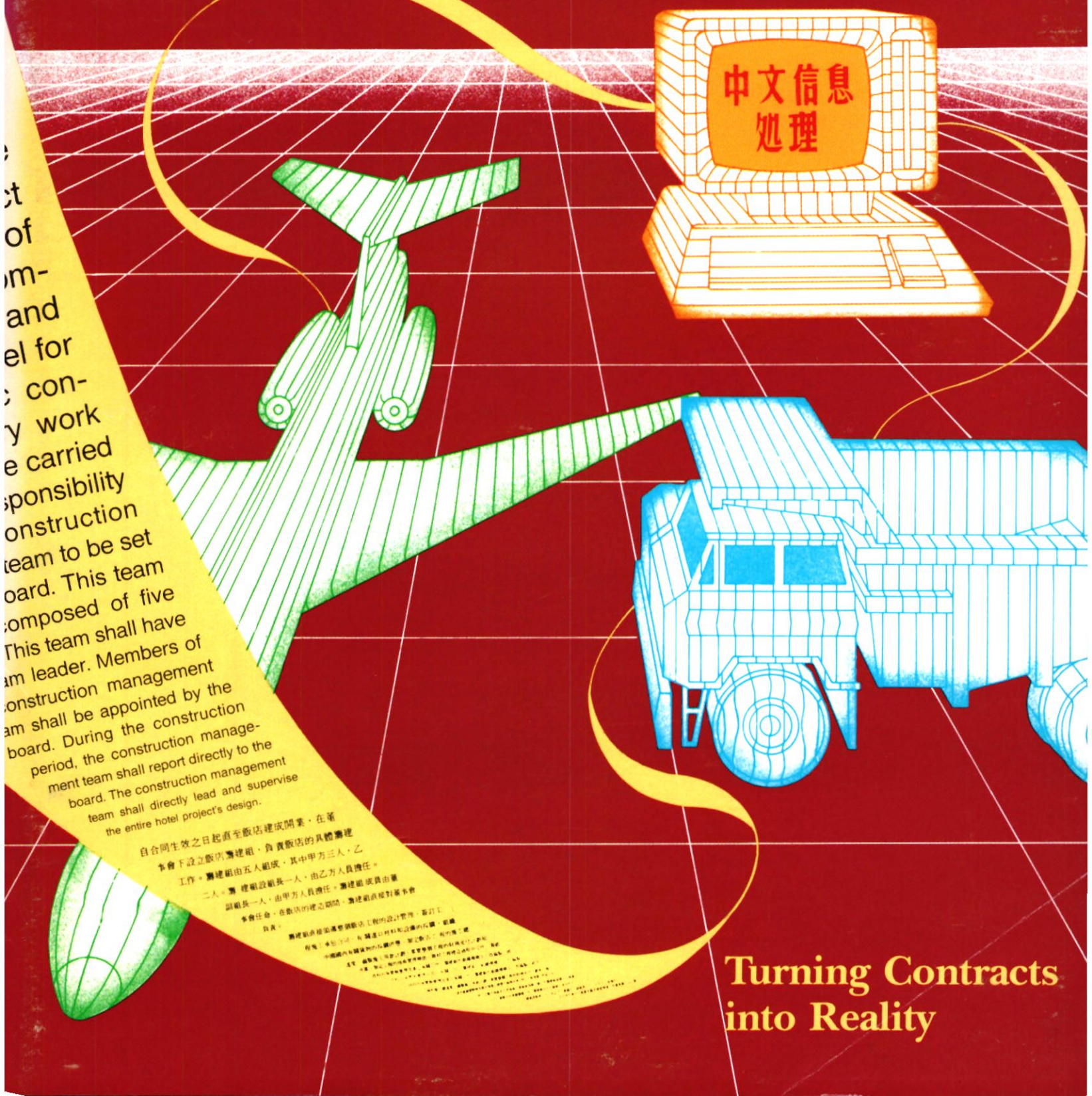
The China Business Review

September–October 1984 $15



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自合同生效之日起直至飯店建成開業，在董
事會下設立飯店籌建組，負責飯店的具體籌建
工作。籌建組由五人組成，其中甲方三人，乙
二人。籌建組設組長一人，由乙方人員擔任。
副組長一人，由甲方人員擔任。籌建組成員由董
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The China Business Review

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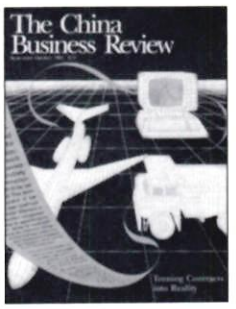
September–October 1984 Volume 11, Number 5



Cover: Understanding the potential pitfalls of project implementation can contribute to the success of a venture in China. This issue looks at three case studies, and at the latest developments on contracts. *Artwork by John Yanson.*

Contracts: The Chinese prefer informal mediation for dispute resolution, but there are alternatives. **Page 21.**

Railroads: After years of neglect, the Chinese are now making rail investment a top priority. **Page 24.**

摘要

MORE REFORM . . .

A Chinese official recently stood up at a conference and announced that the pace of change in China today is so rapid that "reforms of just six months ago are out of date."

Few traders would disagree. In fact, nothing in China's recent past compares with the magnitude of the economic reforms that are being talked about today. In particular:

■ Large Chinese enterprises are being promised that soon they will be able to take their import and export business to any trading company they wish, including foreign trading firms. A recent report in Shanghai's *World Economic Herald* noted that China's state-owned foreign trade corporations were so bureaucratic as to be totally unfit for the important task of promoting China's exports. Henceforth they will have to stand on their own, and learn to compete with other state, collective, private and foreign firms on the basis of price and the quality of their services.

According to the August 19 announcement by Chen Muhua, head of China's Ministry of Foreign Economic Relations and Trade, "A plan has been approved by the State Council that will soon be put into effect. MOFERT and other departments and commissions of foreign economic relations and trade of various provinces and municipalities will be mainly responsible for exercising administrative management . . . drawing up plans, strengthening supervision and inspection, and coordinating the work of the various units concerned. Enterprises will make decisions on their own . . . "

■ Domestic trade is to be loosened up, as well. Beijing seems determined to make it easier for Chinese factories (and foreign joint ventures) to bypass the state and provincial supply system that once monopolized domestic trade. For example, collectives are being encouraged to set up trucking and shipping firms, warehouses, trading companies, and even economic consulting firms, and to compete with their state-owned rivals for business.

Trading companies may even be set up by groups of enterprises in the same trade association. On July 24 the Guangdong government said that it was already encouraging export-oriented manufacturing enterprises in the same sector to begin setting up such associations. The announcement claimed that these associations will be allowed to represent Chinese firms at domestic trade shows and abroad in competition against the central government's foreign trading corporations.

■ Many Chinese enterprises are already being managed, or are being urged to become market-oriented profit-and-loss concerns. Some are even issuing stock to the public. Indeed, the Chinese government is rapidly erasing the ideological line between capitalist and socialist enterprises. What a Western executive might call a publicly held company in the US is getting pretty close (in principle, though certainly not in operation) to a joint-stock "collective" enterprise in the Chinese context.

■ Beijing's planners are slowly making the transition from controlling commodities to controlling financial variables such as tax and interest rates. Until recently this was mostly talk, but on August 27 the State Planning Commission announced that beginning with the 1985 plan it would control only 65 key commodities—down from 265. In the short run, the hundreds of commodity categories (and tens of thousands of subcategories) that the central government once handled, will now be handled by local government bodies or will be left to the market.

■ As planners weaken their hold over commodities, they are strengthening their monetary controls. A case in point was the decision in early 1984 to place all banks in China under a single monetary authority, the People's Bank of China. When it became a central bank on January 1, it relinquished its day-to-day banking activities to the new Industrial and Commercial Bank of China, which is composed of the PBOC's thousands of former branches.

■ Phase two of China's massive financial reform has already begun in Shenzhen. There the local branch of the People's Bank of China has been empowered to function more in the manner of a Western central bank, and control all local banking activity by indirect means; namely, by manipulating reserve requirements and interest rates. The Shenzhen PBOC even plans to issue a new currency, the *China Economic News* announced on August 16. Few observers doubt that what happens in Shenzhen will become the model for the rest of China.

■ Well over half of Chinese GNP is now produced in cities that possess unprecedented autonomy. These 50-odd cities include the five large municipalities (Shenyang, Dalian, Nanjing, Wuhan, and Chongqing) recently elevated to the status of provinces, at least in the field of economic policy; the 14 coastal cities granted increased economic and foreign trade autonomy earlier this year; the 22 cities (mainly in the interior) that recently won very similar authority; and the 4 cities authorized to set up China's first special economic zones in 1979 (Shenzhen, Zhuhai, Shantou, and Xiamen). Because of its importance to foreign trade, one might also include the 30-odd cities where local branches of the Bank of China have received greater loan authority, as well as the many medium and small cities throughout the rest of China that now have the authority to approve high-technology equipment imports worth up to $250,000.

How these cities exercise their autonomy remains to be seen. But the 14 coastal cities are wasting no time getting started—and no wonder. In June the 14 cities were promised by Beijing that any profit they make from foreign investments in

their new economic development zones is theirs to keep for the first five years.

■ The number of interior provinces hosting trade shows and investment conferences has jumped dramatically in just the last six months. Clearly, the policy of initially limiting foreign investment activity to a few coastal enclaves did not go over very well in the interior. Now everyone wants to get involved. Some press reports have hinted that if all goes well in the key cities recently granted greater autonomy, then all of China's 220 principal municipalities would follow suit.

■ Local Chinese organizations and factories are increasingly signing contracts on their own, which reflects the increasing importance of contracts and law in general. Well over 100 major statutes governing foreign trade and investment have been issued since 1979, and the pace of legal reform has only accelerated. Just in the last six months one hears many more accounts of contract disputes, court cases, etc. than ever before. Few would dispute the fact that doing business in China now requires legal counsel and a sophisticated appreciation of the country's complex legal structure. —JBS

. . . AND ANTI-REFORM?

The story about a factory in Shanxi nicely illustrates how easy it is for Chinese officials to use the reformist jargon in vogue at the moment to carry out programs with strong coercive undertones.

The case involves a small steel mill that decided to issue stock to its workers. Except that in this case the workers are being *forced* to buy stock.

According to the August 10 report in the *People's Daily*, all 1,100 of the mill's workers and staff were required to buy stock under the plant's new "stock purchase system" introduced in 1983. The compulsory purchases ranged from ¥100 to ¥500 according to worker seniority. An unspecified year-end dividend is offered in the event the mill makes a profit, but the value of each share is arbitrarily cut by as much as 20 percent in the event of a loss. The shares mature in four years, but can only be redeemed if the mill wants to buy them back. Significantly, workers who "violate discipline" can be asked to forfeit their shares or leave the factory.

Moreover, the workers and staff are being required to increase their investments by another ¥200 to ¥300 in 1984. The report notes that this policy will continue "for five or possibly six years until the enterprise has fully recovered its capital investment."

This case raises a point worth remembering: namely, that a reform which sounds "pragmatic" to Western ears (such as raising capital by issuing shares to the public) can sometimes be implemented in ways that bear little resemblance with how it is perceived abroad. —MW

Photo courtesy Gerald R. Ford Library

The Gerald R. Ford Library in Ann Arbor, Michigan, became the official repository for the Council's archives on August 9, 1984. The Council's extensive files tracing the origins and rapid development of US–China trade will complement President Ford's own congressional and White House papers on China dating back to 1972. On hand at the August 9 donation ceremony were Council President Christopher H. Phillips (center right) and Council Librarian Marianna Graham (left).

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HOW TO PACKAGE YOUR KIT ASSEMBLY DEAL

The WJS Experience

Christopher E. Stowell

Kit Assembly projects in China are expanding rapidly, especially in the electronics field. Essentially, the Chinese are borrowing a page from our childhood days of "Heath kits," where every kid on the block bought a knocked-down crystal radio and assembled it according to instructions sent along with the components and PC board.

It saved money then, and still does today, especially if the assembly process takes place in a country like China that enjoys lower labor costs. There are other advantages too: The Chinese plant gains some technology, while the foreign supplier gains the prospect of long term (usually domestic) sales, as well as a committed Chinese partner whose equipment is standardized along the suppliers' product line. The supplier is also in a position to insist on selling a certain number of complete units up front for product orientation. This usually amounts to 5 percent of more simple products, and up to 50 percent of larger complex products.

Despite these advantages, kit assembly is actually a "step backward" from more advanced forms of technology transfer, such as joint ventures. Therefore, it is important to take a close look at where kit assembly fits into the China investment scene, and at the forms of business relations it can lead to.

China's quest for "higher" technology

Kit assembly stands about midway on a scale from the simplest to the most complex forms of technology transfer arrangements. The simplest, of course, only requires the vendor to instruct the Chinese on how to *repair* its products. Many Chinese oil fields and power stations have local repair shops where Western companies have trained workers to fix their equipment after the warranty has expired. This repair station concept, which is relatively recent for the Chinese, can be the "back door" to acquiring a more complete technology package from the supplier, and often cuts out red tape by dealing directly with the user.

A step toward greater complexity is *sourcing components* in China on a job-shop basis. Here the US company gives the Chinese the detailed engineering blueprints for selected components, and teaches them quality inspection techniques. Many US companies are sourcing castings and metal forgings in this manner to take advantage of China's lower production costs on batch order products.

Moving further into technology transfer, *export processing* has become quite popular in south China. Some 8,000 factories have been set up in the special economic zones near Hong Kong and with Hong Kong and Japanese technology to "process" semifinished products. Examples include sweaters, jeans, and other textile products and light manufactures that take advantage of China's excellence in handicraft.

Next on the technical spectrum are kit assembly and *compensation trade*. In the latter case, the Chinese upgrade their factories by acquiring Western machinery and know-how on production layout and quality control. Payment is made in goods produced by the imported machinery and technology.

The *licensing of products* naturally involves a more complete technology transfer process. Traditionally, China has not been a major importer of licenses, primarily due to her relatively recent integration into world organizations on patents and trademarks, as well as the country's former lack of sophistication in valuing and utilizing foreign licenses.

The *licensing of turn-key plants*, involving an integrated package of equipment, technology, and management know-how, appealed to the Chinese especially in the 1950s and 1960s, since it offered a quick way for an industry or region to become self-sufficient.

Today the Chinese are much more conscious of waste, and of the need to digest foreign technology slowly and in stages. This has coincided with the opening of China to direct foreign investment, which has witnessed a surge of activity in the area of *coproduction* and *joint equity ventures*. Their rising popularity is mainly due to the belief that China needs ongoing partners with continuously updated technology, not turn-key plants that quickly become obsolete. This advanced form of technology transfer also reflects China's increased willingness to allow foreigners virtually unlimited access to the country's industries.

Christopher E. Stowell is president of WJS International, Inc., an international trading company based in McLean, Virginia, which has a nine-person office in Beijing.

A typical kit assembly deal

Kit assembly arrangements are very similar in structure to export processing deals, except that the emphasis is on transferring assembly technology and not final manufacturing technology. Kit assembly is feasible for any product made up of hundreds of components that can be put together according to a simple recipe. The Chinese do not receive the "black box" technology, but they do learn how to assemble the components making up the black box. Very briefly, these are some of the reasons why both sides are interested in engaging in kit assembly deals. The Chinese, for example, receive:

- some technology and production techniques;
- lower priced products;
- basic training; and
- experience in running a standardized production line; and in-

creased employment opportunities for their large labor force.

The foreign party, in turn, benefits from:

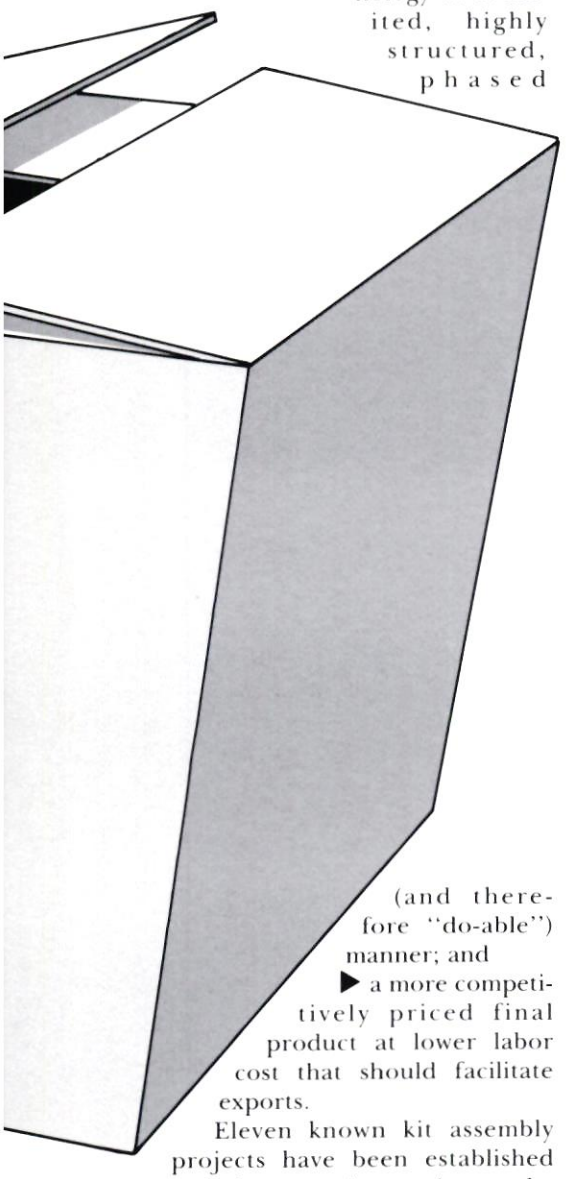
▶ increased sales generated by the assembly deal;

▶ a larger potential market for its products;

▶ a long-term commitment from the Chinese;

▶ an obligation to transfer technology in a limited, highly structured, phased (and therefore "do-able") manner; and

▶ a more competitively priced final product at lower labor cost that should facilitate exports.



Eleven known kit assembly projects have been established over the last several years. Among the companies involved are Sinclair Research (computers), Cannon (photocopying machines), SPAR Aerospace (satellite earth stations), Sony (videos and radio cassette recorders), and Ling Electronics (amplifiers).

All of the companies contacted were happy they had concluded this form of technology transfer, and saw it as a major long-term foothold in the Chinese market. The standard Chinese import contracts were used for the purchase of the initial units plus the components. Items that required additional appendices included warranty provisions, trademarks and confidentiality, training, acceptance tests, and overall project scope. Most warranty provisions drew a distinction among the quality guaranty, a guaranty for the performance of components sold to the Chinese party, and guaranty on the finished products sold to the end-user.

Moreover, the foreign suppliers were wise to define a detailed component replacement procedure, and limit their product liability to the end-user even if the supplier agreed to repair or service the kits. Regarding trademarks and confidentiality, the suppliers were well advised to insert a confidentiality clause and define conditions governing trademark use. Finally, the training clauses scheduled man-days and trips in China and to the seller's factory. This is a major cost item and always deserves careful analysis.

Firms contemplating kit assembly deals in the future should also pay attention to acceptance tests. The supplier must be on hand when initial units are assembled to ensure that the product meets all specifications published in the supplier's manuals. Usually the acceptance test procedure used by the supplier is adopted, though one should remember that test and inspection machines and final inspection gauges are seldom available in China. The supplier should factor in the cost of supplying such items free of charge to promote goodwill and ensure that the project is a success.

An item that should appear in all kit assembly contracts is a clear definition of the project's overall scope. This involves drafting and negotiating the language of a protocol-type document defining the nature and areas for long-term cooperation. These might include the product lines to be added or excluded, length of cooperation, after-termination provisions, and the marketing channels to be developed inside and outside (if applicable) China. This document should be included in the original contract to record and protect the mutual intentions of the two parties. Once the contract has been signed by the Chinese buyer, the Western supplier can be assured that the higher Chinese authorities have reviewed and blessed the local buyer's intentions. This will minimize later misunderstandings.

Beware the problem areas

Although kit assembly has only recently taken off in China, some problems are beginning to surface. It helps to know what these are, even though few can be avoided entirely.

▶ Personnel time runs high in China, as communications in the PRC are best conducted on a person-to-person basis. So leave sufficient time (and money) for travel.

▶ Do not be surprised if your firm must foot the bill for testing and inspection equipment. Negotiations are never "final," and the Chinese will not hesitate to ask for favors.

▶ Training time nearly always takes longer than the negotiated period, and again extra costs will fall on the buyer.

▶ Inland transportation, infrastructure logistics, and red tape usually make shipping of the components more costly than anticipated.

▶ US export controls have caused some kit assembly deals to be cancelled.

Just as there are problems, there are also ways to mimimize them. These include structuring the initial deal to include large up-front sales and built-in contingency costs. In the electronics field, firms should also seek to maintain close contacts with three key organizations: the Ministry of Electronics Industry (in charge of long-term planning and approving foreign investment in its sector, among many other duties), China National Electronic Import–Export Corporation (the most frequent commercial partner), and the corporation or bureau that supervises the factory doing the kit assembly work.

Maintaining realistic expectations is always essential. In short, expect your initial deal to be small, require as much as 12 to 18 months to negotiate, and result in a contract without the legal contingencies standard in the West. Finally, have fun. The Chinese are refreshingly candid, extremely clever, and genuinely appreciative of Western help. If you can develop a close friendship with your Chinese partner, many good things will follow automatically, for the Chinese have traditionally taken care of their friends. 完

The Silversmith Group in China

Doing business with China's grand masters in gold and silver art

Philip R. Friedman

I had never seen such great talent in a single factory before. As I avidly went from one silversmith to another, complimenting them on their feats, I wondered if they could adapt their uncanny talents to Western-style merchandise.

That was in 1982. Today the same Shanghai factory is producing our firm's limited edition silver and gold *objet d'arts* for clients around the world. The experience taught me that Chinese craftsmen are capable of producing exceptionally fine commemorative art at competitive prices.

How our company ended up in China has a lot to do with the skyrocketing prices of silver and other precious metals used to execute our handcrafted designs. Back in the early 1960s when our firm was founded, silver was slightly more than $1 an ounce and gold was a mere $35 for a one ounce ingot. The master silversmiths of Mexico, Japan, and Europe were eager to execute our designs at very favorable costs.

But when the bullion market exploded in 1980, silver prices soared to $50 per ounce and gold to $800. Labor costs also rose to an all-time high and our traditional suppliers began to replace their master craftsmen with modern equipment. As a result, we sustained our business with the design of coinage and other precious metal products that could be manufactured domestically. These included special awards and commemoratives that reflect the best image of our client. A prime example is a project we designed for the Fisher Body Division of General Motors Corporation to honor their golden anniversary. We had 1,000 models of their famous Napoleonic Coach produced. Each unit contained 85 ounces of sterling silver and 24kt vermeil. The spring suspension actually worked, the ornate doors opened and closed with precision, and the stairway folded neatly away in the undercarriage, as it did on the original.

China's exceptional silver tradition

I then decided to try the People's Republic of China, since I was informed by friends who were dealing there that they were very capable of fine silversmithing. Early in 1982 I visited the Shanghai Arts and Crafts Exhibition Center with photographs of some of our past endeavors. I requested a meeting with the silver factory personnel. The following day I was driven to a massive building on the outskirts of town. After a brief chat with the factory superintendents, they were eager to show me their facilities.

There were 50 or 60 workers comfortably spread out in rows. I witnessed firsthand these grand masters working with antiquated tools. They hammered, chiseled, and hand chased their products of Orientalia. I was immediately struck by their exceptional skill.

Once the superintendents assured me their craftsmen could follow any design submitted, I opted to have samples completed for my review. Then to my surprise I was informed that the factory could not negotiate with a foreign firm, even to do a prototype or samples. The Arts and Crafts people said they had to handle all arrangements. My appointment the following day was at 3 pm, so I decided to see the Yangzi River and the Panda Zoo. Although I was really not interested in Orientalia products, I was impressed with the Chinese junks sailing the ancient river, and was absolutely fascinated with the giant pandas. I sketched one of the junks and designed a pair of chopsticks in a bamboo pattern with a panda wrapped around each stick. I submitted the drawings to the Arts and Crafts people and gave them a photo of a 12-meter yacht produced in Mexico many years before. I also asked to have a silver pen completed with the same motif as the chopsticks.

I returned to Shanghai six weeks later and again met with the Arts and Crafts people. After the usual greetings and the pouring of tea I was shown the samples they had just completed. The Chinese junk contained about 30 ounces of silver and was heavily adorned with separate gold accessories, including docking poles, a bench, life preservers, and several barrels. It sat majestically on a handcarved wooden plinth. The anchors were movable by a crank hooked to a long chain.

The workmanship was breathtaking, and with minor changes would be worthy of adding to our art collection for a future offering. The 12-meter yacht was also spectacular. The billowy sails had deep etched lines that were completed with an awl and ruler. They had the look and feel of real sailcloth.

The panda pen and chopsticks were heavier than I had imagined, but the design was completed to my precise drawings. Perhaps the most important thing was the extraordinary detail on each item, which went beyond my original instructions.

I was pleasantly surprised by their prototype costs, and after paying for the samples and suggesting minor changes, it was time to discuss production. I decided on an edition of 500 models of the ships and 1,000 each of the pens and chopsticks, even though I did not have a corporate program in mind for those products.

I assumed the production run would be at least 20 percent less than the sample costs, although I quickly learned that one can never assume anything in China. To my dismay, the cost to produce each item was higher than the prototype. I wondered if they had miscalculated or perhaps misquoted the sample costs. I could not get a logical explanation and I was perplexed. I thanked everyone in the room for their courtesies, took my samples and went back to the hotel.

The following day I received a phone call from the Arts and Crafts

Philip R. Friedman is chairman and chief executive officer of Silversmiths Group International, which has been creating objet d'arts *for 23 years. He has traveled to China 11 times since 1982.*

Center. They requested a meeting that afternoon. I was picked up at my hotel and driven to downtown Shanghai. I met with six people who said they represented all the factories in Shanghai dealing in arts and crafts. I was shocked to see a duplicate set of my samples on the display table.

I emphatically stated that we created programs in strict limited editions and that the designs are the exclusive property of my firm. It was difficult for the Chinese to understand this, and I had to explain the importance of maintaining the integrity of numbered editions. In the end they agreed never to produce my designs for any other firm.

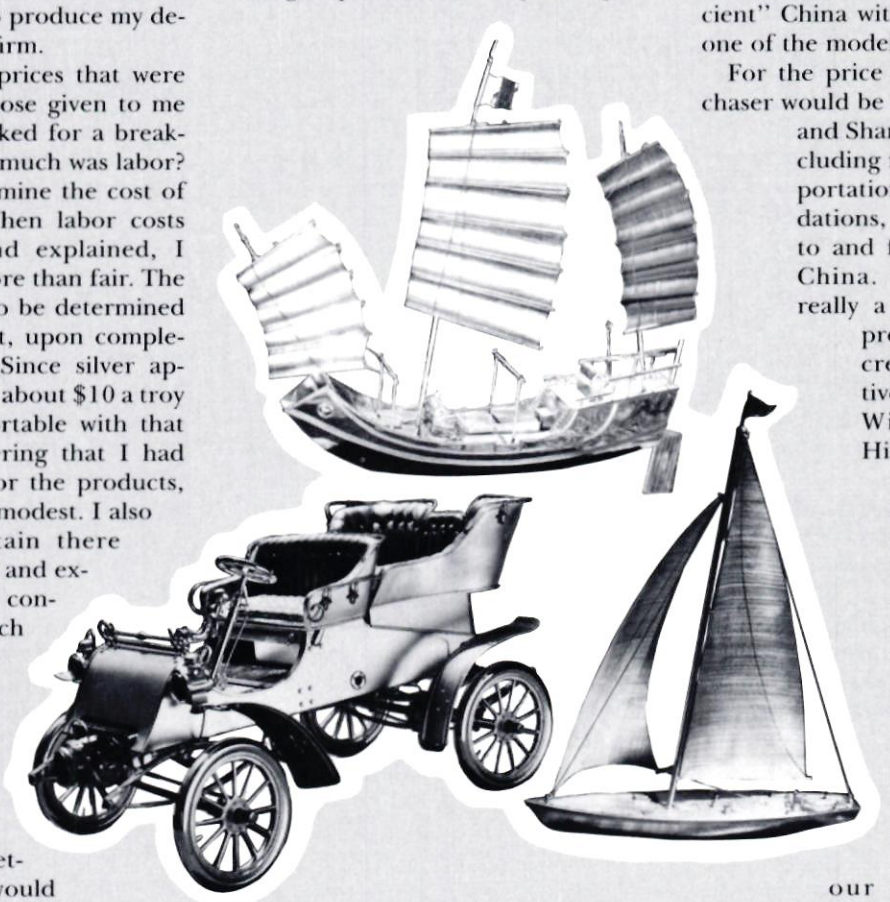
I was given new prices that were much lower than those given to me the day before. I asked for a breakdown of costs. How much was labor? How did they determine the cost of precious metals? When labor costs were calculated and explained, I agreed they were more than fair. The bullion costs were to be determined by the world market, upon completion of the order. Since silver appeared to level off at about $10 a troy ounce, I felt comfortable with that proposal. Remembering that I had no client in mind for the products, my initial order was modest. I also wanted to be certain there would be uniformity and exact scheduling. We contracted for 50 of each model ship, and 100 sets of chopsticks and panda pens.

The next strange occurrence involved financing. In lieu of the normal letter of credit that would cover the total cost of the project, I was asked for a 10 percent deposit, with balance paid upon completion. I succumbed to their terms and my first contract was signed.

On later trips to China I found out that the Arts and Crafts Exhibition Center as well as their supervisory group downtown were earning substantial sums on each item being produced for my firm. I discussed this at great length and was assured the exhibition center would have nothing to do with future orders. Later I decided that all future editions would be paid for by irrevocable letters of credit.

Serpentine Indians

When I first visited the silver factory in Shanghai, I was also introduced to the working of the jade carvers who shared the same building. I thought it might be interesting to have a combination of silver and jade objects with a Western motif. I signed a mini-contract for a small edition of a hunting dog, wild boar, and an Apache Indian on horseback that was originally completed in porcelain. The jade units that were finally completed were intricately carved, but unfortunately ended up being serpentine and not jade. I paid for the completed units and now pursue articles of precious metal only.



"New horizon" sailing vessels

After learning my way around Shanghai, I spent my next few trips to China visiting the Beijing Jewelry Corporation. At first they claimed to be a factory. I found out later that this was not true, although they do produce their own jewelry products. I gave them a model of an intricately designed sailing vessel and asked them to copy it. The completed sample paid dramatic tribute to the craftsmen of China, who transformed individual sheets of silver into a hand-wrought masterpiece with such minute detail that even the silver rigging appeared to be real rope. Measuring nearly two feet from bow to stern and 32 inches in height, this massive work of art contained more than 80 ounces of precious metal. The only change was eliminating the gold plating on the hull and that was quickly agreed upon.

I contracted for a limited edition of 100 models and christened them "New Horizons." Because the ships were a little too expensive for a corporate project, I decided on a program tailored to commemorative art dealers by offering a trip to "ancient" China with the acquisition of one of the models.

For the price of $5,500 the purchaser would be our guest in Beijing and Shanghai for 10 days including round-trip air transportation, hotel accommodations, and ground travel to and from the airport in China. The concept was really a spinoff of a 1972 project, when our firm created commemoratives on the life of Sir Winston Churchill. His nephew John and daughter Sarah designed the artwork, and while the items were being produced in England, our firm offered 350 clients the opportunity to fly to Great Britain as our guests and meet with the Churchill family and British royalty. It gave us the chance to sell our products to the group during the five-day visit.

The trip to China went smoothly with the help of Wang Bingnan, president of the Chinese People's Association for friendship with foreign countries, who wrote a letter of invitation for our brochure, and William Clarke, the National Council's vice-president in Beijing.

We are now negotiating our largest contract in China ever. It is for 1,984 large model ships created by our firm for Penthouse International Ltd., to commemorate their 15th anniversary this September. I am confident that this order will continue to deepen our appreciation for China's truly remarkable craftsmen. 完

A Project Manager's Notebook

Understanding potential pitfalls can go a long way toward making a project in China run smoothly

Dennis B. Kelley

If you think winning a contract in China is hard, wait until the project implementation stage.

The initial task of making the right contacts, understanding the marketplace, negotiating a contract, and receiving respective government approval can be so monumental that just signing a contract is often seen as the final victory. But in truth, the challenge has just begun.

Project implementation in China can be a cumbersome and often frustrating task. It is also one that more and more US firms are facing, as they sign technology transfer contracts in order to better position themselves in the China market. Below are some of the potential difficulties project managers are likely to face. It is hoped that a discussion of these will help others anticipate problems *before* they occur, and thereby contribute to the ultimate success of their ventures in China.

▶ *Be prepared for delays*

Recent economic liberalizations have spawned a host of Chinese organizations eager to engage foreign business partners. These groups are sometimes in competition or conflict with each other. Since important decisions normally require the consent of many Chinese organizations, each organization has the veto, and one enemy can be more powerful than many friends. Under the circumstances, it is essential to move cautiously and remain neutral.

Moreover, most decisions that involve a foreign transaction also have political implications. Consequently, the decision-making process can be excruciatingly slow and deliberate. Frustration and anxiety run high among US project managers working under these conditions.

When internal bureaucratic disputes cannot be resolved, a Chinese organization may try to involve the foreign partner in the role of informal mediator. Without taking sides, the foreign party may want to propose some sort of economic or contractual compromise. Such a proposal from a foreign partner may be all that is required to resolve the issue and save face all around.

But if a new situation develops that could have a potentially negative impact on the financial outcome or project operations, the Chinese may not be anxious to recognize the problem and take appropriate corrective action. One way to effectively expose the problem and begin the process for resolution is to identify the problem in written form and offer a few suggestions for the Chinese to consider.

Bureaucratic infighting, if left unchecked, can ultimately destroy an agreement. There is a growing trend among Chinese organizations to demand a renegotiation of contract terms, when they perceive the terms to be unfavorable. This type of occurrence is unfortunately on the rise as Chinese organizations sign new, more competitive contracts with better terms, and the word gets back to organizations that signed less attractive deals. Differing interpretations over contractual provisions are also a major cause of confrontation between partners. It is extremely important to take the time during negotiations to construct provisions that are clearly written, concise, and understood by all parties.

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▶ *Understand the market*

In any investment project in China, the areas of marketing, distribution and, when required, product support, represent a high degree of risk and financial exposure.

Prior to signing a contract, therefore, a market research study done in conjunction with the Chinese partner is highly recommended. Chinese estimates of the market size made during contract negotiations may be unrealistically high, since their forecasts generally reflect manufacturing capacity rather than market demand. As a result, actual sales volume may not reach the levels forecast by the Chinese, with obvious implications for project income. Furthermore, it is generally difficult to convince the Chinese to undertake a market study, though it certainly is in their best interest to contact traditional customers, as well as potential customers, to announce the new project and to begin discussing new product requirements. The study will also raise an important organizational issue: the need to set up a marketing department, which is something new for most Chinese plants.

Basically, a market study should seek to learn:

- Whether or not the Chinese plant's existing products enjoy customer acceptance and if not, why not.
- The needs, biases, and price considerations that will influence Chinese customers when presented with new product offerings.
- The Chinese firm's five-year historical sales figures by customer and product type.
- A profile of local and foreign competition, with full details on pric-

ing, product support, and so forth.

■ China's existing distribution network for the relevant product(s).

■ The difficulties one should expect to encounter when penetrating new markets in China, especially markets controlled by other ministries or provinces.

▶ *Know your partner's limitations*

Many US firms assume that after signing a technology transfer agreement with a state-owned corporation in China, they will gain exclusive access to the domestic market. This simply is not what is happening. On the contrary, free trade between provinces or across ministerial divisions is virtually unknown in China. Often poor relationships or competition between these entities inhibit market access. Concluding a manufacturing agreement usually means only that a firm will have access to its partner's traditional market within a given ministry or province. Access to new markets is not guaranteed. In the future, however, things could change as the Chinese government promotes more competition among local industries, between local industries and imports, and among imported products. This policy is the result of the government's desire to purge inefficient industries and force the improvement of product quality.

The future should also bring intensified competition from imports, as China begins to spend its large foreign exchange holdings, and local entities acquire more foreign exchange. One should remember, though, that the Chinese government cannot force end-users to purchase Chinese-made goods if the user's ministerial, provincial, or municipal authority has foreign exchange available for imports.

▶ *Know your own limitations*

Plant management changes are becoming more frequent, especially with the introduction of new retirement directives and the ongoing Party rectification campaign. Management changes can lead to confusion, discontinuity, and project delays. (The same holds true for changes on the US side.) A foreign company has little or no influence over personnel changes in Chinese organizations.

The problem of low productivity can be equally serious. The majority of Chinese industrial plants have been operating at levels well below capacity for years, thus creating what the Chinese press has described as a "sluggish work mentality" among employees. It may be unrealistic to expect a plant to improve worker productivity and utilize full manufacturing capacity in a short period of time without encountering some worker resistance. However, new bonus incentives introduced by the government are helping overcome motivational, morale, and productivity problems.

In addition, little or no quality control exists at most plants, since Chinese manufacturing facilities have traditionally been judged according to "quantity not quality." This becomes an important issue if an export requirement is part of the technology transfer contract. Stipulating specific quality standards and requirements for exports in the contract can be an effective way to emphasize its importance to the project.

Since the Chinese generally demand new, state-of-the-art technology, including product updates as long as the contract is in effect, considerable demands are placed on the Chinese plant engineers. A heavy dose of training and technical assistance may be required, as few Chinese engineers are accustomed to a continuous flow of product design changes and constantly updated technology. The norm in China is still to make the same product for a long period of time. In fact, some early licensing agreements with China were one-time sales for static designs.

Finally, some plants are now being designated "enterprises," which basically means that the plant is no longer eligible for state subsidies. Instead, the plant becomes an independent profit center controlled primarily by the plant's own management team. Local managers assume responsibility for generating profits,

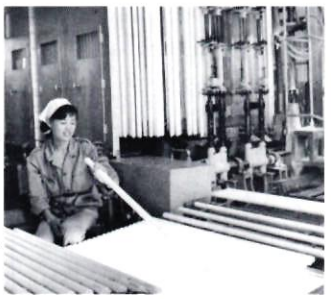

Photo by Xiao Ye courtesy China Features

Japanese flourescent lamp equipment helped automate this production line at the Shenyang Huaguang Electric Bulb factory in Liaoning Province.

