69	30.55
Tea	23.39	25.84	29.04	29.96
Sugar and related products	10.58	19.01	26.87	29.61
Natural drugs	15.08	11.59	14.54	24.72
Nuts	7.72	7.18	12.73	21.72
Total US Agricultural Imports from China	271	328	379	451
US Agricultural Trade Balance	543	394	166	–75

SOURCE: US Department of Agriculture

Best US prospects

Last year, for the first time in seven years, US agricultural exports to China were lower than US agricultural imports from the PRC (*see* table). Between 1990-93, US wheat shipments, the largest US agricultural export to China, declined an average of 18 percent each year, while US agricultural imports from China increased an average of 19 percent annually.

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US agricultural exports to China are expected to increase in 1994 and reverse last year's agricultural trade deficit. Wheat exports, which accounted for 74 percent of total US agricultural export value to China last year, are expected to remain at 1993 levels. Cotton exports, on the other hand, are already back up to over 250,000 tonnes after a sharp drop last year.

China's demand for other US agricultural products is also likely to increase. US exports of soft drink preparations, essential oils, spices, seeds, chocolate, and liquor are expected to be strong in 1994 and beyond. US exports of chicken parts, which are in high demand in China, jumped from $6 million (9,000 tonnes) in 1992 to $17 million (27,000 tonnes) by US government calculations in 1993, though perhaps three times this amount entered China via Hong Kong. Similarly, US exports of beef offal and other meat products exported to China, officially tallied at $4.7 million in 1993 (up from $2.8 million the year before), are also likely to be undercounted by US statistics, due to re-exports through Hong Kong.

US sales to China of fruits, vegetables, and nuts reached a record $9.6 million in 1993, a 42 percent jump over 1992 export values. Growing Chinese demand for pistachios, vegetable juices, frozen french fries for fast-food outlets, and other goods should mean continued growth for these products. Sales should also be aided by the removal of phytosanitary and other barriers and lowered tariff rates on apples and grapefruits.

Over the long term, China will likely import more bulk commodities as well as higher-value products like fruits and nuts.

China is expected to increase significantly its consumption of many foodstuffs, including meats, by the end of the decade. The limited availability of arable land, the growing population, and the population's demand for higher quality and processed foods will curtail Beijing's efforts to make China agriculturally self-sufficient. Over the long term, China will likely import more bulk commodities as well as higher-value products like fruits and nuts. US companies dealing with agricultural science, including those involved in seed breeding and weed and pest management, should also have good prospects. Additional opportunities should arise for US companies specializing in packaging, distribution, and cold storage equipment.

New competition

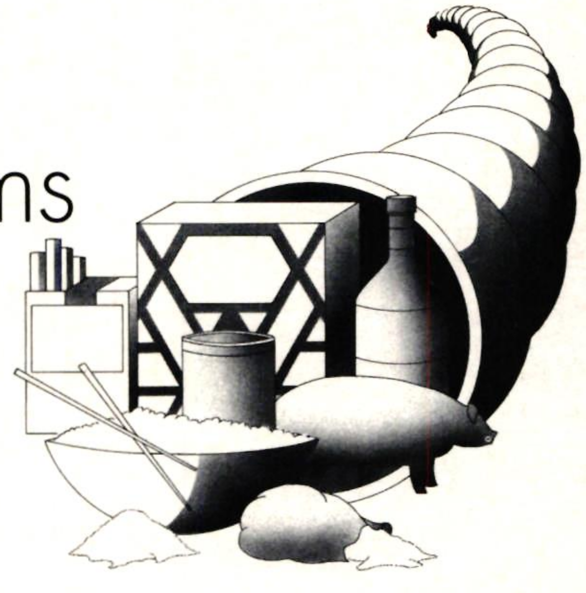
At the same time, certain Chinese agricultural products will become global contenders and, in some cases, compete head-to-head with US producers. Five years ago, for example, China was a net importer of corn. It now ranks as the world's second largest corn exporter, and has made strong inroads into traditional US corn markets such as Japan and South Korea. While insufficient processing, packaging, storing, and handling facilities have kept many Chinese agricultural goods from entering international markets, more Chinese goods will compete with US products as these bottlenecks are overcome.

US mushroom and garlic growers have already had a taste of China's capacity to compete in vegetable markets. In the past three years, the United States has imported over $65 million worth of canned mushrooms from China. A 647 percent leap in garlic imports from China in 1993 prompted US garlic growers to push for an anti-dumping investigation, which is currently underway.

China's anticipated entry into the GATT and its successor organization, the World Trade Organization (WTO), will also induce changes in trade patterns between China and other countries. For China, GATT/WTO membership is likely to lower trade barriers and expand both agricultural imports and exports. Production patterns would change as the State-administered system gives way to production based on comparative advantage. Consumption patterns, meanwhile, will change as incomes grow.

The next 10 years likely will be a period of adjustment for both the United States and China. Food producers, processors, importers/exporters, and consumers will adjust to new economic circumstances. These changes will provide new openings for some US companies, but stiff competition to others. Alert companies in all areas, however, should continue to find business opportunities in Chinese markets. 完

China's State Farms Go Corporate



■ Kay Hill

From supermarkets to stock markets, China's agribusiness is becoming big business

The rapidly changing face of State farms in China reflects the broader changes taking place in the economy and society. As China evolves, State farms have had no choice but to change along with it.

In fact, the original rationale for establishing the State farm system no longer exists. State farms were set up in the 1940s and 1950s with two main goals. First, they enabled the new Communist government to resettle veterans of China's civil war and later the Korean War, helping populate remote border regions for security purposes at the same time. Second, they ensured the Chinese government a steady supply of key agricultural goods such as rubber, grain, sugar, and wool, and provided staple foodstuffs to major urban areas.

China no longer needs to secure its border areas or resettle veterans, however. And government procurement is declining as more of the country's primary agricultural production enters the market system and urban areas develop non-State sources for food products. At the same time, rising incomes throughout China have sparked consumer demand for diversified food products and convenient packaging. In the cities, Chinese professionals with their one-child families want the most nutritious foods available for themselves and their children.

Thus far, State farms have been able to meet these changes head on, using their 40-odd years of experience in agricultural production and their substantial land, labor, and capital resources to identify and fill market niches. Take the case of organically grown fruits and vegetables, which are becoming popular in China. China now has a line of "Green Food" products that meets new Ministry of Agriculture standards for organically grown produce. To capitalize on the "green" trend, a subsidiary of the Shanghai Agriculture, Industry, and Commercial Corp. recently launched a chain of small supermarkets that feature Green Food products as well as high-quality local and imported food products, such as Remy Martin cognac, Budweiser beer, Snickers candy bars, and Jif peanut butter, to name a few.

New challenges

The Chinese State farm system is composed of some 2,200 farms occupying 39 million ha (about 4 percent of China's total land area), spread out over 30 provinces. In contrast to the former Soviet Union, where the government nationalized private, family-owned farms, China established its State farms on unsettled land in the country's most remote and inhospitable regions. However, this description no longer fits many State farms—after all, Guangdong was a "border province" in the 1940s, while now-bustling Pudong was a barren and relatively inaccessible outpost of Shanghai.

■ **Kay Hill has been a task manager for World Bank agriculture projects in China since 1985. Her portfolio includes projects involving fisheries, rubber, rural credit, and provincial agricultural development.**

Today, State farms are home to some 12 million people, or about 1 percent of China's population, and account for 3.4 percent of the total value of the nation's rural output. While State farms remain the backbone of production for several key agricultural commodities—such as rubber, soybeans, grains, meat, milk, and eggs—they are branching into new areas as well. State farms in Yunnan and Hainan still account for 90 percent of the nation's natural rubber production, for example, but they are also experimenting with other tropical crops, such as pineapple, mango, kiwi, and coconut. Not content simply to expand production, the farms are setting up factories to process the fruits into juices and other products. Some State farms are beginning to recognize that they can utilize their scenic locales to cultivate another source of income—tourism. As a result, a host of river boat tours, hot spring spas, and beach resorts are planned or under development at State farms throughout South China.

Looking north, Heilongjiang State farms still produce most of China's corn and soybeans, but their surplus grain production and vast grassland expanses also allow for large-scale dairy development. These farms now provide China's northeastern industrial cities with milk powders, yogurt, and new dairy products. And State farms in Xinjiang, long-renowned for cotton and high-quality wool production, have set up textile mills to keep value-added production in their own work units.

Management in transition

These diversification efforts in part grew out of rural reform policies that officially encouraged State farms to branch out from agricultural production into industry and trade. Since 1978, small agro-processing enterprises have been established on the farms to take advantage of local production; transportation and construction companies have been set up to compete with township and village entities; and in some cases, provincial or municipal State farm bureaus have invested in large factories. While some of these ventures have been outright failures, quite a few have achieved respectable growth. Many State farm bureaus are now forming new Agriculture, Industry, and Commerce Corporations (AICCs) to oversee their commercial activities. In some cases the entire State farm bureau has been renamed an AICC, even though it may handle both government and commercial functions.

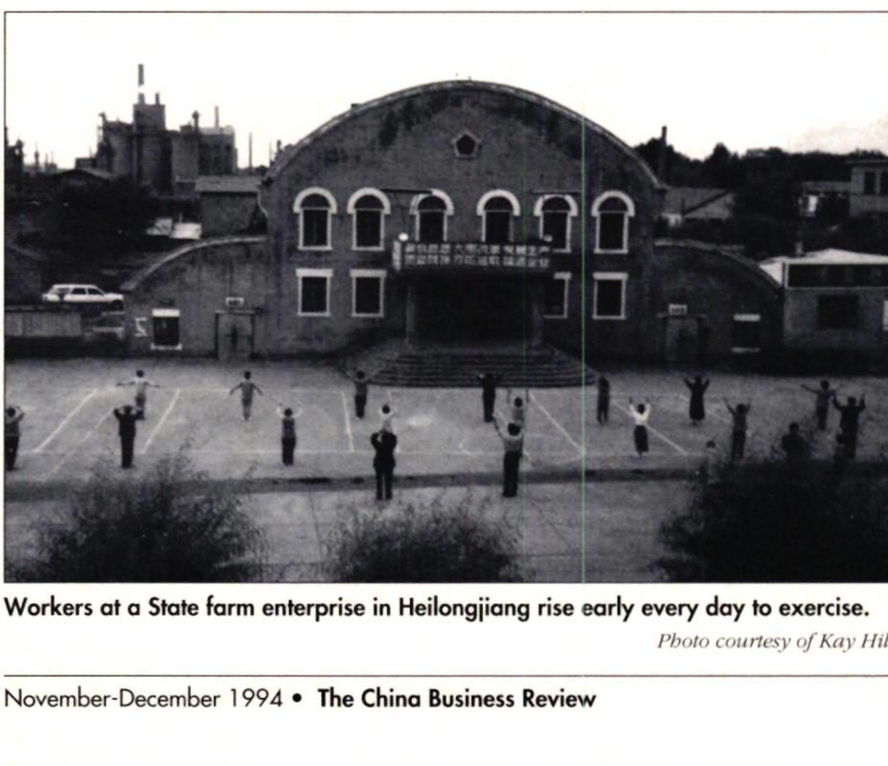
Two entrepreneurial State farm bureaus have listed subsidiaries on China's recently opened stock markets.

The most recent round of reforms to State farms, introduced in November 1993, focuses on establishing a fundamental market mentality in these enterprises. As the farms and their enterprises become more competitive, government subsidies are gradually being withdrawn and the farms are being weaned off centrally provided inputs and released from State production plans. A few crops, such as cotton and soybeans, remain under State production quotas and State farms in Xinjiang still receive all their supplies from the central government, but these are exceptions rather than the rule. While State farm departments in five border provinces/autonomous regions (Heilongjiang, Xinjiang, Yunnan, Guangdong, and Hainan) remain under Beijing's control, the rest of China's State farm departments report directly to the relevant provincial or municipal government.

In terms of government supervision, the State Farms Department of the Ministry of Agriculture has shifted from direct involvement in enterprise operations to overall planning and policy guidance. The role of the provincial and municipal State farm bureaus, in contrast, is changing from one of government guidance to operational oversight of enterprises. Often the bureau becomes an equity holding company for local State farm operations, with a say in enterprise operations in proportion to its direct investment. Or, if the bureau has been appointed as the government's representative for management of State-owned assets, it will have a say in proportion to the government's stake.

Enterprise management in State farms is also taking on a more corporate look. Boards of directors are being appointed to set broad enterprise goals and policy, appoint senior managers, and assign financial and managerial autonomy within certain policy limits. Enterprise ownership is being diversified through joint ventures, collectives, and enterprise groups.

In fact, two entrepreneurial State farm bureaus have even listed subsidiaries on China's recently opened stock markets. The Shanghai AIC Multiple Trading Co. is



Workers at a State farm enterprise in Heilongjiang rise early every day to exercise.

Photo courtesy of Kay Hill

listed on the Shanghai Securities Exchange, while the Guangzhou Baiyunshan Pharmaceutical Stock Co. Ltd., under the Guangzhou State Farm bureau, is traded on the Shenzhen exchange.

The Shanghai State Farms Bureau, the system's star performer, owns 500 factories, 100 restaurants, a 2,400-vehicle taxi fleet, and the JJ Disco.

The Guangzhou pharmaceutical factory stands out as a successful example of State farm enterprise diversification. Founded by Baiyunshan Farm with a ¥300,000 loan 20 years ago, the small medicine workshop has since grown into a corporate giant, recording profits of ¥170 million in 1993 ($29.3 million at the 1993 official exchange rate of ¥5.8/$1). Employing 5,000 people, the Baiyunshan Pharmaceutical Factory generated industrial output valued at ¥1.2 billion ($210 million) last year. Bei Zhao Han, the original workshop manager, now holds the title of chairman and general manager of a conglomerate that includes, besides the pharmaceutical company, real estate holdings, other manufacturing enterprises, and a pharmaceutical joint venture in Mauritius.

Dismantling the enterprise welfare system

In the past, State farms were responsible for all aspects of their employees' lives, providing housing, education, medical care, and other basic services. To reduce the crippling cost of providing these benefits, alternatives to enterprise responsibility are being introduced. Contributions to provincial pension plans and medical funds are now deducted from the paychecks of State farm employees. Housing reforms have also been carried out. Because they are located in rural areas where land prices are relatively inexpensive, most State farms have already sold houses, including existing or newly built units, to many of their employees.

As a result of these reforms, the State farm system boasted 1993 after-tax profits of more than ¥1.4 billion ($240 million), about 25 percent of which was contributed by its star performer—the Shanghai State Farms Bureau. The Shanghai bureau encouraged its farms to diversify their activities in the 1970s, and the farms now have more than 500 factories producing food, textiles, electronics, chemicals, plastics, stainless steel cookware, and toys. In the 1990s, the Bureau has promoted development of the service and trade sectors with great success; it owns Shanghai's second-largest taxi company, nearly 100 restaurants, and the JJ Disco—a hot night spot. Relatively insignificant just a few years before, tertiary industry accounted for 33 percent of the Shanghai bureau's income in 1993. The success of the bureau's operations can be attributed to its open-minded administration, access to credit, and ideal location.

State farms and foreign business

Pension, housing, and other reform measures are making State farm enterprises more financially stable and attractive to domestic and foreign investors. By 1993, more than 500 Sino-foreign joint ventures had been set up with companies in the State farm system. State farm bureaus, which give ready access to raw material supplies from the farms under their jurisdiction, have proven to be ideal partners for several foreign fast-food corporations. The Shanghai and Beijing bureaues, for example, have formed joint ventures with McDonalds. Many investors from Taiwan, Hong Kong, and Southeast Asia are involved on a smaller scale with State farm manufacturing projects in such sectors as textiles, pharmaceuticals, wood processing, and canning.

State farms offer several attractive features for foreign firms. In some respects they remain State-owned enterprises, with the advantages that government backing entails in terms of overcoming bureaucratic hurdles and obtaining access to credit. At the same time, however, State farms are less constrained by bureaucracy than most of China's large State-owned firms, thanks to the smaller size of their individual enterprises and their relatively flexible labor forces. Because most State farms consist of numerous enterprises engaged in activities ranging from farming to tourism, they can transfer workers in and out of activities as needed and therefore face less of an overstaffing problem than do many of China's large State-owned enterprises.

Like other Chinese enterprises, State farms are also becoming more adept at foreign trade. In 1992, the total value of exports from State farms reached ¥4.61 billion ($850 million at the 1992 exchange rate of ¥5.45/$1). For example, Gongqing Farm in Jiangxi Province, which, with its 50,000 residents resembles an entire community more than a farm, earned over $26 million in export sales last year. The farm's trademark "YaYa" down jackets and quilts are now sold in 13 countries.

State farm enterprises receive the right to export directly after their exports through the foreign trade corporations earn $4 million in foreign exchange annually for three consecutive years. Export earnings are spent in part on imports of equipment, including threshing machines, harvesters, earth-moving equipment, textile machinery, and, in some cases, even basic materials such as fertilizer.

