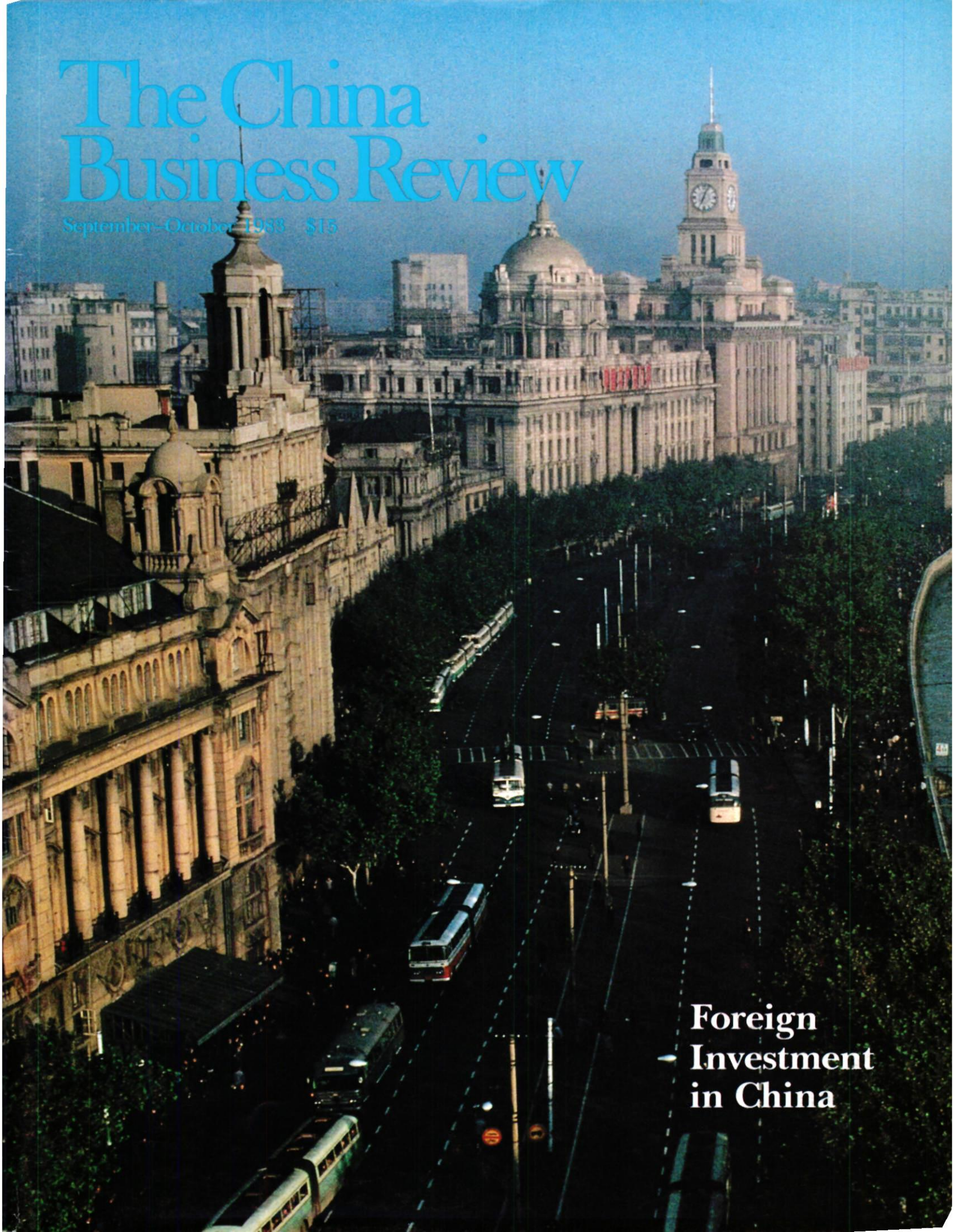
The China Business Review

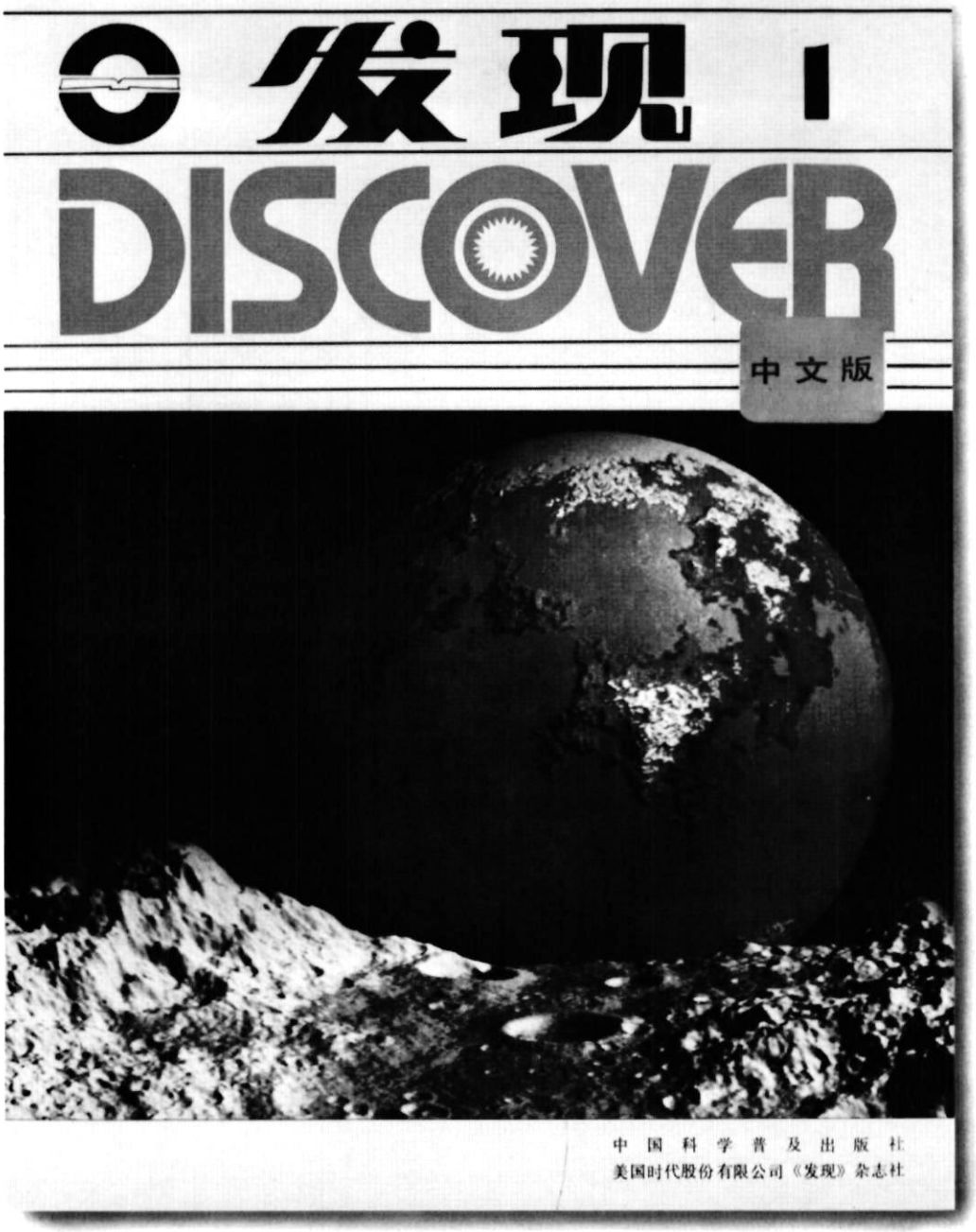
September–October 1983 $15



Foreign Investment in China

DISCOVER IN CHINESE.

Now America's largest science magazine speaks the language of Chinese decision-makers.



The Chinese DISCOVER is the first of its kind—the first foreign consumer magazine to be translated into Chinese and sold at nationwide retail outlets.

It's printed in four-color, on better paper than other Chinese magazines, with a bigger page. The price—twice that of other Chinese magazines. The initial circulation—20,000 guaranteed.

Here's a unique opportunity to advertise to an elite Chinese audience. A black-and-white page costs $2,500; four-color is $4,000.

To find out more about the Chinese DISCOVER, contact Tim Leedy in New York at (212) 841-4967; Ron Keown in Chicago at (312) 329-6392; Bob Bagno in Detroit at (313) 875-1212; or Cliff Allman in Los Angeles at (213) 385-8151.

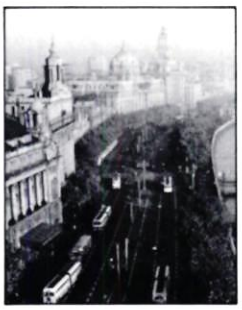
Start talking the language of Chinese decision-makers—in DISCOVER.

DISCOVER
America's science magazine

The China Business Review

The magazine of the National Council for US–China Trade

September–October 1983 Volume 10, Number 5



Cover: China's four-year campaign to woo foreign investors has met with a lukewarm reception by Western companies. Now the government has decided to redouble its efforts—with the help of Shanghai. **Page 12.** *Photo by Bruce Dale, © National Geographic Society.*

Laws: Few would have believed in July 1979, when it passed its first joint venture law, that China would become such a prolific law-maker. **Page 30.**

Business: Since 1949, Chinese enterprises have established nearly 70 times more joint ventures among themselves than with foreign firms. **Page 34.**

US Export Prospects Capital equipment sales are leading the rebound. *By Martin Weil* **6**

The Year of the Shakedown Why two-thirds of the country's top provincial leaders have been removed. *By Christopher M. Clarke* **9**

Shanghai Unleashed The city of 11 million now enjoys a measure of real foreign trade autonomy. *By Carolyn L. Brehm* **12**

Flex Trade The best forms of trade are still the simplest. *By Carolyn L. Brehm* **16**

Investment Problems Finding what works is half the battle. *By Jeanne Chiang* **26**

Laws In just four years the body of Chinese foreign trade and investment law has swelled from 1 to more than 100 statutes. *By Marianna Graham* **30**

Eggs for Steel Foreign investors can learn a lot from China's curious business arrangements. *By E. Sabina Brady and James B. Stepanek* **34**

The McEvoy Deal China clearly favors its licensing partners. *By Christopher E. Stowell* **38**

ITT's $250 Million Joint Venture This mammoth telecommunications deal may be a sign of things to come. *By Chris Brown* **40**

Service Centers in China Despite the interest, most remain "loss centers". *By Eve Rodler* **44**

Chinese-Style Foreign Aid No more free lunches. *By Deborah A. Brautigam* **57**

Departments

Trends and Issues **4**

Bookshelf **59**

China Business **61**

摘要

CHINA'S LOST BILLIONS

Sometimes the only thing more curious than what China does, is what it doesn't do.

Take China's giant foreign exchange reserves, for example. These achieved $11.1 billion at the end of 1982 and, according to one US analyst in Beijing, may reach $17.5 billion by year's end. Anyone would have predicted in early 1982, when world commodity prices had clearly begun to fall, that China would have spent some of this money on increased purchases of machinery and equipment. The extra production capacity would have been ready and poised to take advantage of the current economic recovery in China's export markets. The timing would have been perfect.

But China didn't do that. In fact, it assiduously pursued an opposite course. Machinery and equipment imports, according to the Chinese General Administration of Customs, were cut by 13 percent in 1981, and by 27 percent in 1982. Only in the first and second quarters of this year has the dive stabilized and begun to reverse itself. The IMF reports that during this same two-year period its index of world commodity prices fell by 19 percent. A lost opportunity, indeed.

Also during this period, the Bank of China's foreign lending quadrupled. Its Asian dollar and Eurocurrency deposits expanded, as did its syndicated loans for plant, equipment, real estate, and infrastructure development in the West. In short, China chose to recycle its funds in foreign capital markets as do the wealthy oil-exporting countries.

But few foreign financial analysts blame the BOC for this curious state of affairs. It is Beijing that is fearful of the waste that might occur if Chinese enterprises were given more foreign exchange to spend. The key word is *given*. Despite the talk of reform, most foreign exchange is still handed over at very low interest rates to Chinese enterprises, albeit under the supervision of the Finance Ministry and central ministries, among other entities. In the absence of strict accounting, rational prices, and market interest rates, foreign exchange has to be rationed "administratively," as the Chinese say, through a screening process that is as much political as economic. As such, decisions can move no faster than the time it takes for bureaucrats to talk to each other, or not talk, as the case may be. Meanwhile, China's billions speed around the globe by instantaneous electronic transfer while waiting for a passage home.

JOHN R. OLDHAM FUND ESTABLISHED

John Rochester Oldham, a Chinese legal scholar, was among the 269 people from 13 nations who perished on Korean Airlines flight 007 on September 1, 1983. A graduate of Andover, Princeton, and a 1983 graduate of Columbia Law School, John Oldham was on his way to teach and study for a year at Beijing University. He served as chief editor for the forthcoming special issue of the *Columbia Journal of Transnational Law* on China's legal development, and had already accepted a position with Surrey & Morse in Washington, DC.

To honor his memory, his many friends and colleagues have founded the John R. Oldham Scholarship Fund to perpetuate his work in building legal exchanges between the US and China, and to further his dream of international understanding and peace through law. The Fund will enable a Chinese legal scholar to study in the US, and an American law student to study in China each year as John R. Oldham Scholars. Your tax deductible contribution may be sent to: John R. Oldham Scholarship Fund, c/o Center for Chinese Legal Studies, Columbia University Law School, 435 West 116th Street, New York, NY 10027.

COVERING YOUR CHINA RISK

"The outlook for the insurance business in China looks bright, but in no way do I envisage a massive, explosive growth," predicts Joseph F. Ladman, Jr., US manager of the China America Insurance Co., the only joint venture between an American company—the American International Group—and the People's Insurance Company of China.

China America has already insured a number of Chinese properties in the US, including the PRC's consulates, UN delegation, CAAC properties, as well as PRC trade corporations and US-domiciled joint ventures.

"Covering risk in China is another matter," Ladman said during a recent exclusive *CBR* interview. "Keep in mind that foreign insurance companies are not permitted under Chinese law to solicit or write insurance on Chinese property or risks within the PRC. They are, however, permitted to insure foreign investments in China other than joint equity ventures.

"Though most foreign joint ventures in China probably have basic property coverage, there is a complete gap in coverage between the time that goods leave a Chinese factory and are loaded free on board the vessel, and vice versa. It is anyone's guess as to how many coproduction, compensation trade, and processing deals are insured. Any foreign investor in these types of ventures can purchase so-called 'nonadmitted' insurance from a foreign insurance company—with one exception. That is the case of true joint equity ventures, which must insure with PICC under Article 8 of China's July 1979 joint venture law. One word of cau-

tion: A firm using nonadmitted coverage should know that the power to determine and adjust its losses and claims in China lies with PICC.

"US oil companies in China naturally have special insurance needs," Ladman notes. "The foreign operator must submit an insurance program to the joint venture's management committee within 120 days after the effective date of the contract. If the drilling rig is leased from the PRC, and the lessor is responsible for the physical damage of the rig, then the joint venture must purchase rig coverage and third-party liability insurance from PICC, as have Total, Elf, and JCODC. Conversely, if the drilling rig or vessel is chartered from a US operator such as Santa Fe or Global Marine, the foreign partner 'shall make its best efforts to impel them to insure with PICC.' This applies equally to servicing joint ventures, such as China Petroleum Logging (a Dresser Atlas-Logging Co. of China joint venture). Their insurance must be written by PICC. Subcontractors not involved in joint ventures are technically free to place their insurance abroad.

"Foreign operators have also obtained non-PICC coverage for their personnel, since China has no law such as the Jones Act protecting drilling crews and support crews. PICC has indicated a willingness to write protection and indemnity coverages as required by the Jones Act for US nationals working in China. Because US nationals possess the right to legal recourse through US courts, it stands to reason that US firms should obtain such required insurance in the US."

A JOINT VENTURE TALE

Lost in the National Council's archives was a story that perhaps deserves wider attention. Back in 1980 a Chinese and foreign firm entered into a joint venture agreement that called for the modernization of the Chinese partner's factory. Foreign engineers, managers, and equipment were scheduled to start the process of modernization in 1982.

Then a strange thing happened. Before the process of modernization could get underway, the Chinese plant began doing much better anyway. In fact, the factory entered a state of flushed financial good health before a single "foreign engineer had ever come to the factory to supervise production and management," Hong Kong's *Wen Wei Po* revealed.

The case may explain why so many Chinese enterprises seek out foreign investment partners. "The main reason more profits were created," the report continued, "was that after this factory gained the privileged position of a joint venture it had more autonomy." Concludes the report: "This example shows that . . . the mere smashing of the trammels of conventional practices can bring great gains to enterprises."

10,000 STEPS TO FITNESS

Mao's policies may be on the way out, but his love of physical fitness lives on. Deng Xiaoping, age 79, swims every morning when he gets a chance, "and he also loves playing bridge as well as billiards," according to the Beijing columnist, Zhu Minzhi, who recently offered his readers a rare glimpse at how China's top leaders stay fit.

Party Chairman Hu Yaobang takes 10,000 steps every day monitored by a waist pedometer. "He looks at his meter every day to see if he has taken his planned number of steps. If the number of steps is below the target he is sure to find time to meet it." Hu reportedly keeps up the regime even when traveling on trains. Premier Zhao Ziyang, age 64, runs for about 60 minutes every day, rain or shine, followed up with after-dinner walks. He always carries a mini-radio in his hand to hear the news. President of the Republic Li Xiannian, age 78, rises at dawn to walk 3.5 kilometers to help his back problem. "Comrade Peng Zhen loves the back stroke most," the report says. But when not swimming at the beach the NPC Standing Committee chairman prefers to go boating.

Meanwhile, 79-year-old Chen Yun walks for 35 minutes in the morning and 25 minutes in the afternoon. He gave up taking cold showers every morning in 1979, after 26 years. Vice-Premier Wan Li, age 67, plays a formidable game of tennis and recently defeated the Australian ambassador with his deft slicing.

None of these feats, however, come close to Mao's historic swim of July 25, 1966, when he crossed a 15-kilometer stretch of the Yangzi River in just 65 minutes. That 9-mile-per-hour swim at the age of 72 is one achievement his successors can never take away from him. —JBS

MAGAZINE STAFF

James B. Stepanek
editor

Carol S. Goldsmith
managing editor

Martin Weil
associate editor

Elizabeth Mueller Gross
copyeditor / production coordinator

Christopher M. Clarke
political analyst

Jennifer Little
research assistant

Judy Bourke
manager, publications sales

The China Business Review welcomes articles from outside contributors. Manuscripts submitted for consideration should be typed, double-spaced, and normally may not exceed 5,000 words. They should be sent to the editor, *The China Business Review*, Suite 350, 1050 17th St., NW, Washington, DC 20036-5559, USA (telephone 202–429–0340). The National Council for US–China Trade retains all rights to articles and artwork published in *The China Business Review*.

Articles or artwork published in *The China Business Review* may be reprinted in non-National Council publications or reproduced only with the written permission of the National Council for US–China Trade.

The China Business Review is published bimonthly by the National Council for US–China Trade, a nonprofit organization incorporated under the laws of the District of Columbia. Controlled circulation postage is paid in Washington, DC. Articles in *The CBR* do not reflect Council policy, unless indicated. The Council is grateful to His Excellency Huang Zhen, former minister of culture, for the calligraphy on the front cover, and to I-Chuan Chen of the National Council for the calligraphy used for the magazine's departments.

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

US EXPORT OUTLOOK

Martin Weil

Exports to China are coming out of a prolonged slump that saw exports fall from a high of $3.8 billion in 1980 to just $1 billion in the first half of this year. China's resumption of wheat purchases after signing the US–PRC textiles agreement on August 19, combined with a rebound in log sales, means that total US exports could reach $2.5 billion this year, and as much as $3.4 billion in 1984.

What is significant about the recovery, however, is that today capital goods and nonagricultural goods in general are beginning to play a more important role in our exports to the PRC. Traditionally, 60 percent of all US exports to China have consisted of agricultural products, an export share that could fall to 30–40 percent by 1984.

Capital Equipment

The decline in overall exports has obscured the fact that capital goods sales have actually increased in 1983—in the case of machine tools, aircraft, computers, and instruments by 200 percent to nearly $200 million through June. It is likely this trend will continue, resulting in total US machinery and equipment exports in 1983 that surpass the 1980 record of $435 million. A further increase in 1984 is more than likely.

Behind these favorable trends are China's giant $12 billion in foreign exchange reserves, which recently surpassed those of Switzerland and the UK to become the sixth largest in the world; a US government promise in June to loosen export controls for China; and the fact that US export statistics do not yet include the large equipment sales under negotiation or recently signed.

Looking further down the road, the Chinese are already seriously discussing the Seventh Five Year Plan, to begin in 1986. This is a reassuring sign that the plan will start on time. Many projects just getting underway were postponed because the current Sixth Five Year Plan, originally scheduled to begin in 1981, was not promulgated until late last year. The seventh plan shows every sign of being more ambitious than the sixth.

Nevertheless, the increase in China's equipment and machinery imports is unlikely to be the quantum leap that took place in 1978–79. For large projects, the Chinese are no longer taking a complete plant purchase approach, preferring instead to buy a combination of technology, key equipment, and assistance, and then do the remainder of the work themselves. In the chemical or metallurgical fields, for example, what would have been a $50–100 million project for foreign firms several years ago is a $10–20 million project now.

Moreover, the Chinese are increasingly interested in licensing. As some US manufacturers have discovered, the conclusion of a licensing agreement can actually mean increased sales of machines and parts during the period the licensee is gearing up production, particularly given the Chinese tendency to overestimate [redacted] their ability to absorb technology and the need to prolong the gearing-up period. But there is no escaping the fact that in the final analysis, licensing means import substitution.

Finally, there is the simple fact that for many types of equipment, the US cannot compete with Japan or other countries on price and sometimes quality. There is a growing trend for US machinery makers to place their China orders through foreign subsidiaries or licensees. As a result, the new wave of Chinese purchases probably will benefit Japan more than the US.

Aircraft

Commercial airliner sales have figured prominently, though sporadically, in US exports to China since Boeing first sold ten 707s in 1972. The sale or lease of ten Boeing 737s, two 747s, and two McDonnell Douglas DC 9s will add close to $200 million in 1983 US exports to China. Industry analysts see a market for at least another 20–30 passenger aircraft in the next few years, as China phases out its aging fleet of 20 or so Trident jets, and transfers Boeing 707s out of international routes to meet noise standards. China wants to produce a number of these under license, but this would still generate considerable component sales.

Petroleum Equipment

Drill bits, truck-mounted drilling rigs, rig parts, and other petroleum equipment exports could reach $100 million this year, or double 1982's export volume. Such exports achieved $200 million in 1979, but had fallen to $50–60 million in recent years.

The Daqing oilfield reportedly is preparing to buy 12 new rigs, and the World Bank's loans of $160 million for Daqing and $157 million for the Zhongyuan oilfield projects should add to sales in the coming few years, since the US still leads the world in most kinds of petroleum equipment. Additionally, the Chinese are starting to stockpile parts for the offshore drilling program.

China's petroleum equipment licensing program recently began in earnest with the opening of the Jianghan rock bit plant using Hughes technology, and the conclusion of a contract with National Supply for drilling rig parts know-how. Both Hughes and National Supply continue to make product sales, and these and other licensing deals should not affect export volumes for a few years at least.

Electronics

Sales of computers, scientific instruments, and semiconductor manufacturing equipment show excellent prospects, assuming we are on the threshold of a real liberalization of export controls. The jump in instrument sales from $31 million in the first half of 1982, to $72 million in the first six months of 1983, may be a harbinger of things to come.

International lending programs

alone, particularly the World Bank's program to upgrade 26 key universities, seem likely to add hundreds of millions of dollars to China's instrument and computer purchases, and US companies won 75 percent of the awards in the first round of bidding. Mineral exploration organs including the ministries of Geology, Petroleum, and Coal seem to have vastly increased budgets for instrument and computer buying, as the Chinese strive to add to their reserves.

Finally, computer and instrument sales for process-control in factories seem likely to rise dramatically as new money filters down for enterprise renovation. Many Chinese enterprises feel that the most effective way to spend the limited funds they have is to automate key production processes, and US firms are already cashing in on this type of business.

Grain

China's grain imports of 13.5–15.5 million tons per year consist mainly of wheat, and come largely from the US. In 1983, however, it is doubtful that China will meet its commitment under the October 1980 US–PRC grain agreement to buy at least 6 million tons of American grain, as it has only committed to about 3.75 million as of October 1.

Wheat sales in particular were badly affected by the prolonged textiles dispute. Many traders are convinced that had there been no textiles problem, China would have purchased US wheat in April and May, when US wheat prices were competitive on world markets. Instead, the business went mainly to Argentina.

Trade sources believe that China's original intention was to come back into the US market right after the textiles agreement was concluded in July. Unfortunately, wheat prices shot up in response to the midwestern drought at just this time. The Chinese bought more than 1 million tons of US wheat in September, probably in part as a gesture of political good will. But they are likely to stretch out their purchases, and may ask the US government to let them carry over some of their purchase obligations to 1984, when prices could be lower.

Most observers still believe, however, that China's 1983 and 1984 grain purchases will average at least six million tons. The optimism is based on China's growing reliance on foreign grain to feed its large coastal cities. Grain imports substantially ease the strain on the country's weak transportation and administrative system, making it possible for Beijing to procure only 72 million tons of grain in 1982, of a total harvest of 353 million tons. The timing of foreign grain deliveries is probably more reliable than deliveries from China's countryside, which is an important reason why imports have remained steady even as domestic procurement rose during the past few years.

Trade sources estimate that as much as 50–60 percent of China's total grain imports go to Beijing, Tianjin, and cities in northeast China, while more than 30 percent goes to Shanghai and other cities on the Yangzi River. For political reasons alone, the government probably could not do anything to upset the grain balance in these cities.

Further to the south, the government wants to begin substituting wheat for the traditional rice in certain southern cities. About 1 million tons of imported grain reportedly has been routed to Guangzhou in recent years to increase the consumption of faster-cooking wheat breads and reduce unproductive labor time spent at the stove.

If China, like the Soviet Union, began importing grain for animal feed, it might buy even more grain. But apart from isolated deals such as Continental Grain's chicken farm in the Shenzhen Special Economic Zone, which relies on imported feed, China's grain imports have been for consumption, not feed. Corn imports have fluctuated in the last three years between 5 and 13 percent of total imports, and 6 and 23 percent in the case of imports from the US. Any shift towards feed corn would benefit the US, the world's main corn supplier, but China's consumption of feed corn will increase only gradually.

Cotton and Soybeans

Cotton sales prospects in 1983 and 1984 continue to look poor, given China's bumper harvests. The tighter restrictions placed on PRC cotton textiles will also dampen China's demand for imported cotton, most of which is reexported in garments. US cotton exports to China fell from $178 million in 1982, to just $1 million in the first half of this year.

China's 1982 cotton harvest of 3.6 million tons will keep total imports under 100,000 tons this year, down from 600,000 tons in 1981. Many believe that the only reason China is buying any cotton at all is to maintain good relations with its Third World trading partners, such as Pakistan.

US sales could gradually increase as PRC harvests level off. The jump in domestic output is largely due to cotton's higher, fixed purchase price, but now the government wants to stop peasants from shifting acreage out of grain to cotton.

Soybean exports to China in 1983–84 will undoubtedly fall far short of sales in the early 1980s, which averaged $100 million annually. Exports declined from $63 million in 1982 to zero in the first half of 1983. The roughly 100 percent increase in China's rapeseed production since 1980 (and 23 percent annual growth rate of oil-bearing crops generally) caused the drop in total soybean imports, from an estimated 554,000 tons in 1982 to about 100,000 tons this year, all of which will come from Argentina. US soybean exports could rebound when the rising trend line of oil-bearing crops levels off. Rapeseed acreage in China reportedly was reduced this year.

Logs

The main reason for the huge decline in US log sales to China, from $217 million in 1982 to $66.4 million in the first half of 1983, was the serious deterioration in business relations between CHINATUHSU and West-coast companies. It is the almost unanimous opinion of industry observers that the Chinese purchasing agents took their traditional hard-nosed, spot-buying strategy to the extreme in the early 1980s, when the US log market was depressed, at the cost of developing long-term supply relationships. Among the many incidents in 1982 was the report that the Chinese rejected already loaded cargoes on the grounds that the logs did not meet quality standards, and did not permit ships chartered by US firms to enter PRC ports—all of which forced US companies to rewrite contracts on disadvantageous terms at a time when prices were falling. The final straw came in early 1983 when housing starts hardened US prices, but the Chinese continued

asking for discounts on previous year prices. Few, if any, new contracts were signed in this period.

An organizational shakeup in CHINATUHSU has begun to mend relations. The Chinese are now more willing to pay market prices, and since July, exports from major companies have already rebounded to 1982 monthly levels. In the long run, exports could easily surpass previous records. Not only does China need logs in capital construction and lumber products in general, because of the country's poor forest resources, but there are few alternative suppliers to the US. The Chinese reportedly reached an agreement with the Soviets for 1 million cubic meters of lumber in 1983 (equivalent to about 40 percent of US log sales in 1982) but in the past the USSR has seldom met its delivery schedules.

Synthetic Resins

The outlook for plastic resin exports to China is at best uncertain. China's purchases of US resins—mainly polyethylene and polypropylene—shot up to more than $200 million in 1982 as China stepped up its overall imports and the recession forced US prices down. Hardening domestic prices, first in low-density polyethylene and then polypropylene, drove China towards cheaper alternative suppliers in Europe and Latin America in the first half of 1983, and now the same thing is starting to happen with high-density polyethylene. Experts estimate that overall resin imports could decline by as much as 33 percent. China uses foreign resins in manufacturing packaging materials and in plastic sheeting for agriculture.

There will continue to be some sales from the US, even if at a reduced rate compared with 1982, and industry observers expect a revival if world supplies become so tight that the Chinese are forced to pay premium prices. But a few years down the road, the situation for US exporters will undoubtedly worsen when new plants in the Middle East start up, and not too long afterwards when the Daqing Petrochemical Complex in China commissions about 200,000 tons of new polyethylene capacity, about the level of China's total imports in 1982.

Synthetic Fibers

A quick recovery is not expected in synthetic yarn and fiber sales to China, which fell from half a billion dollars in 1981 to $217 million last year, and to just $30 million in the first half of 1983. Demand for synthetic clothing in China has picked up because of the January 17 lowering of synthetic fabric prices, but not enough to drive imports to 1981 levels, which were determined more by speculation than by real need. The strong dollar and high US prices dash any hope of winning a large share of China's modest revival.

Only in acrylic fibers has the US resumed sales following the US–China textile agreement. Monthly acrylic shipments will reach a record, as China seems to be expanding its overall acrylic purchases, and is having trouble lining up suppliers in Asia. But even with this shot in arm, acrylic fiber exports are not likely to exceed $40–50 million—a fraction of what polyester exports once were.

As for polyester, the Chinese finally began buying from the outside world again in 1983, as stockpiles were drawn down because of a 35 percent January–June increase in Chinese polyester-cotton cloth sales. But the quantities purchased—exclusively thus far from Europe and Asia—have been very modest compared with 1981.

Industry observers do not believe that speculation on the part of textile bureaus and coastal provinces, which brought purchase levels to about 350,000 tons of polyester staple and perhaps 125,000 tons of filament yarn in 1981, will be allowed to reoccur, and note further that imported polyester production facilities are gradually coming up to capacity. Thus, China probably will come back into the US polyester market late this year, but US companies are looking at sales of perhaps several tens of thousands of tons of staple, compared with 190,000 in 1981, and perhaps 10,000 tons of filament compared with 58,000 in 1981. When China brings its new imported facilities onstream at Shanghai and Nanjing in the next few years, it is conceivable that polyester imports could decline once again. Companies do report Chinese interests in imports of more sophisticated fibers such as acetate. The volumes, however, will probably be modest.

The Shakeup Moves Down

Last year Beijing drastically cut the size of the central government bureaucracy. This year thousands of provincial officials have been removed.

Christopher M. Clarke

Between December 1982 and May of this year, nearly one-third of the Party provincial first secretaries and all but three of China's provincial governors were replaced. In all, nearly two-thirds of the country's top 1,400 provincial officials either retired or retreated to the so-called "second line of leadership," as advisors.

Imagine for a moment that every country in Western Europe suddenly appointed new prime ministers and established new cabinets simultaneously. Even that drastic an occurrence, given Europe's smaller area and far smaller population, would fail to convey the size and significance of China's latest reorganization campaign.

For as long as five years, the reformist wing of the central leadership has been trying to install cadres who could integrate and implement the policies of the Open Door and the Four Modernizations. This process was largely completed in the central government apparatus in 1982, when the number of ministries and commissions was cut from 52 to 41, the number of ministers and vice-ministers reduced by two-thirds, the average age of top leaders lowered by almost 10 percent, and their educational level raised substantially. The September 1982 Twelfth Communist Party Congress saw a similar transformation of the Party's political leadership.

Last year the government announced that 1983 would mark the beginning of a similarly extensive and intensive administrative revolution, this one at the provincial and local level. The first phase took place over the course of about three months this spring, when the provinces began streamlining the bureaucracy and bringing in a new generation of officials—younger, better educated, and more professionally competent than their predecessors. The changes could signal a better business climate in several of China's key economic areas, as more "reformers" assume control.

Guangdong

Today Guangdong's leadership is made up almost entirely of new faces, the result of an intensive campaign by Deng Xiaoping's reformist coalition in Beijing to install younger, more flexible leaders who could attract foreign investment and technology to this crucial southern Chinese province. These modern-day technocrats have been promoted to key positions over the last three years and given the mandate to transform Guangdong into an economic showplace.

Through the March–April 1983 reorganization, the central leadership was finally able to expel the conservative, anti-reform elements that have been hanging on to positions of power in Guangdong since the Cultural Revolution. Deng had started his house-cleaning campaign in 1978 with the dispatch of two trusted associates—Xi Zhongxun and Yang Shangkun—to Guangdong to take control of the province and its capital city, respectively. They had only begun to make progress in political and economic reform when they were recalled to Beijing in 1980 to take up important national duties. Provincial leadership was thereupon handed to the dynamic and experienced administrator Ren Zhongyi, whose handling of the serious factionalism in Liaoning Province in the late 1970s had apparently attracted favorable attention in Beijing.

Ren immediately set out to speed up development of the special economic zones, to open Hainan Island to foreign investment and, above all, to shake up the conservative and lazy provincial bureaucracy. His efforts at reform were assisted by numerous visits to Guangdong by Deng Xiaoping, Hu Yaobang, Zhao Ziyang, and Gu Mu.

When the dust settled this spring, Ren Zhongyi remained as Party first secretary, but replaced 9 of his 13 subordinates. Only one of the top Party officials had been in office before the arrival of Xi Zhongxun in 1978. The Party leadership of Guangdong now averages about seven years younger than before, and two-thirds have a college education compared with only one in three before the reorganization.

Representative of the new generation of political leaders are second-ranking Party secretary Lin Ruo and standing committee member Peng Shilu. Both are under 60 years of age and Guangdong natives. Lin, a graduate of Zhongshan University, has been in charge of the successful reform and development efforts in Zhanjiang. Peng is the son of "revolutionary martyr" Peng Pai, an early peasant organizer in Guangdong who was executed by the Kuomintang in 1929. Peng Shilu studied English in Hong Kong and did graduate work in nuclear physics in the Soviet Union. Since the early 1970s he has been working in the shipbuilding sector, presumably on nuclear propulsion. In 1982 he became deputy general manager and technical superintendant of the China State Shipbuilding Corporation. He is also

a vice-minister of water resources and electric power, and was recently named as head of the Guangdong nuclear power plant project.

Fujian

Fujian's progress in economic development and trade reform has been slower than in neighboring Guangdong, but not unimpressive. Party First Secretary Xiang Nan arrived in 1981 with a mandate from Deng and CCP General Secretary Hu Yaobang to institute widespread economic and political reform. He began by pushing the "responsibility system" in the countryside. The system has been so successful that farmers' incomes have almost caught up with the earnings of workers in Fujian. He strongly supported the development of provincial foreign trade and investment authority, with the cooperation and encouragement of Deng, Hu, and Premier Zhao. Fujian now has 14 joint ventures, 35 coproduction arrangements, more than 100 compensation trade deals, and contracts for processing and assembling worth more than $150 million. Fujian now competes head-to-head with Guangdong by offering better terms for investing in the Xiamen Special Economic Zone—a 60 percent share of profits, compared with only 50 percent for the foreign partner in Guangdong. In 1982, Fujian became the first (and so far only) province authorized to float bonds abroad.

