

# The China Business Review

September–October 1985 \$15







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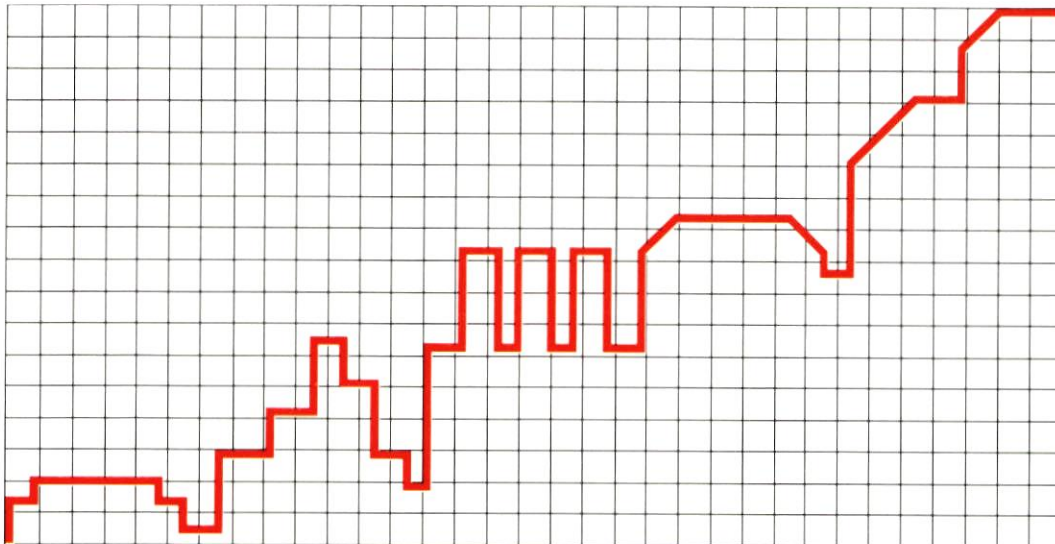
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# The China Business Review

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September-October 1985

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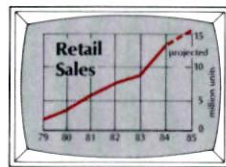
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## 摘要

**NEW ANGLE ON THE OPEN DOOR**

China's dissatisfaction with its foreign investment program has been increasingly evident in recent months. Two new trends are emerging—a greater push for investment in large urban areas and a general shift toward investment in industries rather than geographic zones.

The special economic zone (SEZ) concept has been disappointing in several ways. Little foreign capital has been attracted for infrastructure projects in the zones, and the Chinese government is spending far more than it intended to build up these areas. Moreover, the payoff planners expected in foreign exchange earnings has not materialized. The technical level of products produced in the SEZs has been lower than hoped, and many goods cannot compete on the international market. As much as two-thirds of the output from the SEZs ends up on the domestic market where it is often sold for hard currency, thus intensifying the foreign exchange imbalance that the zones were set up to improve. Certainly another rankling issue must be the hard-to-ignore fact that some of the zones are becoming enclaves of corruption.

Early signs of a change in emphasis appeared in April 1984, when China's leaders declared 14 coastal cities "open" for investment, touting their important role in the national economy. This triggered protests from inland cities, who argued that they, too, deserved a greater share of the investment action. Increasingly, planners seem to be listening to them.

In July an economist with China's Economic Structural Reform Institute under the State Council called for a cutback in the scale of the SEZs, and emphasis on investment in older industrial cities. He and others argue that these cities present a more favorable investment climate because of their readily available infrastructure, raw materials, skilled labor, and the

relative ease with which management and technical skills absorbed through foreign investment projects can be spread to other sectors of the economy. In its new report on China's economy, the World Bank adds its influential voice, noting that, "policies and practices initially applicable only to special zones and export activities . . . need subsequently to be spread to other parts of the country and to other sorts of economic activities, with a decline in the significance of special zones."

Much of the original economic rationale for the SEZs is losing ground.

**FRIENDS OF RICK ONDRIK**

Richard S. Ondrik, a regular contributor to *The China Business Review*, former employee of the National Council, and now manager of business development for Energy Projects (S. E. Asia) Ltd., was convicted on August 13 in the Intermediate People's Court of Harbin of unintentionally starting a fire at the Swan Hotel. The Harbin fire killed 10 people including one American petroleum company representative. The prosecution alleged that Ondrik started the blaze while smoking in bed. Two Chinese hotel employees have been convicted of contributory negligence. Ondrik was sentenced to serve 18 months in prison and pay ¥150,000 (\$53,000) compensation. His appeal of the verdict was rejected in September.

Friends and colleagues of Richard S. Ondrik have established a support fund to help pay the compensation award and legal expenses incurred in connection with the case. For more information, interested companies and individuals should contact: Friends of Rick Ondrik, P. O. Box 27109, Central Post Office, Washington, DC 20038 (202/223-2555).

The first zones set up in 1980 (Shantou, Shenzhen, Xiamen, and Zhuhai) were chosen in part for their strong ties with overseas Chinese communities, which planners hoped would help them attract foreign capital. Because they were relatively small towns isolated from the rest of the economy, they were also viewed as safe locations to conduct this bold economic experiment. But instead of attracting the hoped-for high-technology export-oriented industries, tourism and light industrial assembly projects have been predominant. Moreover, the isolation of the zones has hindered the process of spreading their experience to inland areas.

By the end of last year, a total of 19 areas of China had been designated official foreign investment zones. But this year, much has changed. Of China's 14 "open" coastal cities, only four—Shanghai, Tianjin, Dalian, and Guangzhou—are still in good standing. Development in the other 10 has been put on hold because they lack the requisite investment infrastructure. Meanwhile, funds to the four SEZs have been slashed, and Hainan was exposed this summer as a literal island of corrupt trade practices, and its leaders sacked.

In mid-August *People's Daily* announced that important domestic industries and infrastructure projects will receive priority allocations of foreign exchange. Although this is nothing new, it does mark a shift in emphasis from special "zones" to special "industries."

All of these changes seem likely to integrate foreign investment more closely with national economic goals, particularly those contained in the upcoming Seventh Five-Year Plan. China's open door is not closing—but it may be changing focus. —MCR

**TURNAROUND ON TRADE**

China's foreign exchange crisis has had a major impact on the progress of foreign trade reforms. The drop in foreign exchange reserves stems in



large part from China's worsening balance of trade—a result of skyrocketing imports in late 1984 and the first half of 1985, and a slight decrease in the value of exports.

To deal with this situation, last year's popular idea of decentralizing trade has been put on hold or reversed in many areas, and central controls are returning. This spring the government instituted strict new foreign exchange regulations, tightened technology-transfer regulations in May, and added new import duties on nonessential consumer goods in July. Meanwhile, numerous efforts are underway to boost exports, including a limited resumption of the export subsidy system. In some parts of the country, foreign trading corporations under the Ministry of Foreign Economic Relations and Trade may be getting back some of the exclusive purchasing rights they lost last year, because it is felt they can manage exports more efficiently for the time being.

It is still unclear just how serious or long-term China's foreign exchange problems are, or what their long-term effect on policy will be. But until China's trade balance and foreign exchange position improve, the country will probably continue to take a hard line and maintain tighter supervision over the inflow and outflow of goods. —MCR

### BACK TO THE BASICS

Don't let the name of the store fool you. The Wudamao Needle and Button Shop in Changsha, Hunan, sells refrigerators and televisions.

Confused? Frustrated is the more accurate description of the average Chinese consumer who today finds shortages of daily items like pots and pans, needle and thread, and hundreds of other basic household items. As one Xiamen resident complained in a letter to the editor of *China Daily*, "It is much easier to purchase a color TV set or a twin-tub electric washer from a nearby store than to find a button or razor."

Shortages affect the countryside too. Paraffin lamps, widely used in rural areas not served by electric power grids, are in short supply.

Somewhere in the rush to modernize and "invigorate" the economy, China forgot about the basics. The manager of the Wudamao Needle and Button Shop provides a simple explanation: he can make more

money selling televisions (¥1,000 per set) than buttons (one day's sales about ¥37). Since enterprises got the go-ahead to make profits, more and more stores have abandoned unprofitable lines of small commodities in favor of higher-profit household appliances.

One popular Chinese response to such a problem is to hold a national conference to discuss the situation. This was done earlier this year in Guangzhou. To deal with the shortages of basics, experts suggested a series of incentives for small goods producers: lower interest rates and transportation costs, price decontrol for small commodities, a special bonus system for workers in such industries, tax deductions, and priority access to raw materials. —MS

### PENNED-UP DEMAND

China's bureaucrats have a direct incentive to seek solutions to the problem of shortages of simple commodities. For a country with a supercomputer, nuclear weapons capability, and space technology, China must ironically still cope with severe shortages of basic office supplies. China's planners may be learning that in the drive to increase enterprise efficiency, they must take small steps before taking larger ones.

Ensuring an adequate supply of paper and pens would be a good first step. Earlier this year, work units scrambled to snap up ¥580 million worth of Chinese typewriters, envelopes, paper, calculators, pens, paper clips, and pencils as soon as they became available. Sales of paper products were up 69 percent in the first half of this year over the same period last year, but supply still falls far short of demand.

Students are feeling the crunch too. The mass printing of novels about ancient China's chivalrous swordsmen resulted in such a paper shortage that textbooks for some of Shanghai's schools could not be printed.

There's hope yet for would-be Chinese pen pushers. The Dalian Teaching Equipment Company concluded a joint venture last June with Japan's Sailor Pen Company to produce 1.2 billion ballpoint pens per year. But half of the output will be exported. China is already the world's biggest exporter of fountain pens and might do well to keep more of these at home. —MS

### MAGAZINE STAFF

Madelyn C. Ross  
*editor*

Tom Engle  
May Seto  
*associate editors*

Priscilla Totten  
*production coordinator*

Martin Weil  
*contributing editor*

Marianna Graham  
*book editor*

Betsy Saik  
*editorial assistant*

Judith S. Taylor  
*research assistant*

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### ADVERTISING REPRESENTATIVE

Sue Partyke  
1050 17th Street, NW  
Suite 350  
Washington, DC 20036  
(202) 429-0340  
Cable address: USCHINTRAD  
Telex: 64517 NCUSCTUW





## To Fly or Not to Fly

Carol S. Goldsmith

**S**peed, reliability, convenience, safety, cost, and comfort. These are the business traveler's main considerations in deciding how to travel in a foreign country. Unfortunately, in China the options are limited. Whether you'll be traveling by plane or by train will most likely be decided by your host organization, which usually handles travel arrangements.

Tight schedules and vast distances generally dictate travel by air. China's airline, CAAC, has never been known for punctuality. In the wake of last year's decision to gradually eliminate CAAC's monopoly on domestic flights, there are more unknowns than ever in the air. For the time being, CAAC is likely to remain the most visible form of air transport in China. Still, more and more business travelers are realizing that the time they spend waiting at airports might be better utilized on an overnight or all-day train ride. There are advantages and disadvantages to both modes of transport. So the question becomes, "Given a choice, should I go by train or plane?"

For comparison purposes, let's assume that you're traveling from Beijing.

**SPEED.** There is no guaranteed fast track in China. When all goes well, however, CAAC wins the race. A train ride from Beijing to Xi'an takes about 22 hours. To Shanghai, it's a 19-hour ride; to Harbin, 17. On a good day with CAAC, the flight time for any of these trips would be approximately 1 hour and 45 minutes.

**RELIABILITY.** As a rule, the trains get where they're going on time; the planes, all too often, do not. Bad delays are common between Beijing and Shanghai, due to traffic, and between Beijing and Xi'an, because of fog. Travelers crossing the country on CAAC may be forced into at least one unscheduled landing or

overnight stay during their trip.

On the plus side, CAAC offers far more departures to a given destination than the railroads. Thirty-two nonstop flights operate weekly from Beijing to Shanghai, compared to 14 express trains. Beijing-Guangzhou has only one daily express train, but seven flights. So even if your scheduled flight fails you, odds are you'll get another the same day.

**CONVENIENCE.** Neither system excels in this department. Whether you're buying an air or train ticket, you (or a representative) must appear at the ticket office in person with your passport, foreign currency, and booking information. Allow for at least a two-hour wait.

For train tickets, you must go to the railway station 6-10 days before departure, fill out a reservation form, and pay a deposit of ¥5-¥10, depending on your destination. Tickets must be paid for 1-3 days prior to departure. Nonreserved tickets go on sale five days in advance.

For air reservations, you have a choice of several CAAC locations. CAAC counters in the Great Wall Hotel and the Beijing Hotel sell and confirm tickets for international flights only. Both domestic and international tickets are sold at CAAC's main office, across from the Overseas Chinese Hotel. To be safe, always reconfirm your domestic or international reservation 72 hours before departure. Unless someone appears in person at the CAAC office by noon the day before departure, your reservation will be canceled.

In Beijing, another option for air travel is the limited number of charter flights becoming available. One of

the first PRC charters to begin operations out of Beijing is United China Airlines. Located in the Beijing Hotel, this new company books weekly charters to Wuxi, Hangzhou, Fuzhou, and Shenzhen, charging the same fares as CAAC. Reservations should be made seven days in advance. International airlines also have their eye on charters to Beijing. Hong Kong's Cathay Pacific Airlines now offers a weekly flight from Hong Kong to Beijing and back.

**SAFETY.** The rails enjoy a much better reputation than CAAC, which has had several serious accidents in recent years. Foreigners watch with dismay as the stewardesses pile luggage in front of the emergency exits and allow passengers to jump from their seats as soon as the plane touches down. But in spite of its outward carelessness, CAAC's overall safety record is relatively good.

**COST.** Surprisingly, China's air and train tariffs are almost identical on any route. A Beijing-Shanghai plane ticket (¥150) costs only ¥5 more than a train ticket.

**COMFORT.** Riding the rails in a soft seat (the class generally sold to foreigners) is a pleasant way to see the countryside, and possibly strike up some acquaintances. Also, there is more leg and elbow room than on CAAC. Sleeper berths are available on the longer train runs, with four passengers to a compartment. China's trains also offer a "hard" class at lower fares, an option sometimes used by hardy China travelers. CAAC offers first-class tickets on certain well-traveled domestic routes and all international flights, although this generally constitutes little more than a seat at the front of the plane. Neither plane nor train offers the type of comfort normally expected in the United States. But if you're lucky and have a smooth trip, they can provide a unique and enjoyable experience.

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*Carol S. Goldsmith is executive vice-president of China Travel Management USA, Ltd., a member of the First Family of Travel, with offices in Washington, DC, and Beijing.*



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**M**any firms doing business with China do not yet know about the Trade and Development Program (TDP)—but they probably should. TDP provides a unique service to US firms in China: it identifies major projects that offer large export potential, and finances the feasibility study stage of the projects to help US firms get in on the ground floor of project development.

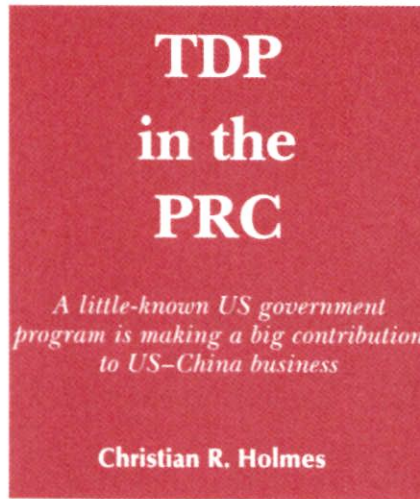
In the past four years, this small federal government agency has assumed an important role in implementing the US government's policy of assisting China in its economic modernization program. TDP has become a recognized resource within China for helping plan the modernization of existing facilities and new construction projects. In the past three years TDP has agreed to finance almost \$5 million in feasibility studies for 13 projects, with a potential US export value of between \$500 million and \$1 billion.

Set up in 1980, TDP's mandate is to help US firms export goods and services to developing nations, thereby promoting US business and aiding economic development in these countries. TDP's budget has quadrupled since 1981 to reach \$21 million in fiscal year 1985, most of which will go to finance feasibility studies around the world. The percentage of funds for China is also on the rise: From FY1983 to FY1984, TDP's China budget leaped from \$517,000 to \$1.9 million, and this year will exceed \$4 million.

TDP is recognized as one of the only tools available to help US firms counter foreign competitors who offer a variety of attractive packages with the assistance of their governments. Australia, Canada, Japan, the United Kingdom, France, West Germany, and other developed nations all have active trade financing programs in China that attempt to help their firms lock up large projects with the offer of free planning, as well as a wide range of other financial services.

### **Focus on hydropower**

The history of TDP's involvement and growth in China parallels the experience of many US firms there. After a slow start, a long period of experimentation took place in which both sides tried to determine



whether a TDP program could meet US and PRC objectives. As relationships and systematic procedures were gradually established, one success began to lead to another.

TDP first became involved in China in 1980 as the financing agency for the US-PRC Hydropower Protocol, funding numerous personnel exchanges to examine ways to help China develop its vast hydropower potential. The objective of TDP's support was to convince the PRC to buy US goods and services needed for hydropower development. However, after almost two years of technical exchanges, little had materialized in terms of US exports. Despite TDP offers to do full-scale feasibility studies on hydropower projects, the PRC did not identify specific projects requiring such funds.

Finally, an opportunity arose when Morrison Knudsen's subsidiary, International Engineering Company Inc. (IECO), asked TDP to help IECO counter an Australian offer of subsidized financing on a hydropower project. Within 48 hours, TDP made an offer of \$400,000 to the PRC, contingent upon choice of a US firm to conduct the feasibility study. Unexpectedly, the PRC Ministry of Water Resources and Electric Power awarded the study to IECO without using TDP funds, but asked TDP to finance another hydro project in-

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*Christian R. Holmes is director of the US government Trade and Development Program. For more information, interested firms may contact the Trade and Development Program, International Development Cooperation Agency, SA-16 Room 309, Washington, DC 20523, or call 703-235-3660.*

stead—the Tianshengqiao dam on the Hongshui River in Guangxi.

### **Tianshengqiao provides first test**

Tianshengqiao, the first major TDP project in China, was a learning experience for all concerned. A particularly sensitive point with both governments proved to be the expectation that if TDP finances a feasibility study, US firms will have an opportunity to compete for the downstream business.

From China's perspective, they should have the right to buy from whomever they please. They do not necessarily view a several hundred thousand dollar feasibility study grant from the US government as a large enough amount of concessional financing to obligate them to purchase US goods and services. From the US government's perspective, however, such a grant symbolizes US commitment to China, is an important share of TDP's budget, and should, minimally, permit US firms to come to the table to bid on the project implementation stage.

This issue heated up when TDP learned that China had decided to accept Japanese Overseas Economic Cooperation Fund (OECF) financing for the Tianshengqiao project—after TDP had funded the feasibility study. This raised the strong possibility that Japanese firms would be automatically awarded most of the business. Fortunately, China has subsequently purchased approximately \$16 million in tunnel boring and other construction equipment from US firms for Tianshengqiao.

### **Project selection and bidding procedures**

To build on the momentum of the Tianshengqiao project, TDP recognized the need to develop a more systematic procedure for the selection and approval of projects in China. In May 1983, TDP and the Ministry of Foreign Economic Relations and Trade (MOFERT) agreed that MOFERT would serve as the principal point of contact between TDP and all other agencies and ministries in China. MOFERT, in turn, agreed to canvass the principal agencies and ministries in the PRC to identify possible projects that might qualify for TDP funding.

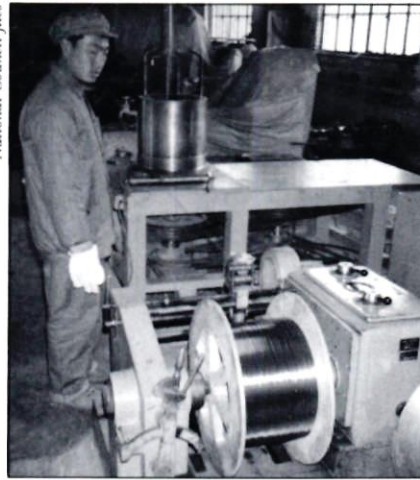
Once or twice each year, TDP and MOFERT meet to review a list of potential projects. If, after investiga-



tion, a project looks sound and the potential for US exports during project implementation is significant, TDP may then decide to grant the funds for a full-scale feasibility study of the project.

After TDP signs a grant agreement with the relevant Chinese ministry or agency, a competitive bidding process is generally undertaken to select a US contractor to carry out the study. This selection process itself is carried out by the Chinese, although TDP monitors the procedures. Normally, the process entails 1) advertisement of the feasibility study opportunity in the *Commerce Business Daily*, 2) submission of qualification forms (available from TDP) by interested firms to the Chinese, 3) pre-qualification, 4) submission of detailed proposals by prequalified firms, and 5) selection of the top firm, which then negotiates a feasibility study contract with the Chinese ministry or agency. The US contractor submits invoices for its work to the Chinese party. These are sent back to TDP in Washington, which then authorizes payment directly to

National Council files



*A TDP feasibility study will help this copper wire and cable plant upgrade production to include optical fiber cable.*

the contractor.

This September TDP met again with MOFERT to review projects for 1986, and discuss how to speed the selection process. The list of proposed projects for 1986 covers a wide range of industrial sectors.

#### **TDP funding for investor projects**

In addition to the feasibility study

grants provided to Chinese organizations, TDP also offers direct funding to US companies for feasibility studies connected with potential investments in China. Eligible projects are those in which a private firm intends to make an equity investment if the feasibility study establishes the technical and economic feasibility of the project and profitability of the investment. Typically TDP will provide half the cost of the study, on the condition that the investor reimburse TDP in the amount of the grant if and when the investment is actually made.

The basic criteria for TDP funding of investor studies are the same as for public sector studies: the project must be a Chinese priority project with the potential for substantial US exports. Although the application for an investor study grant is made by the US company directly to TDP, MOFERT approval is also required for investor projects in China. Investor projects also must compete for TDP funding with public sector projects that have been identified through the MOFERT screening process. 完

### **TDP FEASIBILITY STUDIES IN CHINA SINCE 1983**

**Huangling Coal Mine:** This study will look at how to improve mining techniques in order to increase coal production. Size of TDP grant: \$550,000. A contractor is now being selected, and the study should be completed in 1986.

**Yuxian Coal Gasification:** This study addresses how to gasify coal at the mouth of the mine and transport the gas to Beijing. Size of TDP grant: \$750,000. Kaiser Engineers was awarded this contract in mid-1985.

**Xi'an High-Voltage Testing Institute:** This study will specify the kind of equipment needed to test high-voltage transmitters for transmission lines, turbines, switching gear, and other equipment. A contractor is now being selected. Size of TDP grant: \$450,000. The study should begin before the end of the year.

**Fiber Optics Production Plants at Wuhan and Houma:** This study covers the installation of a fiber optic manufacturing facility at Wuhan and a fiber cable assembling facility at Houma. A contractor is now being selected. Size of TDP grant: \$290,000.

**Multichannel Carrier Equipment Plant:** This study covers the modernization of a multichannel carrier equipment plant. A contractor is now being selected. Size of TDP grant: \$410,000.

**Silicon Materials Plant:** This study, to determine the equipment and materials necessary to expand silicon production, was completed by Stearns Catalytic in mid-1985. Size of TDP grant: \$100,000.

**Maanshan Wheel and Tire Plant:** This study, to determine how to improve the quality of railroad train steel wheels, was completed by Rust Engineering in June 1985. Size of TDP grant: \$200,000.

**Shanjiasi Heavy Oil Reservoir:** This study will develop a plan to recover heavy oil from the reservoir. SAIC (Science Applications International Corporation) signed a contract for the study in July 1985. Size of TDP grant: 280,000.

**Zhuhai Industrial Park:** This study, covering the development of an industrial park in the Zhuhai special economic zone, was completed by H. K.

Ferguson in early 1985. Size of TDP grant: \$225,000.

**Shenzhen Airport:** This study will cover the financing and sizing of a new international airport in the Shenzhen special economic zone. A joint venture comprising Parsons International and Lockheed Air Terminal signed a contract for the study in July 1985. Size of TDP grant: \$800,000.

**Shanghai Corn Fermentation Complex:** This study will determine how to set up a corn wet milling plant to produce starch, alcohol, high fructose corn syrup, and citric acid. A contractor is now being selected. Size of TDP grant: \$425,000.

**Shanghai Urban Refuse Disposal:** This study will determine how to set up a waste collection and disposal system handling 1,000 tons of solid waste a day. A contractor is now being selected. Size of TDP grant: approximately \$250,000.

**Wujing Trigereneration:** This study will determine the feasibility of a complex in Shanghai to produce coal gas, steam, electricity, and synthesis gas. A contractor is now being selected. Size of TDP grant: \$600,000.



# Modernization and the Media

*China's TV, radio, and publications experience a renaissance*

May Seto

A British broadcaster visiting China in 1970 found that 18 of the 26 minutes of evening news on Chinese television consisted of rolling captions of Mao's thoughts set to the music of "The East is Red." Today, Mao's quotes are no longer in vogue, and Chinese television programs reflect the country's drive for modernization, featuring more economic reporting and politically neutral educational programs. Happily for Chinese viewers, programs are also becoming more entertaining.

All forms of the media are growing in sheer quantity and degree of penetration. Xinhua News Agency reports that China had 1,300 newspapers in 1984. Five years ago, the country only had 188 newspapers. From 1978 to 1983, the number of magazines jumped 270 percent to 3,415. Radio, the dominant electronic medium, reaches 75 percent of the population through 167 radio stations, 215 million radio sets, and a vast loudspeaker system. Television, currently experiencing unprecedented popularity, reaches about two-thirds of the population via 104 television stations, with penetration as high as 85 percent in some urban areas.

These numbers may seem minuscule by Western standards—the United States has more than 9,000 newspapers, 10,000 magazines, 9,000 radio stations, and 1,100 television stations. But the current proliferation of information is quite healthy for a media-controlled country such as China. The media have simultaneously experienced substantial diversification and a limited liberalization of content, primarily to help the Chinese leadership popularize education and promote modernization.

## **Politics: down but not out**

The media have been used to promote government policies since long before the founding of the People's Republic of China. But during the Cultural Revolution, the political component grew to the point where the media "totally lost its credibility," says Alan Liu, former journalist from Taiwan and professor at the University of California at Santa Barbara. The redundant, propagandistic tone of the media encouraged the proliferation of "unofficial" forms of expression such as wall posters, underground publications, and rumor mills, adds Liu.

Though the Chinese now get more information from the media on a variety of subjects from economics to sports, politics is still very much apparent. Radio remains the most effective means of communication between the government and peasants, since illiteracy rates can run as high as 70 percent in some rural areas. Television, another medium that doesn't demand literacy, is also a powerful propaganda tool. Both TV and radio are used to educate cadres as well as reach out to the masses.

There are several journals used to keep abreast of policy. Key policy magazines include *Hongqi* (Red Flag), comparable in rank and influence to the newspaper *Renmin Ribao* (People's Daily); *Liaowang* (Outlook), a Party journal that tends to run lengthier articles explaining policy; and *Banyuetan* (Fortnightly Chat), a Xinhua publication targeted at lower-level cadres. *Hongqi* wields particular influence—as one worker told Columbia University political science professor Andrew Nathan, "If you don't read every issue of *Hongqi* during a political movement, you can get into trouble."

*Renmin Ribao* is the most important national newspaper. An organ of the Party Central Committee, it is available to everyone and provides daily guidance on Party policy. The influence of *Renmin Ribao* far exceeds its circulation of about 5.3 million, since its editorials and commentaries are pasted on walls, reprinted by other newspapers, and broadcast on radio and television.

In a society where information is power, it is not surprising to find that not all news is available to all Chinese citizens. The hierarchy of information includes "public" materials available to everyone, "domestic" materials not circulated outside China, and *neibu*, or "internal" materials available only to select individuals.

Though technically classified as *neibu*, the four-page tabloid *Cankao Xiaoxi* (Reference News) is the largest daily in China, with a circulation of 8.5 million in 1981. *Cankao Xiaoxi's* content is pulled from foreign news sources, with the bulk from Western news agencies and only 5 percent from Communist news sources.

All media organs are still controlled directly or indirectly by the Propaganda Department of the Central Committee. Nathan reports in his new book *Chinese Democracy* that as much as 50 percent of the professional staff on publications, television, or radio stations are Party members. Xinhua News Agency, an organ of the State Council that oversees all print and electronic news, illustrates this well. Xinhua's correspondents sometimes serve as "official PRC representatives abroad. . . and have been used interchangeably with officials of the Ministry of Foreign Affairs," writes Harald Jacobson in a 1983 US Information Agency study on the media.

The leadership of the Propaganda



Department changed this year, bringing it more into line with the government's liberal policies. Deng Liqun, 70, viewed as the architect of the spiritual pollution campaign that threatened to undermine reforms in 1983, has been replaced by Zhu Houze, 54, former Party secretary of Guizhou. Deng Liqun remains a secretariat member in charge of overall propaganda, but according to some analysts may eventually be eased out of this position.

The growing influence of the broadcast media was illustrated by the creation of the Ministry of Radio and Television (MRTV) in 1982, upgrading radio and television affairs from their former status as an administrative department. Here, too, younger leadership was recently instituted when 56-year-old Ai Zhi-sheng took charge of MRTV earlier this year. He most recently served as deputy secretary general of the State Council, handling cultural, educational, and informational work.

Despite continued control over media content, there is an effort to develop a more "professional" press. China has revived journalism training departments. Professional journalists who were purged during the 1959 Anti-Rightist campaign and the Cultural Revolution—often for their objective accounts of activities during that time—are making a professional comeback.

As Qian Weifan, a professor of international journalism in Shanghai, told the *Christian Science Monitor*, "We want students to serve the interests of China . . . on the other hand, they must observe the ethics of journalism, that is, be objective and stick to the facts."

#### **Diversity of content serves economic modernization**

Media content has changed because policy has changed, but experts agree that the media's function remains the same—to promote national goals. "Whereas before the media served politics, today it serves economics," says Godwin Chu, assistant director of the East-West Center's Institute of Culture and Communications. "Its basic function is

the same, but the substance is different." As Nathan puts it, "Diversification of the media is being used to win back readers (and audiences) so the media can become a more powerful propaganda tool."

If politics still remains, it at least must increasingly compete for space and time with reporting on economics, science and technology, and entertainment. The goal behind economic news is often quite clear-cut. For example, last January Chinese television began broadcasting a series of lectures on economic reforms featuring such titles as "Quicken the Pace of Reforming the Economic Structure," "Establish the Mode of a Socialist Economic Structure with Chinese Characteristics," and "Invigorating Enterprises is the Key to Reforming the Economic Structure."

Even articles that criticize officialdom may now be sanctioned for print as long as they support

accented now as long as it reinforces Party policy," says Jim Huskey, a China analyst at the US Information Agency.

The print media have become very effective at promoting economic activities. A 1983 Chinese report put the number of business-oriented newspapers at more than 400, compared to only a few in 1980. China's popular business daily—*Jingji Ribao* (*Economic Daily*), which provides market information and business tips for managers, increased its circulation from 200,000 to 1 million between 1983 and 1984. The Chinese government "wants people to use the media to engage in entrepreneurial activities," says USCB's Liu. For example, *Zhongguo Shangye Bao* (*China Commerce Daily*), which began publishing this year, is a business newspaper geared to entrepreneurs. The role of the media in encouraging profit-making is apparent in the countryside too. Xinhua reports large increases in sales of agricultural newspapers, filled with useful information for peas-



ants. Radio now offers courses on such topics as plant breeding and protection, agricultural management, meteorology, and soils and fertilizers. More scientific and technical information is being disseminated on all levels. According to one report, China had 376 science and technology magazines in 1983. "Newspapers," says *Renmin Ribao*, "should be used to impart more scientific information . . . to obtain better economic results." There are also new



professional newspapers "to enable cadres and workers . . . to get more direct professional guidance," according to Xinhua. These include *China Commerce News*, *China Communication News*, *China Electronics News*, and *China Chemical News*.

American magazines are making their contribution to China's modernization efforts too. This year, McGraw-Hill begins publishing Chinese-language editions of six of its magazines dealing with plastics, aviation, electronics, power, textiles, and chemical engineering. The Illinois firm of Watt Publishing has been distributing one of its agricultural magazines—*Feed International*—in China since 1981, and this year will add *Poultry International*.

Promoting national unity is another use for the media. Chinese officials have stressed for years that radio and television broadcasts in minority areas should further a sense of national unity and promote universalization of the Chinese language. In keeping with this goal, a satellite communications ground station, was installed in Lhasa, Tibet, in 1984, in time for people to see the October National Day celebrations.

Two stations will soon be beamed to Taiwan, compared to one now, and more broadcasts are planned to Hong Kong and Macao. To more effectively reach overseas Chinese, *Renmin Ribao* began to publish an international edition in July of this year, transmitted by satellite and

printed in New York, San Francisco, Paris, Tokyo, and Hong Kong. *Liaowang* also began publishing in the United States and Canada in September 1984.

### **Human interest becomes more interesting**

On the lighter side, China suddenly offers a bewildering array of magazines on fashion, photography, calligraphy, travel, philosophy, and literature—to name just a few. Movie magazines are especially popular. In 1984, *Popular Cinema* sold 250,000 copies per issue in Beijing alone.

*Shijie Zhi Chuang* (*Window on the World*)—a pocket-size bi-monthly magazine resembling *Reader's Digest*—is widely read among college students, according to Huskey. *Window* often features translated foreign articles about life in other countries, including features on American culture from *Time*, *US News & World Report*, and *The New York Times*. One issue contained articles about Meryl Streep and a piece by Sidney Poitier. Comic books with stories based on Chinese classics, literature, and opera are also very popular.