China's State farms are now busily responding to the call of a new commercial mandate. The flexibility and staying power they have already shown makes it likely that foreign companies will hear more about them as China continues to develop. 完

Growing Agribusiness

State farms are striving to promote foreign participation, particularly in agro-industry, and introduce new technology into their manufacturing processes. To support these efforts, the Chinese government has requested World Bank assistance for a project to help commercialize State farms. The final appraisal for the project will be completed in March 1995, and the World Bank's executive board is expected to approve the loan in December 1995. Preliminary project documents suggest the Bank's loan could be in the neighborhood of $200 million, about half the project's estimated cost. PRC units—provincial, prefectural, county bureaus, and participating enterprises—will finance the remainder.

The funds will help State farms and bureaus at the provincial and municipal levels establish, expand, or renovate primary, secondary, and tertiary industries. Component projects under consideration include the manufacture of textiles, rubber tires, medium-density fiberboard and wood products, herbal and other pharmaceutical preparations, and granite products. Food-related investment proposals call for production of fruit juices, dried and canned fruits and vegetables, meat, poultry and dairy products, food additives, edible oils, frozen french fries, potato chips, beer, and coffee.

The distribution system will also be addressed, with possible projects to include the establishment of wholesale markets in Hubei and Hainan, and a supermarket chain in Shanghai. Potential investments have been identified in Hainan, Jiangsu, Yunnan, Shanghai, Hubei, Zhejiang, Jiangxi, Heilongjiang, Xinjiang, Shandong, and Guangzhou.

Recognizing that foreign participation in the various projects will facilitate technology transfer and enhance the State farms' marketing and sales capabilities, foreign participation—including investment—in the enterprises will be encouraged. In these cases, World Bank financing would be used to assist the Chinese partner to the joint venture.

CONTACTS

For information on the State Farms Commercialization Project, contact the Ministry of Agriculture or the World Bank officer involved in these projects.

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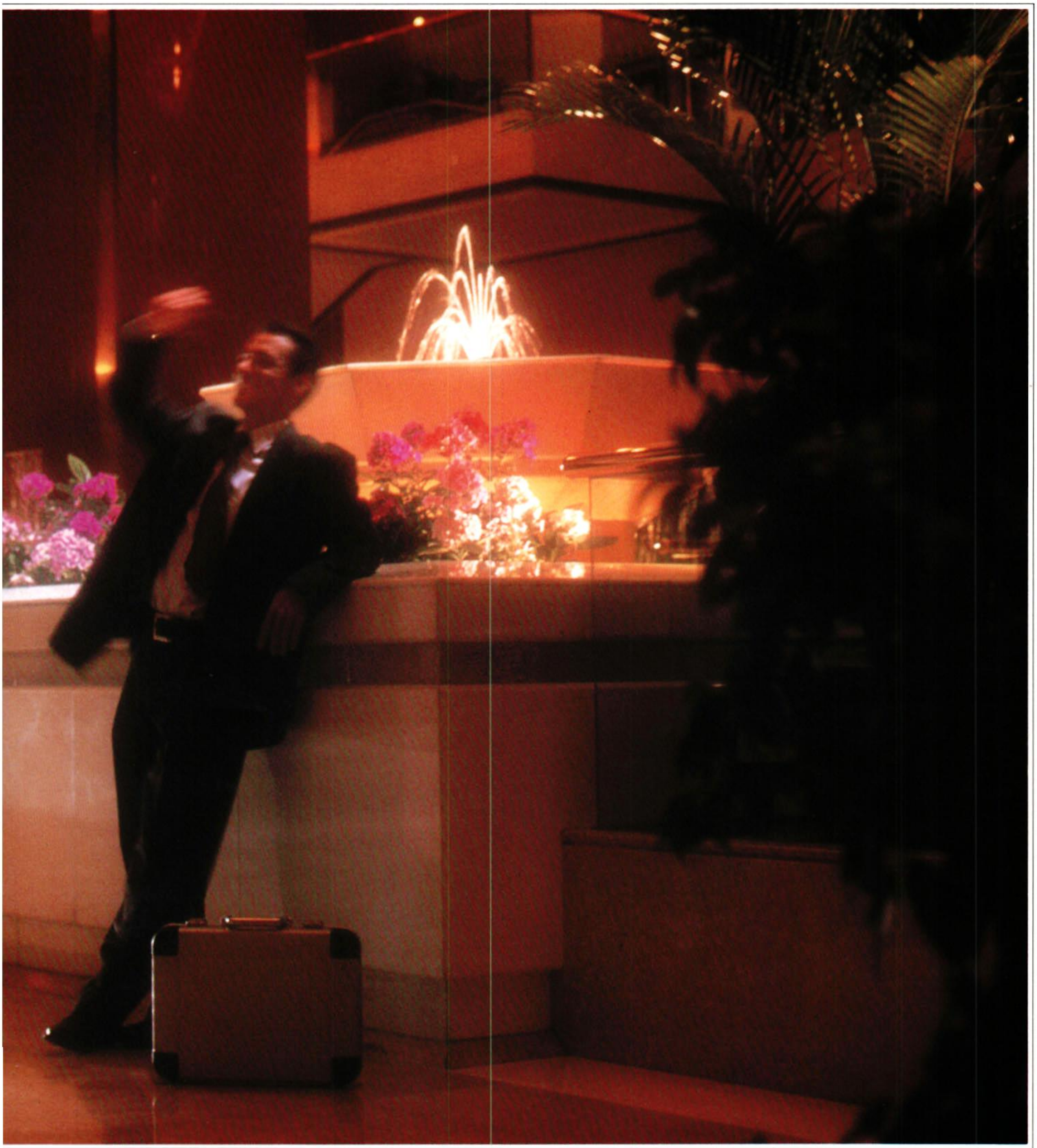
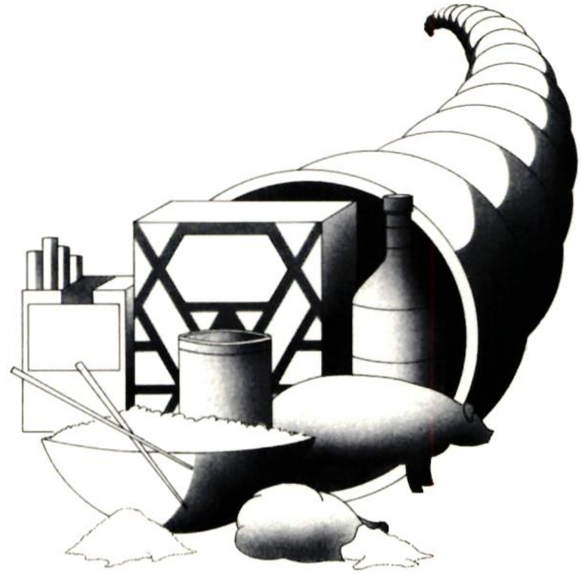


The Food Chain



■ Theresa McNiel and Kerstin Nilsson

For distribution purposes, China is one country with many, many markets

■ Theresa McNiel is a senior associate and Kerstin Nilsson an associate in the Hong Kong office of Technomic Consultants International, a consulting firm specializing in strategic market planning. Both are food industry specialists for Technomic Consultants China, a wholly owned subsidiary.

Packaged cookies lining the shelves of retail outlets in cities all over China tempted snackers to consume over 1.2 million tonnes of these products in 1993. But, as almost every food manufacturer or importer in China will tell you, getting the cookies to market wasn't easy.

Food distribution in China has undergone revolutionary changes since economic reforms were launched 15 years ago. The old centrally controlled system, which was inefficient, costly, and inflexible, is still in place, but now operates side by side with the independent importers, wholesalers, and retailers who are providing an increasing share of food distribution services. The result is a confusing, constantly changing distribution environment that presents a major challenge to foreign food suppliers trying to capitalize on increased consumer demand for their products. While this challenge can seem overwhelming at first, foreign suppliers who carefully select their partners and understand the abilities and limitations of these partners can realize strong sales.

Looking back

Until the late 1980s, all distribution of food products in China was funneled through State-run food distribution groups set up under different ministries. Each distribution group was responsible for a certain category of foodstuffs. Wholesalers under the Ministry of Commerce's Non-Staple Food Co., for example, carried meats and processed foods, while those under the Ministry of Light Industry's Sugar, Cigarette, and Wine Corp. handled sweets, tobacco, and alcoholic beverages. The Grain Bureau was in charge of essentials like rice. There was little or no competition between distribution groups, as each wholesale "station" sold products at set prices to the specified group of wholesalers or retailers that made up the next level in the chain. Foreign participation in distribution was not allowed.

At the end of the distribution chain were three basic types of retail outlets: large, numbered food stores; medium-sized outlets; and small neighborhood kiosks. Each city typically had one large store, approximately 30-50 medium-sized stores, and hundreds of tiny kiosks. The large stores carried a variety of foodstuffs purchased from several major supplier groups, while the medium-sized stores generally carried only one group's products. Most shoppers thus had to go to one store for goods under the Grain Bureau's control, to another for products distributed by the Non-Staple Food Co., and so on. Supermarkets and self-service convenience stores did not exist at all until the early 1990s.

Public demand for all types of goods was strong even before recent reforms, though most consumers had to be content with whatever was available from

Food Wholesalers in China

Type	Characteristics	3-5 year outlook
Private	Often consists of a single individual with a motorcycle or van who picks up goods from the factory and delivers to wholesalers/ retailers Common in Guangdong	Will take an increasing share of food distribution in Guangdong Will grow at slower rate in Shanghai and Beijing
New State-owned groups	Established by one or more cadres formerly with a local branch of a ministry or State-run wholesale company Usually affiliated with municipal government Operate independently, with profit sharing among top managers Usually have subsidiaries in property development, trading, restaurants, or other businesses Already among the most powerful wholesalers in Guangdong and Shanghai	Growing in Beijing Will increasingly restrict their food distribution to foreign-brand, higher-margin products
Branches of State-owned ex-monopolies contracted to individuals	Individual manager signs contract with State to achieve a certain profit. Manager retains a percentage of profits achieved in excess of this amount	Already common in Guangdong. Other regions will follow suit in an attempt to increase profitability and competitiveness of State enterprises Contracted individuals who are talented will retain and build upon their group's original business
Large Western trading groups	Strong in Hong Kong market Have designated wholesalers in select China markets used strictly for logistical support Handle all merchandising for their principals Require the highest margins of any wholesaler in China from their principals	China will allow them to set up wholly owned distribution operations Will quickly spread to most major municipal markets thereafter Will remain important for principals who to do not have the resources or commitment to actively develop the China market for their food products
Small Hong Kong-based trade and distribution groups	Typically started by young, entrepreneurial Hong Kong natives who worked for large Western trading groups Owner often has relatives over the border who cooperate to set up local operations Handle most of the same services, including merchandising, as the Western trading houses	Will spread operations to important markets outside Guangdong
State-run ex-monopolies	Operate in much the same manner as prior to economic reforms Passive managers and sales teams Carry mostly low-end, local-brand products	Will continue to lose market share fairly rapidly in important coastal municipal areas Will gradually lose market share across the rest of the country as economic reforms spread

SOURCE: Technomic Consultants

the nearest stores. Prices were set by the State and ration coupons were required for staple products like meat and rice.

There were no real salespeople at either the wholesale or retail level; sales were entirely passive, as neither wholesalers nor retailers had any competition. Consumers had to jostle each other to get the attention of one of the often-surly clerks behind the counters, and goods in demand—both staples and the few luxury items supposedly available—were often out of stock. Even though China's shops were not as badly off as those in the waning days of the former Soviet Union, shopping was no fun.

The economic reforms of the 1980s substantially altered this system. Distributors at every level of the system were given the freedom to buy from any supplier and sell to any customer they could find. The national distribution system devolved into a local one, with wholesalers previously belonging to the same group, but at different points along the chain, competing with one another. Moreover, prices of many products were gradually freed, with prices of virtually all products except certain staples de-controlled by 1993 (*see* p.20).

A new breed

As a result of these changes, a new generation of Chinese wholesalers has emerged. These new players include local private- and quasi-State run companies that agree to generate a specified profit for the State and keep any additional revenue for themselves, as well as Hong Kong and Western distribution companies. Though foreign firms are legally prohibited from forming distribution joint ventures or acting as wholesalers in China, many have formed cooperative relationships with Chinese companies. While the Chinese wholesaler issues all the paperwork and sometimes helps with warehousing, the foreign company in reality handles almost all of the work.

The impact of these various types of profit-oriented companies varies greatly by region and industrial sector (*see* chart). Packaged foods such as snacks, cookies, and peanut butter, for instance, tend to be distributed by all types of wholesalers. Beer and other alcoholic beverages, which have high unit costs, tend to be distributed by private wholesalers, exmonopolies with contracted managers, or new State-owned groups. Foreign food producers prefer to use non-State managed distributors whenever possible because State-run companies, which are not yet profit-oriented, have little or no motivation to cooperate with suppliers to boost sales.

State entities continue to dominate the distribution network in the inland provinces, but the number of individuals contracting with State wholesalers to distribute food products in the interior is on the rise. In the most lucrative markets of Guangdong, Shanghai, and Beijing, non-State owned firms collectively account for an ever-increasing share of food distribution service. In Guangdong, we estimate that these new wholesalers now account for as much as 80 percent of the value of all food distributed. In Shanghai, the percentage is probably lower, between 50-70 percent, while for Beijing it is closer to 20-30 percent. If one looks at these cities as distinct markets, the following trends emerge:

China's national distribution system has devolved into a local one.

■ **Guangdong** Guangdong's food distribution system has rapidly become the most market-sensitive and competitive in the country. Growing demand for foreign goods from Guangdong consumers eager to buy goods advertised on Hong Kong television enabled nimble Hong Kong traders to make inroads into the PRC market and provide the initial catalyst for change in China's food distribution network. These Hong Kong traders often had friends or relatives in Guangdong who recognized that a good profit could be made selling foreign-brand products in China. The mainlanders set up their own wholesale businesses, importing foreign goods from their Hong Kong cousins.

The growing number of foreign retailers operating in the province, along with the many multinational corporations now manufacturing food products in Guangdong, have further driven reforms in distribution in Guangdong. One joint-venture ice cream operation, for example, was the first in the region to establish frozen food distribution depots, from which their freezer trucks deliver ice cream to stations where retailers and smaller wholesalers come to pick up the products. By setting up this system, the joint venture itself is not responsible for delivering its product to every small retail outlet. The venture plans to expand this system throughout greater Guangzhou and perhaps the Pearl River Delta within the near future.

■ **Shanghai** Along with nearby cities in Zhejiang and Jiangsu provinces, Shanghai represents the second-most sophisticated area in terms of food distribution in China. There is less private activity in this region compared with Guangdong, however, due to later implementation of economic reforms and difficulties in obtaining warehouse space.

Food distribution in Shanghai is largely controlled by powerful quasi-State groups usually formed by influential individuals who left State organizations to start their own companies. These firms have wholesale businesses as well as food stores in prime locations throughout the city. The Changchun Group under the Luwan district government, for example, reportedly controls 1,000 stores, 200 wholesale units, and numerous other enterprises in Shanghai. Two other local quasi-State groups have started supermarket chains.

Large Shanghai department stores with food sections now have active wholesale/distribution branches as well, as do stores like the Shanghai Children's Food Store, which is owned by the Jing An District Sugar, Cigarette, and Wine Co. The Shanghai No.1 Food Store distributes up to 50 percent of incoming products to stores in the city and neighboring provinces.

One of Shanghai's more powerful food distributors is the Shanghai Food and Grocery Co., a quasi-State owned conglomerate of manufacturing and distribution firms with 20 distribution companies under its umbrella. Three large international food manufacturers—US-owned McCormick & Co., Ltd., Li Way Way of the Philippines, and a Hong Kong company—have formed joint ventures with the company in order to market snacks and other foodstuffs in Shanghai.

INTERVIEW

Sweet Success

Switzerland's Nestle SA, the world's largest food conglomerate, already has a strong foothold in the China market. CBR Associate Editor Vanessa Lide Whitcomb recently discussed the company's future plans with Cassian Cheung, chief operating officer of Nestle China.

CBR: *When—and how—did Nestle first venture into the China market?*

Cheung: Back in 1982, shortly after China started its economic reforms, Nestle began studying the feasibility of establishing joint ventures in China. Today, Nestle—together with its affiliates Nestle Dairy Farm Holding SA and Nestle Sources International SA—has four joint ventures in operation, several more under construction, and seven representative offices in China.

Our first joint venture, with Shuangcheng City Dairy Industry Corp. Ltd. of Heilongjiang Province, became operational in 1990. The venture produces high-quality nutritional products for infants and children, including Lactogen infant formula, Cerelac and Ceresoy infant cereals, and Nespray full-cream milk powder. We plan to triple the venture's milk-production capacity by 1995.

Our second joint venture, Nestle Dongguan Ltd., has produced Nescafe instant coffee and Coffeemate coffee creamer since November 1991. It also makes *dim sum* for export. A third venture, Maggi Dongguan Ltd., started producing instant noodles, chicken bouillon, Maggi seasoning, and other culinary products in September. A fourth venture produces ice cream in Guangzhou.