This spring's reorganization finally gives the reformers the upper hand, although some conservative figures still hold influential positions. Fujian's powerful governor, Ma Xingyuan, retired and was replaced by the more reform-minded 53-year-old Hu Ping. (Ma, a member of the "Shanxi Clique" which set down roots in Fujian in the late 1950s, remains a Party secretary.) Provincial government agencies were reduced from 65 to 39 and more than 135 new officials were promoted to bureau director or deputy director. These officials are on average about seven years younger than their predecessors and have a higher average educational level. The governor and four vice-governors are all in their 50s and have experience in economic work and industrial management, while five of the twelve top Party officials are college educated (compared with only one before the reorganization).

Tianjin

The composition of the Tianjin leadership after the spring 1983 reorganization is almost perfectly aligned with central priorities. Eleven of twelve top Party officials are college educated, including experts in chemical, electrical, and electronic engineering, and two university educators—one of them a specialist in finance and economics. Six of seven top municipal government leaders have university training; two are engineers and one is a management specialist recently transferred to Tianjin from a high-level MOFERT job overseeing foreign investment.

The shakeup in China's 29 provinces is comparable to the wholesale appointment of top officials in a couple dozen medium-to-small nations. After all, three of China's provinces are more populous than Mexico or West Germany, and 11 more populous than South Korea. Three have GNPs equal to or larger than those of Pakistan, Portugal, New Zealand, Chile, Egypt, Ireland, or Peru.

These latest changes reinforce the strong reformist movement that started in Tianjin with the appointment of Party first secretary Chen Weida in 1978. Chen is one of the few top Party officials appointed in the late 1970s who still holds his position. The more visible proponent of reform, however, was former Mayor Hu Qili, a close friend and associate of Party General Secretary Hu Yaobang. When Hu was transferred to Beijing last year to take over the very important Party General Office, he was replaced by 48-year-old Li Ruihuan, a former model worker and self-educated architectural expert.

Officials like these and former Deputy Mayor Wang Guangying have been at the forefront of reforming Tianjin's economic and political scene. For example, Wang, the brother-in-law of the pre-Cultural Revolution president of China and a commercial czar before 1949, headed the city's program of appealing to foreign investors when chairman of the Tianjin International Trust and Investment Corporation. He now heads the China Everbright Company, a national trust and investment corporation which hopes to challenge CITIC as the dominant force in attracting foreign capital. Tianjin's new generation of technocrats is now pursuing foreign computer, software, and other high-tech firms in a bid to become North China's Silicon Valley.

Jiangsu

Though it is China's biggest agricultural producer and second only to Shanghai in industrial output, Jiangsu has lagged behind other provinces in both political and economic reform. The central leadership has now decided to get serious about reform and development in Jiangsu province. This spring's reorganization swept out most of the old leaders and installed a new crop of younger technocrats, most of them college-educated and under 50 years of age. So thorough was this house-cleaning that, of the 17 top Party and government officials now in power, only three had been in office three years ago.

Han Peixin, the new Party first secretary, combines an intimate knowledge of provincial affairs with a thorough familiarity with central policies, priorities, and personalities. Having served in Jiangsu for a number of years, Han was transferred to Beijing in 1978 as a vice-minister of light industry. He returned to Jiangsu in 1982 as acting governor, before being asked this spring to replace the conservative former Party first secretary Xu Jiatun, who was transferred to Hong Kong as director of the Xinhua News Agency branch.

Replacing Han is China's first woman governor, Mme. Gu Xiulian, who served for a full decade as the vice-chairperson of the State Plan-

ning Commission in charge of light and textile industries.

These new officials have instituted a series of industrial, agricultural, and economic reforms and are now beginning a campaign to lure foreign investors away from Shanghai. Jiangsu promotes itself as a diverse province with extensive opportunities in petrochemicals, electronics, textiles, food processing, tourism, and other industries. Officials are also developing the ports of Nanjing, Nantong, Lianyungang, and Zhenjiang in an effort to take away some of Shanghai's shipping business.

Shanghai

Shanghai is so important to China, economically and politically, that its role creates fear in Beijing and jealousy in other provinces. The installation of a whole new leadership in the spring of 1983 could mark the unleashing of Shanghai's potential as a foreign trade and investment center. (*See* page 12.)

The new city officials in China's largest municipality form quite a contrast with the radical "gang of four" who used Shanghai as a springboard to power 15 years ago. Five of the seven new Party leaders are college-educated, including four engineers. Six new vice-mayors were elected—all college graduates and all but one engineers. Chen Guodong remains as the Party first secretary, a post he has held since 1980, and Wang Daohan, elected mayor in 1981, continues in that job. Indicative of the thorough house-cleaning in Shanghai is the fact that none of the top twelve municipal officials has been in office more than three years.

One element retarding Shanghai's development under the Open Door policy has been the reluctance of central bureaucrats to lose control over this important and profitable area. The problem has been alleviated somewhat by the establishment of national integrated corporations for the shipbuilding, automotive, and petrochemical industries. Under the new system, Shanghai subsidiaries have a profit incentive to increase production and improve efficiency, and increased profits for the subsidiary mean increased profits for the parent company, as well. In addition, provinces jealous of Shanghai's ability to leap ahead are being "paid off" through a variety of cooperative arrangements, technology transfers, and joint ventures with Shanghai, and also by linking themselves to the economic success of a Shanghai-based East China economic zone that is now in the planning stages (*See* page 17.)

Christopher M. Clarke, a frequent contributor to The CBR, *is the author of* China's Provinces: An Organizational Guide, *and coeditor of the forthcoming* China Business Services Directory.

Few locations in China offer foreign investors the infrastructure, international access, and business savvy of Shanghai. Now Beijing has decided to let the city profit from its appeal.

Shanghai Unleashed

Carolyn L. Brehm

State Council's decision in April 1983 to unleash Shanghai has given China's industrial and trade giant a freer hand in modernizing its industrial base and expanding foreign investment and trade. In making up for lost time, Shanghai launched its first foreign trade fair on June 21, followed by an investment conference in July. In a period of only nine months, beginning in November 1982, three packages of projects were unveiled to entice foreign investors. The move to grant Shanghai greater independence is particularly significant to this city of 11 million that has increasingly played second fiddle in recent years to Guangdong and Fujian.

Shanghai's increased autonomy also bodes well for American companies seeking to invest in China. 18 US firms have already established offices in Shanghai, and many more are busy cultivating business contacts there. While the incentives in the Special Economic Zones in Guangdong and Fujian are attractive on paper, Western companies have been turned away by their poor infrastructure and untrained workforce.

CATCHING UP

Winning back markets lost to rival provinces

Shanghai has enjoyed relative prosperity and a position of economic dominance since liberation. Shanghai authorities reported in May 1983 that the city accounts for one-fifth of China's foreign exchange earnings and one-eighth of China's total industrial and agricultural output.

For more than three decades, Shanghai had benefited from the decision by central planners to set the price of raw materials supplied to its factories rather low, while the price of its manufactured goods were set high. Shanghai had a virtual monopoly on central China's foreign trade as interior provinces imported and exported almost exclusively through its port. When national reforms gave neighboring provinces Zhejiang and Jiangsu authority to perform import and export business on their own, Shanghai's economy showed the strains. The US Consulate there reported that consumer goods sales and exports fell in 1982, while large inventories piled up as other provinces began to invade Shanghai's domestic markets. For the first time ever, Jiangsu topped Shanghai to claim the highest value of industrial and agricultural production in China in 1982. In the same year, Shanghai lost to Liaoning as the leading recipient of product quality awards.

Shanghai has not been in the forefront of China's investment drive, either. By the end of 1982, foreigners had only invested $380 million in 404 joint venture, compensation trade, and coproduction deals in Shanghai. In the same period, Guangdong attracted $4.1 billion in foreign capital for 20,653 projects.

Politics also played a role in holding back Shanghai's development. Beijing has been reluctant to loosen its grip for fear that the city would grow into a rival power base, as it did during the Cultural Revolution.

ATTRACTING INVESTORS

The city may have won more foreign trade authority than Guangdong

A new, more sophisticated foreign trade orientation has accompanied Shanghai's greater economic independence. The technological renovation of the electronics, instrumentation, machinery, and packaging industries is underway, while less emphasis is being placed on light industrial products.

The focus is on improving the quality and productivity of existing plants to help meet the standards of international competition. Meanwhile, plans are underway to expand greatly the city's port, build a subway system, and add a new airport terminal.

Under the recent State Council ruling, Shanghai can handle foreign investments of up to $10 million in joint ventures, compensation trade, cooperative production, and leasing projects without going to Beijing for approval. The municipality can also retain a greater percentage of the foreign exchange it earns. The Shanghai Investment and Trust Corporation (SITCO), the city's leading foreign investment development agency, can now raise funds directly on the international market, accept foreign deposits, and conduct foreign exchange business. Outside Shanghai, only the Bank of China and China Investment and Trust Corporation (CITIC) have such powers.

These changes permit Shanghai to make its own decisions about what it imports and exports, and with whom it negotiates. A task force comprised of 467 bank officials and finance department representatives was formed in early May to supervise imports and provide consultancy services to end-users. The municipality plans to import 1,000 types of technology by 1985 (250 items in 1983 alone) for the renovation of small and medium sized plants.

For the first time, many industrial enterprises, such as the Jinshan Joint Petroleum and Chemical Corporation, the First Bureau of Mechanical and Electrical Industries, and the Instrumentation and Electronics Bureau, can export their own products without the participation of foreign trade corporation branches. At the same time, a greater emphasis is being placed on bringing factories in closer contact with the foreign trade units that handle their goods. In some cases, outright mergers have occurred.

A more telling example of Shanghai's increased autonomy is its greatly enhanced control over its port. Originally under the firm control of the Ministry of Communications, the port is now under the dual control of the city and the ministry, with Shanghai taking the leadership role.

NEW FOREIGN TRADE ORGANIZATIONS

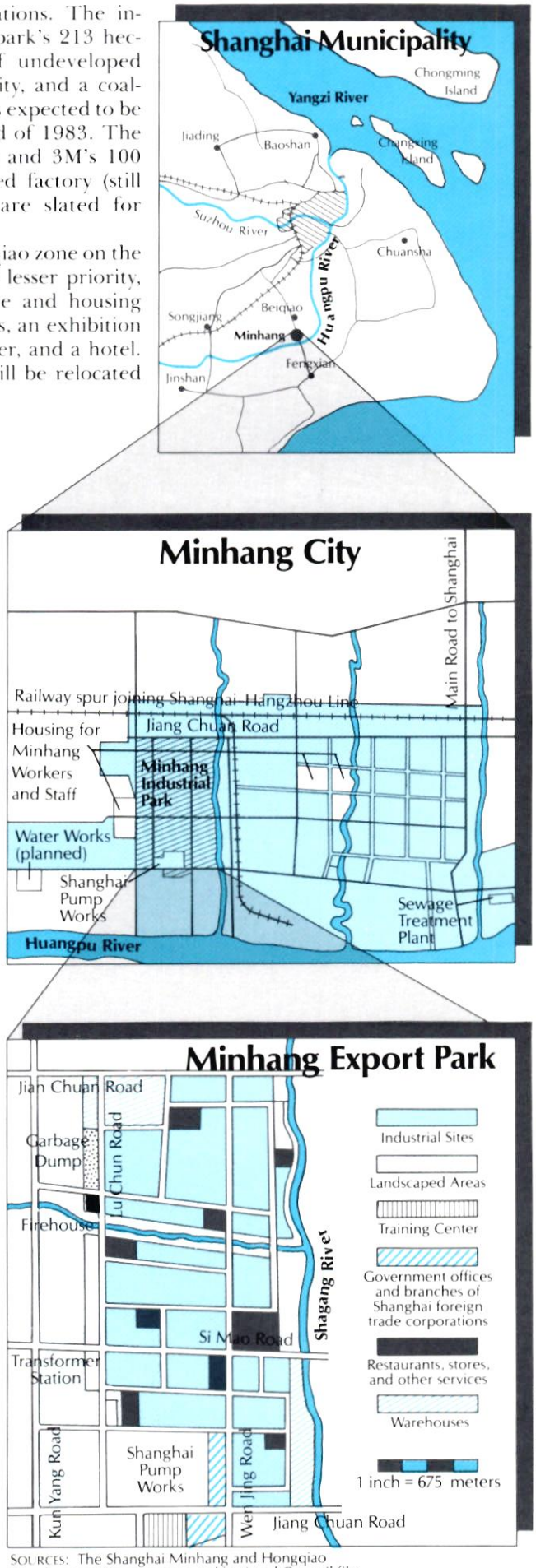
The city boasts its own export-processing zone

Shanghai shows signs of reorganizing to better coordinate its development drive. A new Shanghai Foreign Economic and Trade Commission will be established shortly as a leadership organization directly under the mayor's office. It reportedly will be a merger of the Import-Export Commission, the Shanghai Foreign Trade Bureau, and the Shanghai Foreign Trade Corporation (SHANTRA). SFTCO will be subordinate to the commission, but is expected to maintain and even expand its role as prime executor in the trade and investment area.

In addition, Shanghai has launched a Foreign Economic and Technical Cooperation Company to provide labor, perform feasibility studies, and undertake construction projects overseas. Shanghai has lagged behind other provinces and ministries, such as Guangdong and the ministries of Railways and Metallurgical Industries, in offering such export services.

The establishment of two industrial zones and promises of special investment incentives in the future were highlighted at SFTCO's July conference in Shanghai. The Minhang industrial park is located 30 kilometers south of the city center, and will offer 97 parcels of land for investors to establish export-oriented manufacturing operations. The infrastructure for the park's 213 hectares (526 acres) of undeveloped land—water, electricity, and a coal-gas energy system—is expected to be completed by the end of 1983. The Squibb joint venture and 3M's 100 percent foreign-owned factory (still under negotiation) are slated for Minhang.

The smaller Hongqiao zone on the airport road, while a lesser priority, will offer office space and housing for foreign companies, an exhibition hall, conference center, and a hotel. Foreign consulates will be relocated to Hongqiao as well.



The Shanghai Minhang and Hongqiao Development Corporation, a new body established this spring to develop Minhang, has announced that it wishes to attract firms making electronic goods and instruments, clocks and watches, toys, clothes, foodstuffs, and other facilities "possessing sophisticated equipment" and with "good outlets abroad."

The Minhang export park occupies 526 acres of undeveloped land in western Minhang, a new satellite town 20 miles south of Shanghai. Foreign companies may choose from among 97 parcels ranging between 1 and 4 acres in size. The land rentals of 47¢–70¢ per square foot per year are well below those of Shenzhen in Guangdong Province.

Artwork by John M. Yanson

SOURCES: The Shanghai Minhang and Hongqiao Development Corporation; and National Council files.

SPECIAL INCENTIVES

Lower income taxes lead the list

Officials have hinted in various speeches this summer that Shanghai is prepared to grant attractive terms to foreign investors. In some cases, the terms are better than those offered to investors in other parts of China. The incentives in effect or currently under consideration:

- A reduction in the nationally set 33 percent income tax on joint equity ventures, including a two-year tax exemption and 50 percent reduction in income tax for up to three years;
- Income tax and industry and commercial tax exemptions for three years, beginning with the first revenue-earning month for enterprises engaged in processing and compensation trade, and for joint ventures that lose money on exports;
- A larger portion—up to 75 percent—of a foreigner's income may be repatriated;
- Taxes on profits reinvested in Shanghai for at least five years will be partly refunded;
- Lower land-use fees for joint ventures using advanced technology, producing goods needed domestically, occupying large tracts of land, or suffering low rates of return;
- Greater power on the part of joint ventures to fix wages and bonuses, and to select and employ personnel through advertisements;
- Bank of China export credits will be made available to foreign buyers, and joint ventures can borrow at the BOC's domestic rates, which are considerably below international market rates;
- A larger share of a joint venture's output may be sold domestically if the goods are in short supply domestically, or constitute import substitutes;
- Certain raw materials, including precious metals, petroleum, coal, and lumber can be paid for in RMB, but at international rates if the materials are used in goods destined for export. Domestic prices will be charged for goods destined for the China market. Moreover, joint ventures can pay for water, electricity, coal, and gas for domestic transportation in RMB at current domestic prices; and
- Overseas Chinese investing in Shanghai will enjoy additional, unspecified privileges.

SHANGHAI'S KEY INVESTMENT AND TRADE ORGANIZATIONS

Shanghai Investment and Trust Corporation (SITCO)
Chairman and Managing Director: Liu Jingji
General Manager: Hsu Bangfei
Deputy General Managers: Ding Chen, Yang Xishan, Wang Haiqing, Zhang Xiaojin
33 Zhongshan Road E 1
Telephone: 211819, 215919
Cable: INVESTCO SHANGHAI
Telex: 33031 SITCO CN

SITCO specializes in promoting and coordinating foreign investment and imports of technology for Shanghai. Acting as a liaison between Shanghai organizations and foreign investors, SITCO was set up in August 1981 to serve as a consultant, matchmaker, fundraiser, and in some cases, a direct investor in joint ventures. Recently, SITCO was granted authority to raise funds on international markets, accept foreign deposits, and conduct foreign exchange business. SITCO has business, building construction, financing, and research and consultancy departments.

Jinjiang Service Center for Overseas Traders (SCOT)
58 Maoming Road South
Telephone: 370707, 370660
Cable: 7888 SHANGHAI
Telex: 33011 BTHJJ CN

SCOT provides information and services to foreign representative offices and visiting business people in Shanghai. Established in July 1981, the center furnishes office space, telex facilities, information on Shanghai's export activities, recommendations on business contacts, meeting arrangements, and secretarial services. Thirty-three representative offices have set up at SCOT to date.

Shanghai Foreign Trade Corporation (SHANTRA)
Acting General Manager: Zhang Yueling
Manager, Import Department: Xiao Xiechang
27 Zhongshan Road E 1
Telephone: 213257, 217350
Cable: SHANTRA SHANGHAI
Telex: 33034 SIMEX CN

SHANTRA oversees the government's foreign trade corporation branches in Shanghai, acts as agent for foreign firms selling to China, and handles consignment sales and sales at fairs and exhibitions. SHANTRA's import department handles purchases of raw materials and single pieces of machinery and equipment on behalf of FTC branches.

Shanghai Foreign Trade Consulting Corporation (SFTCC)
Manager: Ma Zhongwen
33 Zhongshan Road E 1
Telephone: 212659, 230046
Cable: ITRO SHANGHAI
Telex: 33034 SIMEX CN

Established by SHANTRA on January 1, 1983, SFTCC is responsible for promoting compensation trade, licensing, joint manufacturing, and joint venture arrangements, and purchases of foreign technology. It operates on a commission basis and provides firms with trade and market information. SFTCC works primarily with export industries and has close ties with the Export Bases Development Corporation.

Shanghai Industrial Consultants (SIC)
Managing Director: Tao Zuji
Jingan Guest House, Suite 101
370 Hua Shan Lu
Telephone: 563050, ext. 101
Cable: EXPLORER SHANGHAI
Telex: 33102 SICFU CN, 33148 SICIS CN

SIC acts as a consultant and go-between for Chinese enterprises in Shanghai, and as a marketing advisor to foreign manufacturers. SIC will provide market surveys, organize technical seminars, perform translation and printing of brochures and product literature, and publicize products to end-users through a Chinese-language newsletter.

Shanghai, Minhang, and Hongqiao Development Corporation
General Manager: Xie Wuyuan
Deputy General Manager: Huang Wenbin
49 Sichuan Road
Telephone: 234184
Cable: 1666 DEVELOPCO

Established under the municipal government this spring, SMHDC is charged with developing the Minhang industrial park and Hongqiao foreign residential enclave.

Shanghai Foreign Economic and Technical Cooperation Corporation
Chairman and General Manager: Jiang Chunze
444/64 Urumqi Road North
Telephone: 520277
Cable: SHAICORPEE, 1120 SHANGHAI
Telex: 33155 SCOFE CN

Formed in July 1983, this corporation undertakes engineering and construction projects abroad involving surveying, designing, construction, and installation of equipment. They will also train managerial personnel, technicians, and workers, and engage in joint ventures abroad.

Shanghai Patriotic Reconstruction Corporation
Chairman: Liu Jingji
393 Hua Shan Road
Telephone: 376376

The corporation was established in late 1979 with funds from more than 700 former capitalists whose bank accounts had been expropriated during the Cultural Revolution. The corporation has built a number of high-rise apartment houses in Shanghai for overseas Chinese, and was recently authorized to help develop the Minhang industrial park and Hongqiao foreign enclave in cooperation with the Shanghai Minhang and Hongqiao Development Corporation. Its close ties with wealthy overseas Chinese may explain its involvement in the Minhang park, which will give special advantages to overseas Chinese investors.

Shanghai Representatives in the US
Shanghai Division, China United Trading Corporation, Ltd.
General Manager: Yang Rutang
Sales Managers: Mao Baiqing, Deng Hongbing
1 Penn Plaza, Suite 1915
New York, NY 10001
Telephone: (212) 947–3140
Cable: CHUNCORP NEW YORK
Telex: 420623 CUTCORP
West coast office:
520 El Camino Real
Suite 840
San Mateo, CA 94402
Telephone: (415) 579–1015

Table prepared by Carolyn Brehm

Why most foreign investors in China like to keep arrangements simple.

FLEX TRADE

Carolyn L. Brehm

Since the advent of China's foreign investment drive in 1978, $1.8 billion in foreign funds have been invested in every form from joint equity ventures to compensation trade to assembly and processing. There are signs, however, that worldwide sentiment toward investment in China is mixed, and that many Western firms are staying away from complex joint equity ventures where there are still uncertainties regarding the legal environment, in order to favor less complicated forms of flexible trade.

It is clear that the Chinese are concerned about the lukewarm reception by Western companies and the resulting paucity of joint equity ventures established to date. Only eight were established in 1982, as opposed to 20 in 1981 and 20 in 1980. Activity appears to be picking up, however, with 22 joint equity ventures approved in the first half of 1983. There is no doubt that this surge is attributable to the more flexible investment policies promoted this year.

In order to meet the ambitious goal of attracting $20 billion in foreign capital through 1985, China realizes that this initial trial and error period must come to an end and more attractive incentives are needed to woo potential investors.

Recent articles in the Chinese press defining various terms of trade and new policies allowing greater concessions to foreign investors signal a more consistent national policy on the investment issue. China has proudly unveiled displays of successful joint venture products in local exhibitions in Beijing and Guangzhou and to foreign customers for the first time at the Spring 1983 Guangzhou Trade Fair.

A greater sense of realism on China's part exists in the use of the various forms of cooperative trade. The joint equity venture approach, due to the lengthy and complex negotiation process, will be reserved for industrial projects involving large capital outlays and sophisticated technology. Investment in the form of smaller, less complicated light industrial and consumer goods projects will be used in more flexible forms such as contractual joint ventures, compensation trade, and processing arrangements.

Many companies have been confused over just how these terms are used by the Chinese. Often when the two negotiating parties sit down to do business, they find that the language barrier extends to the definition of the business terms.

Processing & Assembly

Processing and assembly of imported raw materials have grown rapidly into the top-ranking method of flexible trade with China. The foreign customer supplies raw or intermediate materials or parts to China to be processed, assembled, or manufactured according to specification and design. The Chinese partner receives a fee for its services and the processed goods are reexported by the foreign firm which markets them abroad. In some cases, the foreign firm furnishes machinery, equipment, or technology and receives a discount on the processing fee until the equipment is paid off. In other examples, the Chinese factory purchases the needed machinery outright, or leases it from the foreign firm.

As of December 1982, about 16,000 processing contracts had been signed with Chinese factories generating some $800 million in processing fees. Two-thirds of those contracts are with Hong Kong and Macao firms, and are located in coastal areas such as Guangdong, Fujian, and Shanghai. Most processing and assembly deals are valued under $100,000, and are for such items as watches, textiles, radios, gloves, fish, footwear, tape recorders, and electronic components.

China clearly benefits from the modern machinery, equipment, and technology in these arrangements, while workers receive training in assembly. The "made in China" label affixed to the goods gives China credibility and exposure in Western markets as well. The foreign company benefits from low labor costs and establishes a relationship which lays the groundwork for potential expansion to a more complex manufacturing arrangement or joint venture in China.

Countertrade

Countertrade is a broad term, referring to various trade arrangements that contain a requirement to purchase products as a condition of sale. There are various types of countertrade including barter, compensation trade, counter-purchase, evidence accounts, and switch.

Barter is a one-time exchange of product for product, normally performed under a single agreement. The Chinese have engaged in barter agreements with other Third World trading partners, such as Pakistan (bartering rice for jute). So far no foreign companies have conducted a pure barter agreement with China.

Compensation trade is an agreement to sell technology and/or equipment to the Chinese, and to accept either full or partial payment in the form of goods manufactured with the equipment. A foreign company provides equipment and technical assistance to the factory, which then uses its improved production capacity to pay for the equipment with the installments in product. The foreign partner accepts responsibility for marketing the finished goods outside China. Normally compensation trade calls for two separate agreements that are linked by protocol: one for the sale of machinery, and one for the purchase of the resulting product.

At the end of 1982, over 872 small

China's 8 Zones For Priority Investment

More than 90 percent of all foreign investment — and an increasing share of domestic investment — is centered in China's 8 new economic zones. The establishment of these priority investment zones in early 1983 reflects Beijing's growing belief that all regions need not and cannot develop at the same speed. The new two-tiered approach calls for a shift in investment spending toward the country's most productive, and relatively better-off coastal cities and inland industrial enclaves.

These new "hubs of exchange" will then serve as "technical windows" bringing progress to poorer areas. Altogether, 222 "key cities" have been granted expanded authority to develop rational supply networks along regional lines. Large corporations, too, are being organized to cover region-wide markets and expand their activities beyond the arbitrary boundaries of counties, prefectures, or provinces. The net effect of these changes, Beijing hopes, will be to foster a new division of labor between town and country, with foreign trade and high-technology industries in the major metropolitan areas, and raw material processing industries in the hinterland.

Map prepared by E. Sabina Brady

September–October 1983 China Business Review map by Adisai Hemintranont (Sai Graphis)

and medium compensation trade arrangements were underway, involving $410 million in foreign machinery and equipment (most in Guangdong Province). The average value of these arrangements is less than $500,000. They normally span three, five, or ten years in length with payback in product being completed within the first several years.

A great variety of products has been made in China under compensation trade—containers, cashmere sweaters, bottled mushrooms, bicycles, men's corduroy suits, and plastic flowers, to name a few.

Photo by New China Pictures Co.

Camel filters coming off the line at the Xiamen Cigarette Factory. On June 19, 1983, the factory signed a preliminary joint venture agreement with R. J. Reynolds Tobacco International, which has its eye on the domestic market. With the average Chinese adult male smoking about one-half pack of cigarettes a day, no country comes close to China's annual consumption of well over 700 billion cigarettes.

Photo by Shi Panqi, New China Pictures Co.

Gold miners on Shandong's "gold coast" near the port of Yantai, which accounts for almost one-quarter of China's total annual production of nearly 2 million fine troy ounces. In 1981 China encouraged direct foreign investment in its lucrative gold mines, but then quietly withdrew the invitation as production took off.

Photo courtesy of Geospace

Oil exploration equipment bound for China being loaded at Houston's Intercontinental Airport. The investment by foreign–Chinese petroleum joint ventures will soon outpace all other forms of direct foreign investment in China. Such expenditures are likely to achieve $700 million per year by 1985, and $1,500 million per year by 1990.

Counterpurchase agreements are not commonly used in China. Counterpurchase means that the Chinese pay for an import with goods that are not made from or related to the imported item.

According to an internal 1979 Chinese document that outlines countertrade policy, counterpurchase is not condoned by the Chinese. Clearly the Chinese trade structure, with its stringent vertical hierarchy, is not set up to handle it.

A counterpurchase agreement in China restricts the foreign company to taking back products within the purview of the ministry or corporation doing the buying. The exchange of products across ministerial or corporation lines is nearly impossible to arrange, unless it is set up on a local level. Several agreements with organizations in Guangdong, Sichuan, and Fujian have proved to be the exceptions.

A Shanghai trade official announced at a July 1983 investment conference that the municipality would assist companies in a cross-corporation exchange for products when a straight compensation deal is not workable.

Evidence Accounts have been utilized by several foreign companies with limited success. The foreign and Chinese parties agree to balance sales with purchases over a set period, normally two–five years. The Bank of China keeps records of the account for the two parties. An evidence account with a provincial or municipal organization may allow for more flexibility in a counterpurchase.

Probably the best-known example of an unsuccessful evidence account is the Bowater Corporation deal. The UK corporation set up an account with the Guangdong Branch of the CCPIT in January 1980 to sell buses, trucks, drilling equipment, agricultural chemicals, wool, and paper, and in turn, to buy textiles, light industrial products, and handicrafts. The deal had a targeted annual turnover of $100 million. One year later, the agreement was terminated as Bowater found that China was not buying enough to make the arrangement profitable.

Switch occurs when a third party is brought into a countertrade arrangement to accept the goods that the original foreign company is unable to

dispose of. This is also known as a three-way counterpurchase.

Aside from China's desire to upgrade manufacturing facilities and establish a reputation for Chinese-made products, the strongest motivation for countertrade is saving foreign exchange. For many Chinese enterprises with small foreign exchange allocations, countertrade provides a means to stretch their dollars.

Countertrade may give a foreign company an opportunity to sell equipment or technology to end-users with insufficient foreign exchange. An aggressive countertrade strategy, in fact, can provide a company with marketing leverage in China. Compensation trade in particular establishes an alternative source of supply in China for a foreign company, which can benefit from relatively cheap labor and quality workmanship. Companies should be aware, however, that Chinese offerings in a counterpurchase arrangement are generally items they cannot unload elsewhere for foreign exchange.

Contractual Joint Ventures

Contractual joint ventures are also known as cooperative projects or coproduction ventures. The foreign partner provides technology and capital of a given value and is repaid at a negotiated rate of return, plus principal over a set period. The Chinese partners may provide land, materials, natural resources, labor, services, buildings, or equipment.

The contractual joint venture differs from a joint equity venture in that the capital contribution on both sides is not necessarily money. Furthermore, profits are not distributed by equity shares, but according to an agreed-upon proportion.

By the end of 1982, more than 700 contractual joint ventures had been reported by the Chinese. The duration of the contracts vary: 5–10 years for projects in service and tourist industries, 10–15 years in the light industry sector, and 20 years in the heavy industry sector.

The offshore oil exploration contracts signed to date fall into the category of contractual joint ventures. In the first stage of geographical exploration, the foreign firm bears all the risk. In the second stage, both the Chinese and the foreign partner make contributions to exploitation

A Trader's Lexicon

Common terms that confuse Chinese and Westerners alike

BARTER
Yihuo maoyi 易货贸易

This is a one-time exchange of product for product, normally performed under a single agreement or contract.

COMPENSATION TRADE
Buchang maoyi 补偿贸易

This involves technology and/or equipment that is sold and paid for in full or in part by goods manufactured with the technology or equipment. The foreign partner accepts responsibility for marketing the finished goods outside China.

In Chinese, "buchang maoyi" may refer to countertrade in the broadest sense to encompass arrangements such as switch, counterpurchase, and other types of countertrade.

CONTRACTUAL JOINT VENTURE
Hezuo jingying 合作经营

This is also known as a cooperative project, or coproduction venture. The foreign partner provides technology and capital of a given value and is repaid at a negotiated rate of return, plus principal over a set term. The Chinese partners may provide land, materials, resources, labor, services, buildings, and/or equipment. The capital contribution on both sides is not necessarily money, and profits are not distributed by equity shares, but according to a formula specified in the contract.

COUNTERPURCHASE
Fan goumai 反购买

A sale to China is paid for in goods that are not made from or related to the imported product, equipment, or technology.

COUNTERTRADE
Duixiao maoyi 对销贸易

Refers broadly to various trade arrangements that contain a requirement to purchase products as a condition for sales, or that involve payment for the sale of goods or services with goods. Compensation, counterpurchase, and switch are types of countertrade.

JOINT EQUITY VENTURE
Hezi jingying 合资经营

This involves the formation of a limited liability corporation in which the Chinese and foreign partners jointly invest in and operate the corporation, and share the profits, losses, and risk.

EVIDENCE ACCOUNT
Jijeng maoyi 记帐贸易

The foreign and Chinese parties agree to balance sales with purchases over a period of time, normally two to five years. The Bank of China keeps records of the account for the two parties.

PROCESSING & ASSEMBLY
Lailiao jiagong, or laijian zhuangpei 来料加工，来件装配

The foreign customer supplies raw or intermediate materials or parts to China to be processed, assembled, or manufactured according to the foreign party's design and specifications. The Chinese partner, in turn, receives a fee for its services and the processed goods are reexported by the foreign firm, which markets them abroad.

SWITCH
Zhuankou maoyi, or zhuanshou maoyi 转口贸易，转手贸易

A third party is brought into a countertrade arrangement to accept goods that the original foreign company is unable to use or market itself. This is also known as a three-way counterpurchase deal.

and development. Returns from commercial production are distributed according to a negotiated percentage.

Joint Equity Ventures

Joint equity ventures involve the formation of a limited liability corporation. The Chinese and foreign partners jointly invest in and operate the corporation and share the profits, losses, and risk.

Equity can be in the form of cash, equipment, land, buildings, and industrial property rights. Investment by either side is generally not less than 25 percent and in almost all instances, China holds the majority share.

China's joint venture law provides a set structure for joint equity ventures, including the composition of the board of directors and the appointment of the chairman by the Chinese side. The duration of joint equity ventures, like contractual joint ventures, ranges from 5 to 20 years.

Of the 89 joint equity ventures established to date (involving 298 million) only 19 involve US companies. Recent joint ventures include the Dresser Pacific–Ministry of Petroleum Company to provide logging services for offshore petroleum exploration and development, and the Gillette venture in Shenyang to produce razor blades, plastic razors, and uncoated blades for industrial use.

Four other US–PRC joint ventures are based in the US to market Chinese metals, minerals, and porcelain and to publish a computer journal.

The Chinese have suggested that 100 percent foreign-owned ventures on Chinese soil may soon become a reality. Press reports earlier this year indicated that 3M's proposal to establish a factory in Shanghai to make electric insulation tape is under consideration. While there are 18 projects in the special economic zones that are fully foreign-owned, a favorable decision on the 3M proposal will mark a major change in joint venture policy for the rest of China. Through a joint venture, the Chinese obtain foreign technology, management, marketing expertise, and capital. And through the long-term relationship, they are assured that the technology and expertise remain up-to-date. Joint equity ventures also help the Chinese save foreign exchange through import substitution, and allow them to utilize the foreign partner's marketing network to export products.

Foreign companies may choose a joint equity venture for the increased amount of control they can exercise over the enterprise, compared with other forms of cooperation. A joint venture may give the foreign partner a share of the local market (this is not always the case, however) and access to a manufacturing base with a relatively cheap and stable labor force.

The Approval Process

In order to speed up investment in selected regions of China, policymakers have granted degrees of autonomy to some provinces and municipalities. The approval process for a flexible trade arrangement varies according to the size and location of the proposed venture. These factors may determine the degree of bureaucratic red tape encountered and the length of time spent in the negotiating and approval processes.

The State Council recently granted Shanghai a $10 million ceiling, while Beijing, Tianjin, Chongqing, and Liaoning Province can approve foreign investment projects of up to $5 million without central authorization. Projects in Guangdong and Fujian, including the Special Economic Zones, need only provincial approval regardless of size.

The Ministry of Foreign Economic Relations and Trade's (MOFERT's) Foreign Investment Administration (FIA) is charged with granting approval of investment projects and drafting investment regulations. The FIA was formed in the spring of 1982 when the Foreign Investment Department and the Government Loan Office of the former Foreign Investment Commission were merged. In reviewing investment proposals, the FIA considers the principle of mutual benefit of both parties, the level and applicability of the foreign technology to China's needs, and the technology's price. FIA-approval is required for all investment projects over a certain value.