The proliferation of evening papers that deal mainly with local events illustrates that nonpolitical tabloids are no longer taboo. By 1984, 17 evening newspapers were being published in China. *Beijing Wanbao* (*Beijing Evening News*) sells about 600,000 copies per day and contains cultural items, short stories,

and a lesser dose of the official Party line than its morning counterpart, *Beijing Ribao* (*Beijing Daily*).

Noontime radio soap operas based on popular novels are favorites, as are music programs. A cross section of music played on the radio might include Taiwanese dance, Czech music, Japanese and German songs, as well as Han and national minorities' selections.

Chinese television has also varied its entertainment fare. A 1985 *Television and Radio Age* magazine survey of the contents of Beijing television programs during a typical week found that more than half of the programming could be classified as entertainment, including sports, drama, music, dance, and children's programs. The remainder of the shows were educational (24 percent) and news (15 percent) items. Once unheard of, dramas portraying social problems are being shown. The Chinese seem to be particularly interested in portrayals of the "problems and personal suffering created by the system," observes Chu. Televised sports are also a big draw. When the Olympic gold medal women's volleyball team games are televised, "you can't find people in the streets, or students in the library," says one PRC student.

Chinese viewers claim to enjoy international news—not surprising for a nation so long isolated from the outside world. A media poll conducted in Zhejiang found that 63

## THE MINISTRY OF RADIO AND TELEVISION

The Ministry of Radio and Television (MRTV) coordinates closely with the Propaganda Department of the CCP Central Committee, which oversees the content of all of China's mass media. MRTV also provides broadcasting services for the Central Radio and TV University and the Central Radio School of Agriculture.

### STATE COUNCIL

■ **MINISTRY OF RADIO AND TV (MRTV)**  
Minister: Ai Zhisheng

■ **CENTRAL PEOPLE'S BROADCASTING STATION (CPBS)**  
CPBS is China's national radio network, which airs news, cultural, and educational programs. It also broadcasts programs for minorities in the Korean, Manchurian, Tibetan, Uighur, and Kazakh languages, and airs two programs to Taiwan and one for overseas Chinese.

■ **RADIO BEIJING**  
Broadcasts worldwide in 38 foreign languages and 5 Chinese dialects, including Putonghua. Programs include news, commentary on international affairs, and programs about China.

■ **CHINA CENTRAL TELEVISION (CCTV)**  
CCTV produces its own programs and broadcasts over three national channels, one of which is educational. Provincial-level stations can choose what CCTV program fare to broadcast, with the exception of the 7:00 pm news, which is expected to be carried by all stations.

### OTHER MRTV DIVISIONS

■ **BROADCASTING INSTITUTE:** Established in 1959 to train people in all fields of broadcasting.

■ **BROADCASTING AND PERFORMING ARTS CORPORATION:** A talent pool that develops and produces radio and TV programs.

■ **BUREAU OF BROADCAST AND TV INDUSTRY:** Liaison with factories and companies involved in production and distribution of broadcast-related equipment.

■ **CENTRAL BROADCAST PUBLISHING HOUSE:** Publishes radio and TV scripts and other professional and technical broadcast material.

■ **CHINA RADIO BROADCASTING SERVICE CORPORATION:** Handles domestic and foreign advertisements for CPBS and China's Broadcast and TV Program Journal.

■ **BROADCASTING EQUIPMENT MANUFACTURING**

■ **BROADCASTING MATERIAL MANAGEMENT BOARD**

■ **BROADCASTING RESEARCH BOARD**

■ **CHINA CO-PRODUCTION CORPORATION**

■ **CENTRAL NEWSREEL AND DOCUMENTARY FILM STUDIO**

SOURCES: National Council files and USIA. Chart prepared by May Seto.



percent of the urban residents and 40 percent of the rural residents liked to watch international news. Television viewers will undoubtedly be getting more foreign news. In 1984 alone, Xinhua concluded agreements for exchange of news with Morocco, Portugal, Togo, Hungary, Tunisia, and the Middle East News Agency. China also belongs to the Asian News Exchange and the Asia/Pacific Broadcasting Union, which provide its stations with more coverage of Asia and the Pacific.

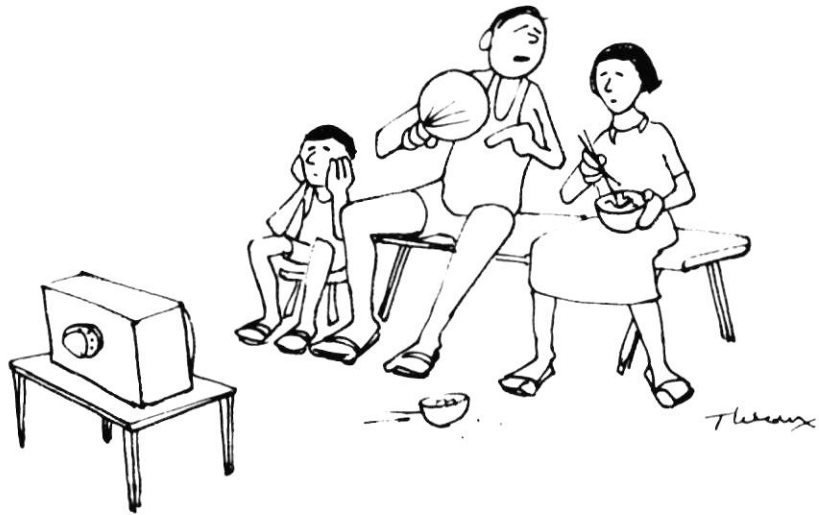
Foreign programs still occupy a very small percentage of Chinese TV time, but foreign films and features are shown fairly regularly. Since 1982, six American television companies have signed agreements to produce or provide US programs to China Central Television (CCTV). Among these is CBS, which concluded a deal last year with CCTV to provide 64 hours of programming that includes everything from Dr. Seuss cartoons to "60 Minutes" to basketball and football games. CCTV has purchased other American programs such as "My Favorite Martian," "The Man From Atlantis," and Charlie Chaplin films. Last year China also concluded agreements for exchange of programs and media personnel with Japan, East Germany, Turkey, Cyprus, Egypt, and Mexico.

### Broader access to the media

Along with increased diversity, media accessibility is also mushrooming. "Until recently, it was not uncommon for residents of one province to have difficulty getting publications from another province. Workers of one ministry were not supposed to ask about the affairs of another ministry," observes Columbia's Nathan. "But this compartmentalization of information is breaking down."

Chinese citizens can now buy a wide variety of newspapers and magazines at post offices, kiosks, and bookstores. They can also rent them at rental stalls. Periodicals can still be perused on newspaper walls or in reading rooms attached to work units and communes. Bookstores often sell periodicals at a reduced price once they are out of date. "Individual subscriptions have risen rapidly in the last two years," says Nathan. He attributes this to both rising incomes and increasing availability.

There has been limited encouragement of economic self-sufficiency by



After volleyball, should we watch "My Favorite Martian" or "Quicken the Pace and Go All Out to Reform the Economic Structure"?

the media, but experts say these are isolated experiments so far. In one case, a technical newspaper in Hefei became financially independent by selling advertisements and providing technical consulting. The paper made enough money to pay its own workers instead of relying on government funds. "This doesn't portend the rise of a private entrepreneurial press," says Nathan, who recalls China's experiment with extending the responsibility system to the arts several years ago. Performing arts groups were encouraged to survive financially on ticket sales, which required a change in content to attract more theatergoers. But freer subject matter provoked angry reactions from officials who reminded the arts groups that they should be concerned with purity, not preoccupied with making money. Similarly, the Chinese leadership has recently been attempting to clamp down on the "unhealthy" backstreet tabloids, whose proliferation is attributed in part to the lure of making a quick buck. As Party leader Hu Yaobang pointed out in a speech earlier this year, news organizations cannot function as independent businesses.

In order to make acceptable newspapers available to a greater number of people, the Chinese government subsidizes them. This has become costly due to the shortage and expense of paper. Perhaps to offset this, price hikes for several major papers went into effect earlier this year: *Renmin Ribao* (from 7 to 10 fen), *Guangming Ribao*, *Jingji Ribao*, *Gongren Ribao* (each raised from 4 to 5 fen) and *Beijing Ribao* (from 2 to 3 fen).

Another way to lessen the financial

burden on the government is to give bank loans to publishing ventures such as magazines, newspapers, and books, said one Chinese correspondent based in Washington. "If such a thing did happen," says Nathan, "the loan would be made to a periodical that looked like it would make money," such as marketing, economic, or technical journals.

### Continuation of two-tiered system

As long as modernization is in the cards, the Chinese can count on more information and entertainment in their daily lives. But the press remains largely an apparatus for the Communist Party to disseminate information. And the media in general will continue to link the government and the populace, serving as a tool to propagandize, educate, and motivate. "Information is tremendously powerful [in China]," says Michael Weisskopf, former *Washington Post* China correspondent, "and to give up the levers of information means giving up power."

Nathan predicts the continuation of a two-tiered media in China consisting of authoritative organs like *Renmin Ribao* that help "form attitudes," coupled with those that provide more objective information and deal with relatively apolitical subjects. The media perform a delicate balancing act—serving their audience and serving the Party. And China's leaders must continue to grapple with the contradictory and complex issues posed by a press organ that must help promote a modern, technologically advanced society, yet remain at the same time an official voice for the Party. 完



# The Lure of Television

Molly E. Wyman

*A national plan for television has been evolving since 1983, when China set broad guidelines for the industry through the year 2000. The plan calls for expanded television programming, greater reliance on domestically manufactured equipment, and modernization of facilities. Because viewers often gather in large groups to watch publicly owned sets, China estimates that two-thirds of the nation now has access to television. The plan calls for raising this percentage to 95 percent, to bring China truly nationwide coverage for the first time. But this requires overcoming numerous obstacles and making difficult choices throughout the industry. There have already been so many twists and turns along the way that many observers regard the 1983 blueprint with skepticism.*



Television sets are selling out all over China these days.

The nation is in the midst of a love affair with the TV set, a phenomenon with explosive and frequently chaotic implications for the entire economy. Domestic industries are proving ill-suited to deal with such volatile demand, closely linked to consumer whims. The television industry cannot keep up without sustained centralized efforts and substantial infusions of technology, but it must also remain flexible enough to respond to changing consumer preferences. Planners must deal with a host of problems, including periodic cycles of huge foreign exchange expenditures on television set imports followed by sudden administrative clamp-downs on buying from abroad; the uncoordinated proliferation of inefficient new assembly lines sponsored by local governments eager to cash in on the craze of the moment; and embarrassing flip-flops in emphasis on development of black-and-white vs. color sets. The industry seems to operate either a step ahead or a step behind consumer tastes, and has designed some plants that were obsolete before they were even completed.

## **Domestic production takes off**

The television industry is slowly maturing in China, but few observers expect that its growing pains will be eliminated soon. Indeed, the Chinese themselves predict that the market

will not be saturated until the mid-1990s. And urban consumers are already starting to substitute new large color TVs for their initially purchased small black-and-white sets.

Based on trends reported by the State Statistical Bureau for the first part of the year, it appears likely that 13 to 15 million sets will be sold in China in 1985, about 4 million of them color. This would bring the total television inventory in China to an astonishing 67 million sets by the end of the year.

In 1978 China produced only 500,000 sets and could boast a TV population of perhaps 1 million. The industry, launched in the 1960s, received a modest boost in the early 1970s due to government enthusiasm for upgrading the electronics industry and the attraction of television as a political propaganda tool. But it is really the Chinese consumer revolution of the post-1978 period that lies behind the phenomenal growth in recent years. Production rose dramatically in this period—from 1.3 million sets in 1979 to 9.9 million by 1984.

Shanghai accounted for 22 percent of the nation's TV production last year. Other important centers

are Jiangsu, Beijing, Tianjin, and Liaoning (see table on page 16), with the remainder of factories scattered throughout the provinces relatively evenly.

China now produces television sets in seven sizes, with 16- and 18-inch models the most popular. Famous brands include the *Mudan* (Peony, Beijing), *Jinxing* (Golden Star, Shanghai), and *Feiyue* (Leap, Shanghai). Foreign models such as the Sony Trinitron and West German Telefunken are now produced and sold under their own names in China.

## **Quality: problems remain**

Quality seems to have improved since the late 1970s, when letters to Chinese newspapers complained that Chinese-made TVs gave "neither sound nor picture but burn and smoke." Now, Chinese industry spokesmen claim that the life of television receivers has increased from 500 hours in 1978 to 10,000 hours in 1984 for black-and-white sets and 15,000 hours for color.

Part of the reason for the quality problem has been the preponderance of small-scale, unprofitable assembly lines scattered around the country under local control. In the early 1980s attempts got underway to reduce the number of small assembly plants by concentrating production in 50 factories, each with a minimum capacity of 100,000 receivers per year. These were designated "key" factories, and concentrated in large urban areas where demand for televi-

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*Molly E. Wyman is completing a masters degree at Columbia University's School of International Affairs, and was an intern at the National Council for US-China Trade during the summer of 1985. She lived and worked in the PRC and Taiwan for two years prior to beginning graduate studies.*



sions was expected to grow fastest.

The country has since succeeded in reducing the number of large assembly plants to about 60. But numerous press reports in 1984 complaining about continued waste and inefficiency indicate that some of the TV industry's problems are recurring.

Economic decentralization makes it much more difficult for central planners to control local production. In many parts of the country, especially in rural areas, makeshift assembly lines producing poor quality sets are springing up. Often, they get away with selling sets for more than the State price of ¥998 for a 14-inch color set, ¥1,330 for an 18-inch, ¥1,500 for a 20-inch, and ¥1,700 for a 22-inch. Other enterprises simply buy up televisions at State-run facilities, and resell them for a profit.

### The need to control imports

The erratic pattern of imports during the last seven years tells a story of competing priorities—protecting foreign exchange reserves, desire for technology transfer, and ever-rising demand. The import pattern reveals demand pressures quite clearly. Beginning in the late 1970s, China's romance with television led to a steady rise in imports. By 1980, 2.6 million units were imported, more than were produced domestically. Imports rose again to almost 4 million units in 1981. Alarmed at the outflow of foreign exchange, and pressured by domestic manufacturing interests, the central government administratively clamped down on imports, which dropped dramatically in 1982–83. But when the general economic atmosphere loosened again in 1984, TV imports, many sponsored by local governments, again shot up to nearly 1.5 million sets. In the first half of 1985, contracts were signed for imports of 2 million color sets, most of them with Japan, which has always been China's largest supplier. The great demand for imported color sets is reflected in recent revelations that the army assisted in smuggling imported sets from Hainan Island, which temporarily became a de-facto free trade zone to the mainland.

Since April, there has been another crackdown on TV set imports, motivated partly by concern over a drop in the nation's foreign exchange reserves. But it seems apparent that, whenever the central authorities allow the least bit of leeway,

pressure from Chinese consumers will lead to yet another high tide of imports.

The Ministry of Electronics Industry (MEI) has provided its own justification for the cutback in imports, claiming that foreign-made TVs are not energy-efficient, and that Chinese-made sets with imported components will be more suited to China's conditions.

Japan, which currently supplies some 90 percent of China's televisions, has been hard hit by the latest import restrictions. In some cases Japanese suppliers appear to be as dependent on China as China is on them. The slowing of China's imports was one factor leading to Matsushita's announcement that it would cut color television production by 30 percent. Nearly 40 percent of Hitachi's sales growth in 1984–85 was accounted for by sales to China, according to the *Japan Economic Jour-*

*nal*. The United States, by contrast, was not a major supplier, exporting only a little more than \$10 million worth of TV parts and \$300,000 worth of receivers last year.

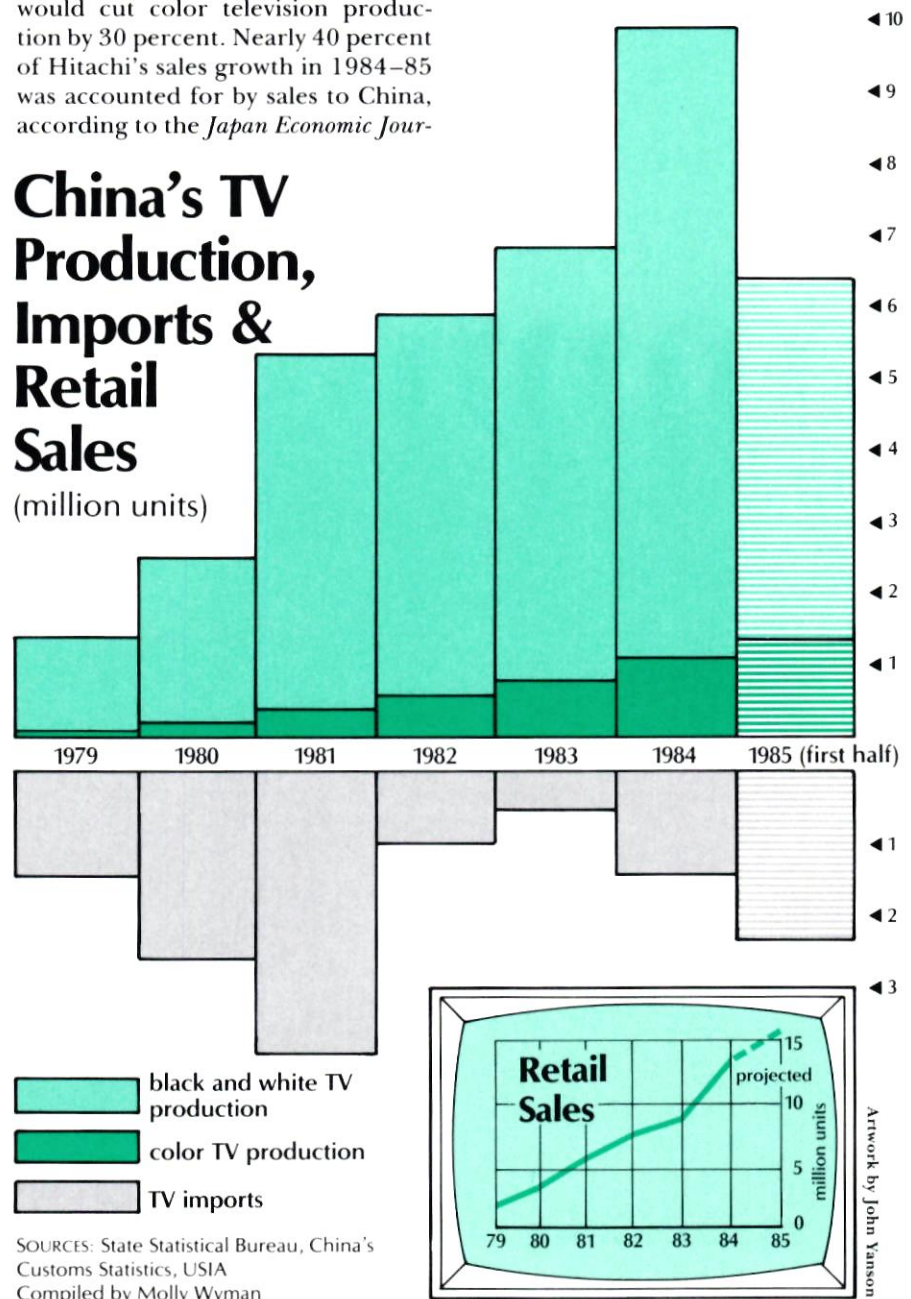
### The component bottleneck

Even during periods when China clamps down on TV receiver imports, large volumes of foreign components flow into the country for "domestically" produced TVs. An over-reliance on imported components has caused problems all its own, as for instance in 1983 when production of color TV sets increased more slowly than expected because of a delay in the delivery of foreign parts.

In 1984 the government announced that projects which contrib-

## China's TV Production, Imports & Retail Sales

(million units)





## SELECTED FOREIGN PARTICIPATION AT CHINA'S MAJOR TELEVISION PRODUCTION FACILITIES

**SHANGHAI** (22 percent of national production; 2,226,000 TVs produced in 1984; 18 percent increase over 1983)

Plant/product	Foreign partner/ Agreement/Date	Capacity	Details
Shanghai No. 1 Radio Plant/receivers	Hitachi (Japan); technical assistance, plant export	400,000 12-, 14-, and 17-inch B/W and 12-, 14-, and 17-inch color TVs/yr (1985 projected)	Capacity upgraded 140,000 units (1980) to 400,000 (1985); goal 1 million capacity by 1990
Shanghai No. 18 Radio Plant/receivers	Matsushita (Japan); technology transfer	400,000 B/W 12- and 20-inch TVs, 150,000 color TVs/yr Feiyue brand (1984)	B/W production began 1973; one of PRC's biggest producers; color capacity added 1984
Shanghai Broadcast Equipment Plant/receivers	Japan Victor Company (JVC) (Japan); technology transfer	200,000 14-inch color TVs/yr (1986 projected)	
Shanghai TV Bulb Plant/glass bulbs	Corning Glass Co (US), plant export, technology transfer (1980)	4 million bulbs for 12-inch B/W TV tubes/yr, also 9-inch and 26-inch tubes and 4 million B/W bulb casings (1984)	One of largest bulb manufacturers, casing production line imported from Corning in 1983
Shanghai Electric Bulb Plant/tubes	Matsushita; technology transfer	1.2 million tubes for 12- and 14-inch B/W TVs/yr (1984)	Plans underway to import another assembly line for 18- and 20-inch tubes

**JIANGSU** (14 percent of national production; 1,481,000 sets produced 1984, 53 percent increase over 1983)

Nantong TV Plant/receivers	JVC; technical assistance (1985)	210,000 color TVs/yr (1985 projected)	\$7.7 million investment
NA Nanjing/receivers	Matsushita; technology transfer (1984)	150,000 color TVs/yr (1985 projected)	
Huadong Electron Tube Plant/color tubes	Philips (Netherlands); joint venture (1985)	1.5 million 16- and 20-inch color tubes and deflection yokes/yr (1987 projected)	Huadong Factory and Bank of China Nanjing Trust and Consultancy Co. hold 30% share, Philips 70%
Jiangnan Radio Equipment and Materials Plant, Wuxi/linear integrated circuit boards	Various US firms; Toshiba (Japan)	Produce enough ICs for 5 million TVs/yr (1985 projected)	Series of agreements signed between 1980 and 1983 with more than 42 companies for import of ICB manufacturing equip. Imported packaging equip. from Toshiba

**BEIJING** (6 percent of national production; 587,200 sets produced 1984, 42 percent increase over 1983)

Beijing TV Plant/receivers	Telefunken (W. Germany); technology transfer (assembly line import, 1983) (component production lines import, 1984)	500,000 14- and 22-inch color and B/W Mudan (Peony) TVs/yr, 150,000 electronic tuners, 50,000 sets plastic cabinets, 60,000 printed circuit boards/yr (1985 projected)	One of PRC's biggest producers. Color tech first introduced thru 1980 import of Matsushita assembly line
Beijing Dongfeng Plant/receivers	Sanyo (Japan); technology transfer (1985)	240,000 B/W 12-inch Kunlun brand TVs, 60,000 color TVs (1983)	Mass production 14-inch color Kunlun to begin 1985; first color set designed in PRC; 12-inch Kunlun now exported to 20 countries

**TIANJIN** (6 percent of national production; 615,900 sets produced 1984, 42 percent increase over 1983)

Tianjin Color TV Plant/receivers	Toshiba; plant export (1984) JVC; technology transfer (1985)	300,000 units color TVs/yr (1985 projected)	150,000 unit/yr capacity assembly line imported from Toshiba; upgraded to 300,000 with assistance from JVC
NA Tianjin suburbs/glass tubes	Japan Electrical Glass Co. Ltd. (Nippon Corp); plant export, technology transfer (1984)	4 million glass tubes/yr for 12- and 14-inch TVs (1986 projected)	
NA Tianjin/silicon diodes	Fuji Electric (Japan); export equipment (1984)	10 million silicon diodes for color TVs (1985)	\$5 million investment, enough for 70 percent of China's color TV production

**LIAONING** (6 percent of national production; 566,800 sets produced 1984, 33 percent increase over 1983)

Dandong City Industry Corp. Plant/receivers	JVC; plant export technical assistance (1985)	150,000 18-inch color TVs/yr (1985 projected)	\$3.8 million investment
Dalian TV Plant/receivers	NA (HK) (1984)	14- to 27-inch B/W TVs/yr (1985 projected)	Run by Daxin Electronics Co., established 1984
Liaoning No. 18 Radio Plant/receivers	Matsushita; plant export, technical assistance (1984)	150,000 color TVs/yr (1985 projected)	

uted to the development of the electronics industry would receive foreign exchange priority, a move that led to further increases in component imports. This year the State Council complained that if all existing and planned contracts for the imports of color TV assembly lines went into effect, China would have the capacity to produce 10 million color TVs per year, far more than projected demand. Finally, in a last-ditch effort to encourage more local production of components, the government announced in July that any TV assembly line relying on less than 70 percent locally made parts would be refused foreign exchange for component imports.

Ideally, China would like to become self-sufficient in the production of TV components by 1990, with component factories located near large assembly plants. Large, centrally planned projects are the order of the day, and for the near future they may be the only way for China to increase production of components to the level required. Next year China's largest monochrome picture tube production plant will open in Dalian, with a planned capacity of 720,000 tubes per year. And by 1988 the huge Shaanxi Color Picture Tube Plant in Xianyang will have also increased production dramatically. But for the time being, some reliance on imported components remains a necessity.

### *Joint ventures vs. technology transfer*

Since demand for televisions began to skyrocket, foreign manufacturers have been wooed to bring in technology needed to transform TV production lines, and eventually alleviate China's reliance on foreign receivers and components. Two major forms of cooperation predominate: large investment projects and purchases of technology and equipment. In both areas Japanese firms are far ahead of the competition.

A 50-50 equity joint venture between Fujian and Hitachi, established in 1981, is regarded as a model joint venture. One of the largest color television plants in China, the factory will have a 700,000 set per year capacity after current expansion is finished. The venture has been praised for raising the percentage of locally produced picture tubes, cabinets, and other components from 50



to 60 percent within a few years.

In 1983 the popularity of joint ventures picked up when China decided to allow them to sell some products on the domestic market. Matsushita changed several co-production factories to joint venture status, while Sanyo set up a joint venture color television manufacturing plant in Shenzhen.

But most deals still involve the straight sale of technology or equipment. As of 1983 China had already imported some 38 complete assembly lines, most of them from Japan. The Japanese generally can offer a lower price, and benefit from the fact that they make equipment compatible with the European-originated PAL (Phase Alternation Line) standards used by China, while most US companies make sets encoded for the NTSC standard. PAL equipment requires more circuitry, and thus US companies require a large potential market to make it cost effective to produce PAL-compatible receivers.

Most foreign companies have relied on contractual clauses to protect their technology from possible Chinese competitors. But new rules issued in China this year restrict Chinese enterprises from signing technology-transfer contracts of more than 10 years' duration without special permission, and prohibit foreign companies from dictating China's use of imported technology after the contract expires. This issue threatens to hamper what US executives claim to be one advantage Americans have over the Japanese in this industry—a greater willingness to enter into long-term technology-transfer arrangements. Japanese firms, still doing a good business in equipment sales, will probably be less concerned about these restrictions.

### Foreign component technology

In the component industry, foreign technology has been acquired to boost mass production, one of the industry's biggest stumbling blocks. For instance, in 1981 China had to import two-thirds of the picture tubes required for the 3 million black- and-white TVs it produced because its own black-and-white tube factories could produce only 1 million units, and these were of mediocre quality. The most difficult aspect of picture tube production is the glass bulb. For monochrome bulbs China is receiving help from Corning

Plant/product	Foreign partner/ Agreement/Date	Capacity	Details
Dalian Picture Tube Plant/tubes	Toshiba; technology transfer	720,000 17-inch B/W picture tubes and electron guns on integrated basis (1986 projected)	¥2.5 billion investment. Will be PRC's biggest producer of B/W picture tubes
Shenyang Electronic Products Plant/receivers	JVC; plant export (1984)	210,000 units 14-inch color TVs/yr (1985 projected)	\$3 million investment
<b>GUANGDONG</b> (6 percent of national production; 571,600 sets produced 1984, 136 percent increase over 1983)			
Guangzhou Broadcast Equipment Plant/receivers	Matsushita Electric Co. (Japan); technology transfer (1983)	150,000 14-, 18-, and 20-inch color TVs/yr Panasonic brand (1984)	
Huali Electronics Ltd., Shenzhen/receivers	Sony (Japan); plant export, technical cooperation	100,000 14- and 20-inch color TVs/yr. Produces Sony Trinitron brand	Huali set up 1984 as joint venture between city of Shenzhen and Hong Kong-based investors
Huaqiang Electronics Co./Shenzhen/VTRs	Sanyo; joint venture (1985)	1,000 videotape recorders per month	Production start-up target is October 1985. Also plans to produce VHS-format machines
Canton Liming Accessories Plant/color TV frequency tuners	Matsushita Electric Parts Co. (Japan); technical cooperation, plant export (1985)		
<b>SICHUAN</b> (5 percent of national production; 530,200 sets produced 1984, 45 percent increase over 1983)			
Chongqing/receivers and components	Sanyo; export plant and assembly equipment (1985)	50,000 14- and 20-inch sets and 50,000 14- and 18-inch TVs at each of 2 factories, plus flyback transformer tuners and focus resistors at 3rd factory	¥7 billion investment
Chengdu No. 1 Radio Plant/receivers	JVC; technology transfer (1985)	140,000 14-inch color TVs/yr (projected); also makes Chengdu brand B/W TVs	In 1985, imported production facility for metal chassis for making color sets
NA Chengdu/glass envelopes for B/W tubes	Asahi Glass Co. (Japan); export plant, technology transfer (1985)		
<b>OTHER PLANTS</b>			
Changchun TV Plant, Jilin/receivers	Philips Co.; plant export (1985)	200,000 color TVs/yr	
Guizhou TV Plant, Guiyang/receivers	Toshiba; plant export, technology transfer (1985)	150,000-200,000 color TVs/yr. (1986 projected)	\$1.5 million order from China National Machinery Import-Export Corp.
Fujian Hitachi Television Co. of China/receivers, tuners	Hitachi; joint venture licensing of technology (1984)	180,000 B/W TVs/yr. 400,000 color TVs/yr. Makes FuRi brand, sizes 14-, 16-, 18-, and 20-inch	Joint venture plant started 1981; Hitachi licensed color tuner technology 1984; construction of new plant to increase production to 700,000/yr
Hangzhou TV Plant, Zhejiang/receivers	Toshiba; plant export (1985)	200,000 14- and 18-inch color TVs/yr (1986 projected)	¥2.5 billion investment
Hefei No. 2 Radio Plant, Anhui/receivers	JVC; technology transfer	150,000 14-inch TVs/yr (projected)	Plant being upgraded with \$3 million investment (also used for Xiangfan plant)
Inner Mongolia TV Plant, Inner Mongolia/receivers	Toshiba; plant export (1984)	150,000 14-, 18-, and 20-inch color TVs/yr (1985 projected)	
Qingdao TV Plant, Shandong/receivers	Matsushita; plant export, technology transfer (1984)	150,000 14-, 18-, and 20-inch color TVs/yr (1985 projected)	
Shijiazhuang Plant, Hebei/receivers	Hitachi, technical cooperation (1984)	150,000 B/W sets/yr Huanyu brand	Plant being converted from B/W to color
Wuhan TV Plant, Wuhan/receivers	JVC, plant export, technology transfer	150,000 14-inch color TVs/yr (1985 projected)	¥2 billion investment
Xi'an Yellow River Machinery Plant, Shaanxi/receivers	Toshiba	150,000 color sets/yr (1985 projected)	¥7.7 million investment
Xiangfan TV Plant, Hubei/receivers	JVC; factory modernization (1984)	150,000 14-inch color TVs/yr (projected)	\$3 million investment to upgrade capacity (also used for Hefei plant)
Xianyang Color Picture Tube Plant, Shaanxi/color tubes	Hitachi; (1984)	960,000 14-, 17-, and 22-inch color tubes/yr; 120,000 bulbs, and other components (1985, projected); 3 million tubes/yr (1988 projected)	Supplies assembly plants in 8 provinces; plans to triple production by 1988

Table prepared by Molly E. Wyman.  
Source: National Council files.



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efficient and cost-saving manner.**

Glass Company (US) in Shanghai, and Japan's NEC in Tianjin and Asahi in Chengdu. For color bulbs China must still rely completely on imports, most from Nippon and Asahi.

A number of Japanese firms are helping China produce its own color tubes. The Xianyang Color Picture Tube Plant in Shaanxi opened in 1982 as a State project to reduce dependence on foreign component imports, receiving initial assistance from Hitachi, Asahi, Dai Nippon Torto, and Kai Nippon Screen Co. Hitachi signed a contract in 1984 to help the plant triple production through installation of two new assembly lines and upgrading of the existing line. Meanwhile, the government recently announced a national project to build six more color picture tube plants in major cities, and Hitachi, Toshiba, Sony, Matsushita, Mitsubishi, and RCA are vying for the contract.

China now produces its own black-and-white and color TV tuners. Some electronic and digital tuners for use in color sets, as well as mechanical tuners for black-and-white sets are made. The country's first electronic tuners were produced in Shanghai in 1984. Foreign cooperation has been extensive and ongoing in this area. NEC concluded an agreement this year to assemble 500,000 tuners at four plants in Gansu.