CBR: *What will the new Nestle ventures produce?*

Cheung: A diverse range of products. In Shanghai, for example, our joint venture with the Shanghai Sugar, Cigarette, and Wine Corp. will produce nutritional drinks such as Milo. In Qingdao, our joint venture with the Qingdao Milk Course Co. will produce milk powder and sweetened condensed milk. A separate joint venture between the same Chinese partner and Nestle affiliate Nestle Dairy Farm Holding SA (NDFH) will produce ice cream and yogurt.

These joint ventures will eventually need 500,000 liters of fresh milk each day. To help the Qingdao dairy industry meet this demand, we are helping the city develop a special milk district that will have 35,000 cows.

In Tianjin, we are setting up a wholly owned packaging enterprise. This June, NDFH and the Tianjin Economic and Technological Development Area Industrial Investment Co. received approval to set up a joint venture to produce ice cream and yogurt. Future plans in Tianjin include a chocolate factory.

CBR: *How do you distribute all of these products in China?*

Cheung: We have set up our own distribution network through local wholesalers who are supported by Nestle sales personnel all over the country. Nestle provides training and guidance to the wholesalers to make sure their operations meet our service standards. All Nestle SA ventures in China use this common network for marketing and distributing their products.

CBR: *What, in your view, are the most significant barriers to foreign companies operating in the food processing industry in China?*

Cheung: Currently, the biggest bottlenecks for the food industry in China are the lack of infrastructure and an undeveloped banking/finance sector. The quality of local raw materials has already improved dramatically, though demand still tends to outstrip supply for reliable products. At start-up, almost all of our packaging materials had to be imported. Today, we import only a fraction of our materials, such as Central American coffee beans used in processing Nescafe.

Thanks to advanced technology, strict quality control, and strong marketing and sales support, products manufactured by our first two joint ventures have reached worldwide Nestle standards and are distributed all over China. Some products, like Nescafe instant coffee, have also been exported to Hong Kong on a regular basis to generate foreign exchange. We expect exports of Nestle joint-venture products to Hong Kong and other countries to reach $50 million per year in three years' time.

CBR: *Are you pleased with the sales volume of Nestle products in China?*

Cheung: Nestle's China sales have more than tripled over the last five years. Our goal is to reach an annual turnover of 1 billion Swiss francs ($780 million) by the year 2000. Nestle sees China as an important area for expansion and growth and is committed to serving Chinese consumers with more and better products. Our existing ventures are all looking to expand output, as well as types of goods they produce. Some new products are being developed just for China.

■ **Beijing** In the capital, the third most important market for suppliers of foreign-branded foodstuffs, change has been much slower to occur than in Guangdong or Shanghai. Most food distribution is handled by 10 or so large district-level non-staple food companies, which are State-owned and -managed. The most important are the Chaoyang, Xicheng, Chongwenmen, and Xuanwumen district non-staple food wholesalers. These entities have yet to see much competition from private or other types of wholesalers, and generally sell to the same customers they sold to in the past.

Finding a partner

Despite the fast-growing options for foreign companies looking to boost distribution of their food products in China, a number of distribution problems continue to plague foreign and Chinese retailers and wholesalers. Some of the barriers, like freight congestion and high shipping costs, are becoming more difficult to deal with while others, like the extent to which a foreign company can influence local wholesalers, are becoming more manageable as competition among wholesalers increases.

One of the first chores a foreign firm wishing to sell food products in China encounters is choosing the right local partners. In some cases, a private wholesaler will be preferable, but in other cases, some other type of wholesale/distribution entity will do a better job. The lack of a unified, national market in China also means that a supplier must select a different partner in each municipal market it wishes to target. A wholesaler in Guangzhou, for example, is unlikely to be able to service the nearby Dongguan market. While a particular Western or Hong Kong-based trading company may be strong in more than one municipal market, to date none have proven strong in all of China's regional markets.

The manufacturer or agent selecting distribution partners should choose the local wholesalers with the best facilities and delivery vehicles. The management of the local firm should also have experience handling foreign brands, be motivated, and maintain a professional attitude. Local wholesale managers should be fairly aggressive and have the ability to envision future developments in their business. Though all of these qualities tend to be intangible, the foreign party

A Retail Explosion

Like wholesale distribution services, the Chinese retail sector is also in the midst of dramatic changes (*see The CBR*, January-February 1994, p.22). Supermarkets have been multiplying in Shanghai and in the Pearl River Delta since 1992, forcing traditional food stores like those previously run by the Sugar, Cigarette, and Wine Corp. to upgrade their facilities in order to compete. Technomic Consultants estimates that by the end of 1993, approximately 450 supermarkets had been established in Shanghai. Large department stores are also renovating their food sections, in some cases adding new self-service supermarkets into their ground floors. These changes have largely been driven by local retailers' fears of increased foreign competition in the retail food industry.

Chinese government authorities opened the retail sector—including supermarkets—to a limited number of foreign investors in 1993. Many such investors have already received permission to go ahead with their joint ventures, while others await approval. Hong-Kong based Wellcome supermarkets, whose trial stores in Beijing and Shanghai have been very successful, has plans to open 60 more outlets in Shanghai in the next five years. Convenience store chain 7-Eleven (owned by Hong Kong's Dairy Farm Co.) and Hong Kong's DCH Foodmart (owned by Dah Chong Hong) have opened stores in Shenzhen. Hong Kong-based supermarket chain Park'N Shop also has stores in Guangzhou, Zhuhai, Shanghai, Shenzhen, and Shekou, and plans to open four-five more by the end of the year.

Perhaps the most aggressive foreign retailer is Japan's Yaohan, which currently has department stores with supermarkets in Shanghai, Beijing, and Shenzhen. Yaohan plans to open 1,000 supermarkets in China over the next 15 years.

All of these outlets, as well as renovated, locally owned stores, require higher-margin food products to stock their shelves. The image of these stores is largely based on their ability to provide foreign products, which are in high demand among their customers. Competition for shelf space in many strategically located stores is, however, intensifying. The flood of foreign-branded foods in recent years has given retailers the luxury of being choosy, and as a result, foreign companies may find that their products are not always displayed as they'd like. Many outlets now recognize the value of their shelf space and will only accept products that are supported with heavy television advertising to move goods faster. Lesser-known products may not get onto shelves if the supplier does not offer the merchant incentives, such as paying a shelf-space charge or giving the store a free box of goods for every five it buys.

Kraft-General Foods is an example of a foreign company that has sought firm control over the merchandising of its products. The firm, the leading supplier in China of jams, mustard, mayonnaise, and other spreads, supplies stand-alone glass display cases for its products to medium- and large-sized traditional food stores in Shanghai and other cities. Careful attention to the display of its products has helped Kraft build and maintain a quality brand image in China.

Chinese retailers typically insist on credit terms of up to 90 days—far longer than the average in Western countries. At best, Chinese retailers will offer terms of one month for delivered goods. If a product continually sells well, the manufacturer or supplier may be in a position to bargain for better placement, better terms, and swifter payment. Though Chinese retailers admit to average profit margins of 30 percent on food products, they typically make 30-50 percent and, in some cases, as much as 100 percent on these goods.

—*Kerstin Nilsson* and *Theresa McNiel*

can also conduct checks with suppliers of other products handled by the wholesaler to see how reliable the wholesaler is and what payment terms he has agreed to. In addition, foreign companies should contact major retail accounts of the wholesaler to learn how strong the wholesaler's customer base is.

On average, wholesalers in China add a mark-up of up to 15 percent on goods they purchase before selling them to retailers. Mark-ups on foodstuffs average 2-7 percent. Suppliers sometimes pay a bonus to a wholesaler who reaches a pre-set sales target. Companies selling to a traditional, State-run wholesaler are likely to have to sell on a consignment basis.

As a general rule, local wholesalers have little or no merchandising or selling capability, as their primary responsibility is simply to get goods onto store shelves. The foreign supplier itself generally needs to be on the ground to handle marketing and promotion efforts. And, while local wholesalers may claim to enjoy an established customer base, in practice the foreign company or its agent generally has to build the customer base almost from scratch. Many foreign firms set up their own sales or representative offices to handle merchandising and promotion, take inventory in local stores, make sure consumption dates are still valid, set prices, sell and take orders on behalf of wholesalers, and conduct market intelligence. In the future, local wholesalers may take on more of these tasks.

Coping with bottlenecks

All food suppliers in China face problems with distribution bottlenecks, particularly firms that handle products with short shelf lives. Basic infrastructure like roads and port-side container facilities is being developed, but not fast enough to keep up with demand. Goods often sit in railyards for weeks before they are shipped on over-crowded trains. Since Chinese trains generally cannot handle the 40-foot containers carried by foreign ships, goods shipped in such crates must be transferred to 10-foot containers for inland transport, causing further delays. The service that is provided, moreover, is not cheap. China's lack of a national distribution network makes it difficult to ship and sell products in bulk, thereby pushing up costs.

As there is obviously significant demand for improved transportation services, a number of foreign shipping companies and freight forwarders are reportedly negotiating with the central government to set up integrated freight-handling businesses in China. Some desperate foreign joint-venture manufacturers are even considering setting up their own freight-forwarding businesses, which would also handle third-party shipments within China.

Not to be outdone, a group of consumer product companies active in China are discussing ways to gain better service and rates with local freight companies by consolidating their shipments. This method, which would involve having PRC firms ship the goods from Hong Kong and distribute them throughout the mainland, may be the best alternative at present, as it enables products to move effectively and reliably into China. Companies who opt not to join such a cooperative should look to work with local wholesalers who have established relationships with local rail authorities and who can guarantee space on trains.

Short on marketing savvy

Another problem suppliers face is making sure distributors and retailers in China maintain an up-market image for foreign-branded food products. For certain products, like nuts, by far the largest volume is sold through the traditional food stores belonging to the Sugar, Cigarette, and Wine or the Non-Staple Food groups. Most of these stores do not handle goods properly or engage in any merchandising activity; nor do they tend to pay much attention to customer service. The foreign supplier may find his products randomly displayed on crowded, dusty shelves in a food store that has not been upgraded in years.

Currently, only Western distributors like Denmark's East Asiatic Co. (EAC) or entrepreneurial Hong Kong wholesalers with mainland subsidiaries can take on the job of encouraging Chinese retailers to display products properly. In all cases, the agent or principal should visit retailers personally to ensure wholesalers are supporting sales.

In contrast to State-owned stores, supermarkets and large, renovated department stores tend to pay far more attention to product display and carry a greater variety of foreign-brand, quality foodstuffs. However, they do not account for a significant volume of sales yet (*see* box). Most foreign suppliers find that 50-65 percent of their goods are sold in traditional outlets that must be intensely cultivated to achieve volume sales.

The long haul

Distribution in China is constantly changing and evolving; foreign suppliers must design distribution organizations that will serve them effectively in the years ahead. In the future, the volume of foodstuffs distributed by traditional, State-run wholesalers will likely continue to drop, while more products will be carried by local private companies and new government-affiliated groups.

The role of small Hong Kong middlemen is also likely to diminish as foreign food suppliers adopt an increasingly hands-on approach to the China market, placing more expatriate staff on the ground to oversee wholesalers and train local sales forces. Large, Western distribution companies like EAC, San Francisco's Getz Bros., and Britain's Inchcape, however, will likely see their business increase. These companies will probably receive approval to set up wholly owned distribution networks throughout China well before the end of the decade.

As supermarket chains, particularly those operated by foreign retailers, expand across China, food suppliers will gain access to more retail outlets at which to sell their products. Though Chinese consumers continue to buy their food on a daily basis from local kiosks and small traditional food stores, they are learning to appreciate the quality of products available in modern stores—and the efficiency of a one-stop shopping trip to the local supermarket. Some Chinese supermarkets already resemble their Hong Kong or Japanese counterparts, providing their customers ample choices of foreign brand products. And, for the foreign expatriate posted to Shanghai, Beijing, or other cities, locating a true taste from home is becoming easier all the time. 完

Personnel Priorities

■ Julia S. Sensenbrenner and John Sensenbrenner

Artwork by JoEllen Murphy

Strategies for finding and keeping good employees in Shanghai's competitive labor market

■ Julia S. Sensenbrenner, a former *CBR* editor, is a doctoral student in sociology at Johns Hopkins University. She spent 1992-93 in Shanghai researching the impact of labor reforms on State enterprises. John Sensenbrenner is a recent graduate of the Jackson School of Business at the University of Washington, where he specialized in human resource issues.

In the 1980s, foreign-invested enterprises (FIEs), particularly hotels, were perceived by the Chinese populace as glamorous, desirable places to work. Potential employees responded in droves to newspaper advertisements boasting FIE positions with salaries significantly above those offered by State-owned enterprises. The FIE allure gave foreign managers the opportunity to hire the cream of the crop. As a result, many hires were overqualified; college graduates worked as secretaries, teachers turned to waiting tables, and lab technicians took jobs in hotel housekeeping.

A decade later, the story appears quite different. While FIEs are still the employer of choice for many Chinese, the marketplace has changed drastically. More foreign firms are competing for qualified job applicants, and employees are becoming more sophisticated in searching for the opportunities and compensation they want. Conversations with 15 Shanghai FIE managers and a survey we conducted in early 1993 of more than 90 employees in two Shanghai manufacturing joint ventures reveal that the city's labor market is rapidly evolving, becoming increasingly competitive, complicated, and expensive. The situation in Shanghai, which has one of the largest concentrations of FIEs in the country, foretells how labor markets in other major cities may develop in the near future.

On the move

Job mobility in Shanghai increased dramatically in 1992-93; an estimated 15 percent of the work force changed jobs last year, compared to annual rates of 1-2 percent in prior years. Deng Xiaoping's early 1992 trip to Shanghai and Shenzhen again put economic reforms at the top of the government's agenda and seemed to give people confidence to consider opportunities that might involve giving up their "iron rice bowls" of lifetime employment and benefits.

While the increased mobility of the Chinese population has provided foreign investors more options for hiring, it has also contributed to rising staff turnover rates. Turnover rates vary from 10-70 percent, depending on the type of enterprise. "Poaching" of experienced employees among foreign companies is also on the rise, particularly by smaller Hong Kong and Taiwan firms that do not want to provide extensive training or benefits, but are willing to pay extremely high wages to lure talented employees. Many FIEs increased wages at least 20-30 percent during 1993, and some were forced to raise salaries more than once to remain competitive. Most FIEs have raised salaries another 20-30 percent this year.

Foreign managers report that finding—and keeping—skilled upper-level managers is their biggest challenge. While the pool of managers in China is gradually expanding after a decade of economic reforms, the supply still cannot keep pace with demand. Other positions proving difficult to fill are in finance, accounting, international trade, sales, software development, robotics, and communications. Experienced chefs are also a hot commodity, with intense salary competition enabling such individuals to double or even triple their wages every time they move to another job.

Finding the right employees

When hiring employees, an FIE must make its selections carefully. Joint ventures with an established Chinese enterprise usually "inherit" most of their staff from their Chinese partner. Some joint ventures have suffered from being given too many or poorly motivated workers, so foreign managers should try to retain the right to control the number of new employees, reject anyone who is inappropriate, and hire key employees from outside if necessary. Wholly foreign-owned enterprises (WFOEs) have to start from scratch, so building a cohesive work force can be difficult. Representative offices are staffed primarily with college-educated, white-collar employees, who currently have the highest job mobility rates.

Realistically evaluating a candidate can be difficult. Resume-writing is a new science in China, and resumes often are exaggerated or too simple. Getting references can also prove challenging. Few people have references outside of their current work unit, and many potential recruits are reluctant to let their bosses know that they are thinking of jumping ship. Moreover, university professors or job supervisors seldom know how to write a useful letter of recommendation, and getting in touch with these people can be frustrating since most Chinese offices still have communal phones shared by dozens of people. Most companies thus recommend relying on specific skills tests and multiple personal interviews (*see* box).

Recruitment tactics

China's expanding labor market offers multiple options for companies that want to recruit new employees. Representative offices and WFOEs are technically required to hire all their employees through the State's personnel exchange service center or the Foreign Enterprise Service Co. (FESCO). A State-run employment agency established to ensure government control over the labor market after foreign companies entered the Chinese economy, FESCO once monopolized the supply of employees to foreign-funded enterprises, but its power is now on the decline.

Companies dealing with FESCO should handle the agency with kid gloves.

FESCO's employees are primarily former State enterprise workers who wish to retain job security and social welfare benefits. Because FESCO guarantees its employees a new position if they are fired, workers have little incentive to achieve high levels of efficiency. In addition, FESCO takes a large cut—some 50-75 percent—of each employee's monthly salary as a management fee. Many foreign companies therefore pay workers additional bonuses to compensate for this loss of income and put actual take-home pay on a level equivalent to non-FESCO employees in their company or at other foreign firms.

Currently, foreign companies in Shanghai no longer feel it necessary to follow FESCO's directives and often disregard the assigned labor quotas or hire only a portion of their employees through FESCO. Companies with subsidiaries, for example, have been able to circumvent FESCO's regulations by combining representative offices with factories, which are allowed to employ workers directly.

Companies dealing with FESCO should handle the agency with kid gloves, since it assigns top employees to foreign companies that support the system. While foreign companies can vet and turn down employees assigned to them, FIEs that show opposition to FESCO can face long delays for obtaining new employees or be given low-performance workers.