For example, the cities of Beijing, Tianjin, and Chongqing, as well as Liaoning Province, can approve projects of up to $5 million without central authorization. The State Council recently granted Shanghai a $10 million ceiling. Projects in Guangdong and Fujian, including the special economic zones, need only provincial approval regardless of size. The only limits on Guangdong's and Fujian's authority occur when investment projects have an impact on the State Plan or fall in the areas of aviation, railroads, port development, telecommunications, and offshore oil. Only in these cases do the projects require MOFERT's FIA-approval.

All other provinces can approve investment projects of up to $3 million without FIA involvement.

One of the increasingly common methods of wooing foreign investors to meet the $20 billion foreign capital goal by 1985 is the provincial investment seminar. Zhejiang and Shanghai unveiled some 50 projects each at conferences earlier in the summer; Dalian and Tianjin are slated for similar programs in September.

US companies can expect to receive a more aggressive pitch from China on investment in coming months. More laws protecting foreign investment and filling the gaps in existing regulations should appear by the end of the year, including the detailed regulations to the 1979 joint venture law and the long-awaited patent law.

Carolyn L. Brehm, director of Business Advisory Services, has been with the National Council since 1978. Brehm covers investment and transportation issues and has traveled to China on numerous occasions on Council business. Much of the information contained in the preceding article was gleaned from meetings during a May 1983 visit to Shanghai, where Brehm plans to relocate in mid-1984.

JOINT EQUITY VENTURES IN CHINA

(As of September 1983)

US firms account for 19 of the 89 foreign joint equity ventures in China, and their investments on the average are nearly twice the size of the equity contributions by Japanese, Hong Kong, and other foreign firms.

Venture	Total investment	Foreign party (Equity share)	Chinese party (Equity share)	Purpose	Location	Date established	Duration (years)
US Joint Equity Ventures Outside Special Economic Zones (17)							
Beijing Jeep Corp. Ltd.	$51 mil.	American Motors Corp. (31.3%)	Beijing Automobile Works (68.7%)	4-wheel drive utility vehicles and trucks	Beijing	Contract signed May 5, 1983	20
Ca-Ning Manufacturing Corp. for Rural Environmental Protection	$10 mil.	MIS Co. (50%)	Ningxia Yinchuan Electrical Meter Factory (50%)	Environmental protection equipment	Yinchuan, Ningxia, and Beijing	Letter of intent signed August 3, 1983	25
China–America Insurance Co. Ltd.	Capitalized at $25 million ($5 mil. initially paid in)	American International Group (50%)	People's Insurance Company of China (50%)	Insurance and reinsurance	Bermuda, New York, and Beijing	Signed letter of intent June 30, 1980, approved September 1980	Unlimited
China Brown & Root Marine Engineering and Construction Corp.	$2.8 mil.	Brown & Root Inc. (49%)	China National Offshore Platform Engineering Corp. (51%)	Offshore engineering services	Beijing	Approved January 19, 1983	10
China Computer International Service Center	$250,000	C.W. Communications (49%)	Former Fourth Ministry of Machine Building, Technical Information Center (51%)	Publication of *China Computerworld*	Beijing	Approved November 12, 1980	10
China Petroleum Logging–Dresser Atlas Joint Service Co.	$2 mil.	Dresser Atlas, division of Dresser Industries Inc. (50%)	Ministry of Petroleum (50%)	Subsidiary of CNOOC	Beijing	Approved August 10, 1983	10
China Tianjin Otis Elevator Co., Ltd.	$500,000	Otis Elevator Co. (30%)	Tianjin Lift Co. (70%)	Sell, install, and repair elevators, escalators, and moving walkways	Tianjin	Contract signed May 18, 1982; approved December 1982	20
Great Wall Hotel	$72 mil.	E-S Pacific Development and Construction Co. (49%)	Beijing Travel Corp. (51%)	Hotel	Beijing	Approved April 21, 1980	10
Guangmei Foods Corp.	$10 mil.	Beatrice Foods Corp. (50%)	Guangzhou International Trust and Investment Corp.; and China International Trust and Investment Corp. (50%)	Canned fruits and vegetables, soft drinks, and citrus juices	Guangzhou	Approved December 1981	15
Hubei Parker Seals Co., Ltd.	$990,000	Parker Hannifin Corp. (49%)	Hubei Automobile Industry Corp. (51%)	O-ring seals	Hubei Province	Contract signed November 13, 1981; approved December 6, 1981	20
Jinhua Hotel Co.	$10 mil.	Kowin Xian Hotel Co. (HK) subsidiary of Kowin Building Development Corp. (NA)	Xi'an Tourist Service Co. (NA)	Hotel	Xi'an	Approved March 7, 1983	10
Shanghai Cosfra Ltd.	$549,000	Florasynth Inc. and Cintco Inc. (57.5%)	Shanghai Daily Chemicals Corp.; and Shanghai International Trust and Investment Corp. (42.5%)	Flavors and fragrances	Shanghai	Approved February 11, 1982	15
Shanghai–Foxboro Co. Ltd.	$10 mil.	Foxboro Co. (49%)	Shanghai Instrument Industry Co. (51%)	Electronic process-control instruments	Shanghai	Contract signed December 5, 1980	20
Shanghai Offshore Petroleum Engineering Corp.	NA	Amaee Holding Corp. (NA)	Shanghai Municipal Mechanical & Electrical Industrial Co.; Shanghai Shipbuilding Industrial Co.; Shanghai Investment & Trust Corp.; Bank of China, Shanghai branch (NA)	Rigs, vessels, petrochemical equipment, and service facilities	Shanghai	Signed June 1983	15
Shenmei Daily Use Products Ltd. Co.	$2.8 mil.	Gillette Co. (50%)	Shenyang Daily Use Metals Industrial Corp. (50%)	Razor blades, plastic razors, and uncoated blades for industrial use	Shenyang	Approved in 1981	20

Sino–American Shanghai Squibb Pharmaceuticals Ltd.	$6.32 mil.	E.R. Squibb & Sons Inc. (50%)	State Pharmaceutical Management General Bureau; Shanghai Trust and Investment Corp.; and Shanghai Pharmaceutical Industry Corp. (50%)	Pharmaceuticals	Shanghai	Approved May 1982	20
Zhong-Chang Offshore Marine Services Co.	Paid up capital $10 mil.	Sin-Hai Offshore Services Co. Pte (US–Singapore joint venture between Seahorse Inc. and Wah-Chang International Corp.) (49%)	China Nanhai Oil Joint Service Corp. (51%)	Supply vessels for South China Sea oil exploration	Guangzhou	Contract signed December 1982	10

Non-US Joint Equity Ventures Outside Special Economic Zones (58)

Beijing Air Catering Co. Ltd.	¥5.88 million ($3.89 mil. at date of signing)	China Air Catering Ltd. (HK) (49%)	CAAC, Beijing office (51%)	Air catering	Beijing	Approved April 21, 1980	8
Beijing Core Soft Co.	$61,000	Tokyo Maruichi Shoji Co. and The Core Group (Japan) (49%)	China Electronics Import and Export Corp. (51%)	Software	Beijing	Contract signed August 1983	NA
Chang Ann Nylon Zip-Fastener Factory	$550,000	Andar Trading Co. (HK) (30%)	Xi'an Zip-Fastener Factory (40%) Huo Qin International Economic Cooperation Corp. (30%)	Zippers	Xi'an, Shaanxi	Contract signed March 31, 1983	8
China Bohai Racal Positioning & Survey Co.	NA	Racal Survey Ltd. (UK) (50%)	China National Offsore Oil Corp. (50%)	Positioning stations and equipment	Tanggu	Signed July 12, 1983	10
China Geco Geophysical Co. Ltd.	$2.5 mil.	Geophysical Co. AS (Norway) (50%)	CNOOC (50%)	Geophysical and seismic exploration	Tianjin	Approved September 1982	10
China Jianghai Wood Products Co. Ltd.	$2.98 mil.	Victory Brothers & Co. (HK); Vicboros Group Inc. (Philippines) (40%)	China National Light Industrial Products Import and Export Corp., Jiangsu branch; Wuxi General Furniture Factory (60%)	Wood furniture, plywood	Wuxi, Jiangsu	Approved April 1981	20
China Nanhai Racal Positioning & Survey Co.	NA	Racal Survey Ltd. (UK) (50%)	CNOOC (50%)	Positioning stations and equipment	Zhanjiang	Signed July 12, 1983	10
China Orient Leasing Co.	$3 mil.	Orient Leasing Co. Ltd. (Japan) (50%)	CITIC (20%); Beijing Machinery and Electrical Equipment Co. (30%)	Machinery leasing	Beijing	Approved March 20, 1981	15
China Otsuka Pharmaceutical Co. Ltd.	$6.6 mil.	Otsuka Pharmaceutical Co. Ltd. (50%)	China National Pharmaceutical Industry Corp. (50%)	Pharmaceuticals	Tianjin	Approved December 24, 1980; will begin operation in April 1984	20
China–Schindler Elevator Co. Ltd.	$16 mil.	Schindler Holding AG (Switzerland) (15%), and Jardine Schindler Far East Holdings (HK) (10%)	China Construction Machinery Corp. (75%)	Elevators and escalators	Beijing and Shanghai	Approved July 4, 1980	20
China Triplet Joint Venture Electronics Co.	HK $900,000 ($153,000 at date of signing)	Chiu Hwa Enterprises Ltd. (HK) (39%) Tsin Lien Trading Co. Ltd. (HK) (20%)	Tianjin Corp. of Electronics Parts and Components (41%)	Cassettes and other electronic products	Tianjin	Signed first half 1982	11
Chunhua Garment Factory	¥200,000 ($100,000 at current rates)	Fung Shun Trading Co. (HK) (49%)	Guiyang Shirt Factory (51%)	Shirts	Guiyang, Guizhou Province	Approved April 1981	3
Dongfang Glasses (Optical) Co. Ltd.	HK $1 mil. ($203,000 at date of signing)	Fada Spectacles Manufacturing Co. (HK) (50%)	Bai Yua Commune (50%)	Glasses	Ying County, Zhejiang	Approved December 1980	15
Enping-Kwong Luen Tai Textile Ltd.	$10 mil.	Kwong Luen Tai Enterprise Ltd. (HK) (40%)	Textile Industry Corp. of Enping County (60%)	Yarn and garments	Enping, Guangdong Province	Signed April 27, 1983	20
Foshan Home Use Electrical Appliance Co. Ltd.	$2.4 mil.	Yung Kao Electronic Products Co. Ltd.* (HK) (50%)	Foshan Electronic Industry Co. (50%)	Transistors	Foshan, Guangdong Province	Approved July 1981	10
Fujian-Hitachi Television Co. Ltd.	$2.4 mil.	Hitachi Co. (Japan) (38%); Toei Co. and Hitachi Sales Corp. (Japan) (12%)	Fujian Electronics Import and Export Corp. (40%); Fujian Investment Enterprise Corp. (10%)	Televisions	Fuzhou, Fujian Province	Approved December 5, 1980	15

Fujian Overseas Co. Ltd.	HK $3 mil. ($366,000 at current rates)	Jingang Co. Ltd. (HK) (40%)	Fujian Huachiao Plastic Enterprise Co. (60%)	Plastic film	Fuzhou, Fujian Province	Approved October 1979	5
Fuzhou Hotel	¥24 million ($16.4 mil. at date of signing)	Kato Bussan (Japan) (49%)	Fujian Investment Enterprise Corp., Fuzhou branch (51%)	Hotel	Fuzhou	Approved June 1980	NA
Fuzhou Yiguang Colour Photo Studio	HK$1 mil. ($213,000)	Hong Kong Minhua Trading Centre (45%)	Fuzhou Service Co. (55%)	Photo studio	Fuzhou, Fujian Province	Approved November 1979	10
Guangdong-Hunan Qinfeng Co. Ltd.	¥1.3 million ($765,000 at date of signing)	Investment by individual (Thailand) (35%)	Hunan Meat and Aquatic Products Co.; and Guangdong Trust and Investment Co. (65%)	Animal feed	Changsha, Hunan Province	Approved August 1981	10
Guangze Abrasive (Emery) Paper Abrasive Cloth Industry Co. Ltd.	$1 mil.	He Zuoro, Philippine businessman (45%)	Guangze County Investment Enterprise Co. (55%)	Abrasive paper and cloth	Guangze, Fujian	Approved May 1981	15
Guangzhou (Xiyuan) Automatic Appliance Co. Ltd.	NA	NA (50%)	NA (50%)	Appliances	Guangdong Province	Approved June 1982	10
Guangzhou Xianda Co. Ltd.	$6 mil.	System Data Semiconductor Co. Ltd. (HK) (33%)	Guangzhou Watch Industry Co. (67%)	Integrated circuits	Guangzhou	Approved December 1981	15
Hainan Autonomous Prefectural Seawater Breeding Development Co.	J¥100 million ($424,000 at date of signing)	Toko Co. (Japan) (75%)	Hainan Li-Miao Autonomous Prefectural International Trust and Investment Co. (25%)	Seawater breeding	Hainan	Contract signed first half 1982	15
Haven Automation Guangzhou Ltd.	$126,000	Haven Automation International Ltd. (UK) (50%)	China Ocean Shipping Co. Wen Chong Shipyard, Guangzhou (50%)	Marine and offshore instrumentation	Huangpu	Approved June 2, 1982	10
International Grand Hotel	$60 mil.	Philippine–China Friendship Hotels (49%)	Yancheng Service Development Corp. (51%)	Hotel	Guangzhou	Protocol signed November 1982	20
Jianguo Hotel	$17.6 mil.	Zhong Mei Hotel Development Venture Ltd. (HK) (49%)	China International Travel Service, Beijing branch (51%)	Hotel	Beijing	Approved April 1980	10
Jin Hua Watchdial Factory Co. Ltd.	HK $2.3 mil. ($280,000 at current exchange rates)	Wahing Watchdial Factory Ltd. (HK) (25%)	Tianjin Watch Industry Corp. (75%)	Watchdials, watchhands	Tianjin	Approved October 1980	12
Jingke Electronic Watch Co. Ltd.	$8.5 mil.	Keyuan Co. Ltd. (HK) (50%)	Clock and Watch Industry Co. (50%)	Watch production	Guangzhou	NA	NA
Languang Color Film Development Service	$100,000	Kuang Hui Trading Co.* (HK) (49%)	Gansu Daily Use Products Co. (51%)	Color film	Lanzhou, Gansu Province	Approved September 1981	5
Nan Lian Food Co.	NA	Consolidated Catering Services Ltd. (HK) (NA)	Daily Living Services Co., China Nanhai Oil Joint Service Corp. (NA)	Food products	Chiwan	Signed December 1982	NA
Nanning-Jones Corp. Ltd.	$460,000	Henry Jones Inc. (Australia) (50%)	Nanning Agriculture-Industry-Commerce Integrated Enterprise of Guangxi (50%)	Pineapple planting and processing	Nanning, Guangxi Province	Approved December 10, 1981	20
Nantong–Rikio Co. Ltd.	$880,000	Rikio Co. Ltd. (Japan) (60%)	Nantong Bureau of Light Industry and China International Investment and Trust Corp. (40%)	Shoes	Nantong, Jiangsu Province	Approved November 1981	15
Palace Hotel	$60 mil.	Yick Ho Ltd. (HK) (49%)	China International Travel Service (51%)	Hotel	Beijing	Approved July 1980	10
Quanzhou Artificial Flowers Enterprise Co. Ltd.	¥400,000 ($226,000 at date of signing)	Hong Kong Kawa Trade Co. Ltd. (50%)	Quanzhou Arts and Crafts Co. (50%)	Artificial flowers	Quanzhou, Fujian Province	Approved June 1980	5
Quanzhou Foodstuff Co. Ltd.	$1.25 mil.	Ronxing Enterprise Corp. (Philippines) (50%)	Quanzhou No. 1 Bamboo Goods Factory (50%)	Food products	Quanzhou, Fujian	Approved April 1981	10
Shandong Enterprises Ltd.	$400,000	Mok Hing Hong Co. Ltd. (50%)	Shandong Luxing Trading Co. Ltd. (50%)	Tourism agent	Qingdao, Shandong Province	Approved May 1981	NA
Shanghai Bell Telephone Equipment Manufacturing Co.	$20–25 mil. initial investment	Bell Telephone Manufacturing Corporation (Belgium) (30%) Belgian government (10%)	China National Postal and Telecommunications Industry Corp. (60%)	Communications equipment	Shanghai	Signed July 30, 1983	15

Shanghai United Wooltex Corp. Ltd.	$6 mil.	Uni-Shanghai Wooltex Ltd. (HK) (40%)	Wool and Flax Co., Shanghai Textile Industry Bureau (60%)	Wool sweaters	Shanghai	Approved May 27, 1981	15
Shanghai Yaohua General Glass Plant	¥236 million ($119.2 mil. at current exchange rates)	Pilkington Brothers (UK); and U.D.I. (HK) Ltd. (25%)	Ministry of Building Materials Industry; and Bank of China (75%)	Glass using float glass technique	Shanghai	Approved June 7, 1983	18
Sino-French Joint Venture Winery Ltd.	$533,000	Remy Martin (Far East) Ltd. (France) (38%)	Tianjin Municipal Vineyard (62%)	Wine	Tianjin	Approved May 20, 1980	11
Sino-Swedish Pharmaceutical Corp. Ltd.	$12 mil.	Astra, Kabi-Vitrium, Ferring, Ferrosan, Leo (Sweden) (50%)	China National Pharmaceutical Industry Corp., Jiangsu branch (50%)	Pharmaceuticals	Wuxi, Jiangsu Province	Approved May 1982	20
Sui Fung Consultants Ltd.	NA	Fung Pin Fan Consultants Ltd. (HK) (NA)	Guangzhou External Economic Information & Consultancy Servicing Corp. (NA)	Trade and investment advisor	Guangzhou	Started April 1983	NA
TTK Electrical Appliances Ltd.	$3.5 mil.	Yao Ito Electric Co. Ltd.* (HK) (50%)	Guangdong Huiyang Area Electronic Industry Co. (50%)	Cassettes	Huizhou, Guangdong	Approved July 1981	10
Tianjin-Daiei Co. Ltd.	$495,000	Daiei Co. Ltd. (Japan) (50%)	Tianjin Foreign Trade Corp. (50%)	Promote Japanese-Tianjin Trade	Tianjin	Contract signed January 1981	NA
Tianjin Li-Ming Cosmetics Co. Ltd.	¥1.2 million ($690,000 at date of signing)	Wella AG (W. Germany) (50%)	Tianjin No. 1 Household Chemicals Factory (50%)	Creams, shampoos	Tianjin	Approved April 1981	15
Tianjin Synthetic Padding Joint Manufacturers Ltd.	NA	Electrade Ltd. (HK) (40%)	Tianjin No. 6 Garment Factory (40%) Tianjin Economic Development Corp. (20%)	Flock & non-woven fabrics	Tianjin	Production began July 1983	11
Tianshin Woolen Textile Co.	$8 mil.	Toyo Boshi Kogyo Co. (Japan); Peninsula Knitters Ltd. and Rawcott International Co. (HK) (49%)	Urumqi Woolen Mill (51%)	Woolen thread	Urumqi, Xinjiang	Approved June 1980	15
Tin Sung Co. Ltd.	HK $1.2 mil. ($170,000 at current rates)	Kanematsu Gosho Ltd. (Japan) (33⅓%); and Shin Li Investment Ltd. (HK) (33⅓%)	Tianjin Foreign Trade Co. and Tianjin Economic Development Corp. (33⅓%)	Trade promotion	Tianjin	Set up December 1982	NA
UIE-COPECO	$500,000	Union Industrielle d'Enterprise (France) (25%)	China Offshore Platform Engineering Corp. (75%)	Petroleum platforms	Huangpu, Guangdong Province	Contract signed October 1981	15
Xi'an Colour Photo Studio	$164,000	Yuda Trading Co. Ltd. (48%)	Lianhu District Service Co. (52%)	Photo studio	Xi'an, Shaanxi Province	Approved December 1982	NA
Xihu (West Lake) Rattan Works Co. Ltd.	HK $2 mil. ($410,000 at date of signing)	Xin Yi Hang (HK) (45%)	Zhejiang Furniture and Sundry Goods Industrial Corp. (55%)	Rattan furniture	Hangzhou, Zhejiang	Approved December 1981	10
Yanhua Standard Battery Plant Co. Ltd.	¥200,000 ($130,000 at date of signing)	Standard Cell Ltd. (HK) (50%)	Shijiazhuang No. 3 Radio Factory (50%)	Batteries	Shijiazhuang, Hubei	Approved September 1980	8
Zhaozheng Aquatic Products Ltd.	$670,800	Cheng Kuang Foodstuff Co. Ltd.* (HK) (50%)	Zhaoan County, Xishan Farm (50%)	Aquatic products breeding	Zhaoan, Fujian Province	Approved May 1980	10
Zhongji Offshore Marine Services Co.	NA	Kai Hoi (HK); Offshore Supply Assoc. (W. Germany); Kanematsu Gosho (Japan) (NA)	China National Offshore Joint Service Corp. (NA)	Shipping services for offshore oil exploration	NA	Signed March 1983	NA
Zhongxing Offshore Marine Services Co. Ltd.	NA	Yuet Shun Shipping Offshore Services, Ltd. (50%)	China National Offshore Joint Service Corp. (50%)	Supply vessel services for offshore oil exploration	Chiwan and Guangzhou	Signed March 1983	10
NA	J¥200 mil. ($850,000)	Showa Concrete Industry Co. (Japan) (49%)	NA, Hangzhou (51%)	Hotel	Hangzhou	Basic agreement signed June 1983	NA
NA	NA	Volkswagenwerk AG (W. Germany) (50%)	Shanghai Tractor and Automobile Corp. (35%); and Bank of China, Shanghai branch (15%)	Mid-size passenger cars	Shanghai	Basic agreement signed November 1982	NA

US-Joint Equity Ventures in Special Economic Zones (2)

China-Nanhai Baker Drilling Corp. Ltd.	$20 mil.	Baker Marine Corporation (50%)	China National Offshore Oil Corp. (50%)	Semi-submersible drilling rig construction; and rig renting and leasing	Shenzhen	Approved April 7, 1983	14
Xiamen Cigarette Factory	$12 mil.	R.J. Reynolds Tobacco International Inc. (50%)	Xiamen Cigarette Factory; and Xiamen Construction and Development Corp. (50%)	Cigarettes	Xiamen	Preliminary agreement signed June 1983	NA

Non-US Joint Equity Ventures in Special Economic Zones) (12)

Airplane Model Instrument Works	$752,000	Ta Tong Machinery Co. Ltd.* (HK) (49%)	China National Aero Technology Import and Export Corp. (51%)	Instruments	Shenzhen	Approved July 1981	15
Guangming Overseas Electronic Industry Co. Ltd.	$8.6 mil.	Hong Kong Electronic Enterprises Co. Ltd. (49%)	Guangdong Huaqiao Enterprise Co. (51%)	Radio cassette-recorders	Shenzhen	Approved December 1979	10
Guangming Pig Farm	$4.52 mil.	Philippines Overseas United Co. Ltd. (50%)	Guangdong Huaqiao Enterprise Co. (50%)	Pig raising	Shenzhen	Approved in December 1979	20
Hua-Wei Offshore Vessel Service Co. Ltd.	$40 mil.	Parley Auguston (Norway); Interocean Shipping (HK) (49%)	China Merchants Steam Navigation Co. Ltd. (51%)	Supply vessel charters	Shekou	July 1983	NA
Huaying Nanhai Oilfield Telecommunications Services Co.	£1.75 million initial investment ($2.7 mil. at date of signing)	Cable & Wireless Co. (UK) (49%)	Guangdong Provincial Posts and Telecommunications Bureau (51%)	Telecommunications service	Shenzhen, Chiwan, Shekou	Signed July 25, 1983	NA
Nanhai Hotel	$10.9 mil.	Hong Kong and Shanghai Banking Corp. (25%); Miramar Hotel & Investment (25%)	China Merchants Steam Navigation Co. Ltd. (25%); Bank of China, Shenzhen branch (25%)	Hotel	Shekou	Signed April 1983	NA
Shanghai Hotel	¥7.5 million ($3.8 mil. at date of signing)	Xingye Co. Ltd. (HK) (33⅓%)	Shanghai General Petrochemical Works; China Aeronautical Technology Import & Export Corp.; Industry Trade Center (66⅔%)	Hotel	Shenzhen	Approved second quarter 1983	20
Shanghai Upholstered Furniture Co. Ltd.	HK $3 mil. ($365,000 at current rates)	Hwa Jin United Enterprise Ltd. (HK) (55%)	Shanghai Furniture Co. (45%)	Furniture	Shekou	Signed early 1983	25
Shenzhen Meigang Petrol Station	HK $3 mil. ($537,000 at date of signing)	Great River Trading Co. Ltd. (HK)	Guangdong Enterprises Ltd.	Gas station	Shenzhen	Approved in 1981	15
Xingxing Paper Co. Ltd.	$2.7 mil.	Chung Kong Enterprise Co. Ltd.* (HK) (35%)	Shanghai Paper Industry Co. (65%)	Paper	Shenzhen	Approved April 1980	20
Yue Xing Helicopter Service Co.	NA	Airtrust Group (Singapore) (49%)	China Marine Helicopter Service Co., Nanhai branch (51%)	Helicopter services for offshore oil exploration	Shenzhen	Contract signed in April 1983	10
NA	HK $100 mil. ($15.15 mil. at date of signing)	Mitsui Mining and Toho Forestry Ltd. (Japan) (50%)	Shenzhen SEZ Development Co. (50%)	Cement	Shenzhen	Contract signed February 1983	25

SUMMARY

	Number of ventures (Number of ventures that have released financial data)	Investments (mil. US$)				Equity split foreign side–Chinese side		Equity split foreign side–Chinese side by number of ventures			
		Foreign side	Chinese side	Total value	Average foreign investment per venture	Highest	Lowest	50–50	49–51	Other	NA
US joint equity ventures outside SEZs	17 (16)	$86.6	$107.6	$194.2	$5.4	57.5–42.5	30–70	6	6	3	2
US joint equity ventures in SEZs	2 (2)	$16.0	$16.0	$32.0	$8.0	50–50	50–50	2	—	—	—
Non-US joint equity ventures outside SEZs	58 (50)	$159.8	$242.1	$401.9	$3.2	75–25	25–75	23	10	21	4
Non-US joint equity ventures in SEZs	12 (10)	$42.8	$44.5	$87.3	$4.3	55–45	33⅓–66⅔	3	5	3	1
TOTAL	**89**	**$305.2**	**$410.2**	**$715.4**	**$3.9**	**75–25**	**25–75**	**34**	**21**	**27**	**7**

SOURCES: Ministry of Foreign Economic Relations and Trade, Beijing; and Beijing Office of the National Council for US–China Trade. Tables edited by Jennifer Little. *Verbatim translation from Chinese to Wade-Giles, which may not necessarily correspond to the foreign names of companies that use other systems of romanization.

Hard-won wisdom provides some guidance for future investment projects.

What Works and What Doesn't

Jeanne Chiang

US companies are often surprised to learn that more than 1,780 foreign enterprises have already invested in China. These investments take many forms, ranging from contractual and joint equity ventures to compensation trade and coproduction. Even 100 percent foreign-owned enterprises are in operation in the special economic zones, and may soon become possible elsewhere in China.

These different forms reflect attempts by foreign companies to circumvent a range of thorny problems, many of them unanticipated. No investor therefore should risk investing in China, much less initiate discussion in that direction, without first learning from the experience of others.

The Right Partner

Few of the Chinese organizations authorized to deal with foreigners are well-equipped to be investment partners, either in terms of their business experience or their clout and connections.

The most common go-betweens and potential investment partners—often one and the same—are foreign trade corporations (FTCs), national-level bureaus of ministries, provincial bureaus of ministries, the China International Trust and Investment Corporation (CITIC), or the trust and investment corporations of provinces and cities, to mention a few.

Some companies make the erroneous assumption that the national corporations, which specialize in anything from electronic devices to abrasives, make the best partners. The assumption is that they control the industry in China. But there is a surprising amount of room for decentralized action in China. A case in point is the US seed company that spent considerable time wooing such a national corporation, even providing a six-month training period in the US for some of its technicians. The company finally realized that its Chinese partner could not absorb the technology necessary to make the deal work. It also discovered that the corporation had limited influence in the industry, and that a provincial entity might have made a better partner.

NIKE endured frustration working with factories introduced by an FTC for some time before learning that the local southern branch of the ministerial corporation could introduce NIKE to factories more capable of producing goods to its specifications.

The Right Site

When producing in China, as elsewhere, the right factory can make the difference between a long and drawn-out series of frustrations and a relatively smooth path to a successful startup. The sites shown to you depend, in great part, on the connections of an intermediary leading you to them. Aside from these, there are a couple of other reasons why certain sites might be proposed.

Although many companies are shown good sites, there have also been reports of firms being led to the most backward and dilapidated factories. This may be because one of the main reasons the Chinese want a foreign partner is to have it upgrade the factory, and the factories most in need of upgrading are the worst factories. Moreover, foreigners sometimes are led to sites because of some overall plan for development of an industry. If Shanghai is designated a production base for *x*, for example, and Tianjin an area specializing in *y*, then a *y*-type company might be steered to Tianjin, even though it specifically requested Shanghai.

Raw Materials

Considerable confusion still surrounds such basic issues as the cost of domestic raw materials and import duties on imported materials. In a major concession to foreign investors, the State Economic Commission announced on April 8, 1983 that new legislation will soon be promulgated permitting joint equity ventures to buy domestic raw materials in RMB at the same prices charged domestic manufacturers. "The same applies to the supply of water, electricity, fuel, and oil for domestic transportation," the announcement said. But in the case of precious metals, petroleum products, coal, timber, and other materials "which have a big price difference between the domestic and international markets," joint ventures will be able to pay in RMB at domestic rates if the materials are destined for sale in China, but will have to pay in RMB at international rates if the materials are used in goods destined for export. The announcement also revealed that import duties would be waived on materials imported by joint ventures for commodities destined for export.

In the Gillette joint venture in Shenyang, where a percentage of the production is retained for sales in China, duty is paid on imports used to produce that portion.

Regardless of regulations that stipulate that duties may be waived on certain kinds of imported equipment, it is generally best to have it carefully spelled out in the contract. In one compensation trade deal, the foreign company was assured that no duty would be imposed on materials imported for the duration of the agreement. The company wisely insisted that a provision be included stating that the Chinese partner would be responsible for duties, if imposed. As it turned out, Chinese customs authorities collected duty on the imported materials.

In principle, foreign firms are willing to use domestic materials that are up to international standard, as they are required to do by Article 9 of the July 1979 Joint Venture Law. But

finding acceptable materials can be a tough job. Foxboro, for example, has 50 separate contracts out in the Shanghai area to have samples produced to its specifications, and that is only the beginning.

The Foxboro joint venture will have the luxury of obtaining its China-sourced raw materials from the industrially advanced Shanghai area. In cases where the raw materials cannot be sourced from the immediate area, however, bottlenecks in the Chinese infrastructure could increase cost and cause erratic supply. The quality of certain Chinese supplies can be another problem, forcing the foreign partner to work not only with the joint venture partner, but also to put energy and expense into upgrading the production of its suppliers.

Quality Control

The issue of quality is especially important when a company plans to use its brandname and take the product into the international market. Some elect to have on-site technical personnel do quality-control inspections, which is an additional cost consideration. Many companies also include stringent reject-and-destroy clauses in their contracts to prevent rejected products from showing up either with their trademarks in the Chinese market, or without their trademarks as Chinese exports.

In one instance, it looked like out-and-out breach of contract when the Chinese partner apparently did not destroy rejected merchandise as it had agreed to do, and sold it domestically. In an economy of scarcity, it is difficult for the Chinese to understand such apparent waste when the rejected product is functional and may be superior to what is domestically available. The company in this case chose not to bring action, but to obtain assurance from the Chinese partner that this would not be repeated.

As an alternative to stationing foreign technical managers in China, which is both an added expense and a personnel headache, a company can appoint third-party inspectors, such as the China Commodity Inspection Corporation (CCIC). CCIC enjoys a good reputation for its technical capability, objectivity, and reasonable rates. For electrical appliances, CCIC has an agreement with the Underwriter's Laboratory in the US.

Where technical standards can be applied, foreign companies have generally been impressed with Chinese fastidiousness and absolute integrity in meeting specifications. However, when there is a strong cosmetic component in the quality standard that cannot be verified by measuring the amount of dye or carbonation, or adherence to a formula, companies have sometimes had a hard time convincing the Chinese partner that there is cause to reject a product.

This problem is common throughout the developing world, but tends to be more difficult to overcome in a society that has deliberately eschewed cosmetic factors as materialistic and bourgeois. Obstacles arising from cultural differences of this type may be the most troublesome in working out an accommodation with a Chinese partner.

Labor

A problem that primarily affects joint ventures is labor. Though labor quality is a consideration for processing enterprises from the point of view of whether a factory is technically capable of turning out a good product, the foreign partner is not directly involved in hiring and firing, or devising incentive programs. In joint ventures, however, the foreign and Chinese partners are paying for the labor, and usually at a wage far higher than the industry average.

The Chinese argue that Chinese workers receive state subsidies in the form of free, or virtually free housing and healthcare, among other benefits that are not made available to workers in joint ventures. The difference is made up by paying joint venture workers ¥150–250 per month (the national average is ¥65 per month), most of which is paid to, and retained by, the Chinese government.

Though the joint venture law implies that joint venture employers can hire and fire, companies have seldom been able to exercise this right because of the review process that is usually required. One exception is Fujian Hitachi, which recently laid off more than 100 workers, to the surprise of many. In the face of flagging demand, the Chinese manager, You Tinguan, paid the laid-off workers ¥30 per month in compensation. The workers will be recalled if business improves.

Joint ventures have also been allowed to test workers before hiring, and to require a probationary period. The Beijing Aircatering joint venture, for example, reportedly enforces a six-month probationary period and can return an unsatisfactory worker after six months to his or her previous job.

Overstaffing is hard to avoid, since a Chinese factory is not at liberty to cut its staff because its foreign partner brings in technology that eliminates the need for, say, most of the plant's labor force. In Foxboro's case, however, it was possible to divert half the original labor force to another factory under the Chinese partner's jurisdiction.

Salaries

A subject of much concern and discussion in negotiating a joint venture is the salary of the managers, both Chinese and foreign. The Chinese require that the chairman of a joint venture be Chinese, though the vice-chairman could be foreign, as well as a number of other key managers. As a matter of pride, the Chinese have always insisted that the Chinese managers be paid at a scale comparable with the foreign managers, in spite of differences in experience and living standards.

Because the Chinese government retains most of the money paid Chinese managers, foreign firms understandably regard the whole issue of equivalency in pay scales as a form of disguised taxation, but so far there has been no significant change in attitude on the Chinese side. One imperfect solution to this problem has been to pay the foreign manager a low salary in China, and a salary supplement to a foreign bank account. Apart from the ethical problems inherent in this method, it also becomes impossible to attribute the supplemental salary to the joint venture.

The best that can be done to achieve pragmatic results and maintain the principle of equality and mutual benefit is to limit the damage. Foreign companies have found the Chinese negotiators to be understanding. Some companies have admitted that compromises have been struck with which neither side is totally satisfied, but which have received central approval. As a result, actual salary figures and ratios are among the best-kept secrets of joint ventures in China.

A related issue is the Chinese requirement until recently that only up to 50 percent of a foreign manager's salary may be remitted abroad. Given differences in living standards and in cultures, there are rarely enough goods and services in China on which to spend so much. However, this requirement has been waived in several instances by special arrangement. And on August 1, 1983, the State Administration of Exchange Control promulgated the "Rules for the Implementation of Exchange Control Regulations Relating to Enterprises with Overseas Chinese Capital, Enterprises with Foreign Capital, and Chinese and Foreign Joint Ventures." These Implementation Rules provided for salary remittances of up to 100 percent. Remittances of more than 50 percent require a special application. Companies are watching with interest to see how easy it will be to remit large amounts under this system.