Production of silicon diodes for picture tubes remains inadequate. However, a factory near Tianjin, which bought an integrated unit of semiconductor manufacturing equipment from the Fuji Electric Company, plans to produce 10 million diodes per year, equal to some 70 percent of China's current annual output.

China also produces some linear circuits and printed circuit boards with imported technology. A major step forward took place this year when the country's largest integrated circuit assembly line started up at the Jiangnan Radio Factory in Wuxi, supplied largely with US equipment. The line will eventually produce enough integrated circuit chips for 5 million TV sets.

### *Shifts in consumer preferences*

The volatility of demand in the television industry is illustrated well by the color vs. black-and-white dilemma. In the late 1970s, Chinese



planners chose the Xi'an area as the site of a large color TV project using Japanese technology. But in 1980-81, estimates of demand for color TVs were revised downward, and resources poured into black-and-white development based on the premise that most Chinese consumers were not yet able to afford color TVs. Despite this prediction, wealthy parts of the countryside are now dotted with "color TV villages," where most peasants own their own color set. Since 1982 the nation's television industry has been attempting to switch gears back to the idea of color.

Japan has taken a commanding lead in introducing China to color television technology. China now has 17 color assembly lines, with a total capacity of 2.3 million sets, mostly imported from Japan. Eight black-and-white factories were converted to color in 1984. With the help of Sanyo, the first complete Chinese color TV line started production at the Beijing Dongfeng plant this year.

There is still a substantial commitment to black-and-white sets, which traditionally have accounted for 90 percent of China's TV production. China produces about a third of all monochrome sets made in the world. However, Chinese consumers now want to buy only large-screen black-and-white sets, with most of the market for these in rural areas. Twelve-inch black-and-white televisions accounted for 80 percent of TV production in 1982, but now anything below a 14-inch is hard to market, and production of 9-inch sets has virtually stopped. Meanwhile, the color market has excellent long-term prospects, especially among urban consumers. Ninety percent of Beijing homes already have televisions, but only 3.3 percent have color.

Projection TVs are another sign of the changing TV market. Today, dozens of viewers often gather around an old black-and-white set in a school or factory to watch television. In the not-too-distant future, many may be sitting in front of large projection screens. Despite high individual demand for TV sets, China is committed to continuing some community-based television reception for those who do not own their own set, and the idea of projection television has caught on quickly. If this market actually materializes, it may prove as lucrative as that for regular sets, ac-

ording to American industry representatives. Projection television could prove especially effective when combined with satellite service to beam programs directly to public buildings and residential complexes, which have a large-screen TV. Projection televisions may also eventually be used widely in education, where the bigger the screen, the better.

According to industry representatives, some Chinese planners envision 10,000 projection TV systems in urban schools, factories, and other public buildings, and 100,000 such systems in villages throughout the country by 1990, most of them 72- to

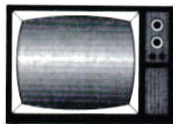
120-inch screens.

At present China lacks the technology to manufacture the sets, but one major technology-transfer project under discussion may involve a Shanghai factory in assembling 250,000 sets per year. Although no contracts with foreign firms have yet been signed, industry spokesmen say that China seeks suppliers of projection TV kits for assembly, and has already examined systems produced by Sony, RCA, Zenith, and General Electric, among others. China's reported perception of the US product as advanced may help the United States compete with Japan for this market. 完

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*TV watchers want more, better, faster*

## TV Studios and Programming



The demand for more and better TV programming will logically follow the boom in TV ownership. China Central Television (CCTV), the national network, plans to add another channel to its current three. The 1983 plan for the television industry calls for CCTV studios in Beijing to eventually supply programming to at least 245 television stations scattered throughout China's 2,138 counties. Currently, many remote areas must wait two to three days for programs to be delivered on videotape from Beijing. Smaller provincial-level studios to be built in at least 242 major cities will be equipped with satellite and microwave receivers and transmitters for exchange of programs.

These ambitious plans cannot be achieved by the central government alone. To encourage local investment, a "four-tier" system went into effect in 1983, in which provincial-, prefectural-, and county-level authorities, as well as CCTV, can fund, construct, and operate television stations. As hoped, the number of stations rose to 104 by mid-1985, up

from 52 in 1984 and 44 in 1983.

A major new CCTV studio is currently under construction in Beijing. This project, originally part of the Sixth Five-Year Plan (1981-1985), is now scheduled for completion in 1988. The new \$2 million facility will replace the present antiquated four-studio production center that opened in 1961. A new computer-controlled complex will produce news, features, education, and entertainment programming, with a satellite receiving and transmitting station and 20 color production studios. The CCTV facilities will be upgraded as part of a \$40 million administrative and residential complex for international electronic and print media being built by Rupert Murdoch, the Australian publisher.

As of 1985, 91 of the 245 provincial studios called for in 1983 had been constructed, some of them in relatively remote areas. Interprovincial program exchanges are also encouraged, and quality provincial programs get aired nationally on CCTV. In an effort to extend CCTV to Hong Kong and Macau, the city of Shenzhen upgraded its TV sta-



tion in 1982, adding a modern studio and transmitters powerful enough to relay programming all over Guangdong, as well as reaching Hong Kong and Macau.

### **Random equipment purchases**

New studios around the country are being stocked with video cameras, recording equipment, central controls, videoswitching, editing systems, 1-inch videotape recorders, and other studio equipment. The country reports that plants in Shanghai, Beijing, and Jiangsu produce "full sets of equipment for color TV studios" and even export sound recording and reproducing apparatus to Bangladesh, India, Thailand, Hong Kong, Malaysia, and the Philippines. But Western analysts say the country lacks the expertise to make advanced studio apparatus. In fact, most of the advanced equipment has come from the West. China's major suppliers of studio equipment during the 1970s were European and American. Ampex made its first major sale

in 1973 and quietly dominated the studio equipment market until the early 1980s, when Sony moved in. Since 1983 most of China's studio equipment suppliers have been Japanese.

Currently, videotape recorders, signal processing, switching, graphics, visual optics, and special effects equipment are in greatest demand. But foreign manufacturers report that China has also steadily acquired less glamorous items such as cameras, character generators, and editing equipment for the past 10 years. One of the earliest purchases was the spontaneous sale of cameras and recorders that RCA had brought along for President Nixon's 1972 trip to China. Although much sophisticated equipment has been acquired since then, buying seems fairly random, with little attention paid to acquiring the basics first and avoiding duplication. "They don't need ABC or NBC level stuff, but China always buys state-of-the-art," says one company representative.

"I'm always struck by the contrast whenever I walk into one of one of these studios," says another industry executive. "There will be a \$25,000 audio console sitting next to old reel-to-reels from the 1950s, in a room without heat or air conditioning. There will be relatively skilled Chinese engineers working with digital audio processing equipment, and they will know how to maintain and interface it in the system, but they won't know how to use it in a production environment."

Training in the use and maintenance of modern equipment is the greatest need in the nation's studios now. Perhaps not surprisingly, advertising has taken one of the biggest steps: China/USA Communications, a joint venture between CCTV and three American companies, will train Chinese television technicians to produce Western-style commercials.

### **Acquisition of VTR technology**

China is acquiring videotape technology, three-quarters-inch and one-

## **TV UNIVERSITY REACHES OUT**

Expanding the reach and influence of China's 20-year-old Television University (TVU) system will, in the short run, be the nation's most pressing mission for television. Programs will help provide badly needed technical education to workers who would not otherwise have such an opportunity to improve their skills. Administered by the Ministry of Education, the TVU costs only one-tenth as much as a regular university education, according to the Ministry of Radio and Television, and can reach vast numbers of students.

The need is great. Only 4 percent of China's high school graduates can be expected to win a place in one of the nation's universities. Moreover, during the Cultural Revolution, China lost an estimated 2 million technicians and 1 million college and university students who would have graduated during the late 1960s and early 1970s. The 30,000 university graduates each year in the fields of science and engineering only meet an estimated 30 percent of demand, and the shortage of lawyers and managers is also acute.

China's television programming has always had a strong educational component. At present, three educational programs from TVU are shown on national television weekly, and an estimated 5 to 6 million viewers watch English-language lessons.

China is currently upgrading the facilities and quality of instruction at TVU. This is part of a \$206 million educational project to improve polytechnical schools and the Television University, which has received partial funding from the World Bank. TVU plans include construction of 28 studio production centers, 85 study centers, and 9 television transmission facilities throughout China's 29 provinces.

A new central studio in Beijing will create courses, stressing math, science, and technical subjects. The number of courses will rise to 170 from about 50 now. The number of TVU participants is expected to reach 1.3 million by 1990 and 2 million by 2000.

As of July 1985, 170 contracts for implementation of the project had been signed, with a total value of \$31 million. Sources say about half of the contracts have gone to Japanese companies (including a large proportion to Nippon Electric for provision of television transmitting equipment), 30 to 40 percent to US firms, and a small proportion to European companies. There are another 41 contracts currently under negotiation and more to come.

One aspect of the project will be to introduce China to a broad range of ideas in this field of education. So far, the Open University system of Britain has had the most influence on China's TVU. But there is also much to learn

from programs in other countries. Thus, approximately 100 TV University faculty members, producers, and technicians will be sent to study open university systems in the United States, Canada, Japan, Singapore, Australia, and Hong Kong under funds provided by the World Bank over the next five years.

Wang Conglu, 28, a technician in a Shanghai textile factory, is a typical (fictional) Television University student. One of a very few students chosen for the program on the basis of a stiff entrance examination, Wang knows he is destined for a higher position at the factory if he successfully completes the program. The factory has released him from his job for three years, at 90 percent of his regular salary, to receive advanced training through TVU. Wang still hurries to work every morning, but bypasses the shop floor in favor of a makeshift classroom at the back of the building. For six hours, he and the other members of his class, mostly male with mathematical, scientific, or technical backgrounds, listen to lectures on videotape given by some of the finest teachers in China. Wang's training is supplemented by face-to-face tutoring with instructors drawn from local factories and schools, and four hours of homework when he returns to his dormitory at night. Under great pressure to do well, Wang is aware of the value of the opportunity he has been given. —MEW



inch VTRs, and compact disks from Japanese firms. Sony licensed its Beta-format videotape recorder production technology to a plant in Xiamen, Fujian Province, China's first VTR producer, which hopes to produce 300,000 VTRs per year. Japan's JVC is planning to introduce its compact disc player technology through a licensing agreement with the Shanghai City Broadcasting Corporation, and Matsushita also plans a local VTR assembly project.

Sanyo, which has been assembling VTRs at a Shenzhen factory since July, announced a joint venture with the factory in August to assemble 1,000 VHS format VTRs per month.

Sanyo is banking on the future of the China market for VTRs and hoping that the price will drop as production rises. Currently VTRs cost some ¥4,600 (\$1,600) in China.

To upgrade the quality of shows, Chinese buyers seem most interested in high-quality graphics and special-effects systems. These will be used to make news shows and commercials more lively by moving them beyond the simple, lecture-type format in wide use now. News broadcasts have already been extended by one half hour this year, and China has expressed interest in purchasing electronic news gathering and broadcasting vans that can be used for live coverage. 完

*Combination of satellite and microwave expected*

## Transmission Technology



The difficulty in transmitting television signals throughout China's vast land area must also be overcome. China, like most of the rest of the world, may eventually rely almost exclusively on satellite transmission. But for the foreseeable future, the nation will use a combination of satellite and microwave technologies, according to Ministry of Radio and Television officials.

### *Upgrading the microwave system*

Microwave, the medium used to carry television signals in China since the 1960s, remains more economical than satellite for short-distance transmission. According to Chinese industry officials, the microwave network now consists of 455 TV transmitting stations and over 9,000 TV receiving-rebroadcasting translators, together with relay links. The net-

work was extended between major cities during the 1970s to carry television, telephone, telegram, and facsimile. The Sixth Five-Year Plan (1981-1985) called for further expansion of the system into frontier and coastal areas. Although the system now seems extensive, one US industry expert cautions that the exact capability of China's terrestrial transmission network cannot be determined due to incomplete data collection.

China claims to be self-sufficient in microwave relay systems, but industry analysts point out that production is probably limited to analog systems. Research on digital microwave transmission is taking place in Shanghai.

Most digital equipment already in use was probably imported from Europe, but Japanese firms are becoming more active. In 1984 the Marubeni Company sold microwave transmission equipment for expand-

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ing Guangdong's network to Shantou and Hainan Island. More recently, an Italian firm signed a \$6 million contract to supply microwave equipment to transmit three color channels simultaneously, while US and British firms have also received inquiries.

Most television transmitters in China currently operate on the VHF system, but the 1983 national television plan called for increasing reliance on UHF, a higher-power frequency band offering more channels

and often greater clarity. The Shanghai and Beijing TV stations now use UHF transmitters, probably made by the Beijing Broadcasting Equipment Plant.

Foreign technology is being acquired to achieve mass production of UHF transmitters. In one contract involving \$2 million worth of orders over the past two years, Denver-based Television Technology Associates has supplied low-power (1,000 watt) frequency converters to extend microwave transmission. Sold in

knockdown-kit form, they are assembled at the Anshan Broadcast Equipment Plant in Liaoning, and distributed throughout northeast China. Company officials believe that sales of such equipment will continue at least until China decides to focus more heavily on satellite transmission.

### *The satellite dilemma*

Someday, a domestically owned satellite will probably play a vital role in China's television transmission,

## The Satellite Purchase—Unanswered Questions

Until July, it was widely expected that China would purchase a direct broadcast satellite and technology from a foreign supplier this year. The commercial negotiations that were underway centered on a custom-built PAM-D Class KU-band direct broadcast satellite (DBS) system with a 230-watt per channel broadcast capability. But the final choice of a supplier, expected in mid-July, was postponed indefinitely at the last minute.

With the benefit of hindsight, indications of indecision on the part of Chinese officials can be noted over the past year.

Last winter, the Chinese press began to carry editorials warning against over-reliance on untested foreign technologies. Some planners may have felt that the decision to rely on KU-band satellite technology was premature. According to US industry analysts, such high-powered KU-band satellites often have a short lifespan and may be too sophisticated for a country without advanced maintenance and repair capacity.

One advantage of the high-power KU-band satellite is its ability to send a signal directly to thousands of rooftop dishes on apartment buildings, public buildings, and individual homes. But Chinese authorities report that 30,000 receiving stations would be needed to spread central TV programs to 95 percent of the country. Even though televisions are selling out as fast as factories can make them, not even peasants in the wealthiest villages are ready to buy their own rooftop receiving dishes.

The alternative to the dish-on-every-roof-top approach is a continued focus on community-based reception, at least for the time being. This more gradual approach seems to have rapidly gained supporters over the past year. In 1984 Chinese press reports encouraged well-to-do individuals and enterprises to buy their own receiving equipment. But by 1985 the focus shifted to using a satellite to beam a signal to the top of large buildings, with those inside watching large projection televisions. Under this scenario, satellite signals would be received at a central ground station and then retrans-

mitted via the existing microwave network in most cities and towns. A C-band satellite, rather than KU-band, would be more than adequate for community-based reception.

C-band satellite technology is now used widely in the United States and the rest of the world, and China is relatively familiar with it. China launched its own C-band experimental communications satellite in 1984 and has acquired familiarity with C-band ground stations through equipment and technology purchases from companies such as Aydin Corporation, Scientific Atlanta, and Sparr Aerospace of Toronto. China may now consider using this technology for the initial community reception phase of the plan, with eventual transition to a higher powered satellite for individual reception "when conditions mature," i.e., when living standards rise.

A KU-band satellite can cost roughly twice the price of a C-band, although comparisons are difficult because of the many variables involved. C-band ground stations, for instance, require much larger antennae, and often carry a price tag of at least \$100,000 apiece. They are so much more expensive than the KU reception dishes that it is hard to say which technology would be cheaper overall.

China's original enthusiasm for KU technology appears to have been motivated not only by the country's well-known tendency to acquire state-of-the-art systems, but also a preference for the lower relative cost of KU receiving dishes. These are as small as 1 to 5 meters and could potentially cost as little as \$200 to \$500 apiece. Moreover, China hoped to be able to mass produce these small KU receivers, although they might require foreign assistance initially. In 1984 the Chinese press reported prototype development of 1.8- to 5-meter antennae at the Nanjing Radio Factory for use with the KU frequency band.

Domestic production of economical C-band satellite receivers may also be feasible, however. This summer, right after postponement of the purchase of a direct broad-

cast satellite system became public, Xinhua News Agency hailed development of a C-band satellite receiving system about the size of a portable tape recorder, with 6-meter lightweight antennae.

If China decides to employ a C-band satellite for television service, the satellites could conceivably be built domestically—albeit relying on technology transfer agreements for production of certain components. Much of the technology has already been acquired; in fact, US officials have expressed concern that negotiations with potential US suppliers several years ago could have leaked much of the information China needed to launch its experimental satellite in 1984.

Political factors may have also played a part in the controversial decision to postpone the DBS purchase. Immediately after the postponement was announced, China Broadcast Satellite Corp. (CBSC) was moved under the direct supervision of the State Council, instead of reporting to the Ministry of Radio and TV. Some observers report rumors that CBSC might even lose its charter as a result of this summer's debacle.

A power struggle between ministries may also be involved. Several leadership changes, including the appointment of a new Minister of Radio and Television (see page 12), may have brought new perspectives into play this spring.

One Chinese paper reported in July that ground stations to be used for television service under the INTELSAT project would be built by the Ministry of Posts and Telecommunications (MPT), which is responsible for installation and maintenance of telecommunications transmission systems. This may indicate an increase in MPT's influence vis-a-vis the Ministry of Electronics Industry (MEI), which usually manufactures equipment for the broadcasting industry. If MPT indeed wrested authority over construction of these ground stations from MEI, it may have been able to force a rethinking of MEI strategy. MEI is known to favor mass production of KU-band ground stations at the Nanjing Radio Factory, which comes under its jurisdiction.

—MEW



but little else can be said with any certainty at the present time. The high cost of extending microwave repeaters into mountainous and remote areas makes satellite technology an attractive option for long-distance transmission in China, and the country has talked about buying a satellite system and technology from the West since the late 1970s.

But twice in the past five years China has solicited bids from foreign companies for purchase of a communications satellite system and then backed out, leaving contenders wondering if they will ever make a sale. In 1980 Beijing accepted bids from Hughes Aircraft, RCA, GE, and Ford Aerospace, only to decide at the end of the year to delay the buying date "several years." The decision stemmed from panic over dwindling foreign exchange reserves, coupled with dissatisfaction over the low level of technology transfer offered by US companies at that time.

This summer, after considering bids for a direct broadcast satellite system submitted by RCA, France's Aerospatiale, and West Germany's Messerschmitt-Boelkow-Blohm (MBB), Beijing informed final contenders RCA and MBB that no action would be taken by the July 15 notification deadline, and that the companies would be told in the fall whether bidding will reopen. "Unbelievable" was one analyst's appraisal of what now appears to have been a wild goose chase for approximately \$200 million in export business for the US or German aerospace industry.

This time the level of technology transfer was less of an issue, but a perceived foreign exchange shortage once again contributed to the postponement. However, the root cause of the change of heart seems to have been a fundamental rethinking of the timing of the purchase and the type of satellite that China should employ (see box on page 22). Even the basic decision to import the first satellites, rather than manufacture them domestically, may now be called into question.

#### ***Other satellite options becoming available***

The postponement came as a shock to outsiders, because the central government had appeared committed to the project. In 1984 the China Broadcast Satellite Corporation (CBSC) was created under the super-

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vision of the Ministry of Radio and Television with the express purpose of attracting foreign satellite suppliers. The corporation also included representatives from many important State organs that would have been involved in the use of the satellite. CBSC even went so far as to take on the services of COMSAT, the American corporation that provides a broad range of international and domestic satellite services, as China's technical advisor in selecting contractor.

The central government also financed much of the ¥5 million needed to construct 53 initial ground stations for use in remote areas. Ground stations, transmission facilities, and TV stations are usually funded by local authorities or ministries. But for this project, the central government built ground stations to be used in such relatively remote regions as Tibet, Xinjiang, Inner Mongolia, Qinghai, Gansu, Ningxia, and Guizhou.

In anticipation of the purchase, China launched its own experimental satellite in 1984 to test live television transmission to ground stations in Urumqi, Lhasa, Beijing, Kunming, Shanghai, Hohhot, Shijiazhuang, Nanjing, Chengdu, and Guangzhou. There is speculation that the success of this launch shortened China's estimate of the time needed to develop its own fully operational satellite, thus strengthening the arguments of those who felt that the country should proceed without foreign assistance.

Even if a satellite had been purchased from abroad this year, it would not have been operational until 1987. In order to meet present needs, China decided to lease satellite space from INTELSAT, the international consortium that handles transcontinental telecommunications, to beam educational programming to remote areas. The State Council describes the decision to rely on INTELSAT as an "emergency measure" to expand the range of TV coverage "before China's own high power functional satellite is put into operation." Experimental transmission began August 1, and if successful, INTELSAT may implement a fully operational service in 1986. The use of INTELSAT's services could also be extended to buy China more time to sort out its own long-term satellite options.

Photo courtesy of New China Pictures



Tibet's satellite ground station in Lhasa was installed in time to receive TV broadcasts of 1984's National Day celebrations.



**Prospects for the industry**

Despite all the problems and changes of direction, China's 1983 national plan outlines big strides for the television industry. For instance, by 1990 China hopes to be self-sufficient in production of television sets and components, and eventually hopes to become a net exporter of televisions, both black-and-white and color. While exports are growing, from \$1.1 million worth of black-and-white sets in 1979 to \$8.8 million worth in 1983, 90 percent of the sets produced in China are at present still bound for the domestic market.

Visions of China as a nation where 95 percent of the population can watch TV, whose domestic television industry is not only self-sufficient but also an important exporter, seem a long way off. Further development of



*China's successful launch of its own experimental satellite in 1984 may have provided further impetus for the country to develop its own fully operational satellite without foreign assistance.*



the industry depends on overcoming serious obstacles and integrating a number of closely related variables.

Efforts to build up the domestic TV receiver industry cannot take place without better component production, a key test that has yet to be passed. Increasing the percentage of television viewers also depends on better transmission facilities. In both cases, the country has so far not been able to make the difficult choices and accept the trade-offs required for significant progress.

Although the industry has come a long way since 1978, it still has very far to go. Balancing all of the competing interests and related sectors to achieve a self-sufficient domestic broadcasting industry complete with all of the requisite infrastructure will not be easy. But until it is done, the industry can only continue providing short-term solutions to the problems that have characterized its development over the last six years. 完

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**FISHERY CHINA '85/2ND INTL FISHERY & PROCESSING EXHIBITION** November 16–21, 1985. Hangzhou. Range of exhibits will encompass communication equipment and satellite navigation technology with applications in this industry. *Contact:* China Marine Industries Corporation, 1103, Loong San Building, 140 Connaught Road Central, Hong Kong. Telex: 76045 CMICO HX.

**OFFSHORE CHINA '85/3RD OFFSHORE OIL EXHIBITION & CONFERENCE** November 26–30, 1985. Guangzhou. Exhibits will include telecommunications equipment and offshore network systems. *Contact:* Cecil Lam at Wah-Chang Intl Marine Industry Co., Ltd. in Hong Kong (Telex: 43996 WAHCH HX) or Walter Keats at National Council member company Middle West Consultants, Ltd., Kenilworth, IL (Tel: 312/256-7887).

**TELECOMMUNICATIONS TRADE MISSION TO THE PRC** December 7–9, 1985. Beijing, Xi'an, Shanghai. Sponsored by the US Department of Commerce, seminar topics will focus on network administration and ISDN, optical fiber communication, satellite communication, and microwave communication. *Contact:* Terry Rettig at Dept. of Commerce. Tel: 202/377-2952.

**MARINTEC CHINA 85/SHANGHAI &**

**MARINTEC OFFSHORE CHINA** December 2–8, 1985. Shanghai. Scope of exhibits to include navigation and communication systems (radars, receivers, transceivers). *Contact:* Richard Craig at National Council member company Cahners Exposition Group, P. O. Box 70007, Washington, DC 20088. Tel: 301/657-3090.

**CHINA ELECOMM '86/INTL EXHIBITION ON ELECTRONICS, TELECOMMUNICATION & INSTRUMENTATION** March 20–25, 1986. Shanghai. US pavilion will feature data communication, telecommunications, electronics, instrumentation and microwave equipment of interest to end users in the greater Shanghai economic zone. *Contact:* Ron Akins at National Council member company E. J. Krause & Associates, Inc. 7315 Wisconsin Avenue, NW, P. O. Box 70356, Washington, DC 20088. Tel: 301/986-7800.

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**PRIORITY DEVELOPMENT/EXHIBITION FOR THE COASTAL CITIES & SPECIAL ECONOMIC ZONES** June 20–26, 1986. Guangzhou. Will include city planning, construction, telecommunications, and transport. *Contact:* Jessica Daniels at National Council member company SHK International Services Ltd., One Liberty Plaza, 4th Floor, New York, NY 10080. Tel: 212/766-6912/3.

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**INTERCOMM 86/INTL COMPUTER & COMMUNICATIONS CONGRESS/EXPO FOR SCIENCE & TECHNOLOGY** September 15–20, 1986. Beijing. Exhibit will include digital communications, fiber optics, satellite communications services, video transmission networks, high-speed facsimile service, computer software, and telecommunications equipment and technology. *Contact:* Kristie Dorrance at National Council member company Cahners Exposition Group, P. O. Box 70007, Washington, DC 20088. Tel: 301/657-3090.

**CHINA ELECTRIC 86** September '86. Shanghai. Will include telecommunication equipment for power utilities: power line carriers, telephone exchangers, microwave communication equipment, frequency converters/repeaters for power line carriers and related technology. *Contact:* Kris Sam, Canal Promotion Centre, GPO Box 1524, Hong Kong. Telex: 74269 CANAL HX.

**MASS-COMM CHINA 86/INTL EXHIBITION ON THE TECHNOLOGY, EQUIPMENT & SERVICES OF MASS COMMUNICATION** October 6–11, 1986. Tianjin. *Contact:* Henry Tojee Chan, Hua Zhan Trade Promotion Co., Ltd., Room 1502, Jubilee Comm. Bldg., 44 Gloucester Road, Wanchai, Hong Kong. Telex: 65088 HZTPC HX.

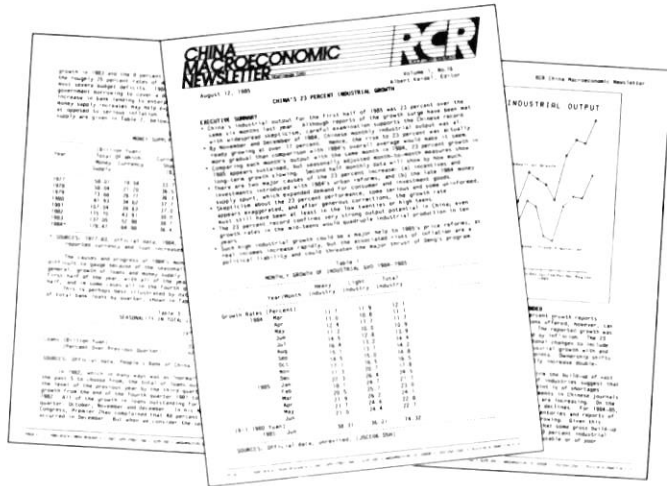
**EXPO-COMM 86 CHINA/INTL TELECOMMUNICATIONS/COMPUTER EXHIBITION & CONFERENCE** October 16–22, 1986. Beijing. This event will feature DBS systems, digital switching systems and computer systems/data communications equipment and technology. *Contact:* Ron Akins at National Council member company E. J. Krause & Associates, Inc., 7315 Wisconsin Avenue, P. O. Box 70356, Washington, DC 20088. Tel: 301/986-7800.

**EXPO HITECH SHANGHAI 86/INTERNATIONAL EXHIBITION ON ADVANCED MANUFACTURING SYSTEMS, FIBER OPTICS/LASERS & MICROELECTRONICS PRODUCTION** October 30–November 6, 1986. Shanghai. Scope of exhibit will include a full display of production equipment and products for fiber optics, lasers, robotics, microelectronics, and semiconductors. *Contact:* Bill Burris at National Council member company E. J. Krause & Associates, Inc., 7315 Wisconsin Avenue, P. O. Box 70356, Washington, DC 20088. Tel: 301/986-7800.

*Compiled by Susan Baugh.*



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# Telecommunications Sales to China

*Why can't the United States compete?*

A. Kelly Ho

China says it plans to spend some \$4 billion over the next five years on modernizing its telecommunications system, thus opening up a multi-million dollar market for foreign companies. Whatever the ultimate purchases amount to, such ambitious plans have increased the stakes for US telecommunications firms eager to sell equipment to China. But to date the United States has had only limited success in penetrating this sector of the China market. The search for a reason points to several contributing factors.

Faced with a telecommunications system that lags 15 to 20 years behind the technology of industrialized nations, Chinese planners want to upgrade the present system by developing automated telecommunications and data communications in major cities around the country. In some cases they hope to leapfrog over the intermediate stages of technology and move directly into state-of-the-art digital communications. Much of the needed equipment and technology for this modernization program, including microwave and optical fiber transmission equipment, will have to be imported until China's own production base is built up.

A selected import program has already begun. In the past two years, China has paid particular attention to telephone exchange equipment. Advanced program-controlled exchange systems have been bought for several major cities from ITT's Belgian subsidiary, Fujitsu and NEC of Japan, Alcatel-Thomson of France, and L. M. Ericsson of Sweden.

Between 1983 and 1984, the country's overall imports of telecommunications and related equipment rose from only ¥692 million to ¥2.68 billion (\$1.15 billion), but the United

States managed to capture only a little more than 3 percent of the total market last year (*see* chart), and did not do much better in previous years. Though some US telecommunications companies have landed important contracts in China, such as Essex Company's contract to supply equipment and technology to build a production line for modern telephone cables in Chengdu, most major contracts have gone to foreign competitors. Thus, despite China's indications to US industry and government personnel that it has a high regard for US telecommunications technology, other factors are contributing to its purchasing decisions.

## *The issue of concessional financing*

The high price of US goods, caused by the strong dollar, is certainly one factor inhibiting US exports to China. US telecommunications firms also face stiff competition from the Europeans and Japanese, whose governments are able to offer China concessional financing that helps China pay for expensive imports. Through its Overseas Economic Cooperation Fund (OECF), Japan will extend a loan of about ¥35 billion (\$141 million) over five years, at an average interest rate of 3 percent, for the expansion of telephone networks in Shanghai, Tianjin, and Guangzhou.

French firms also enjoy the benefits of their government's long-term financing to China. During a visit to the PRC earlier this year, French Trade and Industry Minister Edith Cresson announced a financial program that would provide China with over \$600 million in mixed credits, thus making it easier for French com-

panies to sell China equipment. France also hopes to cooperate with China on building the country's second telephone exchange factory with an annual capacity of 300,000 lines.

Unlike their competitors, US companies have far fewer ways of obtaining concessional financing. For example, Japan funnels bilateral assistance to China through the OECF. In the United States, however, China is not eligible under the Foreign Assistance Act to receive financial assistance from the Agency for International Development, which administers US bilateral economic assistance programs.

Some US telecommunications companies complain about lack of government support in developing overseas markets. But the US government claims that US telecommunications companies have not come to it for help. The US Export-Import Bank, which offers project financing for equipment and services at below-market interest rates, says it has not been approached by companies for telecommunications project financing in China, although it stands ready to consider requests for such loans. At the Overseas Private Investment Corporation (OPIC), only a small number of companies have requested financing or political risk insurance for telecommunications projects in China, and OPIC has insured one such project—a Landsat satellite ground station. At the State Department's Trade and Development Program (TDP), which funds feasibility studies for projects believed to have a large US export potential (*see* page 8), US companies have not scrambled to win contracts for TDP's two telecommunications projects in China.

## *Technology transfer issues*

US telecommunications firms also

*A. Kelly Ho is a research assistant at the National Council for US-China Trade.*



face competition in the areas of technology transfer and export licensing. Because China emphasizes the goal of self-sufficiency in its modernization plans, it seeks technology transfer to strengthen its manufacturing base. Thus, China prefers package deals that provide equipment, technology, and training. Fujitsu, for example, provided technical training for the Chinese along with its sale of a 10,000-line digital program-controlled telephone exchange system to Fuzhou. But the largest deal yet is the transfer of ITT's 1240 digital switching system technology to China, under a joint venture contract signed in 1983 with ITT's Belgian subsidiary. The joint venture company, the Shanghai Bell Telephone Equipment Manufacturing Co., Ltd., provides China with its most advanced domestically manufactured telephone exchange system yet (see "The ITT Story," *The CBR*, Sept–Oct 1983).

But China's desire for technology transfer often runs up against export control policy guidelines in Western nations. Strategically sensitive exports of goods and technology are regulated individually by many Western governments as well as collectively through COCOM—the multilateral agency charged with controlling the export of militarily relevant technologies from its member countries, which include most NATO nations and Japan. An example of the effect of COCOM regulations on high technology sales to China occurred this summer: COCOM, due mainly to US objections, blocked the sale of advanced switching equipment to China by the French state-owned Compagnie Generale d'Electricite.

While COCOM export control policy affects all member nations, US firms often complain that the export review process in the United States is excessively lengthy and complicated, and that rules are applied more stringently here than in other countries. Certain goods require time-consuming review by several US government agencies. While the US government has been trying to streamline the approval process, the problem is exacerbated by the sheer volume of cases. Some types of export licenses take up to one year for review. In the meantime, US companies point out that they are losing contracts to other countries who can offer the same technology and supply

the equipment sooner due to their speedier approval processes.