Joint ventures, which do not have to go through FESCO to hire staff, have far more options for recruiting employees. Popular methods include:

■ **Newspaper advertisements** While some small service-oriented companies have begun using help-wanted signs in store windows to save on advertising costs, most companies rely on advertisements to collect resumes. Ads are usually placed in local papers or specialized industry publications at costs ranging from ¥4,000 for 8cm x 8cm black-and-white ads to ¥27,240 for a quarter page. Shanghai does not yet have the equivalent of the Sunday employment pages, so ads are displayed throughout the week. Foreign companies generally advertise only once for each position or batch of new workers required, because job seekers know to scan the papers everyday.

Foreign employers report that they usually receive 20-50 resumes for each new position advertised, but the quantity and quality of the applicants varies greatly. Many respondents do not meet the advertised job qualifications, but adopt a "try my luck" approach. While some company representatives complain about the time lost perusing unqualified resumes, others turn this to their advantage by saving resumes of job seekers who might be appropriate for positions other than those advertised.

Since company names and place of origins are listed in want ads, corporate reputation is a key factor in determining the number of job seekers who will respond to an advertised position. Positions in American-funded operations are usually popular, as US business managers are reputed not only to treat Chinese employees fairly and generously, but to give them greater responsibility and autonomy. However, one long-established American manufacturing joint venture reported that responses to its newspaper ads dropped by 50-60 percent after the company's recent managerial problems and decline in profitability became common knowledge in Shanghai.

■ **Job fairs** Labor markets and personnel exchange seminars, known as *laodong li shichang* and *rencai jiaoliu chatanhui*, are becoming more common recruitment avenues for foreign employers. Shenzhen has established specialized labor markets for specific skills, but other cities in China tend to hold more general events. In Shanghai, job fairs are organized by industry-specific organizations and by government organizations under the Labor and Personnel bureaus. While job fairs sponsored by the Labor Bureau generally cater to blue-collar workers and personnel exchange fairs run by the Personnel Bureau are oriented toward white-collar workers and cadres, the distinction is often blurred.

More and more job fairs are being held each year in cities throughout China. In Shanghai, events range from bi-weekly, district-specific fairs to city-wide events held three or four times a year. The larger fairs often play host to hundreds of companies and thousands of job seekers. In the spring of 1993, a job fair specifically for Shanghai FIEs attracted nearly 10,000 job seekers. Companies recruiting at the fairs usually pay ¥400-800 to secure a table with several chairs to facilitate meetings between representatives and potential employees.

Labor fairs, which tend to attract large crowds, can be quite chaotic. Companies that post large, clear posters explaining corporate background and current employment openings tend to have the most success and spend less time screening unqualified applicants. Photocopied handouts describing positions can be useful, but they can cause the crowds to become disorderly as interested parties struggle to gain access to the handouts.

The smaller district-level fairs usually attract about 25 companies and 1,000-2,000 potential employees, an estimated 40 percent of whom are unemployed. This type of fair might be an appropriate venue for a manufacturing FIE located in that particular district and looking for blue-collar workers. Corporate participation costs about ¥500/day for a table with two chairs. Special arrangements can also be made for larger hiring needs. One five-star hotel, for example, periodically rents a whole room with several tables at the fair site when it needs to hire 25 or more new workers.

Foreign companies give mixed reviews of job fairs. Some firms develop a proactive recruiting strategy, scouting for key positions, such as managers or engineers, even though they do not have immediate openings for such employees. Others, looking to fill vacancies, appreciate being able to meet applicants face-to-face and screen out those who are not appropriate for the positions offered. Some companies complain that attendance at smaller fairs is unpredictable, making it difficult to ascertain what types of skills will be offered by applicants. Other firms, meanwhile, gripe that the larger fairs, which are likely to be more rewarding, are not held often enough. Most companies, however, admit that the cost of participation in job fairs is actually a bargain, especially if they are able to locate a new employee who already has the skills and expertise they desire.

Picking the Best

To evaluate the skills of prospective managers or technicians, companies might consider spending the money to have finalists evaluated by an organization specializing in job aptitude tests. In Shanghai, Fudan University and the Shanghai University of Finance and Economics offer such services to both State enterprises and FIEs.

Fudan's management school can help companies screen potential job candidates by giving the applicants a battery of five tests. These tests evaluate the applicant's general business ability, motivation and attitudes, negotiating skills, computer literacy, and ability to handle pressure. The employer, of course, retains the right to interview the finalists and make the ultimate decision on whom to hire. One manufacturing venture that used this service to test managers, accountants, and computer programmers reported it was very satisfied with the candidates as well as the time saved by letting the school narrow the field of applicants for the positions.

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Companies have different strategies regarding who should represent them at job fairs. Some send top personnel officials to meet and briefly interview prospective employees at the fairs, hoping to present the company and its employment opportunities in an attractive light. Other companies send low-level managers, since follow-up interviews at the office are always the next step of the employment process. They prefer to involve high-level management only after the crop of recruits has been thinned.

■ **Using *guanxi* (connections)** Chinese employees are always eager to refer family and friends for new job openings. While some foreign investors believe good employees will refer other dedicated workers and welcome such recommendations, most foreign managers caution against routinely filling positions this way. The *guanxi* approach can create personnel nightmares, including pressure to hire undeserving candidates, conflict among those recommending new employees for the same position, low productivity among workers who feel secure in their positions, and problems getting rid of poor workers later.

In the past, Chinese enterprises tended to make *guanxi*-based hires after considering the rank of the referring party rather than the potential employee's qualifications. Chinese managers in FIEs can easily fall into this pattern if foreign management does not exert control over the hiring process. In fact, one Hong Kong manufacturing joint venture reported that its high profitability levels of the mid-1980s dropped precipitously after *guanxi* hires bloated the payroll. Swamped with requests from various high-level officials to hire friends and relatives, the Chinese personnel managers at the company felt obliged to take on these workers to maintain good relations with government officials, particularly the authorities in the industrial bureau that hold a major equity share in the joint venture. The joint venture's new general manager, who is still struggling to reinstate tight labor discipline and scale back the size of the work force, cautions others to establish a firm company policy of outlawing *guanxi*-based hires.

■ **School-based recruiting** Many foreign firms find that establishing relationships with specific institutions is a good way of locating skilled workers. Until recently, companies had to plead with government and school authorities to secure a quota in the job assignment process, and usually had little control over which graduates would be assigned to their firms. Changes in the job-assignment policies of vocational schools, however, now give FIEs more independence to choose where or whom they will recruit.

Vocational-technical high schools, which allow students to study such subjects as retail sales, tourism, accounting, electronics, vehicle repair, or management, account for 44 percent of Shanghai's students. These schools stake their reputation on their job placement rates, so principals are often eager to establish relationships with FIEs willing to provide jobs coveted by the students. While many of these schools require hiring units to pay a fee for acquiring students, FIEs may find this expense—usually several thousand *yuan*—to be worthwhile. Several five-star hotels hiring from one tourism school, for example, have been pleased by the quality of the school's students and the reduced level of on-site training they must provide to new employees.

Foreign firms hiring vocational school graduates usually have little choice over who they get, but they do have the right to reject any student who proves unsatisfactory during the training period. Companies can improve their success rates by developing long-term relationships with a high-quality school. For example, one American high-tech FIE hires several students each year from the Shanghai Technical School of the Electronics Industry. And one luxury hotel was able to help structure classroom content at the Shanghai Professional Tourism School when it committed to hiring a whole class.

FIEs are also allowed to send recruiters to college campuses to interview students. Companies may negotiate terms directly with students, and a student is given leeway to accept a job offer after he graduates as long as his university determines the offered position is consistent with his academic discipline. This change in policy is a positive development for FIEs, which are the first choice of most graduates because they offer higher pay, a less bureaucratized job hierarchy, and more rapid advancement than State enterprises.

Companies that want to hire university graduates, however, should be aware that many of these individuals plan to stay in their jobs for only around two years before moving on to better positions. In addition, some FIEs have been disappointed with the performance of these young people, many of whom do not have practical working experience.

Once an FIE recruits and hires an employee, the company faces an incessant fight to retain him. Turnover rates are greatest among younger employees seeking higher wages and more responsibility. In addition, companies report that employees hired through advertisements are more likely to monitor new job listings and resign quickly if a better opportunity comes along. Production line workers—particularly those transferred from a joint-venture partner—and employees over 40 years in age tend to be more interested in long-term stability.

Companies are now beginning to develop their own strategies to combat high turnover rates. Manufacturing enterprises now regularly offer two-year contracts after an employee has successfully completed a six-month training period, which is subject to a separate contract. Some companies have imposed steep fines—as high as ¥5,000—for violations of employment contracts in order to prevent staff from leaving before their contracts expire.

Several companies also report they are offering 5-10 year contracts to selected employees whose initial contracts have expired. They hope this will demonstrate their commitment to that person and encourage greater organizational loyalty. Also, many FIEs require employees to sign long-term contracts before they will pay for the employee to receive training abroad.

Beyond contract manipulation, retaining employees involves a host of human resource issues, including compensation, benefits, housing, training, job satisfaction, and organizational culture. Foreign firms that do not pay attention to these factors will find it difficult to keep turnover rates down.

■ **Compensation** Human resource managers in China consistently stress the importance of compensation for companies seeking to minimize turnover rates. They note that when firms fall behind in offering competitive wages, job satisfaction quickly suffers.

In some industries, such as the hotel business, companies have created informal industry organizations that share salary information in order to keep wage levels comparable across the industry and reduce poaching, which pushes remuneration costs up for all employers. Japanese companies have formed a similar organization that monitors salaries on a quarterly basis.

■ **Benefits** In addition to increasing wages, many FIEs over the past two years have beefed up their benefit packages. By adding social welfare benefits, FIEs can compete with China's State enterprises and pad salaries without bumping employees into a higher wage category, which would obligate them to pay individual income taxes.

Besides health care and pension contributions, some companies provide generous allowances for beverages, lunch, work clothing, laundry, and transportation. A summer heat bonus and paid vacation leave are also common. Several foreign managers claim that these types of benefits are particularly important in improving the job satisfaction of middle-aged workers who previously worked in State enterprises and are accustomed to being looked after by their employers.

The costs of such benefits should not be underestimated, however. A national survey conducted by the All-China Trade Union in late 1992 found that on average, wages at FIEs exceeded those at State-owned enterprises by 34 percent, while the figure grew to 52 percent if non-cash benefits were included.

■ **Housing** Being able to provide housing for employees, who traditionally live in facilities provided by their work units, has become an important tool for recruiting and retaining employees. FIEs unable to offer housing soon find themselves at a disadvantage in overcrowded Shanghai.

Most firms address the issue by providing housing allowances or establishing a housing fund to which both the firm and employee contribute a percentage of the individual's income. With the rapid in-

State Enterprises Tackle Labor Reform

The Shanghai government embraced labor reforms in State enterprises as "key reforms" in both 1992 and 1993. Shanghai reforms were designed to break the "iron rice bowl" of guaranteed lifetime employment by putting employees on contracts with specific terms. At the same time, enterprise managers restructured job positions and production procedures and modified wage scales to link employee effort, productivity, and responsibility to financial rewards.

Many State-owned enterprises welcomed these reforms, viewing them as providing a way to increase competitiveness and profitability. As many factors of production and distribution became more market-driven during the 1980s, Chinese managers realized that over-staffing and low labor productivity were holding down profits. "If we didn't reform, our profitability would be seriously affected as we are in a very competitive industry," noted the general manager of a Shanghai cosmetics factory. "We feared we would lose skilled employees to joint ventures offering higher wages and would no longer be able to attract suitable replacements."

Less profitable State-owned enterprises were slower to adopt labor reforms, fearing that employees would leave if given a chance to reject a contract. Lacking the funds to offer higher wages as an incentive to retain workers, these enterprises were worried they would fall even more in the red if key employees departed. But with gentle inducement from the municipal government, these firms are gradually implementing reforms. At the end of 1993, 53 percent of all State-owned enterprises in Shanghai were using employment contracts.

Most employees were given indefinite-term contracts that implied they would remain with the firm unless they committed a major disciplinary infraction. On average, 95 percent of employees have been given positions, usually a continuation of their former jobs. Many of those who failed to secure jobs have been allowed to maintain a relationship with the enterprise and draw a reduced salary for a year while they try to find another position either within or outside the firm. Workers chosen to stay on have found their salaries increased, but at different rates. Wage disparities between workers within the same enterprise are on the rise.

Enterprise managers believe labor reforms have made a significant difference in operations and personnel management. Managers now have the power to control staffing and decide when to hire new workers. Contracts are proving a useful way to get rid of problematic workers, raise the quality of employees, and redefine management-labor relationships. Wage reforms are giving monetary rewards to workers performing more difficult jobs and helping shift workers from support services onto the production line. The result is a more rational production process and more disciplined employees who are interested in the fate of the enterprise.

What will labor reforms in State-owned enterprises mean for foreign-funded firms? These reforms should help expand the labor pool as more employees enter the job market—willingly or unwillingly. Also, wage increases at State-owned enterprises are helping to push up salaries at FIEs, fueling greater labor costs. And some FIEs have reported that as wage differentials between FIEs and the most profitable State-owned enterprises narrow, employees are moving back to jobs at State-owned enterprises where the work environment is more familiar. In the long run, however, labor reforms in State enterprises should improve work discipline and encourage education and training, thereby raising the overall quality of China's work force.

—Julia S. Sensenbrenner

crease in real estate prices in Shanghai, however, such contributions are buying fewer and fewer units. A standard two-room apartment in the suburbs now costs at least ¥130,000, while the urban equivalent can run as high as ¥250,000. According to press reports, annual company donations are roughly ¥2,000-3,000 per employee, representing about 15-20 percent of the basic wage.

To solve the housing dilemma, some firms are now including the cost of constructing on-site apartment buildings in the feasibility studies of proposed investments, while others are creating housing incentive programs, in which an employee is awarded an apartment after working for the company for a certain number of years. To protect their interests, firms often require new occupants to sign contracts guaranteeing full repayment of apartment costs if the employee leaves the company without having worked an additional 5-10 years after receiving the apartment.

■ **Training** Opportunities for additional training can be major drawing cards for FIEs seeking employees. Savvy Shanghainese have come to recognize that expanding their skills will enhance their careers and lead to higher-paying jobs. Training programs are also critical for building corporate loyalty and bringing employee skills up to levels expected by foreign companies. However, providing extensive training might increase the risk that staff will sell their enhanced skills to a firm offering higher compensation or expanded benefits. Many companies therefore recommend task-specific training to reduce job hopping.

Most companies provide such targeted training in-house, awarding overseas study only to top managers who have already proven their commitment and value to the firm. One British consumer-goods manufacturing joint venture offers employees two weeks' training in Singapore if they are willing to sign a five-year contract. Once they have proven themselves in Shanghai and Singapore, managers are eligible for six-month training programs in Great Britain.

■ **Job satisfaction and organizational culture** A host of other factors can influence how satisfied employees are on the job, including job autonomy, responsibility, career development options, motivation, quality of management, and variety of tasks. If an FIE is able to establish good management practices, many of these issues will be addressed. Foreign managers must not forget, however, to explain company goals and management styles to middle- and lower-level Chinese managers, who tend to employ traditional styles emphasizing conformity, rather than initiative (*see* p.50).

Bridging cultural divides

Many FIEs fail to invest enough time in establishing an efficient and fair management structure. The result is numerous misunderstandings between Chinese employees and foreign managers. The language barrier is frequently blamed as the primary problem, but many misunderstandings between employees and management may be more precisely labeled as cultural communication gaps.

Some companies have turned to hiring Chinese-speaking experts from Hong Kong or other parts of Asia to overcome language and cultural obstacles, but a number of these hires have proven problematic because the individuals did not understand the home company's culture or product line or were not culturally sensitive to the mainland staff.

An alternative approach is to provide expatriates with a young, English-speaking mainland Chinese assistant, who can both act as interpreter and be trained in management practices in the process. It is essential, however, to give new challenges and additional responsibilities to these assistants, as they are prime targets for poaching by other firms. Attempts on the part of expatriates to learn Chinese can also go a long way to building goodwill—even if the expat's communication skills are slow to improve.

In addition, companies should work to eliminate cultural misunderstandings by providing cross-cultural training to both expatriates and Chinese employees and by developing detailed job descriptions to familiarize employees with what is expected of them. FIEs should also publicize and educate employees about work regulations and codes of conduct. In this respect, foreign companies can learn a lesson from the propaganda programs in Chinese work units, which traditionally provide management's viewpoints on new policies and procedures. Similar education efforts in FIEs could significantly increase corporate loyalty and win greater support for alternative management styles.

Common concerns

Foreigners are not the only parties concerned about the state of China's labor system. In July, the Chinese government promulgated a new national labor law to standardize and rationalize treatment of employees throughout the country and stem the rising incidence of industrial accidents, child labor, and employee exploitation reported at some small FIEs, rural enterprises, and private Chinese companies. The law is not likely to have a great impact on foreign companies that already have well-developed human resource policies in place. Firms should note, however, that the law may affect some aspects of operations, as it contains provisions dealing with minimum wages, overtime, and workers' rights (*see* p.46).