Photo by Gao Feng courtesy China Features

View of the main workshop at a shoe manufacturing joint venture between CITIC, the Rikio Co., Ltd. of Japan, and Nantong's Light Industrial Bureau. The plant's entire annual output of 1.2 million pair of work shoes is destined for the Japanese market.

Photo by Xiao Ye courtesy China Features

IBM provided China with one of its first modern production management computer centers at the Shenyang Air Blower Plant in Liaoning Province.

improving product quality, seeking new domestic markets, and increasing worker productivity. This puts them under great pressure to make the project work—especially if it involves a large investment, foreign exchange expenditures, and foreign technology. These new demands, coupled with intense political scrutiny from higher-ups, can cause local enterprise managers a high degree of anxiety and result in disjointed project plans and delays. To help his Chinese counterpart overcome some of these difficulties, the project manager may wish to offer special technical assistance outside the scope of the contract, especially in the areas of financial and organizational planning.

▶ *Bridge the communications gap*

For cultural and political reasons, the Chinese generally avoid transmitting information on a systematic basis outside China. It is not uncommon for several months to pass without word from one's Chinese business partner. Big surprises may await the US management team when they arrive on site after a three-month hiatus in communications. These surprises can include major operating problems which, due to their nature, cannot be resolved on the spot. This can leave the US project manager vulnerable to criticism back home for appearing to be misinformed.

The most effective way to bridge the communications gap is to relocate an appropriate individual at the work site with a telex machine, if that is possible. While it goes without saying that project costs will be higher, many problems will be avoided. In any event, the problem is a serious one, and normally intensifies during project start-up unless measures are taken to safeguard open lines of communication.

Moreover, firms should not underestimate the language problem and the delays it can cause. The translation of technical documents from English to Chinese may be required. In one case, a US company overlooked this aspect of the technology transfer process in its implementation plan, and encountered a one year start-up delay as a result of the immense number of translations required.

▶ *Do not neglect training*

The language barrier will most certainly affect training, as Chinese workers frequently enter training programs without any English language capability, and face the difficult task of comprehending detailed technical information through translations. The need for many repetitions, and an interpreter (not always as accurate as one might like), can extend the length of a training program two to three times longer than anticipated. The importance of English language capability needs to be addressed during contract negotiations. One company offered to relocate two English language instructors to China to help prepare prospective trainees for the US training program.

Who gets overseas training is another issue that sometimes perplexes US and Chinese project managers alike, especially when qualified Chinese technicians are overlooked. To discourage the selection of political appointees for training assignments, the exact prerequisites for trainees should be spelled out in the contract. It is also recommended that a trainee's resume be sent to the US ahead of time for review and approval.

The contract should also stipulate that when trainees return to China, they must return to the positions for which they were trained, at least for a specified period of time, such as three years. All too often, trainees return to China only to be reassigned to new positions for which they have not been trained, promoted out of their specialty (because they are now foreign-trained experts), or are transferred to a different plant altogether.

In short, flexibility is the key to success in China. The country is undergoing significant ideological and infrastructural change. As a project implementer, it is important to recognize the inevitability of change, and adapt to it.

With solid, realistic, and well thought out plans, investment in China can be profitable for all parties involved. The key is to minimize potential problems by gaining a better understanding of the Chinese environment, and then apply that understanding to negotiating a workable contract and realistic long-term implementation plan. 完

Oxford

FOREIGN TRADE

Investment and the Law in the People's Republic of China

Edited by A.J. MOSER

Since the adoption of an "open-door" economic policy in 1978, the foreign trade of the People's Republic of China has increased dramatically. In order to regulate the nation's expanded and increasingly complex business activity, the Chinese government is constructing a legal system with scores of new laws relating to foreign business transactions.

This book provides an introduction to the legal framework currently being developed in China with respect to foreign commercial and investment activities. The eleven chapters, each written by a lawyer with practical experience in the China trade, cover such topics as:

- Customs regulations
- Contracts
- Licensing
- Foreign investment
- Taxation
- Banking dispute settlement
- Framework of law in special economic zones and offshore oil production

M.J. Moser is a practicing attorney in the field of international law, and is Vice-President of the American Chamber of Commerce in Beijing.

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Contract Mania

More and more Chinese firms are signing business contracts—and creating a business environment that is far more hospitable to Western firms

Jamie P. Horsley

China is experiencing a contract craze. Factories, mines, trucking companies, restaurants, and even hospitals are increasingly signing contracts directly with their chief suppliers and clients. Already, these contractual relations are beginning to replace some of the rigid, old-style relationships between units that are the legacy of centralized planning.

In the end, the growing role of contracts could change the way Chinese enterprises do business with each other. It could also change the way foreign enterprises in China do business with their Chinese counterparts; this, at the very least, is expected to contribute to a more familiar, and also more hospitable, business and investment climate in China for Western firms.

Contracts open new channels of trade

The growing use of contracts is partly the result of another reform of great significance: Beijing's policy of turning over much more economic autonomy to key municipalities. These cities appear to be the leaders in urging enterprises to sign contracts in order to "bypass" the traditional bureaucratic channels that have inhibited commerce.

Chongqing Municipality, for example, claims that its enterprises have signed many hundreds of contracts in recent months with suppliers throughout China. These contracts, the city's leaders jubilantly assert, now ensure regular supplies of zinc, timber, tobacco, canned food ingredients, coal, paper, and motor vehicles—all commodities that the state supply system, by implication, had failed to provide in adequate quantity.

The municipalities enjoying increased economic power now exceed 40 in number, and account for well over 40 percent of the nation's GNP. They include the 4 cities authorized to set up China's first special economic zones in 1979 (Shenzhen, Shantou, Zhuhai, and Xiamen), the 14 coastal cities granted increased economic and foreign trade authority in early 1984, the 22 cities (mainly in China's interior) recently granted very similar authority, and most recently, the 5 municipalities (Chongqing, Wuhan, Nanjing, Shenyang, and Dalian) granted provincial status in the area of economic policy.

Contract law comes of age

As one might expect, however, the recent emphasis on contracts has also increased the need for a clear set of contract regulations.

This is especially true as contract disputes have increased. Today more and more enterprises and individuals are going to arbitration and to the People's Economic Courts to enforce their contractual rights and seek damages for breach of contract. Books on contract law and sample forms of all types of contracts crowd the shelves of bookstores. Even the *People's Daily* frequently carries editorials, commentaries, and news reports on contract enforcement.

If the average Chinese manager is already paying close attention to contract law, then it probably behooves foreign plant managers in China to pay at least as much attention to the PRC's contract legislation and particularly its dispute resolution provisions.

China's historic contract law

Existing contract legislation is based principally on the Economic Contracts Law of the People's Republic of China, promulgated by the National People's Congress on December 13, 1981. It builds on earlier industrial regulations, as well as China's uncodified "common law" contract principles that appear as published case precedents dating from the late 1970s.

Since the promulgation of the Economics Contracts Law, implementing regulations on contracts for property insurance, sales of agricultural products and byproducts, and sales of industrial and mineral products have appeared. Moreover, regulations on the arbitration of economic contracts were issued in late 1983. Offices of notary publics to "legalize" contracts have also been established following the promulgation of the Notary Law in 1980, and the (Draft) Civil Procedure Code in 1981.

In addition, many other regulations governing contractual relations are rumored to exist, but await formal promulgation.

Contract laws governing foreigners are also being formulated, based on international practices as well as the principles contained in the Economic Contracts Law. Although some foreigners have been shown drafts of regulations on foreign economic and trade contracts, to date the only published regulations on this general subject are the 1984 Provisions of the Shenzhen Special Economic Zone on Economic Contracts Involving Foreign Interests (*see* page

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17). However, regulations on specialized Chinese–foreign contracts do exist. These include the Interim Provisions of the Shenzhen Special Economic Zone for the Import of Technology and for the Administration of Commercial and Residential Property, as well as the Joint Venture Law and its implementing regulations. And the 1983 Regulations on Property Insurance Contracts apply to contracts with foreign insurers.

Contracts in a Chinese environment

The Economic Contracts Law defines an economic contract as an agreement between two or more legal persons. It must set forth an economic purpose, and specify the parties' mutual rights and obligations in respect of this purpose. The Law applies to contracts between legal persons, such as state-owned enterprises, and between such enterprises on the one hand and individual proprietorships or agricultural cooperatives on the other. But it apparently does not apply to contracts with individuals per se, such as labor contracts.

The socialist nature of the Economic Contracts Law is clearly seen in its emphasis on the relationship between economic contracts and state plans. Contractual activity may not disrupt economic order or undermine state plans. Contracts that violate state policies and plans are automatically void.

Contracts involving products or projects included in mandatory state plans, that is, plans of a "compulsory nature," must conform to the government's output and quality targets, and can be overruled by higher-level planning authorities. Moreover, such contracts can be modified or cancelled if the state plan upon which they are based is changed or cancelled, though this is subject to the approval of the department in charge of the plan. In contrast, contracts relating to state plans of an "indicative" nature are based on the actual conditions of the units concerned, as well as state-issued targets, and are not as susceptible to government interference.

The role of the contract as a means to ensure implementation of the state plans remains an important cornerstone in the Economic Contracts Law and in China's system of centralized and decentralized planning. Foreigners dealing with Chinese partners naturally hope that their contracts will be immune from arbitrary change or cancellation caused by adjustments in the state economic plan. Indeed, the Shenzhen Contracts Regulations make no express mention of the state plan in its provisions on the conclusion, modification, rescission, and termination of contracts with foreigners.

Familiar principles

Despite certain other socialist overtones, the Economic Contract Law contains many principles familiar to Western lawyers and traders. Contracts must be based on a voluntary agreement reached through consultation between the parties, though they must also be "fair" and observe the principles of "equality and mutual benefit." Contracts cannot violate public policy, and will be void if concluded by means of fraud, duress, or by an agent exceeding the scope of his or her authority. Contracts must, at a minimum, set forth certain basic terms such as the object of the contract, the quantity and quality of the goods or services concerned, the price of compensation to be paid, the time, place, and method of performance, and the liability for breach of contract.

China's contract regulations mainly govern contracts between Chinese entities, but the principles they set forth are helping foreign investors and traders negotiate detailed and explicit contracts that rely less on assurances of "good faith" and "mutual interest."

Modification and rescission generally require the consent of both parties, provided that such modification or rescission does not damage the interests of the state or its economic plans. But either party may request modification or rescission of an economic contract if a relevant state plan is amended or cancelled, if it closes down or changes production and "truly has no means of performing" the contract, if an event of *force majeure* (a concept that is left undefined) makes it impossible to perform the contract, or if a breach by a party makes performance "unnecessary." However, the Economic Contracts Law specifies that a party cannot modify or rescind a contract merely because of a change of the person in charge or the legal representative of such enterprise, or because it has been merged into another entity or split up.

Except when excused from liability by reason of *force majeure*, the party responsible for requiring the modification or rescission of a contract must make compensation for any losses caused to the other party. If one party breaches a contract, it must pay an unspecified amount as "breach of contract" damages within 10 days after liability is clearly established, plus compensatory damages for any losses suffered by the other party in excess of such breach of contract damages.

Specific performance may also be obtained, but self-help in the form of withholding delivery of or payment for goods by the injured party is not permissible. Liability for breach of contract may be shared if both parties are at fault and, if a breach is caused by some action or fault of higher-level authorities, the breaching party is first to pay damages to the injured party and then has the right to pursue the liability of such responsible authorities, presumably for reimbursement.

Collecting damages

The various implementing regulations under the Economic Contracts Law establish standards for computing breach of contract damages. In the case of property insurance contracts, an insurer that does not pay on a policy within 10 days after its liability is established must, beginning on the 11th day, pay damages at the rate for short-term loans to enterprises currently charged by the People's Bank of China, based on the amount of compensation due. Failure to supply or accept industrial and mining products on the date for delivery specified in the sales contract will give rise to damages of between 1 and 5 percent of the total value of the

products involved, in the case of commonly used goods, and 10 to 30 percent in the case of specialized products. The precise percentage is to be agreed upon by the parties and set forth in the sales contract.

In the case of contracts for the sale of agricultural commodities and by-products, a breach in the form of nondelivery will subject the supplier to damages of 1–20 percent of the total value of the commodities involved, or 5–25 percent if the supplier instead sells the commodities to a third party at a higher price. If the purchaser unjustifiably refuses to take delivery of conforming commodities, it will in turn be liable for damages amounting to 5–25 percent of the total value of the commodities. In the event of late delivery or delayed payment under both sets of sales contract regulations, the breaching party must pay breach of contract damages on the value of the products involved computed at the rate charged by the People's Bank of China for overdue loans.

In addition to breach of contract and compensatory damages, the Economic Contracts Law also provides a form of liquidated damages if a down payment or deposit is involved. The Law does not compel either party to post a performance deposit, but if the party making such a deposit fails to perform, the other party may keep the deposit without any need to make restitution. Conversely, if the party receiving the deposit fails to perform, it must return twice the amount of the deposit.

The Economic Contracts Law provides for dispute resolution in a manner familiar to foreign business people who have dealt with the Chinese. Disputes are to be settled through consultation if possible, before being referred for mediation and arbitration to the relevant contract administration authorities (generally designated to be the local administrative bureau for industry and commerce). However, if either side disagrees with the arbitral award, it may appeal to the courts within 15 days of receiving the written arbitration decision. This is a significant departure from the rules governing arbitrations involving foreigners, which provide that arbitration decisions will be final and binding on the parties. Finally, either party may also forego mediation and arbitration and take its case directly to court.

Although China's many contract laws and regulations mainly govern contracts between Chinese entities, the principles they set forth are of great significance to foreign investors and traders who seek to negotiate detailed and explicit contracts, rather than rely on assurances of "good faith" and "mutual interest", and to resist pressure from their Chinese partners to revise the terms and conditions of contracts already signed. Although the Chinese have earned a reputation for generally adhering to their contractual obligations to foreigners, as they gain experience in dealing with contracts among themselves, foreign parties may come to feel even more confident that they and their Chinese contractual partners will treat their contracts with equal seriousness. 完

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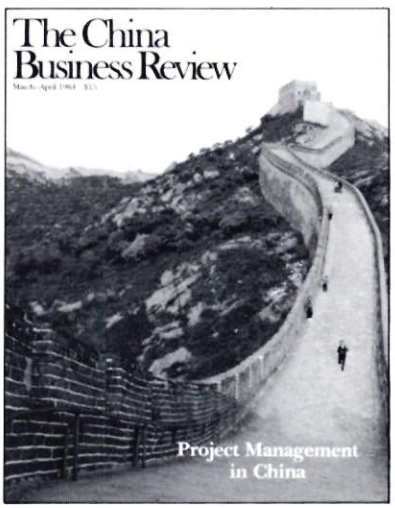

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Shenzhen's New Contract Law

A model for China?

Jerome Alan Cohen

The promulgation on February 7, 1984, of Shenzhen's economic contract legislation was a significant event. Enacted by Guangdong Province, this is the first piece of legislation issued by any level of the Chinese government that purports to comprehensively regulate business contracts between Chinese and foreign entities.

Not only has it had an immediate impact on the many negotiations currently underway in the Shenzhen Special Economic Zone, but the legislation has also been invoked "for reference" by Chinese negotiators in other zones. Chinese lawyers even refer to it when negotiating investments elsewhere in China, claiming that the long-awaited national foreign economic contract law will resemble Shenzhen's. Moreover, the 14 Chinese coastal cities that have recently been authorized to create economic development zones are carefully studying the pros and cons of Shenzhen's legislation, and may adopt it in whole or in part.

Filling the void

Referred to technically as the "Provisions of the Shenzhen Special Economic Zone on Economic Contracts Involving Foreign Interests" (*see* opposite page), the new law represents part of China's effort to fill a historic void. For the first three decades of its existence the People's Republic lacked contract legislation regulating international transactions. This absence of formal rules and effective remedies was felt by foreign traders during periods of serious political interference in the economy, especially during the Korean War, the 1958–62 interruption of trade with Japan, and the worst days of the Cultural Revolution. Furthermore, even in less dramatic times, foreign companies have sometimes been frustrated by the lack of laws for concluding contracts and resolving contract disputes. Yet, because China has implicitly shared many of the contract principles and practices of the world trading community, both Beijing and international businessmen found the situation tolerable until late 1978, when China embarked on a radically new policy of welcoming foreign investment that involved a range of complex contracts previously unknown in the PRC.

Since then, the PRC has enacted a legislative framework for foreign–Chinese equity joint venture contracts. However, the National People's Congress has not yet promulgated an urgently needed law dealing with contractual joint ventures, and no foreign economic contract law comparable in scope to the 1981 law regulating contracts between domestic enterprises has been completed. Nor is the civil code that will set forth basic contract law principles likely to appear for several years.

Advice to negotiators

The Shenzhen "Provisions" therefore constitute a forerunner of the important legislation soon to come. These regulations establish the basic governing rules as well as institutions and procedures for the formation, modification, and termination of contracts. While most of the Provisions are self-explanatory, a number of key points warrant the attention of foreign negotiators. These include:

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▶ The Provisions apply to both trade and investment contracts, although Article 2 leaves the reader wondering about their precise scope. Moreover, the Provisions must be read together with other legislation regulating specific types of contracts (*see* Article 20), including the "Interim Provisions of the Shenzhen Special Economic Zone for the Import of Technology," which were promulgated one day later.

▶ Article 4 of the Provisions states, without qualification, that "No party may unilaterally modify or rescind a contract that is concluded according to law." Foreign companies that are confronted with a unilateral demand to alter the agreed price or other terms of a contract may invoke Article 4 as well as the similar provision of the domestic contract law to show that such a demand violates Chinese principles.

The other side of the coin is that the Provisions also prohibit modification or termination unless the appropriate governmental authorities approve, even if both parties agree to the change.

▶ The Provisions represent the PRC's first effort to enact some general rules for a law of agency, sketching the rights and obligations of principal and agent.

▶ They also make the contracting process more formal, requiring the parties to provide each other with evidence of their legal identity and the authority of their representatives to sign the contract. More difficult for some foreign companies—including those that are "shells" created for China business—is the requirement that they submit both an independently verified balance sheet and a credit certificate from a financial institution. This rule reflects the unfortunate experiences the PRC

has had with underfinanced and fly-by-night foreign companies.

▶ Related to this concern is the even more burdensome requirement that each party provide the other with a guarantee of some kind, presumably one acceptable to the other party. In some negotiations this has led, for example, to a demand that a subsidiary obtain the guarantee of the parent company for all of the subsidiary's obligations under the contract. Although the Provisions are not entirely clear on this point, the various articles represent the beginnings of a Chinese law of guarantees.

▶ Western traders should note that, in case of breach of contract, the breaching party must not only pay compensation for any losses caused, but also pay a pro rata penalty for late delivery or payment.

▶ Another unusual feature is the right of the Shenzhen Administrative Bureau for Industry and Commerce to supervise contract performance, mediate disputes, correct misconduct, and impose fines. The banking and exchange agencies also enjoy supervisory powers within their respective spheres, but the scope of those powers is not indicated.

▶ The Provisions do not make clear whether arbitration may take place outside China, but since their promulgation Shenzhen has continued to approve foreign arbitration clauses. In conversation with foreign lawyers, PRC arbitration specialists have also said that the ambiguous wording of Article 35 does not preclude arbitration abroad, which is likely to please most foreign businessmen.

▶ On the even more sensitive issue of what law should be applied to disputes submitted to arbitration, the Provisions appear to distinguish between contracts for investments on Chinese soil, which require the application of Chinese law, and other kinds of contracts, which generally do not. This is in line with past practices. Yet use of the vague phrase "other contracts closely related to Chinese sovereignty" makes it impossible to forecast whether contracts for technology transfer, compensation trade, or processing, for example, might be added to the list of those requiring Chinese governing law.

By requiring natural resource contracts to be governed by Chinese law, the Provisions go beyond the 1982 PRC Regulations for the Cooperative Exploitation of Offshore Petroleum, which were silent on the subject, thereby enabling a compromise to be reached on the governing law issue in the first round of China's offshore oil contracts.

▶ Finally, Article 40 of the Provisions reaches an unexpected result on yet another problem that reflects the clash between Chinese nationalism and Chinese pragmatism—language. On many occasions in the past, PRC enterprises have agreed to trade, licensing, and loan contracts that were exclusively in English. When texts in both Chinese and English are required, as in investment and other complex contracts, they are usually given equal legal weight. Having two equally valid texts can create difficulties in resolving certain disputes, but foreign negotiators prefer this to having only the Chinese text to rely on.

It is surprising that Shenzhen should reject this practice by requiring that only the Chinese text shall govern. Shenzhen is an area that supposedly offers foreigners more—not less—attractive terms than are available elsewhere in China. Perhaps those of us who fill our rice bowls by working with Chinese-language documentation should not bite the hand that promises to feed us better. Nevertheless, if China wishes to induce increased foreign investment, it would seem preferable, at least at this time, to continue to allow two equally valid texts.

After a few years' experience it will be possible to better assess the Shenzhen Provisions. In the interim, it will be interesting and important to see the extent to which the Provisions influence the national and local contract legislation awaited by the foreign business community. 元

Provisions of the Shenzhen Special Economic Zone on Economic Contracts Involving Foreign Interests

CHAPTER I. GENERAL PRINCIPLES

Article 1. These Provisions are formulated, in accordance with the pertinent laws and regulations of the People's Republic of China and the Regulations on Special Economic Zones in Guangdong Province, to meet the requirements of economic activities in the Shenzhen Special Economic Zone (hereinafter referred to as the "Special Zone"), to protect the lawful rights and interests of the parties to economic contracts involving foreign interests and to promote the economic construction of the Special Zone.

Article 2. The applicable scope of these Provisions is as follows: (a) Agreements entered into, in accordance with the laws of the People's Republic of China, to establish mutual relations concerning rights and obligations between a Chinese enterprise or other economic organization in the Special Zone (hereinafter referred to as a "Special Zone party") and a foreign enterprise or other economic organization or individual (hereinafter referred to as an "investor") in order to develop economic and technical cooperation in the Special Zone. (b) Economic agreements signed and to be performed in the Special Zone between foreign enterprises registered and operating in the Special Zone, Chinese–foreign joint ventures and Chinese–foreign cooperative ventures (hereinafter referred to as "Special Zone enterprises"); between Special Zone enterprises and foreign enterprises, other economic organizations and individuals; and between Special Zone enterprises and Chinese enterprises and other economic organizations established in the Special Zone.

Article 3. In signing economic contracts involving foreign interests (hereinafter referred to as "contracts"), the parties must comply with the laws and regulations of the People's Republic of China. Contracts that are formed in accordance with law shall be protected by the laws of the People's Republic of China.

Article 4. In signing contracts, the parties must implement the principles of equality and mutual benefit and of achieving agreement through consultation. No party may unilaterally modify or rescind a contract that is concluded according to law.

Article 5. A contract must be approved by the Shenzhen Municipal People's Gov-

and the social and public interest, or are signed through the use of fraud, duress, or similar means shall be void contracts.

Void contracts shall be void from the time they are concluded, provided that when part of a contract is confirmed to be void, if the validity of the remainder is not affected, the remainder shall still be valid.

The power to confirm that a contract is void shall be vested in the Provincial People's Government or the people's court with jurisdiction if the contract was approved by the Shenzhen Municipal People's Government, and in the Shenzhen Municipal People's Government or the people's court with jurisdiction if the contract was approved by the department in charge designated by the Shenzhen Municipal People's Government.

CHAPTER II. THE CONCLUSION AND PRINCIPAL CONTENTS OF CONTRACTS

Article 7. A contract must be in written form, must clearly stipulate the rights and obligations of the parties, and must be signed by the parties or their authorized agents. Appendices confirmed by and related to the contract, and letters, telegrams, and documents agreed upon by the parties through consultation that modify or supplement the contract shall also be integral parts of the contract.

When the parties arrive at a trade agreement through correspondence, telegrams, or telexes, the said agreement shall be considered as a contract in written form if neither party requests the signing of a confirming document.

Article 8. Companies, enterprises, and other economic organizations or individuals may entrust agents to sign contracts. An agent shall exercise his power of agency in accordance with the scope of the power authorized by the principal.

Agency activities that are carried out by someone without the power of agency, that exceed the scope of an agent's power of agency, or that are carried out after the power of agency has been lost, shall be void. However, if the ratification of the principal is obtained, then rights and obligations shall be created directly on the part of the principal. An agent who does not perform his obligations in accordance with the power of attorney or whose agency activities are void shall be liable to compensate for the resulting losses.

Article 9. Each person that signs a contract on behalf of a party to the contract shall provide the following documents to the other party for examination: (a) A duplicate or photocopy of the party's lawful certificate of government registration issued by the country or the place in which it is located; (b) The company's or enterprise's recent balance sheet verified by a registered accountant and a capital credit certificate issued by a financial institution with which the company or enterprise has business relations; (c) A document of guarantee notarized by a notarial organ; and (d) A certificate of authorization or power of attorney issued by the company or enterprise to its representative or agent who signs the contract.

Article 10. Entrustment of an agent must be in written form and be notarized.

A power of attorney or a document of agency shall clearly state the name, sex, age, and nationality of the agent, the agency activities, limits of authority and period of validity, and the date on which the agent is entrusted or authorized, and shall be signed and sealed by the principal or department in charge.

Article 11. If a contract requires a relatively long period of continuous performance, the parties shall agree upon the term of validity of the contract as well as the conditions under which the contract may be renewed or terminated before the expiration of the term.

Article 12. Each party to the contract shall provide a guarantee. A guarantee may take one of the following forms: (a) Deposit or performance guarantee money; (b) Property mortgage guarantee; (c) Bank guarantee; (d) Guarantee by a company or an enterprise; or (e) Other guarantees.

Article 13. When the guaranteed person does not perform its obligations under the contract, the guarantor shall be jointly liable for breach of the contract or to perform on behalf of the guaranteed person in accordance with the provisions of the contract.

Article 14. After a contract is performed, if one party has paid a deposit or guarantee money to the other party, the deposit or guarantee money shall be returned or set off against any amounts that should be paid.

When a party that has paid a deposit or guarantee money does not perform the contract, it shall have no right to claim return of the deposit or guarantee money. If a party that has received a deposit or guarantee money does not perform the contract, it shall return twice the amount of the deposit or guarantee money.

Article 15. A joint venture contract is a written agreement between a Special Zone party and an investor to invest jointly in and establish an enterprise or business. The parties shall share profits and losses in proportion to their respective contributions to the capital and shall bear limited liability. Contracts of this type shall include the following principal items: (a) The respective names, countries (regions) of registration and legal addresses of the parties to the venture, and the names, positions, and nationalities of their respective legal representatives; (b) The name, address, and purpose of the joint venture, the area of the land it will use, and the scope and scale of its business operations; (c) The total amount of investment in the joint venture, its registered capital, the amount of contributions to be contributed by each venturer, the ratios and forms of their respective contributions, the time limit for making the contributions, and provisions concerning incomplete contributions and assignment of contributions; (d) The principal production equipment and production technology to be used in the joint venture and their sources; (e) The manner in which raw materials will be purchased and products will be sold; (f) The joint venture's construction schedule and the responsibility of each venturer in preparation, construction, production, and similar aspects; (g) The term of the joint venture, the procedures for its dissolution and liquidation, and ownership of the property after the expiration of the term; (h) The principles for the handling of finance, accounting, and auditing; (i) Provisions concerning labor management, wages, welfare benefits, labor protection, and labor insurance; (j) The composition, term, and responsibilities of the joint venture's board of directors; (k) The procedures for hiring the general manager and the deputy general managers and provision regarding personnel and their respective responsibilities and powers; (l) The sharing of profits and losses and limited liability; (m) The guarantees and liabilities for breach of the contract; (n) An arbitration agreement or other procedures for resolving disputes; (o) The place and date of signing the contract; and (p) Other matters that are considered necessary by both parties.

Article 16. Cooperative venture contracts are written agreements to engage in cooperative production or operation or to establish an enterprise or business, which are entered into between Special Zone parties that provide the right to use land, the right to develop resources, factories, labor force, and labor services, and investors that provide capital, equipment, materials, and technology, and which determine the ratio for the distribution of profits or products among the parties, the risks to be borne by each, and other rights and obligations. Their principal contents are similar to those listed in Article 15.

Article 17. A compensation trade contract is a written agreement entered into between an investor that provides technology, equipment, and materials to the Special Zone party, and a Special Zone party that pays back the investor with products. This type of contract shall include the following principal items: (a) The names of the technology, equipment, and materials provided by the investor, their specifications (model), quality, quantity, prices, packaging, the time and place for delivery, the standards of and procedures for inspection, and the total amount of and procedures for compensation; (b) The name, quantity, specifications, quality, price, and packaging of the

ernment or the designated department in charge before it shall become effective.

The Shenzhen Municipal People's Government or the designated department in charge shall inform the applicants of its opinions concerning examination and approval within three months after the day on which the contract is submitted for approval.

Article 6. Contracts that violate the laws and regulations of the People's Republic of China, harm the sovereignty of China products to be provided as compensation by the Special Zone party, the time and place for delivery, and the standards of and procedures for inspection; (c) The settling bank, currencies, interest rate, and method of payment; (d) Guarantees and responsibilities for breach of the contract; (e) The term of the contract and the compensation term; (f) An arbitration agreement or other procedures for resolving disputes; (g) The Special Zone party's right to use idle production capacity after completion of the tasks stipulated in the contract; (h) The place and date of signing the contract; and (i) Other matters that are considered necessary by both parties.

Article 18. A contract for assembly or for processing is a written agreement entered into between an investor that provides materials or components (or provides certain equipment and technology), and a Special Zone party that processes or assembles pursuant to the investor's requests, hands the finished product over to the investor for sale, and collects fees for the work done. This type of contract shall include the following principal items: (a) The names of the parts or materials provided, their specifications (model), quality, quantity, spoilage rate, place of delivery, shipping charges, the standards, time of and procedures for inspection and the schedule requirements; (b) The names of the products processed or assembled, their specifications, quality, quantity, method of inspection, place and time for delivery, schedule, shipping charges, and requirements for packaging; (c) The unit price for processing, total price, the fees to manufacture the products on a trial basis and the assumption of the fees for samples; (d) The settling bank, the currencies and the method of payment; (e) The term of the contract; (f) The guarantees and the reponsibilities for breach of the contract; (g) An arbitration agreement or other procedures for resolving disputes; (h) The Special Zone party's right to use idle production capacity after completion of the tasks under the contract; (i) The place and date of signing the contract; and (j) Other matters that are considered necessary by the parties.

Article 19. In establishing an enterprise or business financed independently by an investor in the Special Zone, only after reporting to and obtaining the approval of the Shenzhen Municipal People's Government can the investor sign a land-use contract, labor service contract, and contract to use electricity and water, as well as other contracts, with the relevant departments or enterprises in the Special Zone.

Article 20. Land-use contracts, labor service contracts, contracts for the importation of technology, leases of houses, property mortgage contracts, and similar contracts shall be signed in accordance with the pertinent laws and regulations of the Special Zone.

Not only has Shenzhen's contract legislation had an immediate impact on the many negotiations currently underway in the Shenzhen SEZ, but the legislation has also been invoked "for reference" by Chinese negotiators in other zones. Chinese lawyers even refer to it when negotiating investments elsewhere in China, claiming that the long-awaited national foreign economic contract law will resemble Shenzhen's. Moreover, the 14 Chinese coastal cities that have recently been authorized to create economic development zones are carefully studying the pros and cons of Shenzhen's legislation, and may adopt it in whole or in part.

Property leases, contracts for the purchase and sale of goods, warehouse bailment contracts, construction project contracts, contracts to supply electricity and water, transportation contracts, insurance contracts and similar contracts shall be signed in accordance with the provisions of the pertinent laws and regulations of the People's Republic of China.

Contracts that are not listed in these Provisions shall be signed in accordance with the principles of these Provisions.

CHAPTER III. PERFORMANCE AND RESPONSIBILITIES FOR BREACH OF CONTRACT

Article 21. Each party to the contract must strictly comply with the provisions of the contract and fully perform its obligations under the contract. If either party does not perform its obligations under the contract, causing damage to the other party, it shall pay compensation to the other party for losses.

A party that does not deliver goods or make a payment on time and that is liable shall, in addition to paying compensation for the losses suffered by the other party, pay breach of contract damages for overdue performance equal to 0.1 percent of the total amount overdue for each day overdue.

Article 22. If a party to a contract is composed of two or more persons, such persons shall possess joint rights and obligations. Each such person shall have the right to assert a claim with respect to the full or partial performance of the obligations of the other party. If one of such persons has accepted the other party's performance of its obligations in whole or in part, the right of other such persons to assert a claim shall disappear in whole or in part. If one of such persons does not perform its obligations, the other such persons must perform fully and shall be liable for breach of the contract.

Article 23. If one party to a contract has partially or fully performed its obligations and the other party does not partially or fully perform its obligations, the party that has performed its obligations may temporarily stop performing its obligations and detain the other party's property and demand payment of compensation for its losses.

When one party to a contract does not fully or partially perform its obligations, the other party may temporarily postpone performance of its obligations and demand payment of compensation for its losses.

After the party that does not perform its obligations provides a guarantee concerning performance of its obligations, the other party shall immediately perform its obligations.

Article 24. If, due to *force majeure*, one party to a contract cannot perform the contract in whole or in part, it shall promptly inform the other party. A party that provides legally effective evidence may be partly or completely excused from its liability for breach of the contract.

Force majeure principally means: (a) Serious natural disasters; (b) Wars; or (c) Other irresistible incidents agreed upon in the contract.

Article 25. When, in the course of per-

formance, a contract is confirmed to be completely void, it shall be cancelled completely.

If an individual provision of a contract conflicts with the laws or regulations of the People's Republic of China, it shall not affect the effectiveness of the whole contract from its commencement so long as the parties agree through consultation to cancel or correct it.

If a contract that is signed through the use of fraud, duress, or similar means is confirmed to be void, the party that is responsible shall pay compensation for the losses caused as a result thereof.

CHAPTER IV. THE MODIFICATION, RECISSION, AND TERMINATION OF CONTRACTS

Article 26. In the event of one of the following circumstances, a contract may be modified or rescinded after approval of the approving agency: (a) If it becomes impossible to perform the contract partially or fully because of *force majeure*; (b) If a party to the contract has lost the ability actually to perform the contract; (c) If a condition agreed upon in the contract under which the contract shall be modified or rescinded occurs; (d) If a breach of the contract by one party seriously affecting the other party's economic benefit makes the performance of the contract unnecessary; or (e) If the situation has changed and both parties agree through consultation to modify or rescind the contract.

Article 27. The party requesting the modification or rescission of the contract shall submit an application and pertinent certificates to the approving agency. If there is a guarantor, the guarantor's written document shall be attached. The original contract shall still be effective until the application is approved.

If one party suffers losses due to the modification or rescission of the contract, the party that is responsible shall be liable to pay compensation, except when it may be excused from liability according to law.

Article 28. If one party to the contract assigns its rights and obligations under the contract partly or completely to another person, the other party's consent must be obtained in advance, and an agreement shall be signed and submitted to the contract approving agency for examination and approval. An assignment without such approval is void.

Article 29. If both parties agree to extend the term of the contract upon expiration, a new agreement must be signed and reported to the approving agency for examination and approval six months prior to the expiration of the term of the contract. The approving agency shall reply to the application within one month of its receipt.

Article 30. Final accounting and liquidation shall be carried out before the rescission or termination of a contract. The contract's provisions regarding final accounting and liquidation after termination of the contract shall not become ineffective because of the contract's termination.

After the rescission or termination of the contract, provisions concerning dispute resolution and rights to assert claims agreed upon in the contract shall still be effective during the legally prescribed period for arbitration or litigation.

CHAPTER V. ADMINISTRATION AND SUPERVISION OF CONTRACTS

Article 31. The Shenzhen Municipal Administrative Bureau for Industry and Commerce shall be the contract administration authority.

After a contract is approved, the parties shall, in accordance with the pertinent regulations of the Special Zone, report and submit a copy of the contract to the Shenzhen Municipal Administrative Bureau for Industry and Commerce for registration and register with the Shenzhen municipal tax authority.

The enterprise or institution formed in accordance with the contract must open an account at the Shenzhen Branch of the Bank of China or at another bank in the Special Zone approved by China's administrative authority for exchange control.

Article 32. The contract administration authority has the right to supervise both parties' performance of the contract, to mediate disputes concerning breach of the contract, to stop and correct any conduct of the parties that is in violation of law and to impose fines in serious cases.

The liability of persons directly responsible for violations of the Criminal Law of the People's Republic of China shall be pursued in accordance with law.

Article 33. The Shenzhen Branch of the Bank of China and the Shenzhen Branch of the State General Administration of Exchange Control shall have the authority to supervise the performance of contracts through the administration of banking and foreign exchange transactions.

CHAPTER VI. MEDIATION AND ARBITRATION OF CONTRACT DISPUTES

Article 34. Any disputes arising between the parties in the course of the performance of the contract shall be resolved through consultation or mediation in accordance with the principle of equality and mutual benefit. If consultation or mediation proves unsuccessful, the parties may, in accordance with the arbitration agreement, submit their dispute to the arbitration organ for arbitration.

Article 35. In resolving, through arbitration, disputes that arise from joint venture contracts, cooperative venture contracts and natural resources cooperative development contracts that are to be performed in the Special Zone and which are closely related to Chinese sovereignty, the laws of the People's Republic of China must be applied. Arbitration should take place in China and be conducted by an arbitration organ established in the Special Zone. However, if the parties agree, they may also choose another arbitration organ.

Article 36. In cases where the parties to a contract have not entered into an arbitration agreement, if one party applies to an arbitration organ for arbitration and the other party responds to it in writing, they will be deemed to have reached an arbitration agreement.

If the parties have not entered into an arbitration agreement, either party may bring suit in accordance with law in the people's court that has jurisdiction.

Article 37. If one party to the contract does not carry out the award given by the arbitration organ within the time limit prescribed, the other party may apply to the people's court for enforcement in accordance with the (Trial) Code of Civil Procedure of the People's Republic of China.

Article 38. When a party to a contract applies to an arbitration organ for arbitration, it shall submit the application within two years from the date it knows or should have known of the infringement of its rights. Those applications submitted after the time limit shall not be accepted and heard.