### **US firms adjust technology to China market**

For years American telecommunications manufacturers focused on products for the domestic market, built to standards used mainly in North America. China, however, along with much of the rest of the world, adheres to CCITT standards. Thus, in order to sell equipment abroad, US firms must often make technical adjustments to match their equipment with the standards of another country. Some major US equipment manufacturers, including ITT, AT&T, and GTE, have experience developing equipment that can be sold abroad, but others have not yet developed this capability. ITT has sold equipment that is compatible with China's standards through its European subsidiaries in Belgium, Austria, and Germany. AT&T, which now designs products for the domestic and international markets, has concluded several contracts in China, one of which involves sale of a digital program controlled switching system to the Hebei Ministry of Post and Telecommunications.

Current federal regulations also restrict the ability of some US firms to operate in the international market. The regional companies formed after the AT&T divestiture are prohibited from manufacturing hardware. Ameritech, one of the AT&T spinoffs, has petitioned for a waiver that would allow it to enter co-production deals in countries such as China. Other regional companies are

positioning themselves as consulting firms and service providers, hoping that eventually they can get involved in manufacturing. The first such consulting contract won by a regional company went to Pacific Telesis in early 1985 to provide network planning services to Yunnan Province.

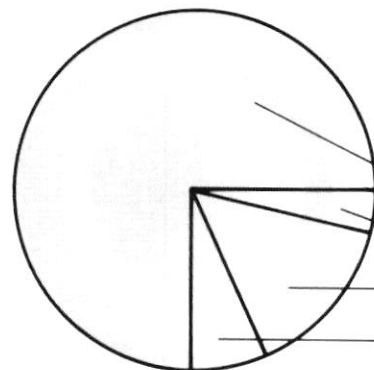
### **Promotional activity picking up**

Hoping to change the picture of US telecommunications sales to China, both the private sector and the US government are trying to promote business in China. The US government has been negotiating a telecommunications protocol with China for three years and hopes to sign it before the end of this year. The protocol would provide a framework for the discussion of specific trade issues between the two countries and thus open the way for US firms to pursue telecommunications opportunities more aggressively.

This fall two US trade conferences on telecommunications will be held in China. One of these is sponsored by Bell South with the support of the US Department of Commerce. Its purpose is to expose China to a broad spectrum of American technology and know-how. The second is a trade mission being organized by the Commerce Department under the Work Program of the 1984 US–China Industrial and Technological Cooperation Accord (for more information on these and other exhibitions, see page 26). Whether or not these exchanges lead to more concrete business for US firms or not remains to be seen, but the level of activity and interest is on the rise. 完

## **China's Telecommunications\* Imports 1984**

**Total Value: ¥ 2.679 billion  
(\$1.15 billion)**



**Japan 74.2%**  
**United States 3.4%**  
**Hong Kong 15.9%**  
**All others 6.5%**

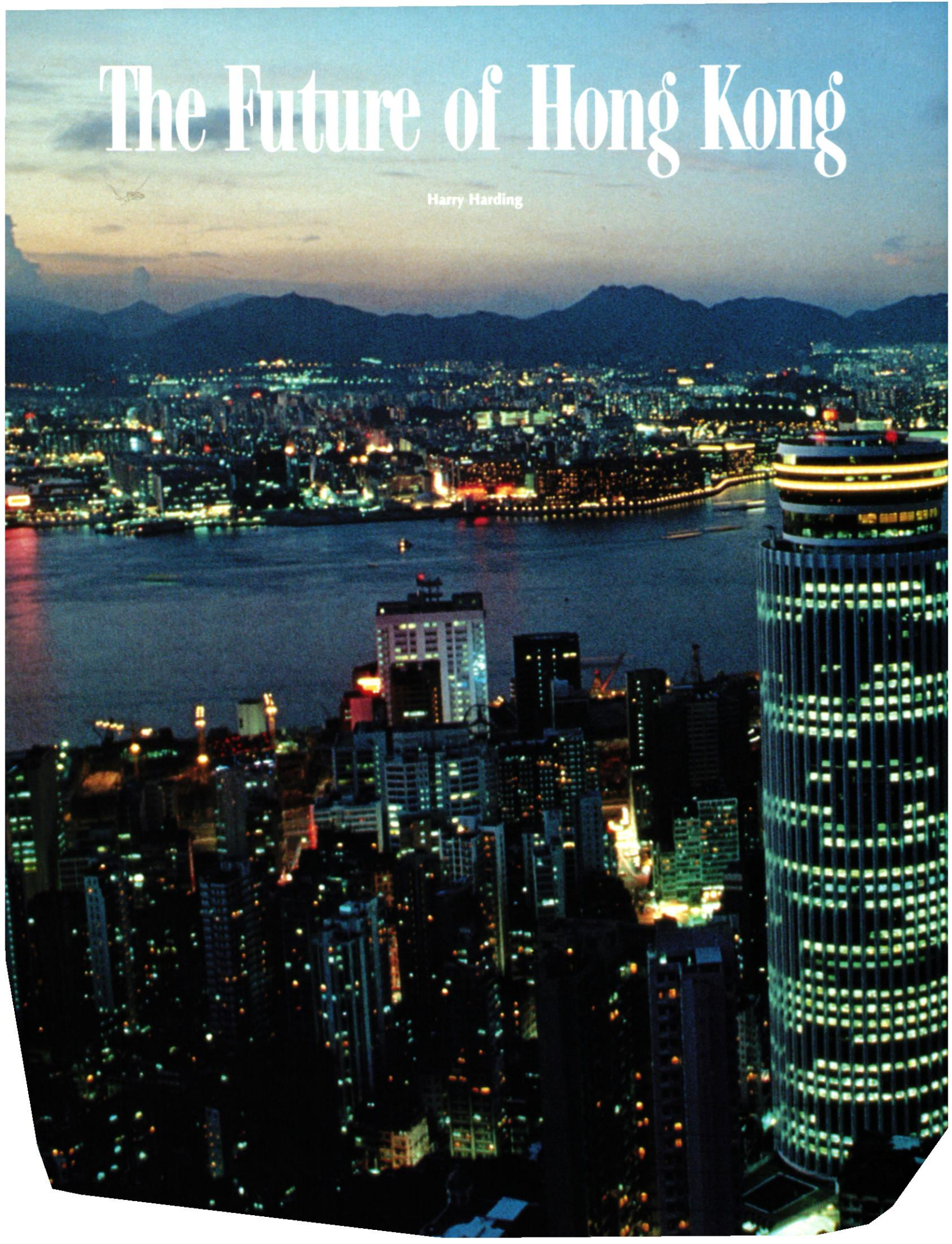
\*Includes telecommunications and sound recording and reproducing apparatus and equipment.

SOURCE: China's Customs Statistics



# The Future of Hong Kong

Harry Harding





Anyone familiar with Hong Kong knows the extraordinary physical changes that have occurred in that dynamic city over the past dozen years. In the early 1970s, the only way to cross the harbor from Kowloon to Hong Kong was by ferry. A prominent feature of the downtown skyline was the art deco headquarters of the Bank of China, with large neon characters on its roof wishing Chairman Mao a long life. The few travelers to China rode an antiquated local train to the checkpoint at Lowu, where they would cross the border on foot, enter the PRC through the customs station at what was then known as Shumchun, and catch another train for Guangzhou. On a quiet Sunday afternoon, one could enjoy a lavish buffet luncheon at the Repulse Bay Hotel, or tea at the Peninsula.

Today, only the Star Ferry and tea at the Peninsula remain unchanged.





## DATELINE: HONG KONG

**1842:** China cedes Hong Kong Island to Britain "in perpetuity" in the Treaty of Nanking.

**1860:** Kowloon peninsula and Stonecutters Island ceded to Britain "forever" in the First Convention of Peking.

**1898:** The New Territories are leased to Britain for 99 years in the Second Convention of Peking.

**1941-1945:** Hong Kong comes under Japanese occupation during World War II.

**1945:** Britain resumes control of the colony.

**January 1982:** With the expiration of the lease on the New Territories only 15 years away, the traditional Hong Kong business practice of granting 15-year leases precipitates uncertainty about Hong Kong's political and economic future.

**August 1982:** Stock market and property prices plunge prior to a visit by British Prime Minister Margaret Thatcher to Beijing in September, in which the Hong Kong issue is expected to figure prominently.

**September 1982:** Britain and China begin negotiations on the future of Hong Kong following a meeting between British Prime Minister Thatcher and Chinese leader Deng Xiaoping in Beijing. Periodic rounds of negotiations to continue on a regular basis.

**February 1983:** The Bank of China announces it will offer cut-rate loans with 50-year maturities to Hong Kong manufacturers, marking the first time Beijing's foreign-exchange bank has stepped in with such aid for the British colony.

**September 1983:** The fourth round of talks begins with a spate of anti-British statements from China, seen as an attempt to pressure Britain to accept termination of British rule in 1997. The pressure eases a day later as the Hong Kong currency hits an all-time low.

**October 1983:** Measures are taken to bolster the local currency. The Hong Kong government announces that just-issued Hong Kong dollar notes will be pegged at HK\$7.80:US\$1, and removes a 10 percent withholding tax on bank deposits in Hong Kong dollars.

**November 1983:** China warns it will announce a unilateral solution for the future of Hong Kong by September 1984 if no agreement is reached with Great Britain before that time.

**January 1984:** Promises emerge from Beijing that the territory will remain capitalist for at least 50 years after 1997.

**January 1984:** Hong Kong taxi drivers strike over a government decision to raise taxi license fees. The protest leads to the worst rioting in nearly 17 years. Xinhua officials, China's unofficial representatives in the colony, express sympathy for the drivers' demands, but claim that this incident is Hong Kong's affair. The Hong Kong government rescinds the increase.

**March 14, 1984:** Hong Kong's Legislative Council, the locally appointed lawmaking body, demands that the acceptability of the outcome of negotiations between China and Britain be debated in the Council. This is the first attempt by the local government to pierce the shroud of secrecy surrounding the talks.

**March 28, 1984:** Jardine Matheson sets up a holding office in the British Dependent Territory of Bermuda. The move by the giant trading house, whose presence in Hong Kong dates back to 1841, shocks many in the colony.

**April 20, 1984:** British Foreign Secretary Sir Geoffrey Howe announces that Britain will no longer administer Hong Kong when the lease ends in 1997.

**May 1984:** A delegation of Unofficial Members of the Executive and Legislative Councils (UMELCO) led by Sir S. Y. Chung goes to London to advocate an autonomous Hong Kong administration and seek clarification of the status of British passport holders whose right of abode is limited to Hong Kong. The delegation's visit coincides with the House of Commons debate on Hong Kong.

**May 25, 1984:** Chinese leader Deng Xiaoping announces that China will station troops in Hong Kong. The announcement reverses earlier assurances that no troops would be sent to the area by Beijing in 1997. The Hang Seng index plunges 30 points.

Victoria Harbor can be crossed in seconds by vehicular tunnel or subway. Stripped of its slogans, the Bank of China is now dwarfed by newer buildings, and will soon be replaced by a 72-story modern structure designed by I. M. Pei. The steady stream of travelers bound for Guangzhou can now choose among direct train service, airplanes, or hovercraft. The sleepy Chinese border town of Shumchun has been transformed into the bustling Shenzhen special economic zone. The Repulse Bay Hotel is gone, superseded by high-rise luxury flats.

If the transformation of Hong Kong's landscape over the last 12 years has been dramatic, the future promises even bigger changes in political and economic institutions. In 1997, when the 99-year lease on the New Territories expires, Hong Kong will revert from British administration to Chinese sovereignty. The last British governor will leave, the Union Jack will be struck, and the Chinese flag will fly over Victoria Peak for the first time in 150 years.

The Sino-British Joint Declaration on Hong Kong, signed in 1984 and ratified this past May, provides the basic framework for this historic transition. But much must still be done if Hong Kong is indeed to be the prosperous, stable, and relatively autonomous entity that the declaration envisions. To make the agreement work, it will be necessary to enhance China's reputation for flexibility and restraint, to create effective institutions of self-governance in Hong Kong, and to develop a strategy to preserve Hong Kong's economic vitality well into the next century.

### *Historic declaration answers immediate concerns*

The joint declaration provides that in 1997 Hong Kong will become a "special administrative region" of the People's Republic of China. As such, it will be granted a "high degree of autonomy" in all matters except defense and foreign affairs, and will be allowed to retain its present "capitalist system and life-style" for at least 50 years beyond 1997.

The joint declaration is an extraordinary diplomatic achievement for both London and Beijing. It is more binding, detailed, and forthcoming than most observers had believed would be possible. The document is



not simply a unilateral declaration of policy, as Beijing had originally preferred, but a valid bilateral agreement between Britain and China. It contains an extensive list of the distinctive features of Hong Kong's administrative, legal, economic, educational, and social systems, all of which are to remain unchanged after 1997. It commits China to maintaining the civil and political rights now enjoyed by Hong Kong's citizens, and the mechanisms by which Hong Kong serves as an international financial center and free port.

China's flexibility in negotiating the joint declaration reflects its vital interest in maintaining the prosperity and stability of Hong Kong. Hong Kong is an invaluable economic asset for China—a convenient source not only of hard currency and investment capital, but also of sophisticated managerial, financial, marketing, and technological information.

Beijing is also well aware of Hong Kong's broader political implications for Taiwan. Mismanagement of Hong Kong's future will vastly complicate, if not completely eliminate, the hope of reunifying Taiwan and the mainland on similar terms.

Publication of the joint declaration ended much of the uncertainty that plagued Hong Kong during the two difficult years of Sino-British negotiations. The residents of Hong Kong were reassured not only by the two sides' ability to reach an accord, but also by the declaration's provision that Britain will remain solely responsible for governing Hong Kong until 1997. With the short-term future of the territory clarified, the outflow of capital has declined, foreign investment has increased, and Hong Kong's currency has stabilized.

### **Many issues still unresolved**

Opinion about Hong Kong's longer range prospects, however, is a more complex mixture of resignation, satisfaction, and apprehension. The overwhelming majority of Hong Kong residents would have preferred the continuation of British rule and only gradually acknowledged that local autonomy under Chinese sovereignty would be the most feasible formula for Hong Kong's future. While the joint declaration embodies this principle, many Hong Kong residents still have reservations about the document's details. Thus one recent public opinion survey reported that

**June 1984:** UMELCO members Lydia Dunn, Q. W. Lee, and S. Y. Chung go to Beijing to express the anxieties and wishes of the Hong Kong people. They are sharply rebuked by Chinese leader Deng Xiaoping when they try to persuade him that Hong Kong is gripped by a crisis of confidence.

**August 1, 1984:** Britain and China announce plans to sign a draft agreement in September outlining the terms under which Hong Kong will be turned over to China in 1997. The announcement signals a breakthrough in the negotiations.

**September 1, 1984:** The Assessment Office is established under the authority of the Governor of Hong Kong, separate from the ordinary machinery of the Hong Kong government, to provide the British government and Parliament with analysis and assessment of opinion in Hong Kong on the draft agreement between Britain and China on the future of Hong Kong.

**September 19, 1984:** China and Britain announce they have concluded negotiations on the draft agreement.

**September 20, 1984:** The British Cabinet approves the draft of the Sino-British Joint Declaration on Hong Kong, clearing the way for initialing the document the following week.

**September 26, 1984:** Text of the Draft Agreement is initialed by Chinese and British negotiators at a ceremony in the Great Hall of the People in Beijing. The signing, which follows two years and 22 rounds of formal negotiations, freezes the 42-page text of the agreement so that it can be submitted to the legislatures of both countries for approval.

**October 16, 1984:** The Hong Kong Legislative Council endorses the draft agreement and commends it to the people of Hong Kong.

**November, 1984:** The Hong Kong government publishes its White Paper endorsing modest steps toward more representative government in Hong Kong, as part of the attempt to build more representative political institutions before 1997.

**November 14, 1984:** China's National People's Congress endorses the Sino-British Joint Declaration on Hong Kong.

**November 24, 1984:** The Assessment Office presents its report to the Governor of Hong Kong with the conclusion that most of the people of Hong Kong find the Draft Agreement acceptable.

**December 6, 1984:** The British House of Commons unanimously approves the Sino-British Joint Declaration on Hong Kong. Only about 50 of the Parliament's 635 members are present to vote on the matter.

**December 19, 1984:** British Prime Minister Margaret Thatcher and Chinese Premier Zhao Ziyang formally sign the Sino-British Joint Declaration returning the crown colony to Chinese sovereignty in 1997. Mrs. Thatcher hails the Chinese leaders for their "one country, two systems" policy that will allow Hong Kong to preserve its current political, social, and economic systems for 50 years.

**March 1985:** The British Parliament gives final approval to the joint declaration.

**April 10, 1985:** The Third Session of the Sixth National People's Congress of the PRC ratifies the joint declaration.

**May 27, 1985:** Formal ratification of the Sino-British Joint Declaration on Hong Kong occurs as both sides exchange signed documents.

**June 1, 1985:** Britain and China register the joint declaration with the United Nations.

**July 1985:** Implementation of the agreement begins as the Sino-British Liaison Group starts full-time work exchanging information on matters pertaining to the Joint Declaration. The group will function until January 1, 2000. Committees also begin to be formed to draft the Basic Law of Hong Kong.

**September 1985:** Indirect elections to the Legislative Council are held; viewed as a first step toward more representative government in Hong Kong.

**July 1, 1990:** Sino-British Joint Liaison Group will move its base of operations to Hong Kong.

**1990:** Target date for completion of the Basic Law on Hong Kong.

**July 1, 1997:** Hong Kong to become a "special administrative region" (SAR) under the sovereignty of the People's Republic of China.

*Compiled by Beth Keck.*



90 percent believed that reaching this agreement was better than having none at all; 57 percent felt the joint declaration was basically sound; but only 16 percent said that they were completely confident about the longer-term future of the territory.

Some of the remaining uncertainty in Hong Kong reflects ambiguities in the joint declaration itself. The agreement says little about the processes by which the local legislature will be elected and the chief executive appointed after 1997. It states that Beijing will promulgate a "Basic Law," or mini-constitution, for Hong Kong, but does not specify the procedures under which that law might later be amended. It stipulates that local legislation that conflicts with the "Basic Law" will be invalid, but does not indicate who will make that determination.

Above all, the people of Hong Kong are aware that the government of Deng Xiaoping, which negotiated and signed the joint declaration, will not be the government that will have to implement it. In light of China's political instability over the last 35 years, it is understandable that many still wonder whether the future envisioned for Hong Kong in 1985 will actually be realized in 1997.

Thus, while there is every prospect for continued stability and prosperity in Hong Kong over the next several years, there is still the chance of a hemorrhage of people and capital out of Hong Kong—perhaps gradual and limited, perhaps more sudden and serious—as the 1997 deadline approaches. Avoiding this outcome will require care, skill, and restraint by leaders in China, Britain, and Hong Kong.

### **China faces interim challenges**

One prerequisite for the successful implementation of the joint declaration is that China act in ways that increase the agreement's credibility and viability. First, Beijing must show continued flexibility in drafting the Basic Law for Hong Kong. At a minimum, that law must set in more concrete language the basic principles contained in the joint declaration. Beyond this, it should also resolve in acceptable fashion the aforementioned ambiguities in the declaration concerning political structure and process. Moreover, the procedure by which the Basic Law is drafted must be legitimate in Hong Kong's eyes.

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*"In the wider sense, the agreement provides an encouraging example of how a complex international issue, which raises important and deeply felt points of principle for both sides, can be tackled and successfully resolved. In a world where problems between nations often prove so intractable . . . it is an example of what can be achieved by negotiation. . . . This is one reason why it is in the wider interest of the international community that the agreement should be a success, and that Hong Kong should prosper."*

**Sir Edward Youde**  
**Governor of Hong Kong**  
**January 23, 1985**

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This will require extensive consultation with a wide range of local representatives, and candid and timely publicity about the drafting committee's deliberations.

China will also need to exercise greater consistency and restraint in its statements on internal affairs in Hong Kong. For instance, conflicting statements from Beijing as to whether China would eventually station troops in Hong Kong caused

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*Harry Harding is a senior fellow in the Foreign Policy Studies Program at the Brookings Institution. He is the author of Organizing China: The Problem of Bureaucracy, 1949–1976, (Stanford University Press) and the editor of China's Foreign Relations in the 1980s (Yale University Press). He is currently completing a book on economic and political reform in post-Mao China.*

great confusion during the negotiations. Then, shortly after the publication of the joint declaration, Deng Xiaoping suggested that China would indeed intervene in Hong Kong after 1997 if doing so would be "beneficial to Hong Kong's stability and prosperity." Incidents such as these raise suspicions about China's good faith. Only by establishing a pattern of what one local leader has termed "positive noninterference" in Hong Kong's affairs can Beijing give greater credibility to its promise of basic autonomy for the territory.

### **Toward a more representative government**

The second prerequisite for Hong Kong's stability and prosperity is the development of effective local political institutions. Strong local government, representative of a wide range of interests, and headed by sound leadership, will maximize the chances for Hong Kong to enjoy a high degree of autonomy after 1997. A weak and factionalized political system, in contrast, will permit, or even require, outside intervention.

The British have moved gradually and cautiously to promote political development in Hong Kong thus far. In September the first indirect elections to the Legislative Council were held. The British have acknowledged the need to groom local people for top civil service positions, and envision a Hong Kong Chinese as the territory's Chief Secretary well before 1997.

The new political institutions created by Britain over the next dozen years must dovetail with those that China will install in 1997. But this could prove difficult in that there appears to be considerable disagreement in Hong Kong, and uncertainty in Beijing, about what those institutions should be. Some in Hong Kong favor Westminster-style democracy, with organized political parties competing in direct elections to an independent legislature. Others want a political process that is more consensual and less pluralistic. China appears reluctant to see extensive electoral competition in Hong Kong, especially if it were to involve organized political parties, and also seems ambivalent about transforming the Legislative Council from a purely consultative body into a powerful parliament.

Thus the challenge is to reach a



rapid agreement about the political institutions that will govern Hong Kong after 1997, striking an appropriate balance between pluralism and stability. Once that decision is taken, it will be up to the people of Hong Kong to make the new system work by developing effective indigenous leadership, building responsible political parties or interest groups, and overcoming the public apathy toward politics that colonial institutions have fostered.

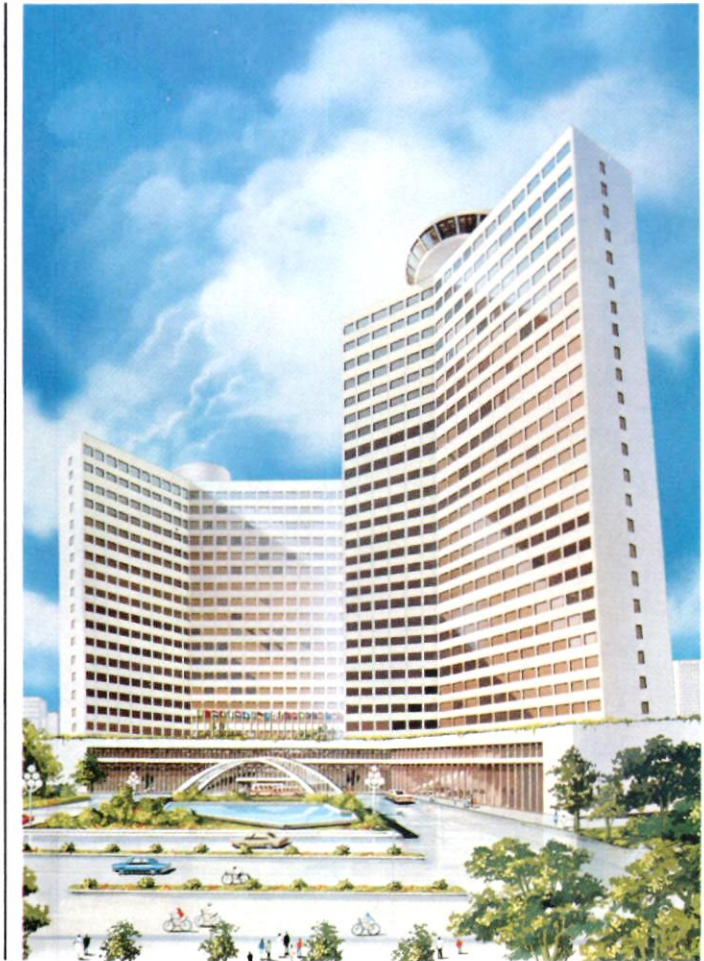
### ***Difficult economic choices ahead***

Even if it were not about to revert to Chinese sovereignty in 1997, Hong Kong would face difficult decisions in the years ahead. Like the other newly industrializing countries (or NICs) of East Asia, Hong Kong is re-examining its strategy of economic development, seeking to maintain its comparative advantage in an increasingly competitive economic environment.

Edward Chen's article (*see* page 37) suggests three dilemmas for Hong Kong's economy. The most basic is whether Hong Kong has exhausted its ability to export labor-intensive manufactures, and should now emphasize the development of technology-intensive industry. The problems experienced by Singapore and Taiwan in making such a transition suggest that the shift may not come easily for Hong Kong. Small-scale, family-owned, risk-averse firms may be ideal for labor-intensive industry, but are less well suited to the introduction of more advanced technology. Furthermore, Hong Kong's uncertain future may discourage the long-term investment needed to move the territory to a higher level of development.

A related choice concerns the role of government in economic affairs. As Chen points out, the Hong Kong government has traditionally adopted a *laissez-faire* approach to economic management, which has served the city well in the development of labor-intensive industry. In the transition to a more advanced economy, however, it may be necessary for government to be more interventionist. This change of philosophy would be difficult at any time, but it is even harder when local political institutions are new and untested.

Finally, Hong Kong must strike the best balance between economic orientation toward the rest of the Pacific Basin and a focus on China. To



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continue Hong Kong's wider regional outlook poses significant risks, given the rise of protectionism in the developed countries and growing competition with other NICs. It is therefore understandable that many Hong Kong business leaders see the China market as a major economic opportunity that Hong Kong is uniquely qualified to tap. But orientation toward China also has its uncertainties. It would make Hong Kong dependent on the vagaries of China's economic performance, and would link Hong Kong to certain aspects of current Chinese policy—particularly those pertaining to investment in the special economic zones—that could be substantially modified in the years ahead. Over the long run, too, Hong Kong may find its advantage as an entrepôt reduced as other Chinese cities, particularly Shanghai and Tianjin, take on similar roles.

### ***How much influence will Beijing have?***

Even under the best of circumstances, it would be unrealistic to expect Hong Kong to be completely independent of the rest of China after 1997. The economic links already being forged, and the political relationship about to be created, preclude total autonomy. Beijing will inevitably want broad oversight over basic policies made in Hong Kong; conversely, major decisions in Hong Kong will necessarily be made with an eye toward China's preferences. The question is not whether China will exercise influence over Hong Kong, but how much.

Beijing will have a host of channels through which to wield its influence over Hong Kong. Under the terms of the joint declaration, Hong Kong will function as a regional government within a unitary state. Beijing's powers to ratify local legislation, appoint the governor, and conduct Hong Kong's foreign policy will offer ample scope for involvement in Hong Kong's affairs.

Even more important, Beijing will also enjoy the ability to exercise influence indirectly, through its own organizations in Hong Kong. China's investment in the territory, described in the article by C. E. Beckett (*see* page 41), will continue to grow. The Communist Party is already believed to have between 2,000 and 3,000 members in Hong Kong, and appar-

ently intends to recruit more. In addition, a number of local Chinese-language newspapers, as well as Hong Kong's largest trade union, are sympathetic to Beijing's views.

These political and economic connections between China and Hong Kong raise the possibility that the "high degree of autonomy" envisioned in the 1984 joint declaration may not be realized after 1997. If China should turn in a more conservative direction, there could be less sympathy in Beijing with Hong Kong's special status as a capitalist enclave embodying bourgeois values. If Shenzhen or Guangdong Province should encounter serious economic difficulties, there might be pressure on Hong Kong to cooperate in a financial rescue package. Most important, if there is trouble in Hong Kong—either economic recession or political instability—Beijing might feel compelled to intervene to set things right.

But this is by no means the only possible future for Hong Kong. Under a different set of assumptions, by 1997 China's own economic reforms will be firmly in place, the PRC's political system will have been stabilized, and the economic and political gap between Hong Kong and the mainland will have narrowed. The economic ties between Hong Kong and the rest of China will foster prosperity in Hong Kong without creating dependence on the PRC. China's friends in Hong Kong will represent only one political force among many in a well-ordered political structure. In this more optimistic scenario, China's exercise of influence will be measured, indirect, and restricted to major issues.

There is a good chance that such a workable balance will ultimately be struck between China's influence and Hong Kong's autonomy. But while the prospects for such a development are good, they cannot yet be regarded as certain.

### ***The ripple effect of events in Hong Kong***

Future trends in Hong Kong will, of course, have the greatest impact on the territory itself. But the implications will also extend, in concentric circles, to neighboring Macau and Taiwan, the rest of the Pacific Basin, the United States, and other important trading nations.

Of these, the effect on Macau and

Taiwan will be the most direct. Beijing would like Hong Kong to serve as the model for reunification with both these territories. As John Kamm's article indicates (*see* page 46), this future is relatively certain for Macau. But at present it seems unlikely that Taipei, whether governed by ex-mainlanders or native Taiwanese, would be willing to accept the same terms that Britain accepted for Hong Kong.

Even so, the return of Hong Kong to Chinese sovereignty will compel major changes in Taiwan's current policy of discouraging trade and contacts with the PRC. Since it is inconceivable that Taiwan would halt its extensive commercial, financial, and cultural ties with Hong Kong after the British withdraw, Taipei will be forced to acknowledge the necessity of direct relations with at least one corner of the People's Republic.

Beyond this, the evolution of Hong Kong will have a decisive impact on Taiwan's attitudes toward reunification with the mainland. If Hong Kong maintains prosperity, stability, and autonomy under its new status, then the chances for some kind of accommodation between Taiwan and the mainland will be enhanced. If, in contrast, Hong Kong encounters difficulties, then the prospects for a similar resolution of the Taiwan issue will be reduced accordingly.

Other Asian economies will be carefully watching the effects of Hong Kong's changing political status on the territory's international economic relationships. Any signs that Hong Kong will be unable to continue to serve as a major international financial center will encourage others—especially Singapore and Tokyo, and possibly Taipei—to take up the slack. Hong Kong's decisions about the development of technology-intensive industry, and the balance it strikes between trade with China and trade with the rest of the Pacific Basin, will also have important implications for the rest of the region.

The United States, too, has a stake in Hong Kong's future. As Burton Levin's Commentary (*see* page 44) indicates, the United States has extensive economic and cultural interests in Hong Kong. A crisis of confidence in Hong Kong would have a serious impact on those interests, and might complicate our relations with Beijing



as well.

Between now and 1997, the United States and other major nations will have to work to see that Hong Kong maintains its association with such crucial international economic organizations as GATT, the Multi-Fiber Agreement, and the Asian Development Bank. The United States, like Hong Kong's other trading partners, will have to ensure continuity in such

matters as travel and immigration regulations, export controls, and import quotas. The continuation of port calls made by foreign navies in Hong Kong will also require negotiations with Beijing. Some of these actions can wait until the deadline nears. But others need to be taken sooner, so as to help maintain confidence in the viability of Hong Kong's future status. 完

Kong enhance the international competitiveness of Hong Kong industry.

Readily available sources of funds and technology have also aided industrial development. High domestic saving rates help ensure that there is no scarcity of capital. Foreign investment has also been important to economic growth—supplying not just capital but also technology, marketing, and management skills that accompany the inflow of investment. The level of technology transfer has proved adequate for the development of Hong Kong's industrial sector thus far, saving the economy's resources and building up its own technological capability.

These strengths provide the basis for the Hong Kong economy's static comparative advantage. Hong Kong can probably hang on to this advantage in such traditional manufactured exports as textiles, garments, toys, and consumer electronics for a few years to come, and maintain a fairly high rate of economic growth.

But in the long run Hong Kong will inevitably have to graduate from its existing level of economic development. Postwar experience in Asia illustrates the 'flying-geese' hypothesis, in which one country—in this case Japan—takes the lead in setting an example of industrialization. Next, newly industrializing countries (NICs) follow suit and set examples for other developing countries of the region.

#### *At the technological crossroads*

Hong Kong is in fact already falling behind if one subscribes to this theory, which simply predicts changing comparative advantages in the course of economic development. Hong Kong has not kept up with its peers (the other three little dragons) in shifting from labor-intensive export industries to technology- and capital-intensive manufactured exports. For instance, in South Korea, Taiwan, and Singapore, the government has been directly involved with, and/or given incentives to, the private sector in building an indigenous technological capability.

On the demand side, the rising tide of protectionism in industrialized countries, aimed especially at traditional exports such as textiles and garments, adds urgency to the NICs' drive to speed industrial transformation. Hong Kong and other Asian NICs are at the crossroads, finding

## *Time for a second wave of industrialization*

# Maintaining Hong Kong's Prosperity

Edward K. Y. Chen

**H**ong Kong has been one of the world's fastest growing economies over the past 25 years. Like the other three 'little dragons' of Asia (South Korea, Singapore, and Taiwan), Hong Kong's rapid economic growth has been export-led, largely on the basis of labor-intensive manufactured products. Less obvious are the reasons why Hong Kong has been able to sustain such a high rate of export growth, and whether it will be able to continue on this path. One thing is clear—Hong Kong cannot afford simply to rest on its laurels.