The new labor law underscores the importance of developing a fair and equitable policy for dealing with Chinese employees. Human resource issues in Shanghai may be reaching the boiling point more quickly than in other locales as the rapid inflow of foreign investment has exacerbated shortages of skilled employees. But as more and more foreign investment pours into China, other areas—particularly large coastal cities—are also likely to see their labor markets become more competitive.

With increased competition for good employees, all foreign companies need to monitor the local labor market, maintain competitive salary levels, promote a positive corporate image, develop long-term relationships with organizations such as schools to recruit new workers, and recognize that Chinese employees have the same desire for personal responsibility, autonomy, and trust that workers have back home. In our survey, Chinese joint-venture employees rated the following factors as most important in evaluating job offers: salaries; treatment of employees; housing availability; current and future corporate profitability; and benefit packages. With the exception of housing, these concerns certainly should not sound foreign to human resource managers and corporate executives anywhere else in the world. 完

Finally, a National Labor Law

■ Douglas C. Markel

Comprehensive legislation affecting labor relations will usher in the new year

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After 15 years and 30 drafts, China's first national labor law was passed by the National People's Congress on July 5. Effective January 1, 1995, the Labor Law of the People's Republic of China is a blueprint that will shape labor relations to the contours of China's burgeoning market economy and unify legal treatment for employers and employees in foreign-invested as well as domestic enterprises. The new law touches on every important aspect of the employment relationship and the workplace—including, most notably, the issues of workers' rights, minimum wage, discrimination in hiring, and social insurance.

The Labor Law takes precedence over all previous laws and regulations in the labor area. Its greatest impact will be on the State sector, which will be brought in line with current practice in the foreign sector. To complement the new law, nine additional laws and as many as 20 sets of implementing regulations are currently being drafted at the national level.

Before the Labor Law...

Labor relations in China today are regulated by a confusing and often contradictory morass of laws, regulations, notices, and directives that number in the thousands. Many provisions issued in the late 1970s and early 1980s reflect neither the current situation nor the intent of China's policymakers.

Existing labor legislation draws a fundamental distinction between State-owned enterprises and foreign-invested enterprises (FIEs). FIE labor law is designed to provide foreign investors access to Chinese employees under semi-market conditions while preserving the social benefits of the State-owned enterprise system. Labor laws applicable to FIEs have been issued at both the national and local levels; key legislation includes the Sino-Foreign Equity Joint Venture Labor Management Provisions (1980) and the accompanying Implementing Procedures (1984). FIE labor regulations have also been promulgated in many localities, including all five Special Economic Zones, most of the open coastal cities, and several other provinces and cities.

Laws governing State-owned enterprises, in contrast, generally codify socialist labor principles: guaranteed lifetime job security, mandatory job assignments, and cradle-to-grave welfare benefits. The laws do not address issues that customarily arise in free-market conditions, since management and workers have traditionally been assumed to share the same interests.

As China has reformed its centrally planned economy, however, legislation governing State-owned enterprises has evolved as well. In 1986 the labor contract system was introduced, giving State enterprises greater autonomy to recruit employees. But as of 1993, only about 25 percent of workers in State-owned enterprises had signed labor contracts. An important focus of the new law is to require all employees in the State sector to enter into labor contracts.

...And after

Ministry of Labor officials hope the new law, which will govern virtually all employers and employees in China, will clear up the confusion caused by the multiplicity of current laws. Essentially, the new Labor Law will extend current FIE labor rules to the remainder of the economy.

Significantly, the law puts in place the framework for a new comprehensive system of social benefits that will help China restructure its State sector. If implemented, this system will relieve State-owned enterprises of part of the crushing burden of providing social benefits for employees, and will also provide a safety net for employees dismissed from bloated or bankrupt State enterprises.

The new law applies to all companies, including FIEs, State enterprises, and private enterprises. In contrast to earlier labor legislation, the law describes an employee as *laodongzhe*, or "one who labors." In Chinese parlance this means workers, management personnel, government cadres—and even expatriates.

Unfortunately, the new law does not directly apply to foreign representative offices. Representative offices must continue to obtain Chinese employees through service contracts with State-owned enterprises such as the Foreign Enterprise Service Co. (FESCO). While FESCO itself is subject to the obligations of the new law, representative offices are not. Nevertheless, both FESCO and its employees undoubtedly will expect representative offices to fulfill some of the legal obligations of employers under the new law, such as paying overtime wages and limiting work hours. It is therefore important for foreign firms with representative offices to be familiar with the new law.

Enshrining workers' rights

The new law upholds the basic rights of all workers in China's "socialist market economy." Laborers in all types of enterprises are to enjoy "equal rights" in obtaining employment and safe work conditions; selecting occupations; and receiving vocational training, rest and holidays, health insurance and welfare benefits, and other rights stipulated in Chinese law. Many of these rights have appeared in earlier laws, although the right to select one's occupation represents a significant departure from the old *fenpei*, or mandatory, job assignment system.

Lofty principles aside, the new law is generally short on specifics to help employees realize their new rights. And as quickly as these rights are granted, they apparently may be taken away; Beijing, for example, announced rules in September requiring employers to pay stiff penalties for hiring workers who do not have the right to reside in the capital.

> The Labor Law takes precedence over all previous laws and regulations in the labor area.

The new law does not expand the role of labor unions from that outlined in previous legislation. While laborers in all enterprises have the right to organize and participate in labor unions, the law does not mandate the establishment of unions. Those that are created must be organized "in accordance with law," meaning that only government-sanctioned unions are to be permitted.

The law does clarify the role of the unions in labor disputes. In the event the labor union believes the termination of an employment contract is "inappropriate," the union has the right to express an "opinion." If dismissals are "against the law," labor unions may request employers to revisit the issue; they also may "support and assist" employees in the resolution of labor disputes. Interpreting these vague terms is apparently left to the unions themselves.

Hiring and firing

Beyond basic rights, the Labor Law addresses specific labor issues that have become important as China moves toward a society in which employment relationships are governed by market forces. The new regulations reflect the fact that China's lawmakers, like those in most Western developed nations, are uneasy with the market's ability to create a healthy employment system on its own. Therefore, Beijing has codified the following provisions:

- **Recruitment** For the first time, employers are now liable for "economic damages" to the previous employers of their newly recruited employees if those employees have time remaining on their original labor contracts. This may be a response to perceived "poaching" of State-enterprise employees by FIEs and foreign representative offices. State employers now require many employees to enter into labor contracts that demand exorbitant fines in the event the employee leaves the job prior to the end of his employment term. The new provision seems to raise the stakes for foreign firms seeking to recruit Chinese employees, as fines for early departure can be as much as tens of thousands of *renminbi*.
- **Discrimination** Taking a page from US law, the Chinese Labor Law stipulates that employers may not discriminate against job seekers on the basis of nationality, race, sex, or religious beliefs. The new law also restates provisions from various national and local regulations limiting work assignments of women during menstruation, pregnancy, and nursing. Maternity leave must be at least 90 days. Employers are prohibited from hiring minors under the age of 16.
- **Contracts** The chapter on labor contracts in the new law does not fundamentally alter the labor contract system provided by earlier FIE legislation. Employees of all enterprises are now required to enter into individual written labor contracts. The option to execute collective labor contracts is also reaffirmed. There is no requirement in the new law that individual labor contracts be approved by local labor departments, although national and local FIE regulations still mandate such approval. Collective contracts must be submitted to the local labor bureau for approval under the new law.

The Labor Law offers little guidance—or, for that matter, interference—on what a labor contract should cover, though it provides a list of standard topics that must be addressed. Most of these areas—including contract term, job description, labor protection, compensation, and termination conditions and liability—have already been part of most FIE labor contracts for years.

One exception to the law's generally laissez-faire approach to contracts is a provision applying to employees who have worked in an enterprise for more than 10 years. Provided that both employer and employee wish to extend the employment relationship, these long-term employees are to be given contracts with unlimited terms. This provision is not as generous as it seems, however, as employers still retain broad rights to fire such employees.

For new hires, the law limits probation periods to six months, similar to limits contained in many pieces of local legislation. Not stated in existing laws is, however, the express permission for employers to include confidentiality provisions in labor contracts and claim damages from employees who violate these provisions. Many FIEs have already included such confidentiality clauses in their labor contracts for some time.

■ **Termination of contracts and dismissal** Employers are now required in most circumstances to provide 30 days' notice before dismissing employees or terminating labor contracts. The employer need only show that the employee is "incapable of performing a job and remains incapable after receiving training or being transferred to another position." An employer may also dismiss an employee if he is suffering from a non-work related injury and is unable to return to work after medical treatment, or in cases where "major changes" render a labor contract incapable of being implemented and the parties are unable to agree on revisions. No notice is required to dismiss employees during the probation period, or if an employer demonstrates that the employee has "seriously" violated company rules, engaged in graft, or been charged with a crime.

As in earlier FIE labor laws, employees generally must provide at least 30 days of notice prior to leaving a job, but do not need to give a reason for leaving. Moreover, neither a reason nor notice is required for quitting if the employer has "coerced the worker through violence, threats, or illegal restriction of personal freedom," if the employer fails to pay remuneration or to provide working conditions as agreed in the labor contract, or if the employee leaves during the probation period.

On the job

An important objective of the new law is to prevent exploitation of workers, especially in FIEs. The new Labor Law thus clarifies and confirms rules governing working hours, wage levels, and other issues relating to worker safety and training.

■ **Work hours/leave** The Labor Law codifies the 8-hour/day, 44-hour work week ordered by the State Council earlier this year. Work may exceed eight hours per day only with the approval of the employee and the enterprise's trade union. Overtime generally may not exceed one hour per day, or three hours in "special" circumstances that are not defined. Monthly overtime is limited to no more than 36 hours. Overtime pay is set at 150 percent of the normal base wage, 200 percent if the work occurs on non-holiday rest days when substitutes cannot be arranged, and 300 percent if the work is performed on public holidays. Paid annual leave is mandated for employees after they have worked continuously for one year, pursuant to a new system to be announced by the State Council in the near future.

■ **Wages** The law reaffirms the basic right of State-owned enterprises and FIEs to set their own wages. A guaranteed minimum wage is to be set by individual localities, while the central government is empowered to implement "macro controls" over the "total amount" of wages and salaries—though the law does not clarify whether such controls refer to the totals for an individual, an enterprise, or a locality. This provision opens the door for the government to implement wage freezes as an inflation-fighting measure; some localities are reportedly considering implementing maximum wage rules.

The Labor Law mandates that wages be paid in "currency" on a monthly basis, an apparent attempt to prevent cash-strapped enterprises from paying workers in kind or in promissory notes. Also, the new law resurrects the phrase *tonggong tongchou*, or "equal pay for equal work." First appearing in another form in the implementing regulations to the Joint Venture Law in 1983, this worthy ideal has become the bane of many joint-venture negotiators, as it is often invoked by Chinese joint-venture partners who insist on comparable pay for Chinese and expatriate managers. Whether the restatement in the new law will strengthen the resolve of Chinese negotiators on this issue remains to be seen.

■ **Vocational training** Employers are now expected to establish and fund systems for vocational training for their workers. There is also a promise that the State will standardize job categories and evaluate the vocational skills of workers. But the new law offers virtually no guidance as to how this will take place; most of the detail work will likely be left to local labor departments.

■ **Labor safety and health** Recent press reports on industrial accidents and unsafe working conditions have focused China's policymakers on the task of improving worker safety. Under the new law, employees now enjoy the express right to refuse to perform dangerous operations, and may criticize and even bring legal action against employers who violate industrial safety provisions. The new law also promises that the State will establish a system for reporting occupational diseases and accidents, and requires employees to compile statistics and report industrial accidents to local labor bureaus. However, the law offers no guidance as to when and how this reporting system will be implemented.

■ **Social insurance** In an unprecedented development, the Labor Law calls for the establishment of a national social insurance system. Until now, FIEs have been required by local regulations to arrange pension, medical, and unemployment insurance for their employees, while State-owned enterprises provide workers with social benefits directly. The new law sets out principles for creating a unified social insurance system that will apply to all employers and employees, and will supplant the local programs. According to the Ministry of Labor, detailed national laws specifying how the system will be established and implemented will be issued in 1995, at the earliest. Meanwhile, many local labor bureaus have issued piecemeal regulations addressing parts of the proposed system.

According to the Ministry of Labor, the social insurance system will consist of five separate funds: pension, unemployment, work-related accident and disability, medical, and maternity. Employers and employees, including expatriates, will be required to contribute to the funds. Managed by government-designated agencies, the system is to separate the provision of benefits from individual companies, so that employees will accrue benefits regardless of whether their employer is an FIE or domestic enterprise. The system should in theory provide a safety net to State-enterprise employees in the event Beijing's long-delayed plans to allow ailing enterprises to go bankrupt are implemented.

Problem solving

The new Labor Law restates a variety of methods for workers to obtain relief for grievances and adds provisions on management responsibility. Like previous legislation, the new law provides for mediation and arbitration to settle labor disputes. If mediation is selected, a representative from the trade union is to serve as the chairman of the panel. If arbitration is preferred, a written request for arbitration must be submitted to the local labor arbitration commission within 60 days from the date of the dispute—a dramatic decrease from the previous six-month period. Curiously, a party dissatisfied with an arbitration decision may appeal the decision to the local people's court. This right to appeal eviscerates the traditional rationale behind using arbitration as a method to resolve disputes: avoiding the court system.

In another first, the new law contains a laundry list of penalties for employers who violate the Labor Law or labor contracts. Possible violations include illegally extending work hours, failing to follow wage regulations, or providing unsafe working conditions. In an attempt to put muscle behind the law, local labor bureaus are empowered to fine, assess damages, or terminate operations depending on the nature of the violation; the bureaus may even pursue criminal charges if "major accidents" result from the employer's failure to rectify danger in the workplace.

Filling in the details

Nine new laws are being drafted to beef up and clarify the spartan provisions of the new Labor Law. Plans for 1995 include promulgation of national laws on labor contracts, social insurance, the minimum wage, labor disputes, vocational training, employment, and safety in the workplace. These laws will be followed by a substantial body of implementing regulations. The Ministry of Labor and local labor bureaus are reportedly well into the process of culling through all current labor laws and regulations. All rules that are found to be inconsistent with the letter or the spirit of the new law will be abolished.

As with prior labor laws, the new law delegates most of the responsibility for enforcement to local labor bureaus. Localities are authorized to issue implementing regulations, and many—including Beijing—have begun the process. Shanghai and Guangzhou already have regulations that contain many of the provisions of the new law. These localities will await further legislation and eventually revise existing provisions to ensure they are consistent with the new laws.

Whether the new body of labor law realizes its goal of creating unified, clear, and consistent labor rules will largely depend on the housecleaning and implementation work of the local labor bureaus. These bodies also hold the key to whether the laws will be enforced in a meaningful way. Nonetheless, the new national Labor Law is a promising first step in China's attempt to transform its labor system in an equitable manner. 完

Putting the Corps into Corporate

Artwork by JoEllen Murphy

■ **Anne Stevenson-Yang**

Xian-Janssen provides unorthodox but effective management training

In the 1980s, Beijing Jeep was the standard against which all foreign ventures were measured. In the 1990s, Xian-Janssen Pharmaceuticals Ltd., rated the country's top joint venture for the last two years by the Chinese government, is receiving similar accolades. The Xian joint venture, which has sponsored medical research awards and educational seminars for Chinese doctors in China and abroad, has emerged as a favorite of China's investment officials and a showcase for the pharmaceutical sector. Its unusual management-training techniques may be the key to the joint venture's success.

Xian-Janssen, 52 percent-owned by a Belgian subsidiary of US medical giant Johnson & Johnson, is a joint venture with four partners under the State Pharmaceutical Administration. Located in China's ancient capital, Xian, the enterprise—the largest pharmaceutical joint venture in China—is run by a management team of more than 50 Chinese managers and a handful of expatriates, who together supervise about 600 staff. After starting production in the inauspicious month of June 1989, Xian-Janssen's sales quickly took off, demonstrating China's demand for high-quality Western medicines such as Hismanal, a non-sedating antihistamine; Daktarin Cream, for fungal infections; and Imodium, for diarrhea. The company consistently ranks among China's top-ten foreign-invested enterprises (FIEs), based on per-employee sales revenues, tax payments, profits, exports, training expenses, and investment in research and development.

Xian-Janssen's nationwide sales success has been the envy of many foreign firms looking to penetrate China's elusive domestic market. The venture has nurtured relationships with the two or three biggest State pharmaceutical distributors in each province by offering them management-training courses and teaching them distribution and marketing strategies. To assure that the company's products are energetically pushed through sales channels, Xian-Janssen salespeople visit hospitals to promote products and solicit feedback from doctors. On one occasion, the company's representatives visited a police officer who had been severely burned, bringing gifts of pharmaceuticals and earning much publicity in the process.

A fast and furious pace

Xian-Janssen managers say that recruitment, training, and retention of staff drive the venture's success. The company's president, Jerry R. Norskog, estimates that he and other senior managers spend up to 70 percent of their time on personnel issues. "A hiring decision is much more grueling than spending $1 million on advertising," he says. "I personally approve every hire; advertising, I delegate."