Where many foreign managers are needed to run a joint venture, there is the additional problem of finding enough able managers willing to spend extended periods of time in China, where foreign personnel still live mainly in hotels. Gillette's joint venture will require one technical manager in China, while AMC's will require eight, with another 20 rotating. It behooves foreign companies to enlist the help of their Chinese partners to find better housing. Certain areas may offer more attractive accommodations than others. Foxboro's two executives in Shanghai reside in apartments in a guesthouse, few of which are available in Beijing and other, more remote, places.

Currency Inconvertibility

The Chinese steer foreigners into investments that generate exports precisely to avoid the convertibility issue. Hence, foreigners obtain foreign exchange directly from exports, not from RMB earnings in China that are then converted into foreign exchange. This puts a premium on structuring deals that produce just the right mix of exports and domestic sales, permitting foreigners to be paid back in foreign exchange while earning enough RMB to cover their domestic expenditures. Gillette, for example, produces an industrial razor specifically to earn the RMB necessary to pay for utilities and other domestically sourced raw materials.

Some companies enter into joint ventures with the goal of retaining all or most of the production for sale in China. In that case, taking the profits out of China usually means taking other kinds of products out of China under a counterpurchase arrangement, which the Chinese call "indirect compensation" or "comprehensive compensation." But few deals have succeeded, largely because ministries do not coordinate with one another and there is no higher coordinating body that can compensate a foreign company for production under one line of authority with products from another line of authority.

Rare indeed is the foreign company that manages to take foreign exchange out of China by some means other than exporting. In one recent deal, the foreign partner won the right to use its RMB earnings to buy part of its Chinese partner's foreign exchange earnings—at the prevailing exchange rate—which the foreign partner can then repatriate. Another case is AMC's option to build its equity share from an initial 31.4 percent to a possible 49 percent by plowing back its RMB profits. This reduces AMC's initial hard currency outlay and enables it to get something in return for RMB earnings early in the venture.

As China's foreign exchange holdings soar, Beijing is having a harder time explaining why a country with the sixth largest reserves in the world should not permit foreigners to convert part of their RMB earnings into foreign exchange. A slight change in policy is therefore likely. Early this year Shanghai announced that exchange conversion might soon be possible, and there are further indications that even in Beijing limited convertibility is under active consideration.

Meanwhile, foreigners continue to resort to complicated schemes to get around the convertibility roadblock. For example, an Australian consortium had to find a Singapore firm willing to accept three-years worth of apple shipments in order to sell its apple-processing equipment to a Dalian company that claimed to have no other means of payment. Despite all the talk, countertrade deals are difficult to structure, and often discourage foreign companies from investing in China.

Bureaucratic Problems

There are a number of problems that are specific to the Chinese sys-

FOREIGN JOINT EQUITY VENTURES IN CHINA BY COUNTRY AND REGION

(Million US$)

US firms lead all other countries with 34 percent of the total value of foreign investment in Chinese joint ventures

	Number of ventures		Investment		
	In export zones	Outside export zones	Foreign side	Chinese side	Total value
Hong Kong	6	27	$78.9	$73.4	$152.3
US	2	17	$102.6	$123.6	$226.2
Japan	1	11	$19.6	$34.8	$54.4
UK	1	4	$31.2	$90.8	$122.0
Philippines	1	3	$32.8	$34.0	$66.8
Norway	1	1	$20.9	$21.7	$42.5
W. Germany	—	2	$0.3	$0.4	$0.7
France	—	2	$0.3	$0.7	$1.0
Belgium	—	1	$8.0	$12.0	$20.0
Switzerland	—	1	$4.0	$12.0	$16.0
Sweden	—	1	$6.0	$6.0	$12.0
Thailand	—	1	$0.3	$0.5	$0.8
Australia	—	1	$0.2	$0.2	$0.5
Other	2	3	$0.1	$0.1	$0.2
Total	14	75	$305.2	$410.2	$715.4

Sources: MOFERT; and National Council for US–China Trade.

tem and culture, and the foremost among them may be its bureaucracy. The complexity of the Chinese bureaucracy with its overlapping jurisdictions can cause many headaches and sometimes unexpected costs to foreign partners.

A major consumer-goods producer thought it had cut a very workable materials processing deal with a producing ministry at a southern site to make goods with a foreign label. Because the product carried a foreign label, however, it encroached on the territory of an FTC that usually imported that category of goods. The foreign company then cooled its heels during the ensuing bureaucratic fight, which produced a hybrid solution of two separate distribution systems, one under the Chinese partner, and the other under the FTC. But then, because it was a "fake import," its import duties were increased, making it uneconomical to produce the goods in China.

A significant feature of the previous example is that the Chinese partner was a competent and responsible entity negotiating in good faith. But even so, because not all the rules were known to everyone, the Chinese counterpart was as much in the dark as the foreigner until something went wrong.

A recent National Council Legal Delegation to China was told by MOFERT officials that its approval of a contract still does not necessarily guarantee that "other departments concerned" will also consent to the contract provisions. For example, MOFERT approval of a contract does not guarantee Ministry of Finance approval of the contract's tax provisions. This means there is in effect no single Chinese organization that can, after a certain point, give a flexible trade agreement a clean bill of health. The best that the foreign and Chinese partners can do is check with every Chinese agency that might have a say in some aspect of their agreement.

For additional insurance, CCPIT's Legal Affairs Department, or CITIC's China International Economic Consultants (CIEC), will provide legal opinions for a fee, based on their interpretation of Chinese law. While neither CCPIT nor CIEC is liable for damages in case their opinions are wrong, they are reputedly diligent not only in researching Chinese laws, but in checking with all "departments concerned" for a reading of the prevailing opinion concerning contract provisions not yet covered by Chinese law. Until China has a more complete legal system, this kind of reading of the consensus may be the best risk assessment available.

Trust

Without first establishing trust on both sides, a foreign firm is likely to encounter skepticism to its proposals on pricing, standards for rejecting products, and realistic salaries for managers.

Nevertheless, a certain amount of skepticism seems unavoidable in the beginning. Foreign negotiators report that the Chinese typically view the joint venture partner as an adversary who might be trying to exploit China, and so they adopt hard-line positions on all the thorny issues, as one would expect. Some companies have reported that the adversarial attitude persists for a time even after the signing of the contract and the formation of the joint venture. It is only well into the operation of the venture that the Chinese begin to perceive it as a partnership where mutual trust means mutual benefit.

Suspicion is often rife on the foreign side, too, as the Chinese will typically appear to demand everything and give nothing in return, and seemingly may give the impression that "profit" is a dirty word except when earned by the Chinese.

Given the possible undercurrent of distrust, should a foreign company give credence to Chinese insistence that a contract not get bogged down in too much detail? Examples show that both kinds of responses have paid off.

In the now famous Sino–French joint venture winery, Remy Martin decided to trust the Chinese partner completely on a handshake. It reportedly began construction of the facilities six months before the joint venture contract was finalized and provided free technical assistance in the interim. Partly in response, the Chinese partner agreed to contribute its equity in land valued at only ¥10 per square meter per year.

On the other hand, one company seeking long-term involvement in China wanted to start with a simple compensation trade deal that would evolve into a joint venture. Both sides having understood the intention, the foreign partner wanted to spell it out in the compensation trade agreement. The Chinese convinced the foreign partner that just mentioning a joint venture would require more layers of approval, and that a verbal agreement to work up to a joint venture would suffice. At the same time, the foreign partner made concessions that it might otherwise not have made, since it expected to convert its contribution to the compensation trade deal into equity under an eventual joint venture agreement.

After the first deal was established, however, the Chinese took the position that the compensation trade and joint venture arrangements were two separate matters without any *de facto* linkage, and concessions originally made by the foreign partner would have no bearing on the joint venture still to be negotiated.

Another American company in exactly the same situation, nonetheless insisted on writing into the compensation trade agreement that both sides ultimately intended to form a joint venture. Approval came through all the same, and the foreigner gained a more advantageous bargaining position by spelling out its past contributions.

Such examples give cause for optimism that Chinese negotiators will have increasing flexibility to try new approaches that will satisfy the needs of both sides. ₹

Jeanne Chiang is assistant director of Business Advisory Services at the National Council. In 1982 she was the Council's representative in Beijing where she was often consulted on trade and investment matters. Chiang holds a Master of Philosophy in Linguistics from Columbia University and a Bachelor of Arts from Mount Holyoke College.

CHINA'S MAJOR TRADE AND INVESTMENT LAWS

Marianna Graham

Chinese trade and investment legislation has multiplied dramatically in recent years, though the need for legal guidelines has undoubtedly increased even faster. The following list is not comprehensive, nor does it include the many secret "internal documents" affecting trade and investment that are only available to PRC officials. The main laws by subject category:

JOINT VENTURES

The Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment. Adopted on July 1, 1979 at the Second Session of the Fifth National People's Congress and promulgated on July 8, 1979. Took effect on date of promulgation.

Regulations of the People's Republic of China on the Registration of Joint Ventures Using Chinese and Foreign Investment. Promulgated by the State Council on July 26, 1980. Took effect on date of promulgation.

Regulations of the People's Republic of China on Labor Management in Joint Ventures Using Chinese and Foreign Investment. Promulgated by the State Council on July 26, 1980. Took effect on date of promulgation.

The Income Tax Law of the People's Republic of China Concerning Joint Ventures with Chinese and Foreign Investment. Adopted at the Third Session of the Fifth National People's Congress and promulgated on September 10, 1980. Took effect on date of promulgation.

Detailed Rules and Regulations for the Implementation of the Income Tax Law of the People's Republic of China Concerning Joint Ventures with Chinese and Foreign Investment. Approved by the State Council on December 10, 1980 and promulgated by Ministry of Finance on December 14, 1980. Took effect retroactively on September 10, 1980, the date of promulgation of the Income Tax Law of the People's Republic of China Concerning Joint Ventures with Chinese and Foreign Investment.

Provisional Regulations for Providing Loans to Joint Ventures of Chinese and Foreign Ownership by the Bank of China. Approved by the State Council and promulgated by the Bank of China on March 13, 1981. Took effect on date of promulgation.

Provisional Regulations of the General Administration of Industry and Commerce of the People's Republic of China on the Payment of Registration Fees by Joint Ventures Using Chinese and Foreign Investment. Approved by the State Council. Promulgated by the General Administration of Industry and Commerce on February 2, 1982. Took effect on date of promulgation.

Provisional Standards on Registration Fees to be Paid by Joint Ventures Using Chinese and Foreign Investment. Approved by the State Council. Publicly available in March 1982.

Decision of the Standing Committee of the National People's Congress on the Revision of the 'Income Tax Law of the People's Republic of China Concerning Chinese–Foreign Joint Ventures'. Presidential decree of the People's Republic of China No. 8. Adopted by the Second Session of the Standing Committee of the Sixth National People's Congress and promulgated on September 2, 1983. Took effect on date of promulgation.

Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment. Promulgated by the State Council on September 20, 1983. Took effect on date of promulgation.

OFFSHORE PETROLEUM EXPLOITATION

Regulations of the People's Republic of China on the Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises. Promulgated by the State Council on January 30, 1981. Took effect on date of promulgation.

Rules Concerning the Levy and Exemption of Customs Duties and Consolidated Industrial and Commercial Tax on Imports and Exports for the Chinese–Foreign Cooperative Exploitation of Offshore Petroleum. Approved on February 28, 1982 by the State Council and promulgated on April 1, 1982 by the General Administration of Customs and the Ministry of Finance.

See also Foreign Enterprise Registration; customs.

SPECIAL ECONOMIC ZONES

Regulations of the People's Republic of China on Special Economic Zones in Guangdong Province. Approved at the 15th Session of the Fifth National People's Congress on August 26, 1980 and came into force after adoption by Guangdong Provincial People's Congress and after submission and approval of the Standing Committee of the National People's Congress of the People's Republic of China.

Provisional Regulations on Registration of Enterprises in Special Economic Zones of Guangdong Province. Adopted at the 13th Session of the Standing Committee of the Fifth Guangdong Provincial People's Congress on November 17, 1981. Promulgated on December 24, 1981. Took effect on January 1, 1982.

Provisional Provisions on Land Control in Shenzhen Special Economic Zone. Adopted at the 13th Session of the Standing Committee of the Fifth Guangdong Provincial People's Congress on November 17, 1981. Promulgated on December 24, 1981. Took effect on January 1, 1982.

Provisional Entry/Exit Rules for the Special Economic Zones in Guangdong Province. Adopted at the 13th Session of the Fifth Guangdong Provincial People's Congress on November 17, 1981. Promulgated on December 24, 1981. Took effect on January 1, 1982.

Provisional Provisions on Wages in the Enterprises in Special Economic Zones in Guangdong Province. Adopted at the 13th Session of the Standing Committee of the Fifth Guangdong Provincial People's Congress on November 17, 1981. Promulgated on December 24, 1981. Took effect on January 1, 1982.

FOREIGN ENTERPRISE REGISTRATION

Provisional Regulations of the People's Republic of China Concerning the Control of Resident Offices of Foreign Enterprises. Promulgated by the State Council on October 30, 1980. Took effect on date of promulgation.

Notice of the General Administration for Industry and Commerce of the People's Republic of China Concerning Registration of Resident Offices of Foreign Enterprises. Promulgated December 8, 1980.

Notice to Resident Representative Offices and Personnel of Foreign Enterprises in Beijing Regarding Customs Formalities for the Importation of Office and Personal Articles. Issued by the Beijing Customs Authority on December 25, 1980.

Interim Regulations for the Control of Resident Offices of Foreign, Overseas Chinese, Hong Kong, and Macao Enterprises in Guangdong Province. Announced in *Nanfang Ribao* on May 11, 1981.

Circular Concerning Matters Pertaining to Resident Representative Organs Set Up by Foreign Enterprises in Shanghai. Announced in *Jiefang Ribao* on April 2, 1982.

Regulations Concerning the Establishment of Permanent Agencies in Tianjin City by Foreign Enterprises. Approved by Tianjin City Municipal Government. Announced January 4, 1983.

Provisional Regulations for the Establishment of Representative Offices in China by Overseas Chinese and Foreign Financial Institutions. Issued by the People's Bank of China on February 1,

1983. Took effect on date of issue.

Procedures for the Registration and Administration of Resident Offices in China of Foreign Enterprises. Approved by the State Council on March 5, 1983. Promulgated by the State Administration of Industry and Commerce on March 15, 1983. Took effect on date of promulgation.

Notice of the State Administration for Commerce and Industry Concerning the Question of Registering Foreign Companies that Come to Our Country to Cooperate in the Development and Contract for Projects. Issued by the State Administration for Commerce and Industry on March 12, 1983. Took effect on April 1, 1983.

Explanation of the Notice Concerning the Problem of Registering Foreign Companies that Come to Our Country to Cooperate in Development or Contract for Projects. Issued by the State Administration for Commerce and Industry on May 4, 1983.

FOREIGN ENTERPRISE TAXATION

Provisional Regulations Concerning Industrial and Commercial Business Tax. Adopted at the 17th Meeting of the Administrative Council on January 27, 1950 and promulgated by the Administrative Council on January 30, 1950. Amended and adopted at the 63rd Meeting of the Administrative Council on December 15, 1950 and promulgated by the Administrative Council on December 19, 1950.

Regulations of the Consolidated Industrial and Commercial Tax (Draft). Adopted at the 101st Meeting of the Standing Committee of the National People's Congress on September 11, 1958. Promulgated on September 13, 1958. Took effect on date of promulgation.

Detailed Rules and Regulations for the Implementation of the Regulations of the Consolidated Industrial and Commercial Tax of the People's Republic of China (Draft). Promulgated by the Ministry of Finance on September 13, 1958.

Provisional Regulations Concerning the Urban Real Estate Tax. Promulgated by the Administrative Council on August 8, 1951.

Provisional Regulations Governing the Vehicle and Vessel License Plate Tax. Promulgated by the Administrative Council on September 13, 1951.

Regulations for Taxation on the Transportation Incomes of Vessels of Foreign Nationality. Approved by the State Council. Promulgated by the Ministry of Finance on June 21, 1974. Took effect on July 1, 1974.

Notice on Taxation of Transportation Revenue of Foreign Vessels. Issued by the Ministry of Finance on April 30, 1982.

Income Tax Law of the People's Republic of China Concerning Foreign Enterprises. Adopted at the Fourth Session of the Fifth National People's Congress on December 13, 1981 and promulgated the same day. Took effect on January 1, 1982.

Detailed Rules and Regulations for the Implementation of the Income Tax Law of the PRC Concerning Foreign Enterprises. Approved by the State Council on February 17, 1982 and promulgated by the Ministry of Finance on February 21, 1982. Took effect on January 1, 1982, the same date as the publication and enforcement of the Income Tax Law of the PRC Concerning Foreign Enterprises.

Temporary Provisions on Tax Registration for Foreign Enterprises that Begin Operation or Close Down. Promulgated on April 15, 1982 by the General Tax Bureau under the Ministry of Finance. Took effect on the date of promulgation.

Tax Registration Instructions for Foreign Enterprises in Beijing. Issued by Beijing Tax Bureau's Foreign Tax Collection Office on April 15, 1982.

Tax Registration Instruction for Foreign Enterprises in Shanghai. Announced by the Shanghai Municipal Tax Bureau in *Jiefang Ribao* on June 10, 11, and 12, 1982.

Interim Provisions of the Ministry of Finance of the PRC Regarding the Reduction and Exemption of Income Tax Relating to Interest Earned by Foreign Businesses from China. Promulgated by the Ministry of Finance. Took effect on January 1, 1983.

Interim Provisions of the Ministry of Finance of the PRC Regarding the Reduction and Exemption of Income Tax on Fees for the Use of Proprietary Technology. Promulgated by the Ministry of Finance on December 13, 1982. Took effect on January 1, 1983.

TAXATION OF INDIVIDUALS

Individual Income Tax Law of the People's Republic of China. Adopted at the Third Session of the Fifth National People's Congress and promulgated on September 10, 1980. Took effect on date of promulgation.

Detailed Rules and Regulations for the Implementation of the Individual Income Tax Law of the People's Republic of China. Approved by the State Council on December 10, 1980 and promulgated by the Ministry of Finance on December 14, 1980. Took effect retroactively on September 10, 1980, the date of promulgation of the Individual Income Tax Law of the People's Republic of China.

Notice of the Foreign Tax Collection Office of the Beijing Municipal Tax Bureau. Dated June 30, 1982. Took effect from date of notice.

Notice Regarding Exemption from Tax Reporting and Payment of Individual Income Tax for Income Gained Outside China by Personnel of Foreign Nationality Working in China. Finance Tax Document No. 62, March 7, 1983.

EXCHANGE CONTROL

Provisional Regulations for Exchange Control of the People's Republic of China. Adopted at the Regular Session of the State Council on December 5, 1980 and promulgated by the State Council on December 18, 1980. Took effect on March 1, 1981.

Rules Governing the Carrying of Foreign Exchange, Precious Metals, and Payment Instruments in Convertible Currency Into or Out of China. Promulgated by the State General Administration of Exchange Control and published on August 10, 1981.

Rules for the Implementation of Foreign Exchange Control Relating to Foreign Representations in China and Their Personnel. Promulgated by the State General Administration of Exchange Control and published on August 10, 1981.

Detailed Rules for Approval of Applications by Individuals for Possession of Exchange. Promulgated by the State General Administration of Exchange Control on December 31, 1981. Took effect on January 1, 1982.

Detailed Rules Concerning Exchange Control Relating to Individuals. Approved by the State Council on December 31, 1981 and promulgated by the State General Administration of Exchange Control on the same date. Took effect on January 1, 1982.

Bank of China Regulations for Foreign Currency Deposits (Category A), (Category B), and for the Special Deposits of Renminbi. Promulgated and put into force by the Bank of China. Published in *China Daily*, November 18, 1982, with the note: "China will introduce its new regulations for foreign currency deposits in January."

Rules for the Implementation of Exchange Control Regulations Relating to Enterprises with Overseas Chinese Capital, Enterprises with Foreign Capital, and Chinese and Foreign Joint Ventures. Approved by the State Council on July 19, 1983. Promulgated by the State Administration of Exchange Control on August 1, 1983. Took effect on date of promulgation.

LABOR

The Trade Union Law of the People's Republic of China. Adopted at the 8th Session of the Central People's Government Council on June 28, 1950. Took effect upon promulgation.

Labor Insurance Regulations of the People's Republic of China. First promulgated by the Government Administrative Council February 26, 1951; promulgated as amended on January 2, 1953.

Provisional Regulations Concerning Congresses of Workers and Staff Members in State-Owned Industrial Enterprises. Approved and promulgated by the Central Committee of the Communist Party of China and the State Council. Issued June 15, 1981.

Regulations Governing Awards for Rationalization Proposals and Technical Renovations. Promulgated by the State Council on March 16, 1982. Took effect on date of promulgation.

Regulations on Rewards and Penalties for Enterprise Workers and Staff Members. Adopted by the Standing Committee of the State Council on March 12, 1982; promulgated on April 10, 1982. Took effect on date of promulgation.

INTELLECTUAL PROPERTY

Regulations on Rewards for Inventions. Promulgated as a circular by the State Council on December 28, 1978. Took

effect when made public; published January 16, 1979.

The Trademark Law of the People's Republic of China. Announced on August 25, 1982. Took effect on March 1, 1983.

Detailed Implementing Rules for the Trademark Law. Promulgated on March 10, 1983. Took effect on date of promulgation.

ENVIRONMENTAL PROTECTION

Regulations Governing the Breeding and Protection of Aquatic Resources. Issued by the State Council on February 10, 1979. Took effect on date of promulgation.

Forestry Act of the People's Republic of China (for Trial Use). Adopted in principle by the Sixth Session of the Standing Committee of the Fifth National People's Congress on February 23, 1979.

Law on Environmental Protection of the People's Republic of China (for Trial Use). Adopted in principle and promulgated by the 11th Meeting of the Standing Committee of the Fifth National People's Congress on September 13, 1979.

Provisional Regulations for Pesticide Field Trial in the People's Republic of China by Foreign Companies. Issued by the Ministry of Agriculture. Took effect June 1, 1981.

Provisional Regulations on Collecting Fees for the Discharge of Industrial Wastes. State Council circular issued on or before March 29, 1982. Took effect July 1, 1982.

Regulations for Pesticide Registration. Issued by the Ministry of Agriculture, Animal Husbandry, and Fisheries. Took effect October 1, 1982.

Detailed Rules and Regulations for Pesticide Registration.

Law on Marine Environmental Protection of the People's Republic of China. Approved by the 24th Session of the Standing Committee of the Fifth National People's Congress on August 23, 1982. Took effect on March 1, 1983.

FOREIGN TRADE ADMINISTRATION

Provisional Regulations Governing Export License System of the Import and Export Commission and the Ministry of Foreign Trade. Promulgated by the Ministry of Foreign Trade. Took effect June 3, 1980.

Details Concerning the Export License System Governing Eleven Categories of Export Commodities. Issued by the Ministry of Foreign Trade and the General Administration of Chinese Customs on January 22, 1982; promulgated February 1, 1982.

ARBITRATION

Provisional Rules of Procedure of the Foreign Trade Arbitration Commission of the China Council for the Promotion of International Trade. Adopted at the Fourth Session of the China Council for the Promotion of International Trade on March 31, 1956. Took effect when adopted.

Provisional Rules of Procedure of the Maritime Arbitration Commission of the China Council for the Promotion of International Trade. Adopted at the Seventh Session of the China Council for the Promotion of International Trade on January 8, 1959. Took effect when adopted.

Provisional Rules for General Average Adjustment. Issued by the China Council for the Promotion of International Trade on January 1, 1975.

CUSTOMS

Provisional Regulations Governing the Application of the Import and Export Tariff Schedule of the People's Republic of China. Approved by the 83rd Session of the Government Administrative Council on May 4, 1951. Took effect on date of promulgation.

Provisional Rules Governing the Levying of Tonnage Dues of the Customs Authorities of the People's Republic of China. Approved by the Finance and Economics Committee of the Administrative Council on September 16, 1952. Promulgated by the Customs General Administration on September 29, 1952. Took effect on date of promulgation.

Rules Governing the Supervision and Control of International Civil Aircraft by the Customs Authorities of the People's Republic of China. Revised by the Ministry of Foreign Trade on October 1, 1974. Promulgated on the same date.

Rules Governing the Supervision and Control of the Importation of Goods for Exhibitions by the Customs Authorities of the People's Republic of China. Promulgated by the Ministry of Foreign Trade on November 3, 1975.

Rules Governing the Levying of Import Duty on the Articles in Passengers' Baggage and Personal Postal Parcels of the People's Republic of China. Approved by the State Council on June 1, 1978. Promulgated by the Ministry of Foreign Trade on August 1, 1978. Took effect on date of promulgation.

Customs Regulations Concerning the Import of Personal Luggage and Articles by the Staff of Foreign Oil Companies Upon Entry Into China to Participate in the Cooperative Exploitation of Offshore Petroleum. Promulgated by the General Administration of Customs on April 1, 1982.

Measures on Inspection and Taxing of Import and Export Samples and Advertising Samples. Published in *China Trader*, October 1982.

INSPECTION AND HEALTH

Provisional Regulations Concerning the Inspection and Testing of Import and Export Commodities. Approved at the 198th Session of the State Council on December 17, 1953. Promulgated on January 3, 1954. Took effect on date of promulgation.

Current List of Commodities Subject to Inspection. Issued by the Ministry of Foreign Trade on February 1, 1982.

The Frontier Health and Quarantine Regulations of the People's Republic of China. Adopted by the 88th Meeting of the Standing Committee of the First National People's Congress on December 23, 1957.

Rules for Enforcing the Frontier Health and Quarantine Regulations of the People's Republic of China. Approved by the State Council on September 19, 1977.

Provisional Regulations Regarding Application by Foreign Companies to Carry Out Clinical Trials of New Drugs in the People's Republic of China. Issued by the Ministry of Public Health. Received by the National Council for US–China Trade in March 1982.

Animal and Plant Import and Export Quarantine Regulations of the People's Republic of China. Promulgated by the State Council on June 4, 1982. Took effect on date of promulgation.

Circular on Registration of Pharmaceuticals. Issued by the Ministry of Public Health, the State Administration for Industry and Commerce, and the State Pharmaceutical Administration. Published July 13, 1983. Takes effect August 1, 1984.

MARITIME

Regulations Governing Collection of Port Dues and Charges on Ocean-Going Vessels Engaged in International Trade and on Imported or Exported Foreign Cargoes. Issued by the Ministry of Communications on October 1, 1978.

Regulations Governing Supervision and Control of Foreign Vessels by the People's Republic of China. Approved by the State Council on August 22, 1979. Took effect on date of approval.

Regulations for Collecting Charges for Fire-Fighting on Ocean-Going Vessels in Chinese Ports. Issued by the Ministry of Communications on January 1, 1980.

Regulations for the Management of Loading and Unloading of Foreign Trade Vessels in Port. Issued by the Ministry of Communications in April 1980.

Provisional Rules Governing Collection of Port Dues and Charges on Containerized Imported and Exported Foreign Cargoes. Issued by the Ministry of Communication on June 15, 1980.

Regulations for Collecting Tallying Fees by the China Ocean Shipping Tally Company. Approved by the Ministry of Communications. Took effect July 1, 1980.

Provisional Regulations for Survey of Damaged Cargo Imported through Maritime Transportation. Took effect April 1981.

Regulations Concerning Calculation of Dispatch Money/Demurrage for Vessels Loading/Discharging at the Port of Dalian. Dalian Harbor Administration Bureau. Received by John M. Pisani in 1982. *See* The CBR, January–February 1983.

Regulations Governing Supervision and Control of Vessels of Foreign Registry Sailing in the Yangzi River. Promulgated by the Ministry of Communications on April 20, 1983. Took effect on date of promulgation.

Law of the People's Republic of China on the Safety of Maritime Traffic. Approved by the Second Meeting of the Standing Committee of the Sixth Na-

tional People's Congress and promulgated on September 2, 1983. Takes effect on January 1, 1984.

OTHER

Constitution of the People's Republic of China. Adopted by the 5th Session of the Fifth National People's Congress and promulgated on December 4, 1982. Took effect on date of promulgation.

Civil Procedure Law of the People's Republic of China. Approved by the 22nd Session of the Standing Committee of the Fifth National People's Congress on March 8, 1982, and promulgated for trial implementation beginning October 1, 1982.

Economic Contract Law. Adopted at the Fourth Session of the Fifth National People's Congress on December 13, 1981. Took effect on July 1, 1982.

Provisional Notarial Regulations of the People's Republic of China. Promulgated by the State Council on April 13, 1982. Took effect on date of promulgation.

Provisional Regulations on Lawyers. Adopted by the Standing Committee of the Fifth National People's Congress on August 26, 1980. Took effect on January 1, 1982.

Regulations Regarding the Functions and Powers of Accounting Personnel. State Council circular No. 175; published on September 12, 1978.

Provisional Articles on Control of Advertising. Promulgated by the State Council on February 17, 1982. Took effect on May 1, 1982.

Standardization Control Regulations of the People's Republic of China. Issued by the State Council on July 31, 1979.

Food Hygiene Law of the People's Republic of China (for Trial Implementation). Approved by the 25th Meeting of the Standing Committee of the Fifth National People's Congress. Took effect on a trial basis beginning July 1, 1983.

FORTHCOMING LAWS AND REGULATIONS

China's long-awaited patent law is still being drafted, although there are continued reports that it will be issued soon. According to Zeng Junwei, research fellow and deputy chief of the Legal Counsel Office of CCPIT, a patent office has been set up and patent personnel are now being trained.

Other forthcoming laws mentioned in the Chinese press include contract laws for Chinese and foreign cooperation and trade, a labor law, and additional legislation regarding Shenzhen Special Economic Zone.

SOURCES

The unofficial English-language texts of the above laws may be found in a variety of sources, but no single source contains all of them. One of the best is the bilingual *China's Foreign Economic Legislation, Volume 1*, published by the Foreign Languages Press, Beijing, and distributed by China Books & Periodicals, 2929 24th Street, San Francisco, CA 94110 ($5.95 plus $1.50 postage and handling).

A more complete but slightly out-of-date collection is *China's Trade Law: Code of the Foreign Trade Law of the People's Republic of China*, available from Kluwer Academic Publishers, 190 Old Derby Street, Hingham, MA 02043 ($68).

The most comprehensive collections are loose-leaf services. *Commercial, Business and Trade Laws: the People's Republic of China* from Oceana Publications, 75 Main Street, Dobbs Ferry, NY 10522, is designed as a four-volume set. Only volume 1 ($125) is currently available and it is incomplete. Supplements to this volume will be sent at additional charges. *Collection of Laws and Regulations of China Concerning Foreign Economic and Trade Relations* is a loose-leaf service with English and Chinese texts of laws appearing on facing pages. Compiled and edited in China by China Marketing Corporation and published in association with David Syme & Co., Ltd. of Melbourne, Australia, the collection is available in the US from Jane Sharp, director, China Consultants International, Inc., 1511 K Street, NW, Washington, DC 20005. The subscription price of $250 includes updates for one year.

The Chinese are old masters at unusual forms of trade.

Eggs for Steel

E. Sabina Brady and James B. Stepanek

If foreign companies think they have problems running enterprises in China, perhaps they should talk to their Chinese counterparts who have been setting up joint ventures between Chinese enterprises.

Contrary to the popular view that such enterprises are a transplanted Western concept, joint ventures and other forms of investment in China have been fairly common—though sometimes illicit—throughout the PRC's thirty-odd year history, and certainly long before 1978, when the first foreign–Chinese processing deals were signed.

Chinese enterprises were first encouraged to form such arrangements in the 1950s and mid-1960s, when China's more realistic leaders found that the system of planning adopted from the Soviets was too rigid for a country like China, and so direct collaboration between factories was encouraged. The free-wheeling arrangements that quickly sprang up were largely snuffed out by the Cultural Revolution in the late 1960s. But when they were revived in 1978 and 1979 following Deng Xiaoping's return to power, they reappeared with a new twist—for the first time foreign firms and especially overseas Chinese were to be allowed to participate in these "flexible forms of trade" in China.

Today there are reportedly more than 6,000 joint ventures in China between Chinese enterprises, as opposed to only 89 joint equity ventures, and roughly 700 contractual joint ventures, formed between foreign and Chinese partners. According to one source, these Chinese ventures are defined as "integrated economic organizations run jointly by two (or more) economic units, and their characteristics are: shared investment, unified leadership, joint management, and shared profits and losses."

Western firms would be well advised to study the inner workings of these native joint enterprises. Indeed, it might surprise them to learn that their Chinese counterparts across the negotiating table have been setting up indigenous joint ventures and other investment projects for years—and against odds that foreigners have mercifully been spared.

Cattle Ranches in Inner Mongolia

The chief characteristic of Chinese joint ventures is that they are created mainly to secure stable long-term supplies. Hence Chinese firms are eager to take payment in goods, a practice that is decidedly less attractive to foreign firms.

Significantly, little thought seems to be given to investing in another enterprise to exploit the local market. When the Daqing Petroleum Administration needed a source of glass, for example, it invested ¥4 million in the Dalian Glass Plant in Liaoning Province. The interest-free loan reportedly enlarged the plant's capacity to 500,000 cases of glass per year, of which 430,000 cases per year had to be sold to the Daqing investor at fixed prices over an eight-year period.

Similar deals are on the rise between China's large coastal enterprises, which tend to have more cash and better technology, and enterprises in the hinterland that have the raw materials but no capital to develop them. Such enterprises typically produce refined sugar, powdered milk, plywood, paper, cardboard, gunny sacks, bicycle parts, candy, household and toilet ceramics, and cement. In virtually every known case the "buy-back" clause is the key to the agreement.

Other examples include cattle ranches in Inner Mongolia run by enterprises in Beijing and Jiangsu; two mines in Yunnan Province built by corporations in Beijing and Shanghai in exchange for tin and zinc; a confectionary factory in Heilongjiang Province built by Beijing and Shanghai investors who agreed to take back candy; a ¥37 million loan to finance the construction of three sugar beet refineries in Inner Mongolia financed by interests in Tianjin, Hebei, and Hubei that will receive refined sugar in exchange; and a 30,000-ton-per-year phosphorus plant in Yunnan Province built by companies in Zhejiang, Jiangsu, and three other provinces that are taking back fertilizer.

Some of the investors are single factories, though most are city-wide corporations and bureaus that typically manage the purse strings of factories. Some projects are so large as to require the participation of several provinces. One example is the recent decision by Xinjiang, Gansu, Qinghai, Ningxia, and Shaanxi to open their own dock at Lianyungang port in Jiangsu Province, in order to avoid the port of Shanghai. The same group also established a trade center in the Shenzhen Special Economic Zone to meet foreigners and exhibit their exports. Again, their purpose seems to have been to bypass the jurisdiction of a strong coastal city—in this case Guangzhou—that has traditionally handled the exports of inland regions.

Few Chinese joint ventures seem to receive the degree of official support lavished on foreign–Chinese ventures. One exception perhaps was the recent coal-for-sugar agreement between a city in Inner Mongolia and Suzhou municipality in Jiangsu. Suzhou's ¥32 million interest-free loan reportedly will finance two 500-ton-capacity sugar beet refineries in exchange for a minimum of 100,000 tons of coal per year for 12 years. The central government stepped in when the deal floundered over the question of moving the coal south. The minister of coal, Gao Yangwen, personally hammered together a swap arrangement involving the Ministry of Railways, under which coal from Shanxi Province that is normally shipped to Liaoning would be routed instead to Suzhou by rail,

while coal from Inner Mongolia originally promised to Suzhou would be shipped to Liaoning. Such stories are painfully familiar to seasoned China traders, who know how hard it is to put together three-way swaps even with high-level intervention.

Joint ventures were strictly taboo during the Cultural Revolution of course, when many trade and investment arrangements were forced underground. In the early 1970s, for example, the government tried to stop an illicit eggs-for-steel deal worked out by some entrepreneurs in Shandong and Liaoning. The Ministry of Railways was even instructed to post signs and placards in train stations along the rail lines between the two provinces, calling for information leading to the whereabouts of a trainload of eggs. The eggs were never recovered. Today those who mastermined the deal might well be among the country's leading administrators responsible for developing new forms of "flexible trade."