#### *Hong Kong's comparative advantage*

What are the ingredients of Hong Kong's success so far? International competitiveness depends on prices, product quality, and diversity. This calls for an adaptable and flexible manufacturing sector, which Hong Kong has successfully built.

The human factor has been among the most important to this success. Lacking in natural resources, Hong Kong has an ample supply of human resources—particularly following the influx of entrepreneurs and la-

borers from China around 1949. Cultural attributes such as a strongly ingrained work ethic and pursuit of excellence, as well as limits to political aspirations under colonial rule, have helped make Hong Kong entrepreneurs extremely aggressive and dynamic. Meanwhile, the absence of strong trade unions and minimum wage laws, and high labor mobility contribute to the prevalence of competitive wage levels in Hong Kong. Nowhere else does one observe such prompt responses of wage rates to changes in supply and demand in the labor market. Thus, Hong Kong can adjust well to external shocks and has recovered relatively quickly from world recessions. Moreover, the dexterity, docility, adaptability, and industriousness of workers in Hong

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*Edward K. Y. Chen is director of the Centre of Asian Studies at the University of Hong Kong. He has been visiting professor of economics at the University of California at Davis, and is a member of the Time Magazine Pacific Board of Economists. He is author of Hyper-Growth in Asian Economies (1979), and Multi-national Corporations, Technology, and Employment (1983), both published by Macmillan.*



their way from the first stage of export-oriented industrialization to the second stage.

The ingredients contributing to the success of the second stage of export-oriented industrialization will not be the same as those required for the first stage. Laissez-faire policies

and a reliance on the private sector to build productive capability and adapt to market changes may have been instrumental to the success of Hong Kong's first stage of industrialization, in which product diversification within individual industry groups (such as textiles and consumer elec-

tronics) played a uniquely important role. Such product diversification depends more on entrepreneurial flexibility and human skill than on technological capability.

But with the accumulation of capital, skill, and experience, and with the rise of wage levels, the economy's

Nowhere is free enterprise more deeply entrenched than in the British Crown Colony of Hong Kong. The city's business people, craftsmen, and technicians can meet almost any requirement, for less money in less time than in most places on earth. Theories abound as to how the mainland economy will deal with Hong Kong after China regains sovereignty in 1997. No one can say for sure that China will *not* kill the capitalist goose that lays so many golden eggs. However, many of Hong Kong's leading business voices claim to be optimistic about what the future holds.

In 1984 Jardine Matheson, the colony's oldest trading company, announced that it would move its holding offices to Bermuda, triggering widespread fear that this signaled the beginning of a business exodus from Hong Kong.

Such an exodus has not materialized, and even Jardine's remains bullish on Hong Kong. Recently Jardine's Scottish taipan (from the Chinese word for 'big boss') Simon Keswick reaffirmed his faith in the durability of Hong Kong's success: "There is every reason to believe that this success will continue as the expertise and entrepreneurial tendencies of Hong Kong's residents are turned loose in China. . . . Jardines has some 200 staff working on China-related business. While there have been periods of adjustment with these various ventures, we are pleased with our business in China and it is profitable. Most important, we have no experiences in our business with China that give us reason to worry about our future in Hong Kong."

While several major firms in Hong Kong are, like Jardine's, still headed by British taipans, most of today's taipans are Chinese, many of them formerly from the mainland. Over the years Hong Kong taipans have shown a remarkable ability to adapt to new and adverse conditions—a trait that may prove useful in the years ahead.

Sir Y. K. Pao came to Hong Kong from Shanghai after World War II. By combining business acumen from a previous banking career with some research into shipping, he began working with Japanese firms making ship deals, particularly involving oil transport. Now head of one of the world's largest shipping operations, his companies also control large real estate holdings. When asked about the future of Hong Kong, Sir Y. K. said " . . . I am not so pessimistic about the future, although I am not happy with the present situation. . . . We need to encourage people, show more optimism, reinvest

## The Taipans of Hong Kong

*Hong Kong's entrepreneurs eye reunion with China*

Henry A. Singer

money, and help to make the economy grow."

Another taipan, Sir Kenneth P. F. Fung, whose ancestral roots are in Guangdong, heads a conglomerate with interests ranging from banking, transportation, insurance, and real estate to fast food businesses. He believes that the future of Hong Kong depends on retaining the principle of law. "I don't think," he mused, "that China will allow another Gang of Four. They have learned an expensive lesson. The people cannot be kept in the dark forever."

Leaders in Hong Kong, when asked who might make an ideal future governor, often name Dr. Philip Kwok, a third-generation Hong Kong-born member of the family that founded the famous Wing On Department Store. Before World War II, the extensive Wing On properties in China included both department stores and the country's largest knitting mills. China has approached the Kwok family to renew its management of some of the old family properties in Shanghai. Kwok says he is prepared for additional ventures with the People's Republic, which he believes will help bridge the transition period. With his American education, Hong Kong experience, and family tradition in both China and Hong Kong, Philip Kwok could well be a major force in Hong Kong's transition.

Many other nationalities have played a significant role in Hong Kong's growth. One of the most colorful taipans is Australian Bill Wyllie, an ex-race car driver turned entrepreneur. His hard-line management style paid off when he helped turn Hutchinson-Whampoa, a major Hong Kong trading company chaired by Li Ka Shing, into a multibillion dollar conglomerate.

About the future of Hong Kong, Bill Wyllie says: "One of the reasons I remain

*Dr. Henry Singer heads the Human Resources Institute in Westport, CT. He served as an advisor with the US Department of State in the 1950s in Southeast Asia. More recently he has been a visiting professor at Hong Kong Polytechnic (1976-1979). He interviewed Hong Kong business leaders during that period, and again in 1984 and 1985.*

confident about the future is that there are over 300 trading entities in Hong Kong that owe their origins to China. . . . Also, China is buying property. What the hell would they be buying property for if they were going to blow Hong Kong out of the water?"

No American GI who served in Korea or Vietnam is unfamiliar with the Harilela name—almost every PX had a Harilela tailor shop for uniforms and custom-made suits. Since the early 1930s the Indian Harilela brothers have been an outstanding Hong Kong family, which has profited from hard work, good timing, low prices, astute public relations, and a little bit of luck. The timing and luck surfaced during the Cultural Revolution in the 1960s: while others were dumping property and fleeing, Hari N. Harilela stayed in Hong Kong and mortgaged himself to the hilt, picking up property for 20 cents on the dollar. He was on the verge of bankruptcy himself when the panic halted suddenly.

He views the future with guarded optimism. "I'd like my grandson to grow up in Hong Kong, get educated in London, and take Chinese as a second language. If present trends continue, China could move toward a balance between socialism and democracy."

Lord Lawrence Kadoorie, another Hong Kong taipan, is actually the son of an Iraqi Jewish merchant who came to Hong Kong from Shanghai in the late 1800s. Now in his mid-80s, Lord Kadoorie has adopted a low profile, in traditional Chinese fashion. In addition to the Peninsula Hotel chain, carpet manufacturing, and transportation, the Kadoories are heavily invested in prime real estate. Lord Kadoorie has been chairman of Hong Kong's China Light and Power Co. Ltd. for many years, a company involved in the Daya Bay nuclear power project in Guangdong Province. Kadoorie's long-term optimism about dealing with China is evidenced by his company's involvement in this multibillion-dollar joint venture that will take many years to bear fruit.

From the perspective of Chinese history, 1997 is but a brief moment away. Yet the next few years will be critical ones for millions of people, rich and poor, who have turned Hong Kong into a showplace of free enterprise. If China can continue to release the productive potential of the mainland without interfering with the human energy of Hong Kong, then the future is hopeful. If a new power elite should take over and inhibit these forces, then the hopeful future will be a thing of the past.



comparative advantage began to change. An infusion of technological capability will now be essential to fully realize Hong Kong's competitive potential in the more technology-intensive production toward which it is moving. The noninterventionist policies of the Hong Kong government must inevitably give way to a more positive government role in building the technological infrastructure, which should include organizations for basic research, technology transfer, and technical training. At the same time, the private sector has to adopt a longer-term investment horizon and be prepared to take higher risks. Maintaining Hong Kong's prosperity will require more than just retaining the dynamism of the past—a new form of dynamism is needed to cope with a changing economic and technological environment.

### *Hong Kong's political future*

Circumstantial factors have affected and will continue to affect the course of Hong Kong's economic development. Foremost is the issue of Hong Kong's political future, otherwise known as "the 1997 question."

The single most important implication of the Sino-British Joint Declaration on Hong Kong is that Britain will not pull out and China will not take over Hong Kong prematurely. Yet no one knows for sure what Hong Kong will actually be like after 1997. It is not surprising, therefore, that despite the attainment of a Sino-British agreement and soaring share and property prices in the past year, business confidence remains largely confined to a short time span of three to five years.

These uncertainties inevitably affect the labor market. While some professionals have already emigrated from Hong Kong, most of the large investors have taken a wait-and-see attitude and decided to stay for the time being. Since such investors are most concerned with the short-term prospects, the Sino-British agreement has succeeded in temporarily restoring their confidence.

But not all Hong Kong residents share this outlook. There is little chance for most factory and clerical workers or even most young professionals to leave Hong Kong unless they have close relatives who are overseas citizens. These people, who

have made significant contributions to Hong Kong's past success, have no choice but to stay where they are and follow the Chinese maxim to "set their hearts at ease." This indicates that the human capital flight problem is not as serious as many reports suggest, and that Hong Kong can generally count on its rich human resources for further development.

Meanwhile, despite questions about the future, overseas investment continues. American multinational firms operating on a global strategy tend to be more willing to take risks, and appear likely to stay involved in long-term projects and in high-tech industries. Although the total amount of Japanese investment in Hong Kong has been on the increase, the focus has begun to shift from manufacturing to distributive trades and financial services. Interestingly, a tremendous amount of Southeast Asian capital has been flowing into Hong Kong since the Sino-British agreement. But again there is no indication that this represents long-term confidence in Hong Kong. In fact, the motive often appears to be speculative, rather than a desire for long-term involvement in the Hong Kong economy.

Thus, although the 1997 question is not significantly hampering the ex-

isting strengths of Hong Kong's private sector, it is keeping investment horizons short. This unfortunately has deterred the formation of a new economic dynamism necessary for the second stage of export-oriented industrialization. Specifically, the relatively strong indigenous base necessary for such economic dynamism is not likely to develop under existing circumstances.

### *1997 and Hong Kong industrial policy*

Another dimension to the 1997 question is how the coming change in political leadership will affect industrial policy. Hong Kong officially entered into the transition period toward China's resumption of sovereignty on July 1, 1985, when the Sino-British agreement went into effect. Functional constituencies representing different interest and professional groups took part in indirect elections to the Legislative Council in September 1985, an early sign of the traditional form of colonial rule gradually being replaced by more representative government. There is little question that such political developments will encourage the government to modify its non-interventionist policy in industry and trade. The government may even be-

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gin actively to assist the private sector in building up a greater technological capability for Hong Kong. But questions remain as to whether the government will have the required vision and determination in this endeavor.

China also feels a sense of responsibility for maintaining Hong Kong's prosperity, and has begun to get more involved in Hong Kong's long-term investment projects. Direct assistance from China will also be more forthcoming—as in June 1985, when the Bank of China in Hong Kong and the Hongkong and Shanghai Bank declared support for a local Chinese bank that was losing the confidence of depositors. The effect of PRC involvement on Hong Kong's industries should, in theory, be positive, unless it becomes excessive and heavy-handed.

### **China's mixed economic impact**

China's decision to open its economy to the outside world has also had a very mixed impact on Hong Kong. The relatively new opportunities for direct investment in China have led many traditional manufacturing facilities to relocate from Hong Kong to China. In one sense, this may allow Hong Kong to specialize in more technology-intensive and sophisticated products, speeding its process of industrial transformation. But the relocation of Hong Kong's industries is often incomplete, since part of the more complicated and sophisticated stages of work are still done in Hong Kong.

Essentially, a vertical integration between Hong Kong companies and local China enterprises or Hong Kong subsidiaries in China has been established. The relocation of more labor-intensive processes to China helps rejuvenate Hong Kong's declining comparative advantage in traditional exports and thus tends to retard the movement of Hong Kong into the secondary stage of export-oriented industrialization. This may not be bad for the time being, as it will enable Hong Kong to continue to count on its traditional exports. But, taking a long-term view, if Hong Kong fails aggressively to develop high-tech industries now, it may be too late to catch up in the future.

In addition to becoming an industrial partner, China is also seen as a potentially keen competitor in traditional manufactured products such as textiles and garments, and even in

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*“It is quite certain that Hong Kong's expansion of economic ties with the interior will not weaken its economic relations with the rest of the world. . . . At present, many foreign banks and corporations rush to Hong Kong to set up their offices in order to use Hong Kong as a springboard to expand their business energetically in the billion population market. Indeed, the Hong Kong industrial, commercial, financial, and other circles need to grasp the opportunities and make full use of their own advantages and various channels to develop their contributions to the four modernizations, at the same time enhancing the prosperity and stability of Hong Kong as well as the advancement of their own enterprises.”*

**Zhang Xueyao**  
**General Manager**  
**Bank of China, Hong Kong**  
**March 31, 1985**

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more sophisticated areas such as metallurgy and machinery. Even so, some division of labor between Hong Kong and China will probably remain even in traditional manufactures, with Hong Kong industries moving much faster toward automation and computerization than those in China.

A third aspect of Hong Kong and China's growing economic interdependence is China's emergence as a significant market for Hong Kong products. China's share of Hong

Kong's domestic exports is now second only to the United States.

At first some suspected that this drastic growth in Hong Kong-China trade was partly if not largely due to the export of semi-manufactured products to China for further processing. If this were the case, the volume of Hong Kong-China trade would be exaggerated by the double counting arising from intra-firm and intra-industry trade. But a closer examination of more disaggregate statistics suggests that the problem of double counting has been overstated, confirming the importance of the China market to Hong Kong's domestic economy. And the China market holds even greater promise for technology exports, which Hong Kong has the potential to develop further. Asia's NICs have recently stepped up their export of plants, technical services, and capital goods to developing countries. The closeness of the vast China market gives Hong Kong special impetus to improve its technological capability and increase its own exports of technology.

### **Hong Kong's industrial imperative**

Hong Kong's economic prosperity hinges on whether it can realize its dynamic comparative advantage in technology- and capital- (both human and physical) intensive industries when its static comparative advantage in traditional exports becomes exhausted—in about five years' time. Financial services and entrepôt trade will continue to grow, but not faster than the rate of GDP growth. These sectors have already reached a level of contribution to the GDP that would be difficult to increase, and Hong Kong therefore cannot depend on the service sectors alone for employment creation. Moreover, as a financial center, Hong Kong faces increasingly keen competition from places such as Tokyo and Singapore.

Industry is ultimately still the mainstay of the Hong Kong economy. While there is little fear that Hong Kong's existing dynamism will vanish, even in the face of the 1997 issue, the energy for the second stage of export-oriented industrialization can only be generated with intervention from the Hong Kong government and appropriate support from China, based on an economic rather than a political rationale. Of course,



such intervention and support must not inhibit private sector incentives and viability. For instance, the Hong Kong government should not go as far as to adopt a strategic industry policy in which industries are taken over by the government or identified for the private sector to develop with government support.

In the face of the foregoing optimism about the economic future of Hong Kong cannot be carried too far. Political changes in Hong Kong toward democratization and representative government may give rise to

too much and occasionally irrational intervention by a government inexperienced in these matters. Meanwhile, any setback in China's reforms could lead to policy changes toward Hong Kong and/or a confidence crisis among Hong Kong people.

But there is comfort in the fact that very few places in the world have proved able to survive one crisis after another as well as Hong Kong. It is on the foundation of Hong Kong's truly remarkable resilience and adaptability that the greatest hope for the future lies. 完

outside world, the country's new leaders clearly recognized the benefits that Hong Kong had to offer. Trade between the two took off again, and the territory resumed its traditional entrepôt role.

The negotiation and signing of the Sino-British Joint Declaration on Hong Kong, which took place between 1982 and 1984, marks the third turning point. The confidence stemming from this resurgence of faith in Hong Kong's future has provided another spur to economic activity and new prospects for the future. Thus, China's important role in Hong Kong's economic life continues, although it is now supplemented by Hong Kong's position as the world's third-largest financial center, a major light industrial manufacturer and exporter, and one of the world's major ports.

### *Surge in two-way trade brings benefits and dependencies*

The growth in trade between Hong Kong and China since 1978 has been dramatic (see page 43). China has turned into one of the territory's largest markets—Hong Kong's domestic exports to China grew from HK\$81 million in 1978 to HK\$11.3 billion in 1984, while re-exports grew from HK\$214 million in 1978 to HK\$28 billion in 1984. China has also been the fastest growing supplier to Hong Kong. China's exports grew from HK\$10.6 billion in 1978 to more than HK\$55.8 billion in 1984. China has moved from being Hong Kong's 25th largest trading partner in 1978 to second only to the United States in 1984.

Some observers regard China's economic opening as opportune for Hong Kong, an event that more than makes up for falling demand in other markets due to growing protectionism, competition, and economic stagnation. In particular, China has helped to reduce Hong Kong's heavy dependence on the US market.

But a danger of overdependence has also become increasingly clear this year. Hong Kong's trade with China surged during the first five months of 1985, jumping 44 percent over the same period in 1984, and accounted for more than a quarter of Hong Kong's total trade. On the positive side, Hong Kong managed to register its first trade surplus with China of HK\$6.3 billion for the pe-

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*A complex set of economic ties grows increasingly important*

## Hong Kong's China Market

C. E. Beckett

**T**he British raised their flag over Hong Kong in 1841, marking the establishment of a base from which foreign traders could carry on their business with merchants in Canton. The China trade thus became Hong Kong's very *raison d'être*, and continues to be a vital element in Hong Kong's economic life today.

Three important turning points during this century have helped forge Hong Kong's present economic character. The 1950s was a period of major changes. The United Nations blockade on trade with China, resulting from the Korean War, had a devastating effect on Hong Kong. The China trade, Hong Kong's major source of business activity and one from which it had prospered for more than a century, dwindled rapidly to almost nothing.

Fortunately, concurrent developments helped offset this trend. During the early 1950s waves of newly arrived immigrants from China, especially from Shanghai, brought with them the expertise, capital, and even the equipment necessary to restart their businesses in Hong Kong. Thus began the development of Hong Kong's indigenous industry, laying the foundations for a more independent and international economic outlook.

During the following two decades, Hong Kong had minimal contact with China. The second turning point arrived in 1978, when China instituted wide-ranging economic reforms. As Beijing increased contacts with the

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*C. E. Beckett is research manager in Area Office China at The Hongkong and Shanghai Banking Corporation's headquarters in Hong Kong.*



riod January to May, particularly striking when compared with a deficit of HK\$10 billion for the same period last year. The growth in re-exports to China was the main factor behind the surplus. Re-exports consisted mainly of consumer goods, electronics, and motor vehicles from Japan (up 200 percent to HK\$4.5 billion), Taiwan (up 250 percent to HK\$1.9 billion), the US (up 110 percent to HK\$1.2 billion) and South Korea (up 250 percent to HK\$0.8 billion). But the curbs on foreign exchange expenditures that China introduced this year, targeted especially at consumer goods, ensure an abrupt end to this trend. This sudden change may also cause problems for the many Hong Kong companies that built up inventories in anticipation of continuing purchases from China.

Hong Kong companies are thus learning again that the China trade can bring both profits and risks. But the growing level of dependency flows both ways. From China's point of view, Hong Kong is of vital importance to its economic strategy. According to PRC statistics, Hong Kong and Macau accounted for 19 percent of China's total trade in 1984: 28 percent of China's exports, and 11 percent of China's imports. Hong

Kong business people have been able to secure business with China despite stiff competition because of their understanding of the workings of the China market, connections in the bureaucracy, family ties, and language capability.

Growing mutual interests between the two economies are aptly illustrated by the current impasse over textiles. China and Hong Kong have stood together in the battle against textile import restrictions imposed by the United States. In the years ahead, as more Hong Kong companies place production facilities in China, more products will be jointly manufactured and the two may face more problems over certificates of origin and quota allocations together.

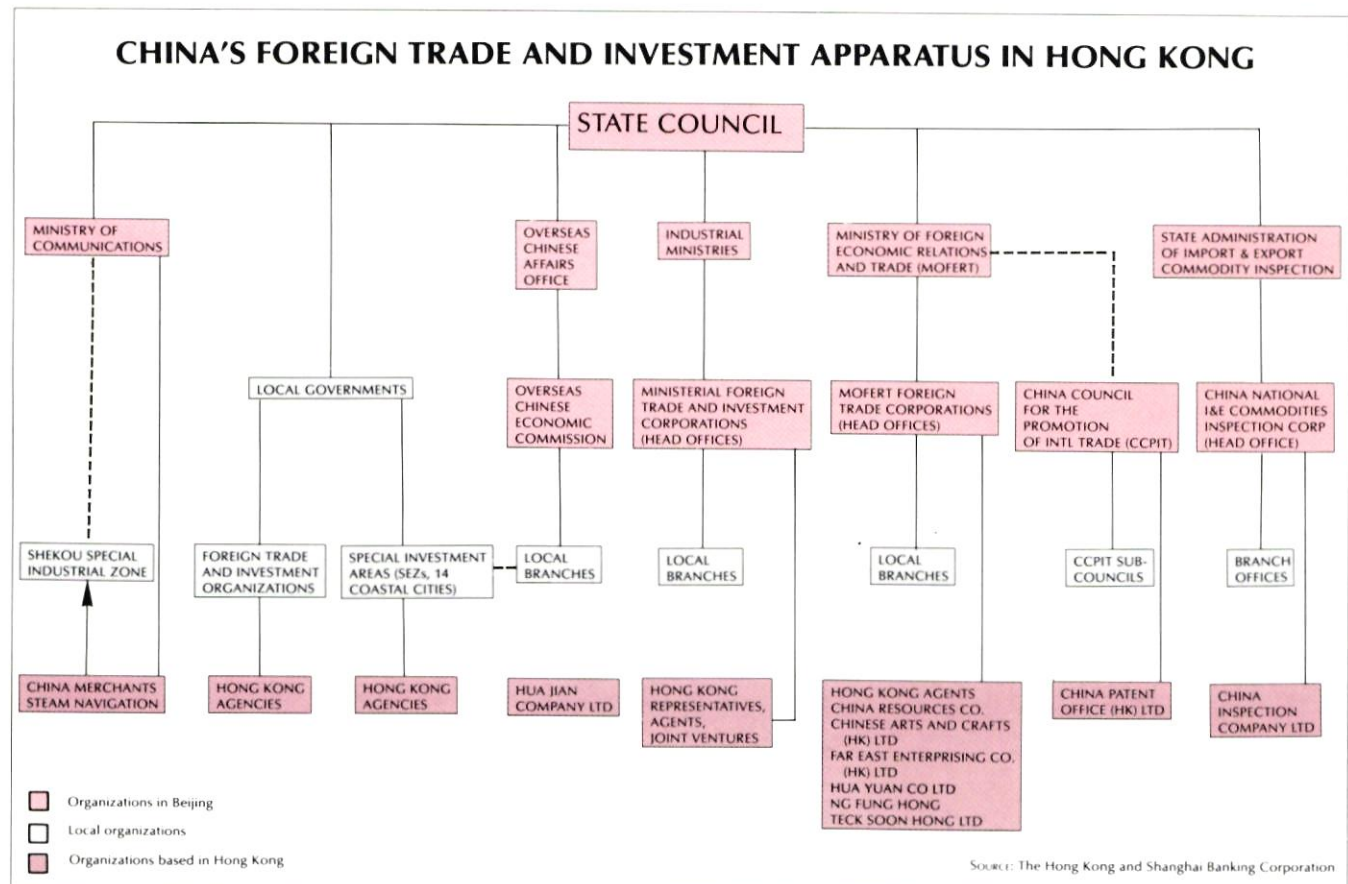
### Two-way investment

It would be fair to say that China's modernization program has acquired more support from Hong Kong than any other source. China established four special economic zones in 1980 with an eye to attracting capital and expertise largely from overseas Chinese communities. Shenzhen, in particular, was set up with the idea that it would develop close ties to Hong Kong. Although reliable statistics are

not available, it is generally accepted that Hong Kong has indeed provided about 90 percent of Shenzhen's total investment to date and contributed about 60 percent of the total direct foreign investment in China. This figure becomes even higher if projects in which a Hong Kong middleman played a role are taken into account.

The Bank of China and its 'sister banks' in the territory have made loans to Hong Kong businesses for China projects, and transferred remittances for relatives still living on the mainland. The flow of Hong Kong tourists to China has multiplied many times over since 1978. Taking into account foreign trade, tourism, direct investment, remittances, and other invisibles, the figure of \$6-\$7 billion is often quoted as China's total annual foreign exchange intake from Hong Kong, although there is currently no reliable way of verifying this estimate.

China's investments in Hong Kong are equally difficult to quantify, with estimates ranging from \$3 billion to \$5 billion. The investment comes in every conceivable form, from ownership of commercial, residential, and industrial property to interests in manufacturing, shipping, and trade.





Two companies constituted China's main commercial presence in Hong Kong prior to 1978: China Resources, which acts as the agent for most of the foreign trading corporations of China's Ministry of Foreign Economic Relations and Trade, and China Merchants Steam Navigation, which is controlled by the Ministry of Communications in Beijing.

In line with economic restructuring within China since 1978 and the proliferation of Chinese trading corporations, many new representatives from China have set up shop in Hong Kong in recent years. In order to better meet this growing competition from compatriots, China Resources underwent a thorough reorganization and even applied for its first business registration in 1983. It now employs 5,000 people in 33 subsidiary companies and has multifarious interests including shopping arcades, supermarkets, and cold-storage warehouses in Hong Kong.

The actual number of China-directed companies in Hong Kong today is unknown, but there are several hundred at least. Guangdong Province alone has over 80 registered corporations. Most prefer to stay out of the limelight and keep their dealings confidential. Many seek to obtain technology, equipment, and materials in Hong Kong, on behalf of the interests they represent in China. What is remarkable about these companies is their flexibility in adapting to doing business in Hong Kong. In contrast to their general image, PRC companies are now notable for their competitiveness and improved service, as well as the informality and flexibility essential for conducting business in Hong Kong. The major types of Chinese business representatives in Hong Kong are outlined on page 42.

#### ***Hong Kong's contribution to China's modernization***

This powerful PRC commercial presence has helped Hong Kong once again become a uniquely important center for China trade and investment. It offers some foreign firms the convenience of being able to conclude deals without setting foot over the border. Moreover, if a visit is required, visa and transport facilities are readily available. In urgent cases invitations can be pre-

pared on the spot, a visa issued within hours, and a trip to China arranged within a day.

As confidence in Hong Kong's future returns, more and more foreign companies, especially from the United States and Japan, are choosing Hong Kong as their base for approaching China. Hong Kong's excellent and numerous business facilities offer an alternative to the problem of maintaining expensive offices within China itself. China, too, takes full advantage of Hong Kong's facilities by holding an almost continuous flow of export commodities exhibitions from every province, interspersed with foreign investment seminars.

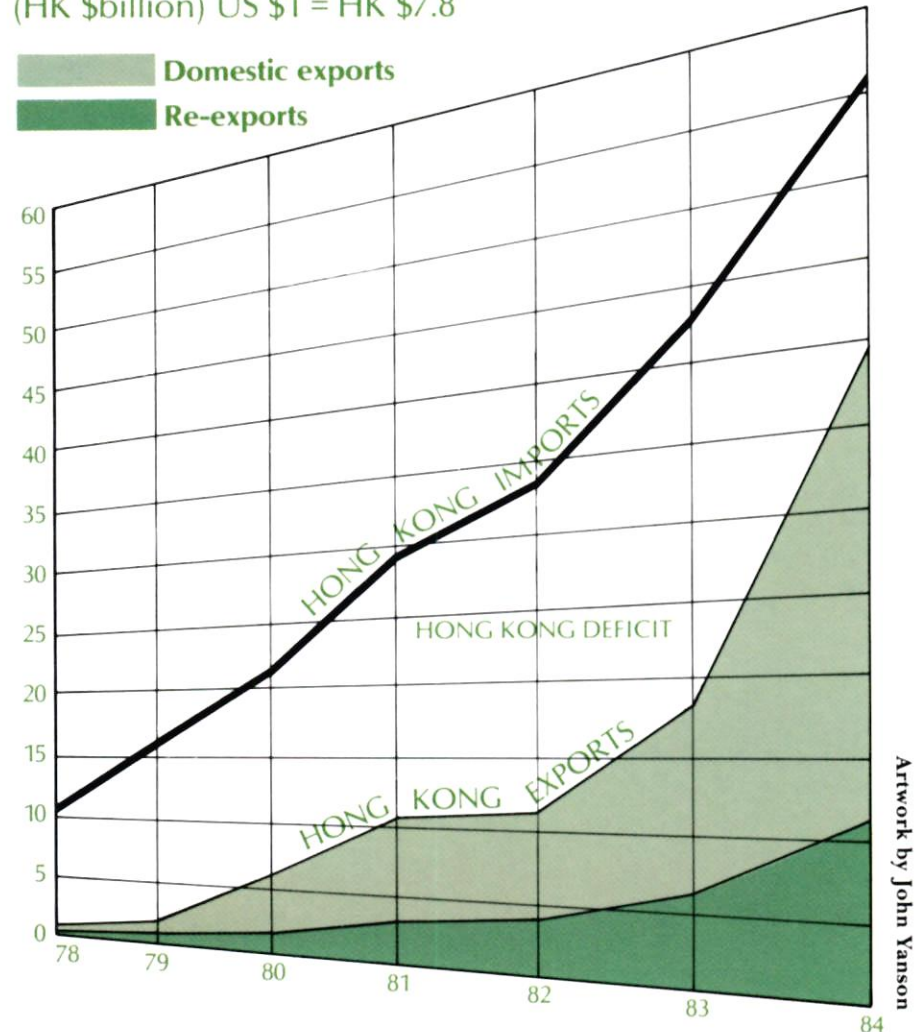
The development of tourism has occurred alongside the growth in trade and investment. Hong Kong had always been an important center of tourism for the region, and now benefits on a larger scale as more visi-

tors pass through going to and from China. In addition, tourists who come expressly to visit Hong Kong are now taking short side trips into China in quite large numbers. But perhaps most surprising is the fact that tourism is becoming a two-way street. Three official groups of tourists from China now visit the territory each day, and a fourth and possibly fifth daily tour may be added in the near future.

China and Hong Kong exchange much more than tourists and business. Hong Kong also serves as China's window on the world's latest technology. With each passing day, more PRC study groups and training missions come to Hong Kong seeking advanced equipment, know-how, management, and financial expertise. As China's modernization program progresses, the boundaries of Hong Kong's potential contribution grow ever wider. 完

## **HONG KONG'S TRADE WITH CHINA**

(HK \$billion) US \$1 = HK \$7.8



SOURCES: Hong Kong General Chamber of Commerce and Hong Kong Government Statistics





## The United States and Hong Kong—Our Mutual Interests

Burton Levin

Initially drawn to East Asia by the lure of new markets, American traders recognized that Hong Kong—with its fortuitous location and superb harbor—could play a unique role in facilitating commerce between the United States and China. With this in mind, the United States opened a consulate in Hong Kong in 1843, scarcely a year after Hong Kong became a British territory.

Following the development of treaty ports in China during the latter half of the 19th century, however, the American relationship with Hong Kong languished. It was not until the early 1950s, when American firms began turning to opportunities beyond domestic borders, that the handful of long-established American businessmen in Hong Kong were joined by a growing stream of compatriots. US firms were attracted by the policies of the government and the industriousness of the people. The government and people of Hong Kong supplied the legal, political, and social framework for the territory's economic takeoff. Americans are contributing capital, technology, management skills, and markets that have helped stimulate Hong Kong's dramatic growth. There are now more than 600 US firms registered and 13,000 Americans resident in Hong Kong.

It has now been more than 25 years since the United States replaced the United Kingdom as Hong Kong's largest trading partner. Hong Kong exported almost \$8 billion in goods to the United States last year, 45 percent of the total value of Hong Kong's domestic exports. The value of these exports has been increasing at an annual rate of approximately 25 percent over the past several years, with garments, electrical machinery, office machines, computers, toys, and plastics leading the way.

The United States is Hong Kong's leading foreign investor, accounting for just over half of all direct foreign investment in Hong Kong's manufacturing sector in 1984. US firms are also very active in Hong Kong's service sector, including about 30 US banks, numerous brokerage houses, insurance agencies, and other financial and service institutions.

Conversely, Hong Kong—despite its size—ranks among the top 20 US export markets. The United States supplied 11 percent of Hong Kong's imports in 1984 and is Hong Kong's largest source of computer products and scientific instruments. Hong Kong is also one of the fastest growing markets for American agricultural products. On average, every person in Hong Kong spent about \$66 on US farm products last year.

Hong Kong is also important to the United States as a center for facilitating trade and investment in China. Roughly one-third of all China-bound US goods now pass through Hong Kong, and many American businesses base their China operations here.

I would not like to leave the impression, however, that US interests in Hong Kong are limited to the spheres of trade and investment. Over the decades mutual social, cultural, and political interests have also taken root. The United States has welcomed thousands of students from Hong Kong to our universities and hundreds of thousands of Hong Kong tourists and business people to our cities. Nearly a million ethnic Chinese reside in the United States, many of them maintaining close connections with Hong Kong. In return, Hong Kong attracts many Americans; last year alone more than half a

*Burton Levin is consul general of the United States Consulate General in Hong Kong.*

million people journeyed from the United States to Hong Kong.