While most of China's joint ventures recognize that effective management of local personnel is vital, Xian-Janssen's training techniques and attitudes toward management go a step further. The company operates on the assumption that it is in a race against time and the best way to beat the clock is through a "people first" approach. "In the United States, it takes five-eight years to develop a first-class manager," says Norskog. "Here, we don't have five years. Waiting just six months to launch a product in China means your costs will be 20 percent higher and there will be more competition. Without highly skilled managers and sales personnel, the venture's performance would suffer." Therefore, quickly developing leadership in the management ranks and fostering a strong set of corporate values in employees are perceived as critical to the venture's success.

The best and the brightest

A prospective Xian-Janssen employee goes through a rigorous selection process

■ **Anne Stevenson-Yang is director of China operations at the US-China Business Council.**

before being hired by the company. Norskog and his colleagues recruit college graduates from China's most prestigious universities. All must have the poise and language skills needed to get through a battery of interviews in both Chinese and English. The recruits must have some knowledge of computers, be non-smokers, and have outside intellectual interests. They must also demonstrate the competitive outlook that the venture is seeking. If a candidate doesn't know his class rank, for example, Xian-Janssen doesn't want him. "Competitive people know where they rank," says Norskog.

Once on board, all new employees go through a standard training program and spend three-six months on probation before joining the permanent staff. Most of the employees who leave Xian-Janssen—which had an attrition rate of 14 percent in 1993—do so during this period. If the employee's performance during the probation period is satisfactory, he is then given training to develop specific technical and managerial skills. Training—through seminars, coaching, or lectures—is ongoing, and the company uses a computer program to track each employee's training record, test results, and productivity.

Once or twice a year, the company also runs a "camp" to give managers a better sense of which employees have independence and initiative. Usually lasting about 10 days, each camp brings together large groups of employees for workshops, lectures, and management games, interspersed with physical exercise.

Last January, 150 employees from the sales and marketing team participated in a camp held in the Fragrant Hills outside Beijing. Each day began with a pre-dawn hike designed to help staff work together. Other programs included role-playing exercises in which participants were awarded points for finding analytic weaknesses in a presenter's argument—a way of overcoming what management sees as a cultural reluctance among Chinese to compete publicly. Follow-on training is provided in areas of weakness uncovered during the camps.

Another Xian-Janssen goal is to stage memorable events in which staff participate. In July, for instance, the company took 200 employees to Tibet for the dramatic launch of a new anti-dandruff product. "Part of creating great companies is having a huge, shared event," says Norskog.

East meets West

The goal of all Xian-Janssen's training is to reinforce the importance of initiative, particularly among managers and the sales force, members of which operate with a great deal of autonomy throughout the country. Xian-Janssen's top management team tries to find Chinese cultural models

All new employees go through a standard training program and spend three-six months on probation before joining the permanent staff.

for teaching management and sales strategies, sprinkling bits of Sun Tze's war strategy, Mao Zedong's philosophy of heroic self-reliance, and Zhu Geliang's craftiness in *Romance of the Three Kingdoms* into management-training workshops. The underlying assumption is that there is nothing foreign or Western about management leadership or strategy—it's all documented in Chinese history.

Above all, Xian-Janssen tries to encourage risk-taking. "Our slogan is, 'Fat pigs get promoted,'" Norskog says, reversing the popular Chinese saying "The fat pig gets eaten," a reflection of the Chinese cultural norm that promotes consensus and cohesion and inhibits initiative. The company tries to give employees new responsibilities as soon as they show ability, rather than wait for an annual review. "Anyone who blinks an eye or raises a hand gets rewarded," Norskog notes. By the same token, Xian-Janssen managers are expected to go easy on employees who make mistakes.

Holding on to staff

Given the time and expense Xian-Janssen takes to find and train its employees, the venture works especially hard to retain them—a feat that is increasingly difficult as new foreign enterprises throughout China look to "poach" skilled workers. Turnover rates are changing so fast that no reliable averages are available, but most FIE managers would agree that Xian-Janssen's 14 percent is low. The firm's managers believe that being personally supportive of employees is critical to retaining them, because such an attitude permeates the corporate culture and makes Xian-Janssen an attractive place to work. The venture's best potential managers, therefore, may be given advanced academic training at two-year MBA programs in China, the United States, or Belgium; or be placed in internships at other Janssen plants located throughout the world.

The company recognizes that it must also offer more tangible benefits to remain attractive to its employees, and thus offers housing, medical, and other benefits well beyond its legal and contractual requirements. The joint venture has put together a housing-savings scheme to help employees purchase homes that has been particularly well-received.

The program is modeled after Singapore's Provident Fund but has been adapted to China. Employees contribute 25 percent of their base pay to the fund, while the company contributes 35 percent of each employee's wages. Xian-Janssen builds or buys the units, then sells them to its employees. The goal is to enable all employees to purchase their own housing.

With this plan, Xian-Janssen employees can own their apartments within 10 years. "It's what our employees need and want," Norskog says. "Providing housing to employees is socially responsible, given China's housing shortage, and it makes good business sense to retain good people."

Although Xian-Janssen's housing and training programs are superior to those offered by most FIEs, the wage and benefit packages it offers are about average. But Norskog maintains the most salient factor for attracting and keeping employees is the availability of career-building opportunities. "The important thing," he says, "is that employees think they're going someplace and are persuaded to buy into the company's ethos." 完

China In the World Economy

by Nicholas R. Lardy. Washington DC: Institute for International Economics, 1994. 156 pp. $16.95 softcover.

University of Washington Professor Nicholas Lardy's book on China's integration into the world economy is a timely one, given the PRC's current heated attempts to accede to the GATT. In this lucid account of China's "socialist market economy," Lardy looks at China's rise as a major player in the world economy, examining its trade partnerships with capitalist countries and its ability to maintain a global trade deficit while running a large bilateral trade surplus $23 billion in 1993 with the United States.

Lardy's exploration of US-China trade is the real heart of the book. Lardy contends that the United States should abandon using the bilateral trade balance as a measure of the degree of openness of the Chinese economy. Instead, the United States should seek China's commitment to avoid a "systematic global trade surplus," which would result in a net reduction of jobs in other countries. While Lardy's recommendation has merit, it is unrealistic given the unpopularity of China—and its growing US trade surplus—in the US Congress.

Lardy also urges the US government to work for China's early entry into the GATT, so that Beijing will have to comply with international protocols and tariff conventions. He claims China's entry into the GATT would not hurt the United States, as parochial US trade interests could be protected by invoking the GATT's safeguard clause, Article 35, to counter surges in specific Chinese exports. In addition, the United States would still be able to investigate Chinese trade practices under the provisions of Section 301 of the US Trade Act and impose sanctions, "if warranted."

Elegantly written, this book guides the reader through the byzantine debates over China's accession to the GATT and provides sound policy recommendations to the US government regarding the long-term US-China trade relationship. Understandably, Lardy concentrates on the next century, when China might be one of the world's strongest economic performers. Nevertheless, more analysis of how China is to get to that point—specifically, how Beijing should transform the State sector and maintain an attractive investment environment for international business—would have enhanced this otherwise solid work.

—MH

Asia's Rising Economic Tide: Unique Opportunities for the U.S.

by Earland Heginbotham. Washington, DC: National Planning Association, 1993. 138 pp. $15.00 softcover.

This easy-to-read treatise on East Asia's economic integration presents a picture of a region growing in prosperity and offering lucrative opportunities for US business. Heginbotham, an international economist, chastises US companies for not recognizing the potential of an East Asian market that boasts growth rates far greater than those of the United States or Europe.

The author refutes the common US misconception that East Asia is a closed market fortified by trade barriers and unfair trade practices. Rather, he argues that problems US companies encounter penetrating East Asian markets typically stem from a lack of understanding and knowledge of investment and market opportunities in the region, as well as the tendency of US executives to focus on markets closer to home.

To help US firms overcome these shortcomings, *Asia's Rising Economic Tide* provides strategies for making in-roads into several different types of Asian markets: the newly industrialized economies in Hong Kong, Taiwan, Singapore, and South Korea; the emerging markets of China, Vietnam, and India; the ASEAN 4—Malaysia, Thailand, Indonesia, and the Philippines; and Japan. Heginbothm rejects a "one size fits all" approach, claiming each region requires a distinct business strategy. He urges US firms to examine their own long-term goals before targeting any group of countries for selective investment and marketing projects.

In addition to providing advice on specific groupings of countries, Heginbotham describes a "Greater China" strategy that focuses on the interaction between overseas Chinese enclaves and China. Relationships among Taiwan, Hong Kong, Singapore, and mainland China business interests are so extensive, he explains, that they constitute "a virtual new economic entity."

Heginbotham lists six ways for US firms to break into the "Greater China" market. These range from taking advantage of US government-supported programs to acting as a supplier to local firms working on major projects in the region. Other recommendations include linking up with important overseas Chinese entrepreneurs, such as Hong Kong's Gordon Wu or Li Ka-shing, or organizing consortia to bid on large-scale undertakings.

Heginbotham's final chapters contain policy recommendations to the US government on how to balance business and labor interests and forge a "more productive and competitive" US trade role in East Asia. He calls for strengthening the Asia-Pacific Economic Consultation (APEC) group, moderating US restrictions on trade and investment programs in China, and providing greater US economic assistance for infrastructure projects in the region. Heginbotham closes with the warning that if US companies do not become active participants in the East Asian economic arena soon, they will find themselves left out of the world's largest market. *—Gina Beck*

Gina Beck, a graduate student at the School of International Service at American University, spent the summer as an intern at the US-China Business Council.

World Development Report 1994: Infrastructure for Development

Oxford, UK: Oxford University Press and Washington, DC: The World Bank, 1994. 254 pp. $37.95 hardcover, $19.95 softcover.

This 17th edition of the World Bank's annual series on world development includes a special report on infrastructure modernization, which accounts for $200 billion in developing country expenditures each year. The statistics-packed study provides a generous overview on infrastructure financing, the impact of large-scale projects on the population and the environment, public/private ownership issues, and other salient topics. Though not specific to China or any one country, the PRC's infrastructure needs and problems get occasional mention in the text.

The World Bank report is most useful for the business reader looking for a general understanding of infrastructure development in modernizing countries; readers should not expect to find specific project opportunities here. The examples of development priorities and approaches of various countries could help companies outlining business strategies, however. Charts detailing the number of paved roads, the amount of power delivered, and other infrastructure indicators are included in the text. Unfortunately, China is rarely identified on the graphs, perhaps due to the paucity of reliable data available.

Nevertheless, the book's discussion of privatization, decentralization, and new financing options is quite useful. Typical of many World Bank reports, the appendices are very helpful: 33 tables of "world development indicators" provide comparative data on food and agriculture, energy imports, and other important sectors for each country. These tables are also available on diskette for $70. —*VLW*

World Tables 1994

Baltimore, MD: The Johns Hopkins Press and Washington, DC: The World Bank, 1994. 750 pp. $35.95 softcover, $95.00 diskette.

World Tables, another 1994 World Bank publication, is devoted to country-by-country tables covering everything from balance of payments to the percentage of females enrolled in secondary schools, for each year between 1972-92. The book's excellent glossary of terms relating to GNP, trade, investment, and debt should prove useful to non-specialists facing the task of summarizing economic developments in China and other countries.

Those charged with drawing up a comparison of how various countries rank according to specific economic and social indicators, such as income, education, and productivity, might find the diskette particularly useful. The entries for China—surprisingly complete after 1978—provide an invaluable summary of different aspects of the PRC's progress over the past 20 years. However, readers looking for current data—particularly concerning trade and balance of payments—would do better to pick up the latest issue of the International Monetary Fund's *Monthly Statistics.* —*VLW*

China Briefing, 1994

edited by William A. Joseph, Boulder, CO: Westview Press, 1994. 235 pp. $15.85 softcover.

If a yearly must-read in China studies exists, this is it. Published annually by Westview Press in cooperation with the Asia Society, *China Briefing 1994* offers succinct summaries of major developments in China by leading academics.

This year's *China Briefing, 1994*, edited by Professor William A. Joseph of Wellesley College, contains seven essays on topics ranging from politics, economics, and environment to ethnic identity in China's changing society.

The lead-off essay on politics, written by Boston University's Joseph Fewsmith, focuses on the leadership succession, military shake-ups, and economic reforms. In the best tradition of these briefings, Fewsmith draws readers' attention to recent events that they may have overlooked, such as the military purges that strengthened the position of Communist Party Secretary General Jiang Zemin—Deng Xiaoping's anointed successor.

Turning to matters of foreign investment and trade, Margaret Pearson of Dartmouth College explores an important point: is foreign investment truly as high as reported in the press? Or, are lower-level cadres reporting ever higher amounts of foreign investment because they know that is what their superiors want to hear? Although Pearson does not dispute that foreign investment is growing fast, she points out that a significant proportion might actually consist of PRC funds channeled through Hong Kong and then back to China.

East-West Center research fellow Dru Gladney's excellent chapter on China's diverse "nationalities" postures that ethnicity may become a more potent force in China than regionalism. Even within the majority Han population, Gladney claims, people of various subcultures are rediscovering their roots and creating new identities for themselves that challenge the government's definition of ethnicity.

Other chapters, though useful, are not as exciting. In particular, Iowa State University professor Huang Shumin's study of rural reforms reads a bit too much like a primer on the Chinese peasantry without adding anything especially new.

This shortcoming aside, *China Briefing 1994* cuts through the cacophony of the past year's press reports and provides balanced, well-reasoned analyses of major political and economic issues in China. A chronology of significant events of the past 12 months, a glossary of important Chinese figures and organizations, and a list of recommended readings make this book particularly useful for the non-specialist.

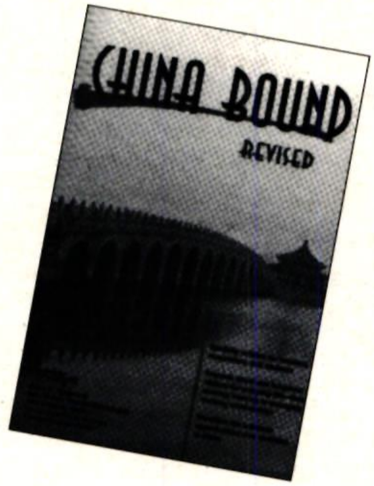
— *Ian Johnson*

Ian Johnson is the Beijing bureau chief of The Baltimore Sun.

China Bound - Revised

by Anne F. Thurston with Karen Turner-Gottschang and Linda A. Reed. Washington, DC: National Academy Press, 1994. 252 pp. $24.95 softcover.

China Bound, though aimed primarily at foreign students, teachers, and researchers on short stays in the country, is essential reading for anyone planning to visit China. Thurston, a long-time China scholar, and her associates provide helpful hints on such practical matters as renewing passports, obtaining health services and insurance, filing income taxes, and complying with Chinese Customs regulations. Tips on where to buy or how



to import clothing, electrical appliances, office equipment, and gifts are also detailed.

By far the most useful information in the book for businesspeople can be found in the chapter entitled "Services Available" and in the appendices, which provide telephone numbers of public institutions and government agencies; exchange rate and postal service information; and sample visa applications.

Despite the broad scope and application of *China Bound*, the book really covers only China's major cities—Beijing, Shanghai, and Guangzhou. A companion volume covering other parts of the country would be a welcome supplement.

— *Meredith Gavin*

Meredith Gavin, a graduate student in East Asian Studies at George Washington University, is a research assistant at *The CBR*.

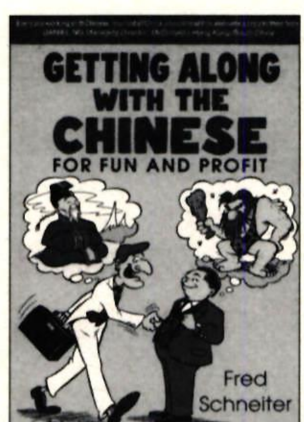
Getting Along with the Chinese for Fun and Profit

by Fred Schneiter. Hong Kong: Asia 2000 Ltd., 1992. 206 pp. $14.95 softcover. Recently released in the United States by China Books and Periodicals, San Francisco, CA.

Fred Schneiter knows the Chinese. Having lived in Asia for almost 30 years, the Hong Kong-based vice president for US Wheat Associates' market development has worked in every province in the PRC. *Getting Along with the Chinese for Fun and Profit*, an entertaining summary of his experiences, is a valuable reference for anyone new to the China trade—and it's as humorous as it is informative.

Do not be discouraged by the seemingly random anecdotes in the book's opening chapter, which reflect the author's easy-going style. In subsequent chapters, Schneiter delves into the importance of understanding the Chinese in order to communicate and work with them better. He dismisses the popular Western characterization of Chinese as inscrutable, stating that "reading the Chinese is like reading music or an electrocardiogram. You have to understand what the squiggles mean."

Schneiter imparts needed practical advice for both tourists and business executives. He underscores the importance of maintaining "face" and acting



modestly while in China, and also exhorts visitors to be adventurous, open-minded, and patient at all times—especially when problems arise. Without sounding fatalistic, Schneiter warns, "What cannot possibly go wrong will go wrong," and "What goes wrong will go wrong no matter what you do to avoid it." His advice is to ride out tough times and make the best of awkward or difficult situations.