Today the champions of these efforts include former capitalists. The Patriotic Construction Investment Corporation, for example, was established in 1979 by former Shanghai capitalists with some of their wealth restored after the Cultural Revolution. Today it serves as a leading promotor of foreign investment in Shanghai, and particularly its new Minhang export industrial park. At the same time it is Shanghai's foremost promotor of joint ventures between local enterprises. As of June 1982, it proudly took responsibility for setting up 39 of the 40 joint ventures formed in Shanghai's light industrial sector.

Paying for Know-How

Most foreign investors in China naturally would prefer to be paid in cash rather than in goods of doubtful quality. So, too, would many Chinese enterprises. Shanghai officials recently issued a plea to Beijing that enterprises be permitted to charge for transfers of know-how to other parts of the country. The authorities pointed out that between 1979 and 1982, the city's enterprises earned ¥1.6 million from what would be called licensing fees in the West. Of this small sum, 50 percent had to be remitted to the central government by law, while 20 percent had to be earmarked for "production development," 17.5 percent for "collective welfare," and 12.5 percent for "bonuses," leaving no profit to the enterprises themselves.

The idea that Chinese enterprises should charge for such services was unheard of just a few years ago. And no wonder. In the 1950s, for instance, entire factories were dismembered and transplanted, workers and all, from developed, usually coastal, enclaves like Shanghai to poorer interior regions. To this day, foreign visitors are often confronted by legions of factory workers in remote places like southwest Hunan Province, who speak only the Shanghai dialect. No payment for their know-how, equipment, and sacrifice was made to the city of Shanghai or its industrial authorities.

The idea that Chinese enterprises should charge for their know-how was unheard of just a few years ago. And no wonder. In the 1950s, for instance, entire factories were transplanted, workers and all, from industrial enclaves like Shanghai to poorer interior regions. There is no record of any payment for their know-how, equipment, and sacrifice.

Now things are different. The policy of forced migrations left some bitter memories, and is now seen as unworkable. Beijing has decided recently that it would be better to encourage advanced enterprises to share their technology by letting them charge for it.

In other words, while the concept of payment-in-kind is a familiar one, the concept of payment-in-cash is just being introduced in China, as foreigners struggling to set up licensing agreements can attest.

Only as recently as this spring was an "aid for compensation" office established directly under the mayor's office in Shanghai, to ensure that Shanghai enterprises are fairly compensated and protected when they engage in technology transfer. Now firms are even being compensated for training technicians from other provinces. In fact, it is estimated that the levying of tuition for this training alone will net Shanghai close to ¥4 million in 1983.

Legal Orphans

Foreigners who complain about the lack of laws governing foreign–Chinese ventures should read a December 1982 article in *Shanghai Accounting*, which reveals that indigenous joint ventures lack a body of governing statutes and regulations of the sort promulgated since 1979 to guide foreign investors.

For example, no attempt is made to explain what happens if one party to a joint venture is a state-owned enterprise, and the other a collective. The problem is real, since most enterprises with advanced technology are usually large state combines, while some of their partners are collectives. Their answer: "Although the [Shanghai] Municipal Finance Bureau has stipulated in principle that matters are to be handled according to state run standards, or according to collective standards, most joint enterprises do not operate their financial and accounting systems in accordance with this, or if they do, they are not strict about it."

The authors go on to explain that Chinese joint ventures have no clear status apart from their parent companies. The partner that is a state enterprise must treat the joint venture as though it were a subsidiary, and handle its accounts as it would its own.

The same applies to collectives. They, for example, must pay taxes on their profits from joint ventures according to the tax schedule for collective enterprises. The rate is 55 percent of net profits above ¥80,000. State enterprises, of course, must remit virtually all their profits to the state.

Profits and Losses

Small wonder that joint venture managers "are not strict about it." The lack of legal guidance means that Chinese enterprises have to work out *ad hoc* solutions to problems to reconcile their financial and ad-

Many of Shanghai's more advanced sewing machine, camera, and bicycle factories have already established joint ventures with other plants in China to facilitate technology transfer.

Photo by Xinhua

Photo by New China Pictures Co.

Because Chinese factories are often desperate for supplies, they are generally more willing than their foreign counterparts to engage in compensation trade. In this way many Shanghai firms reportedly have obtained leather from other provinces in exchange for leather-processing equipment and know-how.

ministrative systems which are at variance, a task well known to foreign negotiators.

Putting a fair value on each other's equity contribution is the most difficult task of all, the *Shanghai Accounting* article claims. One side, usually the poorer of the two, puts up the land, buildings, and labor, while the more advanced party normally contributes the equipment and technical know-how. The land rental (land is owned by the state) should be "somewhat higher" than the income from the production on the land for one year, the article advises. When negotiations become deadlocked, it is not unusual in Shanghai for the parties concerned to seek the assistance of an outside registered accountant to arbitrate a fair value.

But what can an arbitrator do when something as basic as fixed assets are defined at least three different ways, according to one account, and under each definition assets may be valued according to (1) original book value, (2) net book value (taking depreciation into account), or (3) market replacement cost? Some negotiators apparently throw in the towel and value all fixed assets across the board at 30 percent of original book value.

Dividing profits is no less difficult. The article observes that few joint ventures split profits on the basis of equity alone. In one instance, the parties actually divided profits so as to "stimulate enthusiasm" on the side that was playing hard-to-get. As the story goes, the Shanghai Weili Lamp and Lantern Factory had trouble convincing the No. 2 Glass Factory of Anhui Province of the superiority of its lampshade technology, so in a philanthropic, almost Western ploy to penetrate the Anhui market, it agreed to put up one-third of the capital and take back just one-tenth of the profit.

An equally strange formula is that of dividing profits according to the profit rate both parties are currently receiving. In this case the side receiving x percent profit is granted the right to make that profit rate from the joint venture, while its partner is permitted to make y percent if that corresponds to what it regularly receives. Only when profits exceed x and y are the joint venture's remaining profits distributed according to each side's equity shares.

It may sound irrational, but such a scheme represents the extremes to which enterprises often go to overcome the serious price distortions in the Chinese economy. Raw materials are undervalued in China, as a rule, while capital goods are overvalued. That is one distortion. Another is that certain enterprises are arbitrarily allowed to make large profits—profits of 50 percent or more are not unusual—while others cannot make any profit. In combination, such distortions mean that two enterprises can make very different rates of profit—other variables being equal—even when managed with exactly the same skill. Hence, both sides would do well to consider the built-in price distortions that each brings to the venture.

Finally, looking at the vigorous but admittedly discordant joint venture activity in China today, one is struck by how similar the problems facing Chinese and foreign investors are. Both sides are desperately trying to get beyond the simple eggs-for-steel mentality that has characterized Chinese thinking for more than three decades. In the process, Chinese and foreigners alike are learning what is practical in the Chinese context. And above all, China is demonstrating a hospitality to foreign investment that few could dispute: It is encouraging its own enterprises to emulate the growing number of foreign enterprises in their midst.

E. Sabina Brady, Business Advisory Services associate at the National Council, will be joining Gould, Inc. in November. Brady has been designated Gould's managing director, China operations. James B. Stepanek, editor of The CBR, *serves as advisor on investment and banking issues to members of the National Council.*

美核会核技术展览会

北京，中国

主办单位： 美国核学会

translation:

ANS NUCLEAR TECHNOLOGY EXHIBIT

Beijing, China

sponsored by: AMERICAN NUCLEAR SOCIETY

With worldwide new nuclear plant construction declining, an important new market area is the People's Republic of China. The PRC is definitely committed to an active and growing nuclear plant construction program. Because of the progress being made in bilateral talks between China and the United States, now is the time to make personal contact.

The American Nuclear Society, among the first to realize the importance of the Chinese market, is sponsoring the Second ANS Nuclear Technology Exhibition to be held May 11-19, 1984 in Beijing, China.

The ANS Exhibition will present an opportunity to meet face to face with engineers, technicians, managers and key government officials in the nuclear area. The Chinese are seeking large pressure vessels and cooling pumps, valves, control and advanced radiation measurement and monitoring equipment, training simulators, construction and operation management services, joint venture opportunities. . .

For full information on the Exhibit contact Pat Pollock, American Nuclear Society, 555 N. Kensington Avenue, La Grange Park, IL, USA 60525 or call 1/800/323-3044. For travel, the Society has made special arrangements with Beijing Tours.

One recent deal demonstrates the benefits of licensing.

The McEvoy Deal

Christopher E. Stowell

So far only a few foreign oil companies have been drilling in China's offshore waters. But the number should swell from 5 to over 40 by 1985, and as China enters the take-off stage of offshore oil development, purchases of petroleum equipment and services could approach $800 million per year by 1995. The primary beneficiaries of this market will be the foreign companies now negotiating technology transfer agreements, and helping to equip Chinese factories to become the major suppliers of offshore oil technology.

Major purchases of offshore equipment have already begun for the Chengbei oil field, a project in the Bohai Bay jointly developed by the Japanese and Chinese. Despite the fact that Japan National Oil Company has lobbied hard to use only Japanese suppliers, the Chinese Petroleum Ministry has insisted on giving business to the few US oil-equipment companies that already have technology transfer agreements with China. With ARCO, BP, Elf-Aquitaine, Exxon, Occidental, and Total also about to start major offshore procurement programs, US petroleum equipment and service companies are beginning to take notice of China's petroleum regulations, which stipulate that as much equipment as possible must be procured domestically. The 1982 law reads that if equivalent equipment is manufactured in China, offshore oil companies must choose the Chinese equipment. This requirement is particularly important now that the Ministry of Machine Building, which owns most of the Chinese petroleum equipment plants, has been appointed to negotiate a number of major licensing agreements. These include:

Well-head equipment, signed with McEvoy in April 1983.

Offshore rigs of more than 6,000-meter drill depth, signed with National Supply in April 1983.

Subsea equipment, protocol signed with Vetco in mid-1983.

Fracturing and cementing, protocol signed with Halliburton.

Separation of gas, oil, and water, final negotiations in progress.

Blow-out preventers, under negotiation.

Production test, under negotiation.

Offshore engineering project management, under negotiation.

Well completion, beginning negotiations.

Gas lift, beginning negotiations.

Down hole tools, project being reassessed.

The Ministry of Ordnance subsidiary, NORINCO, has recently made a concerted effort to take over some of these projects from the Ministry of Machine Building, though it lacks experience in manufacturing oil equipment. In addition to licensing oil equipment, China's Petroleum Ministry is seeking to get into the petroleum service business. One UN and two World Bank projects are designed to set up technical training centers to provide exploration and production services. Several of the major oil companies are running regular schools for the Chinese petroleum engineers in the South China Sea to learn wire-line and well-control service. The Ministry of Oil has set up two offshore service joint ventures, first with Dresser-Atlas for well-logging, and secondly with Racal-Decca for navigational positioning. The Chinese have also be-

PROJECTED OFFSHORE DEVELOPMENT EXPENDITURES

1978–79
$150 million per year

5 foreign oil companies win rights to explore offshore areas in Bohai Bay and Tonkin Gulf.

An estimated $150 million in purchases of rigs, supply ships, barges, helicopters, and offshore seismic services.

1980–81
$20–25 million per year

Open bidding begins. Original 5 oil companies begin selective drilling. $20–25 million in additional purchases by 5 oil companies.

1982–83
$35–50 million per year

Chinese increase offshore exploration on their own. Selected production begins in foreign concessions. $35–50 million in additional purchases by 5 oil companies and Chinese operators.

1984–85
$550–675 million per year

Roughly 130 wells begin production; 100 in zones explored by original 5 oil companies; 15 in areas contracted out to foreign oil companies in 1983–84, and 15 in areas explored and developed independently by Chinese.

1986–95
$800 million per year

Roughly 1,400 wells producing; 250 in concessions explored by original 5 companies; 1,100 in other foreign concessions; and 50 in areas developed by Chinese independently.

SOURCE: WJS Inc., September 1983

gun producing offshore jack-up rigs via a Bethlehem license, and semisubmersible rigs via a joint venture with Baker Marine. Finally, the ministry has set up a host of Chinese-owned offshore service companies around the supply bases to offer services such as helicopter transport, procurement of rig crews, barge rentals, and other logistical services. All of these companies lease foreign equipment and use foreign experts.

The bottom line is that most major pieces of business for the offshore equipment and service will eventually be supplied by the Chinese through licensing agreements and joint ventures.

400 working days of training

On April 9, McEvoy signed an agreement with China's Ministry of Machine Building to provide the know-how to design, manufacture, install, maintain, and repair wellhead valves and christmas trees. The agreement includes over 400 working days of training in McEvoy's facilities in Houston on how to design, produce, and maintain manufacturing quality. About 100 working days will be spent by McEvoy specialists at the Shanghai No. 2 Petroleum Machinery Plant, McEvoy's partner in China, setting up production, quality control, inspection, and testing. Any extra time needed by McEvoy personnel will be paid according to McEvoy's daily engineering rates.

Payment involves a Chinese letter of credit covering a downpayment, which is spread out over the period of documentation preparation and delivery. McEvoy also will open a standby letter of credit, serving as a performance bond. There are no penalties unless and until the delivery of documents is delayed by more than six months; the Chinese then are entitled to demand a refund plus 10 percent interest on the money already paid. Regarding product-testing and acceptance, the two parties mutually decide what measures to take on any product not passing the test. Irrevocable disputes are to be settled by arbitration in Switzerland.

McEvoy has agreed to pass along product improvements, and has granted the simple trademark "manufactured under license by the Shanghai No. 2 Petroleum Machinery Plant, Shanghai, China." McEvoy has the right to audit periodically the plant's books to verify production levels, and to regularly inspect the factory to see that quality standards are being maintained.

The toughest part of the negotiations concerned the marketing of McEvoy's licensed products outside China. China resisted signing a "restrictive" agreement that appeared to contravene its sovereignty. The ministry finally agreed that McEvoy would be "favorably" considered as the Chinese representative on outside sales, receiving no royalty but a discount from McEvoy's list price. During the early years of the agreement, McEvoy plans to handle all of Shanghai No. 2's equipment orders, and recontract the work back to the plant, since the Shanghai firm does not yet produce API-standard equipment. Both parties expect the initial seven-year agreement to be automatically extended another seven years.

Locking out the competition

Companies are in business to sell and service their equipment—it's simpler, less risky, and often more profitable. Licensing consumes the time of key people, is difficult to value, and is hard to monitor.

OFFSHORE TECHNOLOGY SALES

Principles Accepted by the Ministry of Machine Building

- ▶ The front-end payment generally equals the cost of transferring technology.
- ▶ Royalties last 5–15 years at a negotiated percent to ensure profitability, but no minimum royalty payment is guaranteed.
- ▶ The Chinese side will handle all sales inside China, including the offshore China market, while the foreign partner will handle foreign markets where the foreign partner is established.
- ▶ China will not purchase equipment made by its partner's competitors after the foreign partner's technology is transferred, but no minimum sale of the partner's equipment can be guaranteed.
- ▶ The transfer of technology must be done all at once, not stretched out in phases with conditions imposed.

—CES

Yet in China there are some compelling reasons to go the licensing route. First and foremost, the company that gets there first and makes the deal locks the competitor out of the market. China is a state-controlled economy with a monopoly on trade so it can more easily enforce a policy of dealing with only one foreign supplier. For example, the Chinese recently began to strongly favor the Hughes Tool Company in buying drill bits, now that Hughes has successfully transferred drill bit technology to China some three years after signing a licensing contract. The Chinese have also stated that McEvoy will be the country's sole future supplier of well-head valves. In the short term (the first one-to-three years before the new plant comes on stream), McEvoy will receive its front-end technology transfer fee, 100 percent of any unit sales, and significant component sales. In the medium term, McEvoy will continue to sell to China its new sophisticated well-head valves, receive periodic component sales, make sales of spare parts, and collect 7–14 years of royalties. In considering its potential return on investment, McEvoy found that its licensing agreement may exceed both the absolute dollar amount from regular sales to China in a competitive market, and its standard 15 percent return-on-investment criteria.

Companies without licenses inside China probably will manage for a time to sell offshore equipment and services to China through the major oil companies drilling in offshore tracts. The leverage of these oil companies to choose their own foreign suppliers, however, will diminish significantly over the next several years, and eventually disappear in the case of equipment made in China under foreign license that meets API standards. For example, Occidental Petroleum recently failed in its attempt to bring in completely preoutfitted drilling rigs under its recently signed offshore drilling agreement. The Chinese insisted on the right to purchase locally produced rig components, for which they eventually intend to seek licensing partners. ₹

Christopher E. Stowell is president of WJS International, Inc. an international trading company based in McLean, Virginia, with offices in Beijing, Bucharest, Hong Kong and Houston.

The ITT Story

The $250 million deal involves telecommunications technology even more sophisticated than that used in most US cities.

Chris Brown

The recent unprecedented agreement between ITT's Belgian subsidiary, Bell Manufacturing Co. (BTM), and the China National Postal and Telecommunications Industry Corporation (PTIC) is the most promising sign yet of what will be possible under new, eased US export controls for China.

The deal will be the first China joint equity venture involving US software or semiconductor technology. With an initial contract value totaling about $250 million, it will also be by far the biggest high-technology transaction in the history of China's foreign trade, and one of the largest single telecommunications transactions in the world. But beyond its magnitude and technological sophistication, the ITT deal is important as a model of the terms other companies may face as they enter the evolving China market.

In the past, partly because of US export restrictions and partly because of lack of ready markets for goods jointly produced with Chinese entities, exports to China of computer, semiconductor, and telecommunications equipment have been almost entirely straight sales of finished products for cash. The few exceptions have been for relatively low-level technology, such as the Essex Cable licensing deal for manufacturing telephone transmission cable, or technology that stands at the back-end of the manufacturing process, such as Honeywell's contract to transfer know-how to test and configure DPS-8 computer systems.

Tight export controls are largely responsible for holding back more significant sales. The US government's June 21, 1983 decision "to raise the level of high-technology goods licensed for export to China," however, will undoubtedly prompt US exporters as well as the Chinese to press for the highest level of technology transfer possible, and could usher in a new age of high-tech business opportunities.

The ITT deal, as envisioned by the US company, would involve telecommunications technology even more sophisticated than that used in most US cities. Moreover, during the course of the 15-year agreement, ITT would transfer to the Chinese the technology and know-how to reproduce the custom microprocessors used in the system.

The joint venture company, to be called Shanghai Bell Telephone Equipment Manufacturing Company Ltd., will be owned 60 percent by PTIC, 30 percent by BTM, and 10 percent by the Belgian government, which has signed a $12 million credit agreement with the Chinese.

Cooperation between the Chinese corporation and the Belgian subsidiary of ITT will be structured as a phased transfer of ITT's telephone switching system technology. In the first phase, the joint venture will begin by installing 100,000 lines of ITT's Belgian-manufactured "system 12" switching system. The lines will be used to renovate and expand existing telephone networks within the cities of Shanghai, Beijing, and Tianjin. Later in phase one, the joint venture will begin to assemble switching systems at a renovated factory near Shanghai, using parts imported from Belgium.

In the second phase, all technology for manufacturing subassemblies will be transferred to the joint venture company. By 1988, the company is scheduled to be manufacturing all of the parts for 300,000 complete lines of system 12 per year. This would include assembly of the 1240 switch upon which the system is based, as well as the test, packaging, and wafer fabrication of the 8086 microprocessor that is the heart of the 1240.

Each of the phases would break new ground for US export controls. High-level US officials have already given the go-ahead for phase one, even though technical data licenses have never before been granted for operating software of the sort needed to install the planned networks.

Approval of phase two is less certain, though cabinet-level officials reportedly have provided assurances that the entire package would be viewed favorably.

Only recently has the US government approved any complete lines of equipment to manufacture semiconductor devices in China. The first approved sale was for a complete line of equipment to manufacture medium-scale integrated circuits at the Jiangnan Radio Factory in Wuxi, Jiangsu Province. Final, key pieces of equipment to complete that line were approved in August. Applications for equipment under the deal, largely orchestrated by China consultant,

---

Chris Brown was associate editor of The China Business Review *for two years prior to joining Sun Hung Kai in New York as project associate this August. Apart from his many contributions to* The CBR, *Brown served as the account executive for many of the leading computer firms involved in the China trade. In this capacity, his expertise on China's electronics industry and US export control issues contributed significantly to corporate planning by a number of firms, and to the development of their first long-range marketing strategies for the China market.*

Dana Robinson, were submitted as early as 1980.

Close in the wake of those approvals, the government signed off on a semiconductor line in September for the Beijing Electron Tube Factory. The Beijing project, coordinated by Sun Hung Kai (China) Ltd., involves a complete line to manufacture discrete components for color television sets including such advanced equipment as an ion implantor and a plasma etching system.

The ITT joint venture agreement, which had been under negotiation for more than six years, was made public following the decision to make the PRC a "V Group" country (NATO allies plus friendly countries such as India and Yugoslavia), but before the change in policy had been translated into detailed working regulations. Therefore, the US government's favorable posture toward the deal preceded the promulgation of new official export-control guidelines. "The White House and this administration are really behind this," commented an ITT official on the high-level intervention that resulted in the joint venture.

Some outside observers read this active White House participation as the first sign that top officials recognized that the administration's earlier export-control policies toward China had been obstructed at lower levels. To other companies, ITT's Shanghai joint venture offers a hopeful precedent for their own high-tech export applications. To optimists, the deal represents a concrete exam-

Breaking the (Electronics) Export Logjam

The ITT joint venture opens the field for many projects waiting in the wings. Taking into account only contracts signed or under negotiation, the backlog of pending deals is impressive. The following is a sampling of the projects that could be next.

TELECOMMUNICATIONS

Satellite earth stations worth $150 million

The Chinese are down to a short list of competitors for the Ministry of Petroleum's satellite earth station system. Plans call for the importation of 15–20 turnkey stations followed by a phased technology transfer to the Ministry of Electronics Industry that will permit China to build its own earth stations. The value of the entire MOPI system is likely to reach $150 million. Final competitors reportedly include three US companies—Fairchild Aerospace, Digital Communications Corporation, and AYDIN—as well as NEC from Japan and Spar Aerospace from Canada.

A separate deal, the $12 million Landsat Earth station contract signed with Systems and Applied Sciences, is already in the export-control pipeline. A number of US firms are also competing for the sale of a direct broadcast satellite. Plans to purchase such a system were recently approved by the State Council, and one delegation from the Ministry of Space Industry has already visited the US to talk with possible suppliers.

SEMICONDUCTORS

Upgrading 14 semiconductor plants

With the final, key pieces of equipment for the linear integrated circuit line at the Jiangnan Radio Device and Materials Factory in Wuxi finally approved in August, the export-controls logjam may have been broken, allowing other projects to go through. In September the US government approved licenses for a discrete semiconductor components production line at the Beijing Electron Tube Factory. The project will be managed by Sun Hung Kai (China) Ltd. Lawrence Crow Electronics is acting as project manager for a UHF/VHF bipolar transistor line at the Dandong No. 1 Electronics Factory in Dandong, Liaoning Province, and Tritech will act as agent in the sale of additional equipment for the Jiangnan Factory. These four projects are part of a plan to upgrade 14 component manufacturing facilities for color TVs in China.

Contracts for manufacturing semiconductors for other applications now in the export licensing pipeline include a contract signed between General Electric Corporation and the Ministry of Machine Building Industry for production of power transistors, and two separate contracts for used plants to manufacture CMOS chips. One of the CMOS deals is for used National Semiconductor equipment to be installed in Shanghai; the other calls for Solid State Scientific to ship a used plant to the same city.

COMPUTERS

Sales await export control approval

Honeywell's $22.7 million contract to supply DPS 8 systems to 14 universities under the World Bank University Development Program was approved in midsummer, but a number of sales contracts for computers and enhancement systems from US firms are still awaiting US government approval. In addition, at least one test case for transferring technology to manufacture 16-bit microcomputer systems under a licensing arrangement is now being discussed. Other negotiations have also begun for computer distribution and assembly joint ventures in China, which represent an even more important test of US policy.

Among the big ticket items in the balance are a CDC cyber 750 destined for the Ministry of Petroleum, a Prime 750 system to be part of an Australian government aid project for China's petroleum sector, 11 Gould System Engineering Lab 32 bit mini-systems due for delivery under the World Bank University Development Project, and a package of enchancements for the EAI Hyshare-700 hybrid system at the Harbin Research Institute.

General Robotics Corporation (GRC), a small midwest firm, may be the trailblazer in the area of technology transfer. The company recently signed a contract worth more than $4 million for a phased transfer of technology to manufacture in China a 16-bit microcomputer system. The GRC agreement is only in the first stages of export-licensing, but company officials have received assurances that the entire deal is likely to be approved.

—CB

ple of how the White House intends its policy to be interpreted by lower-level officials.

Assuming that the ITT deal does establish a precedent, its contractual terms are likely to become fairly standard. The three principal features of the ITT contract are: (1) the arrangement constitutes a phased technology transfer, beginning with the sale of finished products and proceeding through the transfer of know-how, to assembly and testing, and finally to manufacturing the finished product; (2) PTIC put up a portion of its equity in cash, agreed to pay for advanced technology in foreign currency, and permitted most of the joint venture's output to be marketed in China, with no outright contractual obligation on the part of the foreign partner to counterpurchase or market output abroad; and (3) PTIC has shown a willingness to "leapfrog" in technology, by deciding to go for the most advanced technology (digital switching), rather than China's logical next step in communications development (semiautomatic crossbar switching). Although system 12 will not be the easiest technology to assimilate, it is more versatile for future development. The digital system is far better suited for facsimile and computer data transmission, for example, than crossbar systems would be.

As the way opens for more technology transfer, US companies will find their Chinese counterparts pressing hard for joint ventures. Many companies would prefer to transfer technology under other terms, such as licensing, assembly, or OEM, but the Chinese have made no secret of their preference for foreign investment. An unwillingness to share equity and risks in the new market could sacrifice key contracts to more flexible competitors. Chinese officials are fond of pointing out that Japanese business executives seem more imaginative and adventurous in structuring deals.

Similarly, Chinese organizations have already shown a propensity to go for the highest possible technology transfer, regardless of the market for the final product. Many American firms prefer to cooperate on less-advanced products that are relatively easy to manufacture and have proven markets.

The opportunities and dangers for US companies entering this arena are obvious. If the technology being transferred is of an appropriate level, and it is transferred under workable terms, an American company stands to enter the market as a pioneer in a new market area.

If the technology is not absorbed and applied smoothly by the Chinese partner, or if the end product is too sophisticated for the demands of the Chinese market, the company stands to lose both money and its initial market position. ☆

BUSINESS-BUILDING BOOKS
from the National Council for US-China Trade

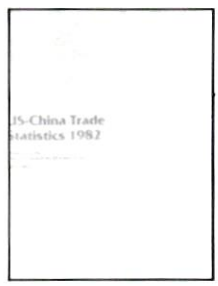
China's Provinces: An Organizational and Statistical Guide

Millions of dollars worth of business is now being carried out directly with the provinces, which have substantial holdings of foreign exchange and the authority to spend it. This single volume helps you to find the right contacts.

China' Provinces has over 50,000 entries in all, including information on how to contact: 16,000 organizations; 4,200 Chinese officials; 3,800 local government agencies; 900 foreign trade corporations; 2,100 corporations in all branches of industry; all local financial institutions; 5,800 factories; and 2,600 research institutes, professional associations, universities, societies, and hospitals. Hundreds of statistics are provided on each province, with trends and breakdowns.

476 pages, 8½" x 11". 1982.
$285 ($185 to members), $235 to academic institutions.

US-China Trade Statistics 1982



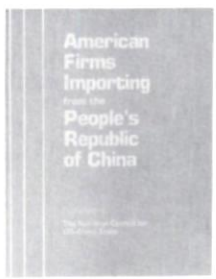
US-China Trade Statistics 1982 provides detailed information on trade between the United States and the People's Republic of China during calendar 1982. It lists some 1,600 products exported to and 2,800 products imported from the PRC, with both quantities and values in each of the past five calendar years.

The latest edition of the National Council's annual statistical compilation includes expanded information in a new format. The $5.19 billion worth of imports and exports can be quickly and easily cross-referenced by seven-digit tariff and SITC-based classification numbers or SITC (Schedules A, B and E) groupings.

This volume includes imports and exports at three levels of specificity, all-new tables on US textile imports from China 1978-1982, and tables illustrating recent US trade trends with the PRC and China's trade with selected foreign countries.

140 pages, 8½" x 11". 1983. $40 (free to members).

American Firms Importing from the People's Republic of China



The past five years have witnessed a dramatic increase in both the number of firms doing business with China and in the diversity of imported products. **American Firms Importing from the PRC** tells you who imported what from the more than $2.2 billion worth of goods the US purchased from China last year. This directory—the first of its kind—lists, indexes, and cross-references over 2,300 companies. Each listing includes the company's name, address, telephone and telex numbers, cable address, responsible executives, products imported, ports used, business volume, and bank references.

Also included is a cross-referenced index of more than 200 companies engaged or interested in countertrade—an ideal guide for every exporter who may need to take partial payment in goods.

93 pages, 8½" x 11". 1982. $85 ($60 to members).

China Business Manual

China Business Manual has been described by *The Asia Mail* as "concise . . . compact . . . exhaustive, eminently practical . . . [and] indispensable" to anyone doing business with China.

The **Manual** and its **1982 Supplement** contain detailed information on all commissions, ministries, corporations, and organizations in China, complete with street and cable addresses and telephone numbers. The contents are organized by: political structure, agriculture, energy, finance, foreign and defense affairs, foreign trade, media and advertising, transportation, communications and travel, science and technology, and provinces and municipalities.

Both books are in a convenient 4" x 9" size. The 322-page **Manual** contains over 5,000 entries, and the **Supplement** includes more than 700 new entries and other changes.

***Manual** and **Supplement** package: $48 ($40 to members).*
***1982 Supplement** only: $18 ($10 to members).*

Mail to: National Council for US-China Trade
Publications Sales Department
1050 Seventeenth Street, NW—Suite 350
Washington, DC 20036, USA

- ☐ My check for US$_____ is enclosed.
- ☐ Please bill me.
- ☐ Please send me information on your other publications.
- ☐ Please send me information on membership in the National Council.

Name _____

Organization _____

Address _____

_____

I would like to purchase:

	(circle applicable price)	
____ copy/ies of **US-China Trade Statistics 1982**	@ $40	= $____
____ copy/ies of **China's Provinces: An Organizational and Statistical Guide**	@ $285 / $185 / $235	= $____
____ copy/ies of **American Firms Importing from the People's Republic of China**	@ $85 / $60	= $____
____ copy/ies of **China Business Manual** package: **1981**, plus **1982 Supplement**	@ $48 / $40	= $____
____ copy/ies of **China Business Manual—1982 Supplement**	@ $18 / $10	= $____
Airmail postage and handling @ $2.00 per copy		= $____
	TOTAL	$____

'The Chinese are receptive to having foreigners share in the management, but in the long term they prefer to run the whole show themselves.'

Service Centers in China

Eve Rodler

In the past four years, foreign companies have signed nearly 70 after-sales servicing agreements with Chinese ministries, corporations, and factories. Interest in setting up service centers increased further when TECHIMPORT announced that companies offering such after-sales services in China would be granted a 3 percent preference in the bidding process for a recent World Bank project. So far 22 US firms have established or agreed to open their own spare-parts warehouses, or repair and maintenance centers in China. Many of these pioneering facilities were "loss centers" initially, though companies still seem to view them as promotional opportunities providing the key to any long-term marketing effort in China.

The concept of service centers is itself new in China, and reflects a growing appreciation for the benefits of specialization. Until recently, most Chinese factories preferred to repair and maintain their own equipment (some still choose to *build* their own equipment) rather than trust the country's highly unreliable supply system. But the need for such involuntary self-reliance has diminished as the supply system slowly improves, and today factories are more willing to let outside (especially foreign) enterprises perform maintenance functions that they once did themselves.

In theory, both the Chinese and foreign participants stand to benefit from an after-sales service contract. Chinese technicians, engineers, and managerial staff are usually trained to operate the service center or warehouse, thus raising the level of knowledge of some Chinese workers. A form of technology transfer occurs since the Chinese service personnel are exposed to the product as well as to the "theory behind the product." But most important, Chinese end-users are able to raise the utilization rate of their instruments and equipment. At the same time, the foreign company enhances its reputation and possibly saves money in warranty obligations. An after-sales service center may also serve as a product showroom, and help develop a steady client base.

On the other hand, service centers have obvious shortcomings. They are still relatively untested, and will inevitably raise a company's cost of doing business in China. Matters are complicated by the fact that a company must rely upon a Chinese purchasing agency as opposed to one of its own subsidiaries or an independent distributor. Since China is currently in a period of considerable organizational flux, it will take a good deal of careful analysis, and perhaps no little luck, to pick an appropriate Chinese counterpart organization for an after-sales service venture. Moreover, there is no clear-cut way to determine whether it is best to set up a 100 percent Chinese-owned and managed operation, a joint venture, a contractual joint venture, or a 100 percent foreign-owned and managed operation. Duties and taxes levied on spare parts stocked in China have yet to be clarified. In light of these problems and others, foreign companies would be well advised to proceed cautiously.

Eve Rodler is a corporate analyst at Lehman Brothers Kuhn Loeb Inc. in New York. She holds an MA in East Asian Studies from Yale University, and has worked in Taiwan and at the National Council for US–China Trade in Washington.

CHOOSING THE BEST ARRANGEMENT

A *CBR* survey of over 20 companies that have either negotiated or established after-sales service arrangements in China reveals a wide range of contract clauses—and results. The six most common types of arrangements:

The Joint Venture Option. Joint ventures and coproduction are the most complex types of servicing agreements, since they involve manufacturing, distribution, and servicing. One interesting example is the joint venture between Foxboro and the Shanghai Instrument Industry Company that created a separate sales and service organization. According to Tom Stuhlfire, director of the venture: "Foxboro's goal is for the Shanghai–Foxboro Sales and Service Company to be entirely Chinese-owned and managed. While Chinese technicians are being trained in the United States, service will continue to be provided out of Singapore. If the joint venture sells high-technology equipment at a rapid pace, then the service load may outstrip our ability to train technicians. We then would need 'temporary people' out there, though our goal is to avoid having to send an expatriate." In the future, he says, "Spare parts will be purchased from Foxboro until they can be manufactured by the joint venture or purchased on the local market."

The growing number of joint ventures in China is bound to increase the need for after-sales service, according to an executive of Clark Copy International: "The Chinese place more of a premium on after-sales support now than they did a few years ago, because with coproduction and joint venture agreements they

have a bigger stake in the outcome. If they fail to provide endusers with adequate service support, then they risk losing money." Clark Copy signed an agreement with the National General Bureau of Instrumentation in 1981 to provide assistance in manufacturing and distributing photocopying products. A separate Chinese-owned and managed service facility is a future possibility.

Distribution and maintenance. Hewlett-Packard has been innovative in setting up a "third party distributorship," an example of the second type of cooperation agreement that involves maintenance and sales activities. The China–Hewlett-Packard Representative Office is run by the China Electronics Import-Export Corporation and has two showrooms displaying electronic instruments and computers. Hewlett-Packard provides maintenance tools, instruments, and spare parts, and is responsible for training Chinese technicians. The Chinese side provides space as well as management and maintenance engineers. The representative office is responsible for the sale of Hewlett-Packard products in China, and will provide service, data, and technical training for customers. The US firm pays the Chinese a commission based on sales and maintenance fees for providing warranty services.

Seiko and the Swiss Watch Federation have also managed to link repair maintenance service with direct sales. In Seiko's case, the rent for the premises was so high that the Japanese insisted on the right to make retail sales as well as repairs. A few other firms, such as Sperry Corporation, have considered the possibility of gearing up their service centers in the future to promote direct sales.

Barter-like arrangement. A third form of cooperation consists of barter-like agreements between a foreign country, which may provide a computer, training, and management guidance in exchange for land, buildings for the computer, training rooms, and servicing by trained Chinese personnel. Nippon Electric Corporation and the China Computer Technical Services Corporation opened a joint Sino–Japanese Software Center in January 1982. The center, which is jointly managed, will provide endusers of ACOS series machines with a range of services including personnel training, hardware and software maintenance and repair, and a supply of parts.