Hong Kong also plays an important role in the broader context of American interests. As the world's third largest financial center, Hong Kong contributes to the economic growth of Southeast Asia, in which the United States has a strong stake. Moreover, Hong Kong's money market have helped finance China's current modernization drive—the success of which will be important to the long-term stability and prosperity of the whole region. On a more abstract level, Hong Kong's economic success, political stability, and the personal well-being of its people have a positive, demonstrative effect that supports American efforts to promote democracy and free enterprise as the best means of advancing human welfare.

I am pleased that the joint agreement between the United Kingdom and China on Hong Kong's future unveiled last year is solidly predicated on preserving the territory's economic, social, and judicial systems after 1997, for all of these are vital to Hong Kong's success. I am also cheered by the spirit of friendship and cooperation between the UK and PRC as they begin implementing the agreement. Throughout the darkest days of recent times, Americans remained confident about Hong Kong's future. Events are now proving that they were right to do so.

The American presence in Hong Kong has grown enormously over the past two decades. With Hong Kong serving as a financial and commercial hub for a region enjoying truly impressive economic growth, and with its former role as the gateway to China reviving at a remarkable pace, one doesn't need a crystal ball to predict a substantial and vigorous growth in the American presence here in the years to come.



# US BUSINESS AND HONG KONG

## HONG KONG'S TRADE WITH THE US, 1984

### HONG KONG REPRESENTATION IN THE US

#### GOVERNMENT OFFICES

Office of the Commissioner for Hong Kong Commercial Affairs, British Consulate General  
Tower 56, 17/F, 126 East 56 Street, New York, NY 10022  
Tel.: (212) 355-4060  
Telex: 025 961075 NYHKO HK  
West Coast Info: (415) 441-4422

British Embassy (Hong Kong Office)  
3100 Massachusetts Avenue, N.W., Washington, DC 20008  
Tel.: (202) 898-5491  
Cable: PRODROME WASHINGTON  
Telex: 023440484 HKWSH UI

Industrial Promotion Office  
McKesson Plaza Building,  
Suite 2130, 1 Post Street  
San Francisco, CA 94104  
Tel.: (415) 956-4560  
Telex: 023 340192 HK IND SFO 171611

#### OTHER ORGANIZATIONS

##### Hong Kong Trade Development Council

548 Fifth Avenue, 6th Floor  
New York, NY 10036-5091  
Tel.: (212) 730-0777  
Cable: HONGTRADS NEW YORK  
Telex: 710 581 6302 HKTDC NYK

333 North Michigan Avenue,  
Suite 2028  
Chicago, IL 60601  
Tel.: (312) 726-4515/6  
Cable: CONOTRAD CHICAGO  
Telex: 728335 HONG KONG CGO

154-2 World Trade Centre  
250 Stemmons Freeway  
Dallas, TX 75258  
Tel.: (214) 748-8162/3  
Cable: HONGTRADS DALLAS  
Telex: 791719 HKTDC DAL

350 South Figueroa Street  
Suite 520, Los Angeles, CA 90071  
Tel.: (213) 622-3194  
Cable: CONOTRAD LOS ANGELES  
Telex: 194288 HKTDC LA LSA

Suite 1996, One Biscayne Tower  
19/F, 2 Biscayne Boulevard  
Miami, FL 33131  
Tel.: (305) 374-3876/8  
Telex: 803044 HKTDC MIA

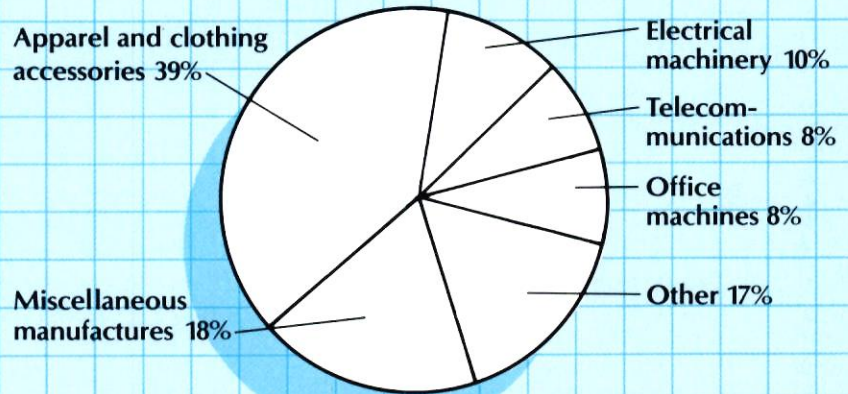
##### Hong Kong Tourist Association

Suite 200, 421 Powell Street  
San Francisco, CA 94102-1568  
Tel.: (415) 781-4582  
Telex: 023 470247 LUYU UI

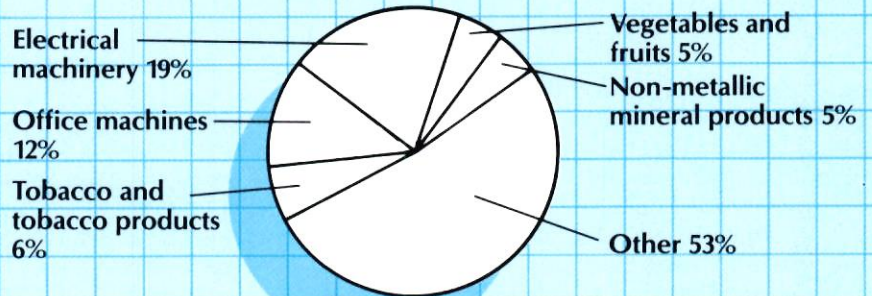
548 Fifth Avenue  
New York, NY 10036-5092  
Tel.: (212) 869-5008/9  
Telex: 023 425817 LUYU UI

333 N. Michigan Avenue  
Suite 2422, Chicago, IL 60601  
Tel.: (312) 782-3872  
Telex: 023 4330404 DITTRENDDCGO

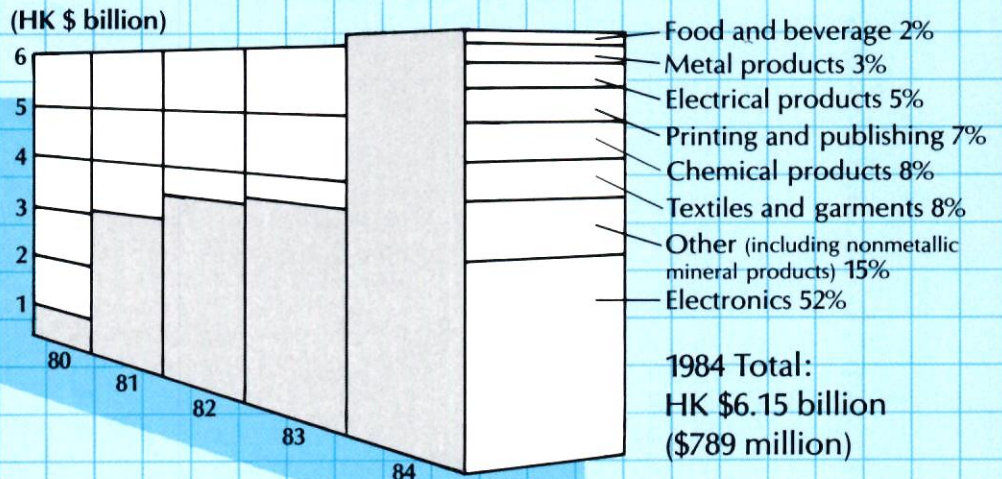
### HK Exports to US Total: HK \$61.4 billion (\$7.87 billion)



### HK Imports from US Total: HK \$24.4 billion (\$3.13 billion)



## US INVESTMENT IN HONG KONG'S MANUFACTURING INDUSTRY



"Americans are both Hong Kong's largest investor at 54 percent, and export market at 45 percent. Our studies indicate that total US investment in Hong Kong is in the \$4-\$5 billion range. In manufacturing, of the 700 electronics companies in Hong Kong, the majority have American participation. This is particularly significant as the electronics industry is a major growth sector, with exports forecasted to exceed both textiles and garments by 1986."

John F. Goudey  
Executive Director  
American Chamber of Commerce in Hong Kong  
February 4, 1985

Artwork by John Yanson

SOURCE: Hong Kong Industry Department, Industrial Promotion Division



# The Macau Connection

John Kamm

Macau lies only 65 kilometers west of Hong Kong, but in many respects it is far, far away. A Portuguese-administered territory for over 400 years, Macau was a booming entrepôt when Hong Kong was just a fishing village. Today the roles have been reversed, with Hong Kong a sprawling metropolis and world trading power and Macau a quiet, if intriguing, backwater.

Nevertheless, the two very different enclaves share at least one important feature—their political future. Most observers agree that China will take back Macau on the same date that Hong Kong ceases to be a British colony: July 1, 1997. Macau's economic links with China, like Hong Kong's, are growing rapidly. But Macau's distinctive character is changing only slowly.

## Trade with China's West River region

Macau already has very strong economic ties to China, due in part to sheer proximity. Macau sits on a peninsula jutting into a branch of China's West River at the point where it empties into the South China Sea. Navigable for more than 1,000 kilometers, the West River is one of China's great trade arteries.

Macau has traditionally maintained close links with all of the major economic centers along the West River through Guangdong and up into Guangxi. Following the establishment of the Zhuhai special economic zone adjacent to Macau in 1979, the level of activity between Macau and its neighbor across the border has also increased tremendously.

Macau's 450,000 inhabitants constitute an important market for China's West River producers. This is especially so in the foodstuffs and

native produce trade, but also extends to construction materials, petrochemicals, and light manufactures.

Macau would like to strengthen its economic ties with the West River region. The biggest success story to date is the Macau Cement Company, which counts the West River basin, where construction is booming, as its biggest market. Outfitted with French and West German equipment, the cement plant is a joint venture between local capitalists and Chinese interests.

Given the wealth and rapid development of the West River region, the potential for Macau to increase its exports appears excellent. The counties and municipalities of the West River claim some of the highest foreign exchange reserves in China. Excluding Guangzhou, at least six subprovincial centers presently handle direct exports of \$50–\$100 million per year, and a good slice of their earnings is retained locally. In addition, the West River benefits from very substantial inflows of overseas Chinese remittances and earnings from tourism, compensation trade, and other business arrangements.

## Other economic links with China

Macau's imports from China far

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*John Kamm is vice-president of Diamond Shamrock Chemicals Company with regional responsibilities for the Far East. He lived in Macau for several months in 1972, and has since paid frequent visits from his base in Hong Kong. The National Council's Hong Kong representative from 1976 to 1979, Kamm is at present chairman of the Macau Subcommittee of the American Chamber of Commerce. American companies interested in learning more about the subcommittee may write to: The American Chamber of Commerce, 1030 Swire House, Hong Kong.*

exceed its exports. In 1984, Macau's purchases from China totaled 1.81 billion Macau patacas (\$229 million), an increase of 4.5 times the 1978 figure (US\$1=M\$7.9). In addition China supplies most of Macau's water and, since 1984, a part of its electricity. It also supplies skilled laborers for construction (mostly from Zhanjiang in Guangdong) and unskilled workers for textile and other industries (mostly from Fujian Province).

Sales of Macau produce to China are still small overall, although growth has been spectacular during the last 18 months. In 1984, Macau exported M\$378 million (\$47.8 million) of produce to China; this represented 5.2 percent of the enclave's total exports. In the first four months of 1985 Macau's exports to China had already reached M\$157 million (\$19.8 million), or 7.3 percent of total exports, making China Macau's fourth largest market after the United States, Hong Kong, and France. However, China's recent decision to curb foreign exchange expenditures may slow this trend.

Macau business people have also been a steady source of investment capital for Chinese projects since 1978, when China's open door policy got off the ground. In 1979 a Macau firm, Novel Enterprises, began one of the first compensation trade arrangements with China when it set up the Xiangzhou Woolen Spinning Mill just north of the Macau border. Activity now centers largely on joint equity investments.

Initially, Macau capital flowed into tourism projects like the Shijingshan Tourist Center in Zhuhai. But since early 1985, Macau's investment in China has turned toward industrial projects, again mostly in the West River basin. Among deals concluded in 1985 are investments by Macau industrialists in Zhuhai factories producing plastic goods, video tape, chemicals, fiberglass, beer, and aluminum goods. Macau's Sun Kong Company is also putting in a plant to produce ABS resin and acrylic fiber in Jiangmen.

## PRC companies in Macau

As in Hong Kong, the PRC has a well-developed commercial presence in Macau, including the offices of many of China's State-owned firms. Directed by both central and local authorities in China, these firms play



important roles in import-export trade, banking, insurance, and shipping. In addition to the State-owned sector, a larger group of private firms act as distributors or agents for PRC products and services, considerably enhancing China's economic clout in the territory. These firms belong to and are guided by guilds sympathetic to China, as well as the Chinese Chamber of Commerce in Macau. The Chamber is led by Mr. Ma Man-kee, Beijing's most prominent supporter among the local merchants. It consists of 2,700 members; while private firms predominate, PRC-owned companies also belong.

► **Nam Kwong.** Established in 1949, the Nam Kwong Trading Company served as China's official political and commercial representative in Macau for 35 years. In 1984 China split Nam Kwong into two separate firms. At present Nam Kwong Company represents China's political interests in Macau while Nam Kwong Trading Company (NKTC) is a purely commercial organization. This makes the Macau situation more analogous to Hong Kong, where China's political interests are looked after by the Xinhua News Agency under the Ministry of Foreign Affairs, and commercial interests are largely handled by China Resources Company under the Ministry of Foreign Economic Relations and Trade (MOFERT).

Following the split, NKTC was restructured along the lines of China Resources. Referred to as a holding company, it is made up of a number of subsidiaries such as the Nam

Kwong Arts and Crafts Company, Nam Kwong Textiles Company, and Nam Kwong Storage Company. Like China Resources, NKTC acts as a general agent—appointing distributors for Chinese products in Macau, overseeing pricing and general commercial policies, and doing a limited amount of re-export business. Its arts and crafts subsidiary has established a retail outlet in Macau, similar to the arts and crafts retail outlets in Hong Kong. NKTC has also formed a joint venture with Zhuhai to promote investment across the border.

► **Nam Yuet.** In Hong Kong, many provinces send down their own local representative to do business in the colony. This is not the case in Macau, where Nam Kwong handles the affairs of most Chinese provinces, albeit in close cooperation with their Hong Kong representatives.

Guangdong Province, the area of China with the strongest links to Macau, is an exception to the rule. Guangdong's trade with Macau is primarily the responsibility of the Nam Yuet Company, a branch of Guangdong Enterprises in Hong Kong that in turn reports to the Guangdong Foreign Trade Corporation. Thus, aside from a few exceptions such as its joint venture in Zhuhai, Nam Kwong leaves the business of representing Guangdong's interests to Nam Yuet.

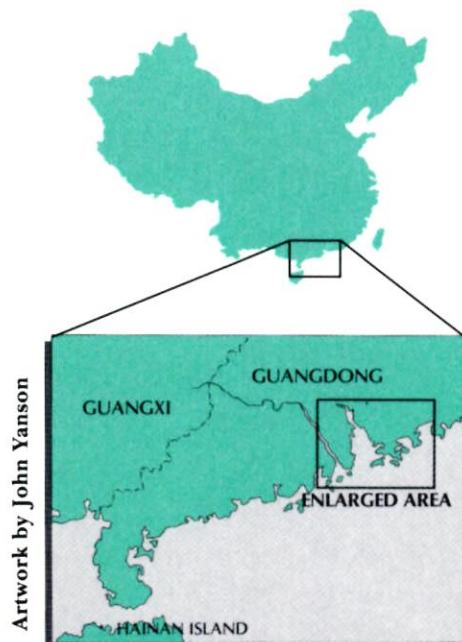
Recently, Nam Yuet has formed a number of subsidiaries and joint ventures in Macau to represent specific municipalities and counties in Guangdong. Among the latest additions is the Yang Xing Company, es-

tablished in July 1985 to represent the city of Guangzhou. And an official of Jiangmen municipality recently revealed that Jiangmen operates two companies in Macau, one of which is a "joint venture with Nam Yuet" and the other "an independent enterprise."

While Nam Kwong's senior managers are nearly all northern Chinese seconded from MOFERT, Nam Yuet is staffed largely by Cantonese. There is considerable rivalry and squabbling between the firms over their respective roles in the enclave. A recent shakeup in Nam Yuet's senior management was greeted with barely concealed glee by Nam Kwong officials, some of whom pointed out instances of incompetence and even malfeasance in the execution of Nam Yuet's economic contracts.

► **The Nan Tung Bank.** The Nan Tung Bank, one of the Bank of China's 13 "sister banks," in Hong Kong and Macau, looks after China's financial interests in Macau. Staffed at senior levels by Bank of China managers with strong Guangzhou and Hong Kong branch experience, the bank has assets of roughly M\$7.4 billion (\$937 million). Its deposits totaled M\$3.7 billion (\$468 million) at year-end 1984, roughly 30 percent of Macau's total bank deposits.

In addition to operating several offices in Macau, Nan Tung opened a branch in Zhuhai in September 1984. The branch has been heavily involved in lending to enterprises in Zhuhai, and in February it announced a HK\$400 million credit line to the zone. But recent collection



Artwork by John Yanson

## China, Hong Kong, and Macau





and liquidity problems arising from the national foreign exchange audit and cutbacks in funds to the special economic zones are an unresolved cause of concern for the bank.

Other PRC entities in Macau include branches of State-owned insurance companies, China Travel Service, and *Macau Daily*, Beijing's mouthpiece in Macau. Macau's extensive shipping links with Guangzhou and other Guangdong ports are handled by the Yuet Tung Shipping Company.

### **Political integration with China**

Both Macau and Hong Kong have become more closely integrated with China's economy since 1978, and both are likely to become politically

integrated in 1997. Nevertheless, important historical differences between Macau's situation and that of Hong Kong make it likely that China's "one country, two systems" model will look very different when it is applied in the two territories.

In contrast to Hong Kong, no treaty relating to Macau was ever concluded between China and Portugal. Indeed, more than 300 years of continuous Portuguese occupation took place before the two countries even addressed the question, in a document known as the Protocol of Lisbon (*see* dateline, page 49). Today China lumps the Lisbon Protocol together with the three Hong Kong instruments as "unequal treaties" that will come to an end in 1997. But Por-

tugal's approach to the Macau question is quite different from Britain's approach to Hong Kong. The local administration has acted as a caretaker government since 1979, when the core issue of sovereignty over Macau was basically resolved. Thus it is unwilling to offend China and reluctant to assert Macau's autonomy.

Paradoxically, Macau's relative closeness to China has caused problems for PRC interests in Macau. After 1979, Portugal removed immigration controls at the border and otherwise took a nonchalant attitude toward the flow of Chinese labor into the territory. The Macau labor unions, all of which are pro-China, found their members being forced out of jobs as a result of a huge influx of cheap labor. Only after the most strenuous objections by the unions did the government step in and re-establish immigration controls.

The trade in foodstuffs between Macau and China provides another example. Of all the private firms in the Chinese Chamber of Commerce, none have been more loyal to Beijing than the foodstuffs distributors. But they faced problems last year when the relaxation of State control over China's peasant economy caused free markets to spring up just across Macau's frontiers. Macau housewives simply crossed the border to do their grocery shopping, bypassing the established wholesale-retail sector in the city. Sales volume fell by 25 percent, and many pro-China firms found themselves staring bankruptcy in the face. Once again, their entreaties forced the Portuguese authorities to tackle the situation. Health controls and duty-free limits have now been established to stem the flow of produce from across the border.

### **Macau preserves distinctive features**

Portugal's approach to governing its far-flung overseas empire has also been radically different from that of the British in Hong Kong. The Portuguese have sought to blend into the local population, producing distinctive cultural and ethnic groups.

The Macanese are the result of more than 400 years of Portuguese, Chinese, and other racial group intermarriage. There are roughly 10,000 Macanese resident in Macau, with several thousand more now settled in Hong Kong and California. Employed almost exclusively in the

## **American Involvement in Macau and the West River Region**

**O**ne important way in which Macau differs from Hong Kong is its level of foreign investment. The British colony has long been a magnet for foreign capital—especially American funds, which at present account for 54 percent of all foreign investment. By contrast, there is little foreign investment in Macau, and almost none of it is American. Most companies handle marketing in Macau through their operations in Hong Kong.

But as China's economy grows, regional business centers are likely to emerge around specific areas of the country that have dynamic economies and significant foreign exchange reserves. Macau has the necessary ingredients to become such a regional center, and US firms are beginning to realize its potential.

New American efforts to penetrate the 'West River market,' made up of Macau and adjacent delta ports, got underway in 1984. Efforts are being spearheaded by the newly formed Macau Subcommittee of Hong Kong's American Chamber of Commerce (AMCHAM).

Initial ties were formed with Macau's pro-Beijing Chinese Chamber of Commerce. From this base, the Macau subcommittee made contacts with key govern-

ment officials in Macau, culminating in a successful mission to the territory in January 1985. During the trip, senior officers of the American Chamber of Commerce exchanged ideas with heads of all Macau departments concerned with finance and trade, and presented Macau officials with a report on American attitudes toward doing business in Macau.

Delegation members found their interest in promoting Macau as a regional marketing and financial center for western Guangdong reciprocated by Macau officials. Both sides feel that foreign firms cannot effectively market products solely through Hong Kong, and that Macau offers certain advantages to firms taking very "territory-specific" approaches to the market.

Successful marketing revolves around finding and cultivating niches. Already several American firms—including Boeing (which supplies the jetfoils that carry tourists to the Portuguese enclave), Otis (which recently won a public tender for elevators in Zhuhai), and Diamond Shamrock (which has extensive technology and product sales throughout the West River region)—are realizing the potential of this regional market. Meanwhile, a growing number of firms hope to carve out their own niches in Macau. —JK



civil service, the Macanese hold virtually all middle-level government posts of any consequence in Macau; senior posts, with a few exceptions, are still filled by Lisbon.

The cooperation of the Macanese must be secured by both Lisbon and Beijing if the transfer of sovereignty is to be carried out smoothly. But the gradual takeover of the legislature and civil service by local Chinese will doubtless whittle away at the political influence of the Macanese. Moreover, the race itself will gradually become more "sinified" as intermarriage continues.

Language and laws are other unusual features of Macau. Unlike Hong Kong, where Chinese has been an official language (with English) for more than 10 years, Macau has only one official language—Portuguese. Chinese will probably be added as an official language this year or next, and experts can then begin translating the body of Portuguese law in force in the territory.

Hong Kong law is based on the Anglo-Saxon system; Macau's is based on the European system introduced by Napoleon. There are vast differences between the two, which may prove particularly nettlesome in sorting out economic matters such as land ownership, conveyancing, the role of accountants, and taxation.

While the issues of race, language, and law cover many of the differences between Hong Kong and Macau likely to affect a Sino-Portuguese agreement on Macau's future, there are many other points of divergence. These include: nationality (all Chinese born in Macau by 1980 are automatically eligible for Portuguese nationality with no limitations on travel to or residence in Portugal); the small size of Macau's economy and relatively important role of gambling; and the strong role of the Church, especially in educational matters.

China's commitment to maintaining a separate identity for Macau, even after its reversion to Chinese sovereignty, strongly suggests that Macau will continue its history as a bridge between East and West for decades to come. Macau may also become an increasingly important economic force. Trade with China is growing, and international firms are beginning to take more notice of the enclave. Macau looks set to play a dynamic and increasingly important role in the years ahead. 完

Photo courtesy of New China Pictures



*Modern office towers rise above Macau's older Portuguese-inspired shop-houses.*

#### DATELINE: MACAU

**1557–1887:** Portuguese occupy Macau.

**1887:** China's Manchu government reluctantly agrees to recognize Portugal's "occupation" of Macau in the Protocol of Lisbon. In return, Portugal agrees not to change the status of Macau without China's consent.

**1941–1945:** Macau remains politically neutral under Portuguese control throughout the war, serving as a haven for many refugees from Hong Kong and China.

**1974:** New left-wing government in Portugal proceeds to surrender Portugal's remaining empire overseas. Portugal offers to return Macau to China in accordance with the 1887 Protocol, but China refuses to countenance any change in status.

**May 1979:** Portugal and China establish diplomatic links and agree that Macau is "Chinese territory under temporary Portuguese administration," to be returned to China at the appropriate time.

**1982–1984:** Speculation abounds that China intends to merge Macau into the Hong Kong Special Administrative Region in 1997.

**May 1985:** Reports in the *Macau Daily* suggest that Macau will become a second "special administrative region" of China in 1997, separate from Hong Kong.

**June 1985:** Portugal's President Ramalho Eanes visits China and Macau. China and Portugal issue a communiqué stating that they will hold talks beginning in 1986 to resolve the question of Macau's future. Observers expect the talks to progress more quickly and smoothly than the talks between China and Britain on Hong Kong.

**July 1997:** Macau expected to revert to Chinese sovereignty under a formula to be worked out during upcoming talks between China and Portugal.





### LAW FIRMS TARGET SHANGHAI

Companies in Shanghai can now turn for expert advice to three American law firms that have recently stationed lawyers there. Responding to growing client needs, these National Council members have recently become the first foreign law firms to place lawyers in Shanghai since 1949. In the past few years foreign law firms have been clustered in Beijing, but growing interest in China's industrial and commercial "capital" may change that trend.

One of San Francisco's oldest and largest law firms, McCutcheon, Doyle, Brown and Enerson decided to open its first overseas office in Shanghai last May. The decision seems appropriate in view of the close "sister city" relationship between the two Pacific Coast cities. Attorney Anna Han will head local operations in Shanghai, helped by her fluency in Shanghainese and three other Chinese dialects. Han says the firm's experience representing high-tech companies near its San Jose office should help it support Shanghai's efforts to found the Chinese equivalent of Silicon Valley. Han recently concluded an agreement between a US company and Shenzhen entity, and is representing several other American firms negotiating joint ventures and technology licensing contracts in China. She feels that Shanghai is a convenient city to base the firm's China operations, noting its central location and relatively good international communications facilities.

The other two firms with Shanghai presences have longstanding experience in China. The New York-based firm of Paul, Weiss, Rifkind, Wharton & Garrison opened its Beijing office in 1981, and also has offices in Hong Kong, Washington, and Paris. Ellen Eliasoph, who previously represented Paul, Weiss in Beijing, now heads the firm's Shanghai presence, established in September. According to her colleague in New York, Tim Gelatt, the firm chose to open in Shanghai due to "a realization of increasing business activity, that more and more of our clients were getting involved in Shanghai projects." Jerome A. Cohen supervises the Shanghai and other China operations from Hong Kong and New York.

Baker & McKenzie partner Eugene Theroux has traveled to Shanghai on behalf of his firm for more than 10 years, and has been on extended assignment there since July 1985. The world's largest law firm, Baker & McKenzie was involved in Shanghai's largest transaction yet with an American company—the \$1 billion McDonnell Douglas aircraft assembly deal. Theroux believes that the city is "unrivaled in its resources and potential. It's all here: trade, finance, high tech, shipping, manufacturing, transportation, and education. It's China's New York City plus." Theroux, a former vice-president of the National Council for US-China Trade, has been involved with China since 1972, and established Baker & McKenzie's Beijing presence in 1980. —MCR

### AMERICAN INTERNATIONAL GROUP EXPANDS CHINA SERVICES

History and personal relationships count a great deal in China, as member firm American International Group Inc. (AIG) learned when it decided to revive its presence there. Now a large multinational holding firm specializing in insurance, the company was originally founded in Shanghai in 1919 by an American entrepreneur who recognized a potential market for providing Far East traders with insurance services. In 1975, AIG President Maurice Greenberg journeyed to China to re-establish business relations. By 1980 AIG had successfully negotiated a joint venture with the People's Insurance Company of China (PICC). Called the China America Insurance Corporation, Ltd. (CAIC), the venture is a 50-50 partnership offering marine cargo, product liability, property bonding, and political risk insurance to companies doing business in China. PICC will also benefit from the use of AIG's network of 130 offices worldwide, and be able to train their personnel at CAIC's New York office.

Branching out from the insurance business, AIG now offers a comprehensive data base of companies operating in the China market. The data base profiles 3,553 American and foreign companies doing business or planning to do business in China, their products, and sales volume. Originally set up to help CAIC market insurance to firms in China, the company quickly realized that the data base could be useful to other service institutions like banks, accounting firms, and finance advisory services.

The data base has yielded some interesting facts. It reveals, for instance, that 56 percent of the foreign firms in China are importers, with the second largest group made up of service industries. It also shows New York as the most frequently mentioned port in the United States for firms doing China-related business (40 percent), with Los Angeles a distant second (11 percent).

Company president Greenberg sees the data base as yet another step in AIG's long-term goal of offering a wide range of services to clients interested in the China market. The company recently acquired 40 percent of Kamsky Associates, Inc. to expand its China trade and investment consulting services. AIG has also entered the venture capital business. It concluded an agreement last year with China's Ministry of Light Industry to help identify the best joint venture partners to set up China operations, and AIG will lend equity funds to one or both partners.

Since the early 1980s, AIG's insurance business in China has also increased and diversified. "Initially, most of our business was in marine coverage, but now the greatest growth area is political risk and construction insurance," says Mitchell Cohen, director of marketing, research, and development. AIG's North American division is at present underwriting a multimillion-dollar con-



struction site in Shanghai. Altogether, more than 30 major clients doing business in China have taken out over \$20 million in premiums with AIG companies. —MS

### FROM GUANGZHOU START, BEATRICE GOES NATIONWIDE

Beatrice Companies, Inc. is banking on China's future as a consumer society. If present trends in China continue, the Chicago-based food processor will be well-positioned to prosper from its efforts.

The firm's China activities began in July 1980 when a high-level company delegation, including present company Chairman William Granger, visited China at the invitation of the China International Trust and Investment Corp. CITIC has been a friend and partner ever since. It owns 10 percent of Guangmei Foods Ltd., the food processing equity joint venture in Guangzhou of which Beatrice owns 50 percent. The venture, whose other partner is the Guangzhou Municipal Foods Industrial Corporation, opened in October 1984 and makes canned fruits and vegetables and fruit juices. Beatrice proudly describes the factory as the first joint venture facility started from the ground up in China by a major US manufacturer. In a fitting twist, Beatrice's La Choy subsidiary,

America's largest processor of Oriental foods, took primary responsibility for setting up Guangmei's fruit and vegetable canning line.

Evidently pleased with their partnership, Beatrice and CITIC agreed last March to form another joint venture called Beatrice-CITIC Development Co. to develop consumer products for the Chinese and export markets. Both sides say the new undertaking is unique in that its operations will be nationwide, rather than limited to a specific Chinese province or locality. One of the venture's first projects will be to study ways to upgrade the soft drink and food processing industries in a number of Chinese cities. Beatrice-CITIC will also offer to market products of other international firms, and will provide consulting and investment services for companies hoping to do business in China and Chinese organizations wishing to expand their foreign trade. —TE

The China Business Review welcomes suggestions for member company profiles to appear in this column. If interested, please send a draft of 200-400 words detailing an aspect of your company's China activities to: Associate Editor, The China Business Review, 1050 17th Street, N.W., Washington, DC 20036.

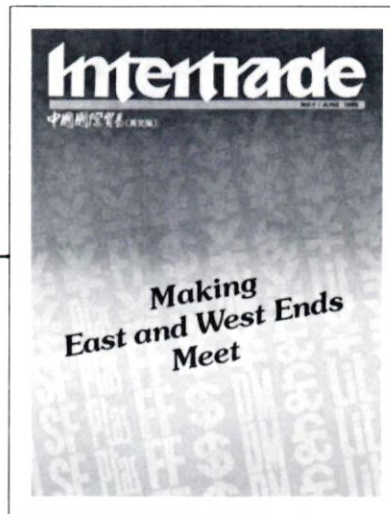
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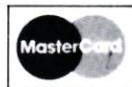
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# Preparing for a China Delegation

*Notes from a recent traveller*

Carla Stone

Delegations stream back and forth between the United States and the People's Republic of China at a rate well over 100 per month these days. How does one measure the success of one of these delegations to China, especially one made up of 36 highly successful and fiercely independent Americans? To say what constitutes success for all of them is difficult. But certainly the careful preparation that went into this trip by prominent Delawareans helped make the three weeks from April 21 to May 11, 1985, an unforgettable experience for all concerned.

## *From unfocused mission to official status*

Serious trip preparations began in spring 1984 when two delegation leaders were selected to coordinate the China trip on behalf of People-To-People, a group that sponsors international delegation exchanges. First, invitations were issued to prominent Delawareans and nonresidents with significant ties to Delaware. By January 1985, most of the delegates had been chosen. The group included elected officials from city, county, and state governments; prominent business people from major corporations and financial institutions; consultants; and representatives from major cultural and nonprofit organizations.

At first the delegation lacked a single focus other than the idea of building cultural bridges. However, most delegates also wanted to institute relationships with specific organizations and individuals in China. Many of the delegates had certain business objectives, for themselves or their employers. Elected officials hoped to

strengthen affiliations between political entities in the two countries, and to call on Chinese officials who had visited Delaware. One delegate wanted to see a sister she had not seen in 35 years.

Then, in January, just as individuals were firming up their own plans, Delaware Governor Michael N. Castle appointed the delegates official representatives of the state. As a result of this decision, the Delaware Office of Economic Development provided funds for the preparation of background materials to be used on the trip. But perhaps most important, the group suddenly had a unifying goal—to promote trade and increase the numbers of political and economic ties between China and Delaware. For instance, the idea that Wilmington, with its "foreign trade zone," could perhaps set up a relationship with one of China's special economic zones was proposed, explored during the trip, and is currently under discussion.