While most of Schneiter's tips are useful, he spends a considerable amount of time discussing irrelevant topics. For instance, he includes an entire chapter on *feng shui*, or geomancy, but then claims that Chinese officials show "little outward concern" about such principles today. Moreover, he discusses in great detail the symbolism of chopsticks and how to use them, as well as how to pronounce Chinese names. Though these issues may not be unimportant, they are overemphasized here.

Getting Along provides few hard-and-fast rules for dealing with common business situations. The author's main point is that there is no documented, fool-proof method for ensuring successful business relations in China. Any extensive involvement with the Chinese will combine experiences both sour and sweet—the important thing is to learn from your successes and mistakes. While this information is hardly new, Schneiter's humorous approach makes his book enjoyable and easy to read.

—*Meredith Gavin*

Chinese Intelligence Operations

by Nicholas Eftimiades. Annapolis, MD: Naval Institute Press, 1994. 167 pp. $29.95 hardcover.

Chinese Intelligence Operations, a matter-of-fact overview of spy agencies within the Chinese government, is a far cry from a Le Carre or Clancy spy novel. Eftimiades, a former Defense Intelligence Agency specialist in East Asian affairs, exposes in detail China's domestic and international intelligence operations and explores intelligence relationships among China's Ministry of State Security; Ministry of Public Security; Communist Party Politburo; General Political Department of the People's Liberation Army; and Commission for Science, Technology, and Industry for National Defense.

While the book is designed more for academics and defense analysts, it is a good read for businesspeople involved in high-tech or classified projects. A general familiarity with China's intelligence-gathering operations will help executives minimize the risk of exposure to China's spying activities.

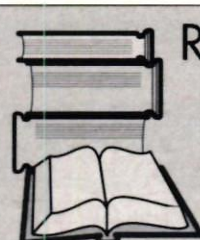
Also of interest to foreign businesspeople is a description of fronts for Chinese spies operating in the United States. Those under cover are called *chen di yu*, or "deep sinking fish." They adapt themselves to the American way of life and may be activated by the Ministry of State Security at a moment's notice. These "deep fish" are told to live unobtrusively, to integrate themselves into high-tech positions at large US companies, and to report back proprietary information to their recruiting officers.

Despite its controversial and alluring topic, this book reads much like an organizational chart. It is superb as an analytical piece but dry as James Bond's vodka martini; in its current form, the book is difficult to digest in one sitting, and could definitely benefit from the inclusion of more anecdotes.

A CBS news story following the publication of *Chinese Intelligence Operations* touched off a series of protests among the Chinese student community in the United States. The students claimed the book jeopardizes their chances of finding high-tech jobs in the United States. A closer reading of the book, however, reveals that such protests are off the mark. The whole point of Eftimiades' work is to compare China's intelligence networks with those of the United States, which the author believes focus too much attention on the former Soviet Union and Middle East and neglect China.—*Dan Martin*

Dan Martin is a business advisory associate at the US-China Business Council.

Books Received



China's Economic Reform
edited by Walter Galenson.
San Francisco, CA: The 1990 Institute, 1993. 277 pp. $39.50 hardcover.

China: Foreign Trade Reform
by Rajiv Lall.
Washington, DC: World Bank Publications, 1994. 334 pp. $21.95 softcover.

China's Military
edited by Richard H. Yang.
Boulder, CO: Westview Press, 1993. 204 pp. $49.85 softcover.

China Review 1994
edited by Maurice Brosseau and Lo Chi Kin.
Hong Kong: The Chinese University Press, 1994. 452 pp. $52 hardcover.

The Decline of Communism in China
by X.L. Ding.
New York, NY: Cambridge University Press, 1994. 230 pp. $49.95 harcover.

Deng Xiaoping: Chronicle of an Empire
by Ruan Ming. Boulder, CO: Westview Press, 1994. 188 pp. $69.95 hardcover, $19.95 softcover.

East Asia's Trade and Investment
edited by Bruce Ross-Larson. Washington, DC: World Bank Publications, 1994. 101 pp. $6.95 softcover.

The Economic Development of China
by Ryoshin Minami.
New York, NY: St. Martin's Press, 1994. 262 pp. $45 hardcover.

Financial Repression and Economic Reform in China
by Kui-Wai Li.
Westport, CT: Greenwood Publishing Group, 1994. 208 pp. $55 hardcover.

Gender Politics in Modern China
edited by Tani E. Barlow.
Durham, NC: Duke University Press, 1994. 307 pp. $45 softcover.

The Gradual Revolution
by Hui Wang.
New Brunswick, NJ: Transactions Publishers, 1994. 226 pp. $39.95 hardcover.

Miracle or Design: Lessons from the East Asian Experience
edited by Michael Treadway.
Washington, DC: Overseas Development Council, 1994. 115 pp. $9.95 softcover.

The Politics of Corruption in Contemporary China
by Ting Gong.
Greenwood, CT: Greenwood Publishing Group, 1994. 216 pp. $55 hardcover.

Reform and Development in Deng's China
edited by Shao-chuan Leng. Lanham, MD: The Miller Center, 1994. 214 pp. $54.50 hardcover, $23.50 softcover.

The Politics of China, 1949-1989

edited by Roderick MacFarquhar. New York, NY: Cambridge University Press, 1994. 534 pp. $59.95 hardcover.

The five long chapters of this book, each by a distinguished specialist on contemporary China, recount the political history of the People's Republic of China in chronological fashion. All but the last chapter are reprinted from the latest volume of the massive *Cambridge History of China.* Businesspeople interested in China would do well to read the McFarquhar book once, then keep it handy for reference to its excellent index, which chronicles the myriad events, people, and institutions whose historic significance ought to be understood by foreigners working in China today.

It behooves businesspeople to know at least something about momentous events in China's politics, such as the Lin Biao incident and the Cultural Revolution, as these events have been formative moments for Chinese just as Watergate and the Kennedy and King assassinations have been for Americans. Understanding the impact of these events on the Chinese populace can better help us understand the attitudes of our Chinese counterparts.

The final chapter of the book, written especially for this edition, provides the richest fare, at least for business-oriented readers. Written by UCLA political science professor Richard Baum, the essay covers Chinese politics of the 1980s and concludes with the immediate aftermath of the June 4, 1989 crackdown at Tiananmen. "The Road to Tiananmen" is valuable because it places the policy shifts and social and cultural issues of the period in context, and clarifies the personal and factional conflicts that preceded and followed the military crackdown. Baum's analysis of these events place them in a continuum that leads right to the present.

Unfortunately, Baum's writing tends to be wordy and full of jargon, but business readers who stick out the first few pages will discover a solid, engrossing portrait of the political milieu in which the Chinese operate. Companies ignore these realities to their detriment and peril.— *Robert A. Kapp*

Robert A. Kapp is president of the US-China Business Council.

In the Next Issue of *The CBR*:

- **China Off the Beaten Path:** *business opportunities in the interior*
- **China's New Foreign Trade Law**
- **Preparing for the Succession**
- **US Lawyers Spread their Wings in the PRC**

CHINA BUSINESS

■ **Meredith Gavin**

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

Firms whose sales and other business arrangements with China do not normally appear in press reports may have them published in *The CBR* by sending the information to the attention of the editor.

SALES AND INVESTMENT July 1-August 31, 1994
Foreign party/Chinese party **Arrangement, value, and date reported**

Accounting and Insurance

OTHER

The Chubb Corp. (US)
Opened representative office in Beijing. 7/94.

Tokio Marine and Fire Insurance (Japan)
Received license to sell insurance directly in China. 7/94.

Advertising and Public Relations

INVESTMENTS IN CHINA

Fleishman-Hillard Co. (US), Fleishman-Hillard Scotchbrook Asia (US)/Beijing Link PR Co.
Established Fleishman-Hillard Scotchbrook Link Beijing joint venture to provide consulting and public relations services for foreign and domestic companies. 7/94.

Agricultural Commodities and Technology

INVESTMENTS IN CHINA

Bayer AG (Germany)/Shanghai Corp. of Pharmaceutical, Economic, and Technical International Cooperation, Shanghai Veterinary Pharmaceutical Works
Will form joint venture to manufacture and sell animal health products. 8/94.

NA (Australia)/NA (Mongolia)
Established the Jingfeng Livestock Co. Ltd. joint venture in Hexingten Township to raise sheep. 8/94.

Abbreviations used throughout text: BOC: Bank of China; CAAC: Civil Aviation Administration of China; CNAIEC: China National Automotive Import-Export Corp.; CATIC: China National Aero-Technology Import-Export Corp.; CITIC: China International Trust and Investment Corp.; CITS: China International Travel Service; CNOOC: China National Offshore Oil Corp.; ETDZ: Economic and Technological Development Zone; ICBC: Industrial and Commercial Bank of China; MPT: Ministry of Posts and Telecommunications; NA: Not Available; NORINCO: China North Industries Corp.; P&T: Post and Telecommunications; PBOC: People's Bank of China; SEZ: Special Economic Zone; SINOCHEM: China National Chemicals Import-Export Corp.; SINOPEC: China National Petrochemical Corp.; SINOTRANS: China National Foreign Trade Transportation Corp.; SPC: State Planning Commission; UNDP: United Nations Development Program.

BASF AG (Germany)/Northeast General Pharmaceutical Factory (Shenyang)
Will form joint venture to produce vitamins for animal feed. (Germany:70%-PRC:30%). 7/94.

OTHER

ADB
Provided loan and technical assistance grant to the Yunnan-Simao Forestation and Sustainable Wood Project. $78 million. 7/94.

United Nations Food and Agriculture Organization
Will finance three farming and development projects in Hunan and Jiangsu provinces. $684,000. 7/94.

Banking and Finance

INVESTMENTS IN CHINA

Macquarie Bank Ltd. (Australia)/China National Non-Ferrous Metals Industry Corp.
Formed Asia Resources Capital Ltd. joint venture to provide financial services to China's mining sector. (Australia:50%-PRC:50%). 8/94.

OTHER

Commerzbank AG (Germany)
Opened representative office in Shanghai. 8/94.

Credit Suisse (Switzerland)
Opened branch in Shanghai. 8/94.

Schroders Group (UK)
Will open representative office in Shanghai. 8/94.

Bank of Communications (Shanghai)
Opened representative office in Singapore. 7/94.

Bankers Trust (US)
Opened representative office in Beijing. 7/94.

Netherlands Bank (Netherlands)
Opened representative office in Shanghai. 7/94.

Salomon Brothers (US)
Opened representative office in Beijing. 7/94.

Visa International (US)
Opened representative office in Beijing. 7/94.

Chemicals, Petrochemicals, and Related Equipment

INVESTMENTS IN CHINA

BASF Co. (Germany)/Shanghai Dyestuff Co.
Will establish three joint ventures to manufacture dyes used in the textile and leather industries. $150 million. (Germany:60%-PRC:40%). 8/94.

BP Chemical Corp., a unit of British Petroleum PLC (UK)/NA (Changshou), Sichuan Vinylon Factory
Established acetic acid joint venture. (UK:51%-PRC:49%). 7/94.

Daicel Chemical Industries Ltd. (Japan)/Shanghai Plastics Industrial Co.
Established Shanghai Daicel Compounding Co. joint venture to produce plastics for electrical appliances and auto parts. (Japan:75%-PRC:25%). 7/94.

Rhone-Poulenc S.A. (France)/Wuxi Chemicals Industry Co. Ltd. (Jiangsu)
Formed Rhone-Poulenc Specialty Chemicals Wuxi Co. Ltd. joint venture to produce anionic surfactants used in cosmetics production. $15 million. (France:70%-PRC:30%). 7/94.

Rohm & Haas Co. (US)/NA (Shenyang)
Will jointly develop agricultural chemicals for export. 7/94.

Consumer Goods

INVESTMENTS IN CHINA

Fujikoki Manufacturing Co. Ltd. (Japan), Mitsubishi Corp. (Japan)/Zhejiang Xinchang Refrigerator Plant
Established Fujikoki Sanhua Co. Ltd. joint venture to produce refrigerators and spare parts. $96.3 million. 8/94.

Procter & Gamble Co. (US)/NA (Tianjin)
Established the Tianjin Baojie Co. joint venture to produce soaps and related products. $30 million. 8/94.

Samsung Group (S. Korea)/NA (Tianjin)
Will build production center to manufacture cameras, camcorders, televisions, VCRs, and stereo equipment. $100 million. 8/94.

Wal-Mart Stores, Inc. (US), Ek Chor Distribution System, a wholly owned subsidiary of Charoen Pokphand Group (Thailand)
Formed joint venture to operate Wal-Mart discount stores and warehouse membership clubs in Hong Kong and China. 8/94.

Colgate-Palmolive Co. (US)/Guangzhou Jieyin Daily-Use Chemical Plant
Formed Colgate Guangzhou Co. joint venture to produce toothpaste. $40 million. (US:65%-PRC:35%). 7/94.

Duracell International Inc. (US)/Huaxin Industry and Commerce Corp. (Guangdong)
Formed Duracell China Corp. joint venture to produce alkaline batteries. $60 million. 7/94.

Minolta Co. (Japan)/Shanghai General Camera Factory
Formed joint venture to manufacture cameras. 7/94.

Minolta Co. (Japan)/Wuhan Instrument and Automation Industry Group Co.
Established joint venture to manufacture low-end office copy machines. 7/94.

Electronics and Computer Software

CHINA'S IMPORTS

TRW Inc. (US)/Beijing Cable TV Network, Suman Group Ltd. (Guangdong)
Will supply decoder units that will deliver cable television programming to households in China. 8/94.

INVESTMENTS IN CHINA

Bourns Inc. (US)
Established wholly owned subsidiary, Xiamen Bourns Electronics Co., to produce electronic instruments for use in telecommunications, precision measurement, and computer applications. $15 million. 8/94.

Illustra Information Technologies (US), Intel Corp. (US), SunSoft, a unit of Sun Microsystems, Inc. (US), Wyse Technology Inc. (US)
Established wholly foreign-owned enterprise to provide computer information systems to hospitals throughout China. 8/94.

Nippon Electronic Corp. (Japan)/Shanghai Changjiang Computer Group
Formed joint venture to manufacture computers. 8/94.

Toshiba Corp. (Japan)/Huanjin Electronics Group Corp.
Established joint venture in Jiangsu Province to produce semiconductors for televisions and audio equipment. $10 million. (Japan:60%-PRC:40%). 8/94.

Toshiba Corp. (Japan), Mitsui Bussan (Japan)/Novel Color Picture Tubes Co. (Shanghai)
Formed Shanghai Xinzhi Electronics Co. joint venture to manufacture flat masks for color TV tubes. $50 million. 8/94.

Unisys China Co. Ltd., a wholly owned subsidiary of Unisys Corp. (US)/China Meteorological Administration
Established joint venture to manufacture the China New Generation Weather Radar, a Doppler weather radar system. 8/94.

Intermec Corp. (US)/Beijing Legend Computer Group
Will jointly develop and market bar code technology in China. 7/94.

Matsushita Electric Industrial Co. (Japan)/Shun Hing Electric Works & Engineering Co. (HK)
Established two joint ventures to market and service electronic components and factory automation equipment. 7/94.

Microsemi Corp. (US)/General Rectifier Plant, a unit of Shanghai Electrical Apparatus Co.
Established joint venture to produce semiconductor equipment. $3.3 million. 7/94.

Northern Telecom Ltd. (Canada)/NA
Established Shanghai Northern Telecom Semiconductor Co. Ltd. joint venture to develop large-scale electronic circuits. $10 million. (Canada:70%-PRC:30%). 7/94.

OTHER

Samsung Group (S. Korea)
Will establish headquarters for its China operations in Beijing. 8/94.

Kuwait Fund for Arab Economic Development (Kuwait)/NA (Guangdong)
Will provide loan to co-polyester chip plant in Shantou Special Economic Zone. $30 million. 7/94.

Engineering and Construction

INVESTMENTS IN CHINA

General Electric Co. (US)/Shanghai Jiabao Industrial Corp.
Established joint venture to produce and market lighting products. $180 million. 8/94.

Itochu Corp. (Japan), Kobe Steel Ltd. (Japan), Shinsho Corp. (Japan)/Chengdu Engineering Machinery Group Corp.
Formed Kobelco Chengdu Construction Machinery Co. joint venture to manufacture and market construction machinery. (Japan:55%-PRC:45%). 7/94.

Canadian International Project Managers, a joint venture between Lavalin Group (Canada) and Acres International (Canada)
Won contract to manage construction of World Bank-funded Xiaolangdi dam on Yellow River. 7/94.

NKK Corp. (Japan)/Beijing Central Engineering & Research Inc. of Iron & Steel Industry
Established Beijing Phoenix Steel Metallurgical Engineering Co. joint venture to design steel-making plants, rolling mills, and other factory engineering projects in China. $250,000. (Japan:75%-PRC:25%). 7/94.