Sperry Computer Systems also signed a technical cooperation agreement with CCTSC. An administrative committee composed of representatives from both sides has been set up, with a Chinese chairman and an American vice-chairman. Sperry has already trained fifteen Chinese technicians, and supplied the center with an 1100/10 mainframe.

The Simple Maintenance Contract. While technical cooperation agreements usually require an active role in management and servicing, and may include joint software development as well as after-sales support, there is a fourth level of cooperation that simply consists of a maintenance contract. Companies selling large quantities of advanced instruments, electronic equipment, or vehicles have found it essential to provide in-country servicing. Many, however, continue to depend on back-up support from Hong Kong, Japan, Singapore, or even a West European country. In most cases, the foreign side charges a commission for providing maintenance tools, instruments, a supply of consigned parts, technical documentation, and training. The Chinese partner usually supplies the land, building, and labor. The Chinese prefer to handle the management, a WABCO executive explains: "The Chinese are receptive to having foreigners come over in the short term to share in the management, but in the long term they prefer to run the whole show themselves."

Fifteen American companies have signed this type of maintenance contract, of which eight are with INSTRIMPEX. Jarrell-Ash, Canberra, Varian, Perkin-Elmer, and Finnigan-Mat seem to agree that a simple maintenance contract is a virtual necessity in China today. Texas Instruments sees its service contract more as a means to perform minor repairs on its calculators.

Maintaining a Warehouse. Only three American companies, Caterpillar, Christensen, and NL Industries have experimented with warehouse operations for spare parts and equipment. The MACHIMPEX Distribution Center for Caterpillar Parts established in 1981 is staffed by Chinese, and boasts an inventory of more than 10,000 different replacement parts, plus an IBM 5120 minicomputer to store parts information. The warehouse is also complete with a reception room and a training room equipped with audio-visual facilities.

Under an agreement signed in 1982 with the China National Oil and Gas Exploration and Development Corporation, Christensen established a bonded warehouse at Dagang. The daily operations are handled by an expatriate manager and four Chinese employees. The facility is a sales, rental, and service outlet offering a complete line of Christensen oilfield products and parts. It is also equipped with service and repair equipment. NL Industries' contract with the Ministry of Petroleum and MACHIMPEX, signed in late 1980, set up a 100 percent Chinese-owned and managed warehouse for spare parts and testing equipment sold on consignment to petroleum operations in China.

Foreign-owned centers. "The Chinese have not been enthusiastic about foreigners setting up their own service facilities in China," a Caterpillar official notes. There are signs, however, that attitudes may be changing on both sides. Several companies desiring greater control over the day-to-day operations of their service centers have expressed renewed interest in the possibility of having it be foreign-owned and managed. According to a US executive, "at least one foreign company" has already set up a service operation out of its sales representative office in Beijing without official approval or even a Chinese partner. Just in time perhaps, the deputy director of the Beijing Import and Export Commission, Shi Jianzheng, recently announced on behalf of the Chinese government that: "We welcome foreign firms to run sole investment enterprises in Beijing."

CHOOSING YOUR PARTNER

Both economic and political considerations should be taken into account when selecting a service center partner, according to Linda Burch of Sun Hung Kai (China) Ltd. "The best partner is often the Chinese purchasing organization from whom the bulk of a company's endusers buy," she explains. "In this manner, you can most efficiently combine service with sales."

In fact, most of the companies interviewed by *The CBR* chose the Chinese organization with whom they

SERVICE CENTERS IN CHINA

More than half of the 69 foreign service centers in China specialize in the repair and maintenance of computers, instruments, and other electrical equipment.

Foreign company	Chinese partner/ contract date	Operation	Location	Product area
US firms				
Jarrell-Ash	INSTRIMPEX Contract signed 7/82	Chinese-owned and managed service center	Beijing	Direct-reading spectrometer
Canberra	INSTRIMPEX NA	Chinese-owned and managed service center	Beijing	Nuclear instruments
Varian	INSTRIMPEX NA	Chinese-owned and managed service center	Beijing	Nuclear magnetic resonance
Perkin-Elmer	INSTRIMPEX NA	2 Chinese-owned and managed service centers	Beijing Shanghai	Infrared spectrometer, atomic absorption spectrometer
Finnigan-Mat	INSTRIMPEX Contract signed 12/81	Chinese-owned and managed service center	Beijing	Mass spectrometers
Cromemco	INSTRIMPEX NA	Service center	Beijing	Micro-computers
Texas Instruments	INSTRIMPEX NA	Chinese-owned and managed service center	Beijing	Calculators, programmable computers
Hewlett-Packard	CEIEC Contract signed 2/81	Chinese-owned and managed service center	Beijing	Computers
Fluke International	Beijing Radio Research Institute Contract signed 5/81	Chinese-owned and foreign–Chinese jointly managed service center	Beijing	Electronic test and measurement equipment
Tektronix	Oriental Scientific Instruments Import–Export Corporation Contract signed 12/82	Chinese-owned and managed service center	Beijing	Electronic instruments, TV test instruments, and digital design equipment
Beckman Instruments	China Scientific Instruments and Materials Corporation Contract signed 7/80	Chinese-owned and managed service center	Beijing	Scientific and analytical instruments
Xerox	China Corporation of Shipbuilding Industry Contract signed 7/80	Chinese-owned and managed service center	Beijing	Copying machines
Foxboro	Shanghai Instrument Industry Corporation Contract signed 12/80	Chinese-owned and managed sales and service company	Shanghai	Process control instruments and systems
Parker Pen	Ministry of Light Industry Contract signed 12/80	Chinese-owned and managed service center	Guangzhou	Pens
Honeywell	China National Technical Import Corporation Contracts signed 12/80 and 6/83	2 Chinese-owned and managed service centers	Shanghai and Sichuan	Analog, control room, and digital instruments
Sperry Univac	China Computer Technical Services NA	Chinese–foreign jointly owned and managed service center	Beijing	Computers
Sperry Marine	China Corporation of Shipbuilding Industry Contract signed 8/80	Chinese-owned and managed service center	Shanghai	Marine instruments

had a long-standing commercial relationship. When Beckman Instruments renegotiated its three-year agreement for a technical service center and showroom—one of the first of its kind—it included its main trading partner. Beckman had signed the original agreement with the China Scientific Instruments and Materials Corporation during the confusion of decentralization. This time around, Beckman realized it would be "prudent" to include INSTRIMPEX in the agreement, since it is the largest buyer in China of Beckman instruments. Notes a Beckman executive, "You have got to be flexible and adapt" to changes in the foreign trade structure.

If a foreign company sells products that need to be serviced over a wide geographical area, then it is important to pick a partner with a good distribution network. It is also advisable to spell out in the contract the right of endusers to receive service. A Fluke International sales executive notes that "Chinese endusers of our products under the Ministry of Machine Building are sometimes reluctant to send equipment to Fluke's service center for repairs because the service center falls under the jurisdiction of the Electronics Ministry." Several companies also have had problems in trying to get their original partner to make their services available to other ministries or localities. Realizing that this would be a potentially sticky area, Cummins Engine Co., Inc. insisted that its July 1, 1983 service contract with TECHIMPORT be nonexclusive.

Finding a partner with compatible goals may be a time-consuming task. Tektronix spent one and a half years researching and negotiating with various entities. David McBride, China project manager at Tektronix, stresses the importance of reaching a mutual understanding *before* deciding upon a partner. One Chinese corporation, for example, wanted to put Tektronix's service center in a factory in Xi'an, away from most of Tektronix's current endusers. Obviously this Chinese party was interested in laying the groundwork for a manufacturing agreement. Tektronix was not. According to McBride, the Oriental Scientific Instruments Import-Export Corporation was chosen after a long and thorough search because "it is in close contact with Tektronix's endusers at

the various institutes of the Academy of Sciences. Moreover, it requested a reasonable commission and promised to charge low service fees. He adds with relief: "It is not in the trenches of the bureaucratic wars over foreign trade."

Foreign companies that are already in joint manufacturing projects may prefer to sign service contracts with separate organizations. Based on its own experience, one company suggests not having the same workers responsible for both jobs, given that production generally has priority over maintenance in China. The company found that with tough production quotas to meet, workers often neglected after-sales servicing.

Local Management. Most companies prefer to allow the Chinese to manage their service centers and warehouses, because of the high cost of stationing expatriate employees in China. One company admitted that the amount of money generated from its service center would not even cover the cost of keeping one expatriate in China. On the other hand, some companies that plan to stock several million dollars worth of spare parts in China have decided to accept the expense. Fluke International has a full-time expatriate in the PRC to assist in the complex invoicing process and to issue monthly reports to the US Department of Commerce.

Setting up a Chinese-managed service center can be difficult for the foreign parent, as it has little opportunity to oversee the service operation or meet Chinese clients. The PRC partner is given responsibility for liaison between the foreign partner and the service center staff, and between service personnel and customers. Unfortunately, some foreign companies have come to feel that their Chinese partner, usually a trade corporation, has failed to provide satisfactory coordination and supervision of service center activities.

Service quality can sometimes suffer under Chinese management. According to Perkin-Elmer's senior marketing specialist, William Hargrave: "It is difficult to gain the loyalty and respect of the Chinese workers when you do not manage the service station, but only maintain indirect contact by paying a percentage to a Chinese entity to operate the facility. The workers' primary loyalty is to the group that directly hires

Cummins Engines	China National Technical Import Corporation Contract signed 7/83	Managed by China National Automotive Industry Corp. on behalf of TECHIMPORT	Beijing	Engines
Honeywell Information Systems	INSTRIMPEX	NA	Beijing	DPS–6
NL Industries	Ministry of Petroleum, MACHIMPEX Contract announced 11/80	Chinese-owned and managed warehouse	Dagang	Petroleum equipment
Christensen	China National Oil & Gas Exploration & Development Corporation Contract announced 9/82	Foreign-owned and managed warehouse	Dagang	Petroleum equipment
Caterpillar	MACHIMPEX Contract signed 6/81	Chinese-owned and managed warehouse	Beijing	Transportation and civil engineering equipment
Non-US foreign companies				
IBM (Japan)	INSTRIMPEX NA	Chinese–foreign jointly owned and managed service center	Beijing	Computers
Minolta (Japan)	NA	Service center	Guangzhou	Cameras
Daimer–Benz AG (West Germany)	MACHIMPEX Contract announced 3/82	Chinese-owned and managed service center	Beijing	Mercedes engines
Hino Motor (Japan)	MACHIMPEX NA	5 Chinese-owned and managed service stations; 1 spare parts depot	Beijing, Qingdao, Kunming, Nanchang, Fuzhou; Liang Xiang	Auto parts and engines
Mitsubishi (Japan)	MACHIMPEX NA	6 Chinese-owned and managed service centers	Beijing, Guangzhou, Huhot, Changsha, Shaoxing, Guiyang	Auto parts and engines
Siemens AG (West Germany)	China National Technical Import Corporation Contract signed 8/81	Spare parts depot	Beijing	Electric meters, inductors, condensers, and circuit breakers
Bruel & Kjaer (Denmark)	INSTRIMPEX 2 contracts signed in 1980 and 1983	2 service centers	Beijing, Shanghai	Audio instruments
Kato Works Co. Ltd. (Japan)	MACHIMPEX Contract announced 12/82	Spare parts depot	Beijing	Cranes and excavators
Citizen Wrist Watch Co. (Japan)	NA	Chinese-owned and jointly managed sales and repair shop	Beijing	Watches
Sony (Japan)	INSTRIMPEX Contract announced 7/80	3 service centers	Beijing, Guangzhou, and Fujian	Video equipment
Nippon Electric Corporation (Japan)	China Computer Technical Service Company Contract Signed 3/81	Chinese–foreign jointly owned and managed service center	Beijing	Computers

East Asiatic Company (West Germany)	MACHIMPEX NA	Spare parts shop	Beijing	Heidelberg printing machines
Marconi Instruments (UK)	China National Import and Export Corporation	Chinese-owned and managed service center	Beijing	Telecommunication, radio, microwave test equipment
Micro Data System, Ltd. (Hong Kong)	NA Contract announced 7/82	Service center	Beijing	Computers
Sanyo Corp. (Japan)	NA Contract announced 7/82	3 Service centers	Beijing, Guangzhou, Shanghai	NA
Hitachi Construction Machinery Co. Ltd. (Japan)	China Railway Engineering Corporation Contract announced 3/82	Chinese-owned and managed service center	NA	NA
Hitachi Koki Co. Ltd. (Japan)	INSTRIMPEX Contract announced 5/82	Service center	Beijing	Centrifuges
Komatsu (Japan)	MACHIMPEX NA	Spare parts depot	Beijing	Auto parts and engines
Isuzu Motors (Japan)	MACHIMPEX NA	Spare parts depot	Nanjing	Truck, auto parts
Nissan Diesel (Japan)	MACHIMPEX Contract announced 9/82	Chinese-owned and managed service center	Beijing	Auto parts, engines
The Swiss Watch-Makers Federation and Ebauches Company Ltd.	Contract announced 10/81	Chinese-owned and managed sale and repair shop	Beijing	Watches
Rado (Switzerland)	NA	5 Repair shops	Fuzhou, Beijing, Shanghai, Quanzhou (Fujian), and Guangzhou	Watches
Digital Electronic Automation (Italy)	China National Aero-technology Import/Export Corporation (CATIC) Contract announced 1/82	Chinese owned and managed service center	Beijing	Precision measuring machines
Siemens (West Germany)	China Corporation of Shipbuilding Industry Contract announced 12/81	Chinese-owned and managed service station	Shanghai	Marine electrical equipment
International MacGregor Organization (UK)	China Ocean Shipping Corp. NA	2 Chinese-owned and managed service centers	Shanghai, Guangzhou	Railroad and cargo handling equipment, hatch covers
Konishirodu Photo Industry Co. (Japan)	NA	Chinese owned and managed service center	Shanghai	"U-Bix" copying machines
Matsushita Electric (Japan)	Beijing T.V. Plant; Shanghai No. 3 Radio Plant	2 Chinese owned and managed service centers	Beijing, Shanghai	T.V., radios
Haven International (UK)	China Ocean Shipping Company NA	2 Chinese–foreign jointly owned and managed service centers	Shanghai, Guangzhou	Marine electrical equipment

them." Therefore some American companies including Tektronix, Varian, and Jarrell-Ash have sought a more active role in the labor-recruiting process, though "mutual consent" hiring is the exception rather than the rule as most Chinese partners retain the sole authority to hire and fire Chinese technicians, engineers, and support staff.

Better field-servicing is another area of concern. Chinese technicians and engineers must be willing to perform on-site repairs and maintenance of large equipment that cannot be returned to the service center. But some centers do not provide adequate travel and per diem allowances, or even incentive bonuses, that would motivate service center staff to do a good job of field servicing. Many companies are powerless to remedy the situation since their Chinese partners control the budget, though at least one company has succeeded in obtaining the right to allocate more funds for field servicing.

Training. The initial training for service center personnel normally occurs outside of China, followed by a short period of on-site training, if necessary. The Chinese government has been eager to approve travel visas for trainees. While abroad, trainees' food, lodging, instruction, and per diem allowances are usually covered by the foreign partner. The Chinese will pay round-trip travel costs. In some cases, as with World Bank bid projects, the foreign company is expected to pay the bill, even for international travel. If US trainers go to China, the foreign company is also expected to cover all costs. Unless otherwise stated, however, a company can include the training costs in the purchase price. After the first phase of training, the Chinese are expected to cover expenses if they send qualified personnel abroad for further training.

Fees, Commissions, and Billing. A foreign party is required to pay a commission to its Chinese counterpart in the case of 100 percent Chinese-owned and managed service centers or warehouses. Such commissions usually amount to 3–5 percent of sales value, or may take the form of a prearranged fee covering operational costs such as wages, rent, utilities, travel, and warranty services. Not only is a profit margin for the Chinese party built into each of these items, but 20–30 percent of the total

value of the commissions and fees paid may consist of payment to the Chinese side for fulfilling unspecified "contractual obligations" for which no counterpart service is rendered. An additional charge of 3–7 percent of contract sales is sometimes demanded by the Chinese partner. This is usually paid in foreign exchange to a Hong Kong bank account.

With regard to customer billing, service centers usually allow Chinese customers to pay in RMB for repair bills up to ¥1,000 (about $500). Larger bills must be paid in foreign exchange, which means customers without their own foreign exchange accounts must go through the laborious process of applying to their superior organizations for hard currency allocations. One of the reasons Cummins Engine went with TECHIMPORT was because TECHIMPORT's commission could go toward the operation of the service center. According to Cummins' Steve Mulder, "TECHIMPORT serves only as the conduit for invoicing. Any foreign exchange left over after operational costs is turned over to the Chinese government."

Aside from on-going charges, many companies have had to pay vaguely defined start-up costs of between $15,000 and $100,000 to establish their service centers. Some companies have avoided this lump sum expenditure by insisting that the Chinese itemize their expenses.

Stockpiling spare parts. Maintaining a stock of spare parts in China is important to sellers and endusers of advanced instruments, electronic equipment, computers, and even heavy equipment. However, companies have already encountered obstacles in sending over supplies of parts to their service centers or warehouses. The main difficulty is that the Chinese prefer to hold parts on a consignment basis for as long as possible. Sperry, for example, provided an initial stock of spares that were to be sold on consignment for two years at its Shanghai service station. The company had hoped that during this period the Chinese managers would purchase replacements as parts were sold. The Chinese, however, interpreted the contract to mean that no replacements were to be purchased until the two-year period expired. It is obviously expensive for a company to maintain an inventory of unpurchased parts in China. Under most

Mannheim Engines (West Germany)	Shanghai Marine Diesel Engine Research Institute Agreement reached 1/81	Service station	Shanghai	Marine engines
Rank Taylor Hobson Ltd. (UK)	MACHIMPEX Contract announced 7/81	Service center	Beijing	Precision measuring instruments
Yamaha Motor Co. (Japan)	NA Contract announced 4/81	Service station	Guangdong	Motorcycles
Yokogawa Electric Works (Japan)	NA Contract announced 5/80	Service center	Beijing	NA
China–Schindler Elevator Co. Ltd. (China, Switzerland, Hong Kong)	China Construction Machinery Corporation Contract signed 3/80	3 Chinese–foreign jointly owned and managed service centers	Beijing, Shanghai, Guangzhou	Elevators
Toyota Motor Co. (Japan)	Beijing Motor Services Contract signed 11/79	Chinese-owned and managed service station	Beijing	Auto parts and engines
Solartron Instrumentation (UK)	INSTRIMPEX NA	Chinese-owned and managed service center	Beijing	Electronic equipment
Hokushin Electric Works Ltd. (Japan)	Beijing Automation Industry Corp.	Service center	Beijing	Iron, steel and petrochemical equipment
Longines (Switzerland)	NA	Repair shop	Shanghai	Watches
Philips (Holland)	NA	3 service centers	Shantou, Shanghai, Guangzhou	TV, radios
Seiko (Japan)	NA	8 Chinese-owned, foreign managed repair centers	Guangzhou, Beijing, Tianjin, Xian, Harbin, Shenyang, Qingdao, and Fuzhou	Watches
Shimadzu (Japan)	INSTRIMPEX NA	Service center	Beijing	Scientific instruments
Philips (Holland)	China Scientific Instruments and Materials Corporation	Chinese owned and managed service center	Beijing	Industrial equipment
Orma Optical Co. (France)	Labor Service Corporation Contract announced 5/83	Chinese-owned and managed service center	Taiyuan	Eyeglass processing equipment
Hitachi, Ltd. Naka Works (Japan)	INSTRIMPEX NA	Service center	Beijing	Electronic microscope, spectrophotometer amino acid analyzer
Japan Electron Optics, Ltd.	INSTRIMPEX NA	Service center	Beijing	Electronic microscope, probes, nuclear magnetic resonance, mass spectography
Pye Unicam (UK)	INSTRIMPEX NA	Service center	Beijing	Chromatograph spectrophotometer
Xianjin Diannao Keji Ltd. (Hong Kong)	INSTRIMPEX NA	Service center	Beijing	Computer model TRS-80 & peripheral equipment

contracts, the foreign party is also responsible for shipping back any unsold parts on c.i.f. terms.

Import duties. A lack of definition in the law has been a source of serious confusion for several companies. When shipping over a stock of consigned parts, the receiving party normally is responsible for paying the duties levied at the port of entry. The relevant duty rates are listed in China's January 1, 1982 customs tariff regulations, a MOFERT official told *The CBR*. The cost of these duties is then passed on to the consumer at the time of sale. In the case of the Chinese-owned and managed service center or warehouse, the Chinese side should include such duties, taxes, and inland transportation fees in its bills to domestic customers. But foreign companies that failed to make provisions for duties in their contracts have been forced to pay the initial duty on consigned parts as a bonded fee. In theory, the foreign company can then be reimbursed as the spare parts are sold, used under warranty, or shipped back as unsold inventory. In practice, however, this "duty-drawback" system has failed to work. Several companies have not succeeded in having their deposits returned, *The CBR* has learned.

Advises Steve Mulder of Cummins Engine: "Spare parts that replace defective parts under a contract's warranty period should be duty-free. When shipping parts to China under warranty, it is essential to provide careful documentation. Cummins sends copies of the new-parts invoice, letter of explanation, and way-bill information to the Chinese buyer and to the customs authorities. In this way, duties are not assessed on warranty replacement parts."

One company thought it was protected by contractual language providing for a bonded warehouse with "no duties or taxes applicable on any of the inventory and spare parts in the warehouse before their sale. . . ." But since no buyer existed and no Chinese organization was responsible for the operations of the warehouse, the company had to pay customs duties on the goods.

In another case, a foreign company was compelled to shut down its warehouse operations because of the unexpected duties levied on its products. This warehouse was designed to service the offshore oil industry, and, according to Article 10 of China's offshore oil regulations, "The equipment and materials imported for the implementation of petroleum contracts shall be exempted from customs, or levied customs at a reduced rate, or given other preferential treatment in accordance with state regulations." This was interpreted to mean that Chinese and cooperating offshore oil companies could import parts and equipment directly from abroad without paying customs duties, but that they would have to pay duties when purchasing spare parts from the company's warehouse. An executive involved in the deal advises other companies: "In setting up a warehouse operation in China, be sure to protect yourself as much as possible by being aware of any taxes that may make your product uncompetitive."

Most companies prefer to allow the Chinese to manage their service center and warehouses, because of the high cost of stationing a foreigner in China. One company admitted that the amount of money generated from its service center could not even cover the cost of keeping one expatriate in China. Other companies have found an on-the-spot representative to be essential, as service centers have sometimes suffered under Chinese management. Advises one US executive: "It is difficult to gain the loyalty and respect of the Chinese workers when you do not manage the service station. . . . The workers' primary loyalty is to the group that directly hires them."

Invoicing procedures. Upon receipt of authorization to do warranty service, a Chinese-managed service station performs the service, then invoices the foreign company with a copy of the service report. In-warranty service fees are usually set in advance by mutual agreement. Payment is made in US dollars to a special account at the Bank of China. In the case of out-of-warranty services, endusers must sign separate contracts with service centers covering fees and expenses. Service centers normally prepare monthly, quarterly, and semi-annually lists of inventory and products sold. To avoid delays caused by the manual recording of inventory, companies such as Caterpillar have installed mini-computers to speed up bookkeeping.

WHEN AND IF

The two key questions in setting up a service center are, of course, timing and cost. The answer to the first is not as obvious as it might seem, since some companies do not wait until the volume of their sales justify after-sales servicing, but set up (usually unprofitable) service centers to get their foot in the door. The real question is when, and if, a service center can make money. Some companies never expect service centers to turn a profit, and look forward to the time when spare part sales to China can be discontinued. Says Ed Fisher, Canberra's technical director of international operations: "Frankly, we would be happy to see the development of Chinese domestic sources for replacement parts at the component level. This would certainly provide more efficient service, and would eliminate the problems involved in their licensing and shipment." But according to WABCO's Roland Lohnert, "If a service center just means transferring the sale of parts from direct sales to service center sales, then profits will decrease. But if a service center can increase the sale of equipment, then it is a worthwhile investment."

A Status Report

Issues in US–China Trade

A catalogue of US–China bilateral trade issues a few years ago would have looked a good deal different from the list of issues that concern the two governments today. Although the list might then have been shorter, the individual items would have bespoken serious impediments to normal trade relations. Obstacles such as frozen assets, US export controls, the absence of most-favored-nation tariff treatment for China, and the lack of a bilateral trade agreement have all either been resolved or at least substantially addressed. They have given way to disputes about levels of acceptable growth in Chinese textile exports to the United States, protectionist sentiment in the US against the importation of Chinese foodstuffs and chemicals, and what specific provisions should be included in bilateral agreements to protect foreign investment and avoid double taxation.

The new slate of government relations issues is composed primarily of problems that characterize a normal trade relationship. As Commerce Secretary Malcolm Baldrige noted at the meeting of the Joint Commission on Commerce and Trade in Beijing last May, the only countries with which we do not have such disagreements are those with which we have no trade.

Listed below are the current issues in US–China trade:

Bilateral Investment Treaty

A US negotiating team led by the office of the US Trade Representative visited China in early June 1983 for the first round of negotiations on a Bilateral Investment Treaty with China's Ministry of Foreign Economic Relations and Trade (MOFERT). The first round of negotiations consisted of preliminary exchanges of views on draft agreements. A second round is slated for early October; long and difficult negotiations are anticipated.

The model investment treaty drawn up by the US team includes ▶ most-favored-nation or national treatment (whichever is more favorable) for new and existing investments (to cover such things as access to judicial facilities, establishment of offices, employment of professionals, leasing of real property, and access to financial markets); ▶ adequate compensation for expropriation and war damages; ▶ free transfer of capital and earnings; and ▶ third-party dispute resolution. The Chinese draft is much more general and contains far less protection for US investors.

The National Council and the US Chamber of Commerce have jointly formed an informal advisory group of about 20 private companies to advise the US negotiating team. The group has convened twice, and another meeting will probably be held before the second round of negotiations in October.

Bilateral Tax Treaty

Negotiations on a Bilateral Tax Treaty between the Chinese Ministry of Finance and US Department of the Treasury began in Washington in September 1982. Draft treaties have been exchanged, and a second round of talks was held in July 1983 to review broad, substantive issues. Although the Chinese draft was not ready in time for use in this round, Treasury Department officials who saw a rough translation of it believe it offers a solid basis for discussion. A final agreement is not likely to be reached soon, but a proposal has been put forth to resume discussions in October.

A Bilateral Tax Treaty would remove the possibility of double taxation of income produced in each country. A more limited agreement has been reached which prevents dual taxation of maritime and aircraft profits. That agreement has been ratified by the US Senate and awaits the President's signature, expected within a month.

Also, two test cases, ruled upon by the IRS on June 22, 1982 and August 23, 1983, respectively, suggest that both PRC foreign enterprises withholding taxes and individual income taxes are eligible for US tax credits.

Bilateral Textiles Agreement

After seven rounds of arduous negotiations lasting almost a year, a new US–China bilateral textiles agreement was hammered out in early August. The official exchange of notes took place in Beijing on August 19, with the new agreement taking effect the following week. Retroactive to the beginning of 1983, the accord superseded the unilateral controls put in place last January. The bilateral assists importers and retailers of Chinese textiles in planning their purchasing. China formally rescinded its embargo on US cotton, soybeans, synthetic fibers, and synthetic fiber products on September 7, 1983.

The new agreement does involve some reduced flexibility on the part of the Chinese, but the 31 categories now under specific limit have been allowed an average growth rate of

This article was prepared by the Council's department of development and government relations, with contributions from staff members in other departments. The status report is current through August 10, 1983.

3.8 percent per year over the five-year term of the agreement. This rate is more generous than the average 1 percent growth allowed in the agreements with Hong Kong, Taiwan, and South Korea, though many importers and retailers believe that the controls the agreement imposes on China are too strict and not founded on adequate evidence of damage to domestic manufacturers. Some US garment and textile makers, however, see the growth levels under the new agreement as too generous, with too few categories under specific limit, and lacking an aggregate ceiling for textile imports from China. Both sides have been airing their views to the Office of Textiles and Apparel of the Department of Commerce, which is preparing a special study for the president on the impact of textile imports on domestic manufacturers. It is highly unlikely, though, that the administration would use the finding of this study as a rationale for modifying the new bilateral with China.

Export–Import Bank

Despite former Vice-President Mondale's 1979 offer to provide China with up to $2 billion in Exim financing over a five-year period, direct lending to China has been limited to a total of $117.5 million. One loan of $57.1 million was extended in 1981 for the purchase of power generation equipment from the Westinghouse Electric Corporation and Combustion Engineering, Inc.; a second loan of $60.4 million for equipment purchased from Wean United for the Baoshan Steel Complex was made in 1982. In addition, Exim guaranteed an $8 million 11 percent private loan for the Wean United project.

In June 1983 Exim approved two loan guarantees for China projects under the 1982 Export Trading Company Act. The Seattle-First International Bank of Portland, Oregon received an Exim ETC loan guarantee for a $3 million revolving credit line to the Xylo Corporation of Corvallis, Oregon, under contract to CHINATUHSU for 95 million board feet of logs worth more than $30 million to be delivered over a 20-month period. (The deal amounts to nearly one-quarter of total US timber sales to China in 1982.) The second guarantee covered a $749,900 line of credit from Marine Midland of New York to Delta Brands, Inc., of Irving, Texas, to finance production of a $1 million cutting machine purchased by MACHIMPEX through Crown International Trading Corporation of New York.

Exim's ETC program is designed to help small exporters get commercial loans by guaranteeing the American bank's risk. No Bank of China guarantee or documentation is required, as is the case with direct Exim credits to China.

Export Controls

On June 21, 1983, the Commerce Department announced President Reagan's decision to raise the level of high-technology goods licensed for export to China, in which the president directed that China be moved from Country Group P to Country Group V of the Export Control Regulations (V category being "everyone else," which includes all friendly countries except Latin America), but that national security controls be retained. The Council has been advised that the intent of the new decision is to remove from controls all appropriate equipment and technology except for those posing a specific and demonstrable danger to US national security.

The change is unlike previous export control decisions in that it shifts the burden of proof on the national security issue from those who wish to export to those who recommend against a particular export. Previously, nothing could be exported to China unless it clearly could be approved according to precedent or guidelines. Now, companies will be able to export anything except goods and technology which have been prohibited or restricted because their sale would cause clear and demonstrable damage to national security.

An inter-agency task force is now drafting precise guidelines for items that must be controlled. Specifically, it is working to devise a system with a relatively simple red-light, yellow-light, green-light approach.

- ▶ Green-light would include those items which would now be General License for China;
- ▶ Yellow-light would include items which would probably be approved, but must be reviewed; and
- ▶ Red-light would be a much smaller category and for items to be approved only on a case-by-case basis.

The task force's recommendations should be made public sometime before the end of August.

Exports to China will still be processed through COCOM in accordance with the US agreement with its allies. But we anticipate that the new government policy will lead to a speedier and more liberal approach to China exports in COCOM. We also assume this decision means that goods and technologies which were controlled unilaterally by the US and not subject to COCOM approval will no longer be controlled.

Feathers and Down

Earlier this year Representative Edgar L. Jenkins (D-GA) introduced a bill to extend for five years the suspension of duty on the import of crude feathers and down. That bill was later subsumed under an omnibus tariff bill passed by the House on June 28 and is now pending in the Senate Finance Committee.

This legislation continues a suspension of duty in effect since 1975, extended in 1980, and which otherwise will expire at the end of June 1984. Without the suspension, feathers and down from the PRC would face an ad valorem duty of 7.5 percent. With such imports at approximately $11.1 million last year, this could mean additional costs of $833,000 annually. China was made eligible for the suspended 7.5 percent rate when it gained MFN status in 1980; prior to that it faced a 20 percent ad valorem duty on some categories of feathers and down.

Fireworks

The US Customs Bureau is pursuing a new "get tough" policy on incoming shipments of fireworks from the Far East and seized more than $1 million worth of fireworks from China, Hong Kong, Macao, and Taiwan in June. More seizures were carried out in July, and Customs says it intends to inspect closed containers of fireworks carefully from now on to prevent the illegal entry of excessively powerful or misclassified items that are declared as ordinary low-explosives. This could have an adverse effect on Chinese sales of fireworks to US buyers.

PL-480

Last year, as part of its legislative initiative, the administration urged amendment of the Agricultural

Q: Why travel with American Express when you go to China?

A: BECAUSE WE ARE THERE!

American Express Travel Related Services Company is a worldwide international company that provides top quality financial and travel services for business & vacation travelers wherever in the world they may find the need to travel, including China where we have a Travel Service Office right in Beijing.

American Express® Travel Service

With a worldwide network of nearly 1,000 Travel Service Offices* (TSO's), we are ready and eager to satisfy your business and vacation travel needs. Our office in Beijing (located at the Peking Hotel, Room 1527, East Chang An Avenue) is prepared to assist with travel information and the reporting of lost or stolen American Express Travelers Cheques and Cards. And American Express not only has more offices throughout the Orient than any other American travel company, but we are the first officially registered tour operator to establish an office in China.

Our American Express® Vacation Stores located throughout the United States are staffed by travel experts who sell quality vacations all around the world. For the location of the one nearest you , look under "Travel" in the yellow pages or under "American Express" in the white pages of your telephone directory.

Don't leave home without us.®

*The network is comprised of offices owned by American Express® Company, its subsidiaries or representatives.

American Express® Travel Management Services.

We have been helping companies manage travel for more than 70 years. Today, our "Business Travel Service" offers companies a full complement of traditional travel agency services plus state-of-the-art products to simplify administration of t & e expenses. There are 19 American Express Business Travel Centers in key major metropolitan U.S. cities. For the location of the one nearest you, call or write to Mr. Roger Hymas, Vice President, American Express Travel Related Services Co., Inc., American Express Plaza (25th floor), New York, New York 10004, (212) 323-2224.

Don't leave your office without it.℠

AMERICAN EXPRESS

Trade and Development Assistance Act of 1954 (PL-480) to make China eligible for sales and assistance programs.

Committees in both houses of Congress debated the provision and agreed to drop it from the final foreign aid bill. The basis for this action was a consensus that nothing in the actual language of the law prohibits PL-480 assistance to the PRC, and it would be up to the president to determine whether China is eligible. While the executive branch has stated it has no present intention of starting a PL-480 program for China, the administration now has the flexibility to do so.

Although the proposed ISDC Act of 1982 died with the end of the 97th Congress, the State Department views the report language as sufficient to lay the issue to rest and will seek no further congressional action.

Foreign Assistance Act

Last year the administration asked, as part of its foreign aid package, that the Foreign Assistance Act of 1961 (FAA) be amended to allow assistance to the PRC. Bills were submitted to both houses of Congress amending the act to allow the president to authorize the inclusion of countries not otherwise eligible if he deems assistance to them "important to the security of the United States." The Senate version specifically limited such action to the PRC. Both bills died with the end of the 97th Congress for reasons not directly related to China.

Committees in both houses of Congress have now acted again on this legislation. The House Foreign Affairs Committee's May 3, 1983 version would allow the president at his discretion to lift restrictions on aid to China imposed by a section of the FAA, an action which also effectively removes barriers to activities of the Export-Import Bank.

The Senate Foreign Relations Committee's May 16 version would allow the president to authorize assistance for China under the act, but would not directly affect Exim activity there. The bills have been put on the calendar in their respective houses, but floor action has not yet been scheduled.

GSP

China is not eligible for Generalized System of Preferences (GSP) duty treatment because it is not a member of the General Agreement on Tariffs and Trade (GATT). GSP allows for the duty-free importation of certain nonsensitive items from certain "beneficiary developing countries." Under US law, GATT membership is a prerequisite to GSP status for nonmarket countries.

China would clearly benefit from GSP treatment, since between 13 percent and 19 percent of its 1980 exports to the US would have been eligible for duty-free treatment, had it been granted. Nonetheless, GATT requirements regarding sharing of duty information and the limitations on protective duties allowed by GATT, make Chinese membership in the short run rather doubtful.

House Subcommittee on US–China Trade

As an outgrowth of a delegation to China by the House Energy and Commerce Committee last spring, Committee Chairman John D. Dingell (D-MI) announced in late June the formation of a new subcommittee to investigate problems in Sino–American trade. The subcommittee, chaired by Representative Al Swift (D-WA) held its inaugural meeting on July 26.