The Delaware representatives took with them the idea that their state had much to offer China in its ongoing modernization drive. Widely known as the "chemical capital of the world," Delaware is also a leader in agriculture, food technology, and finance. It also has a special China connection: In January 1985 S. B. Woo, a Shanghai-born Delawarean, was sworn in as the state's lieutenant governor, becoming the highest-ranking Chinese-American to take an oath of office.

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*Carla Stone, a member of the delegation described here, is principal economist with Business & Policy Associates, a Greenville, Delaware, consulting firm, and has contributed a chapter on China's mineral industry to a study done by the Society of Mining Engineers.*

## *The art of making contact*

The two delegation leaders took responsibility for making initial contact with counterparts in China. First, each delegate filled out a biographical form and indicated areas of professional or personal interest. The delegation leaders used this information to identify appropriate counterpart organizations in China. Their first challenge was drawing up a list of organizations with which delegates might want to meet. Three different methods were used to track down organizations. Libraries and other public sources provided some background on Chinese organizations. But often the information available in areas other than business or trade was inadequate, and at times consisted of only a listing in *The China Phone Book & Address Directory*. Second, the Beijing or Shanghai offices of some American companies represented on the trip arranged meetings. Third, delegates provided the names of organizations and individuals with whom they had previous contact, if any. Finally, the delegation leaders sent personal introductory letters in English and Chinese to each targeted counterpart organization.

Members of the delegation then sent their own follow-up letters to the organizations in which they had specified an interest. The letter spelled out who they were, the purpose and nature of the requested visit, a summary of their proposed presentation, and specific questions to be discussed at the meetings. These summaries and questions were sent to the counterpart organizations in China, with copies to the delegation leader, sponsoring companies, and other individuals in the United States and China assisting the delegates. In no case



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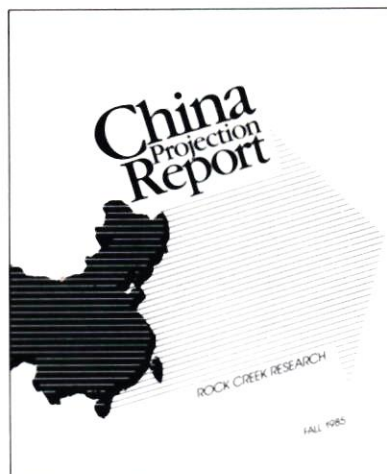
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from Princeton, Dr. Keidel received his doctorate in Economics from Harvard University and was a post-doctoral Research Fellow with the Economics Faculty of Tokyo National University. For three years Wharton EFA's Senior Economist for China, his professional language capabilities include Chinese, Japanese, Korean, German and French.

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were fewer than two letters sent to counterpart organizations, and sometimes a steady stream of letters, telexes, and personal visits to the appropriate PRC agency were necessary before meetings could be scheduled.

In *The Executive Guide to China*, Edith Terry recommends six weeks to three months as the "ideal" amount of time needed to arrange everything for a delegation, beginning from the date when an invitation to visit China is requested. Her advice may be appropriate for a single purpose delegation or marketing team, but judging from the experience of the multipurpose Delaware delegation, six months' preparation time appears to be optimal. An enormous volume of correspondence went back and forth to Chinese agencies, especially during the three months prior to departure. It seemed that careful groundwork paid off here. The first letters went out in February 1985. By April 5, most of the organizations in China had sent confirmations. Eighteen out of 20 requested counterpart meetings were approved by the respective PRC agency, institute, or corporation prior to departure.

How much the delegation's official status affected the number and type of responses to requests for counterpart meetings is difficult to say. Chinese organizations have a reputation for always making time to greet and talk with foreign delegations and business people. However, during the trip delegation members met with either the highest or second-highest ranking official of all but one organization. It is unlikely that this would have happened without the official state delegation designation. But the additional effort to personalize contacts made by delegation members, companies, and individuals in the United States and China also helped to open doors.

### *Preparation for meetings*

While some delegates would be visiting organizations familiar to them, others had no information about their counterparts. The amount of work and the type of preparation involved varied with each individual.

Preparation ranged from reading general books on life in China to conducting extensive individual research programs. Delegates consulted with about 50 trade organizations; federal, state, or local government bod-

ies; companies; cultural institutions; and nonprofit agencies. The China desk officers at the departments of State, Interior, and Commerce supplied helpful information about specific agencies within China. Delegation members also received briefings covering economics, personal business etiquette, cultural and social relations, and music. The talks were given by business representatives whose companies have offices in China, the National Council for US-China Trade, PRC Chinese students from the University of Delaware, and representatives from the Chinese Embassy.

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*Many delegates were interested in attending other delegates' formal meetings in China, but found the situation uncomfortable because they had no role in the discussions. Some Chinese organizations even prohibited the presence of delegation members other than presenters on the grounds that these other people were just tourists. In general, the fewer the number of observers, the more substantive the meetings.*

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Many delegates were also "presenters"—i.e., they were designated to speak on specific topics to their counterparts in China. Others would act as "resource persons," looking up background information to present at the meetings and being available to answer questions. Several members were involved in preparing for as many as eight different exchanges, either as presenters or as resource persons. By the time the delegation reached China, enough presentation material—including Chinese- and English-language movies, slides, technical literature, books, speeches, and product samples—had

been prepared to fill over half a dozen suitcases.

### *Post-trip survey reveals problem areas*

In order to provide specific suggestions for future visits, delegates were asked by the author to complete a post-trip survey. About half the delegates responded. Although most felt that the trip to China had met personal objectives, few were so sure that group objectives had been met. Criticism focused on four areas: counterpart meetings, banquets, translators, and photography.

► **Counterpart Meetings.** There were several times when the delegates felt that they were matched with either the wrong counterpart organization or inappropriate persons within that agency. Sometimes it was quite clear that although the request for a meeting had been granted, the delegates' presentations were of little interest to the Chinese. Although the hosts of these meetings were always extremely polite, the delegates were not quite sure why their request had been granted. Some of this could have been avoided by having someone in China with firsthand knowledge of the structure of the Chinese bureaucracy to help arrange all of the meetings, making direct contact with the ministries and organizations involved.

Though many delegates were interested in attending other delegates' formal meetings, some found the situation uncomfortable because they had no role in the discussions. Some organizations even prohibited the presence of delegation members other than presenters on the grounds that these other people were just tourists. As an alternative, many delegates sought out last-minute contacts in their own field. These arrangements often turned out to be quite productive, for both the Chinese and the Americans. In general, the fewer the number of observers, the more substantive the meetings.

► **Banquets.** Banquets were quite a useful medium of exchange, particularly when they were the only opportunities for meeting with representatives of specific agencies. In many cases the less rigid atmosphere contributed to more candid discussions. However, this worked only when the counterparts were seated with persons having similar interests, when the Chinese spoke English, and/or when there were enough translators



to facilitate the exchange. Many delegates were frustrated to find themselves seated with a total stranger from another session with no means through which to communicate.

►**Translators.** Only one person on the Delaware delegation spoke Chinese. Throughout the trip the delegation relied on Chinese translators. Although their command of English was excellent, many were unfamiliar with either the Chinese or English meanings of technical terms. Often Chinese counterparts would have to act as their own interpreters during meetings, or correct the guides. Even when the translation went smoothly, the delegates had no means of judging the tone of the discussion. Several delegates pointed out that the addition of just two more delegates who spoke Chinese would have solved most of the banquet and counterpart meeting problems. Another solution would be to bring translators with the technical vocabulary along—but this is more important for business negotiations than a delegation of a more general nature.

►**Photography.** Delegates generally had to rely on their own cameras to

obtain a haphazard visual documentation of the proceedings. One alternative might be to designate a delegate photographer for special meetings and events, or set aside time for photo opportunities after the conclusion of the meetings.

### *Assessing the trip's success*

It was not difficult to collect specific complaints from delegates after the trip. But was the trip successful overall? In addition to attending meetings, the delegates visited numerous famous tourist sites; met with Chinese in their homes, dormitories, and classes; and some even played tennis against China's nationally ranked juniors. If one looks at the quantity and range of activities, this trip was an unqualified success.

For those members of the delegation specifically interested in increasing economic ties between China and Delaware, the trip provided the chance to meet high-ranking officials and learn firsthand about the obstacles facing any group wishing to trade and do business with the PRC.

But it is too early to tell whether the efforts of this delegation to im-

prove relations will have lasting effects. Some Chinese officials have already visited Delaware to continue discussions with delegation members. Others requested that specific information about technology or the feasibility of various types of projects be sent to them. There will be extensive follow-up activities required on both sides, and more opportunities for deepening contacts.

For Americans accustomed to immediate results, a certain amount of patience may be required before such a delegation's success can be finally determined. China appears to Americans as a vast land of opportunity. Signs of rapid change and progress are everywhere. New factories, schools, apartment buildings, and hotels are springing up; more Chinese are studying at American and foreign universities; more officials are willing to discuss once-taboo subjects such as the Cultural Revolution. Yet such signs of change can be deceiving. China has experienced periods of change before. But they are invariably measured in terms of decades and centuries rather than a period of 21 days. 完

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## COUNCIL ACTIVITIES

# 我会活动

Twelve years ago, then Vice-Premier Li Xiannian welcomed visiting members of the National Council board of directors to Beijing. The 1973 trip, which was the first broadly based delegation of American business people to visit China since 1949, began a series of commercial exchanges that are now flourishing in record numbers.

The National Council thus had the chance to honor an old friend when it hosted a luncheon in Washington for visiting Chinese President Li Xiannian in July, in conjunction with the National Committee on US-China Relations. President Li was accompanied by Vice-Premier Li Peng and State Councilor Ji Pengfei.

In addressing National Council members during his US visit, Li Xiannian noted that "although Sino-US relations have gone through twists and turns, and still face a major obstacle to be surmounted, increased Sino-US friendly relations are in the interest of both our peoples and of the maintenance of world peace."

National Council files



*In 1973, then Vice-Premier Li Xiannian welcomed Donald C. Burnham, first chairman of the National Council for US-China Trade, to Beijing.*

Photo by Ray Crowell



*Vice-President George Bush addresses National Council member companies at the 12th Annual Membership Meeting in May.*

Photo by Ray Crowell



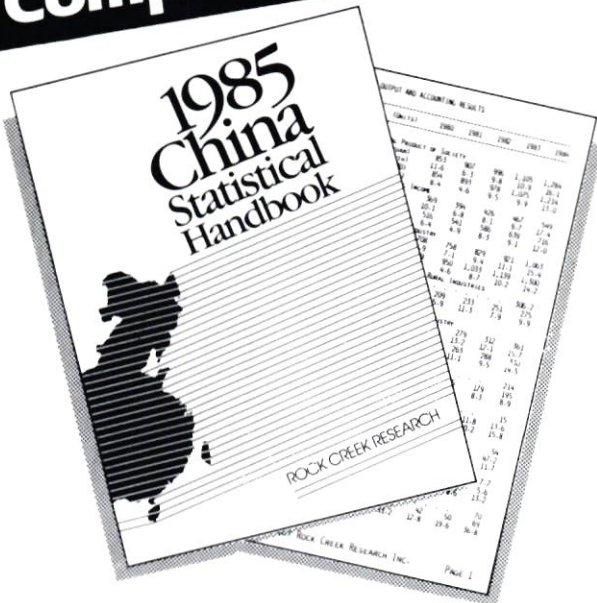
*National Council Chairman David C. Scott welcomes President Li Xiannian to the United States in July 1985.*

The US-China relationship is heading in the right direction according to Vice-President George Bush, who addressed the 12th Annual Membership Meeting of the National Council in Washington last May. Bush, who served as head of the US Liaison Office in Beijing from 1974 to 1975, noted how far US-China relations have evolved since that period. In conclusion, he told the audience that growing mutual interests between the two countries "provide the basis for a broad and stable relationship."

US investment in China, the theme of the morning meeting, was addressed by several prominent speakers. They included Rong Yiren, chairman of the China International Trust and Investment Corporation; Christian R. Holmes, director of the US government's Trade and Development Program; and L. Ebersole Gaines, vice-president of the Overseas Private Investment Corporation.



# Compact Reference



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***The China Trade: A Personal Guide to Business Success in China***, by Arne J. de Keijzer. New York: Eurasia Press; San Francisco: China Books and Periodicals, 1985. 188 pp. \$7.95.

This book will be a valuable resource for business people new to the China trade. In the fast-changing China business environment, current information is of great importance. Written in early 1985, this book contains a minimum of obsolete information. Part I, "The Foreign Trade Picture Today," provides an overview of the Chinese political and economic climate, describes China's foreign trade from 1949 to 1984 and the present foreign trade structure, briefly reviews the legal framework for trade and investment, and advises on how to establish contacts. Part II, "A Personal Guide for Doing Business," covers cultural differences that the newcomer to trade will encounter, travel information on major cities, and descriptions of special economic zones and open cities. Appendices list major Chinese trade organizations, publications for the China trader, and useful facts for business travelers.

The book's excellent content is undermined by its poor printing quality. Narrow inside margins cause the last few letters of each sentence to disappear into the binding, some pages are dark and smeared, and photographs are inferior. Poor printing may be the price that was paid to produce such an up-to-date book.



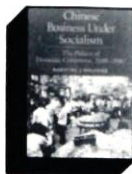
***Guide to China's Foreign Economic Relations and Trade: International Economic Cooperation***, edited by Policy Research Department, Ministry of Foreign Economic Relations and Trade, PRC.

Hong Kong: Economic Information & Agency (342 Hennessey Road, 11th Floor), 1985. 236 pp., including advertising; 98 pp. in English. \$28 surface; \$34 airmail.

This publication is the fourth and

final volume in MOFERT's bilingual series *Guide to China's Foreign Economic Relations and Trade*. Earlier volumes—*Investment Special*, *Import-Export Special*, and *Cities Newly Opened to Foreign Investors*—were published in 1983, 1984, and 1985, respectively.

This latest volume reports on China's foreign aid, contract construction projects, and labor services. It also briefly touches on the foreign aid China receives through UN agencies. The book describes the principles governing China's foreign aid, and developments in construction and labor services. A directory of firms providing these services gives names, addresses, registered capital, personnel, and scope of operations. A number of contract and foreign aid projects are described at length.



***China Business Under Socialism: The Politics of Domestic Commerce, 1949-1980***, by Dorothy J. Solinger. Berkeley, CA: Univ. of California Press, 1984. 368 pp.

\$35.

Dorothy Solinger's book provides valuable political and historical analysis of the workings of the Chinese domestic commercial system. It is at its best in outlining the policy swings that have characterized the Chinese economy since 1949. These are explained in terms of three competing policy groups—radicals, bureaucrats, and marketeers—rather than the more common radicals versus pragmatists approach. This view of the Chinese political scene and its effect on commercial policy helps explain the conflicts that exist among and between industrial sectors and ministries, as each competes for resources allocated under the State planned economy.

While the book covers only the period from 1949 through 1980, it provides useful background on how China's economic policy has evolved, which helps put ongoing policy shifts into perspective. —DR

***1985 China Statistical Handbook***. Washington, DC: Rock Creek Research, 1985. 18 pp. \$7.

This compact handbook provides macro-economic data on China's economy months before the English edition of China's own *Statistical Yearbook* comes out. It consists of five years of national economic statistics, as reported in the State Statistical Bureau communiqués from 1980 to 1984. Based on these statistics, annual growth rates have been calculated. All gross value of output figures are reported in current yuan and constant 1980 yuan for comparison purposes, with real growth rates given. Major agricultural and industrial output figures cover 1980-1984 production, with annual growth rates. Other statistics cover the population and work force, retail sales, the standard of living, transportation, and foreign trade.



***China, Solo***, by Barbara B. Letson. Arlington, VA: Jadetree Press, 1984. 256 pp. \$9.95.

In 1979 Barbara Letson, a 45-year-old suburban realtor, took a group tour of China. Frustrated by the lack of spontaneity and contact with the Chinese on that trip, she returned to China alone in 1981 for 23 days and in 1983 for several months. With little knowledge of the language but with great enthusiasm, Ms. Letson ventured as far as Xinjiang Province and Tibet. Thus she is well-equipped to advise on independent travel in the PRC.

The book has 13 chapters covering visas, money, hotels, food, transportation, packing, communicating, and suggested reading list. Specific tourist sites are not discussed; Ms. Letson's main interest lies in observing everyday Chinese life. Conversational in tone, this handy guide is marred by poor editing and frequent typographical errors. It should be read in conjunction with more established guides and China books. —PT



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**Judith S. Taylor**  
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 Judith S. Taylor.

中外 貿易	CHINA'S IMPORTS THROUGH JULY 31
Foreign Party/ Chinese Party	Product/Value/ Date Reported

#### Agricultural Commodities

Ministry of Agriculture, Forestry and Fisheries (Japan)	CT: Will import Chinese pigs in exchange for dairy cows. 4/23/85.
(Australia)/Ministry of Agriculture, Animal Husbandry and Fisheries	300 merino rams, 100 angora goats, and a number of Friesian cattle. \$541,040 (Aus. \$800,000). 5/15/85.
(Fiji)/Zhejiang	40,000 to 50,000 tons of raw sugar per year for 5 years. 5/24/85.
(Thailand)	3,000 tons of fishmeal. 6/11/85.
(US)	270,000 metric tons of US soft red winter wheat. 7/5/85.
(Poland)	Signed a protocol on agriculture and farm produce processing industries. 7/17/85.

#### Agricultural Technology

Facco Co. (Italy)/Guangzhou	Chicken raising equipment. \$8.35 million. 5/27/85.
Canadian International Development Agency	Guelph University, University of Alberta and Olds College will provide a variety of training programs in Heilongjiang. 6/4/85.
Fiat Trattori (Italy)	LIC: Technology to manufacture tractors in Shanghai and Luoyang. \$90 million. 6/7/85.

#### Chemicals and Chemical and Petrochemical Plants and Equipment

APV Asia (UK)	Won an order for a complete gelatin extraction and processing plant. \$7.5 million. (£6 million). 4/15/85.
Nitto Boseki (Japan)/TECHIMPORT	Plant for glass filament used in fiber-reinforced plastics. 5/6/85.
Chori Co. and Asahi Chemical Industry Co. (Japan)/China Textile Machinery and Technology Import and Export Corp.	Contract signed for nylon tire cord plant. 5/30/85.

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*. Licensing (LIC), Compensation (CT), and Assembling (ASSEM) deals are now included in the "China's Imports" section.

BASF (W. Germany)/China North Industries Corp. and Lanzhou Petrochemical Complex

Signed contract for 20,000 ton/year toluene diisocyanate plant. \$14.45 million (DM45 million). 6/12/85.

Stratco Inc. (US)/SINOPEC International and Fushan No. 2 Refinery

Process technology and contractor equipment to replace a vertical reactor. Signed letter of understanding for technology and equipment to revamp two refineries and build two refineries. 7/1/85.

Provesta Corp., subsidiary of Phillips Petroleum Co. (US)/China Huanqiu Chemical Engineering Co.

Signed letter of intent for technical cooperation relating to the building of a single cell protein plant. 7/15/85.

(Israel)

Negotiating to sell China a patent to extract protein from cotton seeds. 7/29/85.

#### Construction Materials and Equipment

Fuller International Inc. (US)	LIC: Technology to produce cement production equipment. 9/30/84.
Tokyo Sanyo Electric Co. (Japan)	LIC: Will provide stand-alone air conditioner production capability with equipment and technical assistance for a factory in Qingdao, Shandong. \$3.18 million (¥800 million). 5/85.
Toshiba Corp. (Japan)/TECHIMPORT, Beijing Branch	Mfg. equipment for heat pumps for room air conditioners. \$1.2 million (¥300 million). 5/6/85.
Caterpillar Tractor Co. (US)	LIC: Technology to manufacture power shift transmissions for use in construction equipment. 6/85.
Johnson Controls Inc. (US)	Signed a five-year agreement to provide technology for the manufacture and installation of devices that automatically control temperature in hotels and office buildings. \$1.8 million. 6/22/85.

#### Consumer Goods

Glass Bulbs (UK)	Won a contract to provide machinery and expertise to manufacture 10 million drinking glasses a year. \$1.9 million (£1.5 million). 4/16/85.
Fuji Photo Film Co. and Nissho Iwai Company (Japan)/Shantou Sensitive Material Industrial Corp.	A Fuji color-sensitive material production line. 6/24/85.

Tokyu Group (Japan)/Beijing

Will establish a chain of photographic processing shops. 5/6/85.

#### Electronics and Electrical Equipment

Data General Corporation (US)/Tianjin Computer Co.	Signed an agreement to distribute Data General 16- and 32-bit computer systems. \$10 million. 11/8/84.
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Softlab GmbH (W. Germany)	Will transfer software know-how. 2/1/85.
Control Data (US)/Shanghai Power Energy Research Institute	A Cyber 830 mainframe to be used in the development of China's nuclear energy program. 3/85.
NCR (US)/China Insurance, Macao	A 9300 system for accounting and insurance applications. 3/85.
Far East Computers (Singapore)/INSTRIMPEX	Two-part agreement for sale of personal computers and integrated systems. \$1.25 million. 4/85.
(UK)/Department for Population Activities	Edit controllers for use in birth control program. 4/5/85.
IMI (US)/Fujian Computer Corp.	Will supply equipment for a computer floppy disc production line. 4/22/85.
Dipix (Canada)/Nanjing College of Forestry, Beijing Fisheries Institute, and the Chengdu Institute of Meteorology.	Will supply six image processing systems. \$2 million. 4/85.
Kawasaki Heavy Industries Lt. (Japan)	Started a feasibility study on a plan to assemble industrial robots. 4/23/85.
COL (HK)/Bank of China	Sold 250 Model 080 Telex terminals over the past six months. 5/85.
Tokyo Electric Co. (Japan)	Signed an agreement to produce impact dot printers for personal computers in Shenyang, Liaoning. 5/85.
Elmo (Japan)/LIGHT INDUSTRY	Parts supply and transfer of production know-how for 35 mm sound slide projectors. 5/6/85
Stearns Catalytic Corp. (US)/China National Non-Ferrous Metals Corp.	Will do preliminary design engineering for a silicon materials plant in Luoyang, Henan, which will include production of polysilicon, polished wafers, and epitaxial wafers. \$25 million. 5/13/85.
Matsushita Electric Industry Co. Ltd. (Japan)	Language laboratory and a set of electrical audiovisual aids. 5/14/85.
Apollo Computer Ltd./Chinese Academy of Science, Institute of Computer Technology, and the Harbin Institute of Technology.	Computer workstations. \$386,000 (HK\$3 million). 5/30/85.
Matsushita Electronics Corp./Shandong Foreign Trade Corporation of China, Jinan Semiconductor General Factory	Signal-processing integrated circuits. \$4 million. 6/85.
Pertron Controls Corp. (US)/CATIC	Contract for welding controls. \$130,000. 6/7/85.
BASF (W. Germany)/China Electronics Import and Export Corp.	Floppy disk plant to be constructed in Shenzhen. 6/12/85.
Control Data Corp. (US)/Ministry of Petroleum	Will supply computer systems, software and related equipment for seismic data processing and other oilfield work. \$30 million. 6/20/85.
ITT Semiconductors Group (US)/China Electronics Import and Export Corp.	Will begin production of ITT tuner diodes in Tianjin. \$4 million. 6/24/85.
Universal Satellite Corp. (US)	Will supply and install television projectors that provide international teleconferencing services. \$5 million. 6/27/85.
Kayex Corp., a unit of General Signal (US)/China National Nonferrous Metals Corp.	Received orders for semiconductor equipment. \$6 million. 7/31/85.

## Electronics (Consumer)

Tokyo Cosmos Electric Co. (Japan)/China Electronics Import and Export Corp. and Tianjin No. 10 Radio Elements Factory	Signed a contract for a color television variable resistor manufacturing plant with equipment, machines, metal molds, materials and technical knowledge for parts production. \$2.9 million (¥725 million). 5/85.
JVC (Japan)/Shanghai Broadcasting and Electronics Industry Corp.	Compact video disc players. 5/14/85.
NEC Corp. (Japan)	Color TV tuner export contract for production of 500,000 electronic tuners annually at Gansu's four TV plants. \$4 million (¥1 billion). 5/31/85.
Matsushita Reiki Co. (Japan)/CATIC, for plants in Sichuan and Jiangsu	LIC: Refrigerator thermostats. \$2 million (¥500 million). 6/14/85.
Philips (Netherlands)/Jiangsu Provincial Bureau of Electronic Industry	Color television tubes. 6/18/85.

## Engineering and Construction

State Electricity Bureau (Sweden)/Ministry of Water Conservancy and Electric Power	Will design the structure of the shiplocks on the Three Gorges Yangtze River Dam, and provide advanced testing equipment for geological prospecting and rock mechanics. \$500,000. 6/10/85.
International Conference and Exhibitions Group of London (UK)	Will set up two technology transfer service trade centers in Tianjin and Shenzhen and two more in Beijing and Fuzhou. 6/27/85.

## Finance, Leasing & Insurance

Lloyd's (UK)/People's Insurance Co. of China	Will train three specialists each year for three years. 5/13/85.
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## Food Processing

Greer Australia Pty. Ltd./Ministry of Light Industry	Potato-chip making equipment. \$1.4 million. (Aus.\$2 million). 1/13/85.
FranRica (US)	Pre-assembled, pre-tested pilot aseptic processing plants. 4/85.
Extraktionstechnik Gesellschaft fuer Anlagenbau GmbH, Babcock Group (W. Germany)	Soya-bean processing plant. \$12.8 million (DM40 million). 7/4/85.
Maxim's (HK)/CAAC	Will provide in-flight catering services. 7/9/85.

## Foreign Aid

UNICEF (UN)	38 projects in children's public health, education, and welfare in the 1985-1989 period. \$50 million. 5/31/85.
(Japan)	Will aid meteorological research. \$2 million. (¥43 million). 6/20/85.
(Italy)	Grant to China for the construction of a training center of the Shanghai printing house. \$2 million. 7/7/85

## Machine Tools and Machinery

Kirsch (W. Germany)	Signed a contract to supply welding machines. \$48 million (DM1.5 million). 4/23/85.
Hosoi Kosakusho Mitsui & Co. (Japan)/Sichuan Plastics Machinery Dye Factory	Supply of numerically controlled milling machines. 5/85.
<b>Machinery</b>	
Torrington Co. (US)/Suzhou Needle Bearing Co., Jiangsu	Engineering and manufacturing expertise to modernize needle-bearing capabilities and operations. 4/8/85.
Matsushita Industrial Equipment (Japan)/EQUIMPEX	Automatic carbon dioxide welding machines. 5-6/85.
Bisan International (Australia)/Shuanggou Winery, Sihong County, Jiangsu	Has a contract to build a waste-treatment plant. \$357,143. 6/85.



Siemens AG (W. Germany)	LIC: Elmo-F liquid ring pumps. 6/85.
Konishiroku (Japan)/China State Shipbuilding Corp. and Hanguang Machinery Factory, Hebei	Will produce plain paper copiers. \$87 million (¥22 billion). 7/23/85.
Combustion Engineering Inc. (US)/Ceramic Fiber Refractories, Guiyang, Guizhou and TECHIMPORT, Liaoning.	Technology and equipment to manufacture alumina zirconiasilica refractories. \$9 million. 7/24/85.

#### Metals, Minerals & Processing Technology

Etibank (Turkey)	60,000 tons of chrome. \$115-\$118 ton. 3/19/85.
NA (US)	Agreement of intent to exploit and utilize Jilin's mineral deposits. 4/18/85.
Geological and Minerals Survey Bureau (France)/Fujian Provincial Geological and Minerals Bureau	Signed an agreement on joint exploration of Fujian's geothermal resources. 4/22/85.
Demag (W. Germany)/Tianjin, Handan and Benxi Steelworks	Two continuous slab casters and modernization of Benxi's 7-stand, hot strip mill. 4/23/85.
Riise Engineering Co. Inc. (US)/Baoji Non-Ferrous Metal Works, Shaanxi	To supply the exit equipment for a welded titanium/stainless steel tube producing facility. 5/85.
Sherritt Gordon Mines Ltd. (Canada)/TECHIMPORT	Production technology for nickel-coated steel coin blanks. 5/21/85.
Doncasters Sheffield (UK)	Sold a 1,000 ton forging press to an Anshan firm. 5/25/85.
(Romania)/Bailong Mine, Shanxi	CT: Coal mine and dressing plant to be repaid with coal produced. 6/15/85.
Kaiser Engineers and Constructors, Inc., a unit of Raymond International Inc./TECHIMPORT	Automated system components to monitor and control the specific gravity of the heavy medium at two coal preparation plants. 6/18/85.
Bechtel Civil and Minerals Corp. (US)/China National Coal Development Co.	Drew up an initial overall plan for Shenfu Coalfield, Shaanxi. 6/19/85.
(Australia)/Baoshan Steel Works	Will supply 35% of the new steel plant's iron ore needs. 6/19/85.
Showa Keikinzoku K.K. (Japan)	Will export used smelting facilities and smelting technology. \$4 million (¥1 billion). 7/2/85.
Mannesmann Demag (W. Germany)/Jiuquan Iron and Steel Co., Lanzhou	Technology and key equipment for single-track, high-speed rolling machinery. 7/10/85.
General Electric Company (Sweden)/Jiuquan Iron & Steel Co., Lanzhou	Ancillary electrical equipment. 7/10/85.

#### Mining Equipment

Fenner Group (UK)/Zhongnan Rubber Factory, Hubei	Won an order to design and supply a conveyor belt plant. \$2.4 million. (£3 million). 6/13/85.
(Soviet Union)/Xingantai Coal Mine, Hegang Mining Bureau, Heilongjiang	Will help increase the mine's annual output of crude coal and renew two sets of pit shaft lifting equipment, and will provide some advanced equipment for excavation and safety monitoring. 7/16/85.

#### Packaging

Capsule Technology International/Qingdao	Turn-key capsule manufacturing plant. \$4.2 million. 6/85.
Emhart Corp. (US)/Ministry of Light Industry	Glass-container equipment lines for seven Chinese plants. \$10 million. 6/13/85.

#### Petroleum, Natural Gas, & Related Equipment

Oil Asia Ltd., subsidiary of Straits Steamship Co. (Singapore)	Signed a contract to manage and operate a new oil supply base in Zhuhai. 2/1/85.
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Koomey Inc. (US)/EQUIMPEX	LIC: Signed a 10-year sales and licensing agreement. 5/85.
Signal Co. (US)/CNOOC	Negotiations on how to use Yingge gas to generate electricity or make synthetic ammonia and urea. 5/13/85.
Weir Pumps Ltd. (UK)	Will supply six downhole pumps. \$506,000 (£400,000). 5/24/85.
Dyna-Drill unit of Smith International Inc. (US)/China Oil & Gas Exploration & Development Corp.	Signed an agreement to provide equipment, parts and technical training for downhole mud motors. \$9 million. 6/85.
Eastman Whipstock Inc. (US)/China National Oil & Gas Exploration & Development Corp.	Signed a 5-year contract for layout, equipment, processes, tooling, and start-up of a plant to produce mechanical downhole survey instruments. 6/24/85.
Mount Sopris Instrument Co., division of E.G. & G. Inc. (US)	Selling advanced vehicle-mounted borehole logging systems. \$5.3 million 7/17/85.

#### Pharmaceuticals

Teikoku Seiyaku Co. (Japan)	Will sign a contract to provide China with technology of poultice medicines for sores and inflamed areas. Also plans to jointly develop herbal medicines. 5/22/85.
Tanabe Seiyaku Co. (Japan)	LIC: Infusion solutions. 5/28/85.
Yamanouchi Pharmaceutical Co. Ltd. (Japan)/Chinese Academy of Sciences, Shanghai Institute of Materia Medica and Kunming Institute of Botany	Signed long-term cooperation agreement to analyze the effective composition of China-made herbal medicines. 6/20/85.

#### Ports

Tecnecon (UK)	Training in port planning and feasibility studies. \$250,000. 5/2/85.
Singapore Engineering and Consultancy Services Pte Ltd./Tianjin Port Authority	Engineering consultancy services. \$218 million. 7/31/85.

#### Power Plants & Equipment

Gilbert/Commonwealth, Inc./Ministry of Water Resources & Electric Power	Design studies and technical specifications for 500 kV transmission line in Suzhou & Shanghai. 3/85.
Brown Boveri & CIE A.G. (W. Germany)/TECHIMPORT	Gap core shunt and air cooled natural reactors. \$1,690,641. 5/11/85.
Brown Boveri (Switzerland)/TECHIMPORT	Circuit breakers 500 kV SF6. \$7,916,223. 5/11/85.
Kinki Industrial Co. (Japan)/TECHIMPORT	Coal crushing technology for coal-fired electric power plants. \$400,000 (¥100 million). 5/16/85.
Toyo Menka Kaisha Ltd. (Japan)/TECHIMPORT	Conductor and accessories. \$1,905,959. 5/24/85.
Mitsui & Co. Ltd. (Japan)/TECHIMPORT	500 kV transformers. \$5,076,874. 5/25/85.
Kraftwerk Union AG, subsidiary of Siemens AG (W. Germany)	Signed a preliminary cooperation agreement for the construction of four nuclear power plants. \$1.6 billion. 6/11/85.
General Electric Company (US)/Dongfang Electric Corp., Sichuan	LIC: Signed a codesign, comanufacturing agreement to transfer 600 MW steam turbine product and process technology and also produce four initial 600 MW units. 6/12/85.
Siemens AG (W. Germany) and Kvaerner Brug (Norway)	Won a contract to supply turbine-generator sets and electrical equipment for the Lubuge hydro project. 6/20/85.
Kyoto Ceramic Co. and Mitsubishi (Japan)	Recently began construction of a solar energy power plant for Yuanzi, Yuzhong, Gansu. 6/25/85.