CHAPTER VII. SUPPLEMENTARY PROVISIONS

Article 39. These Provisions shall apply to the economic contracts signed between overseas Chinese, compatriots from Hong Kong and Macao, compatriots from Taiwan Province or their companies or enterprises and Special Zone parties or Special Zone enterprises.

Article 40. The parties shall each hold one original copy of the contract and shall submit one original copy to the examining and approving agency. If a contract must be written in Chinese and in a foreign language, the Chinese language version shall govern.

Article 41. These Provisions shall go into effect from the day of their promulgation.

The Provisions were approved by the Standing Committee of the 6th People's Congress of Guangdong Province on January 11, 1984, and promulgated by the People's Government of Guangdong Province on February 7, 1984. Translation by Paul, Weiss, Rifkind, Wharton & Garrison.

Resolving Contract Disputes

The emphasis is still on settling disputes through "friendly negotiations," but it helps to know the alternatives

Pitman B. Potter

China's preference for resolving disputes through informal mediation extends to disputes in China's foreign commercial relations. While the Chinese courts are empowered to hear disputes between Chinese and foreign parties, it is unlikely that many foreign firms will avail themselves of this option should a dispute arise. For not only are the Chinese courts extremely vulnerable to political pressure, but many of the regulations and procedures pertinent to judicial proceedings are state secrets not available to foreigners. Moreover, the PRC still lacks a comprehensive statute regulating foreign contracts. Thus most disputes in China's foreign economic relations are resolved through nonjudicial methods.

Historically, the PRC's preference for nonjudicial methods reflects both a traditional Chinese aversion to the use of formal legal institutions in dispute settlement and an ongoing attempt by the current regime to infuse politics into legal relationships.

While the Economic Contract Law of the PRC allows either party to an economic contract to take a dispute directly to court, informal consultation and negotiation between the disputing parties are still viewed as first steps in the settlement of contract disputes. The usual procedure calls for the disputing parties to negotiate a solution that allows delayed or partial performance in return for a reduction in the contract price. Such negotiations are informal and invariably entail compromises on both sides.

When this method of dispute resolution results in adjustments in the duties of the parties under the state economic plan, approval of higher-level plan management offices is required. In those instances where the business offices of the parties to a dispute are unable to come independently to an agreement, the dispute is brought for resolution before a higher-level management office with authority over both parties. Administrative dispute settlement by such bodies entails further attempts to mediate between the contracting parties. If mediation fails to achieve a settlement, the relevant Industrial and Commercial Management Office will simply arbitrate the dispute. The decision emerging from such arbitration is legally binding on the parties, whereas compliance with a mediation decision is voluntary. If either party refuses to submit to arbitration, the dispute may be taken to court.

▶ ***Chinese courts*** The establishment in July, 1979, of the economic law chambers in the People's Courts heralded the re-emergence of judicial methods of contract dispute resolution. Established at the county, district, and provincial levels, these bodies reportedly handled 73,000 contract dispute cases between 1980 and 1983. By 1983, some 3,000 economic law chambers had been established throughout China, and an estimated 10,000 judges were handling commercial disputes.

The procedure for adjudication of contract disputes is set forth in the Draft Civil Procedure Law of the PRC issued on October 1, 1982. Even in a judicial proceeding, as a first step the court will attempt to mediate the dispute. While judicial mediation is similar in many respects to administrative mediation, judicial mediation is legally binding on the parties whereas compliance with administrative mediation is voluntary.

If the parties insist on formal adjudication of a dispute, the court will take evidence, examine witnesses, and listen to the arguments of the parties—either speaking on their own or represented by counsel. The court's decision must be reduced to a written opinion delivered to the parties, usually within 10 days of the decision. If dissatisfied with the decision of the trial court, either party may lodge an appeal with the court at the next highest level.

▶ ***Foreign trade disputes*** The primary method for resolving trade disputes entails "friendly negotiations" between the parties. The standard form contracts preferred by the PRC in the conduct of foreign trade invariably contain provisions that disputes be resolved through negotiations. The PRC's emphasis on settlement through friendly negotiations is such that the insistance by foreign firms on arbitration of disputes has been viewed by the Chinese as evidence of insincerity or bad faith.

▶ ***Arbitration in China*** If the parties to a dispute are unable to reach a settlement through friendly negotiations, the dispute may be submitted to the Foreign Economic and Trade Arbitration Commission (FETAC). According to Article 2 of FETAC's Rules, it is empowered to handle: "disputes arising from contracts for purchase or sale of merchandise in foreign countries or contracts for commissioning an agency to purchase or sell merchandise in foreign countries, disputes arising from transportation, insurance, safekeeping or delivery of merchandise in question and disputes arising from

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other matters of business in foreign trade."

In handling such disputes, FETAC relies on both conciliation and arbitration. Conciliation entails voluntary nonbinding negotiations with the aid of a third party. Arbitration, on the other hand, is binding even though the procedures and principles employed are the same as in conciliation. Conciliation between the parties is urged as a prerequisite to arbitration and is also carried out as part of the arbitration procedure.

The Chinese explain that their preference for conciliation of trade disputes is aimed at avoiding the disruption of friendly relations between the parties and at avoiding harm to the continued development of bilateral trade relations and economic cooperation. The advantages of conciliation are also said to include speed of settlement, the development of mutual confidence between the parties, and the reduced expense.

The PRC's emphasis on resolving disputes through conciliation has led foreign firms who question the efficacy of such methods to suggest "joint conciliation" by the FETAC and such foreign arbitral organizations as the American Arbitration Association. If agreement is reached between the disputing parties, a Conciliation Statement is then issued by the FETAC setting forth the details of the dispute and the nature of the settlement.

If conciliation fails to resolve a trade dispute, the FETAC will set up an arbitral tribunal if there exists an arbitration agreement between the disputing parties. Such agreement may be reached after the emergence of a dispute.

Both arbitration and conciliation observe the requirements of Chinese law, terms of the contract at issue, and international practice. Despite its acceptance of international practice as a basis for the settlement of trade disputes, the PRC has generally sought to avoid contracts that provide for the settlement of disputes by reference to the law of a foreign country.

▶ ***Arbitration outside China*** The PRC's traditional practice of dispute settlement by the FETAC has begun to give way to acceptance of arbitration in third countries under the provisions of such arbitration rules as those of the United Nations Commission on International Trade Law. The acceptance of UNCITRAL procedures over those set forth in the FETAC rules raises the possibility of resort to law of third countries in the settlement of trade disputes with China. Article 33 of the UNCITRAL rules provides that if the applicable law has not been designated by the parties, the arbitral tribunal may determine the applicable law. Since the Chinese generally seek to avoid including choice of laws clauses in trade contracts, arbitral tribunals handling Chinese trade disputes by reference to the UNCITRAL rules will be free to determine the applicable law. While the PRC is not yet a signatory to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the Chinese have expressed their willingness to execute foreign arbitral awards so long as they are fair and not in violation of Chinese laws and policies. Thus, in the area of trade disputes, the Chinese have begun to accept dispute settlement provisions that are at variance with traditional PRC practice.

The establishment in July, 1979, of the economic law chambers in the People's Courts heralded the reemergence of judicial methods of contract dispute resolution. Established at the county, district, and provincial levels, these bodies reportedly handled 73,000 contract dispute cases between 1980 and 1983.

▶ ***Investment disputes*** China's handling of investment disputes generally follows its pattern of trade dispute settlement. The major difference is that there exists a statutory framework setting forth procedures for the settlement of investment disputes. The PRC's July 1979 Joint Venture Law contains specific provisions for the settlement of investment disputes. According to Article 14 of the law: "Disputes arising between the parties to a joint venture which the board of directors fails to settle through consultation may be settled through conciliation or arbitration by an arbitral body of China or through arbitration by an arbitral body agreed upon by the parties."

The dispute resolution provisions in the Joint Venture Law extend to foreign investments many of the same policies governing trade disputes, but the law was unsuccessful in completely alleviating the uncertainty that plagued such disputes.

The PRC then enacted "Regulations for the Implementation of the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment." Aside from clarifying such issues as the formation process, integration of joint ventures into the State Plan, and the repatriation of currency, the September 20, 1983, Regulations expand the dispute settlement provisions of the Joint Venture Law. Chapter XV of the Regulations contains the expected reference to friendly consultation or mediation, but also allows for arbitration either through FETAC or through an arbitral agency in a country "where the sued party is located . . . or in a third country in accordance with the arbitration agency's procedures."

The reference in the Regulations to arbitration in third countries represents the PRC's growing willingness to accommodate the concerns of foreign investors with respect to dispute settlement. While the FETAC has retained its functions as to arbitration of investment disputes, the PRC's formal acceptance of third country arbitration, as set forth in the Joint Venture Regulations, represents an important development in China's policy and practice of dispute settlement.

▶ ***Contract disputes in US–China trade*** The US–PRC Trade Agreement of 1979 addressed many of the general problems pertaining to the settlement of trade disputes with the Chinese. While the Agreement contains the standard reference to friendly consultations and conciliation, it also allows for alternative "mutually acceptable means" of dispute resolution. The Agreement also covers the arbitration of trade disputes, and provides that arbitration may be conducted in China, the US, or a third country. The Agreement exhibits flexibility with respect to choice of arbitration rules and refers specifically to the use of UNCITRAL

arbitration rules. Finally, the Agreement commits both the US and China to ensuring the enforcement of arbitral awards—an important point since the PRC is not a party to the Convention on Recognition and Enforcement of Foreign Arbitral Awards.

The dispute settlement provisions of the US–PRC Trade Agreement go further than those contained in other Chinese trade agreements. For instance, the Trade Agreement between China and the European Economic Community contains no provisions for arbitration. The EEC–PRC Agreement provides merely that "the two Contracting Parties shall exchange information on any problems with regard to their trade and shall open friendly consultations, with the intention of promoting trade, for the purpose of seeking mutually satisfactory solutions to those problems." The EEC Agreement allows either Contracting Party to "take measures" in exceptional cases but provides no framework for dispute settlement.

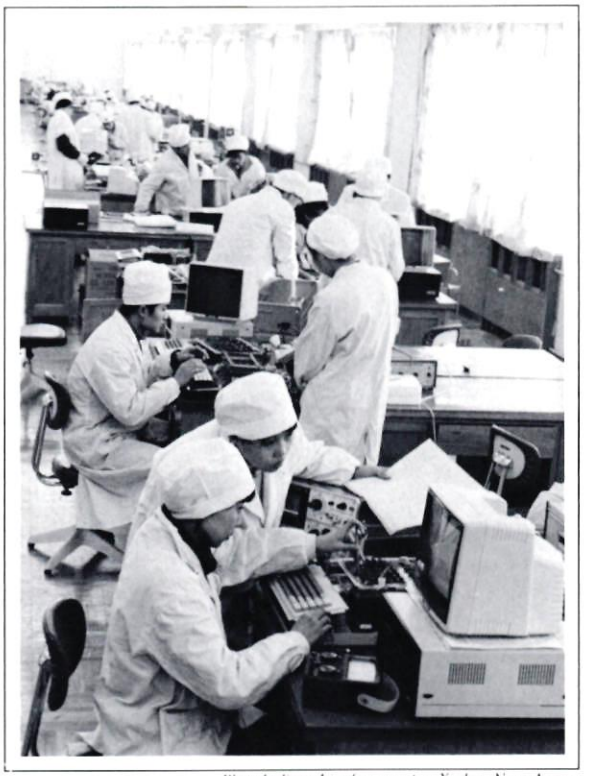
The references to arbitration in the US–PRC Trade Agreement may be seen as a departure from standard Chinese practice. On the other hand, the references to friendly consultations and conciliation in the Agreement represent concessions by the US to Chinese preferences in trade dispute settlement. Thus, the US–PRC Trade Agreement constitutes a departure by both countries from their standard practice regarding the dispute resolution provisions in trade agreements. This indicates both the importance that both countries attach to settling trade disputes, and points to their differing views on the role of arbitration.

▶ ***US-PRC investment incentive agreement*** In an attempt to provide a basis for the arbitration of investment disputes, the US and the Chinese governments negotiated and signed in 1980 an Investment Incentive Agreement. The Agreement was intended primarily to facilitate the extension of investment insurance and guaranties by the Overseas Private Investment Corporation (OPIC).

Article 6 of the Agreement provides that: "Any dispute between the Government of the United States of America and the Government of the People's Republic of China regarding the interpretation of this Agreement or which, in the opinion of one of the Governments, involves a question of public international law arising out of any investment or project or activity relating to such investment for which Coverage has been issued shall be resolved, insofar as possible, through negotiations between the two Governments. If at the end of three months following the request for negotiations the two Governments have not resolved the dispute by agreement, the dispute, including the question of whether such dispute presents a question of public international law, shall be submitted, at the initiative of either Government, to an arbitral tribunal for resolution in accordance with Article 6(b)."

While the Agreement allows for international arbitration of disputes between the two governments, it does not require China to submit to arbitration its disputes with OPIC or with foreign investors. Moreover, the dispute settlement provisions of the Agreement apply only to disputes that either concern the interpretation of the Agreement itself or involve a question of public international law. The limitation to questions of public international law removes from the scope of the Agreement's dispute settlement clause disputes involving private investment rights. Thus, in contrast to the US–PRC Trade Agreement, which allows "the parties to the dispute" to seek arbitration, the Investment Agreement does not give foreign investors the right to seek arbitration on their own behalf.

The limited scope of the Investment Agreement may be explained in part by reference to the PRC's traditional aversion to binding arbitration of foreign economic disputes. More important perhaps, the Agreement reflects China's refusal to diminish its sovereignty by submitting to arbitration in cases involving private persons. While the Chinese government's concern over becoming embroiled in litigation may stem from the fact that investment agreements are signed by Chinese government agencies, and thus involve questions of sovereignty, in practice Chinese joint venture agreements invariably contain arbitration clauses. Thus, the Chinese objection to the inclusion in the Investment Incentive Agreement of a clause allowing arbitration of investment disputes seems to be one of principle rather than practice. In any event, the Investment Incentive Agreement is but an intermediate measure toward creating an acceptable framework for settling disputes in US–PRC investment relations. The conclusion of the bilateral investment treaty that is currently under negotiation will be an important step toward such a framework. 完



More and more Chinese enterprises are signing contracts directly with their suppliers and customers. Here technicians at the No. 3 Beijing Computer Factory, China's largest microcomputer factory, are assembling and debugging microcomputers for customers throughout China.

Photo by Song Lianfeng courtesy Xinhua News Agency

THE TWO FACES OF CHINESE RAIL TECHNOLOGY

Martin Weil

The Chinese railroad system presents two very different faces. One makes a favorable impression on foreign experts and laymen alike: comfortable seats in punctual passenger trains; dense traffic, with trains often running only 10 minutes apart; a high utilization ratio that keeps most cars loaded and marshaling yards empty; and one of the world's more profitable balance sheets.

The other, less favorable side is only partially apparent to foreigners, but painfully evident to the Chinese: old technology, typified by the prevalence of steam locomotives; inadequate capacity, reflected in shipping delays; the unpredictable availability of freight cars, and the difficulty of buying tickets for ordinary passenger travel; and not least, the dictatorial behavior of the Ministry of Railroads bureaucracy, which has been known to settle disputes with shippers by refusing to allocate them cars.

Transforming this image is essential to the nation's economic development. Rail accounts for 665 billion ton-kilometers, or about one-half of freight transport, and over one-half of China's current passenger transport volume. But these figures understate rail's importance. China's industrial economy relies on coal transported from north-central and western areas to eastern and northeastern factories, and over 90 percent of this long-distance coal transport uses the rail system (sometimes in conjunction with other transport modes). Well over 400 million tons of coal moves by rail for an average distance of several hundred kilometers, close to 40 percent of China's annual rail transport volume.

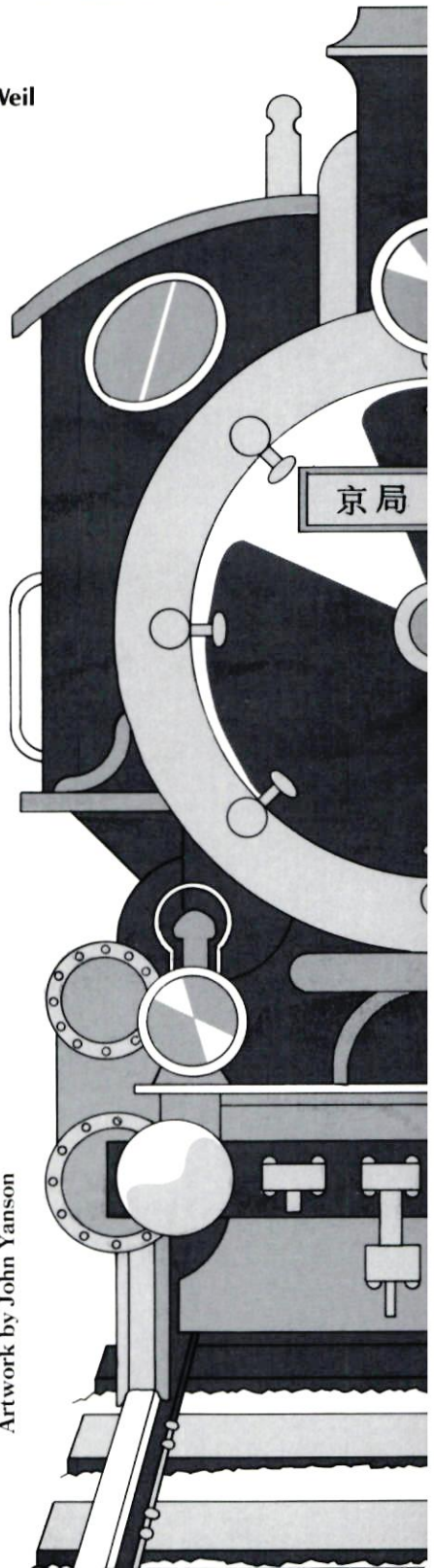
Other key commodities—iron and steel products and timber, for example—rely overwhelmingly on the rail system, as does nearly half of China's petroleum output and perhaps 25 percent of its fertilizer production. For most of these commodities, there is no alternative to rail in the foreseeable future, as there is no long-distance highway system in place, and there are no major water transport routes in arid north China.

Skewed priorities

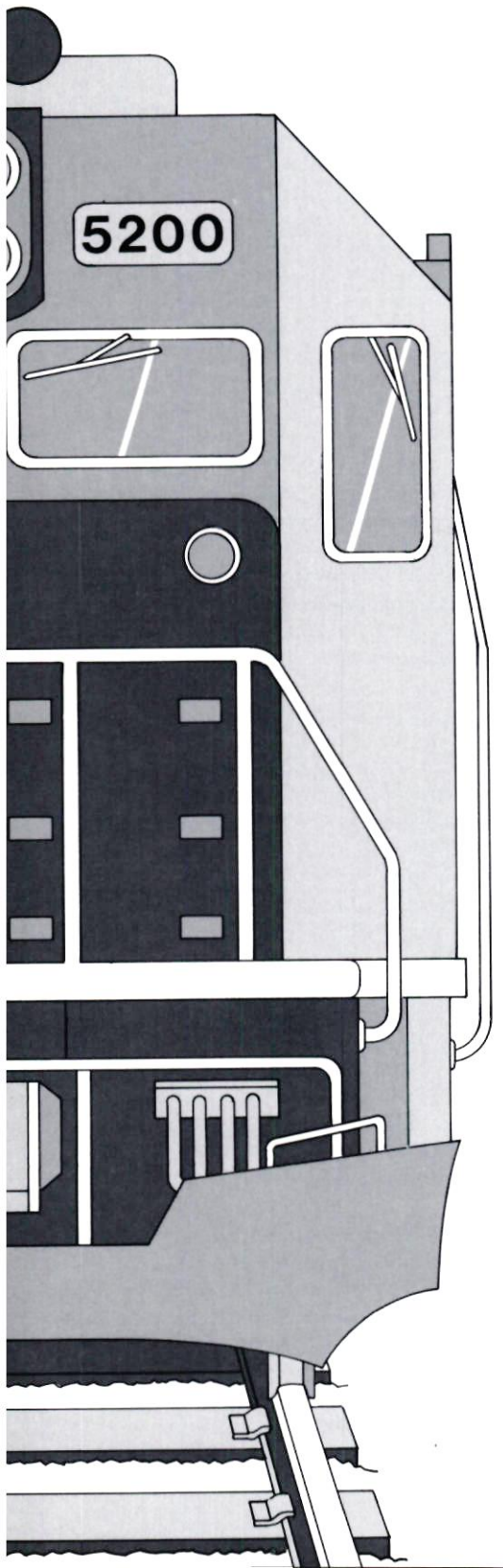
Despite its pivotal importance, the central government badly neglected the rail sector for many years, in large part because of the intermittent breakdown of long-term planning from the time of the Great Leap Forward in 1958 right through the Cultural Revolution. In fact, most national projects that required long lead-times were neglected during this time. Investment in the rail sector averaged only 8.8 percent of total investment between 1958 and 1981, compared to 10.1 percent in 1953–57. The number fell to just 6.6 percent during 1976–80. As a consequence, China's 51,600-kilometer rail network (of which less than 20 percent is double-tracked) is still considerably smaller than India's, not to mention a country like the US.

Worse still was the misallocation of what resources were spent. Right up until the end of the 1970s, the driving philosophy was to extend the rail network into new parts of the country, particularly the northwest and southwest, which resulted in enormous sums of money pouring into technically difficult lines in mountain and desert regions that yielded low economic returns. Examples include the Qinghai–Tibet line, the southern Xinjiang line, the Hubei–Guangxi line, Kunming–Chengdu line, Yangpingguan–Ankang line in southern Shaanxi, and many others.

While facilitating national integration and defense, and honing the skills of China's railroad design and construction corps, these lines took funds away from lines running to northern and eastern industrial centers, which account for about 80 per-



Artwork by John Yanson



cent of rail traffic, and which were allowed to reach the point of saturation and beyond. As much as one-third of the stations along these lines are operating at full capacity, and millions of tons of stockpiled coal from Shanxi, Shaanxi, Henan, Ningxia, and Inner Mongolia still cannot reach their eastern industrial markets for want of rail space.

Moreover, the rail sector suffered from the endemic Chinese phenomenom of overextended construction. Since more projects were underway than could be fully funded and supplied, construction projects such as the 551 kilometer Anhui–Jiangxi line, or the 885 kilometer Hubei–Guangxi line took over 10 years to finish.

All of these factors have produced a situation where rail transport volume is increasing slower than the economy as a whole. For example, in the last few years rail transport has increased at a rate of 4 percent, compared to an industrial growth rate of around 10 percent.

New railroad push

In the last year and a half, however, there have been encouraging signs that the government is finally taking action to alleviate rail bottlenecks. The rail investment budget has increased from ¥1.4 billion in 1981 (3.3 percent of the central government's total capital investment) to a projected ¥6.4 billion in 1984, or about 11 percent of the national total. This kind of major jump in one sector's share is very unusual, and takes place only when an issue has the top leadership's undivided attention.

Furthermore, investment funds are now flowing into the areas of most acute need. According to a three-year plan for 1983–85, 1,500 kilometers of double-track are to be installed, along with 2,000 kilometers of new electrified track, compared to only 1,700 kilometers of new line. Many of the new double-tracked and electrified lines will add far more to transport capacity than some of the new lines built over the years.

A substantial proportion of the new investment centers on coal lines from Shanxi, Henan, and Inner Mongolia to the east and south. The routes are unquestionably the nation's worst bottleneck. The upgrading of six lines out of Shanxi—through electrification, double-tracking, heavier rails, longer sidings, and new traffic control systems is projected to increase the province's coal transport capacity from 97 million tons in 1983 to 150 million tons in 1987. The construction of China's first special-purpose coal line from Datong to Qinhuangdao, which began in earnest this year, and the planned construction of another new line from Shuoxian (near the Pingshuo coal mine) to Shijiazhuang, will further increase Shanxi's capacity to 270 million tons by the middle of the 1990s, according to rail planning officials. Even if these targets are somewhat overambitious, which is quite possible, it is also apparent that there will be an unprecedented quantum jump in China's coal transport capacity, which could have a major impact on overall economic development.

In addition to the Shanxi lines, the government is either double-tracking or electrifying other key trunk lines, including the major north–south trunkline from Beijing to Guangzhou, the major east–west trunkline from Jiangsu to Gansu (the so-called Longhai line), and several key lines in northeast China. Other trunklines—including Tianjin to Shanghai and a number of routes in the northeast—either are or will be receiving attention soon.

Some resources are still being devoted to the lightly populated southwest. The Guizhou–Hunan line, for example, is being double-tracked, and design work is well underway for a new line linking the provinces of Guangxi and Yunnan. But these lines will facilitate coal and phosphate shipments from the southwest to the rest of the country. And more important, what investment there is in the more lightly trafficked areas is a vastly smaller proportion of the total than before 1980. Symbolically, construction has been suspended on the ambitious project to link Qinghai and Tibet. The first stage from Qinghai's capital to the petroleum-rich Qaidam Basin was completed amidst reports of unstable roadbeds on the frozen Qinghai–Tibet plateau, locomotives with operational problems at high altitudes, and of many other technical difficulties.

Foreign help

As its network expands, China's rail industry is entering the first stages of what promises to be a major technical transformation. Larger and

more efficient locomotives, higher quality specialized rolling stock, heavier rails, higher quality braking systems, and more automated signaling systems are all on the agenda. These improvements could permit more than a doubling in the country's ratio of freight to unit track length. The prospect of such a large increase in the utilization of existing track lies behind China's stated objective of doubling freight and passenger traffic by the end of the century with only a 50 percent increase in track mileage.

It is already apparent that foreign know-how is central to this transformation. Not only has the Ministry of Railways finally been allocated more foreign exchange, but it has begun to shed its well-earned reputation as one of China's most self-reliant and inward-looking ministries.

North American firms, in particular, could have a large role to play in this transformation, as their technology is suited to long-distance freight (and coal) transport across a huge land mass. Just last year, General Electric sold 220 diesel locomotives to China. This increased China's diesel fleet by 10 percent, and was the single largest US equipment sale to China ever. A similarly large contract for electric locomotives is likely to be signed in the near future with a Western firm.

Less publicized deals include a license from Pullman Standard of the US to manufacture a scaled-down version of its 70-ton coal hopper car in Dalian; 200 used 65-ton coal hoppers from the Pittsburgh and Lake Erie Railroad; trial purchases preparatory to technology transfer of a variety of components associated with large coal trains, such as several hundred braking units along with composition brake shoes; a comparable number of car couplers; and shock-absorbers that go between carbodies and couplers. In addition, the US government's Trade and Development Program (TDP) recently agreed to fund a US company's participation in a feasibility study to upgrade China's only railroad wheel production facility at the Maanshan Steel Mill.

Most of these deals should lead to substantial follow-up business, and therefore represent more than piecemeal purchases. In many cases, they signify a desire on China's part to begin shifting its rail industries toward foreign standards, including those of the American Association of Railroads.

In addition to equipment used on trains, US firms have sold sophisticated land surveying equipment and a variety of railroad construction equipment. Although Japan has been the main beneficiary, US firms have also won certain competitive bids for construction equipment and even railroad ties for coal-carrying railroads in the provinces of Hebei and Shandong funded by Japanese government loans over the last four years. A double-tracking project on the Hunan–Guangdong railroad (including a long tunnel), and an electrification project on China's major east–west trunkline, will be included in the next round of Japanese aid projects starting in 1985.

World Bank bids are currently out for materials and equipment to construct a new railroad from Henan to Shandong Province, double-track and electrify an important coal line in northern Shanxi, and double the capacity of China's electric locomotive factory in Zhuzhou. Another round will be let in the second half of this year. In the next few years, the bank will probably get involved in new projects to electrify the Beijing–Guangzhou line, further upgrade the Zhuzhou factory, and modernize an important passenger coach factory in Changchun. As Beijing looks more seriously at computerization, US firms could also make equipment sales for signaling and railroad control operations.

Not yet the millenium

For all the talk of foreign assistance, the technical modernization of China's railroads is still a long-term proposition. To cite one obvious example: phasing out China's steam locomotives will obviously take a long time, as steam engines still account for 70 percent of China's locomotive stock. In fact, the Datong steam engine factory still produces about half of China's 600-unit annual locomotive output, and new lines designed to use steam locomotives are still being built.

Even if locomotives and rolling stock could all be transformed overnight, there would be other limiting factors. The length of sidings, for example, are generally only 650 or 850 meters, which limits train length to around 45–60 cars. Even many newly upgraded lines only have 850-meter sidings, with 1050 meters reserved for the more distant future. The 800-meter length of signaling blocks—attributable to a regulation requiring that braking distance be 800 meters or less—also sets de facto limits on train size and speed, as does the fact that China is still installing 40-kilogram per meter rails on many lines and is just beginning to use 60-kilogram per meter rails.

Installing new signaling equipment, heavier rail, and more advanced loading and unloading systems—not to mention new operating equipment—will require a staggering investment. This can only be done step-by-step, starting with the most important lines, and will take many years. Furthermore, China must carry out this work with a minimum of disturbance to existing traffic—something that inevitably lengthens project cycles. On the Beijing–Datong electrification project, for example, construction work is unencumbered by passing trains for only about 4 hours out of 24.

Much more attention will also have to be paid to careful planning. The full advantages of automatic signaling, for example, cannot be realized if braking systems are not adequate to stop the trains within the length of the signaling block. The Chinese have not always been fully cognizant of such realities, and have wasted funds in the past.

For all the increase in funding, the pot is not unlimited. Indeed, one effect of the shortage of money is that powerful ministry officials are calling for lower technical standards in some areas. One vice-minister, for example, recently advocated raising the maximum gradient in mountainous, lightly traveled lines from the present 0.6–1.2 percent to 1.5–2 percent, and decreasing the minimum radii of curvature from the present 400 meters to 200–250 meters. Such moves would reduce the lines' transport capacity. The Ministry's foreign exchange budget has its limits too, as demonstrated by the failure to purchase large quantities of foreign rolling stock.

Policy disputes could also slow modernization. Newspaper articles suggest, for example, that there are still disagreements over the appropriate budget shares for new lines versus renovating old ones, and for building new double tracks as opposed to upgrading

signaling on existing track.

Interministerial turf battles have also created some problems. The Ministry of Railroads controls most major rail equipment factories, including locomotive and wagon plants, but the Ministry of Metallurgical Industry owns all rail, wheel, and tie-plate plants. Petty disputes between the two ministries over profits have thwarted efforts to rationalize production and assembly of axles and wheels.

The Ministry of Machine Building Industry, which has its own rolling stock manufacturing facilities, is the recipient of the Pullman Standard coal car license, and knowledgeable observers wonder how well MMBI's cars will be received by the railroads. Even within the Ministry of Railroads itself, there seem to be differences of opinion between manufacturing interests and operators, particularly over the sensitive issue of buying foreign equipment.

These are just some of the obstacles confronting China's railroad modernizers. Propelling them forward, though, is the central government's determination to overcome one of the economy's most troublesome bottlenecks. The increased investments now will inevitably have a very positive impact by the beginning of the next decade.

Many economic and technical indicators favor the American model

DEBATING THE TECHNICAL ISSUES

Ideally, the Chinese would like to increase the size, speed, and frequency of their trains. But in practice there are tradeoffs between many of the improvements the Chinese desire, making it impossible to achieve all their goals simultaneously.

It is difficult, for example, to significantly increase both the speed and size of trains at the same time, as the horsepower used for the one detracts from the horsepower available for the other. Under the long distance conditions prevailing in China, economic considerations tend to favor larger loads rather than higher speeds—in essence, a North American model of large trains with modest speeds rather than a European model of smaller trains with faster speeds.

Thus, the running speed of China's freight trains is likely to increase only incrementally over the current average of 35–45 kilometers per hour. Greater effort will be made to increase train size—first to the 3,500-ton level, then gradually, as heavier rails and longer sidings are installed, to 4,000-5,000 tons and beyond in a few special cases, such as the new Datong–Qinhuangdao unit train line.

The effort to modernize passenger trains likewise will concentrate on increasing train length from 12–14 cars at present to 16–20 cars in the future, rather than dramatically increasing the maximum running speeds. These are somewhere in the vicinity of 80 kilometers per hour for diesel locomotives (which pull almost half of China's passenger trains), and 50–60 kilometers per hour for steam locomotives that pull the rest. Greatly increasing the passenger speed cuts too heavily into the capability of the lines to transport the slower freight trains.

More pulling power

Increased locomotive pulling power is the key to any industry-wide improvement, and it is apparent that of all the aspects of rail modernization, upgrading locomotives has the highest priority.

A long and bitter fight between competing locomotive interests within the Ministry of Railroads appears to have resulted in a policy of accelerated use of electric locomotives. Right now, these account for only about 3 percent of China's total stock of 11,000 locomotives. Until electrification becomes a reality, however, key lines are being called upon to replace their steam engines as soon as possible with diesel locomotives, which account for about 20 percent of locomotive stock and transport volume.

The major drawback to electrification is the high capital cost of building electrified lines, which is an important reason why electrification has never caught on in the US. But electrification has many advantages. Electric locomotives tend to be more energy efficient than diesels, and are capable of pulling larger loads, particularly on steep grades.

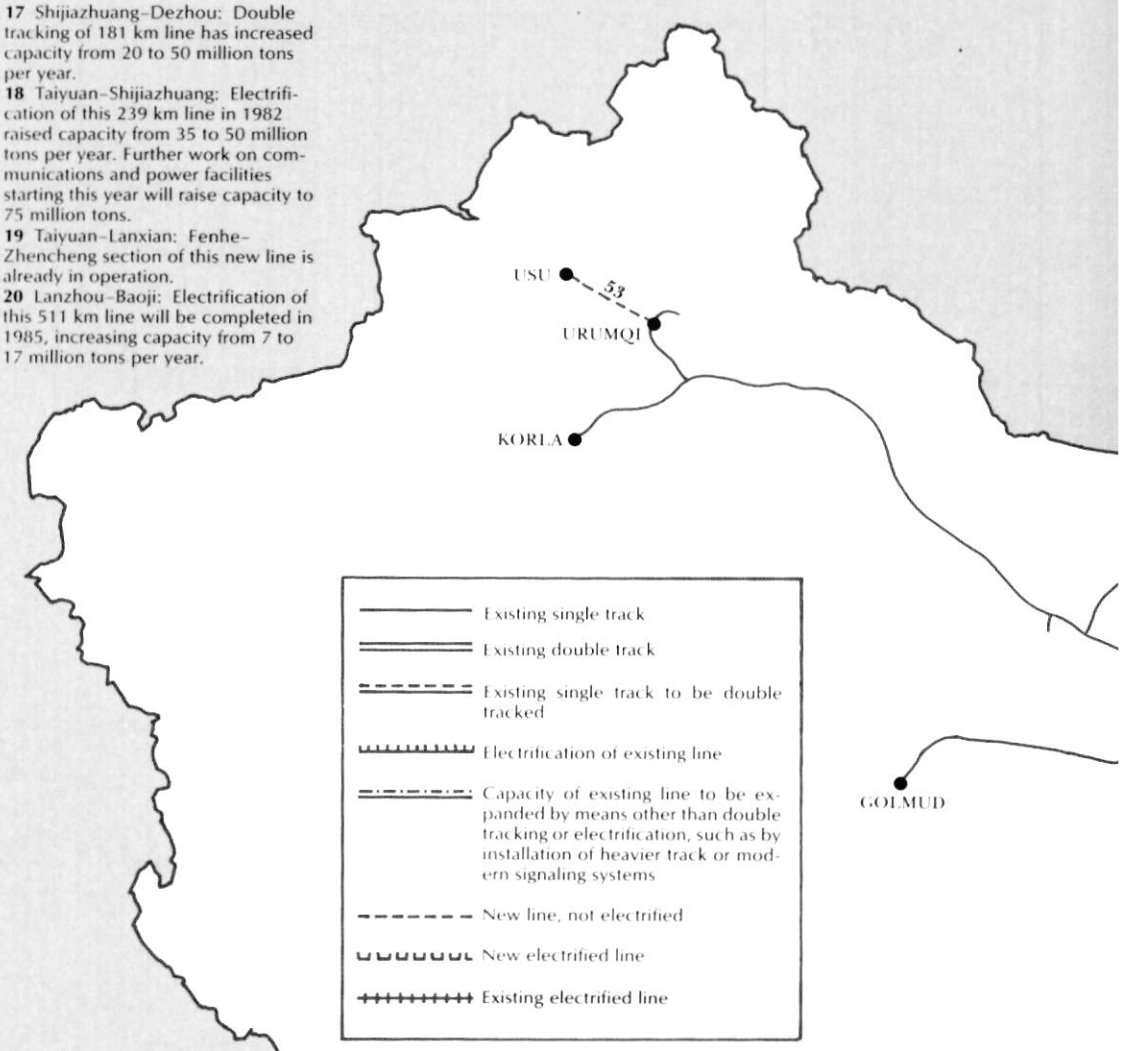
While China's diesel partisans have argued that this higher load factor does not really matter on level terrain, given the restrictions that track weight and siding length place on loads in China, they are unable to refute the other major advantage of electric locomotives, which is their superior ability to maintain power in mountainous areas and to accelerate. The acceleration factor is especially important in a country like China, where freight trains must frequently stop and start to let the more rapid passenger trains pass them by.

China began its electrification program in the 1960s, when prototype electric locomotives were purchased from Western Europe, and electrification construction work commenced on the mountainous Chengdu–Baoji line. Due to a combination of technology absorption problems, bureaucratic in-fighting, and high costs (¥2.7 billion was spent on the 239-kilometer Taiyuan–Shijiazhuang line alone), progress was slow at first. By the end of 1982, only 1,800 out of China's 50,000-plus kilometers of track were electrified—and these were mainly in the remote southwest.