Objections to the subcommittee's formation were immediately lodged by Congressmen Dan Rostenkowski (D-IL) and Clement Zablocki (D-WI), chairmen, respectively, of the Ways and Means and Foreign Affairs committees, who asserted that oversight of US policies in its bilateral trade with China is not within the proper jurisdiction of the Commerce Committee. The turf battle has not been finally resolved, but it seems fairly certain that the new subcommittee will begin activities in earnest in September.

Slated for mid-September is the first of a series of hearings on the question of technology transfer to China. The committee also plans to evaluate the Foreign Commercial Service's effectiveness in China and examine the remaining impediments to bilateral trade.

Huguang Railway Bonds

In 1979 nine Americans holding Huguang (Hukuang) Railway bonds filed suit in a Birmingham, Alabama, federal district court, seeking to compel the Chinese government to repay principal and interest on these bonds, which were issued in 1911 by the Imperial Qing (Ch'ing) government and which the Chinese republican government had continued to honor until 1939. On September 1, 1982, after the Chinese failed to make representations in court in their own defense, the court awarded a default judgment of $41.3 million to the US bondholders, which the Chinese have refused to honor.

Until July of this year, the Chinese dismissed the bonds as an "odious debt" of a corrupt feudal government, claiming that as a sovereign state China is immune from prosecution in a foreign court. The State Department initially declined to go to court to argue China's claim to immunity from prosecution, as the Chinese had requested, and urged China to seek legal counsel and represent itself.

In July the Chinese apparently reversed their status and retained member firm Baker and McKenzie to represent them in the default case. This was widely regarded as a sign of improving relations between the two countries. Private negotiations with representatives of the bondholders have already been held in Washington.

ITC Investigations

The US International Trade Commission, which investigates and takes action against unfair trade practices, has heard ten cases involving PRC products since 1978. Of these, restrictions on Chinese products were imposed in two cases (clothespins, 1978, and mushrooms, 1980); one was thrown out (menthol, 1980); one was a split decision (mushrooms, 1982); one was withdrawn (extension of relief of the 1980 mushroom case); and five are still pending. The cases currently before the ITC:

Chemicals. Anti-dumping petitions involving Chinese potassium permanganate and chloropicrin were voted on by the US International Trade Commission this spring. The ITC's preliminary finding in both cases was unanimous that there is injury, or threat of injury, to the American industry caused by Chinese imports of both chemicals.

On August 1, the Import Administration of the Department of Commerce made a preliminary determination that potassium permanganate is being sold or is likely to be sold at less than fair value; a margin

of dumping was set at 42.54 percent. A final Commerce Department decision is due on October 17. In the meantime, the ITC will investigate whether material injury or threat of material injury to the American industry exists and will render its final decision on December 1, 1983. A preliminary determination in the chloropicrin case will be made by DOC by September 13, 1983.

Mushrooms. A dumping investigation concerning the importation of Chinese mushrooms that has been underway since September 1982 is still pending. Investigating the domestic industry's claim that China is selling mushrooms to the US at less than fair value, the Department of Commerce's preliminary investigation found a 7.38 percent margin of dumping. Final findings by the DOC are due September 28; the ITC, now studying whether injury to the domestic industry exists, will deliver a final determination on November 14.

A petition by representatives of the domestic mushroom industry to extend an import relief program imposed in 1980 on imported canned mushrooms from China, Hong Kong, Taiwan, and Korea was terminated in late June by the petitioners for financial reasons. This will mean that the 23 percent ad valorem duty presently assessed will be reduced to 10 percent plus 3.2 per pound (drained weight) on November 1, 1983.

Textiles. Two anti-dumping investigations involve Chinese chief-value cotton print cloth and cotton shop towels.

In the print cloth case, the Commerce Department made its final determination on July 22 that the Chinese cloth is being sold, or is likely to be sold, in the US at less than fair value; the estimated margin of dumping was 22.4 percent. On August 22, the ITC voted unanimously that injury to the domestic industry exists as a consequence of this dumping. The Department of Commerce's Office of Investigations will issue a dumping order in early September, which will be enforced by Commerce's Office of Compliance.

In the case against Chinese shop towels, the Commerce Department made a final determination that shop towels are being sold at less than fair value, with a dumping margin of 38.8 percent. On September 12 the ITC determined unanimously that injury to the domestic industry exists.

Maritime Agreement

The first round of talks for renewing the US–PRC Maritime Agreement took place from April 12 to April 15 in Washington, with another round scheduled for August 29–September 1 in Beijing. The US Maritime Administration (MARAD) and the Chinese Ministry of Communications have exchanged drafts which are substantially different from the present agreement and which will be discussed at the next round. The first round provided a forum for American complaints about problems which have arisen under the current agreement on issues such as the number of Chinese ports open to US carriers, the privilege of operating feeder services, and the problems associated with Chinese failure to recognize the common tariff (origin CFS charges).

Previously, nothing could be exported to China unless it clearly could be approved according to precedent or guidelines. Now, companies will be able to export anything except goods and technology which have been prohibited or restricted because their sale would cause clear and demonstrable damage to national security.

MARAD hopes that both the ministries of Communications and Foreign Economic Relations and Trade will cosign the new agreement in order to ensure that the cargo allocation, controlled by MOFERT's SINOTRANS, will be performed under the terms of the agreement which is implemented by the MOC.

MARAD has already notified the Chinese that they are prepared to extend the present agreement for several months in the likely event that the old agreement expires before the new agreement is completed.

Most-Favored-Nation Treatment

China and the United States agreed to reciprocal most-favored-nation (MFN) treatment in the Trade Agreement of July 7, 1979, and China gained MFN status on February 1, 1980. Each year since then the president has notified Congress of his intention to extend MFN an additional year, and Congress has raised no objection.

The House Ways and Means Trade Subcommittee held hearings on renewal of MFN status for China on July 14. There was no opposition voiced against the president's recommendation for continued waiver authority regarding freedom of emigration requirements imposed by the Jackson-Vanik amendment to the Trade Act of 1974.

The Senate Finance Committee's International Trade Subcommittee considered the issue on July 29. The question of congressional waiver authority in light of the recent Supreme Court *Chadha* decision on the legislative veto was raised; it is likely that the president will continue annual notification to Congress of the eligibility of China, Hungary, and Romania for MFN status regardless of the decision. Congressional revocation of MFN status would, however, require legislation in the future rather than a simple resolution by either house, as has been the case.

OPIC

The Overseas Private Investment Corporation (OPIC) has thus far insured nine projects in China and now has a maximum of $68.45 million in insurance outstanding: Caterpillar ($4 million in spare engine plant), Dresser ($27 million in conductor wireline services joint venture for offshore oil and gas drilling), American President Lines ($1.7 million in containerized freight handling equipment), AMF/Voight ($1.7 million in a ball manufacturing joint venture), AMF/Voight ($2 million in electrical relay manufacturing equipment in Shanghai), CW Communications ($.5 million in *Computer World* newsletter joint venture), Foxboro

($13 million in instrumentation), Gillette ($7 million in razor and blade manufacturing equipment), Continental Enterprises ($10.8 million in poultry project), and Combustion Engineering ($.75 million in ceramic fiber operation for insulation of high-temperature furnaces).

One feasibility study (Beatrice Foods) has been carried out in China with OPIC financing. Two other unidentified studies are underway, and a fourth has been approved. OPIC funding for such studies is considered a grant if the project does not go through.

Approximately 25 registrations for a total of $300 million in potential investments for China have been received, exclusive of oil and gas projects on which OPIC will not release estimates. More projects are expected to be approved very soon.

OPIC offers political risk insurance, feasibility financing, and loan guarantee programs for new projects in China. Insurance programs do not include inconvertibility insurance, but do include expropriation coverage, expanded to cover arbitration; insurance against war, insurrection, and civil strife; and performance bond insurance. Coverage can extend up to 20 years.

Pan Am's Taiwan Route

The US government has responded favorably to a Chinese request for "consultation" under the bilateral air agreement concerning Pan American World Airways' decision to resume flights to Taiwan. Pan Am, which relinquished its profitable Taipei route as a gesture of good will shortly before beginning service to Beijing and Shanghai in January 1981, decided to resume service to Taiwan in June.

The resumption of service prompted the Chinese to take retaliatory measures against Pan Am. They did not expel the carrier, as had been feared, but instead withdrew its emergency landing rights in Guangzhou and its permission to overfly the PRC on flights eastbound into Hong Kong. The actions proved to be more symbolic than damaging, since Pan Am has never used Guangzhou for an emergency landing (and since Taiwan has offered the use of Kaohsiung, not much further away), and it does not fly east into Hong Kong. The Chinese also requested that the US government replace Pan Am on the China route and substitute a carrier which does not also serve Taiwan. None of China's actions violated the 1980 bilateral civil aviation agreement.

US Civil Aeronautics Board Chairman Dan McKinnon, in explaining the US government's refusal to replace Pan Am, pointed out that it is not the practice of the US government to name air carriers to serve foreign countries based on the desire of the foreign governments, but rather based on our own criteria. Pan American's CAB certificate for its route to China expires November 3, 1984, unless the airline goes before the CAB to seek renewal.

To date the Chinese have not set a time and place for consultations.

TDP

The Trade and Development Program, set up under the State Department's International Development Agency in July 1980, recently agreed to fund feasibility studies for 10 major Chinese projects. TDP launched its first major China initiative in March 1983 with a $400,000 grant to the Chinese Ministry of Water Resources and Electric Power to cover US engineering services for the completion of the Tianshengqiao hydropower project in Guangxi. Harza Engineering Company of Chicago is now performing this work.

TDP's 10 new projects include the Yiminhe open pit mine in Inner Mongolia; Zhongyuan Wennan condensate oil field in Henan; Sianjiase oil field in Shandong; Weiyuan gas field in Sichuan; titanium pigment plant (site unknown); wheel and tire plant in Maanshan, Anhui; monocrystalline silicon plant (site unknown); optical fiber production plant in Houma, Shanxi; full plastic telephone connecting components plant (site unknown); and the multichannel carrier telephone equipment plant in Chengdu, Sichuan. Up to $500 million worth of sales to China could result from these projects, private sources indicate.

Before TDP funds feasibility studies of these 10 projects, it will conduct definitional studies of each this fall. In September it contracted this work out to the National Council for US–China Trade.

TDP grants cover feasibility studies and other planning services in Third World Countries on projects for which there is a stong downstream US sales potential for services, technology, and equipment.

Tungsten

US and Chinese government officials met in Beijing in late March for "informal negotiations" in an effort to stave off the filing of a 406 petition by the Refractory Metals Association (RMA) against tungsten imports from China. As a first step toward such an action, the RMA had adopted a resolution in late February that charged Chinese imports with injuring and threatening to further injure the US tungsten industry.

The US Trade Representative–Department of Commerce team went to China in March and met with officials of MOFERT, MINMETALS, MMI, CMIEC, and CITIC. RMA officials had agreed beforehand to await the outcome of these talks before deciding on their next move.

During the successful meetings in Beijing, the Chinese openly recognized the problem and spelled out the measures they would adopt to resolve it, principally: customs surveillance, the implementation of the export licensing system, centralized marketing through MINMETALS' home office, and smuggling crackdowns. After being briefed on these meetings, RMA officials expressed a willingness to defer any relief action for the time being, although they expressed great concern about adequate follow-up action by the US government.

Water Chestnuts and Bamboo Shoots

Congressman Delbert Latta's (R-OH) bill, H.R. 1898, which would permanently suspend duties on water chestnuts and bamboo shoots, was excluded from the House Ways and Means Committee's omnibus bill H.R. 3398 in June 1983 for reasons unrelated to the substance of the bill, and is not expected to move out of committee in its present form. However, Senate legislation calling for the same action was introduced by Senator Charles Percy (R-IL) in April and is now pending in the Finance Committee's International Trade Subcommittee. Though the bill is not yet on the agenda, it is expected to pass.

Doing Well by Doing Good

China's new-style foreign aid projects now emphasize mutual benefit.

Deborah A. Brautigam

Since 1954, China has provided more than $2.5 billion in development assistance to the Third World. By the 1970s, blue-clad Chinese could be seen in more than 60 developing countries, working in rice paddies, building stadiums, and constructing roads.

According to the "Eight Principles of Foreign Aid" formulated by Zhou Enlai in 1964, Chinese assistance is unconditional, emphasizes self-reliance and transfer of technical skills, and is provided in the form of interest-free or low-interest loans with generous repayment terms.

Lately, however, the Chinese have indicated that they would like to move away from concessional assistance to more business-like arrangements that smack less of dependency for the recipient—and involve more profit for China.

One way to do this is for Chinese teams to work as contractors on projects financed by other aid-donors. In Africa the Chinese already have landed contracts to build a West German-financed road in Rwanda, conduct a feasibility study on rice-growing techniques for the United Nations Development Program in Uganda, and plant seed rice on an outgrower basis for an International Fund for Agricultural Development project in Liberia.

"We are interested in doing more work of this kind," a Chinese diplomat in Africa explained. She added: "Please let others know," and handed over a glossy brochure describing the commercial services the Chinese National Complete Plant Corporation (COMPLANT) can offer African nations. These include the sale and installation of complete plants, technical services, and the creation of joint ventures to exploit virtually any business opportunity.

Whether concessional or commercial, Chinese projects exhibit the same features in country after country. The Chinese experts live simply and unobtrusively in dormitories, eating together and generally keeping separate from the local people. Even small projects have one person brought in solely to cook, and most include a small garden where Chinese cabbages and other Asian vegetables are grown for consumption by the team.

Local officials often express admiration for their Chinese guests, who often continue working through the weekend without demanding the same of their local counterparts. At the same time, however, communication is a real problem. Chinese workers are rarely taught the local language and interpreters are scarce. At one large construction site in Monrovia, with over 100 Chinese workers and 300 Liberians, there were only 4 interpreters.

Another familiar complaint is that the Chinese are too "secretive." One African project director blamed this on the different cultures. "I don't think it's really a language problem," he said. "They are just the kind of people who like to keep everything to themselves."

This perception of secrecy extends to technology transfer as well. One Chinese diplomat at the United Nations admitted that in the past the Chinese had come in, built a turnkey project, and then left. There was little interaction with the local people. "Now," he said, "we try to transfer more technology to our African brothers."

"So long as they study and have the right attitude they can learn the skills," a Chinese economist in West Africa asserted. But his African counterpart grumbled that students sent by him to a Chinese project for on-the-job training in electrical engineering were treated as unskilled workers, and shunted around by their Chinese bosses to wherever labor was needed.

Nevertheless, some recipients seem determined to absorb all they can from the Chinese. When the president of one African country visiting a transportation project being built by China spied the vegetable patch, he asked the Chinese to teach vegetable-growing as well as their contracted task. And a minister of agriculture in another country half-seriously stated that he was thinking of assigning his aides to the Chinese cook.

Usually Beijing handles project details: the feasibility study, design, procurement of local materials, equipment imports, and project management. Lump-sum accounts are presented quarterly to the ministry under whose jurisdiction the project falls. While some local officials are happy to have all the administrative work done for them, many are frustrated at their lack of control. Others resent the difficulty they face in getting information from the Chinese about what they are doing, how they are doing it, and how much, in disaggregated terms, it costs.

Some aid recipients have also claimed that China's low-cost projects are deliberate "loss leaders," designed to spur trade and generate demand for Chinese machinery exports and spare parts. Beijing seems especially eager to crack the high-value market for agricultural machinery in Africa. Yet problems with breakdowns, infrequent shipping dates, and unavailability of spare parts, have led the Chinese themselves to look not only to China for equipment. A capital-intensive rice project in rural Liberia contained the usual assortment of Deng Feng and Feng Shou tractors made in China, but scattered among them were several Massey Fergusons, Komatsus, and a Briggs and Stratton sprayer. A US-made rice cleaner had been ordered by the Chinese and was expected to arrive soon.

The general consensus among West Africans working

Deborah A. Brautigam is currently visiting Chinese foreign aid projects in Africa on a research grant from the Fletcher School of Law and Diplomacy, where she obtained her MA in 1982. Brautigam previously conducted research at the National Council on the internal organization and operation of the State Planning Commission, State Economic Commission, and other top PRC planning agencies.

with Chinese agricultural machinery is that it is simpler than Western models, but less efficient. "They are still a developing country," one official explained, "and they haven't reached international standards yet."

Modern rice-seeder attachments, for example, deposit the rice and a dose of fertilizer simultaneously, while the Chinese seeder—based on a Soviet model of 20–30 years ago—deposits seed only, requiring another pass through the field for fertilizing.

No one would deny that most Chinese projects are bargains, however. Wages of Chinese experts, usually about $5,000–6,000 annually, are a fraction of salaries for comparable personnel in the West. The projects themselves are carefully selected after rigorous cost-benefit analysis. When asked to rehabilitate a sugarcane complex, for example, a 50-person Chinese team told the Liberian government that it would need an annual subsidy of $3.6 million to operate. Without refusing outright to extend a $13 million loan for the complex, the team tactfully suggested that the Liberians look for a more profitable project on which to spend Chinese money.

The commercialization of China's foreign aid of course mirrors changes within China, particularly the growing emphasis on "economic results" and "mutual benefit." As one Chinese foreign aid official put it: "We are poor friends. And we are helping each other." ₹

How 7 Chinese Firms Have Won Nearly $1.4 billion in International Construction Contracts

Li Lu
China Features correspondent

The Saipan Island, a bloody battlefield of the US frog-leaping operations in the Pacific during World War II, has become the site of a Sino–US joint venture to construct a two-story 104,000-square-foot hospital complex on 17 acres.

The building called the "Commonwealth Health Center" is a fully air-conditioned concrete structure with masonry exterior walls. Site improvement consists of asphalt and concrete paving, landscaping, drainage, and utilities.

Bidding for the first stage of the construction of the center was awarded to a Sino–US joint venture formed by the China Civil Engineering Construction Corporation (CCECC) and Mideast Systems Ltd. of New York. The joint venture won with a bid of $480,000. Work began last June and will be completed by mid-October.

CCECC is the corporation which built the Tanzania–Zambia Railway in Africa, and one of the 41 Chinese Corporations operating abroad contracting projects and furnishing labor.

CCECC told China Features that it signed 15 contracts valued at $16.7 million in the first half of 1983, of which $10.62 million was for labor services. By the end of June 1983, it had 7,743 engineers, technicians, and workers working abroad.

In addition to US Mideast Systems Ltd., CCECC has business relations with some 600 overseas firms including Polesky and Zollner Civil Contractors, Hochtief AG of West Germany, Narubeni and Fujita Corporation of Japan, and the Mendes Junior International Corporation of Brazil.

Apart from CCECC, China's major labor export and construction corporations include the China Construction Engineering Corporation, China National Complete Plant Export Corporation, China Road and Bridge Engineering Company, China International Water-Electric Corporation, Guangdong Corporation of International Economic and Technical Cooperation, and the China Petroleum Engineering and Construction Corporation.

Between 1979 and 1982, China signed 861 contracts in 46 countries and regions for overseas construction and cooperative labor projects worth $1.38 billion. About 33,000 engineers, technicians, and workers were working on contracted projects abroad last year.

It was not until 1979, when China adopted the policy of opening to the outside world, that these Chinese corporations began to compete for commercial construction contracts abroad. Before then, they worked mainly on foreign aid projects in Asia, the Middle East, and Africa. Since 1979, they have earned a name for quality work, and a readiness to work almost anywhere in the world at bargain prices. Foreign firms that have worked with Chinese engineers and workers abroad have praised them for their "spartan needs," and for being "well organized."

Today these Chinese teams are building highways, bridges, and housing, dredging waterways, prospecting for minerals, constructing wharfs, and erecting power stations in almost every corner of the Third World.

Among the nations with major projects utilizing Chinese labor are Iraq, the Yemen Arab Republic, Libya, Rwanda, Algeria, Jordan, Nepal, Thailand, Sudan, Kuwait, Oman, Burundi, Pakistan, Djibouti, Tanzania, and Zambia.

In addition to taking on from-the-ground-up projects, Chinese contractors are also supplying technicians and managers for joint ventures, and skilled operators to handle leased heavy equipment. China even provides gourmet chefs, many of whom are working on contract in North American restaurants in New York, New Jersey, Los Angeles, Montreal, and Toronto.

The Chinese corporations are newcomers in the world market and have to pick their business carefully. Before contracting projects, they undertake feasibility studies and surveys. Prior to beginning the Imboulou hydroelectric station in the Congo, for example, the China International Hydroelectric Corporation conducted a feasibility study in 1982, sending a 40-member team to undertake an on-the-spot survey. If things go well, construction is expected to begin in 1985.

The substantial projects completed with Chinese labor include the Mosul Dam, Baghdad-Alqaim-Akashat Railway, Kut and Mahawil brick factories, Baiji Oil Refinery, Kirkuk natural gas project in Iraq, Guddu Thermal Power Plant in Pakistan, North Point ferry pier extension in Hong Kong, the Kigali–Ruhengeri Road in Rwanda, a portion of the National Road Number Six in Burundi, and the Marsyangdi hydropower station in Nepal. ₹

The Cambridge Encyclopedia of China, edited by Brian Hook. Cambridge: Cambridge University Press, 1982. 491 pp. $35.

A single-volume, 500-page encyclopedia of ancient and modern China is bound to give limited treatment to various topics of interest to readers. Nevertheless, the encyclopedia provides an amazing amount of information on most subjects. The major sections cover geography, history, the people of China, Chinese thought and culture, art and architecture, and science and technology. The contributions by specialists are brief and concise. Wade-Giles spellings are used throughout the book, with a glossary to Pinyin in an appendix. Other appendices include articles on manners and "dos and don'ts," sources of information on China, and suggested readings. This quick-reference volume is ideal for those seeking basic information rather than extensive discussions.

China: A Country Study, edited by Frederica M. Bunge and Rinn-Sup Shinn. American University. Area Handbook Series. Washington, DC: US Government Printing Office, 1981. 590 pp. $12.

In contrast to the *Cambridge Encyclopedia*, this handbook on the People's Republic of China contains 14 essays on such topics as the historical setting, physical environment and population, social system, economic system, political process, and foreign policy. Each essay concludes with a list of suggested readings. Pinyin spelling is used throughout, with Wade-Giles spelling in parentheses when that is the more familiar form. Appendices include a variety of tables, a lengthy bibliography, and an index. The research for this study was completed in September 1980, though the introduction mentions the major economic developments through early 1981.

China Briefing, 1982, edited by Richard C. Bush. Boulder, CO: Westview Press in cooperation with the China Council of the Asia Society, 1982. 150 pp. $16.95 hardcover; $6.95 paperback.

The third annual collection of essays originally prepared for American journalists by the China Council of the Asia Society contains an introductory overview of events in the PRC since mid-1981 and six essays on underlying trends and key issues in the PRC and Taiwan. Included are "China, 1972–1982: From Revolution to Reform," by Michel Oksenberg and Richard C. Bush; "China's Military Power in the 1980s," by June Teufel Dreyer; "Energy in China: Paradoxes, Policies, and Prospects," by Thomas Fingar; "Religion in the People's Republic of China: The Limits of Toleration," by Raul Richard Bohr; "China's International Posture: Signs of Change," by A. Doak Barnett; and "After the Chiangs: The Coming Political Succession on Taiwan," by Edwin A. Winckler. Appendices include Politburo member biographies; the text of the US–PRC Communique on Taiwan, August 17, 1982; and a brief statistical profile of the Chinese economy. The volume is indexed.

The Chinese Agricultural Economy, edited by Randolph Barker and Raha Sinha with Beth Rose. Boulder, CO: Westview Press, 1982. 266 pp. $27.50 hardcover, $12.95 paperback.

This collection of 12 essays is designed to fill the information gap since the 1960s, when the last comprehensive works on Chinese agriculture appeared. Unfortunately, this book ignores recent policy changes and concentrates on the pre-1980 period. The first four chapters provide the historical, social, and geographic background. Later chapters analyze changes in agricultural policy and in the rural economy. Each chapter contains a suggested reading list. The book contains an index, appendices on agricultural statistics, and a list of additional sources of information.

Chen Yun's Strategy for China's Development: A Non-Maoist Alternative, edited with an introduction by Nicholas R. Lardy and Kenneth Lieberthal; translated by Mao Tong and Du Anxia. Armonk, NY: M.E. Sharpe, 1983. 211 pp. $25.

In addition to providing a close look at the thinking of China's most influential economic planner, Nicholas Lardy and Kenneth Lieberthal's compilation of Chen Yun's speeches from 1956 to 1962 shed valuable light on policy dilemmas of the current era.

Chen Yun was the Great Leap Forward's major opponent, and an architect of China's recovery from its ravages. China's first attempt at "mass mobilization" and decentralization had resulted in wasted production, snarled transport, and ultimately, economic depression and in some cases, starvation. Chen emerges from this book as a voice of sobriety and balance, whose post-Leap policy recommendations favored consumer goods production, partial reliance on market mechanisms as a supplement to bureaucratic planning, and above all, strict limits to, and central coordination of, capital investment. His meticulous attention to detail in specific industries such as steel, coal, and chemical fertilizer reveal a man much more in touch with the economic facts of life than many of his

colleagues, particularly Chairman Mao.

Chen's influence on policymaking in recent years has been as great or greater than in the period covered by the book. The sharp readjustment of the early 1980s—colored strongly by Chen's experiences of the early 1960s—in particular bears his imprimatur.

To read one of Chen's speeches calling for brakes on runaway investment spending in the 1950s is almost like reading a *People's Daily* editorial on the subject today. The government is still searching for ways to mobilize the enthusiasm of the localities without causing a breakdown in central coordination, combining the market mechanism with bureaucratic planning, and shifting resources to consumers without reducing the overall rate of investment—all ideas advanced by Chen in 1956–62.

The book also reflects some of the difficulties of applying the medicine of the 1960s to the problems of the 1980s. "Consumerism" in the earlier context meant a few more pounds of meat per capita; now it means televisions. Entrenched local power makes the kind of central coordination Chen yearns for difficult, if not impossible to bring about. Price distortions stand in the way of meaningful movement toward market mechanisms. And politically, Chen has found it impossible to enforce long-term cutbacks on heavy industry.

In retrospect, the mixed success in recent years of Chen's policies says much more about the intractability of China's problems and the inherent defects of socialist planning than it does about the probity and creativity of the man who has been trying for so long to ameliorate the system's defects.

The speeches and the editors' excellent introduction will make valuable reading for business executives interested in the background to policy planning in China. —MW

Cult & Canon: The Origins and Development of State Maoism, by Helmut Martin. Translated by Michel Vale. Armonk, NY: M.E. Sharpe, Inc. 250 pp. $37.50.

Starting with the premise that China's leaders canonized Mao Zedong's writings in order to obtain ideological control, the author analyzes the various editions of Mao's *Selected Works*, as well as the effect of powerful leaders such as Lin Biao, Hua Guofeng, and Deng Xiaoping. Detailed notes accompany the text, plus the complete text of the Resolution Adopted by the Sixth Plenum of the Eleventh Central Committee of the Chinese Communist Party, June 27, 1981, "On Questions of Party History." —KAR

China's Boundary Treaties and Frontier Disputes, by Luke T. Chang. New York: Oceana, 1982. 443 pp. $45.

This sequel to Dr. Chang's *Treaty Relations Between China and Foreign Powers*, (covering the period of 1689–1945) focuses on the historical and legal background of Chinese boundary problems, particularly with India and Russia since 1949. While the manuscript was completed during 1972–1974, it has been updated through mid-1981. Extensive appendices include maps of boundary areas, documents on border disputes, and a chronological list of relevant major events since 1949. The book is indexed.

Soviet Policy in East Asia, edited by Donald S. Zagoria. New Haven: Yale University Press, 1982. 360 pp. $25.

Although only one of the essays in this excellent Council on Foreign Relations book deals specifically with China—Seweryn Bialer's "The Sino-Soviet Conflict: The Soviet Dimension"—the Soviet response to the role of China in East Asia is addressed throughout the volume. In the final chapter, Richard Solomon discusses the policy choices available to the US in response to increased Soviet involvement in the area. He concludes: "US relations with China will be the dynamic—and most controversial—element in our response to Soviet initiatives." The volume is extensively indexed.

The Health of China, by Ruth Sidel and Victor W. Sidel, with a chapter on education by Mark Sidel. Boston: Beacon Press, 1982. 251 pp. $13.50.

Drawing upon the authors' observations during four visits to China between 1971 and 1980, this comprehensive volume describes Chinese health and medical practices and policies against a background of constant political and social change. Details concerning China's medical services, such as the number of health care personnel, hospital beds, and the cost of services, are provided together with statistics on life expectancy and the causes of death. The book also reports on the improved skills of barefoot doctors; the improved medical care in rural areas; continuing efforts to integrate traditional and Western medicine; progress in environmental and occupational health and family planning; and the family and child care. Appendices include statistical data and lists of institutes, hospitals, and medical colleges. Notes, a bibliography, and an index are included.

One Day in China: May 21, 1936, translated, edited, and introduced by Sherman Cochran and Andrew C. K. Hsieh with Janis Cochran. New Haven, CN: Yale University Press, 1983. 290 pp. $19.95.

In spring of 1936, advertisements appeared in Chinese newspapers calling upon people to contribute to a book describing the events of a randomly-selected day. Over 3,000 persons responded, and from the resulting book of 469 observations, the editors have selected for translation 84 contributions, arranged by theme, to present a picture of daily life in China nearly 50 years ago.

The Story of the Stone, A Chinese novel by Cao Xueqin in five volumes. ***Volume 4: The Debt of Tears***, edited by Gao E, translated by John Minford. Bloomington: Indiana University Press, 1983. 400 pp. $30.

The fourth volume of this five-volume translation of the classic 18th-century Chinese novel relates the glory and decline of the illustrious Jia family.

Books and business guides submitted for possible review in The China Business Review *should be sent to the National Council's book editor, Marianna Graham.*

中外贸易

Jennifer Little
Research Assistant

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

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

中外贸易

CHINA'S IMPORTS THROUGH JULY 29

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agricultural Commodities	
(Malaysia)	2,500 tons of palm oil. 5/28/83.
New Zealand Dairy Board/Ministry of Light Industry, Food Industry Bureau	Signed memorandum of understanding to supply milk powder for five years. 5/30/83.
(EEC)	1.4 million metric tons of wheat. 6/83.
North Carolina Dept. of Agriculture (US)	Rabbit breeding stock. $15,000. 6/83.
(Australia)/Ministry of Agriculture	Negotiating the supply of rams, merino breeding ewes, and frozen semen. 6/1/83.
World Food Program	Will supply 40,000 tons of dried skim milk and 13,330 tons of butter oil for six Chinese cities from 1984–88. Aid valued at $60 million. 6/6/83.
Xylo Corp. (US)	95 million board feet of logs over a 20-month period. $30 million. 6/7/83.
(Canada)	2.1 million tons of wheat to be shipped in the first six months of the 1983–84 crop year. 6/16/83.
Agricultural Technology	
Food and Agricultural Organization of the United Nations	Aid and technical assistance for dairy equipment to be installed in four Beijing creameries. 5/9/83.
(New Zealand)	Surplus dairy equipment. $331,500 (NZ$500,000). 5/30/83.
US Feed Grains Council/ Ministry of Commerce	Preliminary agreement for construction of a feed mill in Nanjing. 6/17/83.
Facco Poultry Equipment Manufacturers (Italy)/ TECHIMPORT	Two complete sets of poultry farming equipment for projects in Guangzhou and Chongqing. $8.565 million. 7/11/83.
Fiat Trattori S.p.A (Italy)/ TECHIMPORT	Agricultural machinery, fertilizer, and herbicides for a Jilin Provincial Land Reclamation Bureau rice farm project. $2 million, financed by low-interest government loan. 7/11/83.
Potash & Phosphate Institute of Canada and others	Entered five-year cooperative agronomic research and education program to increase Chinese food production through balanced fertilizer practices. 7/83.
Chemicals	
Toray Industries, Inc., Teijin Ltd., Toyobo Co., Unitika Ltd., Kuraray Co., and Kanebo Ltd. (Japan)	4,000 tons of polyester staple fibers for third quarter 1983. 5/17/83.
Kuraray Co., Asahi Chemical Industry Co., Unitika Ltd. (Japan)	Agreed to supply 6,715 tons of rayon filament for July–Dec. 1983. $27.7 million (¥6.5 billion). 6/21/83.
(Pakistan)	50,000 tons of urea fertilizer. $7 million. 7/7/83.
Chemical and Petrochemical Plants and Equipment	
Toyo Engineering Corp. (Japan) and Scientific Design (US)/TECHIMPORT	Engineering, technology, and training for construction of a 200,000 metric ton/year ethylene glycol plant in Nanjing. $10.6 million (¥2.5 billion). 5/11/83.
DuPont and Co. (US)/ Ministry of Chemical Industry and SINOCHEM	Discussing provision of polymer products technology. 5/23/83.
EMS-Inventa (Switzerland)/NA	Contract for design and supply of a texturized polyester filament yarn plant in Changzhou, Jiangsu. $7.3 million (SF15 million). 5/30/83.
Placo Co. (Japan)/Ministry of Light Industry	Contract to provide plastic resin processing machines. 6/11/83.
Coal	
(Poland)	Cooperative research in conversion of coal to gas. 4/24/83.
McNally Pittsburgh Manufacturing Corp. (US)	Negotiating contract for design of a coal-washing plant for the Antaibao open cut mine, Shanxi, which is under discussion with Occidental Petroleum. 6/83.
Fluor Corp. (US)/China National Coal Development Corp.	Contract for consultancy and design for two mines in the Huolinhe coalfield, Nei Monggol. 7/4/83.
Thyssen Rheinstahl Technik GmbH (W. Germany)/China National Coal Development Corporation	Reached agreement to jointly excavate a shaft mine located near Tangshan, Hebei. 7/11/83.
Rheinbraun Consulting GmbH (W. Germany)/ TECHIMPORT	Signed joint design contract for the Yuanbaoshan open-pit brown coal mine near Chifeng, Nei Monggol. 7/11/83.
Construction and Construction Materials	
I.M. Pei & Partners (US)/ Bank of China	Designed the new Hong Kong headquarters for the Bank of China. 5/13/83.
Otis Elevator Co. (US)/ Shenzhen International Trade Center	Contract to install 12 elevators. 5/19/83.

NA = Not Available

NOTES: Contracts denominated in foreign currencies are converted into US dollars at the most recent monthly average rate quoted in *International Financial Statistics (IMF)*. Contracts concluded over two months ago are also included if they were not reported in the last issue of *The CBR*.

Carrier (Hong Kong)	Contract for four centrifugal chillers for the new CITIC building in Beijing. 6/2/83.

Consumer Goods

Casella Far East, subsidiary of Adet Seward (France)/ Shenzhen Duty Free Shop	Agreed to supply certain brandies and whiskies. 6/22/83.