Siu-Fung Concept (HK)/Tangshan Ceramics Industrial
Established Tangshan Siu-Fung Ceramic Industrial joint venture to produce ceramics. $38 million. (HK:50%-PRC:50%). 7/94.

Zimbabwean Industrial Development Corp. (Zimbabwe)/China Building Material Industrial Corp.
Formed Sino-Zimbabwe Cement Co. Ltd. joint venture to produce cement. (Zimbabwe:65%-PRC:35%). 7/94.

Environmental Technology and Equipment

OTHER

World Bank
Will provide loan to finance environmental protection along the Hun and Taizi rivers in Liaoning Province. $110 million. 8/94.

World Bank
Will provide loan to build a waste water supervision system, treatment facilities, and an environmental protection information and training center in Shenyang, Liaoning Province. $10 million. 8/94.

World Bank
Approved loan for afforestation project along the Yangtze River in Sichuan and Hubei provinces. $200 million. 7/94.

Food and Food Processing

INVESTMENTS IN CHINA

Interbrew S.A. (Belgium)/Zhujiang Brewery (Guangdong)
Formed joint venture to produce and sell Interbrew's Stella Artois lager in China. (Belgium:50%-PRC:50%). 8/94.

Nestle Tianjin Ltd., a wholly owned subsidiary of Nestle SA (Switzerland)
Will establish factories to repackage milk powder and infant cereals, a confectionery plant, a training center, and a regional laboratory. $21 million. 8/94.

Pepsi Cola Co. (US)/Beijing Zhongyin Industrial & Trade Co. Ltd., Changchun No.2 Foodstuffs Co. (Jilin)
Formed Changchun Pepsi Cola Co. Ltd. joint venture to produce soft drinks. $20 million. (US:57.5%-PRC:5%,37.5%). 8/94.

Flying Food Service (US)/NA (Shanghai)
Established the Shanghai Airport International Flying Food Co. joint venture to provide meals for airlines. $5.3 million. 7/94.

Fuji Oil Co. (Japan), Itochu Corp. (Japan), Protein Technologies International Inc. (US)/Songyuan City (Jilin)
Established Jilin Fuji Protein Co. joint venture to produce soybean oil. $8 million. (Japan:54.5%, US:3.5%-PRC:42%). 7/94.

Golden Hope Plantations (Malaysia)/Jiangyin Oil & Fat Chemical Factory
Will establish Jiangyin-Golden Hope Oils & Fats Co. joint venture to produce rapeseed oil. $6 million. (Malaysia:60%-PRC:40%). 7/94.

Lotte Co. Ltd. (Japan), Lotte Foodstuffs Co. Ltd. (S. Korea), Mitsui Bussam Co. Ltd. (Japan)/Stone Group Co. (Beijing)
Established Lotte-Stone Foods Co. Ltd. joint venture to make candies and cakes. $19.9 million. (Japan, S. Korea:65%-PRC:35%). 7/94.

Nissin Food Products Co. (Japan), Itochu Corp. (Japan)/NA
Will establish Guangdong Shunde Nissin Foods Co. joint venture to produce instant noodles. (Japan:70%-PRC:30%). 7/94.

OTHER

Mars Inc. (US)
Donated 100,000 Mars bars to flood-stricken cities of Zhanjiang and Lianjiang in Guangdong Province. 7/94.

McDonald's Corp. (US)
Opened restaurant in Shanghai. 7/94.

Foreign Assistance

OTHER

Danish Export Finance Corp. (Denmark)/China Investment Bank
Will provide loan to help Chinese enterprises import advanced technology and equipment from Denmark. $30 million. 7/94.

Machinery and Machine Tools

CHINA'S IMPORTS

Pitney Bowes Inc. (US)/NA
Will supply mailing machines to help modernize post offices in China. $20 million. 8/94.

INVESTMENTS IN CHINA

GNB Industrial Battery Co., a subsidiary of Pacific Dunlop Ltd. (Australia)/Guangdong Post and Telecommunications Bureau
Established joint venture to manufacture lead-acid industrial batteries in the Nansha Development Zone. $18 million. (Australia:60%-PRC:40%). 8/94.

Lion Group (Malaysia)/Chongqing Jiangling Machine Plant
Established Chongqing Jiangling Engines Co. Ltd. joint venture to manufacture engines and spare parts. $90 million. 8/94.

Matsushita Electric Industrial Co. (Japan)/Tangshan Electron Equipment Factory
Formed Tangshan Matsushita Industrial Equipment Co. joint venture to produce and sell arc-welding machines. $8 million. (Japan:60%-PRC:40%). 8/94.

Norton Co. (US)/Shanghai Grinding Wheel Factory, Shanghai Jiushi Co.
Established Shanghai Norton Abrasive-Grinding Apparatus Co. Ltd. joint venture to manufacture precision ceramic-grinding machinery. $12 million. 7/94.

CHINA'S EXPORTS

Dalian Rolling Stock Plant (Liaoning)/NA (Burma)
Will sell six 2,000 hp diesel electric engines. 7/94.

OTHER

Studer Ltd., a producer of high-precision cylindrical grinding machines (Switzerland)
Opened a representative office in Beijing. 7/94.

Medical Equipment and Devices

INVESTMENTS IN CHINA

Hewlett-Packard Co. Ltd. (US)/China Medical Equipment Industrial Corp.
Established Hewlett-Packard Co. Medical Product Co. Ltd. joint venture to manufacture medical equipment. $15 million. 7/94.

OTHER

NA (Japan)
Donated money to China to vaccinate children against polio. $2.1 million. 7/94.

Packaging, Pulp, and Paper

INVESTMENTS IN CHINA

Scott Paper Co. (US)/NA (Shanghai)
Formed Scott Paper Shanghai Co. joint venture to produce tissues and other paper products. $17 million. (US:56%-PRC:44%). 8/94.

C&C Corp. (US)/Ningbo Meixu Industrial Development Corp. (Zhejiang)
Established Ningbo Lexing Packing Materials Co. Ltd. joint venture to produce polystyrene film. $14.8 million. 7/94.

Crown Can, a subsidiary of Swire Pacific (HK)/Zhangxizhuang Agriculture Industry and Commerce Corp. (Beijing)
Formed can manufacturing joint venture in Shunyi County, Beijing. $29 million. (HK:80%-PRC:20%). 7/94.

Petroleum, Natural Gas, and Related Equipment

CHINA'S IMPORTS

Amoco Orient Petroleum Co. (US), Far East Levingston Shipbuilding Ltd. (US), Reading and Bates Development (US)/Liuhua Oilfield
Will convert a semi-submersible drilling barge into a floating production base. $40 million. 7/94.

INVESTMENTS IN CHINA

Kerr-McGee China Petroleum Ltd., a unit of Kerr-McGee Corp. (US), Murphy Exploration & Production Co. (US)/CNOOC
Will explore for oil and natural gas in the Bohai Gulf. 8/94.

Singapore Petroleum China Pte. Ltd. (Singapore)/Jiangmen City Gas Corp. (Guangzhou)
Established Jiangmen City Sinjiang Gas Co. joint venture to market and distribute liquefied petroleum gas. $14.5 million. 7/94.

OTHER

Fuji Bank (Japan)/CNOOC
Will provide loan to develop oil industry and aid oil exploration in the South China Sea. $50 million. 8/94.

Esso AG, a subsidiary of Exxon Corp. (US)
Established Esso China Ltd. wholly owned subsidiary to direct oil exploration efforts in the East China Sea. 7/94.

Pharmaceuticals

INVESTMENTS IN CHINA

Hoechst AG (Germany)/North China Pharmaceuticals Corp.
Established joint venture to manufacture antibiotics and cardiovascular drugs in China. $23.3 million. (Germany:50%-PRC:50%). 8/94.

Schering-Plough Corp. (US)/Shanghai Corp. of Pharmaceutical Economic and Technical International Cooperation, Shanghai Pharmaceutical Industry Corp.
Established Shanghai Schering-Plough Pharmaceutical Co. Ltd. joint venture to manufacture drugs. $15 million. (US:55%-PRC:45%). 8/94.

Unigene Laboratories Inc. (US)/Qingdao General Pharmaceutical Co.
Formed joint venture to manufacture and sell injectable and nasal formulations of calcitonin, a drug used to treat osteoporosis. 8/94.

Bayer AG (Germany)/Beijing Economic Technological Development Corp.
Will establish joint venture to produce Bayer prescription and over-the-counter drugs for the Chinese market. $30 million. 7/94.

OTHER

Wellcome Group (UK)
Will open representative offices in Beijing, Guangzhou, and Shanghai. 8/94.

Wellcome Group (UK)
Will fund AIDS education program in China. $175,000. 8/94.

Ports and Shipping

CHINA'S INVESTMENTS ABROAD

Cosco Investment, a subsidiary of China Ocean Shipping Co. (PRC), Overseas Technical Engineering & Construction Co. (Japan)/NA
Will build oil-storage terminal in Pasir Gudang, Malaysia. $27 million. 7/94.

INVESTMENTS IN CHINA

Sea-Land Orient, a subsidiary of Sea-Land Inc. (US)/Shanghai Port Comprehensive Development Corp.
Formed Shanghai Oriental International Container Transportation joint venture to manage container storage and warehouse operations. 8/94.

Steamers Maritime Holdings Ltd., a unit of Keppel Corp. (Singapore)/China National Foreign Trade Transportation Corp. (Guangdong)
Formed joint venture to operate the Lanshi terminal in Guangdong Province, provide distribution and warehousing services, and expand Foshan-Hong Kong shipping activities. $19 million. 8/94.

Expeditors International of Washington Inc. (US)/Beijing Beiao Responsibility Co., Kang Jie Kong Cargo Agent Co., Sino-Trans Beijing Air Freight Forwarding Co.
Established Beijing Kang Jie Kong Cargo Agent Co. joint venture to provide freight-forwarding services in China. (US:27.5%-PRC:72.5%). 7/94.

OTHER

Overseas Orient Container Line (OOCL) Ltd. (HK)
Opened representative offices in Beijing, Fuzhou, and Ningbo. 8/94.

Power Generation Equipment

CHINA'S IMPORTS

Westinghouse Electric Corp. (US)
Will improve efficiency of 200MW steam turbine generators in Hebei, Liaoning, and Zhenjiang provinces. $11 million. 8/94.

Westinghouse Electric Corp. (US)/Jiangsu Ligang Electric Power Co.
Will supply two 350MW steam tubine generators and other equipment. $140 million. 8/94.

INVESTMENTS IN CHINA

Honda Motor Co. (Japan)/Mindong Electric Group Co. Ltd.
Established Honda-Mindong Generator Co. Ltd. joint venture to produce and sell gasoline-powered generators in China. $6 million. (Japan:60%-PRC:40%). 8/94.

Westinghouse Electric Corp. (US)/Harbin Electrical Equipment Co.
Formed joint venture to increase output capacity of Harbin company and produce steam turbines. (US:50%-PRC:50%). 8/94.

Westinghouse Electric Corp. (US)/Shanghai Heavy Machinery
Formed joint venture to increase output capacity of Shanghai company and produce steam turbines. (US:50%-PRC:50%). 8/94.

Westinghouse Electric Corp. (US)/Shanghai Electric Corp.
Formed joint venture to increase Shanghai Electric's power generation equipment manufacturing capacity. $100 million. 8/94.

Electric Power Resources International Ltd. (US)/Northeast China Electric Power Group Corp.
Will jointly build two coal-fired electric generators in Suizhong, Liaoning Province. 7/94.

Hong Kong Yongchang Power Co. Ltd. (HK)/Fujian Power Industry Administration, Xiamen Municipal Government
Established the Diesel Power Plant joint venture. $24 million. 7/94.

Property Management and Development

INVESTMENTS IN CHINA

Cathay International Group (UK)/Xiyuan Hotel (Beijing)
Will jointly build Beijing Xiyuan Landmark Ltd. residential center. $300 million. 8/94.

Bechtel Enterprises Inc. (US)/Xinde Joint Development Co. (Zhejiang)
Established joint venture to develop Daxie Island. $5 million. (US:50%-PRC:50%). 7/94.

Telecommunications

CHINA'S IMPORTS

Italtel (Italy)
Will sell telephone switching equipment to railway bureaus in Shenyang, Harbin, Hohhot, and Lanzhou. $10.5 million. 8/94.

Ericsson Telecom AB (Sweden)/Jiangsu Post and Telecommunication Administration
Will sell AXE switching equipment, as well as power and cooling equipment. $115 million. 7/94.

Integrated Network Corp. (US)/MPT
Will install Digital Data Over Voice network access system to facilitate on-line banking activities at post offices in China. 7/94.

JNA Telecom Co. (Australia)/Henan Provincial Bureau of Posts and Telecommunications
Will sell digital and data network for provincial computer system. $3.6 million. 7/94.

INVESTMENTS IN CHINA

Thai Master Call International Telecommunications Co. (Thailand)/Guangdong Yinhai Group
Will jointly build an 800-megacycle mobile telecommunications system. $18 million. 8/94.

Bell-Northern Research, a research arm of Northern Telecom Inc. (Canada)/Beijing University of Posts and Telecommunications
Established BUPT-BNR Telecom Research and Development Center to improve China's telecommunications sector. 7/94.

OTHER

Carr Indosuez Asia Group, a wholly owned subsidiary of Banque Indosuez Group (France)
Will establish fund to raise money for the Chinese telecommunications industry. $200 million. 8/94.

AT&T Inc. (US)/Beijing Telecommunications Administration
Donated 10 debit-card phones to facilitate overseas calls from China. 7/94.

Textiles and Apparel

INVESTMENTS IN CHINA

Asahi Chemical Industry Co. (Japan)/Ningbo Zhendong Group Co. (Zhejiang)
Established Ningbo Asahikasei Textiles Co. joint venture to manufacture acrylic fiber. $5 million. (Japan:80%-PRC:20%). 8/94.

NA (Nepal)/Tibet Native and Animal Product Import-Export Corp.
Established World Roof Wool Processing Co. Ltd. joint venture to produce wool. $345,000. 8/94.

Rio Chain Co. (Japan)/NA
Will build factory in Shanghai to manufacture women's sweaters. 7/94.

OTHER

NA (Australia)/NA
Will support training program to improve efficiency and quality of Chinese wool-processing industry. $2.9 million. 7/94.

Transportation

CHINA'S IMPORTS

Airbus Industrie (Europe)/China Eastern Airlines
Will sell three aircraft. 7/94.

Hyundai Motor Co. (S. Korea)/NA
Will export 1,100 Sonata II sub-compact cars to China. $15 million. 7/94.

NA (Russia)/China Aviation Supplies Corp.
Sold 2 Russian Yak-42D aircraft. 7/94.

Netherlands Airport Consultancy Co. (Netherlands)/Shenzhen Airport
Will design expansion plans for Shenzhen Airport. $470 million. 7/94.

INVESTMENTS IN CHINA

Lin Tung-Yen China Inc. (US)/NA (Beijing)
Will jointly build the Beijing-Tongxian expressway. $150 million. 8/94.

Piaggio Veicoli Europei (Italy)/NA (Guangdong)
Established joint venture in Foshan to produce mopeds. $100 million. (Italy:51%-PRC:49%). 8/94.

Singapore Aerospace (Singapore), Changi International Airport Services (Singapore)/Singapore-China Merchants Aviation Holdings, a joint venture between Singapore Aerospace (Singapore) and China Merchants Holdings (HK), Shenzhen Airport Co.
Established Shenzhen Aircraft Maintenance & Engineering Co. joint venture to maintain and repair aircraft. $10 million. (Singapore:10%, 15%-PRC:42%, 33%). 8/94.

TRW Inc. (US)/Jinan Auto Accessories Works
Will establish joint venture to manufacture engine valves for the Chinese market. 8/94.

Lucas Aerospace (UK)/Taikoo Aircraft Engineering Co. (Xiamen)
Will jointly build a repair and overhaul facility to service engine and flight control systems. $10 million. (UK:65%-PRC:35%). 7/94.

Nissan Motor Co. (Japan)
Established Nissan Motor China Ltd. wholly owned subsidiary in Hong Kong to manage the distribution of vehicles and supply of parts in China. $2 million. 7/94.

Pacific Rim Construction Group (Australia)/NA
Will build a light-rail system between Beijing and the Great Wall. $300 million. 7/94.

York Pacific Holding Pte. Ltd. (Singapore)/Qingdao/CAIEC Special Vehicle Co. Ltd., a joint venture between Qingdao Motor Fittings Factory and China National Automotive Industry Import-Export Corp.
Established Qingdao York Transport Equipment Co. Ltd. joint venture to produce and distribute trailer axles and components. (Singapore:60%-PRC:40%). 7/94.

CHINA'S SALES ABROAD

Number One Auto Works/Belhasa Group (United Arab Emirates)
Will sell Jiefang-model trucks to Oman, Yemen, and the United Arab Emirates. 7/94.

OTHER

ADB
Will provide loan to modernize railway technology and provide organizational, accounting, and financial services for Beijing-Kowloon Railway. $200 million. 7/94.

British Government (UK)/Nanjing Airport
Provided loan to modernize airport. $86 million. 7/94.

NA (Brazil)/CAAC
Signed air services agreement to allow flights between Brazil and China. 7/94.