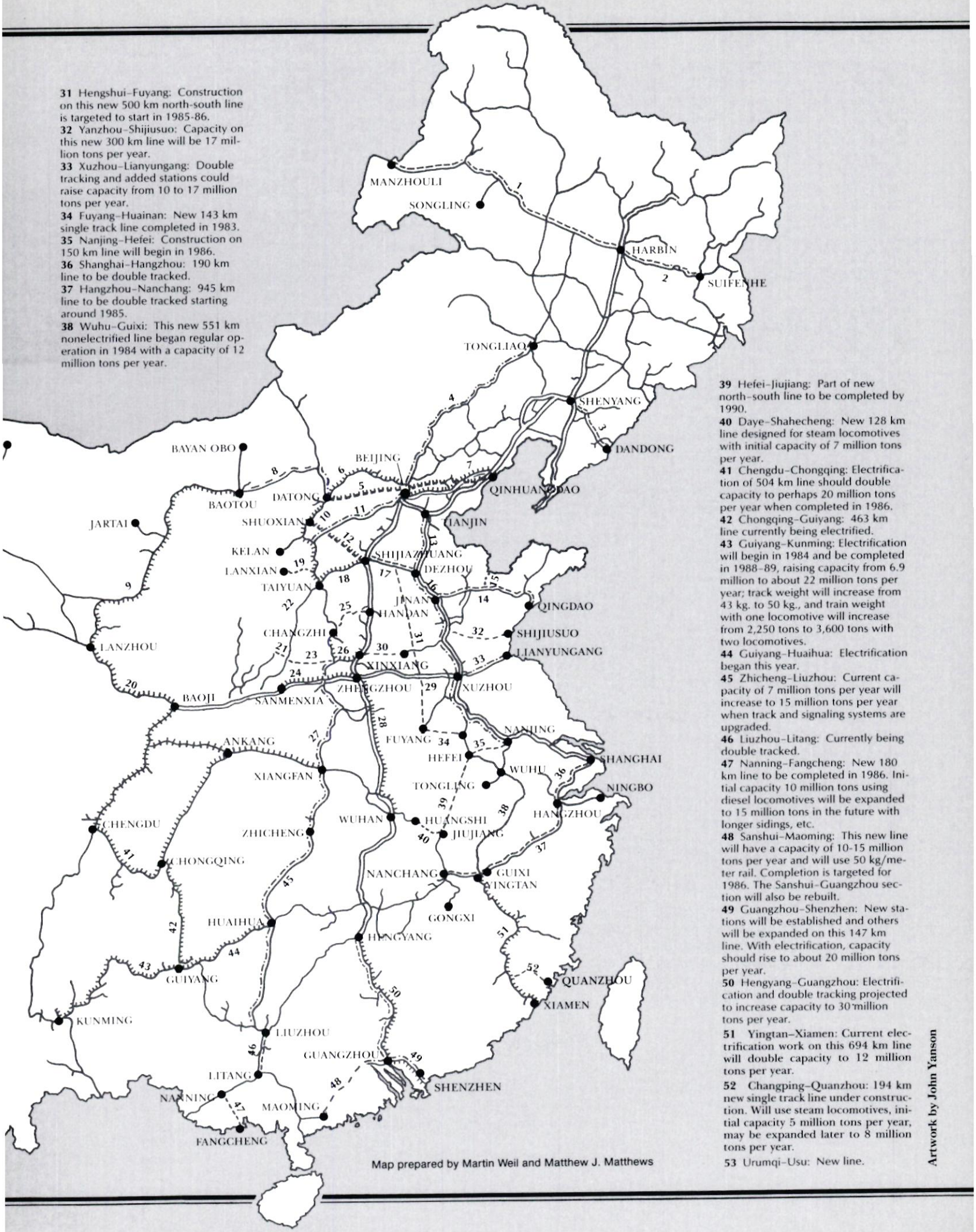
In recent years, though, more money has been allocated to electrify trunklines in the heartland, and the trend is accelerating. Proponents of electrification have in fact proposed that 1,000 kilometers of track be electrified each year, with the total covering about 30 percent of the network length and 80 percent of the

China's Railroad System

1 Harbin–Manzhouli: 935 km line being double tracked, completion date 1985.
2 Harbin–Suifenhe: 548 km line being double tracked, completion target 1985.
3 Shenyang–Dandong: 351 km line being double tracked with construction to be completed by 1985; the ¥280 million project should increase capacty from 28 million to 55 million tons per year.
4 Beijing–Tongliao: Capacity of 836 km line being expanded to about 10 million tons per year.
5 Datong–Qinhuangdao: A new 630 km heavy-duty electrified coal line will have a capacity of approximately 100 million tons per year; Datong–Beijing section will be double tracked and finished by 1988; Beijing to Qinhuangdao will be single tracked and completed by 1991 with possible double tracking later.
6 Datong–Beijing: This 379 km line is being expanded by electrification and the installation of heavier rail and longer sidings, among other investments, which should increase capacity from 45 million to 60 million tons per year by 1985.
7 Beijing–Qinhuangdao: This 273 km line is being electrified and double tracked with financial help from the Japanese; will increase capacity to 60 million tons per year when completed in 1986.
8 Datong–Baotou: Double tracking of 450 km line will expand capacity by 70% to perhaps 20 million tons per year; work began in 1983 and will be completed by 1990.
9 Baotou–Lanzhou: Electrification of 980 km line will begin in 1985, doubling capacity to perhaps 20 million tons per year.
10 Datong–Taiyuan: Electrification and partial double tracking of 355 km line with World Bank assistance; will increase capacity from 8 million to 33 million tons per year on the Datong–Shouxian section; and more than double capacity on other sections.
11 Beijing–Yuanping: Railway stations on 437 km line will be lengthened from 650 to 800 meters, and diesel engines will replace steam engines on this line to raise capacity from 7 to 10 million tons per year by the end of 1984.
12 Shuoxian–Shijiazhuang: Construction to start in 1985–86 on this new electrified line; capacity to be 60 million tons per year.
13 Tianjin–Nanjing: Capacity to be increased from 35–40 million to 50–60 million tons per year by upgrading Xuzhou and Jinan stations and marshalling yards.
14 Jinan–Qingdao: Double tracking will be completed by the end of 1985, raising capacity from 17 to 30 million tons per year.
15 Yidu–Dajiawa: Construction began in May 1984 on this 71 km line, which is scheduled for completion in 1986; salt from Laizhou Bay will be the primary commodity transported.
16 Yuancheng–Danjiazhuang: Double tracking on this 213 km line was recently completed, and capacity raised from 20 to 50 million tons per year.
17 Shijiazhuang–Dezhou: Double tracking of 181 km line has increased capacity from 20 to 50 million tons per year.
18 Taiyuan–Shijiazhuang: Electrification of this 239 km line in 1982 raised capacity from 35 to 50 million tons per year. Further work on communications and power facilities starting this year will raise capacity to 75 million tons.
19 Taiyuan–Lanxian: Fenhe–Zhencheng section of this new line is already in operation.
20 Lanzhou–Baoji: Electrification of this 511 km line will be completed in 1985, increasing capacity from 7 to 17 million tons per year.



21 Houma–Yumenkou: New single track 79 km line is currently under construction.
22 Taiyuan–Puzhou: Double tracking on this 488 km line began in 1981, and is to be completed by the late 1980s; capacity will increase from 17 to 30 million tons per year.
23 Houma–Yueshan: Construction on this new 249 km single track line will begin in 1985.
24 Sanmenxia–Zhengzhou: Electrification of this line will begin in 1984–85 financed by Japanese loans.
25 Changzhi–Handan: This new line opened in 1982 with a capacity of 6 million tons per year; further improvements will bring capacity up to 12 million tons per year.
26 Changzhi–Xinxiang: When electrified in 1985, capacity will increase from 17 to 35 million tons per year.
27 Jiaozuo–Zhicheng: Capacity of this 756 km single track line was recently expanded.
28 Zhengzhou–Wuhan: A World Bank loan in 1985-86 will electrify this 540 km line and expand capacity from 35 to 55 million tons per year.
29 Zhengzhou–Xuzhou: Double tracking was completed in 1982, raising capacity to 50 million tons per year.
30 Xinxiang–Yanzhou: The first 164 km section between Xinxiang and Heze is a new single track line with 10 million tons per year capacity; capacity on 140 km second section from Heze to Yanzhou will be expanded to 17 million tons per year.



31 Hengshui–Fuyang: Construction on this new 500 km north-south line is targeted to start in 1985-86.
32 Yanzhou–Shijiusuo: Capacity on this new 300 km line will be 17 million tons per year.
33 Xuzhou–Lianyungang: Double tracking and added stations could raise capacity from 10 to 17 million tons per year.
34 Fuyang–Huainan: New 143 km single track line completed in 1983.
35 Nanjing–Hefei: Construction on 150 km line will begin in 1986.
36 Shanghai–Hangzhou: 190 km line to be double tracked.
37 Hangzhou–Nanchang: 945 km line to be double tracked starting around 1985.
38 Wuhu–Guixi: This new 551 km nonelectrified line began regular operation in 1984 with a capacity of 12 million tons per year.

39 Hefei–Jiujiang: Part of new north–south line to be completed by 1990.
40 Daye–Shahecheng: New 128 km line designed for steam locomotives with initial capacity of 7 million tons per year.
41 Chengdu–Chongqing: Electrification of 504 km line should double capacity to perhaps 20 million tons per year when completed in 1986.
42 Chongqing–Guiyang: 463 km line currently being electrified.
43 Guiyang–Kunming: Electrification will begin in 1984 and be completed in 1988–89, raising capacity from 6.9 million to about 22 million tons per year; track weight will increase from 43 kg. to 50 kg., and train weight with one locomotive will increase from 2,250 tons to 3,600 tons with two locomotives.
44 Guiyang–Huaihua: Electrification began this year.
45 Zhicheng–Liuzhou: Current capacity of 7 million tons per year will increase to 15 million tons per year when track and signaling systems are upgraded.
46 Liuzhou–Litang: Currently being double tracked.
47 Nanning–Fangcheng: New 180 km line to be completed in 1986. Initial capacity 10 million tons using diesel locomotives will be expanded to 15 million tons in the future with longer sidings, etc.
48 Sanshui–Maoming: This new line will have a capacity of 10-15 million tons per year and will use 50 kg/meter rail. Completion is targeted for 1986. The Sanshui–Guangzhou section will also be rebuilt.
49 Guangzhou–Shenzhen: New stations will be established and others will be expanded on this 147 km line. With electrification, capacity should rise to about 20 million tons per year.
50 Hengyang–Guangzhou: Electrification and double tracking projected to increase capacity to 30 million tons per year.
51 Yingtan–Xiamen: Current electrification work on this 694 km line will double capacity to 12 million tons per year.
52 Changping–Quanzhou: 194 km new single track line under construction. Will use steam locomotives, initial capacity 5 million tons per year, may be expanded later to 8 million tons per year.
53 Urumqi–Usu: New line.

Map prepared by Martin Weil and Matthew J. Matthews

Artwork by John Yanson

total freight by the year 2000. While this probably overstates the speed with which electrification can be accomplished, it nonetheless suggests the shape of the future.

One coal line out of Shanxi has already been electrified, and three others are in the process. In all but one case, the upgrade (in conjunction with selective double-tracking) has more than doubled their transport capacity. Linked to these lines will be a new electrified double-tracked line from Beijing to Qinhuangdao that will be completed in 1986.

Electrification is also well underway on the major east–west "Longhai" trunkline. Work on the most heavily trafficked sections of the Beijing–Guangzhou line will start in the 1986–90 period under the Seventh Five-Year Plan. Other key lines likely to undergo electrification in this period include a new route into northeast China, as well as the Tianjin–Shanghai and Harbin–Dalian lines. Finally, the electrified network in the southwest is being expanded from Sichuan into Hubei, Guizhou, Yunnan, and Hunan—all mountainous areas that severely restrict the size of trains pulled by fossil fuel locomotives.

Importing electric locomotives

After years of debate and hesitation, the Chinese have decided to buy a large number of electric locomotives from abroad and to license the technology for key parts in a manner similar to the GE diesel-electric deal. While the specifications of the locomotives to be imported call for some of the largest traction motors in the world, even more significant is the acknowledgment that China cannot bring the Shaoshan 4 locomotive into commercial production rapidly enough and therefore must buy abroad. The Shaoshan 4 is an 8,000 horsepower eight-axle machine under trial production in Zhuzhou designed for hauling heavy coal trains. The locomotives to be imported have specifications generally similar to the Shaoshan 4.

The Rail Ministry hopes to sign an electric locomotive purchase agreement within the next year. The large number of potential competitors, however, may prolong the selection process. Companies from the US, Czechoslovakia, France, Sweden, and Japan are all under consideration.

The World Bank has also become involved in China's electric locomotive industry. The bank is discussing a major loan to upgrade the Zhuzhou plant, China's sole electric locomotive manufacturer, and has already committed $20 million of its 1984 railway loan to China for machine tools, instruments, and CAD/CAM system to help the factory expand its capacity from 60 to 120 units per year. This should marginally improve the quality of its principal product, the Shaoshan 1.

The 5,600-horsepower Shaoshan 1, named in honor of Chairman Mao's birthplace (just north of the Zhuzhou Locomotive Factory), is essentially a copy of West European electric locomotive technology of the 1960s. While foreign observers indicate that it runs satisfactorily, they compare it to the rugged Shanghai sedan, another sturdy energy-guzzler. The general design, and particularly the electrical system, could stand major improvements.

GE's diesel locomotives sale

Electric locomotives may be the wave of the future, but better diesels are needed now to increase haulage on unelectrified lines. Therefore, China signed its mammoth contract for 220 diesel-electric locomotives and component technology with GE before spending money on electric locomotives.

The decision to buy diesels was slow in coming, however. In the 1970s, the attitude was full speed ahead for diesel locomotives. In fact, the Rail Ministry came very close to purchasing foreign diesel locomotives in 1979. But fiscal readjustment intervened, and as a result of the prevailing gloomy forecasts about petroleum availability, the railroad planners retreated. Even some lines that had originally been designed for diesel locomotives began running steam locomotives.

Not surprisingly, thinking shifted again in late 1982, as economic growth surged, causing even worse transport bottlenecks. Perhaps the leadership also recognized that locomotives currently consume less than 5 percent of China's diesel oil output, and that enhanced refining techniques could increase diesel yield considerably. At any rate the leadership now appears committed to phasing out the inferior steam locomotives, although the timetable is still uncertain.

Chinese sources make clear that there was considerable resistance to involving a foreign company at all in the diesel program. But in the end, the demonstrated deficiencies of Chinese diesels settled the issue.

Chinese factories have long tried, but failed to achieve, a workable extra-heavy-duty diesel-hydraulic locomotive for mainline freight hauling. Somewhat better success has been obtained with the 3,300 (effective capacity) horsepower Dongfeng ("East Wind") 4 diesel-electric produced by the Dalian factory. Though the main freight diesel at present, it is less than totally reliable, and wastes fuel. A particularly serious problem is its 50 percent drop in horsepower at high elevations.

The decision to favor American 4,000 horsepower diesel-electric technology over European competition, aside from the commercial factors, was attributable to US experience in developing high horsepower machines for heavy trains hauled over long distances. The 220 locomotives actually purchased from GE will be used exclusively for mainline freight hauling between Shanghai and Tianjin. The Chinese have indicated interest in up to several hundred more machines, although the seven major Chinese factories participating in the technology transfer arrangement would provide an increasing number of parts for the engines.

However, GE's 10-year contract does not transfer all the technology associated with its locomotive. The engine, at least, reportedly remains outside the contract's scope, perhaps a sign of China's growing realism about what is feasible through technology transfer.

It remains to be seen to what extent the Chinese will use GE's technology. The evidence suggests they will not adopt the GE design in toto, but will continue with the basic Dongfeng diesel-electric while adapting GE's technology for critical parts. This probably reflects the strong political pressure from Chinese diesel factories, which harbor strong protectionist sentiment, although observers question whether this piecemeal method is really the most efficent way to absorb foreign technology.

The Chinese are, however, taking the opportunity to rationalize their

diesel locomotive industry which, like most Chinese machine-building industries, is operating way below capacity. The large horsepower diesel-hydraulic development push is apparently being abandoned, and the factory in Ziyang, Sichuan Province, formerly involved in that effort, is switching to manufacturing the Dongfeng 4 diesel electric. The Datong factory, which currently manufactures steam locomotives, will also begin manufacturing the Dongfeng diesels using GE technology. The plant will continue to make steam locomotives, but after 1985 these will be used only for shunting, not mainline haulage. The manufacture of smaller horsepower diesel-hydraulic locomotives for passenger transport will apparently be concentrated in two very underutilized factories in Beijing and Qingdao.

Beijing will also be given responsibility for the Dongfeng 8, a 4500-horsepower diesel-electric designed for heavy-duty coal trains that is currently in the R&D phase. GE technology should figure prominently in this machine as well.

Rolling stock

The Railroad Ministry has not yet made improved rolling stock as high a priority as locomotives. Significantly, two of the largest rolling stock contracts with foreign companies—the license with Pullman Standard for coal hoppers, and the purchase of 200 coal cars from the Pittsburgh, and Lake Erie Railroad—were signed with the Machine Building and Coal ministries respectively.

The two chief problems with Chinese rolling stock are their excessive weight (a result of the materials they are made of) and the widespread use of friction, rather than roller bearings. In the past, the Chinese have purchased machinery to make roller bearings; further purchases, particularly of US machine tools, are quite possible in the future.

If the Rail Ministry does choose to license freight car technology, the coal car is the most likely candidate, being the most widely used car on the Chinese system. There is talk of building a new coal car factory in Shanxi Province with foreign help. Refrigerator cars are also believed to be a high priority, as the Wuhan Refrigerator Car Factory only makes about 250 cars per year. A large portion of perishable food products are still shipped in box cars, with predictable results. China must find a solution to spoilage since food product shipments are growing very rapidly.

Passenger cars could be next in line for improvement. The Railroad Ministry has already requested assistance from the World Bank to modernize the Changchun passenger car factory, which mainly makes the hard-seat coaches occupied by China's lowest-fare passengers. Few who have traveled on these coaches would dispute the soundness of this investment priority.

Braking

Poor braking technology is a major restraint to the speed and length of Chinese trains. According to one observer, the level of Chinese technology is about what was seen in the US 40 or 50 years ago.

Among the more urgent tasks facing Chinese manufacturers are substituting higher friction-coefficient composition brake-shoes in place of the metal shoes used today, and improving China's pneumatic valve technology so that the brakes can be applied at once throughout an entire train.

So far, the Chinese have only purchased sample quantities of US braking systems for testing, but there are indications that they will move to license brake technology soon, at least for heavy-duty coal trains. If it is possible, the railroad operators would also like to find a way to integrate selected foreign components into the braking systems on some of the many trains that will not be able to switch over to foreign technology in the immediate future.

Traffic control systems

Despite some visitor reports of trains running only 10 minutes apart on certain routes, outdated signaling technology still constrains traffic density on most lines.

China possesses "centralized traffic control" technology that was pioneered in the US before World War II. As the name implies, CTC technology allows a central control station to communicate with signaling units placed at regular intervals along a track, theoretically enabling one train to run in each interval. But only about 10 percent of China's lines have this system, with most of the rest running on semi-automatic block technology, which effectively permits only one train per single track between stations or sidings.

The CTC sections themselves are further limited by the 800-meter length of the signaling intervals, which restricts the length of trains run on each section. Furthermore, Chinese sources suggest that some CTC sections have been less than fully utilized because complementary requirements are not met, one example being that brakes are not always adequate to stop the trains within the signaling blocks, especially on slopes.

Perhaps for these reasons, Chinese CTC advocates complain that not enough emphasis is placed on traffic control as a means to increase capacity. The bureaucratic impulse has traditionally been to double-track existing lines, rather than install CTC systems that could achieve most of the same benefits at only a fraction of the cost, Chinese

Photo courtesy of New China Pictures Co.

Shaoshan 1 electric engines being assembled at Zhuzhou's Tianxin Rolling Stock Plant, China's only electric locomotive manufacturer.

CTC enthusiasts claim.

There are, however, encouraging signs that this attitude is changing. On the Changzhi (Shanxi)–Xinxiang (Henan) line, for example, only short sections of the route are being double-tracked, while CTC is being installed on the entire length.

The major need for foreign technology lies not so much in the signaling units themselves as in the communications system and central control center. Japan has been approached for help in laying a fiber-optic communications network, for the new Datong–Qinhuangdao railroad.

In a separate development, the Canadian National Railroad's consulting arm has been undertaking a study in China concerning computerization of car dispatching and marshaling. Any move to implement such a system would undoubtedly result in considerable foreign data processing and telecommunications equipment sales, and in fact, a number of regional rail bureaus are beginning to use computers for dispatching.

Some customers view the railroads as a law unto themselves

RAIL MANAGEMENT

Improved rail performance is a function of management and organization as well as hardware. While China's rail system is very well run from the point of view of utilization and turnover rates of cars, the system still suffers severe bureaucratic problems.

The basic operating units of the Ministry of Railroads are its 15 regional bureaus and their numerous sub-bureaus. These units own their own locomotives and marshaling yards, and are responsible for the dispatch of trains on Railroad Ministry track in their areas. They execute the transport directives of the State plan, and enter into "contracts" with local shippers.

The government reduced the number of bureaus last year from about 20 to 15. Wuhan was absorbed by Zhengzhou, Taiyuan by Beijing, Jinzhou and Jilin by Shenyang, and Qiqihar by Harbin, among others. This move came amidst complaints that fragmentation was causing problems. The bureaus still tended to show more interest in meeting their own transport targets than in helping other bureaus meet theirs, it was alleged. Bureaus were reluctant to transfer empty cars and other materials to needy points in other bureaus, and the practice of switching locomotives each time a bureau boundary was crossed was causing unnecessary delays. Giving the bureaus larger areas to control may have created more flexibility, but it obviously did not go to the root of the problem of coordinating what are essentially 15 regional railroads.

The care of rolling stock offers a case in point. Chinese and foreign observers alike have noted the contrast between the generally well-maintained locomotives on the one hand, and the often abominably maintained freight cars on the other. Each bureau or sub-bureau is responsible for maintaining the locomotives it owns, but rolling stock is the responsibility of everyone, and therefore no one. Since rolling stock is transferred almost at random around the country according to the transport needs of the moment, each bureau seems to let the next bureau worry about maintenance.

Conflicts with users

Whatever the difficulties between the rail bureaus, they pale beside those between railroads and their customers. Railroads tend to be targets of criticism and resentment almost everywhere, but the complaints by Chinese freight shippers of inflexibility, unreliability, and arrogance seem to go beyond the norm.

The most common grievance is that Chinese railroads operate according to predetermined plans, rather than the needs of the customer. Furthermore, they do not necessarily even stick to their own plans. The number of coal cars supplied to shippers is regularly off weekly projections by as much as 20 percent. Even when cars do arrive on time, shippers often fail to have their goods ready, another sign of the poor communications that exist between the railroads and their customers.

There are rules, complete with stipulated fines, that are supposed to regulate shipper–railroad relations. Obviously, they are not working properly. Customers claim that the harried railroads, rather than collect demeurrage from slow customers, simply withhold cars from them the next time.

Some customers view the railroads as a law unto themselves. Last year numerous reports were circulated about "uncivilized" loading practices by selected stations. In one well-publicized incident, a station crew deliberately damaged a shipment of washing machines when the shipping factory refused to give the workers free samples.

In typical fashion, the government's response has been to call for greater socialist selflessness. In addition, discipline was meted out to Railroad Ministry officials, and ad-hoc customer–railroad "coordinating committees" were established. One move that may have more substance is the reported decision to give the Ministry of Coal, rather than the State Economic Commission, the authority to determine coal shipment priorities. This removes at least one layer of bureaucracy between the railroads and their number-one customer.

Special purpose rolling stock

The core of the problem is very simple: the operational philosophy and practices of the Rail Ministry often run counter to the interests of shippers. An example is special purpose rolling stock. "Dedicated cars," that is, cars set aside for a particular run, are another.

The Ministry of Railroads has traditionally operated under the premise that, given the tight transport situation and the inadequate supply of cars, the fewer empty cars at any given time, the better. The goal of maintaining a high car utilization rate has led to the preference for versatile general-purpose cars that

can handle many different types of freight. Not surprisingly, the number of cars the Chinese classify as "general purpose"—gondolas, flatcars, boxcars, and the like, probably account for about 80 percent of China's fleet of 280,000 cars.

In many situations, though, special purpose cars such as covered grain and cement hoppers, open coal hoppers, and refrigerator cars, can be loaded and unloaded more efficiently, and usually with less damage to the freight. Many observers believe that China could actually transport more, particularly bulk materials, if it used specialized cars on dedicated runs. This would mean allowing them to return to their point of origin empty if there was no specialized commodity to load at the destination point. But the idea of actually sending a car back empty violates the utilization–ratio principle, and horrifies conservative rail operators. Worse, it implies a de facto move toward customer, not railroad, control over cars. Although railroads in China, as in other countries, have been known to rent cars for the special use of certain customers, they have resisted the widespread popularization of this concept, particularly for long-distance runs. The Pingshuo coal mine, for example, tried and failed to get cars allocated especially for its own use.

With this history, the decision to build the first coal "unit-train" line from Datong to Qinhuangdao represents a major step forward. The unit-train by definition is a closed system that keeps cars captive on a single line. In this case, high-level political pressures to move larger volumes of coal prevailed over more conservative thinking. It could mean, too, that attitudes at the top of the Ministry of Railroads are starting to change.

Divided construction responsibilities

If the Ministry of Railroads has been somewhat loathe to cede operational control over the lines it owns, it has been more than eager to pass the financial responsibility for new lines to others. This has both benefits and drawbacks.

The major benefit is the mobilization of the considerable funds in the hands of local authorities and enterprises for railroad construction, and the extension of the rail network beyond those lines covered in the central rail investment budget. There are now, for example, about 6,000 kilometers of both standard and narrow gauge lines built and operated by local government units. For some reason nearly half are in Henan Province. Though of lower technical standards than Ministry trunk lines, they are cheaper and faster to build, and do a good job of serving local needs—while at the same time removing some local short-distance traffic from strained Railroad Ministry lines. Often they use old equipment handed down by the ministry.

The central government and the Rail Ministry have recently made it a policy to further encourage the development of these local lines, to the point of offering limited subsidies to local governments. The ministry undoubtedly prefers subsidies to being forced by local political pressure to build higher standard and more expensive lines.

Industrial and mining enterprises also build and operate their own "special use lines." There are probably thousands of such lines scattered throughout China and their total length runs into the thousands of kilometers. One of the largest is a recently opened 125-kilometer system in Shandong's Yanzhou coal-mining district. In certain places, these special lines supplement overloaded Rail Ministry mainlines, and run general cargo trains in addition to their own special trains.

The Rail Ministry has not hesitated to solicit financial assistance from local governments, other ministries, and enterprises even for lines it operates itself. In the case of the Guangzhou–Hong Kong railroad, currently in the process of being double-tracked and electrified, the ministry and Guangdong Province have set up a nominally independent entity called the Guang–Shen Railroad Company to solicit investment from Hong Kong. Hopewell Holdings, a Hong Kong firm with close Mainland ties, is taking charge of the construction of one of the stations on this line.

The sharing of investment responsibility, however, has one major drawback. Lines that the ministry does not view as high priorities are held hostage to hard-nosed interagency bargaining over who is going to pay for what, and are thus subject to unpredictable delays. Two notable examples are in Guangdong Province.

The double-tracking of the railroad from Hunan to Guangzhou was begun with assistance from Japanese government loans in 1980, but when readjustment struck in 1981, the project was stopped for lack of domestic funds. It was not resumed until Guangdong Province provided several hundred million yuan a year and a half later. Likewise, construction on the Guangdong–Maoming line, which had already been postponed once in midstream, started again in 1978, only to be halted once more in 1981 for lack of funds. Again, it was Guangdong, together with the Ministry of Chemical Industry, that came to the rescue with ¥330 million, but only after several years' delay. Meanwhile, a pyrite mine along the railroad's planned path that is needed to develop China's phosphate fertilizer industry will have lain virtually idle for about five years because the railroad was not ready on schedule.

Price adjustments

Many of the organizational and operational problems of China's railroads stem from the bureaucratic method of planning. But more and more, Chinese planners are trying to use economic, rather than administrative levers to guide the economy. In the case of the railroads, they have determined that pricing has been a major source of problems. Consequently, the government announced last year that it would increase rail tariffs by an average of 23 percent, the first tariff increase in nearly 20 years.

On the face of it, the railroads were already a profitable enterprise. Reported 1982 profits were ¥2.7 billion out of operating revenues of ¥12.3 billion—a nearly 22 percent ratio of profits to revenues. China had one of the few profitable passenger railroads in the world.

But the Rail Ministry's profits vary considerably from product to product. In fact, coal shipments, the system's most important cargo, probably ran at a slight loss in 1982, since coal was at the bottom of the tariff scale. Thus, it is significant that the coal tariff was increased by close to 40 percent on the average to around ¥0.013–0.014 per ton-kilometer (exclusive of handling charges and insurance, which probably add ¥0.01–0.05 per ton). Coal tariffs are now

reasonably close to those for most other major bulk commodities such as grain, cement, metal ores, and chemical fertilizer, which the central government obviously hopes will increase railroad incentives to move coal. Other tariffs for an average 500-kilometer trip range from about ¥0.01 per ton for firewood to ¥0.025 for petroleum and most types of heavy machinery (exclusive of handling and miscellaneous charges).

Lumber received an equally spectacular tariff increase, up approximately 60–70 percent to somewhere in the vicinity of ¥0.015–0.016 per ton-kilometer. It is not completely clear whether this was meant as an incentive to the railroad, or as disincentive to the shippers. Wood shipments have posed special burdens to the railroads in that the shippers are isolated in the remote forest areas of the northeast and southwest, while users are in the industrial heartland; wood probably has to travel further than most major commodities shipped by the railroads.

The government was quite careful to avoid tariff increases for most major consumer commodities, including grain, cotton, and salt. Supplies for agriculture—fertilizer, machinery, and chemicals, among others—also tend to be priced toward the lower end of the scale.

One very deliberate intention of the price increase was to create a disincentive for very short runs on ministry trunklines. This was done by changing the minimum distance charged from 50 to 100 kilometers, as well as by raising the actual fares for short runs by higher margins than longer ones. Almost without exception, fares for runs under 50 kilometers are now more than twice what they were before the change, and most runs of 100 kilometers are well above the reported average 23 percent fare increase.

These price hikes could relieve the Rail Ministry of its uneconomical short runs. The Ministry estimates that 25 percent of its total freight in recent years traveled in trips shorter than 100 kilometers. As much as 15 percent may have been trips under 50 kilometers. Obviously, this freight could be much more economically moved in trucks.

It is still too early to judge the practical impact of the price change on rail operations. But clearly, the 1983 readjustment represents one of Beijing's bolder attempts to make prices more commensurate with real costs, and certainly shows its dedication to improving the operations of the railroad system.

The real test will come when the new line opens for operation

CHINA'S UNIT TRAIN

There is no more glaring deficiency in China's rail system than coal transport, and there is probably no single aspect of American know-how more relevant to China's needs than the US coal transport experience. Given the similarities in geography, it is hardly surprising that China's first unit train should therefore resemble the North American model.

Unit trains made their first appearance in the US in the 1950s and 1960s for ore transport, and were adapted to coal, particularly during the Western coal boom of the 1970s, which dramatically increased the volume of America's long-distance coal transport.

In effect, a unit train line is a long-distance single-use line. It is designed to accommodate large numbers of extra-heavy-duty trains carrying a single bulk commodity in one direction. The presence on the line of smaller freight trains with mixed cargos or passenger trains obstructs the movement of the coal trains, dramatically reducing the line's capacity. Under ideal circumstances, that capacity can be as high as 100 million tons per year.

A typical Western US coal unit train will have 100 cars with 100 tons of cargo each, for a total of 10,000 tons. Some US and Australian ore trains are designed to carry even larger loads. By contrast, the largest coal trains in China currently carry only 3,500 tons.

The Chinese have been studying US-style unit trains for more than five years. But the combination of fiscal retrenchment and bureaucratic resistance to the concept of special-purpose lines delayed the central government's approval of China's first special-purpose coal line until early 1983.

The 630-kilometer line approved at that time will connect the coal center of Datong in Shanxi Province with Qinhuangdao port north of Tianjin. The route will be more direct than the existing line through Beijing, which will have a 60 million ton per year capacity after double tracking and electrification is completed in 1986. Ultimately, the line could carry coal from a wide area of Shanxi, Inner Mongolia, Shaanxi, and Ningxia, although current plans appear to call for the coal to originate from the Datong area. From Qinhuangdao, coal will be exported or shipped down the coast.

The current timetable calls for completion of the line to Beijing by 1988, and to Qinhuangdao by 1991. Preliminary work on the line, which will be single track initially, began this year. Bridges and tunnels will be built to accommodate an eventual second track, which will bring the line's ultimate capacity to upward of 100 million tons.

Technically, the line will be China's most advanced in many ways. It will be the first to use 70 kilograms per meter rail; it will have 1,700 meter sidings, rather than the standard 850, a necessity to accommodate the longer trains; and it will be equipped with a state-of-the-art traffic control system using fiber-optic communications.

But China will use electric, rather than diesel locomotives, a significant departure from the American model. The economics in China, with its high ratio of diesel fuel to electricity prices, tend to favor electric engines, and the terrain traversed by the Datong–Qinhuangdao line is more mountainous than is typical for most Western US coal lines. Also, the Chinese are generally less inclined than American train operators to use three or more diesels on one train,

preferring greater power from fewer electric locomotives.

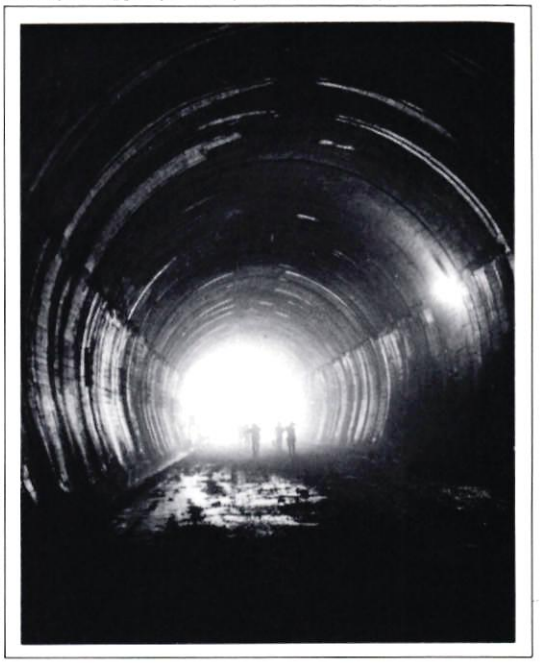
Additionally, China will use 70, rather than 100-ton cars, which will limit capacity to about 7,000 tons per train, rather than 10,000 as in the US. This results from Chinese fears that car weights greater than 23 tons per axle will shorten rail life and create safety hazards. US rail companies have in fact experienced greater than expected rail maintenance costs since 100-ton cars were introduced, and a number of US experts feel China is wise to be conservative.

The line will also differ from Western US lines in that political pressures may force the Rail Ministry to accept a number of passenger trains and noncoal freight trains on the line, even though this will interfere with coal hauling. The absence of nonrail passenger transport alternatives leaves the railroads little choice but to use every inch of track for passenger as well as freight transport. Railroad Ministry sources suggest, however, that the passenger density on the line will be kept below the national Chinese norm.

The extent of foreign involvement in the project is still uncertain. Intensive domestic research and development has been underway for a long time, and late last year, China claimed to have successfully tested a 122-car train using a prototype 8,700-horsepower Shaoshan 4 electric locomotive, along with Chinese-made cars and braking systems. According to an article in a Chinese railroad journal, the next steps will be to test the equipment on the existing 60-million ton Datong–Qinhuangdao line, which will run 5,000-ton trains after 60 kilogram per meter rail is installed, and then adapt the equipment to the new special purpose Datong–Qinhuangdao line, and perhaps other lines around the country. Rather than making a quantum jump to unit trains, in other words, the Chinese would do it in steps.

But none of this precludes foreign involvement, at least in the equipment portion, as China often ends up doing its own R & D and buying foreign technology at the same time. Electric locomotives, in conjunction with foreign technology, will be purchased for this line, according to the Rail Ministry. Sample brakes and couplers have already been purchased from US firms, and these will undoubtedly be licensed later on. Approaches have been made to Japan for the line's fiber-optic signaling technology.

Photo by Huang Jianqiu courtesy New China Pictures Co.



The 14.3 kilometer Dayaoshan tunnel on the Hengyang to Guangzhou line will be the longest in China when completed in 1986.

Less has been said about the cars. The Pullman Standard 70-ton car license signed last year was with the Ministry of Machine Building, not the Ministry of Railroads. The Pullman car is the bottom-dump type, rather than the rotary dump type to be used on the unit-train line, and the Pullman cars are believed to be destined only for short-haul mine-to-power-plant use on lines run by the Coal or Power ministries. The Rail Ministry is so far concentrating on upgrading its 60-ton rotary dump gondola. Observers expect an ultimate decision to import technology, but the timing may be later than with the locomotives and brakes.

The Rail Ministry has been very slow however to seek US operating and construction experience. Press reports that the Chinese are discussing cooperation in the Datong–Qinhuangdao unit-train line construction with France are puzzling and probably exaggerated, as the Chinese know that the relevant expertise lies in North America. Assistance from US rail operating companies would undoubtedly speed up Chinese assimilation of the new technology, but there is probably great sensitivity within the ministry to the implication that China needs outside assistance to run its railroads.

Aside from the question of foreign assistance, the biggest potential stumbling block to the unit train line's success is bureaucratic fragmentation. Smooth unit train operations depend on advanced loading and unloading technology, advanced rail operation technology, and especially good communications and cooperation among the railroad, shipper, and unloader.

Unfortunately, such cooperation is not the norm in China. The project is administered by a coalition of ministries: Coal, which is responsible for the loading stations; Railroads, which is responsible for the lines; and Communications, which is responsible for the unloading facilities at the Qinhuangdao port. A State Council-level interagency task force, reportedly led by Rail Vice-Minister Zhang Xintai, has the unenviable task of coordinating the three.

The Coal Ministry has a plan to build 10 modern loadout stations in the Datong area, using track loops, silos, and automatic loading equipment that will fill a train in a fraction of the time that a typical Chinese stacker-reclaimer system requires. The ministry's plan envisions coal being trucked to these 10 stations from small mines. The consulting subsidiary of the Canadian Pacific Railroad Company recently signed a contract to review this plan.

The real coordination test will come when the new line opens for operation. The less than stellar past record of Coal–Rail cooperation leaves room for some concern, and foreign companies are pointing to signs of conflict and uncoordination even in the planning phase. 完

Nonferrous Metals Marketing

Creating order from chaos

Karen Green

Nonferrous metals marketing, a significant foreign exchange earner for China, has been the target of a bureaucratic reorganization that may finally end years of infighting and confusion in the metals sector. Competing bureaucracies have settled on what appears to be a workable division of product responsibilities, and are on the way to rationalizing price structures. As the dust settles, the China National Nonferrous Metals Import–Export Corporation (CNIEC), a relative newcomer that began marketing nonferrous commodities this February, has emerged as an important force, although the Ministry of Foreign Economic Relations and Trade (MOFERT) retains the rights to certain sensitive commodities.