## Property Development

- Xinan (China) Enterprises, Ltd., Urbis (HK) SRI International and Bechtel Inc. (US) Will prepare a long-term development plan for Beihai, Guangxi. 3/18/85.
- Yung Shing Enterprise Corp. (HK)/China Construction Engineering Corp., Shanghai Apartment building for people from HK and Macao, overseas Chinese and their dependents. 4/29/85.
- News Corp. (Australia)/China Central Television, Beijing Will build an international media center and hotel. \$40 million. 5/2/85.
- (Japan)/Xian Goose Pagoda Scenic Spot Development Co. Tourist complex in Tang Dynasty style. 5/7/85.
- Japan Overseas Railway Technology Cooperation Association/Ministry of Railways Signed a cooperative agreement to build the No. 2 Beijing Railway Station. 5/14/85.
- Transfer Technology International Ltd. and subsidiary Towntech Ltd. (HK)/Jiangsu International Trust and Investment Corp. and the Nanjing Real Estate Management Corp. International business and hotel center in Nanjing, Jiangsu. \$90 million. 7/5/85.
- Lum Chang Holdings Ltd. (Singapore) Negotiating to build a hotel. \$25 million. 7/5/85.
- Lum Chang Investments Ltd. (HK)/Guangzhou Cultural Bureau Negotiating contract to build, own, and operate a hotel. 7/5/85.
- Tian-Bo China Investment Ltd. (Canada) Will construct a 300-room hotel in Anhui. \$11 million. (Can. \$15 million). 7/6/85.

## Scientific Instruments

- Melbourne University (Australia)/Institute of Physics, Beijing Pre-sold a proton microprobe. \$95,000. (Aus. \$140,000). 4/17/85.
- Hitachi Ltd. (Japan)/Jinan Optical Instrument Factory, Nanjing, Jiangsu ASSEM: Electron microscopes. 5/85.
- Hitachi Ltd. (Japan)/China Electronics Import-Export Corp. LIC: Technology to manufacture and assemble infra-red spectrophotometers at a Tianjin factory. 5/30/85.
- Yamamoto Keiki Mfg. (Japan)/China National Electronic Technology Import-Export Corp. Manometer manufacturing plant, testing facilities and production technology. 5/85.

## Shipping

- Niigata Tetsukojo (Japan)/Xinhe Shipyard, Tianjin 200 HP tug for the Baoshan Iron and Steel Complex in Shanghai. 3/85.
- Deutz Co. and Mannesmann-Roxroth Co. (W. Germany) and Schottel Group (Netherlands)/Xinhe Shipyard, Tianjin Four 500 cu. m. self-propelled split dump barges. 3/85.
- Bolnes Motorenfabriek BV (Netherlands) Three six-cylinder units of a medium-speed, two-stroke, crosshead diesel engine for installation in a hopper dredger. 5/23/85.
- Nippon Kokan (Japan)/MACHIMPEX Will build a non-self-propelled cutter suction dredger. 6/12/85.
- IHC-Holland (Netherlands)/Xinhe Shipyard, Tianjin Will produce dredging equipment. \$6 million. 6/21/85.

## Telecommunications

- C.I.T.(France) Signed contract for 100,000 program-control telephone lines. 4/11/85.
- (Italy) To give tested ground satellite station. 6/7/85.

Xerox (US)/Beijing Instrument Industry Corp, Beijing Automatic Control Equipment Factory and China Electronics Import-Export Corp., Beijing Branch

A xerox telecopier. 6/17/85.

ANT Nachrichtentechnik (W. Germany)/Xinhua News Agency

Have agreed to develop an editing and telecommunications system between Beijing and Shanghai in order to transmit stories in Chinese characters and Western alphabets. 7/10/85.

Nippon Telegraph & Telephone Corp. (Japan)/Ministry of Railways

Will sign a consultancy agreement to provide technology on the design and maintenance of an optical-fiber communications line between Datong and Qinhuangdao. 7/18/85.

## Textile Plants & Equipment

(Czechoslovakia)

Machinery and parts to manufacture spindleless spinning machines. 6/10/85.

## Transportation Equipment

CERA Ltd. (UK)/China National Agricultural Machinery Import-Export Corp. and Luoyang Tractor Factory

Equipment for washing of engine cylinder blocks. \$250,000 (£200,000). 3/85.

Government Aircraft Factory (Australia)

Five Nomad light transport aircraft. \$812,000. (Aus. \$1.2 million). 4/18/85.

IBJ Leasing, BOT Leasing and Japan Leasing (Japan)/CAAC

LEASING: Five small Boeing B737-200 passenger planes. \$123 million (¥31 billion). 4/22/85.

Aviointeriors SpA (Italy)/CAAC

Signed a memorandum of understanding for the supply of products relating to interiors of all commercial fleets. 4/26/85.

(France)

150 electric locomotives. 5/6/85.

Transavia (Australia)

LIC: Four Skyfarmer T-300 agricultural aircraft to include licensed production of future aircraft. 5/17/85.

International Air Leases and Tradewinds International (US)/China Eastern Aviation Corp.

Five reconditioned Boeing 707-200s. \$9 million. 5/20/85.

Automotive Products (UK)

LIC: Technology to build clutches for new commercial vehicles. 5/23/85.

Suzuki Motor Co. (Japan)/Jinan Motor-Cycle Works, Shandong

ASSEM: Parts to manufacture 50-91 cc motorcycles. 5/23/85.

Piaggio (Italy)

10,500 tricycle carriers. 5/24/85.

Bosch Corp. (W. Germany)/China Central Television Center

W. German gift of a color television broadcast van. 5/30/85.

British Aerospace (UK)/China Aviation Supplies Corp.

Sold 10 BAe-146 passenger aircraft. 5/31/85.

Eaton Corp. (Canada)/China National Automotive Industry Import-Export Corp. and the Heavy Duty Truck Corp.

LIC: Engineering documentation, technical assistance and training for three 9-speed Roadranger transmissions. 6/85.

Suzuki Motor Co. (Japan)

Will produce its motorcycles in Shenyang, Nanjing, and Jinan. 6/10/85.

Daimler-Benz AG (W. Germany)/China No. 1 Auto Works, Changchun

ASSEM: Will produce 1,000 Mercedes 200 and 230E cars and 3,000 "slightly modified" models. 6/12/85.

McDonnell Douglas (US)/CAAC

Signed three contracts to sell 30 new-type passenger planes. 6/13/85.

Kawasaki Heavy Industries, Ltd. and Nissho Iwai Corp. (Japan)/China Automotive Import-Export Corp.

ASSEM: Signed a six-year contract for Kawasaki motorcycles on a knock-down basis. 6/24/85.

Lufthansa (W. Germany)/CAAC

Signed a memorandum on technical cooperation. 6/24/85.



Parsons International Ltd. (US)	Will undertake an airport feasibility study for Shenzhen. \$800,000. 6/26/85.
General Motors Corp. (US)	Sold and delivered 20 luxury limousines to Beijing. \$1 million. 6/28/85.
Boeing (US)/China Southwest Airlines	Contract signed for four Boeing 737-300 jetliners. \$104 million. 7/16/85.
Aviaexport (USSR)/MACHIMPEX	Signed a contract for 17 TU-154M planes. 7/19/85.
Polmot (Poland)/MACHIMPEX	BARTER: 3,000 Polish trucks, autos, and buses in return for Chinese tea and cotton. \$24 million. (SwFr 62 million). 7/21/85.

#### Miscellaneous

Science and Technology Publishers Inc. (US)	Set up The China Science and Technology Review Society which will publish <i>Science and Technology Review</i> in China and the US to promote scientific exchanges. 11/16/84.
Juliana's Discotheques (UK)	Negotiating with hotels to open discotheques in Guangzhou, Shanghai, and Beijing. 4/22/85.
National Australia Bank Ltd./Jiangxi International Trust and Investment Corp.	Signed a business cooperation agreement. 4/23/85.
Radio Luxembourg/Ministry of Radio and Television (Mexico)	Signed an agreement to broadcast a weekly program of British hit records to China. 5/7/85.
(US)/China General Publishing and Foreign Trade Corp., China Printing Corp., Beijing Xinhua Color Printing Factory	Will exchange TV and broadcast programs with China. 5/13/85.
General Electric (US)/State Economic Commission	A US magazine agency has signed an agreement on publishing Chinese magazines. 5/20/85.
National Australia Bank Ltd. (Australia)/Agricultural Bank of China	Signed a protocol on training Chinese managers. 5/30/85.
	Signed an agreement to promote trade and investment links. 6/28/85.

中外  
贸易

#### JOINT VENTURES AND DIRECT INVESTMENT THROUGH JULY 31

Foreign Party/ Chinese Party	Arrangement/Value/ Date Reported
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#### Agriculture

Kokko Commercial Company (Japan)/Nantong Salt Co., Jiangsu	Set up China Nantong-Liyuan Co., Ltd. to build a prawn breeding pool. 1/85.
(Italy)/Jilin Province	Set up an experimental rice farm. 7/3/85.
Sing Kai Co. (HK)/Beijing Flower and Plant Co.	Set up Beijing Gardening and Flower Shop Corp.. \$70,000. 7/12/85.
UTG Co. (Jordan)/Fujian Investment Enterprise Corp., Fujian Agricultural, Animal Husbandry, Industrial and Commercial United Enterprise Corp. and Fujian Potted Landscape Corp.	Formed the Fijian-UTG Gardening Company Ltd., to cultivate chrysanthemum seedlings annually for export. \$1 million. 7/15/85.

#### Chemicals and Chemical and Petrochemical Plants & Equipment

Plaque Co. Ltd. (Japan)/China Light Industry Foreign Economic and Technological Cooperation Co.	Set up the Laiwu Light Industrial and Plastic Machine-Building Plant in Shandong which began producing machines for making plastic films. 10/29/84.
United Tire & Rubber Co. Ltd. (Canada) and Trinity Development Co. (HK)/Tianjin Rubber Industrial Co. and Tianjin International Trust & Investment Co.	Will jointly build an off-the-road tire plant in Tianjin. \$21 million. (C\$29 million). 5/6/85.
KSC PIC (Kuwait) and SIAPE (Tunisia)/China National Chemical Construction Corp.	Formed the China-Arab Chemical Fertilizer Co. in Qinhuangdao to produce fertilizers. (Arab: 60%-PRC: 40%). 6/29/85.

Marine Shield Inc. (US)	Signed a memorandum of understanding to establish a production facility in Shantou to manufacture antifouling paint for boat hulls and anti-corrosive and weather resistant paints for metal surfaces—airplanes, ship cargo-handling cranes, trucks, and ships. (50-50). 7/24/85.
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#### Construction Materials

Fushixing Mechanized Construction Engineering Co. Ltd. (HK)/Shangbu District, Shenzhen	Set up Shangbu-Fushixing Stonework Mechanical Engineering Co. \$154,000 (HK\$1.2 million). 1/85.
Pittsburgh Plate Glass Industries Inc. (US) and Pennvasia Ltd. (Thailand)/China Southern Glass Co. Ltd., Shenzhen	Broke ground for Guangdong Float Glass Co. Ltd. to produce plate glass. \$100 million. 4/12/85.
NA(Japan)/Dalian Prefabrication Engineering Corp. and China National Construction Engineering Corp.	Will form an enterprise to produce steel prefabrications. 5/27/85.
Xinhai Group (HK)/Yantai Construction Material Industrial Corp., Shandong	Signed a contract to set up China Yantai Stone & Jade Products Industrial Co. Ltd. \$4 million. (HK:35%-PRC:65%). 6/3/85.
NA (HK)	Set up Pacific Aluminum Construction Components Co. in Liaoning to produce aluminum-alloy frames and other products. \$15 million (¥43 million). 6/20/85.
Japan Toko Corp./Beijing Federation of Agricultural, Industrial and Commercial Associations	Set up Beijing Guan Ming Apartment Hotel and will build 136 prefabs and a 12-story office building. Capital: \$5 billion. (Approx. ¥1.5 billion). Total investment: \$2.12 billion. (¥6 billion). (J:70%-PRC:30%). 7/23/85.

#### Consumer Goods

Baoliuhua Industrial Company (HK)/Xinhua Fur Plant, Shandong, and Xinghua Light Industrial Joint Co. Ltd.	Will set up Huabao Fur Products Co. Ltd. 1/85.
Huaxi Co. (US)/Tiyu Bao (Sports News)	Set up Chinese Great Wall Color Photo Co. in Beijing. 4/1/85.
Sailor Pen Co. (Japan)/Dalian Teaching Equipment Co., Liaoning	Signed a contract to set up the Dalian Sailor Co. to produce ball-point pens. Capital: \$1.19 million (¥300 million). 5/27/85.
International Enterprise Co. (HK)/SINOCHEM, Shijiazhuang, Hebei	Signed a contract to set up a film and pictures joint venture company. 6/17/85.
Ohto Co. (Japan)/Dalian Pencil Factory	Set up a 20-year joint venture, Eyphka, to produce and sell rolling pens. \$1.2 million. (¥300 million). 7/16/85.

#### Electronics and Electrical Equipment

International Geosystems Corp. (Canada)	Signed an agreement to supply China's mining industry with sophisticated computer technology. \$36.23 million. 6/85.
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Li Dong Electronics Co. Ltd. (HK)/Hangzhou Broadcast & TV Industrial Corp. and Yuhang Radio Factory, Zhejiang

Set up the Hangzhou Sanlian Electronics Co. Ltd. to produce advanced printed circuit boards. (HK:25%-PRC:75%). 6/3/85.

Sydney Development Corp. (Canada)/Applied Software Development Center of China State Shipbuilding Corp.

Has executed a letter of intent to set up a venture for research, development and marketing of computer-related products and services in China. 6/3/85.

Xerox Corp. (US)/Beijing Instrument Industry Corp. and the China Electronics Import and Export Corp.

Xerox signed a 5-year contract to build 15,000 telecopier facsimile machines. 6/14/85.

Motorola Inc. and Harris Corp. (US)/China Electronics Import and Export Corp.

Exploring a joint semiconductor manufacturing operation. 6/25/85.

Wong Ho Holding Ltd. (HK)/Guangdong Opera Institute

Set up Wong Ho Decor Lamps Co. Ltd. to produce lamps and chandeliers for theaters, hotels and restaurants and plans to supply acoustic, audio and video equipment. 6/28/85.

International Technical Development Corp. (US)/Shanghai Communications University

Formed the Sino-US Software Development Co. which has signed three contracts for processing software, including one with Lifefree Software Co. of the US. 7/1/85.

Urchida Yoko (Japan)/Computer Center of the Chinese Academy of Sciences

Will develop software for Japanese-language computers. (Japan:50%-PRC:50%). \$40,000 (¥10 million). 7/5/85.

#### Electronics (Consumer)

Hang Fat International Trading Co. (HK)

Established China Nanda Electronics Enterprise Corp. with several major PRC electronics enterprises and local Guangzhou firms and completed construction of a television manufacturing plant in Haikou, Hainan. 5/9/85.

Global Industrial Technology Consultancy Co. (HK)/No. 3 Plastics Factory, Handan, Hebei

Set up Sanfai Global Family Electrical Equipment Plant to produce and market box fans. 6/17/85.

Philips Corp. Ltd. (Netherlands)/China Electronic Technology Import and Export Corp., Beijing Branch, and Beijing Radio Factory

Will jointly produce household acoustic products and equipment for acoustic systems. (N:50%-PRC:50%). 6/17/85.

Kanthal Electroheat AB (Sweden)

Reported a joint venture contract for a complete production system to manufacture tubular heating elements. \$1.3 million. 7/19/85.

#### Engineering and Construction

Takenaka Komuten Co. (Japan)/Beijing Chang Cheng Construction Corp.

Agreed to establish Chang Cheng-Takenaka Construction Co. for construction design and work, technical consultation, and procurement of materials. (J:50%-PRC:50%) 4/10/85.

Lummus Crest Inc. (US)/China Petrochemical International Co.

Set up Sino-Lummus Engineering Co., a 20-year venture to build refineries and petrochemical plants and modernize old ones in China and abroad. It will also supply domestic and foreign firms with services including project feasibility studies, basic design and construction management. 6/1/85.

Philips B.V. (Netherlands)/China Southern Electronic System Engineering Corp.

Formed Sino-Dutch International Engineering Co. Ltd., a 10-year venture to provide design and consultancy services for construction projects in machinery, electrical and electronic industries inside and outside of China. \$211,000 (¥600,000). (N:35%-PRC:65%). 6/17/85.

#### Finance, Insurance, and Leasing

Far East Bank Ltd. (HK)/China Merchants Steam Navigation Co. Ltd.

Chinese gained 25% holding in Far East Bank for \$11.5 million. 6/7/85.

Panin Holdings Ltd. (HK)/Industrial and Commercial Bank of China, Fujian Investment and Enterprise Corp. and Xiamen SEZ Construction and Development Corp.

Formed Xiamen International Bank. Capital: \$103 million (HK\$800 million). (HK:60%-PRC:40%). 6/27/85.

Japan Leasing Co. Ltd. and Long-term Credit Bank of Japan, Ltd./Shanghai Foreign Trade Corp., China Leasing Co. Ltd. and Trust & Investment Corp. of the Industrial & Commercial Bank of China

Set up Pacific Leasing Corp. to lease machinery, electrical equipment, transportation vehicles, large and complete sets of instruments and meters, large constructions, etc. 7/15/85.

#### Food Processing

V-Mark Trading Company (HK)/China National Apiculture Corp.

Signed an agreement to establish the Sair-Well Nutrition Co., a cooperative honey and bee-keeping project in China. \$351,000 (¥1 million). (HK:40%-PRC:60%). 4/12/85.

Spaten-Franziskaner-Brau and AMS Anlagenplanung (W. Germany)/Ministry of Light Industry

Signed a 15-year contract to produce beer in Wuhan. \$312 million. 5/30/85.

A. Annus Co. Ltd. (W. Germany)/China National Animal Husbandry, Industrial and Commercial Corp., Hebei

Set up China A. Annua Meat Processing Co. Ltd. \$2.3 million (¥6.5 million). (WG:50%-PRC:50%). 6/17/85.

(France)/CITIC

Will set up Kronenbourg Beverage Ltd., to produce beer in Ningbo, Zhejiang. \$30 million (¥85 million). (Fr:50%-PRC:50%). 7/13/85.

#### Machinery

Candy (Italy)/Suzhou Refrigerator Factory

Will set up a refrigerator-freezer plant near Shanghai to produce a range of two-door models. \$10.62 million (£8.5 million). 5/23/85.

NA (Italy)/Dalian Water Pump Factory, Liaoning

Will set up Water Pump Co. Ltd. \$10 million. 5/27/85.

Karpuke Co. Ltd. (Australia)/China National Packing and Packaging Corp. and Dongguan Industrial Corp.

Will jointly produce heat insulation boards for use in cold storage houses, technology for producing condensers, cold storages and equipment for producing air conditioning equipment. 5/27/85.

Terry of Redditch Ltd. (UK)/Jinggang Shan Hardware Factory, Tianjin; Bank of China Tianjin International Trust & Consultancy Corp.; and Tianjin International Trust and Investment Corp.

Set up the Tianjin-Terry Co. Ltd. to manufacture worm-drive hoseclips. (UK:50%-PRC:50%). 6/3/85.

Kowin Development Co. and Simonds Cutting Tools, a subsidiary of Household International (US)/Beijing Steel Files Plant

Established Kowin Simonds Steel Files Co. Ltd. 6/18/85.

#### Minerals & Metals

Sanbar Co., Panama branch (a South American-multinational Co.)/NA Henan

Will set up China-Sanbar Development Co. Ltd. to build quarries for marble and granite, an aluminum plant, a cement plant, a local molybdenum mine, as well as developing Henan's tourism, agricultural and service sectors. \$4.9 million. 5/8/85.

Kaiser Engineers and Constructors, Inc., a unit of Raymond International Inc. (US)/China Metallurgical Construction Corp.

Signed an agreement to form a company to provide engineering, procurement, construction, construction management, and startup for iron and steel facilities in China, the US, or selected third countries. 6/18/85.



Occidental Petroleum Corp. (US)/China National Coal Development Corp. and Bank of China Trust and Consultancy Co., Shanxi	Signed the final joint contract to develop the Antaibao Mine, Pingshuo, Shanxi. \$650 million. (US:25%-PRC:75%). 7/2/85.	Pacific Real Estate Co. Ltd., Marubeni-Lida Co. Ltd. and Kajima Construction Co. Ltd. (Japan)/Development Co. of the Foreign Economic Commission, Haikou City	Will cooperate to build Haitian hotel. 5/20/85.
Nippon Steel Corp (Japan) and Asahi Trading PTE Ltd. (Singapore)/Beijing Dredger Plant, and MACHIMPEX, Beijing Branch	Will set up Huaxin Metal Components Co. Ltd. on a 10-year basis to construct and manufacture steel components, platforms, frames and iron towers for high-rise buildings in North China. (Foreign:50%-PRC:50%). \$398,000 (¥100 million). 7/8/85.	Seylla Co. Ltd. (HK)/China Sports Service Co.	Will build a "China Olympic Hotel." \$20 million. 5/30/85.
<b>Packaging</b>		C-Ho Import Export (HK)/China Travel Service, Shenzhen Branch	Will build the Overseas Hotel in Shenzhen which will be managed by Bechtel International Corp. (US) and Dragon Man (HK). 6/85.
Pratt Group (Australia)/Fujian	Have signed letters of intent for a packaging joint venture. \$2 million (Aus.\$3 million). 3/85.	Juliford Co. Ltd. (HK)/Tourism Development Co., Yueyang, Hunan	Are constructing Junshan Holiday Resort. 6/10/85.
M. C. Packing Ltd. (HK)/Guangzhou Beverage Industrial Co., Guangzhou Economic & Technology Development Zone and two other Guangzhou companies	Signed a 20-year contract to set up Guangzhou M. C. Packaging Ltd., to produce aluminum cans. \$27 million. (HK:35%-PRC:65%). 4/18/85.	Japan Travel Bureau and its subsidiary, JTB Hotel Consulting Co./Roughu Hotel, Guilin	Will set up Roughu Hotel No. 6 to build a 20-story hotel. Investment \$18 million (¥4.6 billion). Capitalized at \$3.6 million (Japan:45%-PRC:55%). 7/16/85.
<b>Petroleum</b>		Lethia Ltd. (HK)/Tianjin First Hotel	Will build Tianjin Hyatt Hotel which will be managed by Hyatt International. Corp. (US). 7/22/85.
Mitsubishi Heavy Industries Ltd. and Mitsubishi Corp. (Japan)/CNOOC	Has agreed with China to establish a joint engineering firm to develop an offshore petroleum gas field in the Bohai. \$2.5 million. (Japan:50%-PRC:50%). 5/21/85.	<b>Scientific Instruments</b>	
Vetco South East Asia Ltd., subsidiary of Combustion Engineering (US)/Dalong Machinery Works, Shanghai	Formed Vetco-Dalong Offshore Equipment Co. to manufacture and sell consumable subsea drilling equipment. 6/85.	Olympus Optical Industry Corp. (Japan)/INSTRIMPEX	Opened a microscope maintenance station. 6/11/85.
<b>Pharmaceuticals</b>		Kyowa Electric Instruments Co. Ltd. (Japan)/INSTRIMPEX	Opened a testing technical service center in Beijing. 6/18/85
Warner-Lambert Co. (US)/China National Corp. of Pharmaceutical Economic and Technical International Cooperation	Established Sino-American Capsugel (Suzhou) Ltd. to produce empty hard gelatin capsules used in pharmaceutical manufacturing. \$14 million. 7/15/85.	Whirlpool (US)/China Electronic Technology Import and Export Corporation and Beijing General Computer Industrial Co.	Set up China Whirlpool Co. Ltd., a high-technology electronics firm. 6/29/85.
<b>Power</b>		<b>Shipping</b>	
Mitsubishi Electric Corporation (Japan)/Xi'an High Voltage Plant, Shaanxi	Will co-produce SF6 high-voltage switchgear equipment. 6/10/85.	NA (Japan)/China Ocean Shipping Corp.	Set up China Japan International Ferry Co. Ltd. 6/3/85.
China Development Investment Co. Ltd. and China Resources Holdings (HK)/China Fine Coal Corp., China International Water and Electricity Corp. and People's Construction Bank of China.	Set up Huaneng International Power Development Corp. to promote foreign investment to develop China's power industry and to build power plants with a capacity of 5 million kilowatts from 1986 to 1990. \$100 million. (HK:25%-PRC:75%). 6/25/85.	<b>Telecommunications Equipment</b>	
<b>Property Development</b>		Gangshen Neighborhood Telephone Service Co. Ltd. (HK)/Shenzhen Post and Telecommunications Office	Signed a contract to establish Shenzhen Computerized Neighborhood Telephone Service Co. Ltd. \$214,000 (¥610,000). 7/1/85.
Australia-HK Hualuo Development Enterprises Co. Ltd./Ghangan Tourist Development Co. and Huaqin International Economic Cooperation Company, Xi'an, Shaanxi	Established Tangcheng (Tang Dynasty City) Tourist Centre which will include a hotel, gymnasium, and canteens. 1/85.	<b>Textiles &amp; Textile Plants &amp; Equipment</b>	
Metrobilt Pte. Ltd., Hoe Huat Construction Engineering Pte. Ltd., Low Keng Huat Construction Pte. Ltd., Ong Chwee Kou Building Contractors and L & M (Singapore)/Yue Xiu Enterprise	Formed Mainland Investors to renovate and refurbish a hotel in Guangzhou. \$5 million (\$\$11 million). (Singapore:75%-PRC:25%). 4/23/85.	Tootal (UK)/Guangzhou	Signed agreement for joint production of polyester thread. \$5 million (£4 million). 4/17/85.
Va San Enterprises Ltd. and Super Corp. (HK)/Lianxing, Heilongjiang	Will jointly operate a 28-story hotel in Lianxing. \$19 million. 4/30/85.	Sino-American Trade Advancement Co. (HK)/Guilin Spun Silk and Ramie Printing and Dyeing Factory, Liuzhou Knitting Factory, Wuzhou Silk Factory, Union Textile Ltd. and Shenzhen Textile Industry Co. Ltd.	Began joint production of ramie. 5/85.
		(Thailand)/Hainan Light and Textile Industry Development Co.	Signed a memorandum to jointly establish a garment factory in Haikou. 5/3/85.
		Pegasus Sewing Machine Mfg. Co. (Japan)	Has signed a 20-year contract to establish the Tianjin Pegasus Sewing Machine Mfg. Co., to produce industrial sewing machines. \$2 million (¥530 million). 6/5/85.
		Atsugi Nylon Industrial Co. (Japan)/China Knitwear Industry Corp.	Have agreed to establish a venture to produce pantyhose. \$351 million (¥1 billion). (J:60%-PRC:40%). 7/23/85.
		<b>Transportation &amp; Transportation Equipment</b>	
		Sociedade Portuguesa Do Acumulador Tudor (Portugal)/Shenyang No. 1 Transportation Co., Liaoning	Will produce storage batteries for vehicles. (Portugal:50%-PRC:50%). 5/27/85

(Soviet Union)/  
MACHIMPEX

Opened two "Volga" car repair and spares supply centers in Shenyang, Liaoning. 6/19/85.

Bima International Ltd. (Sweden)/Pacific Economic and Technological Corp.

Reached an agreement to set up a modern automobile repair service system. 6/24/85.

Thomas Nationwide Transportation Ltd. (Australia)/SINOTRANS

Signed a letter of intent to set up a worldwide air courier service. 6/29/85.

HK Aircraft Engineering Co./CATIC

Set up South China Aero-Technology Co. which is renovating two models of China-made aircraft, Y-7 and Y-12. 7/8/85.

Lufthansa (W. Germany)/CAAC

Signed an agreement for technical cooperation and a joint-venture maintenance base. 7/25/85.

#### Miscellaneous

HK Songbai Clothing Mfg. Co. Ltd.

Founded Nei Monggol Nationality Economic and Technological Consultation and Development Corp. to act as an agent between business concerns inside and outside the region. 2/11/85.

United Industrial Corporation Ltd. (Singapore)/CITIC and the Shandong Corp. for International Economic and Technical Cooperation

A contract was signed to establish the Shangdong International Economic Development Corp. to import advanced technology and equipment, as well as management know-how. 5/23/85.

Nagoya Sogo (Mutual) Bank (Japan)/Nantong municipal government, Jiangsu

Both sides will act as "go-betweens" for Japanese and Chinese companies wanting to start joint ventures and other business, including leasing. 5/23/85.

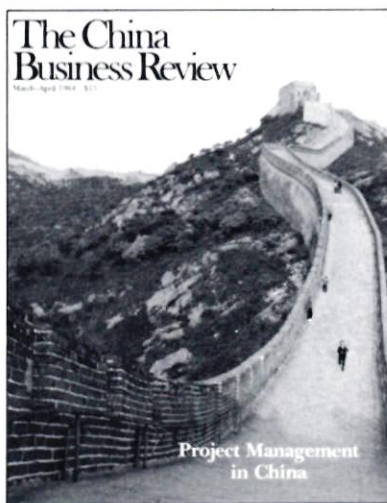
Siemens AG (W. Germany)/CITIC

CITIC will provide information and consultancy services for Siemens' China operations and introduce partners to Siemens. 6/3/85.

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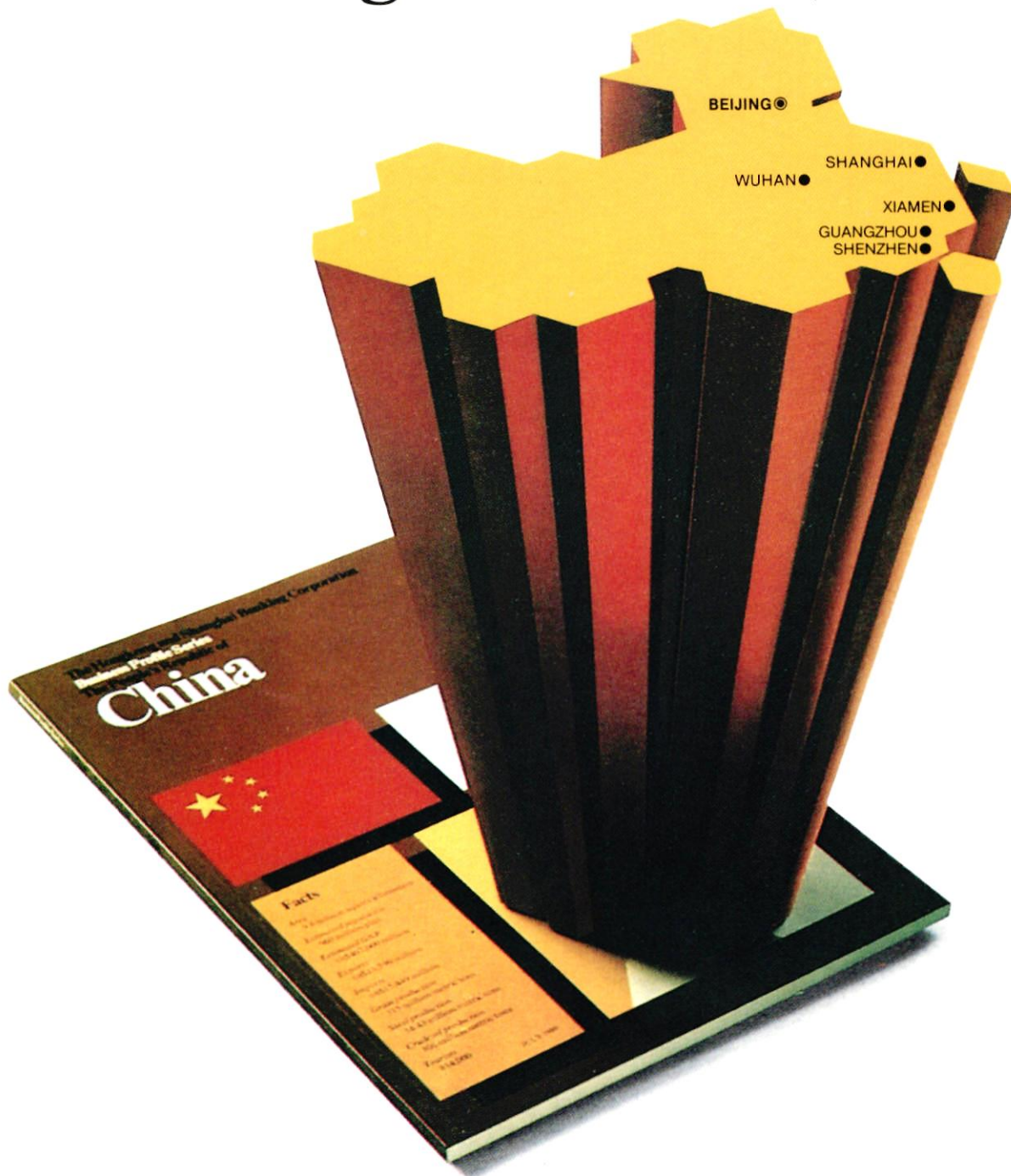
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