Electronics

Honeywell Information Systems Italia/ TECHIMPORT	Signed contract for model S32 printers for Chinese universities. 3/9/83.
Systime (UK)	Is negotiating the supply of minicomputers and the equipment and technology to set up two factories in Beijing and Guangzhou; subject to COCOM approval. $7.87 million (£5 million). 4/13/83.
Polycorp, subsidiary of Progeni (New Zealand)/ Huianan Coal Mining Institute	13 microcomputers. $40,000. 4/29/83.
Measurex Corp. (US)/ Qingzhou Paper Mill, Jiamusi Pulp and Paper Mill, and Jilin Pulp and Paper Mill	Paper machine process control systems. 5/83.
Tungsram Co. (Hungary)	Signed an agreement for up to four lamp-manufacturing machine lines. $5.8 million (SwF12 million), 5/6/83.
Toshiba Battery Co. (Japan)/MACHIMPEX, Guangdong branch	Order for a turnkey alkaline manganese battery plant located in Guangzhou. $2 million (¥500 million). 5/13/83.
Nikken Denshai (Japan)/ China Electronic Technology Corp.	1700 sets of micro-dot printers. $174,000 (¥40 million). 5/15/83.
Solid State Scientific (US)/TECHIMPORT	Has agreed to sell three-inch wafer-fabrication equipment for digital watches subject to US Commerce Dept. approval. $8 million. 5/16/83.
Dataprep (HK)/The China (Guangzhou) Hotel	Contract for a hotel computer system. $340,000 (HK$2.5 million). 5/20/83.
Sperry Corporation (US)/ China Computer Technical Service Co.	Opened a joint technology center to provide consulting service and contract out for software development. 5/23/83.
Robin Information Systems (Singapore)/Great Wall Hotel, Beijing	Two Eclipse S/140s using a Champs software package and a number of Remanco point-of-sale terminals. 6/83.
D.D. Webster Electronics Pty. Ltd. (HK)	Four Spectrum minicomputers. 6/83.
(Japan)/China National Library	Japanese grant for a computer valued up to $213,000 (¥50 million). 6/13/83.
Santec Corp. (US)/ Nanjing Telecommunications Corp.	Santec agreed to sell $2 million Class C convertible preferred shares. 6/13/83.
Rankine and Hill Pty. Ltd. (Australia)/Jinling Hotel, Nanjing	Contract for design of all electrical and mechanical facilities. $440,000 (Aus$500,000). 6/15/83.
Fuji Electric Co., Chugai Boeki Co. and Koyo Trading Co. (Japan)/China Electronics Import and Export Corp. and Tianjin No. 3 Semiconductor Plant	Contract for semiconductor technology and know-how for diodes for TV picture tubes. $4.7 million (¥1.1 billion). 7/12/83.

Food Processing

Taiyo Fishery Co. (Japan)	Won order to build a marine product processing plant in Dalian. $1.3–1.7 million (¥300–400 million). 5/17/83.
Tokyo Menki (Japan)	Noodle-making machinery for factories in Beijing and Shanghai. 5–6/83.
Otake Menki (Japan)	Noodle-making machinery for factories in Shantou and Zhengzhou. 5–6/83.
Reon Jidoki (Japan)/ MACHIMPEX	Automatic machinery for making pies, danish pastry, and cake for a factory in Beijing. 5–6/83.

Machine Tools

Abwood Machine Tool (UK)	Plans to move all production except design to China. $500,000 (£350,000). 4/7/83.
Cincinnati Milicron Inc. (US)/Nei Monggol No. 1 Machinery Plant, Bautou	A Model T-10 three-axis horizontal machining center. 4/18/83.
DeVlieg Machine Co. (US)/Nei Monggol No. 1 Machinery Plant	A Jigmil Model 43K–72 two-axis horizontal unit. 4/18/83.
Harding Brothers Inc. (US)/Nei Monggol No. 1 Machinery Plant	Precision chucker and bar machines. 4/18/83.
Gleason Works (US)	A hypoid gear generator for a sewing machine plant in Shaanxi. 4/18/83.
Oerlikon Motch Corp. (US)	A vertical cnc chucker for Jianghan rock drill bit plant licensed by Hughes. 4/18/83.
Giddings & Lewis (US)/ MACHIMPEX	Are discussing cooperative production. 5/2/83.
Delta Brands Inc. and Crown International Trading Corp. (US)/ MACHIMPEX	Cutting machine. $1 million. 6/7/83.

Machinery

Alternate Energy Installations, Inc. (US)	LP-gas/air vaporizing and blending system for a factory in Shanghai. 4/83.
Hein Werner Corp. (US)	Signed contract for automotive hydraulic jacks. 4/83.
Beloit Corp. (US)/ TECHIMPORT and Huafu Corp., Fujian	Papermaking equipment for the Qingzhou Paper Mill. $7.2 million. 5/9/83.
General Electric (US) and Société Nationale d'Etude et de Construction de Moteurs d'Avion (France)	2 sample 12-ton jet motors to replace Rolls Royce Spey engines in Trident aircraft. 5/25/83.
Cummins Engine (US)/ TECHIMPORT	Will open a distribution/technical service center in Beijing to include a spare parts depot and technical training center. 7/83.

Medical Equipment

General Electric Co. (US)	10 CT scanners. $6.5 million. 6/30/83.
American Science and Engineering Inc. (US)	Order for X-ray inspection systems and spare parts. $1 million. 6/20/83.
Squibb Co. (US)	Will undertake feasibility study for a supersonic disease detection device. 6/20/83.
Orma Optical Co. (France) and San Yeu Optical Co. (HK)/Taiyuan Optical and Glasses Factory, Shanxi	Signed contracts for glass-processing equipment and for establishing an optical service center in Taiyuan. $155,405 (HK$1.15 million). 7/83.

Metals and Minerals

(Chile)	36,000 tons of nitrate. 4/29/83.
National Steel Cosita (Brazil)/MINMETALS	180,000 tons of rolled steel. $60 million. 5/17/83.
Alcan Aluminum Corp. (US)	Agreement to sell approximately 60,000 tons of aluminum. 5/20/83.
(Japan)	50,000 tons of electrolytic copper for Jan.–Apr. period. 5/20/83.
(Brazil)	71,000 tons of pig iron. $2.285 million. 5/30/83.
(Japan)	1.4 million tons of steel for July–Dec. period and an additional order to bring six-month period total to 2.5 million tons, bringing year total to 5.8 million tons. 6/10/83.

Mining Equipment

(Poland)	Has agreed to design a coal washery and provide it with machinery, safety and production equipment, and AM-50 tunnelers. 4/24/83.
Fairchild Inc. (US)/ TECHIMPORT and Xishan Coal Mining Administration, Shanxi	Thin-seam coal mining equipment. 7/11/83

Packaging

Gloenco Ltd. (UK)	Contract to supply five winder machines and three systems for producing plastic bags and wrappings. $1.6 million (£1 million). 4/9/83.
Sidel, subsidiary of Saint-Gobain-Pont-à-Mousson (France)	Plans to sign contract for plastic container machinery. $404,000 (Fr 3 million). 5/6/83.
Owens-Illinois Inc. (US)/ Ministry of Light Industry	Plans to sign contract for the modernization and expansion of a glass container factory. 5/21/83.

Petroleum

SubSea International Inc., subsidiary of Ocean Drilling & Exploration Co. (US)/China Nanhai Oil Joint Service Corp. and Diving and Standby Vessel Co.	Contract to provide divers and diving services for Arco China, Inc. 4/23/83.
Stanhope-Seta (UK)	Contracts to provide petroleum test equipment. $629,640 (£400,000). 5/12/83.
CCIC Finance Ltd. (HK)/ China Nanhai Oil Joint Service Corp.	Consultancy agreement for the procurement of equipment and services for offshore oil development. 6/7/83.
(Australia)	Preliminary agreement to provide technical assistance for oil exploration. $1.3 million. 6/10/83.
Asia-Pacific Drilling Co. (joint venture between Wah Chang International and Reading & Bates)/ China National Offshore Oil Corp.	Contract for engineering and design for modification and upgrading of two Chinese-built jack-up rigs. $6 million. 6/10/83.
Texaco-Shenzhen Investment Co. Ltd. (HK)/ Shenzhen Municipal Petroleum Co.	Signed agreement to build an oil depot fitted with equipment for producing lubricants, and six refueling stations. $5.4 million (HK$40 million). 7/11/83.
Caltex Oil Hong Kong Ltd. and Silkwood Investments Ltd. (HK)/ Shenzhen Petroleum Co.	Signed contract to develop oil depot and a service station network in Shenzhen. 7/15/83.

Pharmaceuticals

Pharmaceutical Production Consultancy Ltd. (UK)	Contract to modernize and re-equip two pharmaceutical plants, one located in Shandong. 3/31/83.
Newport Pharmaceuticals International Inc. and University of Texas System Cancer Center (US)/ Chinese Academy of Medical Science, Cancer Institute	Agreement for the development of anticancer drugs using natural substances derived from Chinese botanical sources. 6/21/83.

Ports

Simon-Carves (UK)	Orders to modernize grain intake and storage facilities at Dalian and Tianjin. $22 million (£14 million). 6/14/83.

Power

(Australia)	Signed agreement to provide consultancy services for the Lubuge hydroelectric plant in Yunnan. $1.2 million (Aus$1.4 million). 6/10/83.
Mitsubishi Heavy Industries Ltd. (Japan) and Westinghouse Electric Corp. (US)	Are negotiating sale of equipment for a 300-mw nuclear power plant at Qinshan, SW of Shanghai. 6/30/83.

Scientific Instruments

Varian Associates, Inc. (US)	Liquid chromatograph systems. $1.2 million. 3/83.
Optronics International Inc. (US)	Two systems to allow manipulation and interpretation of data from the Landsat satellite. 3/21/83.
Maxiran Inc. (US)/West Nanhai Oil Corp.	Contract for advanced navigation equipment. $2 million. 6/2/83.

Shipping

Vosper Hovermarine Ltd. (UK) and Yaumati Ferry Co. (HK)/Changjiang Shipping Administration, Bureau of Wuhan	Two 100-seat hovercraft for use on the Yangzi River. $2.3 million (£1.5 million). 5/16/83.
Greene Companies International Inc. (US)/China National Foreign Trade Transportation Corp.	Exclusive agency agreement to provide US exporters with information on shipping goods to China's interior. 5/30/83.
Japan Shipbuilders' Association	Negotiating supply of expertise and facilities for ship scrapping. 6/3/83.
Nissho-Iwai/Kyokuyo Shipbuilding & Iron Works (Japan)	Orders for two 16,000-ton general cargo vessels for addition to the COSCO China–Europe route. $13–15 million each. 6/4/83.
Japan Van Lines/ PENAVICO	Small package air freight forwarding service inaugurated between Japan and China. 6/7/83.
American World Line Inc. (US)/Jingjiang Shipping Co., Shanghai	A 365-passenger vessel. 7/7/83.

Telecommunications

Maillefer (Switzerland)/ Chengdu Cable Factory	Eight telephone core insulating lines and wire drawing and annealing equipment. 5/83.
Remsdaq Ltd. (UK)	Subcontracted by Cable & Wireless to supply voice-frequency telegraphy equipment for a microwave system for Guangdong. 5/83.
NA (Japan)	An automated telephone exchange for Fuzhou. 5/83.
(E. Germany)	Signed agreement for posts and telecommunications cooperation. 6/23/83.
Ericsson (Sweden)/ MACHIMPEX	Three telephone exchanges; two for Guangzhou and one for Shenzhen. $11 million. 6/26/83.

Tourism

Watson Architectural & Engineering Designing Consultants	Designed the Nanhai Hotel in Shekou. 4/22/83.
Juliford Ltd., Standard Refrigeration and Engineering Co., Ltd., Villon Engineering Co., Ltd., Arnhold and Co., Ltd. and Shun Hing Electronic Trading Co. Ltd./China Travel Service, Guangdong branch	Provided furnishings and electrical and mechanical systems for the Overseas Chinese Hotel in Guangzhou. 4/25/83.
(Poland)	Signed reciprocal agreement to promote tourism and provide tourist services. 6/13/83.
Metro Manila (Philippines)	Signed letter of intent for construction of a hotel and commercial building complex in Shanghai. 6/19/83.

Transportation

Goodyear Tire (US)	Is negotiating construction of a radial truck tire plant. 2/14/83.
(Japan)	1,000 tons of automotive tire cords. 3/15/83.
Suzuki Motors (Japan)	200 500cc Suzuki Carry trucks. 4/3/83.
Schenkers International Forwarders, Inc. (US)/ SINOTRANS	Signed an airfreight agency agreement to provide scheduled consolidated freight services from New York and San Francisco to Beijing and Shanghai. 4/15/83.
(Yugoslavia)	Is discussing a cooperative project for producing tourist coaches. 4/18/83.
Alsthom (France), GM and GE (USA), and others	Negotiating sale of 250 locomotives. 5/6/83.
Burlington Northern International Services (US)	8.5 million board feet of railroad ties. $3 million. 5/9/83.
Daihatsu Motor Co. (Japan)/Tianjin Automotive Corp.	Discussing production of small trucks. 5/23/83.

Quickie Aircraft Corp. (US)/China National Aerotechnology Import and Export Corp.	10 two-seat, single engine planes to be assembled at the Shanghai Aircraft Manufacturing Factory. 6/6/83.
Motor Panels Ltd. (UK)/ China No. 2 Automobile Works	Signed memorandum to provide expertise to improve design of 5-ton truck drivers' cabins. 6/6/83.
Isuzu Motors (Japan)	200 6-ton trucks to be used in Xizang. 6/8/83.
Sofina Co. (France)/ MACHIMPEX	Signed accord for purchase of 100 CX-2400 Citroen automobiles for Beijing's taxi fleet. Will also set up service station in Beijing. 6/19/83.
Toyo Kogyo Co. (Japan)	Has been asked for technical assistance in truck production by Wuhan and Chongqing municipal governments. 6/21/83.
McDonnell Douglas Corp. (US)/CAAC	Two DC-9 Super 80 jetliners. 6/22/83.
Panmark Ltd. (HK)/ Guangzhou Civil Aviation Bureau and Zhuhai SEZ	Are constructing heliport and oil depot in Zhuhai. 6/26/83.
Rockwell/Collins (US)	Orders for sample quantities of airborne military communication and navigation equipment. 6/27/83.
Ishikawajima-Harima Heavy Industries Co. (Japan)/Hubei Construction Machinery Factory, Wuhan	Will begin assembling concrete-pumping vehicles using some Japanese major components. 7/12/83.
Kawasaki Heavy Industries (Japan)/China Motorcycle General Factory, Jinan	Plan to cooperate in motorcycle engine production. 7/26/83.
Miscellaneous	
Porvair Ltd. (UK)	Signed letter of intent to develop the Permair leather treatment for pigskin. 3/7/83.
Langro-Chemie Co. (W. Germany)/Kaifeng Tannery, Henan	Coating and finishing technology. 3/7/83.
Anthony Mayell (UK)	Pianos. 3/24/83.
Svenska Finans (Sweden)/ China Leasing Co. Ltd.	Are cooperating to assist Swedish companies in their trading operations in China. 4/14/83.
(Australia)/China Film Import & Export Corp.	The feature film, "Breaker Morant". 4/16/83.
(Yugoslavia)	Has agreed to cooperate on a tannery project in Heilongjiang. 4/18/83.
(Yugoslavia)	Has agreed to coproduce piano parts in Beijing to be assembled in Yugoslavia. 4/18/83.
Pan Orient (Australia)/ CITIC	Pan Orient nominated to represent CITIC interests in Australia. 4/26/83.
C. Itoh & Co. (Japan)/ Changjiang Enterprise Corp. and Sichuan General Foreign Trading Corp.	Signed cooperation agreement to promote sales. C. Itoh will hold a mini-trade fair and provide assistance to Sichuan's factory modernization programs. 5–6/83.
CCIC Finance Ltd. (HK)/ Xiamen SEZ Construction and Development Corp.	Signed consultancy agreement. 5/9/83.
National Academy of Sciences (US)	Won contract to place scientists and engineers in China as part of the World Bank university development project. $5 million. 5/11/83.
Chinese Goods Center Ltd. (HK)/CITS, Xiamen branch	Have agreed to invest in a new restaurant in exchange for 4 years management rights. $6.1 million (HK$45 million). 5/25/83.
CBS Inc. (US)/China Central Television	Signed agreement to provide CCTV with 64 hours of programming in the first year and also cooperate in future productions and in possible joint ventures in direct-broadcasting and teletext systems. 6/1/83.
Japanese Organization for International Cooperation in Family Planning Assoc./China Family Planning Assoc.	Signed memorandum implementing a pilot project on family planning, maternity and child health, and parasite control. 6/13/83.
Georgia Institute of Technology (US)/China Assoc. of Science and Technology	Signed an information exchange pact. 6/13/83.
Volunteers in Technical Assistance (US)/Science and Technology Exchange Center and Institute for Science and Technology Information	Have signed agreements on exchanges of technical experts and information. 6/29/83.
Sino Communication Co., Ltd. (HK)/CHINATEX and China National Silk Corp.	Agreed to cooperate in publishing "China Fashion," a Chinese-English magazine that promotes sales of Chinese garments and related commodities. 7/18/83.

中外贸易 CHINA'S EXPORTS THROUGH JULY 29

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agriculture	
NA (Japan)/Nanyue Commune, Huoshan County, Anhui	Contract for processed foods such as pickles and lotus roots. 3/29/83.
(Kuwait)	4,800 sheep. 5/83.
(Solomon Islands)	May make 20,000 hectares of forest land available for development by Guangdong. 6/15/83.
(Poland)/Guizhou	10,000 tons of rapeseed. 6/25/83.
Richter Co. (France)/Sichuan International Economic and Technical Cooperation Co.	Two-year contract to provide labor for a vineyard in Libya. $18,000/mo. 7/4/83.
(Greece)	Will cooperate on the construction of fisheries in other countries. 7/13/83.
Construction	
International Construction & Investment Corp. (Jordan)/China Construction Engineering Corp.	Will construct the Baghdad Agriculture Exhibition Hall. 1/83.
Jordan Housing Corp./ China National Aero-Technology Import and Export Corp.	Contract to construct 6 school buildings, a sewage treatment plant, and a city transformer station. $15.26 million (JD5.51 million). 7/83.
NA (Cameroon)/China Shaanxi Huaqing International Economic Cooperation Corp.	Contract to set up an enterprise to survey, design, and build construction projects and light industrial projects, as well as provide labor and consultancy. 7/83.
(Somalia)/Sichuan International Economic and Technical Cooperation Co.	Two contracts to build highways. $30 million+. 7/4/83.
Consumer Goods	
NA (Switzerland)/INDUSTRY, Tianjin branch and Tianjin Watch and Clock Factory	Complete sets of movements for Model A-73 grandfather clocks. 7/83.
Foreign Aid	
(Mozambique)	Drought relief. $500,000. 5/6/83.
(Yugoslavia)	Loan. $150 million. 5/8/83.
Machinery	
NA (W. Germany)/ Xinzhong Motor Plant, Shanghai	Marine motor spare parts. $1.62 million (Dm4 million). 5/25/83.
Smith's Industries (UK)	Sparkplugs. 4/11/83.
(Sri Lanka)/China Agricultural Machinery Import and Export Corp.	Farm machine motors and 100 combine harvesters. Value of motors: $450,000. 7/18/83.
Minerals	
Nippon Tungsten (Japan)	50 tons of tungsten ore monthly for 6 months. 3–4/83.

Japan Soda Industry Association	Reached 1982–83 salt agreement to ship 634,500 tons. 3–4/83.
NA (Japan)/China National Metallurgical Products Import and Export Corp., Jiangxi branch	Contracts for 3,600 tons of fluorite ore and 3,000 tons of fluorite powder. 5/9/83.
(Greece)	Chinese coal in exchange for Greek mining machinery. 7/13/83.

Power

(Burundi)	Constructed a hydroelectric power station. 5/22/83.
(Egypt)	Assistance in setting up coal-powered generating stations and limited-capacity hydroelectric power stations on canals. 6/16/83.
(Congo)/China Company for Water Conservancy and Electric Power	Contract to construct a hydroelectric power station on the Lefini River. 6/27/83.
Ecuadoran Institute of Electrification	Chinese assistance for construction of a mini-hydroelectric plant. Loan of $2 million. 7/18/83.

Shipping

(S. Yemen)/China Agrocon	Contract to continue Chinese technicians' maintenance and repair of fishing vessels. 5/30/83.
(Greece)	Have agreed to cooperate on sale of old ships, shipbuilding and repair facilities, and supplies for ships. 7/13/83.

Textiles

(Burundi)	New equipment to modernize a textile mill. 5/22/83.
(Iraq)/Sichuan International Economic and Technical Cooperation Co.	Signed 2-year contract to provide 149 technicians for an Iraqi garment factory. $79,000/mo. 7/4/83.
Isetan Co. (Japan)	Will commission a large quantity of knitwear. 7/19/83.

Trade Agreements

(Vanuatu) and (Papua New Guinea)	Signed economic and technical cooperation agreements in May and June.

Transportation

(Iran)	Reached interim agreement to cooperate on railway development. 5/18/83.

Miscellaneous

Lloyd's (UK)/People's Insurance Co. of China	PICC was appointed Lloyd's agent in China. 5/24/83.
Palette Restaurant and Chen's Garden (US)/Shanghai Corp. for International Economic and Technical Cooperation and China National Complete Plant Export Corp., Shanghai branch	Contract to hire 10 chefs. $1,100–1,800/mo. 7/4/83.

中外贸易

DIRECT INVESTMENT/PROCESSING/ COUNTERTRADE THROUGH JULY 29

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported

Joint Ventures

Sida Semiconductor Corp. (HK)/Guangzhou Municipal Clock and Watch Corp.	Established the Xianda Corp. to produce electronic components. $6 million. 11/30/82.
Andar Trading Co. (HK)/Xian Zip-Fastener Factory and Huo Zin International Economic Cooperation Corp., Shaanxi	Signed 8-year agreement to establish the Changan Nylon Zip-Fastener Factory for production and sale of zippers in China and overseas. $830,000 investment. Contract signed 3/31/83.

Airtrust Group of Companies (Singapore)/China Marine Helicopter Service Co., Nanhai branch	10-year agreement to jointly run Yue Xing Helicopter Service Co. to provide 4 and possibly more helicopters for offshore oil operations. Singapore: 49%–PRC: 51%. Contract signed 4/5/83.
Hongkong and Shanghai Banking Corp. and Miramar Hotel & Investment Co. Ltd./China Merchants Steam Navigation Co. Ltd. and Bank of China, Shenzhen branch	Agreement to construct the Nanhai Hotel in the Shekou SEZ. $10.9 million (HK$80 million). 25% participation by all parties. 4/22/83.
Kwong Luen Tai Enterprises Ltd. (HK)/Textile Industry Corp. of Enping County, Guangdong	Signed 20-year contract to set up Enping-Kwong Luen Tai Textile Ltd. to produce cotton and blended yarn and garments. $10 million. HK: 40%–PRC: 60%. Contract signed 4/27/83.
Steyr-Daimler-Puch (Austria)/China Automotive Industry Corp.	Negotiating a joint heavy-duty truck project. 5/2/83.
Houlder (UK)/CNOOC	Will contract offshore oil rigs. Agreement signed 5/5/83.
Hong Kong Aircraft Engineering Co./CATIC	Plan joint establishment of South China Aerotechnology Ltd. to promote sales of Chinese aeronautical technology. 6/83.
Amaee Holding Corp. (US)/Shanghai Municipal Mechanical and Electrical Industrial Co., Shanghai Shipbuilding Industrial Co., Shanghai Investment and Trust Corp., Bank of China, Shanghai branch	Signed 15-year contract to form the Shanghai Offshore Petroleum Engineering Corp. to supply drilling rigs, servicing facilities, petrochemical equipment, and offshore engineering vessels. 6/4/83.
NA (Thailand)/Hunan Provincial Meat and Aquatic Products Co. and Guangdong Trust and Investment Co.	Formed the Guangdong-Hunan Qingfeng Co. Ltd., in operation since July 1982, which produces a feed additive for poultry and animals. 6/7/83.
Uni-Shanghai Woolen Spinning and Knitting Factory Ltd. (a HK–PRC joint venture)/Shanghai Textile Industry Bureau, Shanghai Patriotic Construction Corp., China Resources	Will set up a woolen finishing and dyeing factory in Hong Kong for cashmere and camel hair piece goods. $5.5 million. (Uni-Shanghai: 40%–PRC: 60%). 6/10/83.
Santec Corp. (US)/Nanjing Telecommunications Works	Have agreed to form company to develop, produce, and market computer printers. $2 million. 6/13/83.
Sanyo Electric Co. (Japan)	Plans to set up two joint ventures for radio and television manufacturing in Shenzhen. 6/18/83.
Showa Concrete Industry Co. (Japan)/NA, Hangzhou	Will jointly build an 8-story hotel in Hangzhou. $850,000 (¥200 million capital). (Japan: 49%–PRC: 51%). 6/21/83.
NA (Portugal) and Banque Nationale de Paris (France)/Nantong Bank	Negotiating a three-way joint finance firm in Macao to finance loans for Macao's development. 6/23/83.
Libyan Arab Foreign Investment Co./Zhejiang Provincial International Trust and Investment Co.	Signed agreement to establish the China–Libya Arab Textile Products Co., a cotton textile factory in Hangzhou in accordance with Libyan standards. Cloth will be shipped to Libya. 6/26/83.
Xingye Co. Ltd. (HK)/Shanghai General Petrochemical Works and Industry Trade Center of China Aeronautical Technology Import and Export Corp., Shenzhen	Will finance the building of and jointly operate the Shanghai Hotel in Shenzhen. $3.8 million (Rmb7.5 million investment). 6/27/83.
Hing Chong Trading Corp. (Canada)/Maling Canned Food Factory, Shanghai and CEROILS, Shanghai branch	Will jointly produce canned pork products in Canada. (Canada: 51%–PRC: 49%). 7/5/83.
Racal Survey Ltd. (UK)/CNOOC	Have set up China Bohai Racal Positioning & Survey Co. in Tanggu and China Nanhai Racal Positioning & Survey Co. Ltd. in Zhanjiang, two 50–50, 10-year ventures. They will provide positioning stations and movable equipment for offshore oil exploration. 7/10/83.
Chukyo Jidosha Co. (Japan)/Shenzhen	Permission to establish a joint taxi enterprise along with a car maintenance center. 7/12/83.
Parley Augustsson (Norway) and Interocean Shipping (HK)/China Merchants Steam Navigation Co. Ltd.	Formed Hua-Wei Offshore Vessel Service Co. Ltd. to charter out supply vessel for offshore oil exploration. $40 million capital. (Foreign: 49%–PRC: 51%). 7/15/83.
U-Invest Corp. Ltd. (Thailand) and Tung Kiu Co. (HK)/China National Coal Development Corp.	Will set up a joint coal development company to exploit Thailand's coal resources with the aid of China's expertise. 7/18/83.
Bell Telephone Manufacturing Corp. (Belgium), subsidiary of ITT/China National Postal & Telecommunications Industry Corp.	Bell will supply 100,000 telephone connections and will cooperate to construct the Shanghai Bell Telephone Equipment Manufacturing Co., a factory near Shanghai, to produce 300,000 lines annually. $20–25 million initial investment. (Foreign: 40%–PRC: 60%). 7/21/83.

Compensation Trade

Pandol Brothers (US)/Nanjing County Friendship Orchard	American orange tree saplings for grafting and related agricultural technology in exchange for canned oranges or the orchard's export earnings. 5/2/83.
NA (Italy)/Jinan City Granite Development Corp.	Plans to sign agreement to provide granite quarry equipment in exchange for processed granite lumps. 5/16/83.
Scandinavian Lancers AB (Sweden)/Liaoning Provincial Metallurgical Import and Export Corp.	Sets of steel smelting blowing equipment for four Chinese steel plants in exchange for steel screw products. 6/6/83.
Kovinotehna (Yugoslavia)/Liaoning International Corp. of Economic and Technical Cooperation	A beer-bottling line in exchange for suede nitro-leather. 6/13/83.
Matsumi Trade Co. (Japan)/Sichuan Soft Canned Food Factory, Jiangxi	Soft canning materials in exchange for soft canned bamboo shoots. 6/20/83.

Licensing

Haden Drysys (UK)/No. 1 Automobile Plant, Changchun and others	Contract for the transfer of automotive paint technology. 5/5/83.
MAN Augsburg Works (W. Germany)/China State Shipbuilding Corp. and Xinzhong Power Machine Plant	Production of medium-speed diesel engines. 5/24/83.
Toyo Menka Kaisha Ltd. (Japan)/No. 1 Auto Works, Changchun	Casting technology for hot-air cleaning system for 5-ton trucks. 6/27/83.
Hodogaya Glass Co. (Japan)/China North Industrial Corp.	Optical glass manufacturing technology. 7/83.
Fuji Electric Co., Chugai Boeki Co. and Koyo Trading Co. (Japan)/China Electronics Import and Export Corp. and Tianjin No. 3 Semiconductor Plant	Contract for semiconductor technology and know-how for diodes for TV picture tubes. $4.7 million (¥1.1 billion). 7/12/83.

Coproduction

Atlas-Denmark/Nanjing Marine Auxiliary Machinery Factory	Manufacturing and assembling marine pollution control equipment and freshwater generators. 4/25/83.

THE NATIONAL COUNCIL FOR US–CHINA TRADE

OFFICERS
Chairman: WALTER STERLING SURREY
Vice-Chairmen: DAVID C. SCOTT, WILLIAM C. DOUCE, CHARLES I. ROSTOV
Secretary-Treasurer: HARRY TAYLOR
Counsel: BENJAMIN P. FISHBURNE III
President: CHRISTOPHER H. PHILLIPS

BOARD OF DIRECTORS
WILLIAM C. ARTHUR, chairman, *Merrill Lynch International, Inc.*
SAM AYOUB, senior executive vice-president and chief financial officer, *The Coca-Cola Co.*
MURRY P. BERGER, president and chief executive officer, *MB International Consultants, Inc.*
WILLIAM H. BRICKER, chairman of the board, *Diamond Shamrock Corporation*
WILLARD C. BUTCHER, chairman and chief executive officer, *The Chase Manhattan Bank, N.A.*
WILLIAM C. DOUCE, chairman and chief executive officer, *Phillips Petroleum Co.*
MICHEL FRIBOURG, president and chief executive officer, *Continental Grain Co.*
PETER A. GEORGESCU, president, *Young & Rubicam International*
WILLIAM B. GRAHAM, chairman, *Baxter Travenol Laboratories, Inc.*
FRED L. HARTLEY, chairman and president, *Union Oil Co. of California*
HARRY HOLIDAY, JR., chairman and chief executive officer, *Armco, Inc.*
AMORY HOUGHTON, JR., chairman of the executive committee, *Corning Glass Works*
JOHN V. JAMES, chairman and chief executive officer, *Dresser Industries, Inc.*
WALTER B. KISSINGER, chairman, president, and chief executive officer, *The Allen Group, Inc.*
PHILLIP KNIGHT, president and chairman of the board, *Nike, Inc.*
M. JOSEPH LAPENSKY, president and chief executive officer, *Northwest Airlines, Inc.*
RALPH A. PFEIFFER, JR., chairman and chief executive officer, *IBM World Trade Americas/Far East Corporation*
CHARLES I. ROSTOV, president and chief executive officer, *Trans-Ocean Import Co., Inc.*
DAVID C. SCOTT, chairman and chief executive officer, *Allis Chalmers Corp.*
WALTER STERLING SURREY, senior partner, *Surrey & Morse*
HARRY TAYLOR, president, *Manufacturers Hanover Trust Co.*
DAVID TENDLER, chairman and chief executive officer, *Phibro-Salomon, Inc.*
HOWARD V. YERGIN, JR., chairman and chief executive officer, *Caltex Petroleum Corporation*

WASHINGTON STAFF
President: CHRISTOPHER H. PHILLIPS
Executive Vice-President: ROGER W. SULLIVAN
Administration: PATRICIA P. CAPERONES
Business Advisory Services: CAROLYN L. BREHM
China Business Review: JAMES B. STEPANEK
Comptroller: RICHARD L. PETERMAN
Development and Government Relations: SCOTT D. SELIGMAN
Liaison and Language Services: I-CHUAN CHEN
Librarian: MARIANNA GRAHAM
Publications: CAROL S. GOLDSMITH

Address
1050 17th Street, NW, Suite 350
Washington, DC 20036 USA
(202) 429–0340
Telex: 64517 NCUSCTUW
Cable: USCHINTRAD WSH

BEIJING OFFICE
Vice-President for China Operations: WILLIAM W. CLARKE
Assistant Vice-President for China Operations, Beijing: ROSANNE DRUMMOND
Advisor: LI WENDA
Assistant Advisor: CHENG LILI
Suite 1136, Beijing Hotel
Telephone: 552231, 556531, ext. 1136
Cable: USCHINTRAD
Telex: 22637 NCPEKCN

US GOVERNMENT OFFICES

EMBASSY
Ambassador: ARTHUR W. HUMMEL, JR.
Deputy Chief of Mission: CHARLES W. FREEMAN, JR.
Economic Counselor: DAVID G. BROWN
Economic Officers: THOMAS MARTIN, EUGENE DORRIS, DOUGLAS SPELMAN, ROSS QUAN
Agricultural Counselor: NORMAN R. KALLEMEYN
Commercial Counselor: MELVIN W. SEARLS
Commercial Officers: CLARK T. RANDT, PETER HANLEY, NED QUISTORFF
17 Guanghua Lu
Jianguomenwai, Beijing
Telephone: 52–2033

SHANGHAI CONSULATE
Consul General: THOMAS STANLEY BROOKS
Deputy Principal Officer/Economic Section Chief: KENT WIEDEMANN
Commercial Officer: GENEVIEVE DEAN
1469 Huai Hai Zhong Lu
Telephone: 379–880

GUANGZHOU CONSULATE
Consul General: WEAVER GIM
Deputy Principal Officer/Economic Section Chief: JAMES H. HALL
Commercial Officer: YING PRICE
Dongfang Hotel
Telephone: 69–900

HONG KONG CONSULATE
Consul General: BURTON LEVIN
Economic Section:
Chief: RICHARD MUELLER
Deputy Chief: MARSHALL ADAIR
Economic Officer: JOAN M. PLAISTED
Senior Commercial Officer: PAUL WALTERS
Commercial Officers: LYN EDINGER, WILLIAM DAWKINS, JR., HELEN PETERSON
26 Garden Rd.
Telephone: 5–239011

PRC GOVERNMENT OFFICES IN THE US

EMBASSY
Ambassador: ZHANG WENJIN
Commercial Counselor: AN DONG
2300 Connecticut Avenue, N.W.
Washington, D.C. 20008
Telephone (202):
Reception: 328–2500
Commercial: 328–2520 thru 2527
Visas: 328–2517
Telex: 440038 PRC UI
Commercial: 440673 PRCC UI

NEW YORK CONSULATE GENERAL
Consul General: CAO GUISHENG
Deputy Consul General: JI LIDE
Commercial Consul: SONG GUIBAO
520 12th Avenue
New York, New York 10036
Telephone numbers (212):
Commercial: 564–1139 & 2541
Visas: 279–0885 & 1127
Telex: 429134 CGCNY

HOUSTON CONSULATE GENERAL
Consul General: WU XIAODA
Commercial Consul: WU MINXIAN
3417 Montrose Blvd.
Houston, Texas 77006
Telephone numbers (713):
Commercial: 524–4064
Visas: 524–4311
Telex: 762173 CHNCONSUL HOU

SAN FRANCISCO CONSULATE GENERAL
Consul General: TANG SHUBEI
Commercial Consul: GUO YIMIN
1450 Laguna Street
San Francisco, CA 94115
Telephone numbers (415):
Commercial: 563–4858
Visas: 563–4857
Telex: 340515 CHIMISSION SFO

THE ADSALE PEOPLE

YOUR EXTENDED ARM IN CHINA TRADE

The Adsale People, established in December 1977, is one of the largest China trade promotion services companies in Hong Kong. With a staff of fifty, we are providing a comprehensive range of quality services to China traders worldwide. Our primary objective is to assist in the promotion of our clients' business in China. Our Services include:

- holding specialized exhibitions and technical exchanges in China. Exhibitions organized by Adsale in the past includes Tools and Machine Tools Exhibition, Packaging Exhibition, Plastic and Rubber Exhibition — Chinaplas '83, Offshore Oil Engineering & Equipment Exhibition — ChinaOil '83.
- publication of technical journals in the Chinese language including "TECHNOVA", "China Plastic and Rubber Journal", "China Textile" and the "China Trade Handbook"
- advertising, translation and printing
- market survey, feasibility study and consultancy services

In 1984 we shall stage the following exhibitions in China:

Fujian '84

Exhibition of Foreign Technology and Equipment for Fujian, Fuzhou 22-28 March. (Fujian is a province with autonomous rights in conducting foreign economic affairs)

Chinaplas '84

International Exhibition of Rubber and Plastic Industries, Shanghai, 19-26 September.

ChinaTex '84

International Exhibition of Textile Industry Shanghai, 10-16 June.

Chinachem '84

International Exhibition of Chemical Industries and Processing Equipment, Tianjin 12-18 November.

For further information, please contact:

Mr. Stanley Chu, Managing Director
The Adsale People
20/F., 194-200 Lockhart Road, Hong Kong
Tel.: 5-8920511 Tlx.: 63109 ADSAP HX Cable: ADSAPE