CNIEC is the import–export arm of the China National Nonferrous Metals Industry Corporation (CNNC), which controls all of China's nonferrous metals mines, refineries, processing plants, research and design institutes, and construction companies, except for those involving gold and uranium. Carved out of the Ministry of Metallurgical Industry in April 1983, CNNC is "an independent economic and recognized legal entity." This gives CNNC de facto ministerial status and a direct budget line to the State Council, as well as responsibility for its own profits and losses. The corporation does not share control over its factories with local governments, as do most Chinese ministries.

Competition increases purchasing options

China is among the world's dominant forces in a number of nonferrous metals, including tungsten, molybdenum, antimony, and rare earths. For many years, exports of these and all other metals were handled exclusively by the China National Minerals and Metals Import–Export Corporation (MINMETALS), under MOFERT. However, when the State Council began to loosen up China's foreign trade structure in 1980, entities ranging from ministries to factories, eager to obtain badly needed foreign exchange, jumped into the trading business. Cutthroat competition resulted, and heavily influenced the world market for certain metals.

The Ministry of Metallurgical Industry (MMI) was one of the first to compete with MINMETALS, establishing a trading subsidiary called the China Metallurgical Import–Export Corporation (CMIEC) in 1980. MMI was at the time the central organ in charge of both ferrous and nonferrous metal production, and the source of the metals sold internationally by MINMETALS. Through CMIEC, MMI claimed to offer better service than MINMETALS, whose nontechnical staff were inexperienced in meeting customers' specialty needs.

Competition soon spread below the ministry level. Provinces, municipalities, and even factories began signing contracts, and retaining a portion of the foreign exchange earned. Under the old system, money earned by MINMETALS was turned over to the central government and seldom seen by the producing entities. In contrast, a typical CMIEC contract might divide the earnings in the following way: 80 percent to the central government, 6 percent to MMI, 6 percent to the producing province, 6 percent to the producing factory, and 2 percent to CMIEC as an agency fee. If a refinery or mine negotiated directly with foreign buyers, it would retain an even higher percentage of foreign exchange, to funnel directly into capital improvements or other favored projects. Foreign exchange proved a powerful incentive to factories and localities, and a plethora of purchasing options became available to the foreign buyer after the 1980 decentralization.

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Years of turmoil

Untrammeled competition between Chinese entities had an immediate impact on an already depressed world metals market in the early 1980s. Tungsten ore, for example, fell to a record low of $68 per ton. As prices tumbled, metal traders grumbled and American producers comtemplated invoking the help of the International Trade Commission (*see* "Getting Tough on Tungsten," *The CBR*, March–April 1983).

Other unexpected dilemmas arose. Traditionally, unprofitable factories had access to state subsidies in China's nonmarket economy—where production is undertaken regardless of cost if deemed important. As a result, producers paid little attention to production costs. Many of the new metals exporting entities, concerned only about earning foreign exchange, sold at a loss. In one of the more extreme cases of price irrationality, processed tungsten products were sold for less than tungsten ore.

Problems encountered in the metals sector were repeated throughout various industries. After two years it was clear that in the foreign trade area, decentralization had run amok. Indiscriminate competition and pric-

ing were damaging markets, and threatening future sales.

In March 1982 Premier Zhao Ziyang curbed further decentralization and reviewed previous actions. By the latter half of 1983, suppliers at the provincial level and below were once again marching in step with their parent ministries, and price cutting had been restrained by the institution of an export licensing system, under which MOFERT gained the authority to review and approve metal export contracts. Competition between the ministries for export authority, however, intensified.

CNNC's struggle for acceptance

In April 1983 CNNC was established to strengthen the nonferrous sector. It also was seen as the third ministry-level contender in the metals marketing arena. The move was strongly supported by nonferrous metals interests, who felt squeezed out by iron and steel while MMI had jurisdiction over all metals. CNNC was given a clear mandate to handle marketing of nonferrous items, but it faced a fight for legitimacy with MINMETALS and CMIEC, neither of which was willing to relinquish these traditional money earners.

At the October 1983 Canton Export Commodities Fair the battle over nonferrous marketing reached a new peak. Although CNNC already had the nucleus of a foreign trade group, and had no intention of limiting itself to domestic production and management, the other corporations denied that CNNC would be involved in foreign trade. When asked about the role CNNC would play in nonferrous marketing, a high-level spokesman for MINMETALS' head office noted that CNNC was not yet doing any foreign trade and it had "not been decided" whether it would. Similarly, the delegation leader for CMIEC referred to CNNC as a production-management entity only.

The struggle continued into 1984. In January, a CMIEC delegation to the US claimed they had "never heard of CNNC." In February the Chinese formally announced establishment of CNNC's import–export section, the China National Nonferrous Metals Import–Export Corporation, CNIEC. CNIEC simultaneously issued a list of 48 products that they would market beginning February 1, indicating that they had effectively won the right to handle most nonferrous products—with some notable exceptions. Perhaps because of their influence on international markets, the trading of tungsten ore, tin, mercury, antimony, and molybdenum remains with MINMETALS, as have commodities in scarce supply such as copper, aluminum, lead, zinc, and nickel. CMIEC, meanwhile, has lost all responsibility in the nonferrous sector.

In March, officials at MINMETALS' New York office conceded to the transfer of nonferrous authority to CNNC, saying, "With the exception of processed tungsten products, there is no longer any grounds for argument." Even this last bone of contention was resolved in favor of CNIEC by the spring 1984 Canton Export Commodities Fair. In fact, at the fair, all three metals trading organizations gave the impression of perfect harmony over the division of product responsibility.

Some remaining problems

It may still be too soon for sighs of relief. Some product overlap remains despite the promising developments of the past year. MOFERT's China National Chemicals Import–Export Corporation (SINOCHEM) shares marketing responsiblity for chemical oxides of metals with MINMETALS and CNIEC. In the case of rare earth oxides, jointly handled by SINOCHEM and CNIEC, this has not proved a problem because of limited export sales. But overlap in the marketing of several other nonferrous metals in chemical form, notably vanadium pentoxide, has caused conflict. Marketing of vanadium pentoxide was formerly shared by MINMETALS and SINOCHEM, but earlier this year it became the exclusive right of SINOCHEM. Possibly as a result of bureaucratic confusion, at least two vanadium pentoxide con-

THE PRC's THREE MAJOR METALS MARKETING ORGANIZATIONS

Ministry of Metallurgical Industry
(MMI)
|
China National Metallurgical Products Import–Export Corp
(CMIEC)

- alumina ores
- barites
- chormium
- coke & coke byproducts
- ferroalloys
- fluorspar
- graphite
- magnesite
- manganese
- metal alloys
- metal castings
- metallurgical machinery
- mineral products
- pig iron
- refractory products
- steel products
- steel structures
- vanadium

Ministry of Foreign Economic Relations & Trade
(MOFERT)
|
China National Metals and Minerals Import–Export Corp
(MINMETALS)

- aluminum products
- antimony
- asbestos
- barites
- brass products
- cast iron & fittings
- copper products
- feldspar
- ferroalloys
- fluorspar
- hardware
- iron
- iron ware and nails
- lead
- manganese
- mercury
- mica
- moybdenum sulphide & trioxide
- nonmetallic building materials
- quartz
- refractory materials
- steel products
- tin
- tungsten ore
- vermiculite
- zinc

China Natonal Nonferrous Metals Industry Corporation
(CNNC)

Board Chairman: Qiu Chunpu
Vice-Chairmen: Lin Zesheng, Liu Xuexin, Mao Lin
General Manager: Fei Ziwen
Vice-Managers: Zhu Lai, Wang Zhe (on sick leave), Huang Jichun, Wu Jianchang
Assistant to the General Manager: Wu Gong

|

China National Nonferrous Metals Import–Export Corporation
(CNIEC)

President: Li Liming
Vice President, Imports: Gao Wanshan
Vice President, Finance and Planning: Wang Gang
Vice President, Exports: Geng Junshan
Vice President, Projects: Zhen Rugui
Vice President, Foreign Experts and Chinese Trainees: Chen Guangxin

- arsenic trioxide
- beryllium
- bismuth
- cadmium
- caesium
- calcium
- cobalt
- gallium
- germanium
- hafnium
- indium
- iridium
- lithium
- magnesium
- molybdenum powders
- niobium
- osmium
- palladium
- platinum
- rare earth oxides
- rare earths
- rhenium
- rhodium
- rubidium
- ruthenium
- selenium
- silicon
- tantalum
- tellurium
- thallium
- titanium
- processed tungsten
- zirconium

Table prepared by Karen Green

tracts were cancelled and others delayed.

The China International Trust and Investment Corporation (CITIC) is also involved in nonferrous metals marketing because of its authority to recoup its capital investments through product sales. This previously involved CITIC in tungsten sales, and, currently, bauxite. According to Han Weizhi of CITIC's head office in Beijing, the price of anything listed in the CITIC catalogue can be freely negotiated. CITIC has other products available that quote ministry prices. Therefore, in some cases CITIC may offer an additional purchasing option with slight variations in price, grade, or availability.

Delays and cancellations

Just as the bureaucratic wrinkles seemed to be ironed out, a new concern with the profitability of enterprises has presented US importers with new pricing problems. The State Economic Commission's October 1983 "Circular on Eliminating Deficits" put great pressure on enterprises to start accounting for production costs and stop selling at a loss. But determining production costs took time, and many plants adhered retroactively to the new policy, refusing to ship back-orders until a determination was made. In some cases where the sales price proved too low, contracts were summarily cancelled or renegotiated. Importers in all industries were effected by this shift in pricing policy, and the prices of most export commodities rose a minimum of 6 to 7 percent. In the metals sector, as in other sectors, the new pricing policy caused delays and cancellations. Some items were temporarily unavailable, notably antimony, vanadium, and manganese.

When queried about these problems, Cao Yongfang of MINMETALS, Eighth Business Division claimed that although shipping delays had occurred in 1981 and 1982, these "had largely cleared up in the past year and a half." Vice President Qian Shudong of CMIEC maintained that recent contracts had been "invariably honored barring an act of God." But the Minister of Foreign Economic Relations and Trade, Madame Chen Muhua, admitted that a problem existed. At a May meeting of the Importer Committee of the National Council for US–China Trade, Madame Chen "regretted any inconvenience caused by contracts cancelled after confirmation." She added that problems occurred because Foreign Trade Corporation branches did not "fully understand how best to implement central government directives to increase profits," but assured importers that the problem had been eliminated and will not recur.

Although the new pricing policy is partially responsible for recent delays and cancellations, metals analysts and traders note a number of other contributing factors. Rising domestic demand is one, and of course chronic transportation, energy, and quality shortfalls continue to plague the Chinese metals industry. But selling below cost is a diminishing problem. MINMETALS, purely a marketing operation, has always been more savvy about international market prices than its competitors, and has frequently balked at selling when prices fall too low. As the other entities gain experience as well as bigger foreign exchange reserves, they too may hesitate to sell too cheaply. 完

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America's Open Door

The Chinese seem encouraged by their initial investments in North America

Carroll R. Bogert

China's "open door" policy has attracted considerable capital to the People's Republic. But recent months have shown that capital does not flow only one way through the open door. Indeed, a new variety of American–Chinese joint venture is blossoming, this time on American soil.

Chinese investment in the capitalist West seems anomalous at best. North America is rich while China is a poor country, and one that has expended considerable energy attracting foreign capital to her shores. This curious situation reflects "a case of changing policies," explains one government official in Canada, where China is considering several multimillion dollar investments in pulp and paper, lumber, potash, nonferrous metals, food processing, and machine tool manufacturing.

"I believe we'll see a wave of this kind of investment in the future," notes Eugene Cooke of the Union Bank of Los Angeles. "It's a new step that comes out of the incredibly high liquidity ratio of the Bank of China." Current estimates of China's foreign reserve holdings exceed $16 billion, up from a mere $2.3 billion at the end of 1980. The Chinese leadership reportedly disapproves of the surplus, and the Bank of China's chairman, Bu Ming, is said to be perplexed by the country's growing embarrassment of riches.

Though the money is there, China is obviously in no mood to spend it quickly. While other developing countries with similar foreign reserves might embark on a spending spree, not so the People's Republic. In fact, the fear of being burned is so strong that few major deals have yet been consummated. And among those that have, few have received the Chinese financial backing that the foreign party was led to expect.

The M.J. Kelley experience

China's financial strength proved crucial to M.J. Kelley, one of China's earliest joint venture partners in the US. The Cleveland-based international construction management company and its partners, the China State Construction Engineering Corporation and a number of provincial construction firms, are bidding on highway, port, and other major construction projects in the Middle East, Pacific basin, China, and throughout the rest of the world.

Since these projects must be bonded, the participation of an enormous corporation like the CSCEC represents a real asset. Still, the corporation has not seemed eager to use its assets to back up the multimillion dollar bonds that giant projects require. A high CSCEC official admitted to Richard Chamberlin, M. J. Kelley's sales and marketing manager, "let us first walk with you side by side before we start taking giant steps."

Financial reluctance

Last year a major Chinese corporation suffered a similar case of financial jitters. The case involved an investment by Tianjin in American Industrial Technologies (AIT), a joint venture between the Tianjin Economic Development Corporation and Magnum International of San Jose to produce integrated circuits on a subcontract basis. Magnum's board chairman, Mack Shun-fei, knew that Tianjin had funds it wanted to invest in the American electronics industry. According to Steve Mack of Magnum, the Chinese have agreed in principle to put up $1 million in cash to build a factory in Vacaville, California, some 50 miles northeast of San Francisco.

The Tianjin Economic Development Corporation will hold 45 percent interest in AIT, Magnum will hold 45 percent, and each will appoint four members to a board of directors. The remaining 10 percent equity is reserved for key personnel.

Construction of the plant should begin as soon as the Commerce Department issues a license. AIT expects to employ between 200 and 300 people, of whom 20 will be Chinese, here for six-month shifts to learn about management and production techniques. AIT's target is a sales volume of $17 million after two years. By then it expects to have a plant in Florida to test the integrated circuits assembled at Vacaville, and a sister plant in Tianjin to produce ICs for the Chinese market.

Still needed is a green light from the California Industrial Development Financing Advisory Commission, which laid down two conditions when it approved Vacaville's plan to float a $9 million industrial development bond to attract AIT to the city.

The first condition was to obtain a Commerce Department license, for which AIT applied in early 1984. The second condition—finding someone to guarantee the bonds—has been even harder to arrange. AIT was a start-up company with no assets to offer, while Tianjin felt that the bond issue was the sole responsibility of the American partner. When Tianjin declined to offer its own continuing guarantee, the Union Bank of Los Angeles was unable to issue AIT the necessary standby letter of credit. The Bank of America likewise refused to guarantee the bonds. Ac-

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cording to one participant in the deal, American banks "wanted to see more guarantees on this side," as assets in China would be impossible to claim in the event of default. Eventually, AIT received the necessary letter of credit from non-US financiers with strong ties to China.

The "almost" 50–50 partnership

The Pearl River joint venture in Clive, Iowa, encountered its own share of financial difficulties in the beginning. Originally, the Chinese canned food plant was envisaged as an "almost" 50–50 joint venture between the Guangdong Provincial Food Industry Corporation and Chinese Native Products, Inc. of New York, a major importer of canned Oriental food. Then Guangdong's share was lowered to 40 percent, of which 20 percent was to be in cash, and the remaining 20 percent in the form of essential Chinese spices, "technical advice," and the right to use the brand name Pearl River, which is widely known in the Oriental foodstuffs market.

Ultimately, the Chinese share was reduced to this 20 percent noncash portion only. "Too much red tape" was involved, explains Ming-yi Chen, president of Chinese Native Products. A cash investment would have held up the establishment of Pearl River Food Manufacturing, Inc., the joint venture company that Chen now heads, and would have required immediate Chinese representation on the board of directors. Guangdong reportedly wants to invest another 20 percent, but for the time being Pearl River is concentrating on getting production under way.

Production began in June 1984 at the Iowa plant, near the source of the beef, pork, and poultry used in most Pearl River products. Five Chinese technicians make sure the 30 employees follow the recipes correctly. This year Pearl River hopes to produce 1.8 million cans. Chinese Native Products vice-president and treasurer, Chan-ping Hou, ultimately expects to corner 80 percent of the American market for Oriental foodstuffs. He confidently predicts: "We're going to be the major one."

Ming-yi Chen has rented a house near the canning plant, and lives there with the five Chinese, whom he is teaching to speak English. This semi-isolation may have contributed to what Chan-ping Hou calls the problem of "how to incorporate their chain of command into our chain of command." Like any Chinese group, these five have a leader who reports directly to Chen. On the factory floor, the five tend to act as a unit rather than work independently. "Here in the US, we act more individually; they act more as a team," Chen explains. "They don't emphasize individual performance." Chen acknowledges the vast difference between the American and Chinese management styles, but still speculates that Pearl River might invite Chinese managers to Iowa at some point in the future.

China has embarked on a quest for worldwide business experience. But the country's acute shortage of lumber and other raw materials is also driving it to invest abroad.

Utica lost out

Financing for the Pearl River deal was arranged by Banker's Trust of Des Moines, which also sold Pearl River the building it now occupies. The Iowa Housing Finance Authority approved a $1.3 million industrial development bond to help finance the Pearl River venture. "The city really courted this project. They wanted it," admits a staff member of the Greater Des Moines Chamber of Commerce. Chan-ping Hou agrees: "The local government. . . . provided all kinds of assistance to the project." It was the bond issue that finally swung Pearl River away from Utica, the alternative site.

As in the AIT case, however, the Chinese investors were reluctant to guarantee the bonds. According to Pearl River's former loan officer at Banker's Trust, the negotiations were complicated and slow.

In the end, a number of Chinese–American distributors lent their support, the Bank of China agreed to buy $250,000 worth of bonds, while Global Union Bank of New York and Banker's Trust bought the rest.

Spicy financing

Deft financial footwork was required to launch another food processing venture, this time in Canada. The joint venture with the Shanghai branch of CEROILS should begin operations this fall, and is expected to produce up to six million cans of spicy Sichuan meat dishes annually, claims Josephine Chong, one of the early Canadian investors who founded Hing Chong Trading Corporation.

But the Canadians have invested much more than the $1 million invested thus far by the Chinese side, and Chong admits that financing is still "very sensitive." The Canadian partners are hoping that the Chinese will one day own a majority interest in the enterprise, although this would bring in the Foreign Investment Review Agency, a Canadian federal agency that must approve all ventures controlled by foreign interests.

Hing Chong is utilizing a number of expert food specialists from the PRC, and is using local raw materials to take advantage of Canada's strict regulations against meat imports. Like Pearl River, it has also received strong support from local government authorities. Canada's International Trade Commission, in particular, "has really gone for this joint venture," claims Chong.

China's culinary know-how

China's best known culinary ventures in the US are of course restaurants, which have already introduced Americans to the tangy flavors of Sichuan and Beijing cuisine.

The first of these ventures, the Sichuan Pavilion in Manhattan, was established by a Hunter College professor, C. T. Wu, who first got the idea during a visit to his native Sichuan. Upon his return he resolved to show the world that "the Chinese can also export technology"—in this case, food preparation techniques.

Wu's research on Chinese-Americans convinced him that restaurant work was "the economic backbone" of Chinese-American communities, but that it also "still suffers from low prestige." So, together with a group of like-minded friends and college

professors, Wu opened the pricey Sichuan Pavilion with 10 chefs from the Sichuan Provincial Foodstuffs Industrial Corporation.

Before long, Wu's group opened a sister venture in Washington with chefs from the Chongqing Service Bureau. Other entrepreneurs spotted a good idea, and at least four more restaurants have sprung up: two Sichuan-style ventures, in Toronto and Washington; a New Orleans venture specializing in Hubei cuisine; and the Beijing Pavilion in New York.

In early 1984 some of these restaurants drew fire from the press, which noted that the chefs in the Washington restaurant live on less than the minimum wages since the majority of their earnings are sent back to China. The Department of Labor is reportedly investigating the issue. Meanwhile, the restaurants continue to do a healthy business.

Securing supplies

More important than supplying foreign restaurants with master chefs, however, is China's need to feed its industries with foreign raw materials. In fact, securing long-term supplies is a matter of deep concern to the Chinese, who have reportedly agreed to invest in two Australian iron-ore mines and commit $2.8 million to buy a Brazilian plywood plant.

In North America, Beijing seems determined to acquire a more stable supply of potash. According to Rod Heath at Canpotex, the Canadian cartel of potash exporters, Canada sells between 600,000 and 700,000 metric tons of potash to China every year. One day, Canada could be selling 10 times that much, since China is almost totally dependent on potash imports to meet its critical agricultural needs.

In addition, the Chinese obviously want to own a share of the production to reduce their vulnerability in the face of a tightly controlled sellers' market. Virtually all of the world's major potash producers have formed cartels: the Soviet Union is one producer; France and West Germany have formed Kali Export to control prices; and Canada has its Canpotex.

The potash mines considered by the Chinese are sizable indeed. One in Manitoba will be capable of producing 2 million metric tons a year, and has been the focus of a high-level government effort to attract the Chinese. An independent consultant to the Manitoba provincial government and former president of the Potash Corporation of Saskatchewan, David Dombowsky, began in the spring of 1983 to help find partners in a consortium of owners, producers, and major potash consumers to finance the initial cost of the mine. In October 1983, the deputy premier of the province and the number-two man at the Manitoba Ministry of Energy and Mines joined a government delegation to China. This October, Minister of Energy and Mines Wilson Parasiuk plans to make a follow-up trip to China. This type of active government support at the "diplomatic level," says Dombowsky, can have a positive affect on business negotiations.

Talks with the Potash Corporation of America have broken off, but negotiations over another Canadian giant, Saskatchewan's Lanigan mine, are still on track. The continuing Chinese interest in the Manitoba and Saskatchewan mines is a sign that "they have a genuine interest in securing a long-term supply," notes Rolf Holzkaemper, president of the Potash Corporation of Saskatchewan-Sales.

Who is in charge?

China's strategy for securing long-term supplies is not yet clear. Potash industry observers have noted a distinct difference between CITIC, the Beijing-based China International Trust and Investment Corporation run by former Chinese capitalists, and SINOCHEM, the import–export corporation under the Ministry of Foreign Economic Relations and Trade. SINOCHEM is the long-time customer of Canpotex, and is responsible for importing fertilizer into China.

One executive calls SINOCHEM "old friends, good contacts," but adds that they "would likely be a little bit at odds as far as this whole thing is concerned. . . . The decision, if we can call it a decision, to invest in a potash mine, was probably made at a very senior level of government, and the directive then wound up on the desk of CITIC." According to several potash firms there is a third Chinese party, the China National Chemical Construction Corporation, that is also deeply involved in some of the discussions. Reports indicate that any deal would probably involve CITIC as the investor, and SINOCHEM or CNCCC as the importers.

CITIC's quest for logs

In July 1984, CITIC reportedly purchased $7 million worth of cutting rights in Washington state from St. Regis Corporation. The actual owner of record is M-D Trading of Albany, Oregon, a small trading company established in 1979 by its president, Charles McCormick. To locate lumber investment opportunities for the Chinese, M-D hired The Campbell Group, a Portland, Oregon, investment banking firm that specializes in timber. By January 1984, The Campbell Group had entered into discussions with St. Regis over the cutting rights to several thousand acres of Douglas fir and Western hemlock in Pierce County, Washington. CITIC entered the negotiations in May, and by July the sale was completed.

Comments Campbell Group president, Duncan Campbell: "I think the Chinese felt good about the transaction." One reason for the good feeling may be that the state of Washington, unlike Oregon, California, and British Columbia, has no laws against the exportation of unfinished logs. Campbell believes that the Chinese will sell a portion of the logs in the US, suggesting that they are inter-

CORRECTION

The CBR would like to correct the error on page 9 of the May-June issue (*see* "Sister Relations," pp. 9-11, which said that Washington's sister agreement with Sichuan pledges the province to use Oregon's port facilities whenever possible; this should have said Washington's port facilities. On page 10, under "Seattle–Chongqing," the last two sentences on Oregon relations appeared in the paragraph by mistake. The Washington State China Relations Council wishes to correct the statement that Governor Dixie Lee Ray visited Sichuan in 1979, and to credit Governor John Spellman with an instrumental role in the relationship. Since the article appeared, *The CBR* has learned that the ports of Seattle and Shanghai have signed sister port agreements, along with the ports of Baltimore and Huangpu.

The lack of profits has not dampened China's interest in investing abroad. Indeed, the opportunity to get "hands on" Western management experience is highly prized by the Chinese, who clearly consider a joint venture on American soil worth something on its own.

ested in profit as well as secure supplies. But the freedom to export unfinished logs to China clearly played an important role in their decision, he believes. St. Regis has agreed to take care of reforesting the land, which industry sources believe should be ready for cutting in a few years.

The Chinese have an interest in other forest products as well. CITIC has also visited MacMillan-Bloedel's Harmac pulp plant in Vancouver a number of times, but nothing was signed, and vice-president John Dickinson cannot speculate when a deal might be finalized. The plant operated at almost 80,000 metric tons below capacity in 1983, but Dickinson claims that the plant's renovation will take place whether or not the Chinese decide to invest in it.

As Dickinson says, "our senior people are well acquainted with the people in the industry in China," and evidently Macmillan-Bloedel is willing to wait. "The Chinese continue to show an interest," adds Dickinson, who points out that MacMillan-Bloedel's relationship with China dates back to the 1920s, and its current president, Calvert Knudsen, is a former president of the Canada China Trade Council.

At one time the pulp and sawmill operations of Finlay Forest Industries Ltd. were also the focus of Chinese investors from Shandong Province. British Columbia Forest Products Ltd. of Vancouver owns 43 percent of the Finlay mill, which produces a low-quality pulp suitable for newspaper. But in mid-1984 the Shandong authorities informed BC Forest Products that they would not pursue their interest in acquiring a stake in the mill.

Rougher the better

The Chinese have also shown a continuing interest in two lumber mills owned by the British Columbia Resources Investment Corporation in Vancouver. It is still unclear what form the Chinese share would take if they do invest in the Prince Rupert pulp mill or Terrace lumber mill. Nor is it clear, in the case of the Terrace mill, what type of lumber the Chinese would want to purchase from the 125 million board-feet-per-year facility. Industry sources speculate that the Chinese would prefer unfinished logs and possibly "timbers," or squared 12x12s that they could cut in China, as well as some 2x4s and other finished lumber.

According to BC Resources' vice-president for corporate development, Michael McKibbin, the rougher the logs the better they suit China's needs. There are probably two reasons for this, McKibbin explains: one is that China finds it cheaper to use its own abundant labor to finish the lumber, and second, the central authorities in charge of distributing wood to the various users in China may not actually know how that wood will be used.

Turf wars

Not surprisingly, China's initial foray into the lumber industry has also led to some minor skirmishing among China's own trading and investment organizations.

CITIC wants secure supplies because it is an investor, explains Michael McKibbin. On the other hand, the typical Chinese trading company wants the cheapest supplies, he notes. The Chinese trading corporations that deal in forest products include the China National Native Produce and Animal By-Products Import–Export Corporation, which specializes in lumber, and the China National Light Industrial Products Import–Export Corporation, which handles wood pulp. These corporations "buy opportunistically, and they've bought well," notes one observer.

The interests of the traders who want cheap supplies and the investors who want secure supplies do not always coincide. "We see glimpses of that debate in our dealings with the Chinese," McKibbin says. The debate may also be related to bureaucratic wars within China, as the various corporations vie for dominance in China's foreign trade. Investment in America represents one way for these organizations to "expand their turf," as one lumber executive puts it. Asserts another: "As bureaucracies, their interests are in competition." The results of this competition have sometimes proved harmful. Complains an executive who was attempting to negotiate an investment with the Chinese: "Some of these people are crossing each other's paths and making things more difficult for themselves . . . they've bungled a couple of major operations."

Lack of knowledge

An even more serious problem holding back Chinese investment in the forest products sector is their lack of market information. One company official was surprised by their unfamiliarity with the different grades in pulp production. Another remarked of a recent investment delegation, "There was not one in the group that really had any expertise at all."

According to one Canadian negotiator, most Chinese investment delegations know very little about reforestation, or of the American and Canadian prohibitions against "cut and run" logging operations. In addition, the Chinese do not always stop to consider the political repercussions of their plans. One Chinese organization even toyed with the idea of conducting its own logging operations in the American northwest with

Chinese lumberjacks.

But sooner or later the Chinese will understandably want to send in their own managerial personnel. According to McKibbin, "That is clearly an objective." Other forest product executives express some hesitation about the prospect. One of them ventured dubiously, "If they want to put some of their own people up there to observe, they can." But he seemed hardly excited by the prospect. Asserts another executive: "They have no surplus of even semiqualified people. . . . They're forced to retain those people in their domestic operations." Instead, the Chinese have "what we might politely call raw recruits," he said.

Learning by doing

On the other hand, some firms have welcomed the Chinese as part of their management team. A case in point is the chairman and CEO of Santec Corporation, Jefferey Chuan Chu, who strongly believes that the Chinese ought to spend their time learning management skills, and therefore should invest their money abroad where they can learn the most.

Santec Corporation, a printer manufacturer headquartered in Amherst, New Hampshire, has so far given three Chinese a unique opportunity to see American management techniques firsthand. The three technicians were sent over by the Nanjing Telecommunications Works, which purchased $2 million of Santec's preferred shares, convertible to 19 percent common stock. Under the agreement, the three stayed for the first half of 1984 working on the factory floor, helping to design the power supply and other aspects of the manufacturing process.

Another part of the deal was to provide favorable credit for Santec's purchases of relatively simple, labor-intensive parts for the printers. Nanjing agreed to give Santec six months, rather than the usual 30 days, to pay for the parts. Chu revealed that this aspect of the deal has actually "bogged down," because his Chinese partner has no export license, and the decision to grant one has stalled somewhere in the Chinese bureaucracy.

On the whole, though, Santec is pleased with the deal, as Nanjing's $2 million investment came just when the company was emerging from Chapter 11 bankruptcy.

The idea of Chinese buying into the company first germinated in 1981 when then-president R. C. Sanders was vacationing in China. Chu denies that his own relationship with Rong Yiren, chairman of CITIC and a relative by marriage, had any bearing on the negotiations. But he acknowledges that "friends in China" made a difference. Chu was born in Tianjin and came to the US in 1940. He joined Santec in 1980. By the beginning of 1984, however, Santec still had not shown a profitable quarter, and some industry analysts seem skeptical that it ever will. Commented one computer executive, "The Chinese got talked out of some money. . . . It's an example of the kind of mistakes they make when they don't do their homework properly."

A willingness to learn is not always enough, and some executives are frustrated by their Chinese counterparts' lack of adaptability to the Western corporate environment. "It's understood by everyone in China that you do business by Chinese customs and Chinese law," notes one Canadian forest products executive, "but the Chinese have a lot of trouble accepting the corollary to that . . . adapting to Canadian customs and Canadian laws."

Chu, however, feels that the Chinese have derived substantial benefit from the partnership. The investment enables the Chinese to appoint one member to the board of directors, as well as to send a number of engineers and managers to observe and participate in company operations. "We work so beautifully together," Chu says of the three Chinese who worked at Santec through July 1984. Two of them hardly spoke English, so Chu brought in American Chinese to teach them the language and help them adjust to American ways. Each of the Chinese worked in different areas of the factory, and lived in the home of a different Santec employee.

But now it looks as though the Chinese will not get involved in management, marketing, and finance as Chu originally intended. In fact, it now seems that the next group of Chinese will not be back in New Hampshire until 1985, if at all. Nevertheless, Chu expects to sign another agreement with his Nanjing partners by the end of 1984 to establish a joint venture manufacturing facility in China to develop, market, and produce printers under the brand name "Nansan."

Making money the American way

The lack of big profits, or for that matter any profit at all, has not dampened China's interest in investing abroad. Indeed, the opportunity to get "hands on" Western business experience is highly prized by the Chinese. Clearly they seem to consider a joint venture on American soil worth something on its own. Above all, foreign investment has been an opportunity for the Chinese to learn about new management styles, about the industries upon which they depend for imports, and about making a profit the American way.

But the willingness to learn is not enough, and some executives are frustrated by their Chinese counterparts' lack of adaptability to the Western corporate environment. "They come from a very rigid style of living and doing business," remarks one Canadian forest products executive. "It's understood by everyone in China that you do business by Chinese customs and Chinese laws, but the Chinese have a lot of trouble accepting the corollary to that . . . adapting to Canadian customs and Canadian laws."

The Chinese nevertheless remain optimistic that they have taken the right path. As CITIC's executive director, Jing Shuping, told the *Financial Times* a year ago, "It is true that by having foreign companies to China we can learn a lot. But there is more we can learn outside China . . . our future is in the wider world and we have a lot to learn." 元

OPIC In China

Its political risk insurance for China may soon exceed that for any other country in OPIC's worldwide portfolio

Henry R. Berghoef

American investors interested in doing business in China ought to be familiar with the Overseas Private Investment Corporation (OPIC), a self-sustaining, government-owned corporation that has played a leading role in promoting US–China economic relations. OPIC's services are aimed at helping US investors take full advantage of business opportunities in China.

In October 1980 the United States and China concluded an agreement that enabled OPIC to operate in China. The accord marked the first official bilateral action intended to promote cooperation on investment between the two countries.

Since then OPIC's activities in China have burgeoned, and may soon account for a larger proportion of OPIC's political risk insurance portfolio than any of the other 100-odd countries in which the agency operates. OPIC also makes available feasibility study funding, direct loans, loan guaranties, and training grants to private US investors in China. In addition, it plans to take a group of potential US investors to China late this year to encourage greater American investment in the PRC.

Investment insurance

OPIC issued its first insurance contract for an investment in China in March 1982, after certain administrative procedures had been established between OPIC and the Chinese government. Since then OPIC has written 14 insurance contracts for projects in China, and expects to issue as many as six more before its current fiscal year closes at the end of September 1984. Insured investors include AMF, Inc., American Motors Corporation, American President Lines Ltd., Combustion Engineering, Inc., Dresser Industries, Inc., and The Foxboro Company. Several of the pending contracts will be issued to US companies involved in oil exploration in China's offshore waters. OPIC estimates that its coverage commitments in China by September 1984 will total about $300 million for each of expropriation and war, revolution, insurrection, and civil strife coverages. That amount of coverage will vault China into the number-one position in terms of OPIC's individual country exposure for both expropriation and war coverages.

The robust demand for OPIC's services reflects the intense US business interest in that country, as well as a general lack of familiarity and experience with investment in China. OPIC believes it may issue as many as 10 insurance contracts for coverage in China in fiscal 1985, though investment forecasts must be made with caution. OPIC's experience is that it takes more time than investors had initially anticipated to bring projects to fruition in China.

Because OPIC has insured a variety of investment and contractual transactions in China, it has the experience and flexibility to tailor coverages to individual investors' needs. OPIC had covered the more straightforward arrangements involving cash investments in joint ventures, and has also insured technical assistance agreements, equipment supplied under compensation trade arrangements, equipment owned by a US investor and held for sale in China to local customers, leased equipment, oil production-sharing agreements, and loans and loan guaranties.

Under special coverage available to contractors and exporters, OPIC has also insured or is considering insuring irrevocable letters of credit (posted as bid, performance, or advance payment guaranties) against unjustified drawings by the host government. It can also cover equipment used in China by a US contractor in carrying out a specific contracted job.

OPIC's coverage terms

OPIC's maximum insurance coverage of any investment generally is limited to 90 percent of the value of the investment. The investor must bear the remaining 10 percent exposure to political risk. OPIC will also provide coverage for earnings on an investment, including equity earnings that are reinvested in the foreign company and interest on loans. As a general rule, OPIC will make available insurance for earnings valued at up to twice the amount of the initial insured investment. Coverage is divided into the current insured amount, the amount of coverage actually in effect at a given time, and the standby amount, which is a binder for guaranteed future coverage up to the maximum amount specified in each contract. Standby amounts can be converted into current insurance on contract renewal dates (generally annually) as anticipated earnings accumulate. OPIC can cover only new investments, including the modernization or expansion of existing facilities. Investors interested in political risk coverage should note that OPIC requires investors to register for political risk insurance *prior* to entering into an irrevocable commitment to invest.

Henry R. Berghoef is manager of Administration and China Affairs at OPIC, and serves as one initial point of contact at OPIC for American firms interested in investing in the PRC. Interested firms may call 800-424-OPIC or contact Mr. Berghoef directly at 202-653-2924.

Types of coverages

OPIC has written coverage in China to protect US investors from two major categories of political risks: 1) expropriation, and 2) war, revolution, insurrection, and civil strife. The latter coverage, which is written on the same basis in China as in the other developing countries in which OPIC operates, compensates an investor for physical damage to tangible assets caused by events of war. Payments, such as principal and interest payments on loans, or payments under technical assistance or management agreements, can also be covered for the risk of interruption due to war. The insured investor, however, must establish that the Chinese entity liable for the payment had the authority and commercial ability to pay the investor.

OPIC provides its standard expropriation cover in China and, due to the pervasive involvement of the Chinese government in virtually all forms of investment ventures, also applies its political risk insurance to the dispute resolution provisions of agreements. As part of its more typical expropriation cover, OPIC insures against those events of expropriation that are undertaken by the host government in its governmental capacity. That is, OPIC insures against the risk of an outright seizure of assets or of deprivation, by actions of the government outside its role as a legitimate participant in the commercial aspects of the project, of the fundamental rights or interest of an investor.

OPIC developed the dispute resolution approach to coverage in China because of thorny definitional and legal problems surrounding the provision of the standard expropriation coverage in the PRC. On the one hand, OPIC by law can insure only against political, and not commercial, disputes. On the other hand, Chinese government agencies or subagencies are involved as participants in virtually all investment transactions. If a serious problem were to arise between a US investor and a Chinese government-controlled entity that is a joint participant in the project, it could be extremely difficult to determine whether the disagreement constituted a political or commercial dispute and whether the disagreement constituted a compensable event under an OPIC political risk insurance contract.

OPIC resolves this problem by insuring compliance with the dispute resolution mechanism in agreements. Specifically, OPIC insures against any one of three events:

- The Chinese entity refuses to participate in the dispute resolution procedure; or
- The Chinese entity participates in the dispute resolution procedure and loses, but is unable or unwilling to pay the award; or
- The award rendered by means of the dispute resolution mechanism was obtained by fraud, coercion, or corruption, or is not supported by substantial evidence in the record.

OPIC has no set arbitration procedures to which it requires investors to adhere. Like most foreign investors in China, however, it prefers that arbitral clauses provide for neutral offshore arbitration. The following arbitration procedures, taken from a recent contract, illustrate those found in China contracts insured by OPIC:

- In the event of disputes, the parties shall attempt to reach solutions through friendly consultation;
- If both parties fail to reach an agreement, a dispute shall be submitted for mediation to the Foreign Economic and Trade Arbitration Committee (FETAC) of the China Council for the Promotion of International Trade (CCPIT);
- If either party is dissatisfied with the results of this mediation, both parties will submit to arbitration with the FETAC if both parties can agree to use the FETAC;
- If both parties cannot agree to use the FETAC for arbitration, the dispute will be submitted to the Chamber of Commerce of Stockholm, Sweden, for arbitration.

Foreign exchange convertibility coverage

OPIC to date has not written inconvertibility coverage in China, but will consider providing this coverage under certain circumstances. In all of the countries in which OPIC operates, its inconvertibility coverage assures that an investor's investments and earnings abroad can be converted from local currency into dollars at some future date to the extent that such local currency could have been exchanged for dollars at the time the insurance was issued. In effect, OPIC freezes the transfer status quo (with the exception of exchange *rates*.) Thus, if the status quo is that local currency is not convertible, OPIC cannot provide inconvertibility insurance.

Chinese law and regulations are in flux on this point, however, and OPIC will offer inconvertibility coverage if an investor can obtain from the appropriate Chinese authorities an adequate legal right to convert renminbi

OPIC'S FIRST ORDER OF BUSINESS: TO ENCOURAGE PRIVATE AMERICAN INVESTMENT IN DEVELOPING COUNTRIES

The Overseas Private Investment Corporation was established by Congress in 1969 as an independent US government corporation to promote private US investment in developing countries. OPIC provides eligible US investors with insurance against certain political risks; loan guaranties; direct loans to projects involving small businesses and cooperatives; and a variety of pre-investment and investment encouragement programs, including feasiblity study and training assistance and investment missions. These activities distinguish OPIC from the US Exim Bank, which is charged with promoting and financing US exports.

Investment insurance is the largest segment of OPIC's business—some $9.3 billion in total coverage is currently outstanding for private US investment throughout the developing world. OPIC and its predecessor agencies have paid, guaranteed, or provided indemnities for more than $415 million to investors in settlement of claims.

OPIC is a rarity among government agencies in that it is entirely self-sustaining and draws no appropriations from the US Treasury. OPIC derives its income from fees charged for its services, and from interest on investments. It has recorded a positive net income in every year of its operation. OPIC's capital and reserves currently stand at about $800 million. All of OPIC's obligations also are backed by the full faith and credit of the United States.

into dollars, and if it appears that in practice that right can be exercised within a specific period of time.

Project financing

OPIC provides financing for long-term ventures through two vehicles, direct loans and loan guaranties. Direct loans, which usually range from $100,000 to $4 million, are available for projects sponsored by, or significantly involving, US small businesses or cooperatives. Interest rates are based on current market rates, adjusted to take account of a project's financial and political risk.

Under its loan guaranty program, available to American firms of any size, OPIC will issue a guaranty assuring repayment of funding obtained from a US financial institution. The guaranty covers both commercial and political risks. Typical OPIC loan guaranties range from $1 million to $25 million, but can be as large as $50 million. Interest rates on guaranteed loans are comparable to those of other US government-guaranteed issues of similar maturity. In addition, OPIC charges the borrower a guaranty fee that ranges from 1.5 to 3 percent. Both direct loans and loan guaranties generally are extended on a nonrecourse, project financing basis. OPIC currently is considering loan guaranties for two projects in China.

OPIC also offers a Small Contractors' Guaranty Program as part of its broader finance program to assist small US construction and other service contractors. OPIC will guarantee up to 75 percent of an on-demand standby letter of credit or other form of performance or advance payment guaranty issued on behalf of a contractor by an eligible financial institution. Because OPIC's guaranty pro-

FOUR OPIC PROJECTS

How OPIC insures against certain types of critical risks and provides unconditional guarantees to US banks in favor of American investors in China

Case I: Compensation trade Company A entered into a long-term compensation trade agreement to produce consumer goods in China. The US investor is providing machinery, equipment, and technical assistance; the Chinese partner is providing land and buildings. The US company will purchase all of the product produced by the venture, with the price based on a formula involving labor, material costs, and market conditions. The US company is responsible for marketing the product in foreign markets.

OPIC is supporting the US investor by insuring the machinery and equipment supplied by the investor. In the case of expropriation (as defined in OPIC's insurance contract), OPIC will compensate the US company for up to 90 percent of the original installed value of the equipment. Moreover, OPIC will compensate the investor for any damages to the equipment due to war, revolution, insurrection, or civil strife. Since the US investor is not an equity owner, the specific assets provided by the US partner under contract constitute the insured investment.

Case II: Joint venture Company B signed a contract with a Chinese corporation for the formation of a joint venture to produce consumer products. The US partner contributed cash and machinery as its equity share, and will also provide technical and managerial assistance.

OPIC provided this investor with coverage against the risks of expropriation and war, revolution, insurrection, and civil strife. In case of a compensable event, the investor will be compensated for up to 90 percent of its initial capital contribution. In addition, since the investor is an equity partner and expects to accrue earnings in the joint venture, OPIC has insured the US investor's share of earnings as they accumulate up to a maximum of twice the amount of the insured portion of the initial investment. The investor's contribution of technical and managerial assistance is also covered.

Case III: Leased assets Company C entered into a joint equity venture with a Chinese entity in a service business. As its contribution to the equity of the joint venture, the US partner provided a substantial amount of cash. In addition the US partner leased equipment to the joint venture for use in the joint venture's operations.

OPIC provided political risk insurance for 90 percent of US investor's equity contribution and for earnings generated on the initial equity and retained in the joint venture. In addition, OPIC provided expropriation and war coverages for 90 percent of the value of the assets leased to the joint venture under a financial lease. Thus, if the covered leased assets were expropriated or damaged by war, revolution, insurrection, or civil strife, the investor would be compensated for up to 90 percent of the unamortized portion of the lease.

Case IV: Financial guaranty Company D entered into a contract valued at nearly $10 million with a Chinese corporation for the sale and installation of a complete Landsat-D Ground Station System. The ground satellite tracking station will allow China to receive agricultural and geological information from the US Landsat network of earth monitoring satellites.

OPIC's Finance Department is providing an unconditional guaranty to a US bank in favor of Company D for a $4.5 million letter of credit that the company has been required to post as a performance guaranty. OPIC's guaranty enables the guaranteed portion of the letter of credit to be excluded from the bank's credit exposure to Company D and from the Company's outstanding credit lines, thus freeing that much of the company's working capital for other purposes. OPIC's Insurance Department provided political risk insurance against the arbitrary drawing of a second letter of credit the Company was required to post as part of its bid for the contract. —HRB

vides for an unconditional payment to a financial institution in the event that a contractor refuses or is unable to reimburse it following a drawing, the guaranteed portion of the letter of credit can be excluded from the bank's credit exposure to the contractor. The financial institution must assume the risk on the remaining portion of the letter of credit and share proportionately with OPIC the collateral security backing the credit. OPIC has already committed itself to one such guaranty in China.

Interested investors should note that direct loans and loan guaranties are made only to foreign investment projects involving long-term participation by US investors. They are not available to directly finance US exports, although a foreign venture may of course use the proceeds of OPIC financing to procure US exports. Companies interested in direct export financing should consult with the Export–Import Bank.

Feasibility studies and training

Under the feasibility study program, OPIC reimburses an investor for up to 50 percent of the study's costs (and up to 60 percent for studies sponsored by small businesses). In all cases, OPIC's maximum participation is $100,000. For small businesses, funding for feasibility studies is provided through an interest-free, reimbursable grant. Repayment (over two years) is required only if the investor moves forward with the study-related project. Small businesses also may apply for a grant of up to $5,000 to cover travel costs and per diem expenses associated with visiting China for the first time to assess an investment.

For larger firms, financing assistance for feasibility studies is provided through a two-year loan at a rate generally equivalent to two-thirds of the prime rate. Repayment may be reduced if the investment moves forward, and the investor elects to obtain OPIC insurance or financing. To obtain feasibility study funding, an investor must have a project that would be eligible for insurance or financing from OPIC. The feasibility study itself must be substantially carried out by the investor rather than a third party. OPIC has provided partial financing for seven feasibility studies conducted by US companies in China, one of which was Beatrice Foods Corporation's study of a food-processing venture.

OPIC also offers grants and loans to support the training and education of host-country nationals involved in OPIC-supported projects. Funding is generally provided to businesses on a concessional-loan basis in amounts not exceeding $50,000. Financing is made available to cover the foreign exchange costs of these projects, such as the international travel and living expenses of US experts sent abroad to provide training, or the expenses of host-country individuals sent to the US to acquire new skills. In all cases, the project sponsor must contribute at least 25 percent of the cost of the training. OPIC has provided this type of training assistance to American Motors Corporation for its Beijing Jeep project.

Finally, OPIC offers grants to nonprofit entities, such as private voluntary organizations, universities, or foundations, to initiate imaginative programs that transfer technology to developing countries or facilitate US investment in those nations. The University of Illinois has received one such grant to conduct seminars in Beijing on the establishment of commercial legal frameworks with particular reference to the needs of US investors.

Investment missions

OPIC is actively recruiting participants to join its investment mission to China in late November 1984. The mission is jointly sponsored by OPIC and China's Ministry of Foreign Economic Relations and Trade. MOFERT has identified over 30 joint venture projects for which it is seeking joint venture partners. Potential US investors interested in the mission are invited to call OPIC's missions office, 202-653-2911.

OPIC's wide-ranging programs and activities in China have demonstrated that it is a valuable resource for US companies interested in investing in China. OPIC welcomes inquiries from US investors, and stands ready to meet with companies and individuals interested in making use of its services. 完

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John Schaffer

Chinese Wines

More surprising than their excellent taste is the wide variety of China's prize-winning export wines

Tom Engle

When a white wine produced in China's Hebei Province won a silver award at an international wine and spirit competition in London last year, many of the world's wine experts looked down well-cultivated noses at the news. When another Chinese white wine took a gold medal earlier this year at the Leipzig International Trade Fair, experts took a closer look at an industry undergoing rapid expansion and transformation. Today it is clear that the Chinese are determined to produce world-class grape wines for the world market, and to seek the help of foreigners to modernize their wine industry. A depressed market and other factors beyond their control render this a daunting task. But if they succeed, we may all be drinking more Chinese wine in the coming years.

A widespread and fast growing industry

The visitor to China is struck by the extensive vineyards, especially given the fact that it is a land-poor country often on the margin of agricultural self-sufficiency. Indeed, grapes are grown in virtually all the country's provinces, on state farms, cooperatives, and private plots. In 1982, the last year for which a figure is available, China produced 186,000 metric tons of grapes, more than double the 1977 output. This figure can be expected to continue rising as land sown to grapes increases. The land area planted to grapes in 1980 (71,000 hectares) was more than twice the annual average between 1975 and 1979. Still, this was less than 25 percent of the area planted to grapes in the United States and less than 5 percent of that in Spain, the world's most extensive cultivator of vineyards.

China's grapes are used not only to make prize-winning Western-style wines, but also the traditional Chinese wines generally too sweet for Western palates, as well as raisins and table grapes. The industry is China's fastest-growing fruit processing sector, according to one Chinese viticulturist. Wine production may be expanding rapidly, but it remains a drop in the world barrel. China has yet to take its place on wine production charts published by the Food and Agriculture Organization (FAO) and other international agencies, so statistics on overall output are scarce. Chinese sources indicate wine production rose from 50,000 metric tons (13.25 million gallons) in 1952, to 80,000 tons (21.2 million gallons) in 1980. A doubling of this output by the end of the decade would not be surprising, in view of the current expansion of both vineyard area and winery capacity. But even this leap in production would not place China in the big league, since Italy reportedly accounted for 1.8 billion of the world's total output of 8.2 billion gallons in 1981, and the sixth-ranked United States produced 430.6 million gallons, more than 90 percent of it in California.

The vast majority of China's Western-style wine is exported. Most of that consumed domestically is sold in hotels to foreign tourists, among whom it reportedly is quite popular. China lacks an internal market for its Western-style wine, due to limited spending on "luxury" items, and the fact that the Chinese traditionally prefer sweeter local vintages. Per capita consumption figures do not exist, but one may rest assured that, in terms of Western-style wine, the average Chinese does not quaff anywhere near the typical Frenchman's 24 gallons per year, or even the average American's 2–3 gallons per year.

If the Chinese are short on total wine production, they are long on experience in making it. Grape wine was made in remote Xinjiang as early as the second century B.C. Much later, Western seafarers and Christian missionaries brought European grape cultivars with them to China. In 1892, an overseas Chinese, Zhang Bishi, established China's first modern wine production facility, the Zhangyu Winery, at Yantai in coastal Shandong Province. It remains one of the country's leading wineries, producing both Western-style wines and traditional Chinese wines sold locally and in Hong Kong. Dozens of wineries appeared in later years, those in southern China generally producing sweeter wines suited to local tastes and those in the north producing drier vintages more appropriate to the world market.

Winning wines produced by joint ventures

Intent on expanding China's share of the world wine market, the country's wine experts have taken advantage of Beijing's Open Door policy in effect since the late 1970s to broaden cooperation with foreigners. This has led to purchases of new grape varieties, wine processing equipment, and expertise. A handful of Chinese grape and wine experts also have pursued advanced study and research at American universities. Since China plans to export most of its new production, the current ex-

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pansion favors northern wineries that produce for export.

One successful winery is the Great Wall Wine Company in Shacheng County of Hebei Province, operated under a fifteen-year joint venture agreement between the China National Cereals, Oil, and Foodstuffs Import–Export Corporation (CEROILS) and the Yuan Da Company of Hong Kong. A dry white wine produced there from the native Chinese *longyan* ("dragon's eye") grape won the silver medal at the international competition in London in 1983. Great Wall officials plan on the London prize being the first of many, and on establishing their winery as China's largest exporter. Great Wall brand wine entered the international market in 1979, and the enterprise plans to increase its output of 3,000 metric tons in 1983 to 10,000 tons in 1985. Production is now coming on stream from vines imported from the US and West Germany with such familiar names as Chardonnay, Sauvignon, and Riesling. Processing capacity is being expanded with $1.3 million worth of equipment bought from Sweden, France, and West Germany. This includes testing instruments and fermenting, processing, and storage equipment.

Great Wall will face stiff competition from Dynasty brand, a medium-dry white wine produced near Tianjin under a joint venture with the famous French cognac maker Remy Martin. Dynasty is now available in at least eight countries and won the gold medal in Leipzig earlier this year. Remy has brought in the latest in low-temperature fermentation, filtration, and air-tight bottling equipment; French technicians and wine experts make periodic visits to ensure quality control. The venture produced 100,000 (75 cc) bottles of Dynasty in 1982, is expected to produce 400,000 this year, and is aiming for 600,000 in 1986. Remy is responsible for all marketing abroad, while China handles a small volume of local sales to tourist hotels.

In the US, Dynasty is largely found in Chinese retaurants, where it costs about $13 a bottle. Some liquor stores also carry it for about half that price. The winery in Tianjin receives about $2 per bottle, the remainder split among Remy, middlemen, and retailers or restauranteurs. Remy Martin Amerique plans to intensify its marketing of Dynasty in the US, according to National Marketing Manager Barry Small. He says that while the brand will be increasingly available in retail outlets, Remy will continue to pin its hopes largely on the Chinese restaurant market. "We believe Americans are increasingly authenticity-conscious. They'll want to drink Chinese wine with Chinese food."

A California wine expert who recently visited the Tianjin facility professed to be very impressed with both the technical proficiency and the quality of the output of the Sino–French venture. The same American also praised the Zhangyu Winery founded at Yantai 92 years ago. While not as efficient as the Remy Martin undertaking, Zhangyu produces more wine and has imported world-class vines and European processing equipment. It is a more typical Chinese winery in that it produces several kinds of wine for wine-drinking markets as disparate as Holland and Hong Kong, San Francisco and Singapore. One of the more exotic vintages it hopes to market in Asia reportedly includes among its ingredients penis extract from dog, deer, and sea lion, a combination not likely to tempt the average Western wine consumer.

The lack of product recognition represents a major obstacle in the way of Chinese success. It will take a long time to change the popular Western impression of Chinese wine as being a fiery rice wine drunk by heads of state in tiny glasses.

Remy Martin is not the only European company helping to develop China's wine industry. Another French firm, the Pernod Ricard Company, last June announced a joint venture in wine with the Yifeng Vineyard in Lankao County of central Henan Province. Each side has agreed to contribute half of the $1.5 million investment to expand and upgrade the facilities of a winery already producing 20 varieties of Chinese-style wines. Pernod Ricard is providing technology, equipment, and spare parts, while Yifeng provides a construction site, building, auxiliary equipment, and utilities. The venture eventually plans to produce 1.7 million bottles of Western-style wine, 90 percent for export.

US remains sidelined

While French companies increase their involvement in the expanding Chinese wine industry, American firms seem conspicuously uninvolved. No US companies have joint ventures similar to those worked out by Remy and Pernod, though several have sold small amounts of wine to China. American makers of wine processing equipment also have done virtually no business with China.

The Canadian beverage giant The Seagram Company Ltd., owner of the popular American wines Paul Masson and Taylor, was the first foreign firm to sign a contract with China in the wine and spirits business in October 1978. The agreement covers the marketing of Seagram brands in China's tourist hotels and has been renewed annually. Seagram has explored joint venture possibilities without result, but claims to be open to future offers. The company also has sent experts to conduct basic wine education seminars in China, and helped the Chinese locate 50,000 promising European and California vines and (non-American) processing equipment. The Seagram Wine company's Vice-President for the Far East, Bob Gandel, says the company expects continued annual renewal of the sales contract and is very pleased with its representation in China.

Why aren't American wineries and equipment manufacturers doing more business in China? First of all, US wineries have traditionally concentrated on their domestic operations, not vineyards overseas. Even if this trend were to change, however, the industry would probably direct its investment toward the more familiar wine-producing areas of South America and Australia, not China. Also, the US wine equipment industry is an underdeveloped cousin alongside America's much larger fruit and juice processing equipment manufacturers. As a result, the US

wine industry imports almost all of the wine equipment it requires from Italy, France, and West Germany. Compared with Europe's enormous wine industry, America's is simply too small to render investment in that product line profitable. Some American companies make products such as crushers and presses used to process other juices as well as wine, and they *are* potential exporters to China. But the US faces stiff price competition from the Europeans, especially the Italians. A top executive with one West Coast equipment maker that sent quotations to China cited his higher labor costs and the strength of the US dollar as reasons why Italian firms were able to undersell his firm for comparable equipment. The executive saw no prospect for a change in this bleak situation in the next 10 years and said his firm "has had to lay off 100 employees because we're even losing our markets in the US to imports."

A West Coast wine company executive cited another factor: continuing American concern over copycat production in China. "Sell the Chinese a piece of equipment and that's the last one you'll sell—they'll copy it and become competitors," he said. Accurate or not, his concern over losing control of one's technology may continue to limit US equipment exports even if the dollar should weaken.

China's uphill battle

If Americans are not selling China much production equipment, are they buying much Chinese grape wine? Not a lot—yet. Last year, Americans spent only $89,000 on 10,383 gallons of Chinese white, and $34,000 on 5,294 gallons of Chinese red wine. This represents about one-tenth of 1 percent of the United States' total wine import bill. Americans spent less to buy Chinese grape wine than they did to buy Chinese rice wine, not to mention turmeric and seaweed. Still, US consumers bought virtually no grape wine from China prior to 1983. While it will take several years to establish any trend, the Chinese clearly consider the US an important market and are hoping Americans will begin favoring their labels.

As China expands its wine industry, its prospects for carving out an important slice of any major market are by no means assured. Indeed, China chose a particularly inauspicious time to invest in wine in a big way. World production is soaring and prices are currently slack. That ought to represent a boon to the world's wine consumers, but in both Europe and the US a 20-year rise in wine consumption is now leveling off and turning down. American wineries produced 15 percent more in 1982 than in 1981, but total US sales rose only 1.3 percent, the smallest annual increase since 1974. Per capita adult wine consumption in America actually dropped a bit. In Europe, a growing surplus between production and consumption—the "wine lake"—has created pressure for increased exports. As one veteran wine industry analyst put it, "the world market is particularly dicey now. The Europeans are trying to export more; the strong dollar makes that easy so the US market is slack. The Chinese are not very likely to make a big impact on the world market." Another expert professed to be "baffled" at China's intention to take on the Gallos and Folonaris of the world at this time.

Overcoming an image problem

Another obstacle in the way of Chinese success will be product recognition. It will take a long time to change the popular Western impression of Chinese wine as being fiery rice wine drunk by heads of state in tiny glasses. Many consumers are unaware that countries such as Australia and Bulgaria produce excellent wines. How then can China penetrate the public consciousness?

One West Coast wine expert did not envision much success for China's wine except as an "exotic product—something people buy just to say they tried Chinese wine." The "exotic factor" is something China and its representatives have used successfully to sell rice wine and other native products for which a mass market is lacking. Although the person who drinks a bottle of Dynasty just to say he tried it may decide to make it his regular vintage, China will not want to cultivate an exotic image for its Western-style grape wine in the long run. Shedding this carefully cultivated exotic image will be necessary to achieve mass appeal, but will not be easy.

Even without an image problem, it will take China some time to develop the expertise necessary to compete in quality and price with European and other wines. One California production expert who is relatively sanguine about China's prospects still believes the Chinese have adopted the wrong strategy in attempting to produce finished bottled world-class wines. Five years ago he advised the Chinese to begin producing bulk wine for export to Japan where it could be blended into a finished product. Experience gained in this way would permit a more gradual and thus sounder development of China's own up-market products. The Chinese did not follow his advice, he claims, because "they had already made up their minds how to go."

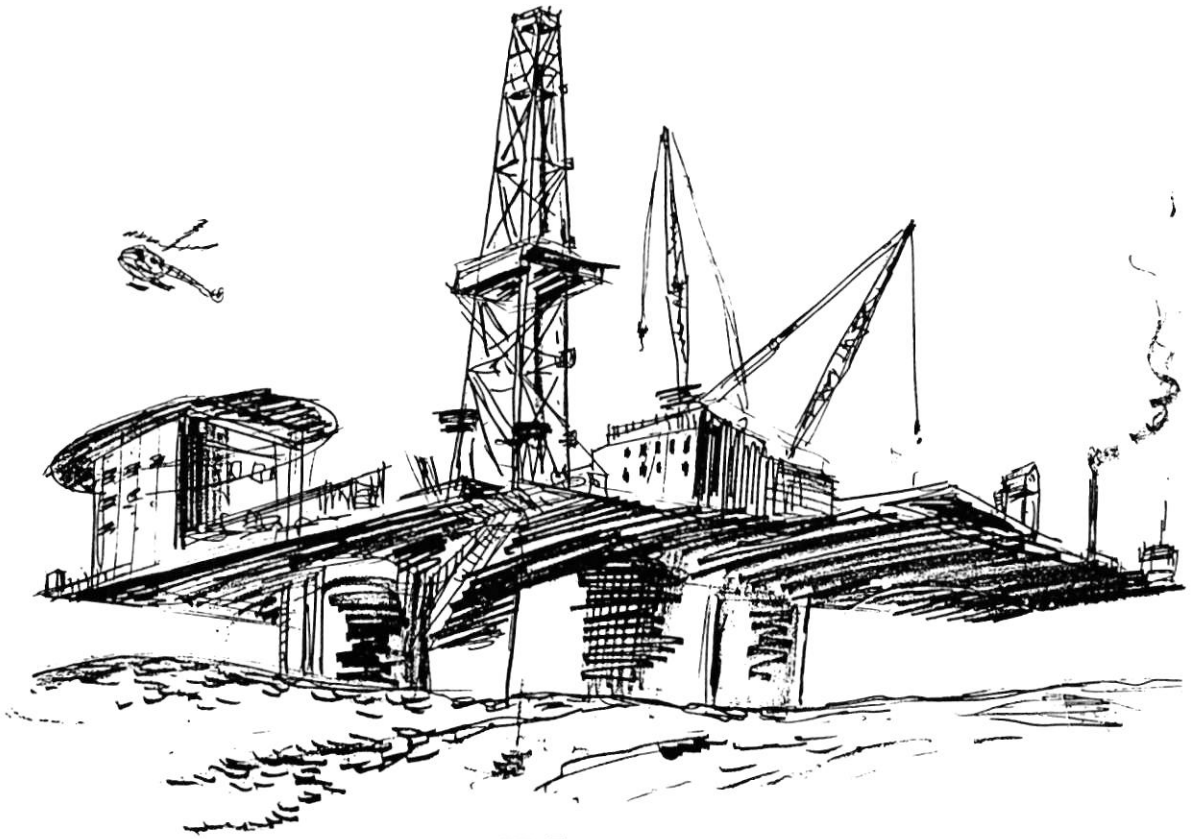
Patience may pay off

Most American experts as well as the Chinese agree that since domestic consumption of drier Western-style wines will remain low, China's success depends on its export potential. Much therefore would seem to turn on one's analysis of the world wine market. Or would it?

At least one wine company executive argues that the current glut is not relevant to China's prospects. This businessman instead stresses the importance of novelty appeal, of the local tourist trade, and the fact that "the Chinese see every Chinese restaurant in the world as their target. It's a lock-in situation. I see no reason why they can't develop a successful wine industry." The same executive said China might come to number among a group of "emerging wine nations," which include Australia, New Zealand, and Argentina.

Even among those convinced that world wine market conditions are relevant to China's prospects, not everyone believes the current depressed situation will last. As one West Coast agro-industry specialist put it, "if the Chinese are looking at the current market and hoping to sell much wine soon at the prices they can offer in the glutted market, then I'm baffled. But if they're taking a 20-year point of view, then it makes sense to expand. In the long term, China could become a low-cost producer of high-quality wines, similar to Spain or Portugal." Seen in this hopeful light, China's prospects turn more on Chinese patience. China waited 2,100 years to enter the world grape wine market. Potential competitors would underestimate Chinese patience at their peril. 完

What's China Consultants International doing about energy business in China?



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The US–PRC Income Tax Treaty

The historic document signals a dramatic change in the law governing the taxation of US corporations and individuals in China

Preston M. Torbert

An Income Tax Treaty between the United States and the People's Republic of China was signed by President Reagan on April 30, 1984, during his trip to China. This Treaty, together with the draft agreement on nuclear cooperation between the US and the PRC, constitutes the major concrete accomplishment of the President's trip. It has three important consequences for US corporations and individuals. First, it moves China closer to international tax practice. Second, it clarifies the tax treatment of such corporations and individuals in the PRC and certain aspects of their resulting US tax liabilities. Third, it bestows certain benefits on them that they do not enjoy at present under domestic Chinese law and regulations.

The Treaty will enter into effect after the completion of the respective legal procedures by the US and the PRC. These procedures in the US are ratification by a two-thirds or larger majority of the Senate. In China the ratification procedure calls for the approval of the Treaty by the Standing Committee of the National People's Congress. Each country, after completing its respective procedures, will notify the other. Income derived during taxable years beginning on or after the first day of January next following the date on which the later notification is given shall be governed by the provisions of the Treaty. Although Senate ratification of some tax treaties has taken several years, the chances for an early approval of this Treaty look good. On August 10 President Reagan transmitted the Treaty to the Senate and urged "early and favorable consideration" of it. On the Chinese side, approval by the Standing Committee of the National People's Congress could occur before the end of the year. Accordingly, both countries may well complete their respective legal procedures within the next six to twelve months and the Treaty may take effect as early as January 1, 1985, but probably on January 1, 1986.

Following the OECD model

The contents of the Treaty will be familiar to international tax practitioners, but implementation may provide some surprises. The Treaty closely follows the OECD model treaty of 1977. The Treaty has articles relating to the major topics covered in the OECD model treaty: the Treaty's scope; taxes covered; general definitions of terms; definitions of "residence" and "permanent establishment"; income from immovable property; taxation of business profits; associated enterprises; taxation of dividends, interest, royalties, and capital gains; taxation of independent personal services; the credit method; and nondiscrimination.

The Treaty's scope covers those Chinese taxes of most concern to US corporations and individuals. These are the four Chinese income taxes; namely, the foreign enterprise income tax, joint venture income tax, individual income tax, and local income tax that is added to both the foreign enterprise and joint venture income tax. The Treaty does not cover the consolidated industrial and commercial tax, customs duties, or other taxes.

Preston M. Torbert is a partner in the Chicago office of the international law firm Baker & McKenzie. He has been advising US clients on trade and investment in China since 1975, and is a frequent visitor to Beijing and other cities in the PRC.

In general, the Treaty restricts the taxation of US corporations in China to either of two cases: the existence of a permanent establishment generating income, or the receipt of passive income. In the first case, US corporations will be subject to Chinese taxation on income from their activities in China to the extent that the income is attributable to a permanent establishment. The definition of permanent establishment in Article 5 of the Treaty is similar to that in the OECD model treaty. Thus, a permanent establishment includes, *inter alia*, a place of management, a branch, an office, a factory, a workshop, and a place of extraction of natural resources. In addition, a permanent establishment may also exist where a US corporation has an agent in China who acts on its behalf and habitually exercises in China an authority to conclude contracts in its name. But the Treaty also contains the OECD model treaty exclusion indicating that activities of a preparatory or auxiliary character and purchasing activities will not constitute a permanent establishment.

The receipt of passive income may also subject US corporations to taxes in China. A withholding tax is generally levied on this income. The Treaty closely follows the OECD model treaty by stipulating a withholding on dividends, interest, and royalties. The maximum rate of withholding tax is 10 percent. However, if a US corporation has a permanent establishment in China and the payment of dividends, interest, or royalties is effectively connected with the permanent establishment, the dividends, interest, or royalties will be taxed on the same basis as other income attributable to the permanent establishment (that is, on a net income basis).

The Treaty eliminates double tax-

ation through the credit, rather than exemption, method. Thus, a US corporation will receive a credit against US income tax for income on which income tax is paid to China by itself or on its behalf. In the case of a joint venture in which a US corporation owns at least 10 percent of the voting rights, the US corporation will receive a credit for the withholding taxes paid on its behalf on dividends (known as a "direct" credit) as well as for income tax paid by the distributing company with respect to the profits out of which the dividends are paid ("indirect" credit).

The Treaty, like other tax treaties to which the US is a party, does not provide for a tax sparing credit (i.e., a foreign tax credit for the full statutory foreign tax even if such tax is reduced as a tax incentive). During the negotiations, the Chinese side reportedly insisted on such a credit in order to increase the attractiveness of its low tax rates to US corporations by assuring that Washington did not cancel the effect of China's concessionary rates by taxing what China would not. The US side insisted that such a credit was contrary to US law and tax treaty practice. A compromise on this issue was achieved, and is noted in a protocol to the Treaty. It states that both sides have agreed that a tax sparing credit is not to be provided in the Treaty "at this time," but that if the US amends its laws concerning tax sparing credits or reaches an agreement with another country to provide tax sparing credits, the Treaty will be amended to incorporate a tax sparing credit provision.

The Treaty addresses the taxation of individuals in two categories: those performing independent personal services (namely independent professionals), and those performing dependent personal services (such as employees). Under the Treaty, the former are not taxed in China unless they have a fixed base regularly available to them, or they are present in China for longer than 183 days in a calendar year. Those performing dependent personal services are not taxable in China if they spend 183 days or less in a calendar year in China and fulfill other conditions. These provisions follow the OECD model treaty, except that the provision for taxation of individuals performing independent personal services and spending more than 183 days in China reflects a departure from the model treaty at the request of the United States.

A full understanding of the contents of the Treaty will have to await its interpretation and implementation. It is unclear how great an effect current Chinese tax practice and interpretation will have on this process. Since the Treaty closely follows the OECD model treaty, it will probably be interpreted in the light of the commentaries on the model treaty, the tax treaty practice of both countries, and international tax practice in general. The language of the Treaty should not depend solely on domestic Chinese tax practice for its interpretation. But Article 3 of the Treaty does provide that any term not defined in the Treaty shall have the meaning that it has under the laws of the contracting state concerning the tax to which the treaty applies. This may leave room for the introduction into the treaty of certain aspects of domestic Chinese tax law and interpretation even though Article 3 also states that in applying such definitions, the Chinese tax authorities could not employ a definition that contradicted the meaning required by the context of the Treaty.

Implications for US corporations

Assuming that the Treaty will take effect within the next year or two, the discussion below compares the present tax treatment under domestic Chinese laws and regulations and the future tax treatment under the Treaty of the most common activities in China by United States corporations.

▶ ***Purchasing*** At present US corporations engaged solely in purchasing from China are not subject to taxation in China. Such companies generally do not have "establishments" as defined under Article 2 of China's Foreign Enterprise Income Tax Law that took effect on January 1, 1982. Representative offices of a US corporation engaged in purchasing activities in China have not been considered "establishments" by the Chinese tax authorities for purposes of this law. Even if such corporations were found to have establishments, they would have no income from Chinese sources.

Under the Treaty, the treatment of US corporations engaged in purchasing will remain, in essence, the same. However, Article 5(4) (d) of the Treaty provides for an exception to the definition of a permanent establishment. Under the exception, the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information for the purchasing entity, will not be considered a permanent establishment.

▶ ***Selling*** Currently, US corporations are not liable for tax under the Foreign Enterprise Income Tax Law on income from the sale of products, assuming they have no presence in China or merely have a representative office. Questions have arisen, however, where the sale of machinery and equipment required the seller's technicians to remain in China for long periods to install or assemble it. Chinese tax authorities have not yet indicated under what conditions such installations or assembly activities would constitute an "establishment" and subject the foreign corporation to Chinese taxation on its income from the sale.

The Treaty provides for essentially the same tax treatment of US corporations selling to China and answers these questions at least in part. Under the Treaty, they will not be taxable in China on income from the sale of products unless they have a permanent establishment.

The Treaty uses the term "permanent establishment" and does not mention the word "representative office." To understand the treatment of a "representative office" under the Treaty, one must determine whether a representative office would constitute a permanent establishment. The answer will turn on the activities in which the representative office is engaged. The Treaty indicates that an "office" may constitute a permanent establishment, but also provides that many of the activities in which a representative office is normally engaged would not constitute a permanent establishment. These include the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, of collecting information, or carrying on activities of a preparatory or auxiliary character. In most cases, representative offices in China have engaged only in these types of activities because Chinese regulations (promulgated on March 15, 1983) prohibit them from engaging in "direct business activities," such as

signing contracts. In most cases, therefore, the Treaty will not result in any significant change in tax treatment for US corporations selling in China that have representative offices there.

The Treaty will benefit those very few foreign corporations with establishments in China (as defined by the Foreign Enterprise Income Tax Law) by clarifying that their income from sales to China will only be taxed to the extent effectively connected with a permanent establishment. The Treaty, therefore, indicates that the Chinese tax authorities will not apply the "force of attraction" rule under which corporations having a permanent establishment would be taxed in China on all sales activities there even if the activities were not related to the permanent establishment.

▶ ***Licensing*** The Treaty will also improve the tax treatment of US corporations engaged in licensing, which currently pay a 20 percent withholding tax on royalties, according to the Foreign Enterprise Income Tax Law. This law seems to be levied even against US corporate licensors maintaining establishments in China. However, domestic Chinese regulations issued by the Ministry of Finance on December 13, 1982, allow a reduction to 10 percent or full exemption from the withholding tax if certain conditions are met.

The Treaty improves the tax treatment of US corporations by providing a reduction from 20 to 10 percent withholding on royalties in every case. (Of course, US corporations that qualify can still enjoy a full exemption under current Chinese domestic regulations.) Further, the Treaty provides that if the US corporation has a permanent establishment in China, then the withholding tax will not be levied, and the royalty income will be taxed on a net basis like other business income, assuming that such income is effectively connected with the permanent establishment.

One question that arises under the Treaty is the treatment of income from services related to the transfer of technology. Current Chinese regulations seem to include income from services related to the transfer of technology as income from the technology transferred, that is, royalties, and impose withholding tax upon it. Article 11 of the Treaty, however, does not include income from related services as income from "royalties."

The Treaty and the commentaries on the OECD model treaty raise the issue of splitting service income off from royalty income, the latter to be taxed on a withholding basis, the former only if the licensor has a permanent establishment in the country. It is unclear whether the Chinese tax authorities will allow US corporations to split off service income and receive it without Chinese taxation. If they do, this may be a significant benefit for some US licensors.

▶ ***Loans and leasing*** As in the case of licensing, the Treaty will improve the tax treatment of US financial institutions lending to China. Under the Foreign Enterprise Income Tax Law a 20 percent withholding tax is levied on interest, but as mentioned earlier, the regulations do permit a 10 percent reduction or complete exemption if certain conditions are met.

Under the Treaty, the withholding tax to be levied on interest payments is 10 percent, but, as in the case of royalties, a US corporation that has a permanent establishment will be taxed on the interest on a net, rather than gross withholding, basis.

At present, lease payments to foreigners bear tax under the Foreign Enterprise Income Tax Law at a withholding rate of 20 percent, although the possibility of a reduction does exist for lease-sale transactions.

The Treaty reduces that rate of withholding tax to 10 percent on rental income (called "royalties"), and a protocol to the Treaty further provides that the tax will be imposed on only 70 percent, rather than 100 percent, of the gross amount of the royalties for the rental of industrial, commercial, or scientific equipment. This should lower the effective withholding rate in most cases to 7 percent. As in the case of technology royalties and interest, rental payments are taxed on a net, rather than gross withholding, basis if the recipient has a permanent establishment in China.

▶ ***Equity joint ventures*** The Treaty does not provide for major changes over the present taxation of joint venture companies. Under China's Joint Venture Income Tax Law, promulgated on September 10, 1980, a 10 percent withholding tax is imposed on dividends paid by a joint venture company to a foreign shareholder, and a maximum of 33 percent income tax is imposed on the net income of the joint venture company.

Under the Treaty, dividends are to be taxed at a 10 percent withholding rate. However, if the US shareholder has a permanent establishment in China, the dividend would be taxed on a net, rather than gross withholding, basis. As noted above, the Treaty also provides both a direct and indirect credit for Chinese taxes paid.

The treatment of US corporations that are participants in equity joint ventures in China raises the issue of national treatment under the Treaty. Article 23(4) of the Treaty, a provision taken from the OECD model treaty, provides that a joint venture in China that is partly owned by a US corporation or individual shall not be subjected in China to any taxation that is "other or more burdensome than the taxation and connected requirements" to which "other similar enterprises of [China] are or may be subjected." Since joint ventures and domestic state-owned enterprises in China are subject to different tax regimes, and hence, tax rates, the resulting different treatment might seem to conflict with this provision of the Treaty.

▶ ***Offshore petroleum subcontracting*** The tax treatment of many subcontractors in the offshore petroleum sector should not be substantially changed by the Treaty. Under the Foreign Enterprise Income Tax Law, for example, subcontractors in the offshore petroleum sector are deemed to have "establishments" in China and are generally taxed on a deemed profit basis.

Similarly, Article 5(3) (b) of the Treaty provides that an installation, drilling rig, or ship used for the exploration or exploitation of natural resources will constitute a permanent establishment if used for a period of more than three months. Further, Article 7(4) allows the Chinese tax authorities to apply provisions of its domestic law that tax a specific industry on the basis of a deemed profit when there is a permanent establishment, provided that such taxation is in accordance with the principles contained in the Article.

▶ ***Individuals*** The Treaty will have a generally positive impact on individual taxation, particularly on employees of US corporations. Under China's September 10, 1980, Indi-

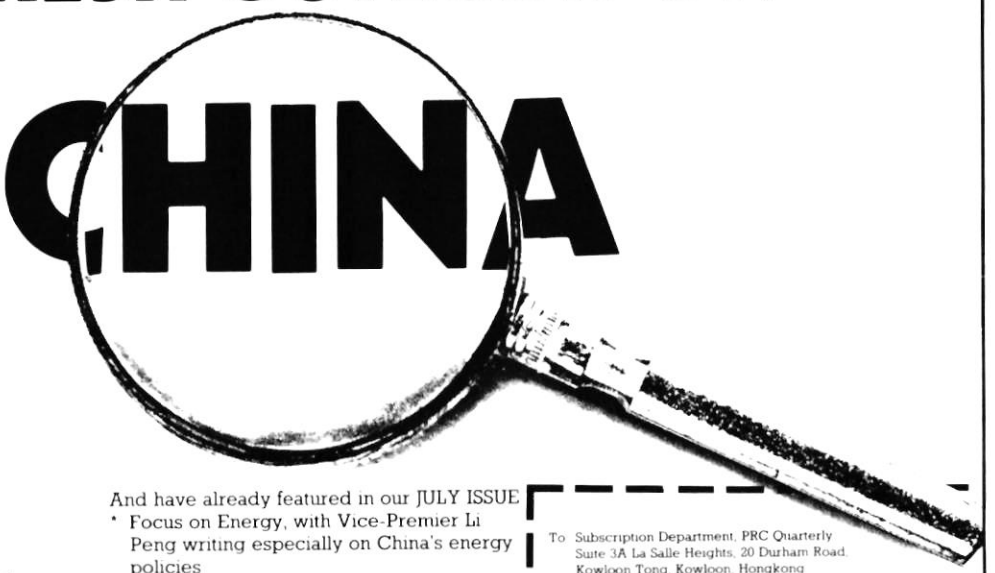
vidual Income Tax Law and follow-up regulations, US individuals are currently subject to taxation in China if they spend 90 continuous days in China during the tax year. However, the implementation of this rule has not been consistent. Individuals are sometimes taxed on the basis of the length of their visa, rather than their actual presence in China. In some cases, Chinese local tax bureaus have insisted that individuals working in the offshore petroleum sector be subjected to tax regardless of the length of their visa or their stay in China.

Under the Treaty, a US national employee can spend up to a total of 183 days in China during any calendar year without being subject to taxation, assuming that he is paid by a foreign employer and not by a permanent establishment or fixed base of his employer in China. After 183 days the employee becomes taxable.

The tax treatment of US nationals who are performing independent personal services is not so favorable. Such individuals will only be free from taxation in China if they do not have a fixed base regularly available to them in China for purposes of performing their activities, or are not present in China for more than 183 days in a calendar year. For most individuals performing independent personal services, this provision will grant more favorable tax treatment than current Chinese law. For those individuals who have a fixed base, the treatment will be less favorable under the Treaty than under current Chinese legislation.

In summary, the Treaty signals a dramatic change in the law governing the taxation of US corporations and individuals in China. On the whole, it will provide substantial benefits to American corporations and individuals. In particular, it goes a long way toward clarifying the tax treatment of US corporations and individuals in China and related tax credits in the US. Of course, the Treaty will not resolve all questions relating to their taxation, but the discussion and resolution of these questions is more likely to be placed in the context of international practice. 完

A FRESH OUTLOOK ON CHINA



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WHO MAKES FOREIGN POLICY IN CHINA?

A. Doak Barnett

In a recent interview Premier Zhao Ziyang discusses with unprecedented candor the roles of China's top leaders in decision making in the fields of foreign policy and domestic economic policy. He reveals that the Party Secretariat and the State Council's "inner cabinet," rather than the Politburo, make most major decisions today. He also explains that the coordination of major economic policies and general foreign policy at the highest level takes place in a special group under the State Council or in the Party Secretariat. The interview was held on July 19 at Zhongnanhai in Beijing.

Q: In the process of foreign policy making, what are the functions of different organizations, and how do they coordinate among themselves? The State Council of course, plays an important role, but how are the institutions under the State Council coordinated—for example, the Foreign Ministry, and the Ministry of Foreign Economic Relations and Trade? Is there a coordinating body? What are the relationships between the State Council, and Foreign Ministry, and the Party, for example the Secretariat of the Central Committee? I believe the Secretariat also plays a certain kind of coordinating role. What are the relationships between the State Council and the Politburo, and the Standing Committee of the Politburo? What is the function of the Standing Committee?

A: I can answer all of your questions, but I am afraid that it is not easy to make things clear to you in a limited period of time. People from different systems always find it difficult to understand the situation in China.

The State Council meets twice a week, that is to say, it holds regular meetings. These correspond to cabinet meetings in foreign countries. Problems that various ministries cannot solve themselves are put forward to be discussed at these meetings.

The participants in these meetings are State Counsellors, for example, the Foreign Minister, the Minister of Defense, the Minister of Foreign Economic Relations and Trade, the Minister of Finance, and the Chairman of the State Planning Commission. These all are State Counsellors. Of course, the Vice Premiers are also included.

These meetings are presided over by the Premier, that is to say, by me. We practice a system of "responsibility by the Premier."

The Party is only concerned with major issues, not concrete issues. The General Secretary of our Party is Comrade Hu Yaobang. I myself also participate in meetings of the Secretariat.

The major issues discussed at the Secretariat meetings are usually put forward by the State Council. Whenever the State Council thinks that certain issues are of great importance, it will raise them with the Secretariat to be discussed.

The Politburo does not hold regular meetings. It only holds meetings when there are some major issues to be discussed. This is because most of the members of the Politburo are aged. They can only concern themselves with major issues.

I think you have heard that Comrade Deng Xiaoping has mentioned several times in interviews with foreign guests that there is a "first line" and a "second line". Comrade Hu Yaobang and I are on the "first line." Deng Xiaoping, Chen Yun, Ye Jianying, Li Xiannian, and other comrades are on the "second line". There are only a few issues that are determined by them.

But, as all people know, major issues are determined with the participation of Comrade Deng Xiaoping. [At least one of four persons taking verbatim notes at the interview indicated that Zhao said "major issues are determined by Comrade Deng Xiaoping," but the notes of the others used the above wording.] This is not because of his position. He is not General Secretary of the Party and is not Premier and is not Head of State. It is only because we respect him for his rich political experience, wisdom, and prestige.

In foreign affairs, there is a Foreign Affairs Small Group [*Waishi xiaozu*] in our Party. All organizations concerned with foreign affairs participate in this group. Sometimes scholars also participate, including scholars from the Chinese Academy of Social Sciences. The principal function of the Foreign Affairs Small Group is to exchange views, to study problems, and to communicate with each other. It does not decide what concrete measures are to be taken. It only exchanges views, studies the situation, and communicates on the situation.

On the whole, the major issues are handled by the Party, and the State Council is in charge of routine work.

The Foreign Ministry is an implementing body. Those who are in charge of foreign affairs include Ji Pengfei, Wu Xueqian, both State Counsellors, and also the Minister of Foreign Economic Relations and Trade, Chen Muhua. These three persons meet frequently to discuss foreign affairs and communicate among themselves. When there are problems that they cannot solve, they raise them with the State Council.

Q: How often does the Politburo meet?

A: The Politburo does not have regular meetings. It holds meetings when it is necessary. If the secretaries of the Secretariat think there is a need to hold a Politburo meeting, they can propose that one be held. If members of the Standing Committee of the Politburo think that it is necessary to hold a Politburo meeting, they can do that in their own right. But in recent years there has not been such a case.

Photo by Roy Criswell

When visiting the US in January 1984, Chinese Premier Zhao Ziyang told a National Council audience that: "It hasn't been long since we adopted the policy of opening to the outside world, but good results have already been achieved. . . . This in turn has encouraged us to speed up the expansion of our contacts with the outside world."

Q: Does the Standing Committee hold regular meetings?

A: No. The daily functioning of our government machine rests on the Secretariat and the State Council. Among the members of the Standing Committee of the Politburo, I am the Premier, and Hu Yaobang is the General Secretary. I keep in close touch with Comrade Hu Yaobang. So, our machine works smoothly.

We are in the "first line." Whenever there is a major issue, we go to Chen Yun, Li Xiannian, and Deng Xiaoping for advice. Marshal Ye [Ye Jianying] is old and not in good health.

I should add that there are quite a few State Counsellors who themselves are members of the Central Secretariat. 完

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书刊介绍

During the past year three good handbooks for doing business with China have been published. None of these handbooks is fully comprehensive, but each provides an introduction to the Chinese economy and business environment, and basic information on how to approach the China market.

Doing Business with China. International Trade Administration, US Department of Commerce, December, 1983. Available from the Superintendent of Documents, US Government Printing Office, Washington, DC 20402. Stock No. 003-009-00365-2. 56 pp. $2.50.

This is the basic text for American traders. Special emphasis is given throughout to the US–China business relationship. Beginning with a brief review of US–China trade, the book also addresses US regulations affecting trade with China, US and Chinese organizations facilitating trade, and the market for US products. Like the other handbooks on business with China, there are sections on China's economic and trade policies, advice on how to approach the market (with discussions of research, initial contact, negotiations, contractual clauses, finance, shipping, and intellectual property rights), exhibitions, and business facilitation in China. The book also contains an excellent chapter on travel to China and good, though not extensive, lists of Chinese foreign trade and ministerial corporations. A bibliography directs readers to other sources of trade information.

China Trade Handbook, Second Edition, edited by Lawrence Fung. Hong Kong: The Adsale People (21/F Tung Wai Commercial Building, 109-111 Gloucester Road), 1984. 329 pp. US$68 seamail; US$75 airmail.

When first published in 1980, this was the single most important source for authoritative information on China. Although much of the information in this new edition is now available in other sources, the editors and compilers have once again produced a useful and knowledgeable handbook. Making heavy use of graphics, charts, and tables, the volume covers the Chinese economy and industrial sectors extensively. Statistics are for year-end 1982 and the plan for 1983. Over 50 pages are devoted to foreign trade statistics.

The core of the book is Section III: China's Foreign Trade in Practice, which contains a very good 30-page directory of foreign trading and specialized corporations, plus chapters dealing with buying, selling, compensation trade, and investment in China. Topics are not discussed in depth, but basic procedures and potential problem areas are outlined. Sample agreements and contracts are included. Texts of some, but not all applicable Chinese commercial laws appear in the subject areas to which they apply. Other topics covered are exhibitions and technical exchanges, advertising, technology transfers, setting up offices, trademarks, arbitration, and special economic zones. A final reference section provides a variety of useful information on Chinese government organizations, traveling to China, exchange rates, measurements, and a brief telex directory. *China Trade Handbook* is a very good reference work, but it is not comprehensive. A good bibliography would have alerted readers to additional sources.

Guidebook on Trading with the People's Republic of China, Second Edition. Bangkok: Economic and Social Commission for Asia and the Pacific, 1983. 676 pp. A very limited supply remains available at no charge upon request on company letterhead to Trade Promotions Center, International Trade Division, Economic and Social Commission for Asia and the Pacific, United Nations Building, Rajadamnern Avenue, Bangkok 10200, Thailand. Also published in an expanded hardbound, commercial edition of 800 pages by Graham and Trotman, Ltd., Sterling House, 66 Wilton Road, London SW1V 1DE at US$69 seamail; US$75 airmail.

Also in its second edition, this excellent reference book is by far the most comprehensive in the field. The book is in two parts. Part I deals with trade and investment issues, and includes introductory material on China's economy, foreign trade, and foreign trade organizations; foreign trade procedures; how to buy from and sell to China and sales and purchase contracts; exchange controls; customs; commodity inspection; insurance; transportation; direct foreign investment; trademarks, arbitration, and patents; and traveling to China. Discussions throughout Part I are factual and descriptive rather than advisory in nature.

Part II contains 19 annexes and comprises two-thirds of the volume. Three of these are major reference sources in themselves. Annex A is an 80-page collection of commercial laws, generally covering the period from 1980 through March 1983. Relevant laws prior to 1980 are listed in the table of contents with the note that these laws appeared in the first edition of the *Guidebook*. The Graham and Trotman edition includes texts of these earlier laws. Annexes G through 0, comprising 125 pages, contain economic statistics that appear to have been selected from the *Statistical Yearbook of China 1981*. Annex S is a 160-page directory of import–export corporations and other Chinese trade and investment organizations. A unique feature of this directory is the listing of the principal exports handled by each branch of a import–export corporation. An alphabetical arrangement or a

keyword index would have made this directory much more useful. Other annexes contain lists of offices in China, Chinese offices abroad, important leaders, texts of trade agreements, sample contracts, forms used in trade, and a map and table of distances. No bibliography is provided. A very brief index accompanies the volume.

The China Phone Book & Address Directory, 1984 ed. Hong Kong: The China Phone Book Company (GPO Box 11581), 1983. 456 pp. $39, plus $4 postage and handling.

This annual directory is the most comprehensive and up-to-date source of addresses, telephone numbers, cable addresses, and telex numbers for organizations in China, both domestic and foreign. The volume opens with entries for Beijing, with categories for commerce, trade and finance; culture; government ministries; health and medicine; industry; publications and communications; schools; institutes and academies; societies, associations and other national organizations; shops, service, and leisure activities; and the foreign community.

In the remainder of the volume, the arrangement is alphabetical by province or municipality. Within the province, major cities are listed alphabetically, with entries for organizations grouped by category according to commerce, trade and finance; shops, service, and leisure activities. Organization names are alphabetized by keyword; and names and addresses of organizations appear in both English and Chinese. A keyword index is included. A new edition of the directory is published each October.

China's Electronics & Electrical Products. Hong Kong: The China Phone Book Company, 1983. 478 pp. Hardcover US$94, plus $10 postage and handling; softcover, US$79.50 plus $10 postage and handling.

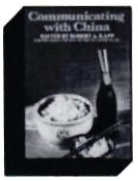
This bilingual directory is an excellent survey of the electronic and electrical products industry in China. Manufacturers of 63 categories of products, including motors and generators, instruments and meters, and semiconductors, are listed. Entries provide the name, address, cable address, telephone and telex number, and products of each factory.

Seven indexes to the directory include four in English: a geographical index, an alphabetical index, a products index, and an index by SITC code. Additional sections of the book include a company listing; trademarks, brand names, and logos; and a list of awarded products.

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.*

ETCs, New Methods for U.S. Exporting, edited by Leo G. B. Welt. New York: American Management Associations, 1983. 80 pp. $10.00; AMA members $7.50.

This collection of papers in the AMA Management Briefing series contains an introduction and seven papers on export trading companies. The introduction discusses the Export Trading Company Act and the critical success factors for an ETC. Contributed papers deal with the activities of ETCs to date, export trade certificates of review, antitrust protection, the perspective of the Federal Reserve Board, the role of banks, countertrade as a tool for ETCs, and Japanese trading companies as models for US ETCs.



Communicating with China, edited by Robert Kapp. Chicago: Intercultural Press, Inc. (70 W. Hubbard St., 60610), 1983. 80 pp. $5.95.

The six brief essays in this collection provide interesting insight into the Sino–American communication process. While the book focuses on perceptions and interactions, some topics specifically addressed are the Chinese language, interpreting, and negotiations. Suggestions for further reading are included.

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HOPE In China

Strong private sector support has launched Project HOPE on an ambitious five-year program in China

William B. Walsh, M.D.

The worldwide health care organization, Project HOPE, is now assisting China's leading health care centers in Beijing, Shanghai, Hangzhou, and Xi'an to improve health care services in fields ranging from pediatric intensive care to training programs in clinical engineering.

The five-year effort represents a commitment of approximately $1 million each year, financed largely by generous equipment contributions from Hewlett-Packard, 3M, Ohio Medical, General Electric, Kaypro, Bear Medical, Timeter, Hudson, C.R. Bard, Abbott Labs, and Johnson & Johnson, among many other firms.

China's commitment to US technology is clearly demonstrated by the vast numbers of Chinese graduate students sent to study in the US. Moreover, it is HOPE's policy internationally to use only US-manufactured equipment whenever possible.

Project HOPE was first invited to China in April 1983 through a combined invitation of the universities of Zhejiang in Hangzhou, the Beijing Medical College, Shanghai's Second Medical College, and the Xi'an Medical College located in Shaanxi Province. The invitation resulted from the visits of several faculty representatives from some of these schools to our campus in Millwood, Virginia. At first, the Chinese looked upon HOPE as a source of modern American scientific equipment. Soon they learned the assistance we could provide in sharing with them new techniques and technology, and in bringing additional Chinese scholars to the US for special medical training.

Project HOPE also made a gift of 75,000 recently published medical, nursing, dental, and allied health textbooks to these Chinese medical universities. The gift, provided by major American medical book publishers, was valued at more than $2 million and represented the first modern texts the Chinese had been able to obtain in any number since 1948.

The three major recipient universities in turn will distribute duplicate texts to more than 60 other hospitals, clinics, and libraries so that the impact of the gift is felt throughout China. We are continuing this program thanks to the generosity of American book publishers, and are extending it to the engineering faculties at these same universities. The coordinating university will be Zhejiang University in Hangzhou.

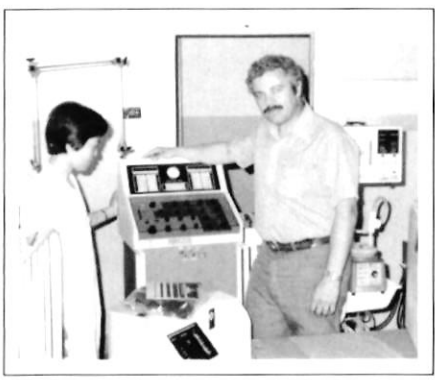
Several of the programs that we will develop in conjunction with the Chinese are related to the government's one-child-per-family policy. Since each family is restricted to just one child, ensuring his or her health is of paramount importance. We are helping the Chinese implement state-of-the-art clinical programs in neonatalogy, pediatric intensive care, and pediatric cardiovascular surgery.

In addition, the infusion of modern medical technology is happening at such a rapid rate that helping the Chinese absorb the impact has become another priority. As a result, HOPE is introducing the science of biomedical engineering training in China, which will help the Chinese learn to maintain and repair sophisticated medical equipment.

Other priority areas of joint HOPE and Chinese projects include adult intensive care, medical education administration, hospital administration, nursing education, and dental surgery. At Zhejiang University, for example, we are committed to ▶ developing a training program in clinical engineering; ▶ establishing a model pediatric intensive care unit for Hangzhou's Children's Hospital; and ▶ helping improve pediatric open heart surgical techniques, which will involve modernizing the operating room and recovery room nursing techniques.

These programs are being accompanied by significant investment on the Chinese side, including the construction of a new library in Beijing, renovation of three floors of a building on the Zhejiang University campus for a new Learning Resource Center and library, construction of an intensive-care wing in Shanghai, and the renovation of hospital areas for neonatalogy and intensive care in Hangzhou.

Project HOPE is proud to become the principal private voluntary organization involved in long-term assistance to China. It demonstrates the important role that can be played by people-to-people relationships and private sector cooperation. 完



New equipment being inspected by Dr. Bruce Taylor, Project HOPE's biomedical engineer and program director in China, and Zang Xiang-Men, head nurse for the neonatalogy intensive care unit at Zhejiang Medical College.

A Bear Medical infant respirator also donated to China's first neonatal intensive care unit at Zhejiang Medical College.

William B. Walsh, M.D. is the founder, president, and chief executive officer of Project HOPE. He led HOPE's teams to China in April and September of 1983.

会员动态

EXCEL'S INNOVATIVE JOINT VENTURE

Excel Importing Corporation, a major importer of porcelain dinnerware from China, has become one of the first two US firms to form a joint venture with China United Trading Company, the New York-based trade promotion subsidiary of China's Ministry of Foreign Economic Relations and Trade. Excel United Company, the 50–50 joint partnership, will purchase cookware from an enamelware factory in Shanghai, manufactured to Excel United's design specifications.

The Shanghai factory, operated by the Ministry of Light Industry, will export the cookware exclusively to Excel United for distribution throughout North America. Excel United placed its first order in April 1984 and expects its first shipment by the end of this year, according to Excel Importing Corporation's chairman, Martin Sperling. If all goes well, Excel United will eventually purchase 25 percent of the Shanghai factory, the minimum equity share allowed foreign partners under China's joint venture regulations.

Excel Importing Corporation began importing porcelain dinnerware from China in 1978. The joint venture with China United was formed in 1984 and will last for 10 years. China United Trading has a similar arrangement with a US furniture importer, and is in the process of negotiating other joint ventures with US companies.

— Sally Wile

ITT'S HIGH SPEED DATA COMMUNICATIONS LINK

Thanks to ITT's recently established high speed data communications link between the US and China, it will soon be much easier for US and other foreign firms to communicate with their China offices. It will also be possible for subscribers in China to access US databases from terminals in the PRC. Several Chinese scientific and technical institutes, as well as foreign firms maintaining offices in Beijing, have already subscribed to this high speed international packet-switching service.

Council member Manufacturers Hanover Trust Company will become one of the first to utilize this data link. According to Vice-President Edward Whittaker, the bank's China office will gain ready access to the bank's US information network and will be included in its economic mail service, allowing electronic messages to be transferred between network subscribers. The service will also enable the bank's customers in China, such as the Bank of China, to have immediate access to their transaction records in the US.

China has placed restrictions on the initiation of monetary transactions and the transfer of certain types of data files across national borders, as have many other countries. However, if controls over data flows are eventually loosened, ITT's packet switching could also facilitate letter of credit transfers and automatic reimbursements.

ITT, the first international service carrier to institute US–China telex connections in 1971, became one of the first Council members in 1973. Today ITT operates more than 35 satellite circuits between the two countries and will open a Beijing office in September 1984.

GOULD TEAMS UP WITH TIANJIN

Although the bulk of China's computer purchases to date have been in the fields of education and scientific research, Gould is helping to open the market for industrial computers. In July Gould signed the first licensing agreement in China for the manufacture of programmable controllers—ruggedized computers used on the factory floor. These resemble little black boxes, and are connected directly to machines to control a variety of industrial processes from heavy manufacturing to food processing. Gould's contract covers several models, including the top-of-the-line Gould 584 controller and 200 series I/O modules, as well as Modbus, an industrial communications system used to link programmable controllers and other control system components such as intelligent devices and computers.

Chinese-manufactured programmable controllers are already being used in a variety of industries including power, petrochemicals, steel, textiles, and food processing. Gould's first programmable controller sale to China was to Beijing's Capital Steel Company in 1983, to monitor and control four blast furnaces. According to Steve Mader, vice-president of marketing at Gould's Programmable Control Division, the market for programmable controllers in China could reach $4 million this year, and grow from 50 percent to 100 percent each year for the near future.

Gould's Programmable Control Division signed two separate agreements with its new Chinese partner, the Tianjin Automation Instrumentation Factory under the Ministry of Machine Building. The factory, which manufactures transducers and transmitters, will assemble programmable controller parts under the first agreement, which includes a training component. The value of production could exceed $12 million during the first three years, and will last for 10 years. Under a second agreement, the Tianjin factory will act as a nonexclusive distributor, marketing and servicing the product to other endusers in China on a commission basis.

Gould's first computer sales to China were for education and scientific research. Its first customers included 11 Chinese universities that bought 32-bit supermini computers in 1982 under the World Bank's University Development Program. Gould has also sold medical electronic equipment and test and measurement equipment to the PRC. Gould joined the National Council in 1975, and is currently pursuing several other agreements in the PRC. This July the company opened a representative office in Beijing.

—Madelyn C. Ross

中外貿易

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.

中外貿易

CHINA'S IMPORTS THROUGH JULY 31

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agricultural Commodities	
Australian Development Assistance Bureau/Yunnan Bureau of Animal Husbandry Research Farm	51 stud Murray Grey cattle. 6/7/84.
Japan Tobacco and Salt Public Corp./China National Tobacco Corp.	Signed a memorandum on tobacco technical exchange. 6/11/84.
Everbright Industrial Corp. (PRC co. located in HK)/Zhuhai General Agricultural Development Corp.	Signed agreement to undertake land reclamation in the Modaomen area. Investment: $136 million (¥300 million). 6/25/84.
(France)	Set up a joint livestock breeding association. 7/2/84.
(Canada)/CEROILS	1.4 million metric tons of wheat. 7/6/84.
(US)	120,000 metric tons of soft red winter wheat bringing 1984 total to 3.639 million tons. 7/17/84.
Agricultural Technology	
Leach Mfg. Co. (UK)/Beijing Feedstuff Corp.	Square bins for a large feed mill. 5/21/84.
Hough Kennebec International Inc. (US)/Beijing Feedstuff Corp.	A large automated general purpose premix feed plant. $1.6 million. 5/28/84.
Yugoslav Belgrade Agricultural Combine/Chinese Corp. of State Farms	Signed a contract for a feed processing plant. 5/30/84.
Fiatagri (Italy)	Tractors and other equipment for a pilot rice farm project in Jilin. 6/18/84.
Mitsui Chemical Co. Ltd. (Japan)/Vegetable Research Institute, Datong, Shanxi	Greenhouses. 6/18/84.
Crittall Windows Ltd. (UK)	Order for windows for a grain processing installation. $59,000 (£43,000). 6/22/84.
Chemicals and Chemical and Petrochemical Plants and Equipment	
Cincinnati Milacron-Austria AG/Quanzhou No. 5 Plastic Factory, Fujian	A dual screw extruding machine. $131,000. 5/28/84.
Cincinnati Milacron-Austria AG/Shanghai Housing Construction Material Corp.	A dual screw extruding machine. $175,000. 5/28/84.
Reifenhauser GmbH & Co. (W. Germany)/ Quanzhou No. 1 Plastic Factory	An extruding unit. $667,000. 5/28/84.
Teijin Ltd.+ others (Japan)	6,000 tons of polyester staple for delivery between July and Dec. 1984. 6/1/84.
Badger Co. Inc. (US)/ TECHIMPORT and Shanghai Dyestuffs Industries Corp.	Awarded contract for basic design, review and start-up assistance for a 10,000 ton/ year phthalic anhydride plant. 6/7/84.
Rio-Pack (HK) Ltd./Taiyuan No. 5 Plastics Factory, Shanxi	Blow molding machines. 6/11/84.
Ballestra (Italy)/Yuncheng Synthetic Detergent Factory, Shanxi	Equipment to produce sulphur trioxide. 6/11/84.
Barmag (W. Germany)/ Shanxi Chemical Fibers Research Institute	Air deforming machines. 6/11/84.
Showa Denko (Japan)	2,000 tons of polypropylene. 6/12/84.
Explosivos Rio Tinto (Spain)	Signed contract for fire-resistant plastic technology and equipment. $1 million. 6/27/84.
Acna Chimica Organica, subsidiary of Montedison (Italy)/China National Chemical Construction Corp.	Signed contract for technology and equipment for a dyestuff finishing plant in Jilin. $1.1 million. 7/9/84.
U.S. Steel and Behring International Export Packers (US)/Shanghai Gaoqiao Petrochemical Corp.	Awarded a contract to dismantle, pack, and ship a used ABS plant. 7/13/84.
Construction and Construction Materials & Equipment	
NA (W. Germany)/ Shaoguan Fiberboard Mill, Guangdong	Signed contract for a fiberboard production line. $5.5 million (DM15 million). 4/24/84.
Chartwell Pte. Ltd. (Singapore)	Concluded an agreement to construct a runway for the Tianjin Airport. 5/21/84.
Daiwa House Industry Co. (Japan)	Will build prefabricated houses. 6/5/84.
BHP (Australia)	Won a contract to build a cement plant in southern China. $31 million (Aus$35 million). 6/14/84.
Malaysian Overseas Investment Corp./Xiamen Construction and Development Corp.	Signed a letter of intent for the construction of power stations, commercial and residential facilities, factory buildings, tourist centers, bridges, and other facilities. $687,000 (1.58 million ringgit). 6/18/84.
Skidmore, Owings & Merrill (US)	Will prepare a study for a housing complex to be located near Beijing. 7/10/84.
Consumer Goods	
Torielli & Co. (Italy)	Shoe production machinery. 5/21/84.

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*.

Daicel Chemical Industries (Japan)/TECHIMPORT	Negotiating an agreement for two cigarette filter production plants. 6/5/84.
Citizen Trading Co. (Japan)/INDUSTRY	Received order for 20,000 quartz-oscillation clocks. 6/5/84.
Molins Tobacco Machinery (UK)/China National Tobacco Corp.	Signed contract for cigarette production machines. $6.8 million (J¥15 million). 7/2/84.
Sanyo Electric (Japan)/TECHIMPORT and Shanghai Trust & Investment Corp.	Signed contract to build a home refrigerator plant. $2.1 million (J¥500 million). 7/12/84.

Electronics and Electrical Products

NA (Sweden)/Guangzhou Electrical Appliances Plant	Equipment to produce electric heat tubes. 5/84.
NA (Japan)/Shanghai No. 6 Radio Factory	Thin film condenser production line technology. 5/84.
Tyne Video Ltd. (UK)	Closed-circuit television system for a grain handling crane in Tianjin. $69,000 (£50,000). 5/2/84.
Pragmatic Designs (US)/China National Development Corp. and Shaoxing Semiconductor Plant	Orders for digital test systems and test heads. 5/14/84.
Shibaura Electrical Appliance Co. and Nichimen Co. (Japan)/Dalian Meters and Electrical Products Corp.	Signed contract for a TV picture tube production line. 6/84.
Sankyo Seiki Manufacturing Co. (Japan)	Micromotor production equipment, technical information, and engineering assistance. 6/84.
Sage Computer Technology (US) and Datamedia (HK)/Baoding Computer Industries Corp.	Contract for 100 Sage IV and 200 Basis Medfly microcomputer systems plus a letter of intent for 150 more Sage and 200 more Medfly units. $1.5 million for contract. 6/84.
Matsushita Electric Industrial Co. (Japan)	Two new plants to assemble color TVs to be located in Nanjing and Qingdao. 6/1/84.
SORD Computer Corp. and Kyokuto Shokai Co. (Japan)/Industrial Economic Institute, Chinese Academy of Sciences	Signed agreement to train Chinese economists in the use of microcomputers. SORD will provide 10 micros. 6/1/84.
Control Data Corp. (US)/China Administration of Computer Industry	Signed long-term joint research and development contract to exchange technical information and cooperate in the planning, manufacturing, and sales of data processing equipment. 6/1/84.
Victor Co. and Nissho Iwai Corp. (Japan)	Color TV production equipment for the Shanghai Broadcasting Equipment Co. and a company in Tianjin. Will also provide technical assistance to remodel black and white TV plants into color TV plants. 6/5/84.
East Asiatic Co. (HK)/Datong Plate Making Factory, Shanxi	Production equipment for printed circuit boards. 6/11/84.
Hyogo Prefectural Trading Co. (Japan)/Houma Lamp Holder Factory, Shanxi	Equipment to produce lamp holders. 6/11/84.
Hongye Engineering Ltd. (HK)/Taiyuan No. 3 Radio Factory, Shanxi	Production line for glass-sealed diodes. 6/11/84.
Lodgistix Inc. (US) and (Singapore)/White Swan Hotel, Guangzhou	Computerized property management system. 6/12/84.
Toshiba Corp. (Japan)	Received an order for parts and components for color TV sets and plant remodeling facilities. $10.7 million (J¥2.5 billion). 6/26/84.
Eagle Computer Inc. (US)	Received an order for IBM-compatible microcomputers and networking products. $800,000. 6/29/84.
Société D'Applications Générales D'Electricité et de Mécanique (France)/China Electronics Import-Export Corp. and Jiannan Machinery Plant, Hunan	A magnetic disc production line. 7/2/84.
Cullinet Software Inc. (US)/China Computer Technical Service Corp.	Granted distribution rights to sell software in China. 7/17/84.

Food Processing

De Francisci Machine Corp. (US)	Pasta-making machines. 5/15/84.
Hoyer Co. (Denmark)/MACHIMPEX	Ice cream production line. $1.5 million+ (Kr15 million+). 5/28/84.
Mark Corp. (Italy)/Fujian Refrigerating Factory	Ice cream production line. $108,000. 5/28/84.
Bucher-Guyer (Switzerland)	Apple processing systems for a US-PRC joint venture near Dalian. 6/84.
Tokyo Maruichi Shoji (Japan)/Shanxi Provincial Light Industry Bureau	A children's food production line. 6/11/84.
Osikiri Machinery (Japan)	Four baking plants for Taiyuan, Qinan, Qingdao, and Fuzhou. $3 million (J¥700 million). 7/10/84.
Coca-Cola Co. (US)/Ministry of Light Industry	Signed agreement to cooperate on soft-drink industry development. 7/26/84.

Foreign Aid

World Food Programme	40,000 tons of dried skim milk and 13,330 of butter oil between 1984 and 1988. 5/16/84.

Machinery and Machine Tools

Bently Nevada Corp. (US)/Beijing Heavy Electricals, Nanjing Quixiashan Chemical Fertilizer Works + others	Ten vibration monitoring and diagnostic systems. 5/84.
Manders and Midland Specialty Powders (UK)/China National Chemical Corp.	A powder coating plant used in paint finishing processes. $551,000 (£400,000). 6/5/84.
Dowty Meco (UK)/Yuanping Machinery Plant, Shanxi	Belt conveyers and supporting roller technology. 6/11/84.
Sebsen Co. and Jinfeng Co. (HK)/Yuncheng Arts and Crafts Factory, Shanxi	Fifteen gravure plate-making machines. 6/11/84.
Raycon Corp., subsidiary of Ex-Cell-O Corp. (US)/Chongqing Fuel Systems Plant, Sichuan	An electrical discharge machine for the production of diesel engines. $250,000. 6/19/84.
Cummins Engine Co., Inc. (US)/TECHIMPORT and China National Automotive Industry Corp.	Opened the Cummins Engine Technical Service Center in Beijing. 6/30/84.

Military Equipment

Chartwell Pte. Ltd. (Singapore)	Agreed to arrange the sale of mostly US high technology weapons and rocket systems. 5/11/84.

Minerals and Metals

Ashlow Ltd. (UK)	Contract for design and supply of a rolling mill. $2.75 million (£2 million). 4/17/84.
AEG-Telefunken (W. Germany)	Electrical equipment for two rolling mills at Ma'anshan and Beijing. $5.8 million (DM16 million). 5/2/84.
Westar Mining, unit of British Columbia Resources Investment Corp. (Canada)	Signed a protocol agreement to study possible involvement in coal industry development. 5/11/84.
Power Reactor and Nuclear Fuel Development Corp. (Japan)/Uranium Geology Bureau, Ministry of Nuclear Industry	Signed agreement on surveying the uranium resources in southwest Yunnan. 5/19/84.
Davy McKee Corp. (US)	Awarded contract for engineering assistance and project management services for two gold plants located in Shanxi and Hebei. 5/23/84.
C. Itoh & Co., Nippon Steel, Mitsubishi Heavy Industries, Niigata Engineering, and Nippon Electric (Japan)	Are studying the possibility of cooperating in the development of China's coal industry. 5/25/84.
Finsider (Italy)	Won a contract to build a steel piping plant. $200-250 million. 6/1/84.

Tubos Reunidos and Babcock & Wilcox (Spain)/ MINMETALS	23,000 tons of seamless pipes. $10.6 million. 6/5/84.
Nippon Light Metal (Japan)	Won an order to supply sandy-shaped alumina for an aluminum refinery in Guiyang, Fuzhou. 6/26/84.
(Yugoslavia)/MINMETALS	Signed an agreement to provide 100,000 tons of rolled steel annually for the years 1985–1994. 6/26/84.
Ebasco Services Inc., subsidiary of Ensearch (US)/ Ministry of Coal Industry	Has won a contract to develop a coal-water slurry pilot demonstration plant in Beijing. 6/29/84.
(Japan)/MINMETALS	1.23 million tons of steel products for delivery in the second half of 1984. 7/4/84.
Consulting Services Ltd. of Canadian Pacific/ China National Coal Development Corp.	Signed contract for a feasibility study for improvement of coal storage, loading, and transport in Shanxi. 7/6/84.

Mining Equipment

Morgan Equipment (US)/ China National Coal Development Corp.	Signed an agreement to design and construct a heavy mining equipment rebuild center and will act as a consultant for mining projects in the Pingshuo mine area. 5/10/84.
Baldwin and Francis, unit of NEI Mining Equipment (UK)	Won an order to supply flameproof motor starters to be used in power supply. $1.1 million (£800,000). 6/11/84.

Packaging

George J. Meyer Mfg. (US)/Guangmei Foods Corp. (a US–PRC joint venture)	A soft drink bottling line. $1.5 million+. 2/84.
Fael SA (Switzerland)	Can welding machines. 4/84.
Tetra Pak East Asia Ltd. (Sweden)/Beijing Economic Development Corp.	Negotiating sale of liquid food packaging technology. 6/2/84.
Taiyo Fishery Co. (Japan)/ Jincheng Comprehensive Food Factory, Shanxi	Soft plastic-packaging equipment. 6/11/84.
Taiyo Fishery (Japan)/ Datong Comprehensive Food Factory, Shanxi	Soft-packaging production line. 6/11/84.
Alfa-Laval (Sweden)/ Xindin Agricultural and Animal Husbandry Factory	Soft-packing production line for fresh milk. 6/11/84.
Wing On (Group) Co. Ltd. (HK)/Guangdong International Trust and Investment Corp.	Equipment for plastic packaging production materials. 7/84.

Petroleum and Natural Gas

Australian Offshore Services, a unit of P & O Australia Ltd.	Won a contract to provide offshore services in the South China and Yellow Seas. 4/84.
Hong Kong & China Gas Co. Ltd.	Negotiating construction of a natural gas pipeline between China and Hong Kong. 5/84.
Keplinger and Associates (International) Inc. (Singapore)/TECHIMPORT	Awarded a contract for an enhanced oil recovery project in the South Wenliu oil field. 5/12/84.
G.S.I. Co. (US)/Sichuan	Oil seismic exploration equipment and expertise. 5/14/84.
Petco (US)/CNOOC	Providing oilfield equipment rental and fishing tool outfitting. 5/21/84.
C. Itoh & Co., Nippon Steel, Mitsubishi Heavy Industries, Niigata Engineering, and Nippon Electric (Japan)	Are studying the possibility of cooperating in the development of China's petroleum industry. 5/25/84.
Hotforge (UK)	Awarded a contract by BP for an explosive system to remove abandoned wells in the South China Sea. 6/84.
Hong Kong Polytechnic/ CNOOC	Signed a three-year agreement on the scientific study of offshore oil platforms. n.d.
Stewart & Stevenson Services Ind. (US)	Contract for diesel-powered oil well stimulation equipment. $15 million. 6/19/84.
Technip Geoproduction, Institut Francais du Pétrole, and Elf Aquitaine Group (France)/ TECHIMPORT	Signed an agreement to provide consulting services for a feasibility study of enhanced oil recovery at the Daqing field. $4.4 million (financed by World Bank). 7/30/84.

Pharmaceuticals

Rhone-Poulenc (France)/ State Pharmaceutical Administration	Signed a cooperation agreement. 5/21/84.
Suzuken Co. (Japan)/ Taigu Pharmaceutical Glass Factory, Shanxi	An ampoule production line. 6/11/84.
Suzuken Co. (Japan)/Taiyuan Pharmaceutical Factory, Shanxi	Design for a bacteria-free workshop to produce penicillin. 6/11/84.

Power

Heater Technology Inc. (US)	Eight portable steam generators for a pilot heavy oil recovery program. 4/84.
(Brazil)	Signed a nuclear energy cooperation agreement. 5/18/84.
Mitsubishi Heavy Industries Ltd. (Japan)/China Nuclear Industry Corp.	Signed a contract for supply of a pressure vessel for China's first commercial nuclear power plant in Qinshan, near Shanghai. $4.3 million+ (J¥1 billion+). 5/29/84.
Dynergy Systems (US)/ China United Electric Export Corp.	Signed a letter of intent to build generators for wind turbines. 6/84.
Rolls-Royce (UK)	Two electricity generators for the Daqing oil field. $11.4 million (£8.3 million). 6/5/84.
Jeorj Machine Manufacture Plant (W. Germany)/ Taiyuan Transformer Factory, Shanxi	Equipment for producing power-saving transformers. 6/11/84.
(Poland)/Ministry of Water Resources and Electric Power	Discussing sale of two steam boilers. 6/27/84.
Taisei Corp. (Japan)/Yunnan Provincial Electric Power Bureau and Ministry of Water Resources and Electric Power	Awarded a contract to dig a tunnel for water pipes for the Lubuge power plant. $40 million. 7/18/84.

Scientific Instruments

Nihon Waters (Japan)/ INSTRIMPEX	Opened the Nihon Waters Service Center for liquid chromatographers. 5/84.
Instron Corp. (US)	Materials testing equipment. $1 million+. 5/7/84.
Sebsen (HK)/Shanxi Xinhua Printing Factory	An electronic color scanner. 6/11/84.

Shipping

Jumbo Navigation (UK)	Won contract to transport a large order of GE railway locomotives. 5/3/84.
Ishikawajima-Harima Heavy Industries Co. (Japan)/China State Shipbuilding Corp.	Reached a basic agreement to modernize four marine diesel engine factories. 6/19/84.
(Malta)	Will construct two ships in exchange for Chinese assistance in harbor construction. 6/30/84.
Norcontrol Co. (Norway)	Opened a service center in Shanghai to repair automatic devices on ships. 7/84.
Mitsui Engineering & Shipbuilding Co. (Japan)/ Hudong Shipyard, Shanghai	Will conclude an agreement to provide know-how for control of block assembly processes and job safety. 7/17/84.

Telecommunications

Northern Telecom International Ltd. (Canada)/ Beijing Hotel	Awarded contract for a PBX exchange. $767,000 (C$1 million). 5/23/84.
ITT (US)/China National Aero-Technology Import-Export Corp.	Signed contract to supply digital multiplexers, related equipment and support for the Guangdong area. $1.4 million. 6/4/84.
Siemens AG (W. Germany)	Received a contract to supply a telex/data switching system for Guangzhou. 6/4/84.
Nippon Telephone and Telegraph (Japan)/Datong Posts and Telecommunications Bureau, Shanxi	An automatic horizontal-vertical switching system. 6/18/84.
(Yugoslavia)/Ministry of Radio and Television	Signed an agreement to cooperate in radio and television. 6/27/84.

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Ricoh Co. (Japan)/ INSTRIMPEX	Opened the Ricoh Facsimile Printer Service Center in Beijing. 7/16/84.
Bell Telephone Manufacturing Co. (Belgium)/ TECHIMPORT and International Telephone Administration, Beijing	Received an order for an international telephone exchange. $882,300 (BFr50 million). 7/24/84.

Textile Plants and Equipment

Fukuhara Industrial & Trading Co. (Japan)	Plans to sell 100 circular knitting machines. 6/4/84.
Stork Co. (Netherlands), Ramisch Co., and Kleinwefers Co. (W. Germany)/Shanxi Printing and Dyeing Mill	Wide cloth printing production lines. 6/11/84.
Camber Co. (UK)/Shanxi Knitting Mill	Six weft round-knitting machines. 6/11/84.
Bentley Co. (UK) and Weili Co. (HK)/Pingyao No. 2 Knitting Mill, Shanxi	Hosiery machines. 6/11/84.
Toyo Menka (Japan), Stoll Co. (W. Germany), C. Itoh Co. (Japan), and Bentley Co. (UK)/Taiyuan Knitting Mill, Shanxi	Eight round-knitting machines. 6/11/84.
Camber Co. (UK)/ Pingyao No. 1 Knitting Mill, Shanxi	A pajama and nightgown production line. 6/11/84.
Sebsen (HK)/Zinxian Cotton and Woollen Mill, Shanxi	Computer-controlled interlock machines. 6/11/84.
C. Itoh & Co. (Japan)/ Kelan Knitting Mill, Shanxi	Accessories for a light sweater production line. 6/11/84.
C. Itoh & Co. (Japan)/ Shanxi No. 1 Printing and Dyeing Mill	A wide cloth printing production line. 6/11/84.
Toyo Menka (Japan)/ Changzhi Knitting Mill, Shanxi	Scouring and bleaching equipment. 6/11/84.
Comes (Italy), Domisse (France), Toyo Menka Kaisha (Japan), Jinfeng (HK), and Meyei (W. Germany)/Changying Knitting Mill, Shanxi	A sportswear production line. 6/11/84.
Chori Corp. (Japan)/ Shanxi Printing and Dyeing Mill	Wide cloth dyeing production line. 6/11/84.

Tourism

Hopewell's China Development Co. (Shenzhen) Ltd. (HK)/Shenzhen SEZ Development Corp.	Will construct an 800-room hotel in Shenzhen. 5/10/84.
GF International Services (China) Ltd., joint venture between Fung Ping Fan Group (HK) and Grandmet International Services (UK)/Haibin Hotel, Zhanjiang	Awarded a consultancy management contract for catering. 5/13/84.
Fuita Corp. (HK)	Will expand and renovate the Binzhou Hotel, Shanxi. 5/14/84.
Ronald Fream Design (US)	Received a commission to prepare a design for a golf resort in Guilin. 5/21/84.
Holiday Inns International-Asia/Pacific	Signed a management agreement to operate the Lido Hotel in Beijing. 5/21/84.
Active Building and Civil Construction (Singapore)	Will build a 300-room hotel in Tianjin. 6/84.
QBS System (Singapore)	Will build 30 bungalows in Xiamen. $7.1 million (S$15 million). 6/84.
Hilton International (US) and Cindic Holdings (HK)	Will build a wholly-owned 800-room hotel in Shanghai. $85 million. 6/6/84.
Nomura Securities Co. (Japan)	Will build a 500-room wholly-owned hotel in Shanghai. $43 million (J¥10 billion). 6/19/84.
Yanghui Tourism Development Co. (HK)/Xihu (West Lake) Tourism Development Co., Guangdong	Signed an agreement to build a guest house, hotel, recreational center, and tourist shops in Guangdong. 7/84.

Transportation

Bristow Helicopters (UK)/ China Ocean Helicopters Co.	Signed a preliminary agreement to provide helicopter services in the South China Sea. 5/84.
Mitsui Bussam Co. and Tokyo Shibaura Electric Co. (Japan)/TECHIMPORT	Signed a contract to provide automatic transformers and electric remote control equipment for the electrified railway line from Beijing to Qinhuangdao. $13.7 million (J¥3.2 billion). 5/84.
Ford Motor Co. (US) and Wallace Harper (HK)	Eighteen Ford Econovans. Also set up a Ford service and parts center located in Guangzhou. 6/11/84.
Bell Helicopter (US)/ CAAC	Received order for four Bell helicopters. 6/16/84.
Daihatsu Motor Co. and Toyoda Tsusho Kaisha Ltd. (Japan)	Received an order for 5,200 commercial mini-vehicles. 6/26/84.
Northwest Airlines (US)/ CAAC	Signed a mutual representation agreement. 8/84.
Mitsubishi Motors Corp. (Japan)/Beijing General Foreign Trade Corp.	800 pickup trucks. 7/10/84.
Aérospatiale (France)	Six or seven Super Puma helicopters. 7/11/84.
Aisan Industry Co. (Japan)/Ministry of Railways	Signed a contract to provide advice on producing diesel valves for locomotive engines. 7/14/84.
Mitsubishi Motors Corp. (Japan)/MACHIMPEX, Xinjiang, and China Tourist Service Co.	915 buses and trucks. 7/17/84.
Suzuki Motor Co. (Japan)	12,114 motorcycles in 1984. 7/17/84.
Vicwood (USA) Corp., subsidiary of Victory Bros. (HK)	20 million board feet of railroad ties. $6–7 million. 7/27/84.
Sikorsky Aircraft (US)/ Polytechnologies Inc. and MACHIMPEX	24 transport helicopters. $50 million +. 7/27/84.

Miscellaneous

Eurounion (UK)	21 go-karts for an amusement park. $38,600 (£28,000). 5/3/84.
Cadwell Davis Partners (US)/Chinese Commercial Co., Shanghai	Signed an advertising agreement. 5/7/84.
Okamoto Riken Gomu Co. (Japan)	Will export a vinyl chloride wallpaper plant to be located in Qingdao. $2.1 million (J¥500 million). 5/15/84.
Hungarian Telegraph Agency/Xinhua	Signed a cooperation agreement. 5/25/84.
Mitsui & Co. (Japan)	Signed an agreement to provide technology and know-how on chemicals, industrial materials, and energy-saving equipment. 5/29/82.
Italmacchine (Italy)/ Datong Leather Factory, Shanxi	Four leather machines. 6/11/84.
Bank of Tokyo (Japan)/ Dalian Foreign Economic Relations & Trade Commission	Concluded a cooperation agreement. 6/25/84.
Marubeni Corp. (Japan)/ Everbright Industrial Corp.	Concluded a trading agreement. 6/26/84.
Baker & Taylor, a div. of W. R. Grace & Co. (US)	Scientific and technical books for the university project funded by the World Bank. $4 million. 6/27/84.
Bank of Yokohama (Japan)/Shanghai Investment and Trust Corp.	Signed a collaboration agreement. 7/10/84.
CBS (US)/China Central Television	Signed an agreement to broadcast 64 hours of CBS programming. 7/20/84.

CHINA'S EXPORTS THROUGH JULY 31

Foreign Party/ Chinese Party	Product/Value/ Date Reported
Agriculture	
(Bangladesh)	Equipment and expertise for a rice bran oil extraction plant at Dacca financed through its UNIDO contributions. $1.7 million. 5/84.
(Japan)	2,000 tons of hay from Heilongjiang. 5/22/84.
(Japan)	100,000 tons of corn. 5/29/84.
Construction	
Keenestates Management Pty Ltd. (Australia)/China Overseas Engineering Corp.	Participating in the construction of a miniature replica of an ancient Chinese town, a tourist attraction to be located near Melbourne. 4/84.
Opson Construction & Trading Co. Ltd. (Kuwait)/China Harbor Engineering Corp.	Signed a contract to undertake construction projects in Al-Jahrah. $4.7 million (1.4 million dinar). 5/15/84.
Madeireira Nacional Co. (Brazil)/China International Forest Export–Import Corp.	Purchased the tropical plywood production plant located in Manaus, Brazil. $2 million. 6/27/84.
Foreign Aid	
(Bangladesh)	Was provided a Chinese loan, equipment, and technical assistance for a highway bridge. 5/3/84.
(Zimbabwe)	Machinery and technical help for a clothing factory. 5/3/84.
(Mauritania)	Chinese credit extended for port construction and laying of water pipe; also granted 2,000 tons of wheat for drought relief. 6/4/84.
(Senegal)	2,000 tons of wheat for drought relief. 7/7/84.
Union of Women of Tanzania, Zanzibar Council/ All-China Women's Federation	Industrial sewing machines. 7/17/84.
Minerals and Metals	
Cometals Inc. (US)	40,000 long tons of refractory grade bauxite. $7.3 million. 6/12/84.
Petroleum	
China Nanhai-Baker Drilling Corp. Ltd. (US–PRC joint venture)/ Jiangnan Shipyard	Jiangnan Shipyard was contracted to build a semisubmersible oil drilling rig. 6/2/84.
Shipping	
British Petroleum (UK)/ Shanghai Offshore Oil Service Corp., Shanghai Offshore Oil Shipping Service Co. + foreign partners	Won the bid to provide shipping services to the BP rig in the South Yellow Sea. 5/84.
(Colombia)/China Harbors Engineering Co.	Signed contract to dredge the port of Barranquilla. 5/26/84.
(Bangladesh)/Wuhu Shipyard, Anhui	A 3,000 hp tugboat. 6/84.
Textiles and Textile Plants and Equipment	
Baghdad Wool Mill (Iraq)/Sichuan International Economic and Technological Cooperation Co. and China Complete Equipment Co.	Signed a labor agreement to provide 134 Chinese technical workers. 5/30/84.
Iwai Trade Co. Ltd. (Japan)/Tianjin Renli Woolen Textile Mill	High-quality woolen fabrics. 6/84.
Jefferson Co./Tianjin Textile Mill	Terylene bedsheets. 7/84.
Trade Agreements	
(Angola), (Pakistan), and (Ghana)	Signed trade agreements during June and July.
(France)	Signed a reciprocal investment and tax agreement. 5/30/84.
(Ecuador), (Romania), (Hungary), (Cyprus), (Poland), (Mauritania), and (Czechoslovakia)	Signed economic, technical, and scientific cooperation agreements in May, June, and July.
Miscellaneous	
Clayco Sports Ltd. (US)/ China North Industries Co.	Appointed sales representative for NORINCO's sporting arms. 6/84.

DIRECT INVESTMENT/PROCESSING/ COUNTERTRADE THROUGH JULY 31

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported
JOINT VENTURES	
Agriculture	
Otenz Export Co. (New Zealand)/Nanjing Light Industrial Machinery Factory, Jiangsu	Signed an 11-year contract to set up the China–New Zealand (Otenz) Dairy Machinery Co. Ltd. to manufacture dairy machinery and related equipment. 6/25/84.
Oriental Cherry Industrial Assoc. (Japan)/Aquatic Breeding Co., Xiapu, Fujian	Signed a contract to set up a joint dolphin breeding center. 7/2/84.
(Brazil)/China International Forestry Engineering Corp.	Have set up the Huaxi Woodworking and Trading Co. Ltd. in Manaus, Brazil, to produce timber products for export to China, Hong Kong, and Macao. Capital: $2.8 million. 7/12/84.
Guyana Fisheries Ltd./ China International Engineering Corp. for Agriculture, Livestock and Fisheries	Initialed a preliminary agreement to form the Sino–Guyana Joint Venture Fishing Co. in Guyana to undertake fishing operations and fish processing. (Guyana: 51%– PRC:49%). 7/16/84.
Mauritius Hensin Fishing Co. Ltd./Liaoning International Economic and Technical Cooperation Co.	Signed a 10-year contract to set up a joint fishing venture in Mauritius. 7/23/84.
Construction	
Koh Brothers Building and Civil Engineering Contractor Pte Ltd. (Singapore)/Tianjin International Economic and Technical Cooperation Corp.	Signed a letter of intent to cooperate on construction projects. 6/16/84.
Kuok Brothers (Malaysia)/ China Trade Consultants & Technical Service Corp.	Signed letter of intent to build an international trade center in Beijing. 6/25/84.
Zida International Corp. Ltd. (HK)/Dongfeng Hotel	Signed a contract to build a large-scale playing ground outside Guangzhou. 7/84.
Hopewell-China Development (Shenzhen) Co. Ltd. (HK)/Shenzhen SEZ Development Co.	Signed an agreement on the joint construction of the Shenzhen railway station and on the second-phase project of the port inspection building. 7/84.
Otis Elevator Co. (US)/ Tianjin Elevator Co. and CITIC	Signed a 30-year contract to found the China Tianjin Otis Elevator Co. Ltd. to produce, install, and market elevators. 7/18/84.
Consumer Goods	
Chitose (HK) Co. Ltd. (Japan)	Completed the Tangjia Tissue Mill located in Zhuhai. 5/84.
Toyo Electric Co. (HK)/ Shanxi Arts and Crafts Factory	Set up an electronic toy production venture. 6/11/84.
Duport International Ltd. (Australia)/Tianjin International Trust and Investment Corp. and Furniture Industrial Co.	Signed a 10-year contract to produce spring beds. 6/16/84.
Thomas Hardy and Sons Pty Ltd. (Australia)	Is planning a joint vineyard and wine making venture. 6/21/84.
Teleart Ltd. (HK)/ Guangzhou Digital Watch Plant	Set up the Guangzhou (Teleart) Electronic Co. Ltd. to produce watch-type calculators. 7/84.

NA (HK)/Bamboo & Rattan Arts & Crafts Assoc. Corp., Fujian	Signed a 10-year contract to set up the Anxing Rattan Products Industrial Co. Ltd., to produce rattan furniture and other rattan products. Investment: $2.7 million (J¥6 million). (50–50). 7/9/84.

Electronics and Electrical Products

BHC International Trading Ltd. (HK)/Jiangxi Electronic Products Import-Export Corp. and Shanghai Electric Appliances Plant	Formed the Honghai Electronic Co. Ltd. in Jiangxi to produce cassette videotapes and household electric appliances, develop computer applications, and repair instruments. 5/25/84.
Da Fa Co. Ltd. (HK)/Shenzhen Light Industrial Import-Export Co. and Nanhe Joint Enterprise Co.	Signed an agreement to set up an electronics and plastics products business. Investment: $1 million. 6/84.
Runhai Electronics Co. (HK)/Linfen Electronic Equipment Factory, Shanxi	Equipment to produce computers and vehicle lamps. 6/11/84.
Baixiang Designing Co. (US) and Taian Trade Corp. (HK)/Bank of China and Shenzhen Electrical Appliances Co.	Set up the Huitong Designing Articles Corp. to produce glue paper for printed circuit boards. Investment: $600,000. 6/25/84.
NA (HK)/Hangzhou Automation Research Institute and Zhejiang Provincial International Trust and Investment Corp.	Established Hangzhou Computers Ltd. to produce Chinese-character microprocessors. 6/28/84.
Applied Materials Inc. (US)/Ministry of Electronics	Are jointly operating the Applied Materials-China Service Center in Beijing to install and service semiconductor systems. 6/28/84.
Sanyo Electric Co. (Japan)/Guangdong Second Light Industry Bureau	Set up Guangdong Sanyo Air Conditioners Ltd. in Foshan, Guangdong. $1.5 million. 7/5/84.
Sanyo Electric Co. (Japan)	Formed the Huaqiang Sanyo Electronics Co. to produce color TVs. $6 million. 7/5/84.

Food Processing

Pernod Ricard Co. (France)/Yifeng Vineyard, Henan	Will establish a wine-making venture. Investment: $1.5 million (50–50). 5/17/84.
Mayne Nickless Ltd. (Australia)/Shenzhen Liancheng (Wenjindu) Joint Development Ltd.	Established the China-Australia Cold Store and Warehouse Co. Ltd. in Shenzhen to build cold storage facilities for food products for export. Investment: $3.5 million (Aus$3.7 million) (50–50). 5/26/84.
Mitsukoshi and Marnich Cos. (Japan)/Xinqiao Hotel, Beijing	Opened a restaurant and bar. (PRC:55%-Japan:45%). 6/84.
American Conserving Co. and Western Sales Service (US) and Taimao Trading Co. (HK)/Dalian Canning Factory; Fu County; and BOC, Dalian Branch	Initialed a contract to set up an apple processing plant. $5 million. 6/84.

Machinery

Pierce (US)/Shanghai International Trust & Investment Corp.	Will set up the Shanghai Pierce Water Pump Co. to produce deep-water pumps. Investment: $1 million. 5/7/84.
Rinnai Corp. (Japan)	Plans to sign an agreement on joint production of gas water heaters in Liaoning. 5/23/84.

Minerals and Metals

Midland Ross Corp. (US)/Shanghai Electric Furnace Co.	Formed a venture to design and construct a continuous cast belt furnace line to be installed at the Tengxian Standard Parts Plant, Shandong. (US:73%-PRC:27%). 6/84.
Kobe Steel Ltd. and Shinsho Corp. (Japan)/China National Nonferrous Metal Industry Corp., CITIC, and Zhuoxian Aluminum Fabrication Plant	Agreed to set up the Zhuoxian Nonferrous Metals Plant and Equipment Co. Ltd., Hebei, to produce complete sets of aluminum production equipment. Capitalized at $3 million. (PRC:75%-Japan:25%). 6/5/84.

Packaging

AIDE Flexi-Packaging Ltd., subsidiary of Asia Intra-Regional Development Enterprises (HK)/Beijing Bureau of Chemical Industry; INDUSTRY, Beijing Branch; and BOC, Beijing Branch	Set up a joint packaging plant to produce polypropylene film. $32 million (HK$250 million). 5/14/84.

Pharmaceuticals

SmithKline Beckman Corp. (US)/Tianjin Pharmaceutical Co.	Agreed to form the Tianjin SmithKline & French Laboratories Ltd. to produce pharmaceutical products. 7/16/84.

Power

Westinghouse Electric Co. (US)	Is discussing a nuclear power venture with Shanghai authorities. 6/16/84.

Shipping

Ken Wua Shipping Co. Ltd. (HK)/Shanghai Donghai Shipyard and Shanghai Foreign Shipping Agency Co.	Signed a contract to establish the Donghua Container Repair and Service Corp. to repair, store, and clean international standard containers. 7/84.
Zapata Marine Service (US) and Houlder Offshore Co. (UK)/Shanghai Offshore Oil Service Corp.	Set up the Shenda Shipping Service Co. Ltd. in Shanghai to provide foreign offshore oil companies with supply vessels and supply services. 7/3/84.

Telecommunications

Global Telecommunications Equipment Co. (US)	Joined with a plant in Zhuhai to produce low frequency walkie-talkies for use underwater. 5/28/84.

Textiles

NA (Thailand)/Shanghai International Trust and Investment Corp.	Have joined to produce polyester filament. Investment: $20 million. 5/7/84.
NA (Italy)/Hefei Plastics Plant No. 6 and Anhui Provincial Dept. of Light Industry	Founded the Anli Artificial Leather Co. Ltd. located in Hefei. 5/17/84.
Swany Corp. (Japan)/China National Light Industry Corp.	Will establish a venture to produce gloves. Investment: $500,000. 6/4/84.
Kim Seah Holdings Ptd Ltd. (Singapore)/Tianjin Economic Development Corp.	Signed a joint agreement to produce dresses. 6/18/84.
Nanyang Cotton Mill and Peninsular (HK)/Union Textile China, Ltd.; CITIC; Shenzhen Municipal Textile Industry Co.; Changzhou Textile Industry Corp.; and 13 provincial textile industry bureaus	Signed a 25-year agreement to set up a spinning plant in Shenzhen called the Southern Textile Co. Investment: $7.5 million. (PRC:55%-HK:45%). 6/27/84.
Lixin International Trade Co. (HK)/Xingye Plastics Plant, Hangzhou, and BOC, Hangzhou Branch	Formed the Xingang Synthetic Leather Co. Ltd. to produce and market artificial leather. 7/9/84.
Lixin International Trade Co. (HK)/Linping Silk Plant, Hangzhou, and BOC, Hangzhou Branch	Set up the Hangxin Silk Dyeing and Printing Co. Ltd. to manufacture and market silk knits and brocades. 7/9/84.
J. Brochief Sieries (France)/China Silk Corp., Guangdong Branch	Set up the Guangdong-Lyons Trading Co. to produce silk fabrics. 7/20/84.

Tourism

Millie's Group	Will develop commercial, recreational, and living facilities in Huiyang County, Guangdong. 5/13/84.
Union Transportation Co. and Tokyo Industrial Co. Ltd. (Japan)/Tianjin International Trust and Investment Co. and Tanggu Bohai General Foreign Service Co.	Signed an agreement to construct the Tanggu Beifang Hotel. 6/84.
Meisho (Far East) Co. (Japan)/Hangzhou City	Will jointly build the West Lake Recreation center. 7/84.
Nikonikodo Co. (Japan)/Guilin City	Will conclude a contract to construct a hotel in Guilin, Guangxi. (50–50). 7/24/84.
Nikonikodo Co. (Japan) and Nangyang Commercial Bank (HK)/Guilin City and Bank of China	Will establish a tour development enterprise to operate supermarkets and restaurants. 7/24/84.

Transportation

Gammon Group (HK)	Is discussing a venture to build Shanghai's underground railway. 6/84.
Everbright Industrial Corp. (PRC co. located in HK)/Capital Taxi Co., Beijing	Have agreed to form a taxi company. 6/14/84.

Zhengda International Investment Co. (HK)/ Shanghai Tractor and Automobile Industrial Co.	Set up a motorbike production company. 7/84.
Toyoda Tsusho Kaisha Ltd. (Japan)	Set up a joint Toyota service company with Guangdong authorities to be located in Shenzhen. 7/9/84.

Miscellaneous

Fei Yimin (HK)/Heilongjiang International Economic and Technological Cooperative Corp.	Formed the H.H.K. Consultancy & Development Co. Ltd. to promote trade and economic and technical cooperation. 5/14/84.
Sino Ltd. (HK) and Hawkshead Communication Ltd. (UK)/China Film Co-Production Studio	Are jointly producing a television documentary series, "The Wildlife of China." 5/24/84.
Showa Leasing Co. (Japan)/Qingdao Leasing Corp. and BOC, Qingdao Trust & Consultancy Corp.	Signed a contract to form the Huahe International Leasing Co. to lease industrial machines and transportation equipment. Capital: $1 million. 5/29/84.
NA (HK)/Shenzhen Food and Drink Service Co. and Bank of China	Set up the Shenzhen Laundry. Investment: $383,000 (HK$3 million). 6/25/84.
China Construction and Trade Corp. and Hongkong Shanghai Banking Corp. (HK)/Shenzhen Import-Export Service Corp. and Bank of China	Formed the Dongxing Trade Corp. located in Shekou to facilitate trade in electrical appliances, cigarettes, wines, and articles for daily use. Investment: $255,000 (HK$2 million). 6/25/84.
Mandarin Resources (HK)	Acquired the Goodyear Estates equity from the PRC-HK joint venture, Shenzhen Goodyear Printing Factory. 7/84.

LICENSING

John Deere Co. (US)/ TECHIMPORT	Signed an agreement for design and technology for the wheeled tractor chassis of six Deere models. 4/9/84.
Vickers Inc. (US)	Technology to build high-pressure external gear pumps. 5/21/84.
Lohmann and Stolterfoht (W. Germany)/China Shipping Industry Trade Corp. and Sichuan Gear Box Plant	Technology to produce inverted decelerating gear boxes. 6/84.
International Standard Electric Corp. (US)/ Guangdong Posts and Telecommunications Appliances Corp.	Signed an agreement for multiplexing equipment technology. 6/6/84.
Continental Carbon, subsidiary of Conoco (US)	Technology and process design for a carbon black plant to be constructed by Toyo Engineering near Tianjin. 6/9/84.
TRW Inc. (US)/ TECHIMPORT	Signed two contracts for electrical submersible pumps and technology. 6/15/84.
Westinghouse Electric Co. (US)/Harbin Turbine Works, Heilongjiang	Signed contract for technology to produce 600 mw capacity turbines. 6/29/84.
Ralph Lauren (US)/ CHINATEX	Jiangsu produced 34,500 pairs of pants under the Ralph Lauren design. 7/84.
Atlas Copco (Sweden)	Signed two licensing agreements to manufacture tunnel-boring machines in Nanjing and Shenyang. 7/5/84.
Gould Inc. (US)/EQUIMPEX	Signed 10-year agreement for manufacture and assembly of dedicated, industrial computers (programmable controllers). $12 million in first three years. 7/9/84.
Suzuki Motor Co. (Japan)/China National Aero Technology Import-Export Corp. and Jilin Automotive Industry Corp.	Technology for light commercial vehicle production. 7/24/84.
Eastman Kodak Co. (US)/ Xiamen Photographic Materials Co. and TECHIMPORT	Emulsion-making and coating technology and manufacturing equipment for color photographic film. 7/25/84.

COMPENSATION TRADE

Amspec Chemical Corp. (US)/MINMETALS	Reached an agreement to supply Hunan with antimony production and technology in exchange for antimony oxides and metal. 5/1/84.
Taiyo Fishery Co. Ltd. (Japan)/Jinan Canned Food Factory and Tai'an Canned Food Factory	Four sets of asparagus shelling machines. 5/7/84.
Taiyo Fishery Co. Ltd. (Japan)/Jinan Canned Food Factory	Automatic vacuum sealing machines. 5/7/84.
Walter Leutjens (W. Germany)/Jinan Canned Food Factory and Tai'an Canned Food Factory	Four automatic vacuum sealing machines. 5/7/84.
Lianqiao Enterprise (HK)/ Changzhi Plastic Products Factory, Shanxi	An artificial leather production line. 6/11/84.
Aigao Electrical Co. Ltd. (HK)/Taiyuan No. 2 Radio Factory, Shanxi	Equipment for AM/FM radio-cassette recorder production. 6/11/84.
Kyoei Shoji Co. Ltd. (Japan)/Datong Sugar Refinery, Shanxi	Processing equipment. 6/11/84.
Mitsubishi Co. Ltd. (Japan)/City of Yichang, Hubei	120 water spraying looms. 7/84.
World Placering Engineering (China) Co. Ltd. (HK)/Xihu (West Lake) Tourism Development Co. Ltd., Guangdong	Extraction equipment and a production line for gravel. 7/84.
NA (HK)/Jiujiang Garment Factory, Guangdong	Equipment to produce glue-painted cotton. 7/84.
Maloumian and Sons (US)/CHINATUSHU	Carpet production equipment and patterns. 7/2/84.

COPRODUCTION

(Czechoslovakia)	Will coproduce heavy trucks. 5/21/84.
(Hungary) and (Poland)	Will coproduce buses. 5/21/84.
(Bulgaria)	Will coproduce fork-lifts. 5/21/84.
(E. Germany)	Will coproduce combine harvesters. 5/21/84.
Pratt and Whitney (US)/ Shenyang No. 3 Machine Tool Plant	Are jointly producing computerized digital-controlled lathes. 6/20/84.
Tateyishi Electrical Machinery Co. (Japan)/Fujian Provincial Medical Equipment Plant	Have reached an agreement to jointly produce medical equipment. 7/84.
Sanyo Co. (Japan)/Beijing Scientific Instruments Factory	Began joint production of photocopiers. 7/84.
Houston Systems Mfg. Co. (US)/Sifang Boiler Works, Shanghai	Reached an agreement to coproduce and market enhanced oil recovery steam generators and water treatment equipment. 7/16/84.

LEASING

W & H Co. (W. Germany)/Xiaoyi Plastics Factory, Shanxi	A production line for weaving plastic bags. 6/11/84.
Druckner (W. Germany)/ Datong Bulb Factory, Shanxi	A miner's lamp production line. 6/11/84.
Refenhauser (W. Germany)/Taiyuan No. 5 Plastics Factory, Shanxi	Twin screw extruders. 6/11/84.
Covema (Italy)/Linfen Plastics Factory, Shanxi	Machinery to produce plastic floor sheets. 6/11/84.
Hyogo Prefectural Trading Co. (Japan)/Taiyuan No. 4 Plastics Factory	Soft plastic packaging equipment. 6/11/84.
Bieloni (Italy)/Taiyuan No. 4 Plastics Factory, Shanxi	Equipment to produce micro-thin plastic sheets. 6/11/84.
Takara Co. (Japan)/Dalian Toy Plant	Mini-car toy manufacturing technology. 6/12/84.
Japan-China Economic Relations and Trade Center (Japan)/China Leasing Co.	Reached a cooperation agreement. 6/19/84.

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lǎo péng·yǒu

"Lao pengyou" means "old friend." It's an important concept to the Chinese. Old friends can be trusted. Old friends can be taken into confidence. You seek out an old friend when you need some assistance.

The Chinese view the National Council as a trusted old friend. Our relationship with the PRC dates almost as far back as the Shanghai communiqué in 1972. Since that time we have developed friendships with virtually all of the commissions, ministries, and corporations involved in China's foreign trade. We've had our own office in Beijing for five years.

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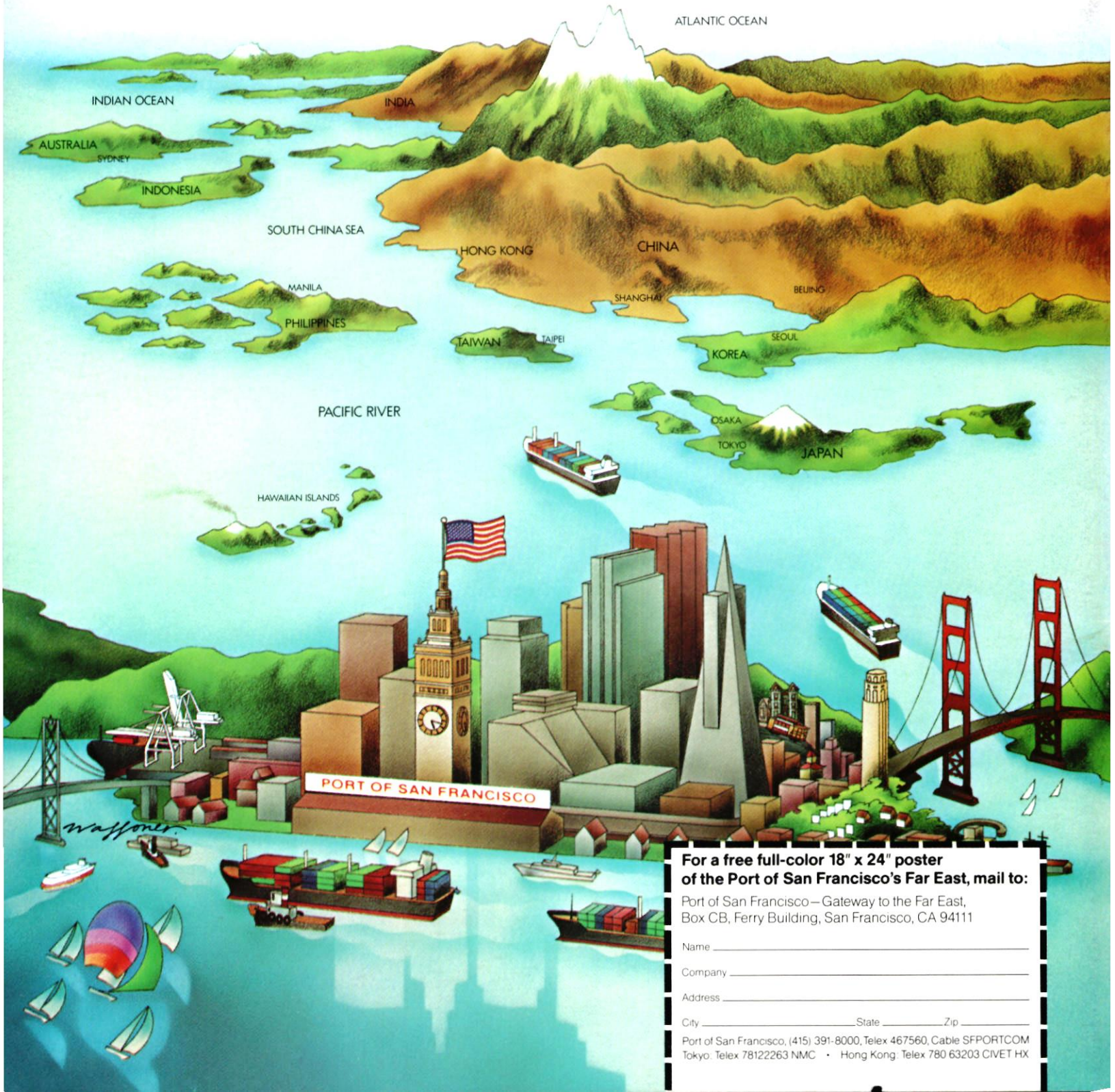

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